

## About Us

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 compliments 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 11 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 audited consolidated financial statements and accompanying notes for the year ended December 31, 2004. The consolidated financial statements 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The 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 Note 2 to the consolidated financial statements.

This MD&A is dated April 6, 2005.

## 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 Business Risks and Environment section of this MD&A.

## NON-GAAP MEASUREMENT

“Earnings before interest, taxes, and amortization” (“EBITA”); “operating income”; “funds from operations”, and “funds from 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, EBITA and operating income are useful supplemental measures for providing an indication of the results generated by the Corporation's principal business activities prior to the consideration of how those activities are financed or how the results are taxed. Management also utilizes funds from 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. Funds from operations is calculated by adding or deducting non-cash items from net income (loss). Funds from operations per share (basic and diluted) is calculated by dividing funds from operations by the weighted average number of shares outstanding for the year.

## BUSINESS RISKS AND ENVIRONMENT

Divestco's business is tied primarily 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. The Company's focus on the oil and gas industry, as its primary customer base, exposes it to all of the uncertainties associated with the demand and price of oil and natural gas.

The Company operates in a highly competitive, price sensitive, industry. The Company also competes with more senior companies that generally have access to a larger pool of capital resources. In addition, some of these companies have a significant international presence. Through the selling of various integrated various oil and gas exploration products and services, the Company attempts to distinguish itself from its competitors by offering unique and customized solutions.

The success of the Company also depends on upon attracting and retaining highly skilled management, geophysical, software development, sales, and other technical personnel. The Company obtains confidentiality and non-compete agreements from these individuals.

### ANNUAL GENERAL MEETING:

Thursday, June 2nd, 2005 - 2:30 p.m.  
Calgary TELUS Convention Centre - South Building (Glen Room 206)  
120 - 9th Avenue S.E Calgary, AB T2G OP3

## Services

The Services segment generates steady sales throughout the year. However, these segments normally exhibit a noticeable dip in sales from mid-April through to the end of September and a noticeable increase in sales during the fall and winter months when significant drilling and exploration activities are underway in North America. To minimize these fluctuations, the Company enters into certain long-term archiving contracts with customers, and specific types of contract work appropriate for lower-activity months.

## Brokerage

Brokerage is subject to fluctuations in industry activity consistent with the Company's Seismic Data division, as previously discussed.

## Software

The Software segment generates steady sales throughout the year. It is generally not susceptible to seasonal effects.

# Divestco Business Segments

Copies of the Company's 2004 annual report and other continuous disclosure documents can be viewed at [www.sedar.com](http://www.sedar.com), or on its website at [www.divestco.com](http://www.divestco.com).

## ments

Divestco generates its revenue from four segments within the oil and gas industry: services, data, software and brokerage. This has given Divestco a unique position in the market place, as it is the only company currently offering these services under one roof.

## Data

The demand for seismic data and other oil and gas datasets depends primarily upon the level of exploration and development activity by oil and natural gas companies in Western Canada. These activity levels are directly affected by fluctuations in oil and gas prices, supply and demand and to a lesser extent government regulation including regulation of environmental matters, all of which are beyond the control of Divestco. In addition, the oil and gas industry in Western Canada has recently been more focused on development drilling, for which there is less demand for seismic data than there is for exploration drilling.

For larger seismic programs, the Company relies on third parties to share in the cost. These parties are also susceptible to the risks and uncertainties associated with the oil and gas industry.

Acquisition of seismic data is usually completed in the winter season when the ground is frozen. These conditions are imperative, as seismic acquisition requires the use of heavy equipment especially in the Northern areas of Alberta and British Columbia. The Company depends on qualified contractors to complete the surveys on time and within budget. To help insure this, the Company regularly follows up with the contractor on the progress of the survey.

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

The Company's seismic operation is subject to a variety of Canadian federal and provincial laws and regulations, including laws and regulations relating to safety and the protection of the environment. Divestco and its contractors are required to invest financial and managerial resources to comply with such laws and related permit requirements in their operations. Such laws and regulations are subject to change and accordingly, it is impossible for the Company to predict the cost or impact of such laws and regulations on its future operations. The adoption or modification of laws and regulations, which could have the effect of curtailing exploration and development by oil and gas companies, could also adversely affect Divestco's Seismic operations by reducing the demand for seismic surveys.

The Log and Support Data divisions are not generally susceptible to a seasonal change in sales volume as demand for this information is consistent throughout the year as a majority of the Company's software products are preloaded with this data when sold.

# Overall Performance

## Financial Results

(000's, except per share amounts)

	Quarter Ended December 31			Year Ended December 31			Year Ended
	2004	2003	% change	2004	2003	% change	2002
Revenue	\$ 8,234	\$ 6,293	31%	\$ 25,912	\$ 15,043	72%	\$ 4,969
EBITA	3,168	1,278	148%	6,745	1,697	297%	699
Operating income	2,042	740	176%	3,520	153	2201%	198
Net income from continuing operations	2,135	990	116%	3,948	471	738%	250
Per share - basic and diluted <sup>(1)</sup>	0.084	0.060	40%	0.156	0.027	478%	0.021
Net income	2,135	1,238	72%	3,948	719	449%	250
Per share - basic and diluted <sup>(1)</sup>	0.084	0.075	12%	0.156	0.042	271%	0.021
Funds from continuing operations	3,075	1,156	166%	6,245	1,650	278%	703
Per share - basic and diluted <sup>(1)</sup>	0.122	0.066	85%	0.247	0.096	157%	0.059
Funds from operations	3,075	1,136	171%	6,245	1,629	283%	703
Per share - basic and diluted	0.122	0.065	88%	0.247	0.095	160%	0.059
Number of shares outstanding	24,985,000	25,423,091		24,985,000	25,423,091		12,596,112
Weighted average number of shares outstanding	25,308,266	17,228,894		25,308,266	17,228,894		11,783,568

## Financial Position

(000's, except per share amounts)

	Dec 31, 2004	Dec 31, 2003
Total assets	\$ 41,554	\$ 28,854
Working capital <sup>(2)</sup>	1,572	4,903
Long-term debt (including short-term portion)	1,375	313

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

<sup>(2)</sup> Excludes deferred revenue

## Year ended December 31, 2004

Divestco had a record year, generating net income of 15.6 cents per share (basic and diluted) compared to 4.2 cents per share in 2003, an increase of 11.4 cents per share or 271%. Net income was \$3.9 million compared to \$0.72 million in 2003, an increase of \$3.2 million or 449%. Some highlights of this record performance were:

- Offering of a seismic data, software, and archiving package from which the Company was able to spawn strong interest from both small and large oil and gas producers;
- \$2.3 million in sales of the Company's first jointly acquired 3D seismic survey;
- \$0.5 million in sales of seismic data the Company acquired from arranging and managing a survey completed in the first quarter;
- \$0.1 million well data sale;
- \$2.3 million in revenue from a well log license sold to a US based Company;
- \$0.13 million foreign exchange gain of consisting of \$0.22 million gain on short-term U.S. borrowings, offset by loss of \$0.09 million on U.S. funds held in trust; and
- \$0.28 million future income tax recovery

Integration was the key element leading to this record performance; By integrating Software with Data, Services with Data, and Data with Brokerage, this has moulded Divestco into a unique company by offering its customers one-stop oil and gas exploration solutions. The integration of diverse product lines made possible through various acquisitions over the last four years has propelled the Company into a position to gain even further market share in 2005.

Divestco expanded its Services division on September 20, 2004 with the acquisition of Westcan Oilmaps (1993) Ltd. ("Westcan"). This acquisition added a proprietary geological tops file to the Company's existing line of geological and geophysical data. The Company is currently expanding this line with new sales expected in 2005.

The Company eliminated its working capital deficiency<sup>(1)</sup> in the fourth quarter and ended 2004 with \$1.6 million in working capital. As at September 30, 2004, the Company had a working capital deficiency of \$2.5 million. The \$4.0 million improvement was primarily due to the closing of a \$4.2 million seismic data sale to a major oil and gas producer in December, \$0.1 million investment tax credit ("ITC") refund accrual, and a \$0.09 million payment on the non-revolving demand loan. Offsetting this was the receipt of a \$0.09 million ITC refund and a \$1.1 million increase in brokerage payables brought on by a normal rise in fourth quarter activity levels.

Efforts to improve its working capital position are continuing into 2005 with a drive to generate strong funds from operations. To accomplish this, the Company has signed various seismic data licensing agreements and is in the process of signing additional deals. There are also a number of seismic surveys currently underway that will generate new revenue for Divestco in 2005 and 2006.

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

## Quarter ended December 31, 2004

Divestco also posted its best quarter ever with net income of 8.4 cents per share (basic and diluted) compared to 7.5 cents per share in 2003, an increase of 0.9 cents per share or 12%. Net income was \$2.1 million compared to \$1.2 million in 2003, an increase of \$0.9 million. The increase was due primarily to seismic data sales of \$2.3 million, deferred development expenses of \$0.6 million, and a \$0.1 million future tax income recovery. This was offset by an increase of \$0.6 million in amortization due to seismic data acquisitions.

Revenue for the last three months of 2004 amounted to \$8.2 million. This was an increase of \$1.9 million from the same period in 2003. Revenue for the comparable period was \$6.3 million.

### Quarterly Results

Selected quarterly information (000's except per share amounts)

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3 (restated)	Q2 (restated)	Q1 (restated)
Revenue	8,234	5,407	6,073	6,198	6,293	3,056	3,209	2,485
EBITA	3,168	1,210	891	1,476	1,278	124	197	98
Operating income (loss)	2,042	548	151	779	740	(300)	(162)	(125)
Net income (loss) from continuing operations	2,135	622	387	804	992	(294)	(123)	(104)
Per Share - basic and diluted <sup>(1)</sup>	0.084	0.025	0.015	0.032	0.060	(0.019)	(0.007)	(0.007)
Net income (loss)	2,135	622	387	804	1,238	(294)	(123)	(102)
Per Share - basic and diluted <sup>(1)</sup>	0.084	0.025	0.015	0.032	0.075	(0.019)	(0.007)	(0.007)
Funds from continuing operations	3,075	876	832	1,462	1,156	133	207	154
Per Share - basic and diluted <sup>(1)</sup>	0.122	0.035	0.033	0.057	0.066	0.008	0.012	0.010
Funds from operations	3,075	876	832	1,462	1,135	133	207	154
Per Share - basic and diluted <sup>(1)</sup>	0.122	0.035	0.033	0.057	0.065	0.008	0.012	0.010

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

# Segment Review

For the quarter ended Decemberr 31, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,908	\$ 3,930	\$ 1,334	\$ 1,062	\$ 8,234
EBITA	416	2,118	569	65	3,168
Interest	-	47	-	-	47
Amortization	102	675	252	50	1,079
Operating income (loss)	314	1,396	317	15	2,042

For the quarter ended Decemberr 31, 2003 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,868	\$ 1,797	\$ 1,800	\$ 828	\$ 6,293
EBITA	(311)	953	657	(21)	1,278
Interest	-	63	-	-	63
Amortization	95	131	201	48	475
Operating income (loss)	(406)	759	456	(69)	740

For the year ended December 31, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 7,245	\$ 10,159	\$ 4,948	\$ 3,560	\$ 25,912
EBITA	381	5,111	1,326	(73)	6,745
Interest	-	371	-	-	371
Amortization	439	1,485	716	215	2,855
Operating income (loss)	(58)	3,255	611	(288)	3,520

For the year ended December 31, 2003 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 4,694	\$ 1,925	\$ 5,102	\$ 3,322	\$ 15,043
EBITA	148	915	393	241	1,697
Interest	-	71	-	-	71
Amortization	410	205	669	189	1,473
Operating income (loss)	(262)	639	(276)	52	153

## Services

The Services business unit provides seismic survey audit, information and database management, custom mapping, archiving, imaging, and geophysical/geological services. These services provide quality assurance, as well as transactional and management services for geophysical and geological related data.

### Fourth quarter

Services revenue increased slightly in the fourth quarter of 2004 to \$1.91 million from \$1.87 million for the same quarter in 2003, contributing 23% of the Company's revenue. The marginal increase was due to Services devoting considerable time to seismic enhancement projects initiated by the Data group. Services played a key role in organizing, archiving, quality control, and preparing for customer delivery of the large seismic dataset purchased by the Company early in 2004. In addition, Services continued to work on delivering this data to a third party for reprocessing that will create a new exploration product for the oil and gas industry.

Survey Audit, Mapping, and Geological/Geophysical services combined for an increase of \$0.30 million in revenue for the fourth quarter of 2004. This was due largely to increases in client seismic acquisition activity, the Company's own seismic acquisition projects, and an increase in seismic modelling services. Offsetting this revenue was a \$0.26 million decrease in Information Management and Document Scanning revenue due to the end of a two-year seismic data cleanup project and an increased focus on the internal scanning of well logs for Divestco's raster log database.

EBITA for the fourth quarter was \$0.42 million compared to a loss of \$0.31 million in 2003. The \$0.73 million increase was attributed to revenue generated in the Archiving division from two large data divestitures from its largest client. Amortization remained unchanged at \$0.10 million. Services had an operating income of \$0.31 million compared to a loss of \$0.41 million in 2003, an increase of \$0.72 million.

### Year

Revenue for 2004 was \$7.25 million, up \$2.56 million or 55% from \$4.69 million for same period in 2003, a contribution of 28% of the Company's total revenue for the year. The increase was primarily due to the addition of Survey Audit and Mapping, Geological/Geophysical, Document Scanning, and Information Management services with the Excalibur-Gemini Group Ltd. ("TEGGL") acquisition in March 2003 and the addition of Archiving services with the International Datashare Corporation ("IDC") acquisition in September 2003. Services experienced significant integration success between TEGGL and IDC, allowing for continuation of existing operations and supporting future growth. An overall growth of \$0.10 million came from Seismic Modelling, a new service offered in 2004. Finally, the Corporate Records division group saw an increase in revenue of approximately \$0.07 million from 2003.

Services had EBITA of \$0.38 million compared to \$0.15 million for the same period in 2003, a \$0.23 million or 153% increase. Amortization was \$0.44 million, an increase of \$0.03 million from 2003. Services completed 2004 with an operating loss of \$0.06 million compared to an operating loss of \$0.26 million in 2003, an improvement of \$0.20 million.

### Looking ahead

Survey Audit, Database, Geophysical and Geological Services and Archive will continue to play key roles in quality assurance and data management, facilitating the seismic reprocessing project completion. Revenue from this enhanced data file should be realized in the first half of 2005, as the incremental updates of new reprocessed data become available. Services will also see a continuation of revenue generated from new seismic acquisition projects planned in 2005.

Increase in marketing focus coupled with new product releases will allow customers to take advantage of an increased synergistic and complimentary array of Divestco services. In particular, DataStore is a tool being developed to link the Survey Audit and Database groups within Archiving. This will enable customers to perform all their data management tasks from one central portal into Divestco. Areas like Data Loading, Modelling and Archiving are now positioned for growth and will add further depth to the offering.

The Company is actively positioning itself for an upcoming industry move towards a new regional datum shift to NAD83. The management and services associated with this transition represent a significant opportunity for the diverse offering of software and services that Divestco markets. The first stages of this transition will commence in 2005 with the revenue opportunities expected to continue for several more years.

Archive and Information Management will be more closely aligned in 2005 and will work collaboratively to facilitate the acquisition and archiving of new seismic datasets. Development has begun on a new archival system that will be used to archive and transcribe Divestco's seismic datasets. This system will be rolled out to new clients in 2005 and existing clients will be migrated to the new system in 2006.

Also in 2005, the Company plans to leverage its breadth of products and services to offer further bundling opportunities to both existing and new customers. The expected result is cross-divisional increases in revenue rather than increases in one product or service alone. No other company in our industry offers such a unique array of products and services as Divestco.

## 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.

### Fourth quarter

Data generated revenues of \$3.93 million, contributing 48% towards the Company's total revenue for fourth quarter of 2004. Revenue for the comparable period in 2003 was \$1.80 million. The increase of \$2.13 million or 118% is highlighted as follows:

- \$2.3 million in sales of seismic data acquired in June 2004;
- Bundled package and line sales of seismic data acquired in February 2004; and
- \$0.26 million increase in log and raster sales from 2003, the result of a large bulk sale of digital log data in October 2004.

Offsetting the increase was revenue from a large log license sale in the fourth quarter of 2003.

EBITA was \$2.12 million compared to \$0.95 million in 2003, an increase of \$1.17 million or 123%. Cross training of all log data employees in digitizing, depth registration, and log scanning led to increased efficiencies and improved productivity. Amortization was \$0.68 million in 2004 compared to \$0.13 million in 2003, with the \$0.55 million increase primarily due to the two major seismic acquisitions. Operating earnings were \$1.40 million compared to \$0.76 million in 2003, an increase of 84%.

### Year

Revenue for 2004 totalled \$10.16 million, representing 39% of the Company's revenue, compared to \$1.93 million in 2003. This amounts to an increase of \$8.23 million or 432%. In addition to the previously discussed seismic data sales, revenue of \$2.1 million was recognized from the sale of a perpetual license of the Company's log database in 2003. Revenue from this license was being recognized over the delivery period of the log data, which commenced in the fourth quarter of 2003 and ended in the second quarter of 2004. Digitizing revenues in the log data group decreased as the focus shifted to improving quality and coverage in the raster log database. International digitizing was no longer offered as a service beginning in the fourth quarter due to increased costs and an enhanced focus on digitizing Canadian data to add to the log database.

EBITA was \$5.11 million compared to \$0.92 million in 2003. Interest was \$0.37 million and related primarily to the debentures used to finance the seismic acquisitions, which were repaid with the non-revolving demand loan proceeds. Amortization was \$1.49 million compared to \$0.21 million in 2003. Again, the increase related to seismic acquisitions. Operating earnings were \$3.25 million compared to a loss of \$0.64 million in 2003, an increase of \$2.61 million or 318%. The termination, at our request, of our large international digitizing contract allowed for reduced staffing levels. In addition, complete cross training of all log data employees led to increased operational efficiencies. A new log management system was deployed in Q3 and further reduced the costs associated with producing raster log data.

#### Looking ahead

The Company acquired 350 square kilometres of 3D seismic data in the first quarter of 2005 and expects to acquire approximately 1,100 square kilometres of additional 3D seismic data by the end of the second quarter of 2005. The Company's portion of the costs to acquire all of this data amounts to an estimated \$5.7 million. Strong seismic sales are anticipated to continue throughout 2005 from this new 3D data. In addition, Divestco expects to have the reprocessing of its 2D data it acquired early in 2004 completed by September 2005. Clients that purchase a license to this seismic before being reprocessed have already shown interest in the reprocessed version. As a result, the Company anticipates strong sales as soon as the reprocessed data becomes available for market.

Log Data will continue to significantly invest in improving the quality and coverage of the log database and it will have complete coverage for all wells in Western Canada by the end of the third quarter of 2005. Data quality enhancement initiatives will continue throughout the year. The improved coverage and quality of the raster log database should result in increased sales of this product. Divestco will be expanding its digitizing capacity by entering into an agreement with a contract digitizing company. The contractor will complete the client work and the work will be quality controlled by the Company's digitizing group. This arrangement will allow Divestco to handle increased client demand for digitizing during busy periods without having to hire and train new staff leading to cost reductions.

Completion of the Alberta and British Columbia Drill Stem Tests ("DST") file will result in a new revenue stream for the Log Data division beginning in the third quarter of 2005.

## Software

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

#### Fourth quarter

Revenue for the fourth quarter was \$1.33 million compared to \$1.80 million in 2003, a decrease of \$0.47 million or 26%, with Software contributing 16% of Divestco's total revenue.

This decrease was mainly due to the reclassification of revenue in 2004. Several of the Company's software products come preloaded with grid, culture and well data when sold to the customer. In 2003, revenue from both the software and data components was included in the Software segment. In 2004, the data component was reclassified to the Data segment while the software component remained in the Software segment. In addition, a majority of the fourth quarter was spent on developing new software products and feature enhancements for existing products both scheduled for release in 2005.

EBITA was \$0.57 million compared to \$0.66 million in 2003, a decrease of \$0.07 million. Although 2004 included a net deferral of \$0.64 million of development expenses, increases in costs came by way of salaries from hiring new sales staff. Amortization of property and equipment was \$0.25 million compared to \$0.20 million in 2003, an increase of \$0.05 million or 25% due to the purchase of computer hardware and software. Operating earnings decreased by \$0.14 million to \$0.32 million from \$0.46 million in 2003.

## Year

Revenue for 2004 was \$4.95 million, a 3% decrease from the previous year's revenue of \$5.10 million. A significant change in product licensing strategy affected the numbers negatively, as some of our core products were shifted from primarily purchase and maintenance sales to annual leases. This resulted in less up front revenue, but will provide a more even and higher revenue stream on a go forward basis.

Software cancellations also affected the Company's bottom line for products that were acquired through the IDC acquisition. Clients were not satisfied with the progress that IDC had made with some of their applications, which resulted in cancellations in 2004.

The company also spent 2004 investing in the research and development of new products that are scheduled for release in 2005. The company focused on feature releases for its core set of products including WinPICS, GeoVista, GeoCarta, GeoCarta Tools and MapQ.

EBITA was \$1.33 million compared to a \$0.39 million in 2003, an increase of \$0.94 million due mainly to the net deferral of \$1.15 million of development expenses offset by the hiring of additional sales and customer support staff in 2004. Amortization of property and equipment was \$0.72 million compared to \$0.67 million in 2003, a 7% increase related to computer equipment and software additions, offset by a reduction in amortization of software code in the fourth quarter of 2003. Operating income in 2004 was \$0.61 million, a \$0.89 million increase from a loss of \$0.28 million for the same period in 2003.

## Looking ahead

With the focus on product development in 2004, the Company looks forward to the release or new and updated versions of products in 2005:

- WinPICS 5.1. This new version allows clients to view geological data from GeoVista directly in WinPICS and includes the DGI Gridding and Contouring engine. Released in the first quarter of 2005;
- EnvisionVSX 1.0. New 3D visualization engine for WinPICS projects. This software is an add-on for WinPICS that can be launched directly from within WinPICS or as a stand-alone program. Released in the first quarter of 2005;
- GeoVista 4.2. Includes improved layer management and a dynamic link between WinPICS and GeoVista. Released in the first quarter of 2005;
- Divestco DataStore project. Entered Beta phase in the first quarter of 2005;
- OeX rationalization and modernization. Completed in first quarter of 2005;
- GeoCarta Tools 1.7. Released April 2005;
- EnvisionVSX 2.0. Will include the ability to interpret and dynamically flatten in 3D. Scheduled for release in the second quarter of 2005; and
- Synthetic Suite. Major revisions in progress. Completion expected in the second quarter of 2005.

## Brokerage

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

### Fourth quarter

Revenue for the fourth quarter was \$1.06 million, an increase of \$0.23 million or 28% from same period in 2003, representing 13% of the Company's total fourth quarter revenue. The increase was primarily due to the commission earned on license and individual line sales of the Company's seismic library.

Brokerage had EBITA of \$0.07 million, up \$0.09 million from negative EBITA of \$0.02 million in 2003. Amortization was unchanged in 2004 at \$0.05 million. This amounted to an operating income of \$0.01 million in 2004 versus a loss of \$0.07 million in 2003, a \$0.08 million increase.

### Year

Revenue for 2004 was \$3.56 million compared to \$3.32 million in 2003, a \$0.24 million or 7% increase. The increase was due to the sale of seismic data the Company acquired in 2004.

Brokerage had a negative EBITA of \$0.07 million for 2004, down from EBITA of \$0.24 million 2003, a decrease of \$0.31 million. The decrease was caused by increase in general and administrative expenses due to the overall growth of the Company in 2004. Amortization was \$0.21 million in 2004 compared to \$0.19 million in 2003, an increase of 11% due to office equipment purchases. This created an operating loss of \$0.29 million in 2004 versus operating income of \$0.05 million in 2003, a \$0.34 million decrease.

### Looking ahead

The Company will be involved in a number of seismic programs over the next year and a half. As Divestco's seismic library grows, Brokerage will continue to be key in the marketing and sales of this newly acquired data.

## Amortization

### Fourth quarter

Amortization for the fourth quarter of 2004 was \$1.08 million compared to \$0.48 million in 2003, an increase of \$0.60 million or 127%. The increase was primarily due to the purchase of a large seismic data library in the first quarter and the completion of the Company's first 3D seismic survey in the second quarter of 2004. In addition, the Company had fourth quarter capital expenditures of \$0.78 million consisting mainly of the purchase of 20,000 kilometres of 2D seismic data, computer hardware, and geophysical interpretation software.

### Year

Amortization for 2004 amounted to \$2.85 million compared to \$1.48 million in 2003, an increase of \$1.38 million or 94%. Capital expenditures totalled \$10.73 million, excluding the acquisition of Westcan, consisting mainly of the following:

- \$9.2 million of seismic data acquired in 2004;
- \$0.8 million in computer hardware and software purchases related mainly to the upgrades made to the Archiving and Log divisions;
- \$0.1 million in office furniture and equipment purchases; and
- \$0.5 million in leasehold improvements related to the renovation of the Imaging and Archiving Centre, and the addition of a software training facility at the Company's Head Office.

## Interest

### Fourth quarter

Interest for the fourth quarter of 2004 was \$0.47 million relating primarily to the Company's operating line, non-revolving demand loan, and capital leases. Interest for the same period in 2003 was \$0.62 million. This decrease of \$0.15 million or 25% was related to repayment of \$0.86 million of debentures towards the end of 2003 that were issued in September 2003.

### Year

Interest for 2004 amounted to \$0.37 million compared to \$0.07 million in 2003. In addition to the items mentioned above for the fourth quarter of 2004, \$0.12 million related to debentures issued in February used to partially finance the Company's first quarter seismic purchase. The debentures were repaid in June 2004 with the non-revolving demand loan.

## Income Taxes and Tax Pools

The increase in the Company's future tax asset of \$1.41 million arose first through the \$1.13 million reduction of unamortized intangible assets acquired from IDC in accordance with CICA Accounting Handbook section 3465.48 and second through a future income tax recovery of \$0.28 million. The Company did not recognize certain future tax assets on the 2003 IDC acquisition, as virtual certainty did not exist at that time to merit the full recognition of these assets. Management now feels it is more likely than not, the Company will be able to fully utilize these future income tax assets before expiry.

As at December 31, 2004, the Company had non capital losses of approximately \$6.8 million (2003 - \$8.4 million), which are available to reduce taxable income in future periods. The losses were transferred to the Company as a result of the amalgamation with IDC. If not utilized, these non-capital losses will begin to expire in 2006. Additionally, the Company has approximately \$6.4 million (2003 - \$9.7 million) in undepreciated capital cost.

The Company files Scientific Research and Development ("SR&ED") claims on an annual basis and had approximately \$2.2 million (2003 - \$0.5 million) of SR&ED expenses as at December 31, 2004 available to reduce future taxable income. In addition, the Company has approximately \$0.6 million (2003 - \$0.2 million) of unclaimed investment tax credits (ITC's) available to reduce income taxes payable future years. If not utilized, these ITC's will begin to expire in 2012. The future tax benefit of the ITC's has been recognized in 2004 as the Company expects to utilize the ITC's before they expire.

During 2004, the Company received \$0.67 million in ITC refunds related to a SR&ED claim filed for 2002 and SR&ED claims filed by companies acquired by Divestco. In addition, the Company recently filed a \$0.5 million SR&ED claim for 2003, which is subject to Canada Revenue Agency approval.

## MAJOR TRANSACTIONS

February 2004

In February 2004, Divestco completed the acquisition of a seismic data library including 31,544 kilometers of 2D seismic data and 1,433 square kilometres of 3D seismic data. The data was purchased from a major oil and gas exploration and production company.

June 2004

In June 2004, the Company jointly completed a 272 square kilometre 3D seismic survey program. The Company earned \$2.3 million in revenue in 2004 from this survey.

September 2004

In September 2004, the Company purchased all of the issued and outstanding shares of Westcan Oilmaps Ltd. for total consideration of \$0.4 million. The Company added a valuable geological tops file to its growing data library.

In September 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.

December 2004

In December 2004, the Company sold 679 square kilometres of new and existing 3D seismic data for \$4.2 million to a major oil and gas producer.

In January 2005, the Company sold 186 square kilometres of new and existing 3D seismic data for \$1.7 million to a major oil and gas producer.

January 2005

In January 2005, the Company entered into a seismic acquisition agreement with a major oil and gas producer whereby the Company will acquire 124 square kilometres of 3D seismic data in exchange for providing a license to the producer for this data and an additional 129 square kilometres of 3D seismic data. Expenditures to acquire this data totalled approximately \$4.6 million with completion in March 2005.

In January 2005, the Company entered into two 3D seismic data acquisition agreements with a major oil and gas producer to jointly acquire a total of 1,032 square kilometres of 3D seismic data for \$51.6 million with an exclusivity period of nine months. Divestco's portion is \$16.3 million or 31.5% of the total project costs. Financing for the Company's portion is coming by way of an agreement entered into simultaneously with another oil and gas company.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Funds from operations in the fourth quarter were \$3.08 million compared to \$1.14 million in 2003. The increase of \$1.94 million or 171% was primarily due to a significant seismic sale in December 2004.

Funds from operations for 2004 were \$6.30 million compared to \$1.63 million for the same period in 2003. The increase of \$4.67 million or 287% was primarily due to funds generated from license and line sales of the Company's seismic data library. The Company was able to reap the benefits of providing integrated solutions to its customers. As the Company relies on its funds from operations to finance both its day-to-day operations and capital expenditures, it is important for the Company to maximize this source of funds.

### Financing Activities

Two notable financing activities occurred in the fourth quarter: a reduction in bank indebtedness of \$0.43 million, and a payment of \$0.77 million the Company made on its non-revolving demand loan. Offsetting this was \$0.15 million in proceeds received from a sale-leaseback transaction and \$0.30 million in proceeds received from the issuance of a promissory note to a director. The note was repaid in February 2005. In addition the Company:

- Secured a new \$3.0 million operating line;
- Issued \$4.25 million in debentures to partially finance its seismic data library purchase in February and which were fully repaid by June 2004;
- Secured a U.S. \$2.25 million non-revolving demand loan with HSBC Canada to repay the balance of the debentures. Payments totalling U.S. \$2.02 million were made in 2004. The remaining U.S. \$0.23 million will be repaid by September 2005;
- Completed various sale-leaseback transactions totalling \$0.90 million offset by payments of \$0.17 million; and
- Repurchased \$0.42 million of its shares through a normal course issuer bid.

### Investing Activities

The Company had capital expenditures of \$0.78 million in the fourth quarter as previously discussed.

During 2004, the Company had capital expenditures of \$10.73 million as previously discussed. In addition, \$1.22 million in development costs were deferred and the Westcan acquisition was completed in September 2004.

### Working Capital

At the end of 2004, the Company had \$1.57 million in working capital (excluding deferred revenue of \$4.57 million), an improvement of \$4.04 million from the \$2.47 million working capital deficiency (excluding deferred revenue of \$2.05 million) as at September 30, 2004. The improvement was due to a large seismic data license sale in the fourth quarter and a reduction in bank indebtedness from additional operating funds due to the increase in activity levels normal for the fourth quarter.

At the end of 2003, the Company had \$4.90 million in working capital (excluding deferred revenue of \$1.66 million). The \$3.33 million decrease from 2003 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.

### 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 December 31, 2004, \$2.12 million was drawn on this facility. The effective interest rate since the facilities were secured in June 2004 was 4.79%. The second facility is a \$0.15 million corporate credit card facility reserved for senior management and officers. As at December 31, 2004, a marginal amount 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%. Proceeds received of \$3.05 million (U.S. \$2.25 million) were used to repay debentures the Company issued in February. Payments in 2004 totalled \$2.56 million (U.S. \$2.03 million), and a foreign exchange gain of \$0.22 million was recognized, leaving a balance of \$0.27 million (U.S. \$0.23 million) at the end of 2004. The effective interest rate at December 31, 2005 was 6.5%. Remaining principal payments of U.S. \$75,000 each are due on March 31, June 30 and September 30, 2005.

The facilities are subject to the Company meeting certain debt covenants. As at December 31, 2004, the Company was in violation of its working capital ratio covenant. The Company's bank has provided it with forbearance of the covenant breach as at December 31, 2004. Divestco continues to take measures to improve its working capital position by focusing on increasing funds from operations that will be used to reduce current liabilities. The Company expects to generate additional funds through sales of licenses to its growing seismic data library.

Expectations are that the credit facilities and funds 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, the Company is currently in discussions with its financial institution to increase its operating line to \$5.0 million from \$3.0 and obtain a long-term source of financing.

## OUTSTANDING SHARE DATA

Divestco is authorized to issue an unlimited number of voting and non-voting common shares. The common shares of the Company trade on the TSX Venture Exchange under the symbol "DVT". As at December 31, 2004, there were 24,985,000 common shares outstanding. During 2004, 12,009 common shares were issued on the exercise of stock options and 450,100 shares were repurchased under a normal course issuer bid. As at December 31, 2003, there were 25,423,091 common shares outstanding. As at April 6, 2005, 24,578,195 common shares were outstanding.

### June 2004

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 fourth quarter, the Company repurchased 240,100 shares at a purchase cost of \$212,762 (\$0.89 average price per share) resulting in a \$38,294 reduction to retained earnings. This brought the total for the year ended December 31, 2004 to 450,100 shares for a total purchase cost of \$418,132 (\$0.93 average price per share) resulting in a total reduction to retained earnings of \$91,068. Subsequent to December 31, 2004, an additional 532,900 shares were repurchased for a total cost of \$639,919 (\$1.20 average price per share).

On June 2, 2004, the Company announced a small shareholder selling program ("the Program") that enabled registered and beneficial shareholders who owned 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 was executed through the facilities of the TSX Venture Exchange. The voluntary Program expired on November 18, 2004.

August 2004	The Program was extended from its original expiry date of August 31, 2004. The Program was designed to assist Eligible Shareholders in selling their Shares in a convenient and inexpensive manner. The Program allowed Eligible Shareholders the opportunity to sell all of their Shares. Participating shareholders did not incur any brokerage commissions if they elected to dispose of their Shares.
September 2004	On September 23, 2004, 8,112,064 common shares being held in escrow were released. Officers, directors, and companies controlled by a director were holding 6,656,429 of these shares. On the same day, 1,452,540 common share purchase warrants and 145,254 broker warrants expired. The warrants were issued in connection with a private placement completed in September 2003.
November 2004	On November 2, 2004 and February 22, 2005, the Company granted 134,000 and 50,000 stock options, respectively. The options are for a five-year term and are exercisable at \$1.00 and \$1.20 per share, respectively. As at December 31, 2004, 1,845,494 stock options were outstanding. As at April 6, 2005 there were 1,769,399 stock options outstanding.

## COMMITMENTS AND CONTINGENCIES

### Commitments

Except as discussed elsewhere, the Company has entered into various commitments primarily related to debt, building and equipment leases and multiyear data licenses. The following table is a summary of the Company's contractual obligations as at December 31, 2004:

	2005	2006	2007	2008	Total
Promissory notes	468,214	82,229	23,409	-	573,852
Capital leases	260,868	274,221	268,232	-	803,321
Operating leases <sup>(1)</sup>	2,020,453	1,904,891	1,294,371	594,719	5,814,434
Contractual Obligations	2,749,535	2,261,341	1,586,012	594,719	7,191,607

Under the terms of the seismic program acquisition agreement, 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 June 30, 2004 delivery date. The revenue was 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. The Acquisition Credits are reduced by the acquisition of certain parcels of land by the oil and gas company. As at December 31, 2004, the Acquisition credits were reduced to nil.

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.

## Contingencies

As a result of the purchase of TEGGL in 2003, the Company assumed a claim filed against the Company by a former employee. The Company's maximum exposure was \$150,000. On November 2, 2004, the lawsuit was settled in the amount of \$175,000. Former shareholders of TEGGL are liable for the portion of the settlement exceeding \$150,000 as stated in the TEGGL acquisition agreement.

As a result of the amalgamation with IDC in 2003, the Company assumed a claim 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. The Company agreed to settle this claim for \$200,000. Payment will be satisfied with the Company receiving net proceeds of approximately \$74,000 from the vendor.

In October 2004, the Company filed a statement of claim against a vendor for \$330,857 for overpayment of royalties and cash advances to cover expenses for which the vendor failed to repay. In a letter from the vendor's lawyer dated January 27, 2005, the vendor claimed the Company still owed it \$55,000 in royalties and \$5,000 in other expenses. On March 20, 2005, the Company settled the lawsuit for \$76,000. In return for the payment, the Company received a perpetual license to the vendor's software and forgiveness of all remaining debt claims.

The Company has no other material contingencies or commitments other than those disclosed in this annual report for the year ended December 31, 2004.

## RELATED PARTY TRANSACTIONS

2004

In 2004, the Company earned \$1,190,314 (2003 - \$297,716) in revenue related to software license sales, audit and mapping services, data loading, workstation rentals, and leasing of office space, from companies with common directors. Included in accounts receivable is \$155,139 (2003 - \$5,596) related to this revenue.

2004

In 2004, the Company earned \$285,786 (2003 - \$319,884) in commission revenue on brokerage sales to companies with common directors. Included in account receivables is \$409,311 (2003 - \$309,979) related to sales of brokerage seismic data to companies with common directors. Included in account payable is \$200,594 (2003 - \$261,774) related to purchases of brokerage seismic data from companies with common directors.

2004

In 2004, the Company paid \$149,936 (2003 - \$144,573) in seismic commissions to a company controlled by a director. This company provides seismic brokerage services to Divestco. Included in accounts payable is \$12,987 (2003 - \$Nil) related to these commissions.

2004

In 2004, the Company paid \$172,090 (2003 - \$ 282,955) in legal fees from the law firm at which the Company's corporate secretary is employed. This firm is the Company's lead counsel. Included in accounts payable is \$57,855 (2003 - \$48,812) owing to this firm.

2004

In 2004, the Company paid \$Nil (2003 - \$145,845) in legal fees to the law firm at which a director is a partner. Included in accounts payable is \$181,343 (2003 - \$260,498) owing to this firm.

February 2004

In February 2004, the Company issued \$4.25 million in debentures bearing interest at 12% and maturing on December 30, 2004. \$4.0 million of the debentures issued were to certain Directors of the Company. The Company paid a set-up fee of \$0.13 million to arrange the financing and incurred \$0.12 million in interest. \$0.10 million of the set-up fee and \$0.11 million of the interest were paid to the Directors. In June 2004, the debentures were fully repaid with proceeds the Company received from the non-revolving demand loan.

October 2004

In October 2004, the Company issued a \$300,000 promissory note to a company with common directors 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. The note was repaid with interest on February 2, 2005.

November 2004

In November 2004, of the 134,000 stock options granted to acquire common shares of the Company, 50,000 options were granted to a Director. The options were granted as compensation for being appointed to the Board of Directors in 2004.

February 2005

In February 2005, the 50,000 options were granted to the Company's Chief Financial Officer. The options were granted as part of the Officer's compensation package.

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

The Company adopted the following accounting policy for the treatment of costs associated with its seismic data acquisitions and amortization of the related expenditures:

The costs associated with purchasing or creating the seismic data library are capitalized. Purchases of existing seismic data capitalized and amortized on a straight-line basis over 10 years. The Company also creates seismic data and capitalizes the costs paid to third parties for the acquisition of data, permitting, surveying and other related costs. Created seismic may be acquired without pre-sale commitments or with pre-sale commitments that include an exclusive data use period. Created seismic, without pre-sale commitments, is amortized on straight-line basis over a seven year period. Created seismic with pre-sale commitments is initially amortized at 40% on delivery of the data to the customer with the remaining on a straight-line basis over the next six-year period. Certain of the created seismic is acquired jointly with others. These financial statements reflect only the Company's proportionate share of the costs of jointly created seismic data 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 interim consolidated financial statements for the three months ended March 31, June 30, and 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 adoption, 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.

