

Divestco Inc.
Consolidated Financial Statements
For the years ended December 31, 2010 and 2009

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Management's Responsibility for the Financial Statements

To the Shareholders of Divestco Inc.

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Divestco Inc. Financial and operating information presented throughout management's discussion and analysis is consistent with that shown in the consolidated financial statements.

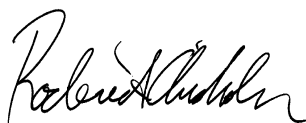
Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

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

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



Steve Popadynetz
Chief Executive Officer and President



Rod Chisholm
Chief Financial Officer

Calgary, Canada
April 20, 2011

To the Shareholders of Divestco Inc.

We have audited the accompanying consolidated financial statements of Divestco Inc. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of loss, comprehensive loss and retained earnings (deficit), and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010 and 2009, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that while a lender has provided a waiver of a covenant violation the Company is dependent upon the continued financial support of the lender as it works to develop profitable operations. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.



Chartered Accountants
Calgary, Canada
April 20, 2011

Divestco Inc.
Consolidated Balance Sheets

As at December 31 (Thousands)	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,696	\$ 768
Funds held in trust	15	17
Accounts receivable	11,759	19,267
Prepaid expenses, supplies and deposits	237	708
Income taxes receivable	287	391
	15,994	21,151
Long-term prepaid expense	-	846
Investment in affiliated company	100	88
Data libraries (Note 6)	5,058	138,712
Participation surveys in progress	1,253	2,186
Property and equipment (Note 7)	3,026	2,747
Deferred development costs (Note 8)	6,737	6,699
Intangible assets (Note 9)	2,816	3,494
	\$ 34,984	\$ 175,923
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness (Note 10)	\$ 2,050	\$ -
Accounts payable and accrued liabilities	8,248	21,184
Current portion of deferred revenue	3,422	5,543
Current loss on sublease (Note 17)	1,655	-
Current portion of long-term debt obligations (Note 11)	368	6,217
	15,743	32,944
Long-term debt obligations (Note 11)	188	20,685
Sublease loss (Note 17)	1,378	-
Convertible debentures (Note 12)	-	3,602
Future income taxes (Note 13)	-	12,342
	17,309	69,573
Shareholders' Equity		
Equity instruments (Note 14(b))	75,253	70,518
Contributed surplus (Note 14(d))	5,744	5,473
Equity portion of convertible debentures (Note 12)	-	56
Retained earnings (deficit)	(63,322)	30,303
	17,675	106,350
Future operations (Note 1)		
Commitment (Note 17)		
Contingencies (Note 22)		
	\$ 34,984	\$ 175,923

See notes to consolidated financial statements.

Approved by the Board:

Signed "Edward Molnar"

Edward Molnar, Chairman of the Board

Signed "Stephen Popadynetz"

Stephen Popadynetz, Director

Divestco Inc.
Consolidated Statements of Loss, Comprehensive Loss and
Retained Earnings (Deficit)

For the year ended December 31	2010	2009
(Thousands, Except Per Share Amounts)		
Revenue	\$ 41,140	\$ 61,976
Operating expenses		
Salaries and benefits	21,344	21,889
General and administrative	22,366	14,705
Sublease loss (Note 17)	2,968	-
Stock compensation expense (Note 14(d))	770	518
	47,448	37,112
Interest expense	3,028	2,941
Depreciation, amortization and accretion	26,706	34,692
Impairment of goodwill and intangible assets	-	1,115
Other income (loss) (Note 4)	(41,416)	4,371
Income (loss) before income taxes	(77,458)	(9,513)
Income taxes (Note 13)		
Current (recovery)	(113)	(4,685)
Future (reduction)	(12,342)	1,369
	(12,455)	(3,316)
Net loss and comprehensive loss for the year	(65,003)	(6,197)
Retained earnings, beginning of year	30,303	36,500
Distribution of Pulse shares to Divestco shareholders (Note 4) and cash dividends paid	(28,622)	-
Retained earnings (deficit), end of year	\$ (63,322)	\$ 30,303
Net loss per share (Note 14(f))		
Basic and Diluted	\$ (1.53)	\$ (0.15)
Weighted average number of shares		
Basic and Diluted	42,601	41,958

See notes to consolidated financial statements.

Divestco Inc.
Consolidated Statements of Cash Flows

For the year ended December 31	2010	2009
(Thousands, Except Per Share Amounts)		
Cash flows from (used in) operating activities		
Net loss for the year	\$ (65,003)	\$ (6,197)
Items not affecting cash:		
Equity investment gain	(12)	(8)
Depreciation and amortization of data libraries, property and equipment and intangible assets	23,778	33,211
Impairment of intangible assets	-	1,115
Amortization of deferred development costs	2,863	1,481
Amortization of deferred finance costs	478	346
Amortization of deferred finance costs and accretion of liability portion of convertible debentures	148	6
Sublease loss (Note 17)	2,968	-
Accretion of sublease loss (Note 17)	65	-
Future income taxes (reduction)	(12,342)	1,369
Data exchanges (Note 6)	(1,775)	(3,321)
Loss on sale of data libraries	41,496	-
Gain on sale of property and equipment	(90)	(4,435)
Stock compensation expense	770	518
	(6,656)	24,085
Changes in non-cash working capital balances (Note 16)	10,264	(354)
Decrease in non-current deferred revenue	-	(263)
Decrease in long-term prepaid expense	238	354
	3,846	23,822
Cash flows from (used in) financing activities		
Bank indebtedness	2,050	-
Issue of common shares, net of related expenses	4,180	-
Dividends paid (Note 4)	(8,623)	-
Repayment of long-term debt obligations	(28,883)	(14,572)
Repayment of debentures	(3,750)	-
Deferred financing costs	(50)	(173)
Proceeds received from Debenture Issue	-	3,750
Proceeds received from long-term debt obligations (net of committed revolver repayments)	1,737	(6,971)
	(33,339)	(17,966)
Cash flows from (used in) investing activities		
Purchase of data libraries	(2,195)	(7,246)
Decrease in participation surveys in progress	933	2,522
Purchase of property and equipment	(1,760)	(1,500)
Proceeds on sale of data libraries	54,434	-
Proceeds on sale of property and equipment	93	3,340
Deferred development costs	(2,901)	(1,979)
Changes in non-cash working capital balances (Note 16)	(16,185)	(2,036)
	32,419	(6,899)
Foreign exchange gain on cash held in a foreign currency	2	-
Increase (decrease) in cash and cash equivalents	2,928	(1,043)
Cash and cash equivalents, beginning of year	768	1,811
Cash and cash equivalents, end of year	\$ 3,696	\$ 768

See notes to consolidated financial statements.

December 31, 2010**(Tabular amounts in thousands, unless otherwise stated)**

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

1. Basis of Presentation and Future Operations

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

The Company closed the sale of its 2D and 3D seismic data library (the "Seismic Assets") on September 29, 2010 (see Note 4). A portion of the proceeds were used to retire the term loans, committed revolver and convertible debentures and to pay overdue accounts payable. In Q4 2010, the Company used a portion of the proceeds to pay a one-time special cash dividend of \$8.6 million (20 cents a share).

In 2010, the Company incurred a net loss of \$65 million, including a loss of \$40.9 million on the sale of the Seismic Assets. The net loss included the costs related to the Company's existing office space for all of 2010, its new office space lease which commenced on May 1, 2010 and a year-end \$3 million loss provision on the assignment of two floors to a new tenant at rates below the Company's costs. The double rent obligations will cease at various times throughout 2011.

In Q4 2010, management secured a new \$5 million operating line for working capital purposes and raised gross proceeds of \$3.5 million through a private placement. The Company is working to re-establish positive earnings from its remaining operations and is looking at additional sources of capital to continue its activities and discharge its commitments as they become due.

The Company had working capital of \$251,000, including deferred revenue of \$3.4 million, at December 31, 2010, and was in violation of a debt service coverage ratio covenant. While the lender has acknowledged the breach and has provided the Company with a waiver of the covenant as at December 31, 2010, the Company is dependent upon the continued financial support of this lender as it works to develop profitable operations. This matter casts doubt on the Company's ability to discharge its obligations and realize its assets in the normal course of business.

Management believes that the going concern assumption is appropriate for these consolidated financial statements. Adjustments to the carrying amounts of the balance sheet classifications used, assets and liabilities, and revenues and expenses, may be necessary should the going concern assumption be inappropriate.

These 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 GAAP in Canada requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality.

1. Basis of Presentation and Future Operations (Continued)

Certain figures with respect to the year ended December 31, 2009 have been reclassified to conform to the current year's presentation. Specifically, due to the sale of the Company's Business Consulting division in March 2010, the Land Management division was moved to the Services segment and the Consulting segment was eliminated (Business Consulting results for 2010 and 2009 are also included under Services). In addition, the Company's Log Data and Support Data divisions were moved from the Seismic Data segment to the Software and Data segment. The Data segment was renamed Seismic Data and the Software segment was renamed to Software and Data segment. The Company is still operating its Seismic Data division and commenced rebuilding its seismic database in Q4 2010.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the following significant accounting policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned from the date of acquisition. All significant intercompany accounts and transactions have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements requires management to make estimates based on currently available information. In particular, management makes estimates for the amounts recorded for the amortization of data libraries, property and equipment as well as the valuation of intangible assets. Intangible asset impairment tests involve calculations of fair values which may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flow, discount rates and terminal values. By their very nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of future periods could be material. The effect on the financial statements resulting from a revision in estimates, if any, will be accounted for prospectively.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances (including temporary bank overdrafts) and term deposits with maturities of three months or less.

(d) Investment in affiliated company

The Company uses the equity method to account for an affiliated entity in which the Company exercises significant influence, but does not control. Under the equity method of accounting, the investment is initially recorded at cost and the carrying value of the investment is adjusted to recognize the Company's proportionate share of the net income (loss) of the entity.

Notes to Consolidated Financial Statements

December 31, 2010

(Tabular amounts in thousands, unless otherwise stated)

2. Significant Accounting Policies (Continued)

(e) Data libraries

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

Amortization is provided for as follows:

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

Data libraries are tested for impairment through a two-step test when there is an indication of impairment. The first test involves comparing the undiscounted cash flows to the carrying value of the data libraries in each reporting unit. If part one of the test is failed, part two requires the carrying values of the data libraries to be compared to fair value to determine the magnitude of the write-down. Any impairment of data libraries assets is charged to income.

(f) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided for as follows:

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

Periodically, the Company reviews the appropriateness of its amortization policies.

(g) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization is provided for as follows:

	Amortization Method	Rate
Proprietary software and code	Straight-line	10 years

Intangible assets are tested for impairment through a two-step test when there is an indication of impairment. The first test involves comparing the undiscounted cash flows to the carrying value of the intangibles in each reporting unit. If part one of the test is failed, part two requires the carrying values of the intangibles to be compared to fair value to determine the magnitude of the write-down. Any impairment of intangible assets is charged to income.

December 31, 2010

(Tabular amounts in thousands, unless otherwise stated)

2. Significant Accounting Policies (Continued)

(h) Revenue recognition and deferred revenue

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

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

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

- (i) Revenue earned from the sale of perpetual software licences is recognized upon delivery. Maintenance and support, included with the product, is recognized rateably over the term defined in the purchase agreement. Revenue earned from the renewal of maintenance and support contracts is recognized rateably over the term of the agreement. Revenue from software licences, including maintenance and support, which are sold on a monthly, quarterly, semi-annual and annual basis, is recognized rateably over the term of the licence.
- (ii) Data sales are recognized when the customer receives the file containing the images. In the cases where the Company sells a copy of its entire log library, revenue is recognized on the sale as milestones are achieved. The revenue recognized is determined based on the total contract value and the milestones achieved to the end of the reporting period. If a loss on a contract is probable, the loss will be recognized at the date of determination.
- (iii) Revenue with respect to the seismic brokerage division represents brokerage commissions earned from selling goods on behalf of others and is recognized on a net basis upon the closing of the transaction. As a matter of practice, the Company settles brokerage payables after the related receivables are collected.
- (iv) Seismic data licence revenue is recognized on the date the customer receives the data. This occurs when the seismic work, including data processing, is complete and delivery to the customer has occurred. The Company occasionally enters into data and services exchange transactions with third parties. Where there is no or minimal cash consideration, the Company does not recognize revenue or an asset acquisition on these exchanges. In exchange transactions with material cash consideration, the Company recognizes revenue equal to the fair value of the data license and services sold and a seismic data library asset equal to the fair value of the data acquired. Cash flows from investing activities and operating activities reflect only the net cash portion.
- (v) Revenue with respect to providing all other products and services is recognized under the completed contract method such that revenue is recognized only when the rendering of services and/or provision of the product under a contract is completed or substantially completed, as performance does not consist of the execution of more than one act.

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

The Company recognizes revenue if it is measurable and ultimate collection is reasonably assured. When uncertainty relates to collectability and arises subsequent to the time revenue was recognized, a separate provision to reflect the uncertainty is made. The amount of revenue originally recorded would not be adjusted.

2. Significant Accounting Policies (Continued)

(i) Future income taxes

Income taxes are accounted for using the asset and liability method whereby future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in rates is included in the period during which the change is considered substantively enacted. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(j) Stock-based compensation plan

The Company applies the fair value method for valuing stock options. Under this method, compensation costs attributable to all stock options are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest, rather actual forfeitures are accounted for as they occur.

(k) Employee share ownership plan

The Company has an employee share ownership plan (ESOP) whereby each employee may elect to contribute up to 25% of their regular salary towards the savings plan. The Company matches the employee's contribution up to 4.5% of their monthly regular salary to a maximum of \$450 per month. The common shares are purchased through the facilities of the TSX Venture Exchange. The Company's contributions under the ESOP for 2010 were \$nil (2009 - \$111,000) and categorized as salaries and benefits in the consolidated statements of loss and comprehensive loss. Due to the impact of the global recession, the Company matched portion has been suspended until further notice effective April 1, 2009.

(l) Net loss per share

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

2. Significant Accounting Policies (Continued)

(m) Investment tax credits

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

(n) Research and development

Research costs are charged to income in the period in which they are incurred. Development costs are charged to income in the period in which they are incurred unless they meet the criteria for deferral under the accounting standards for goodwill and intangible assets for internally generated intangible assets. Amortization of development costs deferred to future periods commences with the commercial production of the product and is charged to income based on anticipated sales or use of the product over a period not exceeding three years. Deferred development costs are presented net of amortization. The Company periodically reviews these costs for possible impairment and recognizes changes in estimates in the period of the change.

(o) Foreign currency

The Company translates amounts of foreign currency into Canadian dollars on the following basis:

- (i) monetary assets and liabilities – at the rate of exchange prevailing at the period end
- (ii) non-monetary items – at the rate of exchange prevailing at the dates of the transactions
- (iii) revenues and expenses – at the monthly average rate of exchange

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

(p) Financial Instruments

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

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost determined using the effective interest rate method. Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument. Prior to January 1, 2007, transaction costs were recorded as deferred charges and recognized in net income on a straight-line basis over the life of the financial instrument. On adoption, transaction costs were recognized as if the effective interest rate method had always been applied whereby the amount recognized varies over the life of the financial instrument based on principal outstanding. Amortization of premiums or discounts and losses due to impairment are included in current period net loss.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income and reclassified to net income when derecognized or impaired.

December 31, 2010**(Tabular amounts in thousands, unless otherwise stated)**

2. Significant Accounting Policies (Continued)

- Held-for-trading financial instruments are measured at fair value. All gains and losses on derivatives that are not designated or do not qualify for hedge accounting are included in net income in the period in which they arise.

The Company has designated its cash and cash equivalents and funds held in trust as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

3. Changes in Accounting Policies and Future Accounting Pronouncements

As of January 1, 2011, the Company will be required to adopt the following new Canadian accounting standards for:

Business combinations, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

Consolidated financial statements, together with the new rules on non-controlling interests, replace the former consolidated financial statements standard. This standard establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on Divestco's consolidated financial statements.

Non-controlling interests, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on Divestco's consolidated financial statements.

4. Dispositions

On September 29, 2010, the Company closed the sale of the Seismic Assets to Pulse Seismic Inc. ("Pulse"). The cash proceeds were used to repay bank debt, to retire the convertible debentures and to reduce overdue payables. The disposition is summarized below:

Notes to Consolidated Financial Statements

December 31, 2010

(Tabular amounts in thousands, unless otherwise stated)

4. Dispositions (Continued)

Assets disposed of:	
Prepaid expenses ⁽¹⁾	\$ 908
Accrued liabilities ⁽²⁾	(1,351)
Seismic data library	114,781
	\$ 114,338
Consideration:	
Cash on closing ⁽³⁾	\$ 55,249
Transaction costs ⁽⁵⁾	(1,815)
Net cash consideration	53,434
Common shares of Pulse ⁽⁴⁾	19,999
	\$ 73,433
Loss on sale	\$ (40,905)

⁽¹⁾ Related to pre-paid archive credits

⁽²⁾ Related to revenue sharing agreements assumed by Pulse

⁽³⁾ Net of a \$0.5 million purchase price adjustment related to revenue credited to Pulse from July 1 to September 30, 2010

⁽⁴⁾ Closing price of \$1.40 per Pulse share on September 29, 2010. The Pulse shares were distributed by the Company to its shareholders as part of the plan of arrangement completed in conjunction with the sale of the Seismic Assets. In October 2010, the Company paid a special cash dividend of \$8.6 million (\$0.20 per share) from the cash proceeds of the sale for a total of \$28.6 million.

⁽⁵⁾ Includes professional fees, severance costs related to a change of control provision in the employment agreement of the CEO and President and a change of control repayment fee on the convertible debentures (Note 12)

The loss has been reflected in other income (loss) in the consolidated statements of loss and comprehensive loss.

In addition, during the year ended December 31, 2010, the Company sold the following assets:

	Business Consulting Division	Seismic data ⁽¹⁾
Assets disposed of:		
Computer hardware and software	\$ 3	\$ -
Data libraries	-	1,591
Consideration:		
Cash (including disposition costs)	\$ 93	\$ 1,000
Gain (loss) on sale	\$ 90	\$ (591)

⁽¹⁾ This seismic data set was excluded from the sale of the Seismic Assets to Pulse and was sold prior to the close of the disposition to Pulse.

The gain (loss) has been reflected in other income (loss) in the consolidated statements of loss and comprehensive loss. Also included in other income (loss) in the consolidated statements of loss and comprehensive loss are foreign exchange loss of \$22,000 and equity investment income of \$12,000.

On March 30, 2009, the Company sold its Archive and Technical Records divisions. The disposition is summarized below:

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(Tabular amounts in thousands, unless otherwise stated)

4. Dispositions (Continued)

Assets disposed of:	
Computer hardware and software	\$ 175
Assets under lease	328
Deferred revenue	(98)
	\$ 405
Consideration:	
Cash (including disposition costs)	\$ 3,340
Prepaid archive services	1,500
	\$ 4,840
Gain on sale	\$ 4,435

The gain has been reflected in other income in the consolidated statements of loss and comprehensive loss. A future income tax expense of \$0.8 million was recorded.

The Company received a prepaid archive services credit of \$1.5 million or \$300,000 per year over five years. The credit was transferred to Pulse as a result of the sale of the Seismic Assets. The Company used \$592,000 of the credit prior to the sale.

In addition, the Company has guaranteed a minimum revenue obligation to the purchaser of \$400,000 per year over five years for a total of \$2 million. Any annual short-fall will be paid in cash by the Company to the purchaser. The Company can discharge its obligation in advance without penalty. The obligation was assumed by Pulse as a result of the sale of the Seismic Assets. The Company fulfilled its annual obligations prior to the sale.

5. Investment in Affiliated Company

The Company owns 36.11% of the common shares of SDLS Inc. (SDLS), a private company. The investment has been accounted for using the equity basis. The Company's pro-rata share of the net income of SDLS for the year ended December 31, 2010 was \$12,000 (2009 – net income of \$8,000) as has been recorded in other income (loss) in the consolidated statements of loss and comprehensive loss. The fair value of the balances due from SDLS and the investment in SDLS approximate their carrying values as at December 31, 2010.

6. Data Libraries

	Balance as at December 31			
	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Seismic data library	\$ 62	\$ 2	\$ 253,040	\$ 119,765
Datasets	632	520	632	486
Log and drilling library	7,209	2,458	7,209	2,098
Reference library	445	445	445	416
Map library	239	104	239	88
	\$ 8,587	\$ 3,529	\$ 261,565	\$ 122,853
Net book value		\$ 5,058		\$ 138,712

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(Tabular amounts in thousands, unless otherwise stated)

6. Data Libraries (Continued)

In 2010, the Company acquired \$1.8 million of seismic data libraries and sold \$2.5 million of seismic data licenses and related services in data exchanges. The net cash amount of \$700,000 was reflected as an investing activity and the non-cash amount of \$1.8 million was deducted from cash flows from operating and financing activities in the consolidated statements of cash flows. In 2009, the Company acquired \$3.3 million of seismic data libraries and sold \$6.3 million of seismic data licenses and related services in data exchanges. The net cash amount of \$3 million was reflected as an investing activity and the non-cash amount of \$3.3 million was deducted from cash flows from operating and financing activities in the consolidated statements of cash flows in the consolidated statements of cash flows for 2009.

7. Property and Equipment

	Balance as at December 31			
	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	\$ 7,384	\$ 6,789	\$ 6,921	\$ 5,556
Office furniture and equipment	1,286	1,184	1,744	1,461
Leasehold improvements	3,193	1,226	1,492	1,032
Assets under capital lease	3,893	3,561	3,521	2,912
Land	30	-	30	-
	\$ 15,786	\$ 12,760	\$ 13,708	\$ 10,961
Net book value		\$ 3,026		\$ 2,747

8. Deferred Development Costs

	Balance as at December 31	
	2010	2009
Balance, beginning of year	\$ 6,699	\$ 6,201
Additions	2,901	1,979
Amortization ⁽¹⁾	(2,863)	(1,481)
Balance, end of year	\$ 6,737	\$ 6,699

⁽¹⁾ Included in depreciation and amortization in the consolidated statements of loss and comprehensive loss.

9. Intangible Assets

	Balance as at December 31			
	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Proprietary software and code	8,256	5,440	8,256	4,762
Net book value		\$ 2,816		\$ 3,494

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10. Bank Indebtedness

On December 6, 2010, the Company secured a new \$5 million operating line. Advances are available against a standard accounts receivable borrowing base. The facility bears interest at prime plus 2% per annum on any part of the credit facility used along with a non-refundable facility fee of 0.75% per annum payable on any unused portion of the revolving credit facility. The lender has a general security agreement over all present and after acquired personal property and a floating charge on all lands of the Company. As at December 31, 2010, \$2 million was drawn on the facility.

The facilities are subject to the Company meeting certain debt covenants as follows: current ratio cannot fall below 1.25:1; funded debt to equity ratio cannot exceed 1.75:1; and debt service coverage ratio cannot fall below 3:1. As at December 31, 2010, the Company was in violation of its debt service coverage ratio covenant. The lender has acknowledged the breach and has provided the Company with a waiver of the covenant as at December 31, 2010. In addition, the Company and the lender are in discussions to amend the covenants going forward.

11. Long-Term Debt Obligations

	Balance as at December 31	
	2010	2009
Term loans and committed revolver (a)	\$ -	\$ 26,545
Promissory notes (b)	-	67
Capital lease obligations (c)	556	718
	556	27,330
Current portion	(368)	(6,217)
Deferred finance charges (d)	-	(428)
Long-term portion	\$ 188	\$ 20,685

(a) Term loans and committed revolver

The Company repaid the term loan and committed revolver with the proceeds from the sale of the Seismic Assets (Note 4).

(b) Promissory notes

Unsecured promissory notes were issued on the acquisition of Canadian Landmasters Resource Services Ltd., bearing interest at 2% above the Company's prime lending rate. These were repayable in three equal instalments of \$66,667 on December 31, 2008, 2009, and 2010. The final instalment was paid in December 2010.

(c) Capital lease obligations

The Company has capital lease obligations, which have terms of two to four years and bear interest at 1.4% to 10% per annum. Minimum annual lease payments are as follows:

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(Tabular amounts in thousands, unless otherwise stated)

11. Long-Term Debt Obligations (Continued)

2011	\$	413
2012		185
2013		92
2014		48
2015+		46
	\$	784

Included in the minimum annual lease payments above is a lease for \$228,000 for telephone equipment commencing in January 2011 and ending in January 2016.

(d) Deferred finance charges

	Balance as at December 31	
	2010	2009
Balance, beginning of year	\$ 428	\$ 699
Additions	50	75
Amortization ⁽¹⁾	(478)	(346)
Balance, end of year	\$ -	\$ 428

⁽¹⁾ Included in interest expense in the consolidated statements of loss and comprehensive loss.

12. Convertible Debentures

	Balance as at December 31	
	2010	2009
Balance, beginning of period	\$ 3,602	\$ -
Additions	-	3,750
Equity component	-	(56)
Accretion of liability portion to face value	54	2
Deferred finance charges	-	(98)
Amortization of deferred finance charges	94	4
Repayment	(3,750)	-
Balance, end of period	\$ -	\$ 3,602

On November 16, 2009, the Company closed a private placement of an aggregate principal amount of \$3,750,000 of unsecured convertible debentures (the "Debentures") maturing November 15, 2011 (the "Maturity Date"). The Debentures were convertible at the option of the holder ("Debentureholder") at any time before maturity for common shares of the Company at a conversion price equal to \$0.805 per common share, subject to standard anti-dilution adjustments. The Debentures bore interest at 9.75% per annum, payable quarterly, and repayable in cash at maturity.

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12. Convertible Debentures (Continued)

One of the events triggering a change of control in the indenture agreement was any direct or indirect conveyance, transfer, sale, lease or other disposition (other than by way of merger, amalgamation, statutory arrangement, or consolidation) in one or a series of related transactions of all or substantially all of the Company's properties and assets ("Change of Control"). If a Change of Control occurs prior the Maturity Date, the Company was required to make an offer to the Debentureholders to repurchase for cash the entire outstanding principal amount of the Debentures of such Debentureholder at the change of Control Repurchase Price (the "Repurchase Offer") on the Change of Control Repurchase Date. The Change of Control Repurchase Price was (i) 118% of the principal amount of the Debenture to be purchased plus accrued and unpaid interest, if any, up to November 15, 2010, and (ii) 110% of the principal amount of the Debenture to be purchased plus accrued and unpaid interest, if any, up to but excluding the Change of Control Repurchase Date. The Change of Control Repurchase Date was the effective date of the transaction causing the Change of Control. The Debentureholders could exercise their rights upon delivery of a written notice (the "Change of Control Repurchase Notice"). Debentures in respect of which a Change of Control Repurchase Notice had been given by the Debentureholder thereof could not be converted into Divestco Class A Shares on or after the date of the delivery of such Change of Control Repurchase Notice unless such Change of Control Repurchase Notice had first been validly withdrawn in with respect to the Debentures to be converted.

The Company determined the sale of the Seismic Assets (Note 4) to be a Change of Control. As a result, the Company delivered the Change of Control Repurchase Notice to the Debentureholder required in the indenture agreement. Prior to September 29, 2010, the Debenture holders elected to be paid out in cash.

13. Income Taxes

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

For the year ended December 31	2010	2009
Loss before income taxes	\$ (77,458)	\$ (9,513)
Statutory rate	28.00%	29.00%
Computed income tax provision	\$ (21,688)	\$ (2,759)
Effects of differences:		
Non-deductible expenses	252	192
Sale of property and equipment	(6)	(290)
Adjustments for enacted changes in income tax rates	2,331	(529)
Valuation allowance	6,751	-
Other	(95)	70
Actual income taxes	\$ (12,455)	\$ (3,316)
Current (recovery)	(113)	(4,685)
Future (reduction)	(12,342)	1,369
Actual income taxes	\$ (12,455)	\$ (3,316)

Divestco Inc.
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13. Income Taxes (Continued)

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

	Balance as at December 31	
	2010	2009
Databases, property and equipment, and intangibles	\$ (700)	\$ (21,507)
Non-capital loss carry forwards	9,236	3,194
SR&ED expenditures	(1,785)	(1,927)
Share issue and financing costs	-	262
Deferred partnership income	-	7,636
Valuation allowance	(6,751)	-
Future income tax liability	\$ -	\$ (12,342)

The Company files Scientific Research and Experimental Development (SR&ED) claims with the Canada Revenue Agency (CRA) in respect of certain research and development expenditures. Although the claims are filed on the basis of the regulations, the recoverability of the amounts recorded in these financial statements is subject to confirmation by the CRA. As at December 31, 2010, the Company had \$1.3 million of investment tax credits (ITC), including \$577,000 carried forward from 2009, available to reduce federal income taxes payable in the future which begin to expire in 2029.

- (c) As at December 31, 2010, the Company and its Canadian subsidiaries had \$40.2 million in Federal and \$25.7 million in Alberta non-capital loss carry-forwards, a portion of which was assumed through various acquisitions in 2007, which begin to expire in 2027.

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14. Equity Instruments

(a) Authorized

An unlimited number of voting Class A shares.

(b) Issued

	Balance as at December 31			
	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Class A shares				
Balance, beginning of period	41,958	\$ 70,518	41,958	\$ 70,518
Shares issued on Private Placement ^(c)	15,825	1,673		
Cash consideration received on exercise of stock options	1,155	728	-	-
Reclassification to common shares on exercise of options	-	555	-	-
Share issue costs	-	(29)	-	-
Balance, end of period	58,938	\$ 73,445	41,958	\$ 70,518
Share Purchase Warrants	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of period	-	-	-	-
Issued on Private Placement ^(c)	15,825	1,808	-	-
Balance, end of period	15,825	1,808	-	-
Total Equity Instruments		\$ 75,253		\$ 70,518

(c) Private Placement

On December 23, 2010, the Company closed a private placement whereby it sold 15,825,217 units ("Units") at a price of \$0.22 per Unit for total gross proceeds of \$3,481,548. Each Unit was comprised of one Class A share of Divestco (the "Share") and one non-transferable share purchase warrant (the "Warrant"). Each Warrant entitles the holder to purchase one Share on or before December 31, 2012 at an exercise price of \$0.32 per Share. The Shares and the Warrants, and any Shares issued on exercise of the Warrants are subject to a hold period under applicable Canadian securities laws and policies of the TSX Venture Exchange. Directors and officers subscribed for 9,865,214 Units for gross proceeds of \$2,170,347.

(d) Contributed surplus

	Balance as at December 31	
	2010	2009
Balance, beginning of year	\$ 5,473	\$ 4,955
Stock compensation expense	770	518
Reclassification to common shares on exercise of options	(555)	-
Equity component of convertible debentures	56	-
Balance, end of year	\$ 5,744	\$ 5,473

(e) Stock options

The Company has established a stock option plan whereby the Company may grant options to purchase common shares to directors, officers, employees and consultants. The options have a five-year term and are exercisable pursuant to a vesting schedule of one-third following the first anniversary of the grant date, one-third following the second anniversary of the grant date, and the remaining one-third following the third anniversary of the grant date. 5,893,800 common shares of the Company have been reserved under the Plan.

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14. Equity Instruments (Continued)

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

	Number of Options	Option Price	Weighted Average Price
Options outstanding, December 31, 2009	2,137	\$0.60-\$6.10	\$1.99
Granted	615	\$0.68-\$0.78	\$0.69
Exercised ⁽¹⁾	(1,155)	\$0.60-\$0.78	\$0.63
Forfeited ⁽²⁾	(690)	\$0.60-\$6.10	\$1.91
Options outstanding, December 31, 2010	907	\$0.68-\$6.10	\$2.89

⁽¹⁾ 850,000 options were exercised by directors, officers and a former officer.

⁽²⁾ 187,500 options were forfeited by former directors, an officer and a former officer.

Stocks options which were outstanding and vested as at December 31, 2010, 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
470	\$0.68-\$1.99	\$1.09	3.21	470	\$1.09
74	\$2.00-\$3.49	\$2.90	0.94	74	\$2.90
158	\$3.50-\$4.99	\$4.17	0.94	158	\$4.17
205	\$5.00-\$6.10	\$6.02	0.33	205	\$6.02
907	\$0.68-\$6.10	\$2.89	1.98	907	\$2.89

The per share weighted average fair value of the stock options granted for the year ended December 31, 2010, was \$0.56 (2009 – \$0.44). This was estimated using the Black-Scholes option pricing model with the following assumptions: an average expected volatility of 92% (2009 – 91%), an average risk free interest rate of 2.2% (2009 – 2.3%), no dividend rate and an expected life of five years. The compensation expense is recognized evenly over the three-year vesting period of the stock options.

(f) Net loss per share

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the year, being 42,601,230 for 2010 (2009 – 41,958,000). Diluted net loss per share is computed using the “treasury stock” method whereby outstanding stock options are only dilutive if, and to the extent, that they are “in the money” and the “if-converted” method whereby outstanding convertible debentures were assumed to have been converted at the beginning of the year unless their effect was anti-dilutive. In computing diluted net loss per share, no shares were added in 2010 and 2009 to the weighted average number of common shares outstanding for the dilution from the stock options and convertible debentures as they were anti-dilutive.

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15. Management of Capital

The Company's objectives when managing capital are to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk levels and manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes the following in the definition of capital:

- shareholders' equity
- bank indebtedness
- long-term debt obligations, including the current portion
- convertible debentures

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

In managing its capital, the Company monitors its funded debt to equity ratio. Funded debt to equity is a non-GAAP measure and therefore is unlikely to be comparable to similar measures of other companies. The ratio is calculated by taking the sum of interest-bearing long-term debt obligations and long-term debt obligations maturing within one year divided by shareholders' equity as presented on the Company's consolidated balance sheets.

In connection with the sale of the Seismic Assets (Note 4), the Company elected to fully retire its bank debt (Note 11). In addition, the convertible debenture holders elected to be repaid in cash due to a change of control triggered (Note 12) by the sale of the Seismic Assets (Note 4). Therefore, the Company is significantly below the targets it had set at the beginning of 2010. The Company intends to operate with minimum debt going forward.

Total funded debt to equity ratio as at December 31, 2010 is as follows:

		Balance as at December 31	
		2010	2009
Components of funded debt to equity ratio:			
Bank indebtedness		\$ 2,050	\$ -
Current portion of long-term funded debt obligations		368	6,217
Long-term funded debt obligations		188	20,685
Convertible Debentures		-	3,602
Total funded debt		2,606	30,504
Shareholders' equity		\$ 17,675	\$ 106,350
	Company Target		
Total funded debt to equity	20% to 50%	15%	29%

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16. Statement of Cash Flows

For the year ended December 31	2010	2009
Interest and income taxes paid		
Income taxes paid	\$ 440	\$ 538
Income taxes refunded	\$ 401	\$ 5,688
Interest paid (net of interest revenue)	\$ 2,386	\$ 2,955
Changes in non-cash working capital balances		
Funds held in trust	\$ 2	\$ 14
Accounts receivable	7,508	8,591
Income taxes receivable	104	(332)
Prepaid expenses, supplies and deposits	171	953
Accounts payable and accrued liabilities	(11,585)	(6,051)
Deferred revenue	(2,121)	(5,565)
	\$ (5,921)	\$ (2,390)
Changes in non-cash working capital balances related to operating activities	\$ 10,264	\$ (354)
Changes in non-cash working capital balances related to investing activities	(16,185)	(2,036)
	\$ (5,921)	\$ (2,390)

In 2010, the Company recorded capital lease additions of \$371,949 (2009 - \$89,000). At December 31, 2010, the Company held \$62,000 (2009 - \$71,000) of cash and cash equivalents which were denominated in a foreign currency.

17. Commitments

On May 1, 2010, the Company's lease for its new premises commenced. The lease term is 15 years. The monthly commitment was approximately \$612,000 including operating costs for 2010. The annual square foot rate increases in years 3, 6, 9, 11 and 14. All other leases expire in 2011 except for approximately 9,500 square feet of space that is occupied by the Company's IT infrastructure.

In 2010, management anticipated that the Company would not occupy all of the space in its new premises and as such began negotiating with various potential subtenants. In accordance with the Emerging Issues Committee Abstract EIC-135, Accounting for Costs Associated with Exit and Disposal Activities, although nothing had been formalized as at December 31, 2010 and based on current day market conditions, a liability of \$3 million was accrued towards the estimated sub-lease loss, which is calculated as the present value of the difference between estimated current day sublease rental rates that could be reasonably obtained for the property and those which the Company is committed to pay to the Landlord. The Company recorded accretion of \$65,000 in 2010. In Q1, 2011, the Company finalized an agreement whereby a new tenant will take over the lease on two floors for 10 years after which time the Company will be no longer be responsible for the lease obligations for that space. The lease commences on April 1, 2010 and includes an eight month rent-free period and additional tenant inducements to match with current inducement rates. The total savings to the Company is approximately \$2 million per year after 2011.

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

2011	8,727
2012	6,348
2013	6,668
2014	6,820
2015+	87,109
	\$ 115,672

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18. Related Party Transactions

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

- (a) In 2010, the Company incurred \$286,000 (2009 - \$268,000) in seismic consulting fees and brokerage commissions from a company controlled by a director. Included in accounts payable as at December 31, 2010 was \$147,000 (December 31, 2009 - \$101,000) related to these commissions.
- (b) In 2010, the Company incurred \$453,000 (2009 - \$423,000) in legal fees from the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable as at December 31, 2010 was \$74,000 (December 31, 2009 - \$26,000) related to these legal fees.

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

19. Financial Instruments and Risk Management

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

(a) Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. The Company is exposed to credit risk through its accounts receivable and unbilled revenue. To mitigate this risk, the Company routinely monitors the activities and balances in these accounts.

A significant portion of the Company's trade accounts receivable are from companies in the oil and gas industry and are exposed to normal industry credit risks. The concentration risk is mitigated primarily by the customers being large investment grade organizations. The credit worthiness of new customers is subject to review by management through consideration of the type of customer and the size of the contract. For 2010, 7 customers accounted for more than 30% of the Company's revenue with a majority of the sales related to contacts for seismic data. At the end of 2010, six customers accounted for 34% of the Company's total accounts receivable.

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20. Financial Instruments and Risk Management (Continued)

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

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

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

The aging of trade receivables is illustrated below:

	Balance as at December 31			
	2010		2009	
	Gross	Allowance	Gross	Allowance
Not past due	\$ 4,356	\$ -	\$ 6,982	\$ -
Past due 0-30 days	1,579	-	4,057	-
Past due 31-120 days	1,163	-	1,189	-
More than 120 days	1,128	225	8,716	2,030
Total trade receivables	\$ 8,226	\$ 225	\$ 20,944	\$ 2,030
Accrued receivables ⁽¹⁾	3,758	-	353	-
Allowance for doubtful accounts	(225)	-	(2,030)	-
Total accounts receivable	\$ 11,759	\$ 225	\$ 19,267	\$ 2,030

⁽¹⁾ Related primarily to proceeds raised on the private placement (Note 14(c)) that were not deposited until January 2011

(b) Interest rate risk

The Company's short-term borrowings are based on floating rates and subject to interest rate cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company's long-term debt is based on fixed interest rates ranging from 1.4% to 10%. If these transactions were entered into today, the interest expense would not be materially different.

The Company's sensitivity analysis includes items bearing interest at variable rates and indicates that a 100 basis points fluctuation in interest rates would have an approximately \$141,000 impact on annual net loss for 2010 (on a pre-tax basis). The Company does not use derivative financial instruments to reduce its interest risk exposure. The carrying amounts of the Company's term debt approximate their fair values.

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20. Financial Instruments and Risk Management (Continued)**(c) Foreign currency risk**

The Company's functional currency is the Canadian dollar and major transactions are done in Canadian funds. A portion of the Company's sales are made in U.S. dollars. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates and can have an effect on the Company's reported results. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables. Management believes that the foreign exchange fluctuations risk is negligible and therefore does not hedge its foreign exchange risk. Foreign exchange gains (losses), both realized and unrealized are included in other income (loss) in the consolidated statements of net loss and comprehensive loss.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. As at December 31, 2010 the Company had a cash and cash equivalents balance of \$3.7 million, \$11.8 million in accounts receivable and \$3 million in unused committed bank credit facilities totalling \$18.5 million to settle current liabilities of \$12.3 million (excluding deferred revenue of \$3.4 million). To manage liquidity risk, the Company utilizes long and short-term cash forecasts to ensure it has necessary funds to fulfill its obligations. Management is reviewing additional sources of capital to continue the Company's activities and discharge commitments as they become due. The Company is also focused on disposing of certain assets. Management believes that the liquidity risk is acceptable given historical operating results, value of the underlying assets as well as the existing and future pipeline of business opportunities. The Company's liquidity position has significantly improved over the past two years and the Company remains committed to not undertaking any significant capital expenditure unless the project is fully funded with sales contracts or until its working capital position has further improved.

The following table summarizes the maturities of financial liabilities and associated interest payments as at December 31, 2010:

	< 1 Year	1-2 Years	2-5 Years	Total
Bank indebtedness	\$ 2,050	\$ -	\$ -	\$ 2,050
Accounts payable and accrued liabilities	8,248	-	-	8,248
Long-term debt obligations	368	139	49	556
Loss on sub-lease	1,655	597	781	3,033
Total	\$ 12,321	\$ 736	\$ 830	\$ 13,887

21. Segmented Information

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

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

Notes to Consolidated Financial Statements

December 31, 2010

(Tabular amounts in thousands, unless otherwise stated)

21. Segmented Information (Continued)

The accounting policies of the segments are the same as those described in the significant accounting policies note accompanying the Company's audited financial statements for the year ended December 31, 2009. Inter-segment sales and transfers, which are accounted for at market value, are eliminated on consolidation. Operating income (loss) is measured as revenue less operating expenses, interest, depreciation and amortization and impairment of goodwill and intangibles. Other income (loss) items and income taxes reported on the Company's consolidated statements of income (loss) and comprehensive income (loss) are not allocated to the reportable segments.

As at and for the year ended December 31, 2010					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue from external customers	\$ 9,386	\$ 18,044	\$ 13,710	\$ -	\$ 41,140
Inter-segment revenue	-	318	(256)	-	62
Operating income (loss) ⁽¹⁾	(62)	590	(16,455)	(20,115)	(36,042)
Interest expense (net of interest revenue)	-	(1)	(1)	3,030	3,028
Depreciation and amortization	3,327	1,658	20,940	781	26,706
Gain (loss) on sale of data libraries and PP&E	-	90	(41,586)	-	(41,496)
Total assets	16,563	10,058	7,647	716	34,984
Capital expenditures	276	551	1,807	388	3,022
Deferred development costs	2,566	287	48	-	2,901

As at and for the year ended December 31, 2009					
	Software & Data	Services	Seismic Data	Corporate & Other	Total
Revenue from external customers	\$ 11,224	\$ 20,333	\$ 30,419	\$ -	\$ 61,976
Inter-segment revenue	-	657	-	-	657
Operating income (loss) ⁽¹⁾	2,721	(1,910)	(2,399)	(12,296)	(13,884)
Interest expense (net of interest revenue)	17	-	20	2,904	2,941
Depreciation and amortization	2,298	2,670	28,187	1,537	34,692
Impairment of goodwill and intangibles	-	1,115	-	-	1,115
Total assets	16,925	9,477	148,762	759	175,923
Capital expenditures	236	470	5,190	328	6,224
Deferred development costs	1,387	392	200	-	1,979

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

22. Contingencies

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

22. Contingencies (Continued)

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

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