



# Quarterly Report

For the Three Months Ended  
March 31, 2016



# Condensed Consolidated Interim Financial Statements

For the Three Months Ended  
March 31, 2016

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**Divestco Inc.**

**Condensed Consolidated Interim Statements of Financial Position**

(Unaudited - Thousands)	Note	At Mar 31 2016	At Dec 31 2015
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 356	\$ 817
Accounts receivable		2,304	1,877
Prepaid expenses, supplies and deposits		877	793
Income taxes receivable		52	78
Total current assets		3,589	3,565
Long-term prepaid expense		-	272
Equity-accounted investees		298	245
Property and equipment		2,062	2,158
Intangible assets	6	24,067	25,222
<b>Total assets</b>		<b>\$ 30,016</b>	<b>\$ 31,462</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,184	\$ 4,190
Deferred revenue		1,276	1,265
Current portion of debt obligations	7	4,086	1,042
Current portion of other long-term liabilities	8	308	395
Total current liabilities		9,854	6,892
Long-term debt obligations	7	5,579	8,633
Other long-term liabilities	8	1,246	1,208
<b>Total liabilities</b>		<b>16,679</b>	<b>16,733</b>
<b>Shareholders' Equity</b>			
Share capital		7,277	7,275
Contributed surplus		8,076	8,076
Retained earnings (deficit)		(2,016)	(622)
Total shareholders' equity		13,337	14,729
Going concern	2		
Contractual obligations	13		
<b>Total liabilities and shareholders' equity</b>		<b>\$ 30,016</b>	<b>\$ 31,462</b>

The notes are an integral part of the condensed consolidated interim financial statements

**Divestco Inc.**

**Condensed Consolidated Interim Statements of Income (Loss) and  
Comprehensive Income (Loss)**

(Unaudited - Thousands, Except Per Share Amounts)	Note	Three months ended March	
		2016	2015
<b>Revenue</b>		\$ 3,137	\$ 9,405
<b>Operating expenses</b>			
Salaries and benefits		1,637	3,169
General and administrative		1,038	2,173
Depreciation and amortization	6	1,432	6,986
Other (income) loss	9	69	(5,620)
Share-based payments		-	5
Total operating expenses		4,176	6,713
<b>Finance costs</b>	10	355	458
<b>Net income (loss) and comprehensive income (loss) for the period</b>		\$ (1,394)	\$ 2,234
<b>Net income (loss) per share</b>			
Basic and Diluted	11	\$ (0.02)	\$ 0.03

The notes are an integral part of the condensed consolidated interim financial statements

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

<b>(Unaudited - Thousands)</b>	<b>Number of Shares Issued</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Equity</b>
Balance as at January 1, 2015	67,096	\$ 7,270	\$ 8,061	\$ 5,107	\$ 20,438
Net income and comprehensive income for the period				2,234	2,234
Transactions with owners, recorded in equity contributions by and distributions to owners:					
Issuance of Class A common shares as service awards	12	1			1
Share-based payments			5		5
<b>Balance as at March 31, 2015</b>	<b>67,108</b>	<b>\$ 7,271</b>	<b>\$ 8,066</b>	<b>\$ 7,341</b>	<b>\$ 22,678</b>
Balance as at January 1, 2016	67,208	\$ 7,275	\$ 8,076	\$ (622)	\$ 14,729
Net loss and comprehensive loss for the period				<b>(1,394)</b>	<b>(1,394)</b>
Transactions with owners, recorded in equity contributions by and distributions to owners:					
Issuance of Class A common shares as service awards	44	2			2
Share-based payments			-		-
<b>Balance as at March 31, 2016</b>	<b>67,252</b>	<b>\$ 7,277</b>	<b>\$ 8,076</b>	<b>\$ (2,016)</b>	<b>\$ 13,337</b>

The notes are an integral part of the condensed consolidated interim financial statements

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

<b>(Unaudited - Thousands)</b>	<b>Note</b>	<b>Three months ended March 31</b>	
		<b>2016</b>	<b>2015</b>
<b>Cash from (used in) operating activities</b>			
Net income (loss) for the period		\$ (1,394)	\$ 2,234
Items not affecting cash:			
Equity investment (income) loss		18	13
Depreciation and amortization	6	1,432	6,986
Amortization of tenant inducements		(18)	(18)
Deferred rent obligations		2	17
Gain on disposal of intangible assets		-	(5,584)
Non-cash employment benefits		2	1
Share-based payments		-	5
Finance costs	10	355	458
<b>Funds from operations</b>		<b>397</b>	<b>4,112</b>
Changes in non-cash working capital balances	12	(312)	3,466
Changes in long-term prepaid expense		272	-
Interest and finance costs paid		(316)	(363)
Income taxes received		50	69
<b>Net cash from (used in) operating activities</b>		<b>91</b>	<b>7,284</b>
<b>Cash from (used in) financing activities</b>			
Repayment of debt obligations	7	(44)	-
Proceeds received from debt obligations		-	(4,553)
Government grant received		51	-
<b>Net cash from (used in) financing activities</b>		<b>7</b>	<b>(4,553)</b>
<b>Cash from (used in) investing activities</b>			
Additions to intangible assets	6	(47)	(13,263)
Decrease in participation surveys in progress		-	9,011
Purchase of property and equipment		(12)	(6)
Payments towards sublease loss provision		(88)	(89)
Advances to equity-accounted investees		(71)	1
Proceeds on sale of intangible assets		-	6,283
Deferred development costs		(147)	(376)
Changes in non-cash working capital balances	12	(194)	(6,182)
<b>Net cash from (used in) investing activities</b>		<b>(559)</b>	<b>(4,621)</b>
<b>Increase (decrease) in cash</b>		<b>(461)</b>	<b>(1,890)</b>
Cash, beginning of period		817	4,344
<b>Cash, end of period</b>		<b>\$ 356</b>	<b>\$ 2,454</b>

The notes are an integral part of the condensed consolidated interim financial statements

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**Divestco Inc.**

**Notes to Condensed Consolidated Interim Financial Statements**

**March 31, 2016**

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

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**1. Reporting Entity**

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Divestco Inc. (the "Company") is a company domiciled in Canada. The address of the Company's registered office is 400, 604 – 1st Street S.W., Calgary, Alberta, Canada. The Company is publicly traded on the TSX Venture Exchange ("TSX-V") under the symbol "DVT". The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2016 are comprised of the Company and its subsidiaries (together referred to as the "Company") and the Company's interest in entities where the Company holds a significant influence. The Company primarily 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 the following operating segments: Software & Data, Services and Seismic Data. The Corporate and Other segment provides support services to the operating segments.

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**2. Going Concern**

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These condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at March 31, 2016, the Company had a working capital deficiency of \$5.0 million (December 31, 2015: \$2.1 million deficiency), excluding deferred revenue of \$1.3 million (December 31, 2015: \$1.3 million). In addition, the Company has contractual obligations (Note 13).

The Company's ability to continue as a going concern is dependent upon the Company's ability to obtain additional sources of capital, completing other asset dispositions, or find other strategic alternatives to settle its liabilities, fund its operations, and meet its commitments until it is in a position to generate sufficient net future cash flows and profitability. The Company believes that it will be able to meet its cash flow requirements over at least the next 12 months, however, the outcome of the actions and events described above cannot be predicted at this time. As a result of the uncertainty of completing the above transactions, there is material uncertainty that may cast significant doubt as to the ability of the Company to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

**Notes to Condensed Consolidated Interim Financial Statements**

March 31, 2016

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

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**3. Basis of Presentation**

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**(a) Statement of Compliance**

These condensed consolidated interim financial statements for the three months ended March 31, 2016 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended December 31, 2015, except as disclosed below. The disclosures below are incremental to those included with annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted.

These condensed consolidated interim financial statements were authorized for issuance by the Company's Audit Committee on May 25, 2016, and should be read in conjunction with the annual financial statements for the year ended December 31, 2015.

**(b) New Accounting Policy**

The Company adopted the following new accounting standard. It is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2016. These changes did not have any impact on the Company's financial results.

*IAS 16 Property Plant and Equipment* and *IAS 38 Intangible Assets*, have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate.

**(c) Future Accounting Policy Changes**

*IFRS 15 ("IFRS 15") Revenue from Contracts with Customers* was released on May 28, 2014, replacing *IAS 11 Construction Contracts*, *IAS 18 Revenue* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchasers. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

*IFRS 9 Financial Instruments* was issued by the IASB in July 2014 to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has yet to evaluate the impact of adopting this new standard.

*IFRS 16, "Leases" ("IFRS 16")* was released on January 13, 2016 which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company has yet to evaluate the impact of adopting this new standard.

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**Divestco Inc.**

**Notes to Condensed Consolidated Interim Financial Statements**

**March 31, 2016**

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

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**(d) Use of estimates and judgements**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. This note should be read in conjunction with the annual financial statements for the year ended December 31, 2015.

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

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**4. Seasonality of Operations**

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Acquisition of seismic data is usually completed in the winter season when the ground is frozen. These conditions are imperative, especially in the northern areas of Alberta and British Columbia where seismic acquisition requires the use of heavy equipment. Unfavourable weather conditions may cause potential cost overruns and delays in the field data acquisition portion of the seismic data survey, delaying revenue recognition. Revenue is recognized on a percentage of completion basis.

Other segments of the Company, such as Services, normally exhibit a noticeable reduction in sales from mid-April through to the end of September and a noticeable increase in sales during the fall and winter months when significant drilling and exploration activities are underway in North America. Divestco tries to minimize these fluctuations by performing specific types of contract work appropriate for lower-activity months. The Company's Software and Data segment has recurring revenue throughout the year due to its license and subscription sales.

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**5. Operating Segments**

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The Company has four reportable operating segments. These offer different products and services which are managed separately as they require different technologies, marketing and financial management strategies. For each strategic segment, the Company's chief operating decision maker reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Company's reportable segments:

- **Software and Data:** includes selling, maintaining, and supporting licensed (perpetual and periodic) software exploration products as well as providing a full suite of support data layers.
  - **Services:** includes providing geomatics and processing.
  - **Seismic Data:** includes providing seismic brokerage and data management services in addition to building, licensing and maintaining the Company's seismic data assets.
  - **Corporate and Other:** includes providing overall strategic direction to the Company through executive management, finance, accounting, marketing, human resources, investor relations, and information technology.
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**Divestco Inc.**  
**Notes to Condensed Consolidated Interim Financial Statements**

**March 31, 2016**

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

The accounting policies of the segments are the same as those described in the consolidated financial statements of the Company for the year ended December 31, 2015. There are varying levels of integration between the Services and Seismic Data reportable segments. This integration includes the provision of geomatics and processing services to the seismic data division. Inter-segment pricing is determined on an arm's length basis. Inter-segment sales and transfers, which are accounted for at market value, are eliminated on consolidation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment income or loss before tax, as included in the internal management reports that are reviewed by the Company's chief operating decision maker. Segment income or loss before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Taxes reported on the Company's statement of loss and comprehensive loss are not allocated to the reportable segments.

Segment assets and liabilities are those assets and liabilities that are specifically identified with the operations in each reportable segment. Corporate assets primarily include property and equipment. Corporate liabilities primarily include the bridge loan, shareholder loans and debentures. Corporate expense includes salaries and benefits and general and administrative expenses for the Company's support divisions in addition to finance costs, amortization and depreciation.

<b>As at and for the three months ended March 31, 2016</b>					
	<b>Software &amp; Data</b>	<b>Services</b>	<b>Seismic Data</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
<b>Revenue from external customers</b>	\$ 1,052	\$ 1,163	\$ 922	\$ -	\$ 3,137
<b>Inter-segment revenue</b>	8	45	(53)	-	-
<b>Reportable segment income (loss) before tax</b>	65	(118)	(669)	(672)	(1,394)
<b>Finance costs</b>	72	21	263	-	356
<b>Depreciation and amortization</b>	334	36	1,000	62	1,432
<b>Reportable segment assets</b>	5,609	1,679	21,408	1,320	30,016

<b>As at and for the three months ended March 31, 2015</b>					
	<b>Software &amp; Data</b>	<b>Services</b>	<b>Seismic Data</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
<b>Revenue from external customers</b>	\$ 1,966	\$ 2,549	\$ 4,890	\$ -	\$ 9,405
<b>Inter-segment revenue</b>	8	45	(53)	-	-
<b>Reportable segment income (loss) before tax</b>	5,761	(333)	(2,269)	(925)	2,234
<b>Finance costs</b>	89	50	319	-	458
<b>Depreciation and amortization</b>	649	151	6,118	68	6,986
<b>Reportable segment assets</b>	7,931	4,470	28,633	1,206	42,240

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2016

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

6. Intangible Assets

	Data Libraries					Proprietary Software and Code	Deferred Development Costs <sup>(1)</sup>	Total
	Seismic Data Library	Datasets	Log, Support and Drilling Data Library	Reference Library	Sub-Total			
<b>Cost</b>								
At January 1, 2015	\$ 34,735	\$ 439	\$ 5,273	\$ 445	\$ 40,892	\$ 9,135	\$ 19,037	\$ 69,064
Additions	13,392	-	-	-	13,392	5	733	14,130
Disposals	-	-	-	-	-	(1,243)	(3,433)	(4,676)
At December 31, 2015	48,127	439	5,273	445	54,284	7,897	16,337	78,518
Additions	47	-	-	-	47	-	122	169
<b>At March 31, 2016</b>	<b>\$ 48,174</b>	<b>\$ 439</b>	<b>\$ 5,273</b>	<b>\$ 445</b>	<b>\$ 54,331</b>	<b>\$ 7,897</b>	<b>\$ 16,459</b>	<b>\$ 78,687</b>
<b>Accumulated depreciation</b>								
At January 1, 2015	\$ 18,410	\$ 439	\$ 2,983	\$ 445	\$ 22,277	\$ 7,747	\$ 14,403	\$ 44,427
Amortization	8,471	-	264	-	8,735	478	1,712	10,925
Disposals	-	-	-	-	-	(850)	(2,428)	(3,278)
Impairment	-	-	-	-	-	522	700	1,222
At December 31, 2015	26,881	439	3,247	445	31,012	7,897	14,387	53,296
Amortization	999	-	66	-	1,065	-	259	1,324
<b>At March 31, 2016</b>	<b>\$ 27,880</b>	<b>\$ 439</b>	<b>\$ 3,313</b>	<b>\$ 445</b>	<b>\$ 32,077</b>	<b>\$ 7,897</b>	<b>\$ 14,646</b>	<b>\$ 54,620</b>
<b>Carrying amount</b>								
At December 31, 2015	\$ 21,246	\$ -	\$ 2,026	\$ -	\$ 23,272	\$ -	\$ 1,950	\$ 25,222
<b>At March 31, 2016</b>	<b>20,294</b>	<b>-</b>	<b>1,960</b>	<b>-</b>	<b>22,254</b>	<b>-</b>	<b>1,813</b>	<b>24,067</b>

<sup>(1)</sup> During the three months ended March 31, 2016, the Company expensed \$156,000 (March 31, 2015: \$257,000) in research costs.

The Company's shareholders' loans and debentures are secured by way of a registered security interest pursuant to the *Personal Property Security Act (Alberta)* (Note 7).

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

March 31, 2016

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

**7. Current and Long-term Debt Obligations**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to liquidity risk, see Notes 2 and 15.

	Balance at	
	Mar 31, 2016	Dec 31, 2015
<b>Current liabilities</b>		
Bridge Loan	\$ 3,200	\$ -
Debentures	605	605
Shareholder loans	300	300
Finance lease liabilities	118	137
Deferred finance charges	(137)	-
	<b>\$ 4,086</b>	<b>\$ 1,042</b>
<b>Non-current liabilities</b>		
Bridge Loan	\$ -	\$ 3,200
Debentures	363	363
Shareholder loans	5,175	5,175
Finance lease liabilities	41	66
Deferred finance charges	-	(171)
	<b>\$ 5,579</b>	<b>\$ 8,633</b>
<b>Total</b>	<b>\$ 9,665</b>	<b>\$ 9,675</b>

**Bridge Loan**

The Company has a short-term secured bridge loan for \$3.2 million, repayable on March 31, 2017. The loan bears interest at 17% per annum and is secured by a general security agreement over all present and after acquired personal property of the Company.

The bridge lender maintains a \$0.8 million interest reserve sufficient to satisfy all interest costs for the term of loan and a default reserve of \$0.1 million payable to the lender should the loan not be repaid in full by March 31, 2017. These amounts have been recorded in prepaid expenses in the statement of financial position and the interest reserve is being amortized over the term of loan. If the bridge loan is repaid prior to March 31, 2017, the unapplied balance of the interest reserve and the entire balance of the default reserve will be applied against the loan repayment.

**Shareholder Loans**

The Company has \$5.5 million in shareholder loans. \$5.2 million of the shareholder loans bears interest at rates of 12% per annum, is secured by way of registered security pursuant to the *Personal Property Security Act (Alberta)*, is subordinated to the Company's senior bridge lender and is repayable in monthly principal payments of \$0.1 million commencing on April 1, 2017. \$0.3 million of the shareholder loans bears interest at 12%, is unsecured and due on demand.

**Debentures**

The Company has \$1.0 million in subordinated debentures with a royalty interest. Three directors, who are also shareholders of the Company, hold \$0.7 million of the debentures. A former director holds \$0.1 million.

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

**March 31, 2016**

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

The debentures bear interest of 8% per annum. Principal payments are calculated at 50% of net revenues generated by certain of the Company's seismic data (the "Seismic Data"), multiplied by \$1.2 million (debenture proceeds raised) divided by \$5 million. The balance of the revenue is retained by the Company. Net revenues equal 90% of the gross revenues generated by the Seismic Data. The Seismic Data is comprised of the seismic surveys acquired by the Corporation prior to July 1, 2012. As at March 31, 2016, there was \$0.6 million in principal payments owing to the debenture holders based on revenues generated by the Seismic Data up to and including March 31, 2016.

Upon full repayment of the principal amount of the debentures and all accrued interest, the royalty interest becomes effective and will be paid as a royalty indefinitely. Royalty payments are to be calculated at 25% of the net revenues generated by the Seismic Data multiplied by \$1.2 million divided by \$5 million. The balance of the revenue is retained by the Company.

The principal amount of the debentures and accrued interest, but not the royalty interest, is secured against the Seismic Data by way of a registered security interest pursuant to the *Personal Property Security Act (Alberta)* but is subordinated to the Company's senior debt. This security interest ranks pari passu with the security interest for the shareholder loans.

**8. Other liabilities**

	Balance at	
	Mar 31, 2016	Dec 31, 2015
<b>Current portion</b>		
Sublease loss provision	\$ 236	\$ 323
Tenant inducements	72	72
<b>Total current</b>	<b>\$ 308</b>	<b>\$ 395</b>
<b>Long-term portion</b>		
Tenant inducements	588	606
Deferred rent obligations	552	550
Grant liability	78	37
Deferred grant income	28	15
<b>Total long-term</b>	<b>\$ 1,246</b>	<b>\$ 1,208</b>
<b>Total</b>	<b>\$ 1,554</b>	<b>\$ 1,603</b>

**9. Other Income (Loss)**

	Three months ended Mar 31	
	2016	2015
Foreign exchange gain (loss)	\$ (51)	\$ 49
Gain on disposal of intangible assets	-	5,584
Equity investment loss	(18)	(13)
	<b>\$ (69)</b>	<b>\$ 5,620</b>

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

March 31, 2016

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

**10. Finance Costs**

	Three months ended Mar 31	
	2016	2015
Interest expense on debt	\$ 316	\$ 363
Amortization of deferred finance charges	34	91
Accretion of sublease loss	1	4
Accretion of grant liability	4	-
	<b>\$ 355</b>	<b>\$ 458</b>

**11. Equity Instruments and Net Income (Loss) per Share**

**Authorized share capital**

Unlimited number of voting Class A shares with no par value.

**Net loss per share**

Basic net (loss) per share is computed using the weighted-average number of Class A Shares outstanding during the three months ended March 31, 2016, being 67,211,000 (March 31, 2015 – 67,106,000). In computing diluted net loss per share, no shares were added to the weighted average number of Class A Shares outstanding for the three months ended March 31, 2016 as the stock options were out of the money and there was a net loss for the period. In computing diluted net income per share, no shares were added to the weighted average number of Class A Shares outstanding for the three months ended March 31, 2015 as the stock options were out of the money.

**12. Supplement to Statements of Cash Flows**

	Three months ended Mar 31	
	2016	2015
Changes in non-cash working capital balances		
Accounts receivable	(427)	2,501
Prepaid expenses, supplies and deposits	(84)	437
Accounts payable and accrued liabilities	(6)	(5,142)
Deferred revenue	11	(512)
	<b>\$ (506)</b>	<b>\$ (2,716)</b>
Changes in non-cash working capital balances related to operating activities	<b>\$ (312)</b>	<b>\$ 3,466</b>
Changes in non-cash working capital balances related to investing activities	<b>(194)</b>	<b>(6,182)</b>
	<b>\$ (506)</b>	<b>\$ (2,716)</b>

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

**March 31, 2016**

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

**13. Contractual Obligations**

Below is a summary of the Company's contractual obligations as at March 31, 2016, including principal and interest:

As at Mar 31, 2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Accounts payable and accrued liabilities	\$ 4,184	\$ 4,184	\$ 4,184	\$ -	\$ -	\$ -	\$ -	\$ 4,184
Deferred rent obligations	552	552	-	-	-	-	552	552
Debt obligations (excluding finance lease obligations) <sup>(1)</sup>	9,506	11,755	649	4,155	3,590	2,998	363	11,755
Finance lease obligations	159	172	62	62	39	9	-	172
Loss on sublease	236	239	178	61	-	-	-	239
<b>Total</b>	<b>\$ 14,637</b>	<b>\$ 16,902</b>	<b>\$ 5,073</b>	<b>\$ 4,278</b>	<b>\$ 3,629</b>	<b>\$ 3,007</b>	<b>\$ 915</b>	<b>\$ 16,902</b>

<sup>(1)</sup> Includes bridge loan, shareholder loans and debentures.

Summary of non-cancellable building lease commitments (net of subleases) until expiry:

	Balance at	
	Mar 31, 2016	Dec 31, 2015
Less than one year	\$ 2,827	\$ 2,808
Between one and five years	11,624	11,438
More than five years	14,053	14,862
	<b>\$ 28,504</b>	<b>\$ 29,108</b>

Movement in the operating commitments for the three months ended March 31, 2016:

Balance, January 1, 2016	\$ 29,108
Payments (net of subleases)	(702)
Cancelled sublease	98
<b>Balance March 31, 2016</b>	<b>\$ 28,504</b>

The Company's main office lease has a term of 15 years expiring in 2025. Excluding subleases, the commitment is approximately \$186,000 per month (including operating costs and property taxes). The annual square foot rate increases in 2018, 2020 and 2023. The lease includes a monthly commitment of \$30,000 until November 2016 related to a portion of the lease the Company surrendered in 2011. A portion of the current space is subleased on a month-to-month basis. Sublease payments totalling \$109,000 are expected to be received for the remainder of 2016. The Company also leases approximately 15,000 square feet of office space in another location with the lease expiring in 2025. The monthly commitment was approximately \$68,000 including operating costs and property taxes from January to April 2016 and is \$70,000 per month from May to December 2016.

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

March 31, 2016

(Tabular amounts in thousands, unless otherwise stated - Unaudited)

**14. Related Parties**

**Transactions with key management personnel**

**Loans from directors and shareholders**

As at March 31, 2016, the Company had \$5.5 million in secured loans from two directors and \$0.7 million of the debentures was subscribed for by three directors who are also shareholders (see Note 7).

The above was transacted on terms equivalent to those that prevail in arm's length transactions.

**Key management personnel compensation**

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers. Executive officers also participate in the Company's stock-based compensation plans.

All four of the Company's executive officers have employment contracts. Upon resignation at the Company's request, they are entitled to termination benefits of up to 24 months' gross salary.

**Key management personnel and director transactions**

Directors and officers of the Company control approximately 36% percent of the voting shares of the Company. A director controls 13% and the CEO, also a director, controls 13%.

A number of key management personnel including Board members, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to arm's length parties.

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

Entity	Transaction	Transaction value for the three months ended Mar 31		Balance due from (to) the related party as at Mar 31	Balance due from (to) the related party as at Dec 31
		2016	2015	2016	2015
Director	Consulting fees and commissions <sup>(1)</sup>	\$ -	\$ 46	\$ (184)	\$ (184)
Affiliate (Company owns 1/3)	Software and data license fees net of expense reimbursements <sup>(2)</sup>	69	97	(388)	(332)

<sup>(1)</sup> The Company pays seismic consulting fees to a company controlled by a director for the purposes of acquiring seismic data. The Company also pays this company commissions for providing seismic brokerage services. The contract terms were made on terms equivalent to those that prevail in arm's length transactions.

<sup>(2)</sup> The Company pays the affiliate for access to well data and charges the affiliate for certain corporate support services.

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

**March 31, 2016**

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

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**15. Financial Instruments**

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A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized on the statement of financial position when the Company becomes a party to the instrument's contractual obligations. The Company's financial assets include cash and cash equivalents, accounts receivable and its financial liabilities primarily comprise accounts payables and debt.

**Fair Value**

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the term debt instruments approximate their carrying amount which has been measured at amortized cost using the effective interest rate method.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in connection with the collection of its revenues and on the cash received. The Company controls its credit risk by assessing each customer's creditworthiness prior to transacting, subsequently monitoring and making efforts to collect its outstanding accounts receivable and investing cash balances in chartered Canadian banks.

Divestco's business is tied primarily to the oil and gas exploration and production industry. The demand and price for services and products offered by Divestco depends on the activity levels for oil and gas producers, which are determined by commodity prices, supply and demand for oil and natural gas, access to credit and capital markets, and to a lesser extent, government regulation (including regulation of environmental matters and material changes in taxation policies).

The Company has a wide customer base in the energy sector ranging from large multinational public entities to small private companies. As at March 31, 2016, 15% (December 31, 2015: 17%) of the Company's consolidated accounts receivables were due from one customer (December 31, 2015: one customer). This receivable has not yet been collected but is expected to be collected in Q2 2016. No outstanding individual balance was greater than \$1 million (December 31, 2015: no outstanding individual balance was greater than \$1 million). Currently there are no significant economic dependencies on any other particular customers.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions.

The Company had a net loss of \$1.4 million for the three months ended March 31, 2016 and as at March 31, 2016, had a working capital deficiency of \$5.0 million, excluding deferred revenue of \$1.3 million. In addition, it has future operating lease commitments of \$2.8 million over the next 12 months (see Note 13).

The Company expects to settle its liabilities in the near term by using funds from operations, closing additional asset dispositions or exploring other strategic alternatives. Management is currently in discussions with a number of interested parties. All discussions are preliminary and there is no assurance that any transaction will proceed and the outcome of these events cannot be predicted at this time.

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

**March 31, 2016**

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

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Further discussion regarding liquidity risk can be found in Note 2.



# Management's Discussion & Analysis

For the Three Months Ended  
March 31, 2016

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

This management discussion and analysis ("MD&A") is dated May 25, 2016, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Divestco Inc. ("Divestco" or the "Company") as at and for the three months ended March 31, 2016 and with the audited consolidated financial statements and notes as at and for the years ended December 31, 2015 and December 31, 2014 (the "Annual Financial Statements"). All financial information in this MD&A has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and is reported in Canadian dollars unless otherwise specified.

### **DIVESTCO'S BUSINESS**

Divestco is an exploration services company that provides a comprehensive and integrated portfolio of data, software, and services to the oil and gas industry. Through continued commitment to align and bundle products and services to generate value for customers, Divestco has created an unparalleled set of integrated solutions and unique benefits for the marketplace. Divestco's breadth of data, software and services offers customers the ability to access and analyze the information required to make business decisions and to optimize their success in the upstream oil and gas industry. Divestco is headquartered in Calgary, Alberta, Canada and trades on the TSX Venture Exchange under the symbol "DVT".

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

- **Software and Data:** Offers the market a complete geophysical and geological software suite designed with a thorough understanding of the workflows and requirements of oil and gas professionals; as well as a full suite of exploration datasets and a library of comprehensive well log data. Software and data together provide complete solutions and have become an indispensable resource for geologists, geophysicists and engineers.
- **Services:** Offers geomatics services including data integrity validation, mapping, database hosting, and advisory support and consultation as well as seismic processing services, including data quality assurance, processing and data management services for geophysical and geological information.
- **Seismic Data:** Focused on providing the oil and natural gas industry with quick, reliable access to cost-effective, high-resolution seismic data. This includes brokering and licensing existing seismic data between data owners and licensees, managing existing seismic data for the purpose of brokering sales, and creating new seismic data inventories through recording multi-client services. The seismic brokerage division is the largest of its kind in Canada.
- **Corporate and Other:** Responsible for setting Divestco's overall strategic objectives and providing finance and accounting, sales and marketing, human resources (HR) and information technology (IT) services to the Company's operating segments.

### **GOING CONCERN**

The condensed consolidated interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at March 31, 2016, the Company had a working capital deficiency of \$5.0 million (December 31, 2015: \$2.1 million deficiency), excluding deferred revenue of \$1.3 million (December 31, 2015: \$1.3 million). In addition, the Company has contractual obligations (see "Off Balance Sheet Arrangements" section to this MD&A).

The Company's ability to continue as a going concern is dependent upon the Company's ability to obtain additional sources of capital, completing other asset dispositions, or finding other strategic alternatives to settle its liabilities, fund its operations, and meet its commitments until it is in a position to generate sufficient

net future cash flows and profitability. The Company believes that it will be able to meet its cash flow requirements over at least the next 12 months, however, the outcome of the actions and events described above cannot be predicted at this time. As a result of the uncertainty of completing the above transactions, there is material uncertainty that may cast significant doubt as to the ability of the Company to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

### **FORWARD-LOOKING INFORMATION**

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

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

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

These forward-looking statements are based upon assumptions including:

- Future prices for crude oil and natural gas
- Future interest rates and future availability of debt and equity financing will be at levels and costs that allow the Company to manage, operate and finance its business and develop its software products and various oil and gas datasets, including its seismic data library, and meet its future obligations
- Regulatory framework in respect of royalties, taxes and environmental matters applicable to the Company and its customers will not become so onerous on both the Company and its customers as to

preclude the Company and its customers from viably managing, operating and financing its business and the development of its software and data

- Ability of the Company to continue to be able to identify, attract, and employ qualified staff and to obtain the outside expertise, as well as specialized and other equipment it requires to manage, operate, and finance its business and develop its properties

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

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

### **NON-GAAP MEASURES**

The Company's condensed consolidated interim financial statements have been prepared in accordance with IFRS. Certain measures in this document do not have any standardized meaning as prescribed by IFRS and are considered non-GAAP measures. While these measures may not be comparable to similar measures presented by other issuers, they are described and presented in this MD&A to provide shareholders and other stakeholders with additional information regarding the Company's results, liquidity, and its ability to generate funds to finance its operations.

These measures include:

#### **Earnings before interest, taxes, depreciation and amortization ("EBITDA")**

Divestco uses EBITDA as a key measure to evaluate the performance of its segments and divisions, as well as the Company overall, with the closest IFRS measure being net income or net loss. EBITDA is a measure commonly reported and widely used by investors as an indicator of the Company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing the Company's performance on a consistent before tax basis, without regard to financing cost and non-cash depreciation and amortization, which can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

The following is a reconciliation of EBITDA with net loss:

(Thousands)	Three months ended Mar 31	
	2016	2015
<b>Net Income (Loss)</b>	<b>\$ (1,394)</b>	<b>\$ 2,234</b>
Finance Costs	<b>355</b>	458
Depreciation and Amortization	<b>1,432</b>	6,986
<b>EBITDA</b>	<b>\$ 393</b>	<b>\$ 9,678</b>

### Funded debt and funded debt to equity

Funded debt is a measure of Divestco's long-term debt position and includes long-term debt obligations (bridge loan, shareholder loans, debentures and finance leases). Funded debt to equity is funded debt divided by shareholders' equity (as reported on the Company's consolidated statement of financial position). The ratio indicates what proportion of equity and debt the Company is using to finance its assets and is used by the Company to determine an appropriate capital structure.

The calculation is as follows:

	Balance At	
	Mar 31, 2016	Dec 31, 2015
Components of funded debt to equity ratio:		
Current portion of long-term debt obligations	<b>\$ 4,086</b>	\$ 1,042
Long-term debt obligations	<b>5,579</b>	8,633
Total funded debt	<b>9,665</b>	9,675
Shareholders' equity	<b>\$ 13,337</b>	\$ 14,729
Funded debt to equity ratio	<b>0.72</b>	0.66

### Adjusted Working capital

Adjusted working capital is calculated as current assets minus current liabilities (excluding deferred revenue). Adjusted working capital provides a measure that can be used to gauge Divestco's ability to meet its current obligations.

### Funds from operations

Divestco reports funds from operations because it is a key measure used by management to evaluate its performance and to assess the ability of the Company to finance operating and investing activities. Funds from operations exclude certain working capital changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

The closest IFRS measure that can be used to gauge Divestco's capacity to generate discretionary cash flow is cash from operating activities.

The following reconciles funds from operations with cash from operating activities:

(Thousands)	Three months ended Mar 31	
	2016	2015
<b>Net Cash from Operating Activities</b>	<b>\$ 91</b>	<b>\$ 7,284</b>
Changes in Non-Cash Working Capital Balances Related to Operating Activities	<b>312</b>	(3,466)
Changes in Long-term Prepaid Expense	<b>(272)</b>	-
Interest Paid	<b>316</b>	363
Income Taxes Refunded	<b>(50)</b>	(69)
<b>Funds from Operations</b>	<b>\$ 397</b>	<b>\$ 4,112</b>

### OVERALL PERFORMANCE AND OPERATIONAL RESULTS

Summary Financial Results (Thousands, Except Per Share Amounts)				
	Three months ended Mar 31			
	2016	2015	\$ Change	% Change
Revenue	<b>\$ 3,137</b>	\$ 9,405	\$ (6,268)	-67%
Operating Expenses <sup>(1)</sup>	<b>2,675</b>	5,347	(2,672)	-50%
Other Loss (Income)	<b>69</b>	(5,620)	5,689	N/A
EBITDA <sup>(2)</sup>	<b>393</b>	9,678	(9,285)	-96%
Finance Costs	<b>355</b>	458	(103)	-22%
Depreciation and Amortization	<b>1,432</b>	6,986	(5,554)	-80%
Net Income (Loss)	<b>\$ (1,394)</b>	\$ 2,234	\$ (3,628)	N/A
Per Share - Basic and Diluted	<b>(0.02)</b>	0.03	(0.05)	N/A
Funds from Operations <sup>(2)</sup>	<b>\$ 397</b>	\$ 4,112	\$ (3,715)	-90%
Per Share - Basic and Diluted	<b>0.01</b>	0.06	(0.05)	-83%
Class A Shares Outstanding	<b>67,252</b>	67,108	N/A	N/A
Weighted Average Shares Outstanding Basic and Diluted	<b>67,211</b>	67,106	N/A	N/A

<sup>(1)</sup> Includes salaries and benefits, G&A and shared-based payments but excludes depreciation and amortization and other loss (income)

<sup>(2)</sup> See the "Non GAAP Measures" section

### Q1 2016 vs. Q1 2015

Divestco generated revenue of \$3.1 million in Q1 2016 compared to \$9.4 million in Q1 2015, a decrease of \$6.3 million (67%). This was mainly related to less seismic participation revenue in conjunction with low commodity prices. As a result of the commodity price drop, capital expenditures have been significantly reduced in the upstream oil and gas sector since the later part of 2014. Revenue in the Software & Data segment (\$1.1 million) decreased by \$0.9 million (45%) mainly due to the sale of the land software assets in Q1 2015. Log data revenue was also down slightly. Revenue in the Seismic Data segment (\$0.9 million) decreased by \$4.0 million (82%) due to three seismic participation surveys that were completed in Q1 2015; there were no surveys completed in Q1 2016. Seismic brokerage revenue was also lower, however this was partially offset by an increase in seismic data library revenue of \$0.7 million. Revenue in the Services segment (\$1.2 million) decreased by \$1.3 million (52%) due to low commodity prices but was partially offset by the completion of certain international projects.

Operating expenses decreased by \$2.7 million (50%) to \$2.7 million in Q1 2016 from \$5.4 million in Q1 2015. Salaries declined by \$1.5 million (48%) due to reduced staffing levels and the austerity measures put in place in response to current economic conditions. G&A expenses declined by \$1.1 million (52%) due to a decrease in discretionary expenses as well as software licences and contractor fees.

Finance costs decreased by \$103,000 (22%) to \$355,000 in Q1 2016 from \$458,000 in Q1 2015 mainly related to a slightly lower interest rate on the Company's new bridge loan.

Depreciation and amortization decreased by \$5.6 million (80%) to \$1.4 million in Q1 2016 from \$7.0 million in Q1 2015 mainly due to the addition of new seismic data in Q1 2015; no new data was acquired in Q1 2016. (Divestco's accounting policy is to amortize 40% of participation survey costs immediately upon delivery of new seismic data to participants and the balance over six years straight-line).

### Business Seasonality

Although the Company's Software & Data segment has relatively constant recurring revenue throughout the year from its license and subscription sales, some of the Company's other segments experience revenue fluctuations due to seasonal influences in oil and gas industry activities.

Seismic data acquisitions are usually completed in the winter season when the ground is frozen allowing access by heavy equipment with minimal surface disruption. This affects the timing of revenue recognition in the Seismic Data segment. Additionally, the Services segment normally exhibits a noticeable reduction in sales in the spring and summer months and an increase in sales during the fall and winter months when under normal circumstances, significant drilling and exploration activities are underway in North America. To the extent possible, Divestco minimizes these fluctuations by performing specific types of contract work appropriate for lower-activity months.

### Financial Position

As at March 31, 2016, Divestco had a working capital deficiency of \$5.0 million (December 31, 2015: \$2.1 million deficiency), excluding deferred revenue of \$1.3 million (December 31, 2015: \$1.3 million). The increase in the working capital deficit from the end of 2015 was primarily due to the reclassification of the Company's bridge loan from long-term to current at March 31, 2016. The loan is repayable on March 31, 2017.

Financial Position (Thousands)	Balance At		
	Mar 31, 2016	Dec 31, 2015	Dec 31, 2014
Total Assets	\$ 30,016	\$ 31,462	\$ 50,868
Adjusted Working Capital (Deficit) <sup>(1)</sup>	(4,989)	(2,062)	(10,723)
Long-Term Financial Liabilities <sup>(2)</sup>	10,559	10,600	12,941

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

<sup>(2)</sup> Includes long-term debt obligations (both current and long-term portions), sublease loss provision (both current and long-term portions), deferred rent obligations. Excludes tenant inducements of \$0.7 million (December 31, 2015: \$0.7 million; December 31, 2014: \$0.8 million).

### **SELECTED QUARTERLY INFORMATION**

	2016	2015				2014		
(Thousands, Except Per Share Amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 3,137	\$ 2,863	\$ 3,110	\$ 2,936	\$ 9,405	\$ 19,012	\$ 5,207	\$ 5,189
EBITDA <sup>(1)</sup>	393	(372)	(76)	(1,153)	9,678	13,260	(902)	(355)
Income (loss) before Income Taxes	(1,394)	(3,366)	(1,837)	(2,760)	2,234	10,252	(3,033)	(3,997)
Net Income (Loss)	(1,394)	(3,366)	(1,837)	(2,760)	2,234	10,252	(3,033)	(3,997)
Per Share - Basic and Diluted	(0.02)	(0.05)	(0.03)	(0.04)	0.03	0.15	(0.05)	(0.06)
Funds from (used in) Operations <sup>(1)</sup>	397	(382)	42	(1,124)	4,112	13,274	(901)	(316)
Per Share - Basic and Diluted	0.01	(0.01)	0.00	(0.02)	0.06	0.20	(0.01)	0.00

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

The variances in the quarterly results illustrated in the table above are primarily a result of changing industry factors affecting oil and gas producers' exploration activities, upon which our business model is based. In turn, the producers' primary activity drivers are crude oil and natural gas commodity pricing and general economic and industry labour conditions, which have fluctuated in these reporting periods.

The Company commenced four seismic surveys in Q4 2014 of which one survey was completed in the same quarter and the remaining surveys were completed in Q1 2015. Revenue is recognized on a percentage of completion basis. EBITDA in Q1 2015 also includes an accounting gain of \$5.4 million recognized on the sale of the Company's land software assets. Commodity prices remained significantly lower in Q1 2016 and all of 2015 as compared to 2014 which directly contributed to weaker financial results post Q1 2015.

The variance in quarterly results is also influenced by seasonality. Typically, the first and fourth quarters are the busiest for the Company when drilling activities are at their peak in western Canada. Road bans severely restrict field activity in the second quarter and seismic field work can be limited in summer months for agricultural reasons.

### **OUTLOOK**

While there has been an improvement in West Texas Intermediate oil prices from a low of US\$27/barrel in February 2016 to US\$49/barrel in May 2016; rig counts and utilization remain significantly lower than 2014 levels. Current rig utilization in western Canada is 5%. Lower commodity prices have forced the majority of North American oil and gas producers to keep their capital spending to a minimum and access to capital remains challenging for industry as a whole. Due to significantly lower activity levels, Divestco continues to reduce its operating expenses. As a result of the austerity measures implemented by the Company starting in Q1 2015, salaries have decreased by 48% (Q1 2016 compared to Q1 2015) and all other discretionary expenses have been lowered as well. These measures are expected to remain in place for the remainder of 2016 or until a material change in activity levels is realized.

## LIQUIDITY

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized on the statement of financial position when the Company becomes a party to the instrument's contractual obligations. The Company's financial assets include cash and cash equivalents, trade and other receivables and its financial liabilities primarily comprise accounts payables and debt.

### Fair Value

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the term debt instruments approximate their carrying amount which has been measured at amortized cost using the effective interest rate method.

### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in connection with the collection of its revenues and on the cash received. The Company controls its credit risk by assessing each customer's creditworthiness prior to transacting, subsequently monitoring and making efforts to collect its outstanding accounts receivable and investing cash balances in chartered Canadian banks.

Divestco's business is tied primarily to the oil and gas exploration and production industry. The demand and price for services and products offered by Divestco depends on the activity levels for oil and gas producers, which are determined by commodity prices, supply and demand for oil and natural gas, access to credit and capital markets, and to a lesser extent, government regulation (including regulation of environmental matters and material changes in taxation policies).

The Company has a wide customer base in the energy sector ranging from large multinational public entities to small private companies. As at March 31, 2016, 15% (December 31, 2015: 17%) of the Company's consolidated accounts receivables were due from one customer (December 31, 2015: one customer). This receivable has not yet been collected but is expected to be collected in Q2 2016. No outstanding individual balance was greater than \$1 million (December 31, 2015: no outstanding individual balance was greater than \$1 million). Currently there are no significant economic dependencies on any other particular customers.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions.

The Company had a net loss of \$1.4 million for the three months ended March 31, 2016, and as at March 31, 2016 had a working capital deficiency of \$5.0 million, excluding deferred revenue of \$1.3 million. In addition, Divestco has future operating lease commitments of \$2.8 million over the next 12 months (see the "Contractual Obligations" section of this MD&A). In September 2015, the Company secured a new bridge loan of \$3.2 million and used the proceeds (net of an interest and default reserve and fees) to partially repay its shareholder loans (\$0.5 million) and as a working capital injection. The loan is repayable on March 31, 2017. See "Bridge Loan" under the "Capital Resources" section to this MD&A for further discussion.

While management believes that the Company's funds from operations will provide the capital to continue to operate in the short-term, it is dependent upon future financial performance that is subject to financial,

business, and other risk factors, including elements beyond the Company's control. As a response to the sharp decline in oil prices and persistently low natural gas prices since Q3 2014, the Company sold a portion of its assets as well as implemented a number of salary austerity measures and reduced discretionary spending commencing in Q1 2015. In addition, management is currently in discussions with a number of interested parties with the intention of focusing on the international market, selling additional non-strategic assets and other strategic alternatives. All discussions are preliminary and there is no assurance that any transaction will proceed (see the "Going Concern" section of the MD&A).

### Adjusted Working Capital

As at March 31, 2016, Divestco had a working capital deficiency of \$5.0 million (December 31, 2015: \$2.1 million deficiency), excluding deferred revenue of \$1.3 million (December 31, 2015: \$1.3 million). The increase in the working capital deficit from the end of 2015 was primarily due to the reclassification of the Company's bridge loan from long-term to current at March 31, 2016. The loan is repayable on March 31, 2017 (see "Bridge Loan" under the "Capital Resources" section to this MD&A).

### Funded Debt to Equity

Divestco had a funded debt to equity ratio of 0.72:1 as at March 31, 2016 (December 31, 2015: 0.66:1). The Company's previous practice was to utilize an appropriate mix of debt and equity to finance its current capital expenditures and growth initiatives. The current strategy of the Board of Directors and management is to try to operate the Company with the lowest possible debt load in reaction to the volatility of the industry. This is to ensure adequate financial flexibility to meet the financial obligations, both current and long-term and as part of the Company's effort to maintain a healthy statement of financial position. The Company's strategy is to maintain a funded debt to equity ratio of less than 1:1.

### Contractual Obligations

Below is a summary of Divestco's contractual obligations as at March 31, 2016, including principal and interest:

(Thousands)	Carrying amount	Contractual cash flows	<1 year	1-2 years	2-5 years	Thereafter	Total
Debt Obligations <sup>(1)</sup>	9,506	11,755	4,804	3,590	2,998	363	11,755
Finance Leases	203	218	144	74	-	-	218
Operating Leases <sup>(2)</sup>	N/A	28,504	2,827	2,663	8,961	14,053	28,504
Other Liabilities <sup>(3)</sup>	314	341	239	40	62	-	341
<b>Total</b>	<b>\$ 10,023</b>	<b>\$ 40,818</b>	<b>\$ 8,014</b>	<b>\$ 6,367</b>	<b>\$ 12,021</b>	<b>\$ 14,416</b>	<b>\$ 40,818</b>

<sup>(1)</sup> Includes bridge loan, shareholder loans and debentures

<sup>(2)</sup> See "Off Balance Sheet Arrangements" section

<sup>(3)</sup> Includes sublease loss and grant liability

**Selected Cash Flow Items**

(Thousands)	Three months ended Mar 31	
	2016	2015
<b>Operating Activities</b>		
Funds from Operations <sup>(1)</sup>	\$ 397	\$ 4,112
Changes in Non-Cash Working Capital Balances	(312)	3,466
Changes in Long-Term Prepaid Expense	272	-
Interest Paid	(316)	(363)
Income Taxes Refunded	50	69
<b>Cash From Operating Activities</b>	<b>91</b>	<b>7,284</b>
<b>Financing Activities</b>		
Repayment of Long-Term Debt Obligations	(44)	-
Proceeds from Long-Term Debt Obligations	-	(4,553)
Government grant received	51	-
<b>Cash From (Used in) Financing Activities</b>	<b>7</b>	<b>(4,553)</b>
<b>Investing Activities</b>		
Additions to Intangible Assets	(47)	(13,263)
Participation Surveys in Progress	-	9,011
Additions to Property, Plant and Equipment	(12)	(6)
Payments Towards Sublease Loss Provision	(88)	(89)
Advances from Equity-Accounted Investees	(71)	1
Proceeds on Sale of Property and Equipment	-	6,283
Deferred Development Costs	(147)	(376)
Changes in Non-Cash Working Capital Balances	(194)	(6,182)
<b>Cash Used in Investing Activities</b>	<b>(559)</b>	<b>(4,621)</b>
<b>Change in Cash</b>	<b>\$ (461)</b>	<b>\$ (1,890)</b>

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

Operating Activities

During the three months ended March 31, 2016, funds from operations were \$0.4 million (\$0.01/share – basic and diluted), compared with to \$4.1 million (\$0.06/share (basic and diluted)) for the same period in 2015, a decrease of \$3.7 million. This was mainly due to lower revenue partially offset by lower operating costs. The decrease in revenue related to three seismic participation surveys that were completed in Q1 2015; there were no surveys completed in Q1 2016. Revenue from seismic participation surveys is recognized under the percentage of completion method.

Financing Activities

During the three months ended March 31, 2016, Divestco repaid \$44,000 in finance leases and received a \$51,000 government grant instalment payment. During the same period in 2015, the Company repaid \$4.5 million in debt with the proceeds from an asset sale.

Investing Activities

During the three months ended March 31, 2016, Divestco reduced a portion of its other liabilities and incurred \$0.1 million in deferred development costs. During the same period in 2015, the Company sold its land software assets for net proceeds of \$6.3 million, incurred \$13.3 million in additions to intangible assets

related to the completion of three seismic surveys and incurred \$0.4 million in deferred development costs. The \$9 million change in surveys in progress in Q1 2015 was related to the three new surveys that commenced in Q4 2014 and were completed in Q1 2015.

## **CAPITAL RESOURCES**

### **Share capital**

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

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

<b>(Thousands)</b>	<b>Balance as at</b>		
	<b>May 25, 2015</b>	<b>Mar 31, 2016</b>	<b>Dec 31, 2015</b>
<b>Class A shares</b>			
Outstanding	67,252	<b>67,252</b>	67,208
Weighted Average Outstanding			
Basic – YTD	N/A	<b>67,211</b>	67,117
Diluted – YTD <sup>(1)</sup>	N/A	<b>67,211</b>	67,117
<b>Stock Options</b>			
Outstanding	2,850	<b>2,850</b>	2,910
Exercise Price Range	\$0.17 to \$0.25	<b>\$0.17 to \$0.25</b>	\$0.17 to \$0.25

<sup>(1)</sup> Basic net (loss) per share is computed using the weighted-average number of Class A Shares outstanding during the three months ended March 31, 2016, being 67,211,000 (March 31, 2015 – 67,106,000). In computing diluted net loss per share, no shares were added to the weighted average number of Class A Shares outstanding for the three months ended March 31, 2016 as the stock options were out of the money and there was a net loss for the period. In computing diluted net income per share, no shares were added to the weighted average number of Class A Shares outstanding for the three months ended March 31, 2015 as the stock options were out of the money.

### **Bridge Loan**

The Company has a short-term secured bridge loan for \$3.2 million, repayable on March 31, 2017. The loan bears interest at 17% per annum and is secured by a general security agreement over all present and after acquired personal property of the Company.

The bridge lender maintains a \$0.8 million interest reserve sufficient to satisfy all interest costs for the term of loan and a default reserve of \$0.1 million payable to the lender should the loan not be repaid in full by March 31, 2017. These amounts have been recorded in prepaid expenses in the statement of financial position and the interest reserve is being amortized over the term of loan. If the bridge loan is repaid prior to March 31, 2017, the unapplied balance of the interest reserve and the entire balance of the default reserve will be applied against the loan repayment.

### **Shareholder Loans**

The Company has \$5.5 million in shareholder loans. \$5.2 million of the shareholder loans bears interest at rates of 12% per annum, is secured by way of registered security pursuant to the *Personal Property Security Act (Alberta)*, is subordinated to the Company's senior bridge lender and is repayable in monthly principal payments of \$0.1 million commencing on April 1, 2017. \$0.3 million of the shareholder loans bears interest at 12%, is unsecured and due on demand.

### **Debentures**

The debentures bear interest of 8% per annum. Principal payments are calculated at 50% of net revenues generated by certain of the Company's seismic data (the "Seismic Data"), multiplied by \$1.2 million (debenture proceeds raised) divided by \$5 million. The balance of the revenue is retained by the Company.

Net revenues equal 90% of the gross revenues generated by the Seismic Data. The Seismic Data is comprised of the seismic surveys acquired by the Corporation prior to July 1, 2012. As at March 31, 2016, there was \$0.6 million in principal payments owing to the debenture holders based on revenues generated by the Seismic Data up to and including March 31, 2016.

Upon full repayment of the principal amount of the debentures and all accrued interest, the royalty interest becomes effective and will be paid as a royalty indefinitely. Royalty payments are to be calculated at 25% of the net revenues generated by the Seismic Data multiplied by \$1.2 million divided by \$5 million. The balance of the revenue is retained by the Company.

The principal amount of the debentures and accrued interest, but not the royalty interest, is secured against the Seismic Data by way of a registered security interest pursuant to the *Personal Property Security Act (Alberta)* but is subordinated to the Company's senior debt. This security interest ranks pari passu with the security interest for the shareholder loans.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company's main office lease has a term of 15 years expiring in 2025. Excluding subleases, the commitment is approximately \$186,000 per month (including operating costs and property taxes). The annual square foot rate increases in 2018, 2020 and 2023. The lease includes a monthly commitment of \$30,000 until November 2016 related to a portion of the lease the Company surrendered in 2011. A portion of the current space is subleased on a month-to-month basis. Sublease payments totalling \$109,000 are expected to be received for the remainder of 2016. The Company also leases approximately 15,000 square feet of office space in another location with the lease expiring in 2025. The monthly commitment was approximately \$68,000 including operating costs and property taxes from January to April 2016 and is \$70,000 per month from May to December 2016.

Summary of non-cancellable building lease (net of any subleases) commitments until expiry:

	Balance at	
	Mar 31, 2016	Dec 31, 2015
Less than one year	\$ 2,827	\$ 2,808
Between one and five years	11,624	11,438
More than five years	14,053	14,862
	<b>\$ 28,504</b>	<b>\$ 29,108</b>

### **CONTINGENCIES**

Notwithstanding management's belief in the merit of the Company's tax filing positions, it is possible that the final outcome of any audits by taxation authorities may differ from estimates and assumptions used in determining the Company's consolidated tax provision and accruals, which could result in a material effect on the consolidated income tax provision and net income (loss) for the period in which determinations are made. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. In particular, the tax treatment of seismic data is largely based on Canada Revenue Agency's ("CRA") policy which is subject to change at any time. The Company is currently deducting certain seismic data costs over a period of 4 years. This approach is consistent with CRA's administrative policy; however, CRA may change the existing policy. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could result in material adjustments to the Company's income tax calculations, carry-forward balances or consolidated net income (loss) in the period a change is communicated.

**RELATED PARTY TRANSACTIONS****Loans from directors and shareholders**

As at March 31, 2016, the Company had \$5.5 million in secured loans from two directors and \$0.7 million of the debentures was subscribed for by three directors who are also shareholders (see the "Capital Resources" section of the MD&A).

**Key management personnel and director transactions**

Directors and officers of the Company control 36% percent of the voting shares of the Company. A director controls 13% and the CEO (also a director) controls 13%.

A number of key management personnel and Board members, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

Entity	Transaction	Transaction value for the three months ended Mar 31		Balance due from (to) the related party as at Mar 31	Balance due from (to) the related party as at Dec 31
		2016	2015	2016	2015
Director	Consulting fees and commissions <sup>(1)</sup>	\$ -	\$ 46	\$ (184)	\$ (184)
Affiliate (Company owns 1/3)	Software and data license fees net of expense reimbursements <sup>(2)</sup>	69	97	(388)	(332)

<sup>(1)</sup> The Company pays seismic consulting fees to a company controlled by a director for the purposes of acquiring seismic data. The Company also pays this company commissions for providing seismic brokerage services. The contract terms were made on terms equivalent to those that prevail in arm's length transactions.

<sup>(2)</sup> The Company pays the affiliate for access to well data and charges the affiliate for certain corporate support services.

**NEW ACCOUNTING POLICY**

The Company adopted the following new accounting standard. It is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2016. These changes did not have any impact on the Company's financial results.

*IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets*, have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate.

**NEW ACCOUNTING PRONOUNCEMENTS**

The following are new standards, interpretations, amendments and improvements to existing standards that were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that have not been applied in preparing Divestco's 2016 first quarter unaudited condensed consolidated interim financial statements and notes thereto, as their effective dates fall within annual periods beginning subsequent to the current reporting period:

*IFRS 15 Revenue from Contracts with Customers* was released on May 28, 2014, replacing *IAS 11 Construction Contracts*, *IAS 18 Revenue* and several revenue-related interpretations. IFRS 15 establishes

a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchasers. Disclosure requirements have also been expanded.

The new standard is currently effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

*IFRS 9 Financial Instruments* was issued by the IASB in July 2014 to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has yet to evaluate the impact of adopting this new standard.

*IFRS 16, "Leases" ("IFRS 16")* was released on January 13, 2016 which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company has yet to evaluate the impact of adopting this new standard.

### **USE OF ESTIMATES AND JUDGEMENTS**

This MD&A of the Company's financial condition and results of operations is based on the financial statements which are prepared in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details of the nature of these estimates and assumptions may be found in the relevant notes to the Annual Financial Statements and the unaudited condensed consolidated interim financial statements the Company as at and for the three months ended March 31, 2016. There have been no changes with respect to estimates and judgements from that disclosed as at December 31, 2015.

**Additional information is available on the Company's website at [www.divestco.com](http://www.divestco.com) and all other previous public filings are available through SEDAR at [www.sedar.com](http://www.sedar.com).**

## **CORPORATE INFORMATION**

### BOARD OF DIRECTORS

Edward L. Molnar <sup>1,2,3,4</sup>

Stephen Popadynetz

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

Wade Brillon <sup>2</sup>

<sup>1</sup> Chairman of the Board

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> Member of the Compensation Committee

<sup>4</sup> Member of the Corporate Governance Committee

### OFFICERS

Stephen Popadynetz – Chief Executive Officer and President

Steve Sinclair-Smith – Chief Operating Officer

Danny Chiarastella – Chief Financial Officer

Lonn Hornsby – Senior VP Operations – Divestco Seismic

### CORPORATE SECRETARY

Faralee A. Chanin

### STOCK EXCHANGE LISTING

TSX-V: DVT

### REGISTRAR AND TRANSFER AGENT

CST Trust Company

### AUDITORS

KPMG LLP

### LEGAL COUNSEL

Field LLP

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