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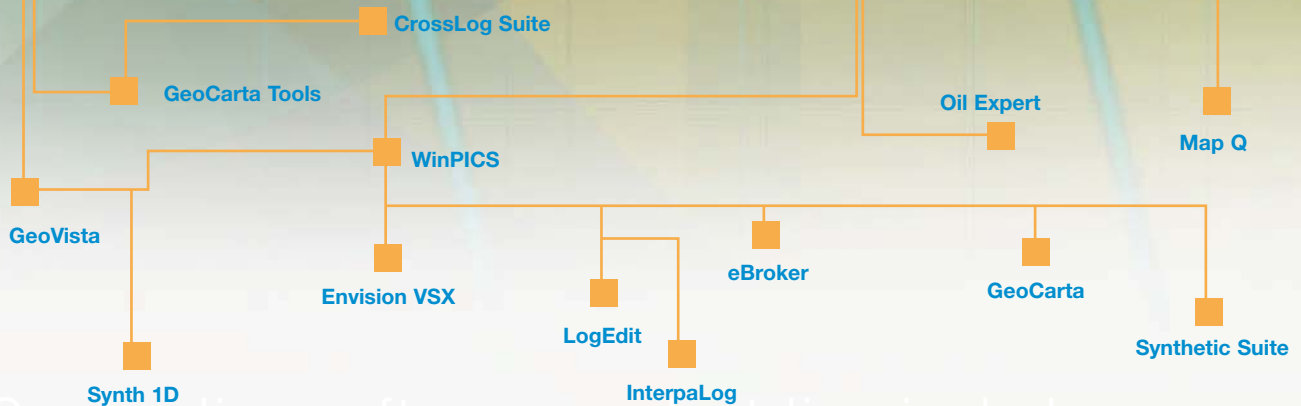
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## Corporate Profile

Divestco is an oil and gas software, data, seismic brokerage, and technical services company committed to offering superior products and services primarily to the oil and gas industry. By implementing a strategy of integration between our software, services, and datasets, and potentially all three together, we are creating a unique set of offerings to the oil and gas industry. Divestco is based in Calgary Alberta.

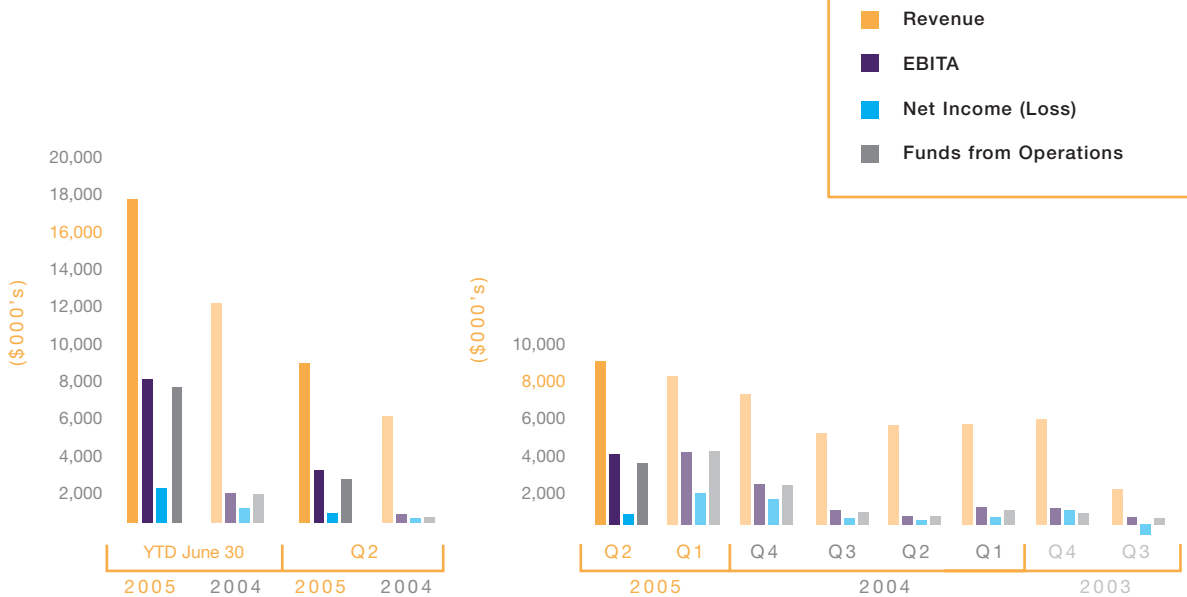
TSX-V: DVT



Our leading software product line includes:

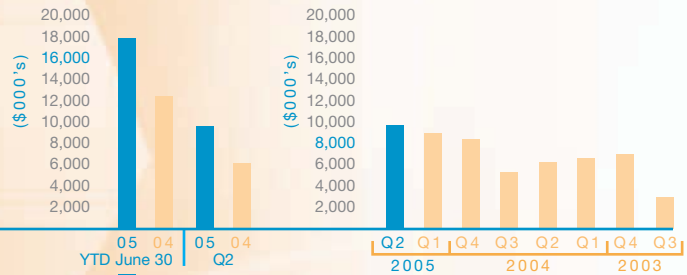
# Financial Highlights

	Quarter ended June 30			Six months ended June 30		
	2005 (unaudited)	2004 (unaudited)	% Change	2005 (unaudited)	2004 (unaudited)	% Change
Revenue	\$ 9,221	\$ 6,073	52%	\$ 17,936	\$ 12,270	46%
EBITA	3,814	891	328%	7,928	2,366	235%
Operating income	1,019	151	576%	3,472	930	273%
Net income	599	388	55%	2,200	1,190	85%
Per share - basic	0.024	0.015	60%	0.089	0.047	89%
Per share - diluted	0.024	0.015	60%	0.088	0.046	91%
Funds from operations	3,584	831	331%	7,543	2,294	229%
Per share - basic	0.146	0.033	342%	0.306	0.090	240%
Per share - diluted	0.146	0.033	342%	0.305	0.090	239%
Shares outstanding (000's)	24,528	25,325		24,528	25,325	
Weighted average shares outstanding (000's)						
Basic	24,503	25,425		24,617	25,424	
Diluted	24,718	25,498		24,743	25,507	

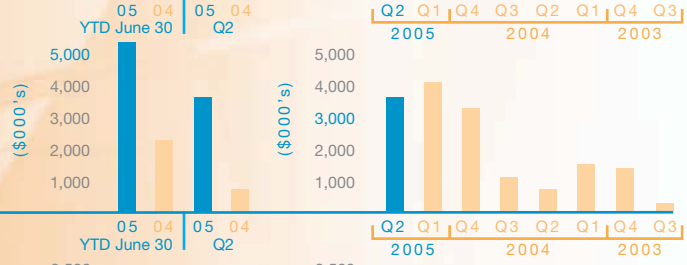


# Financial Highlights

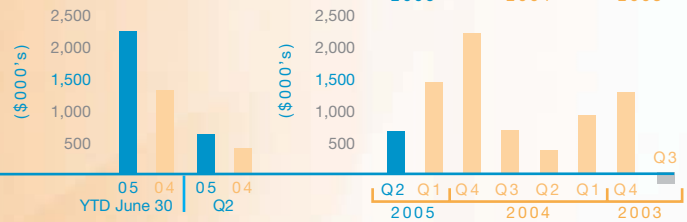
## Revenue



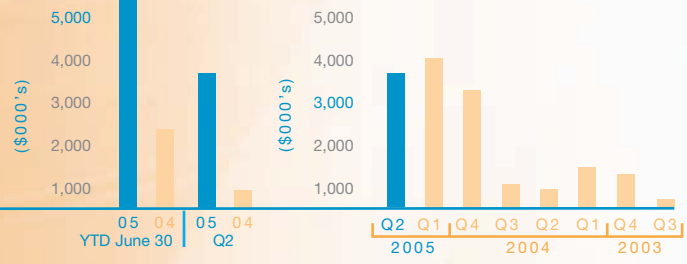
## EBITA



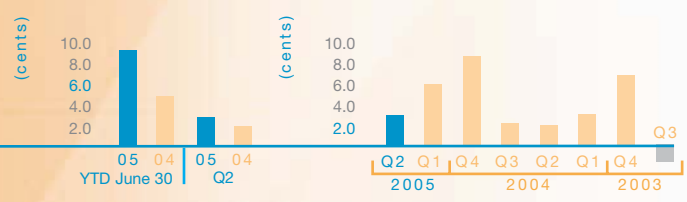
## Net Income (Loss)



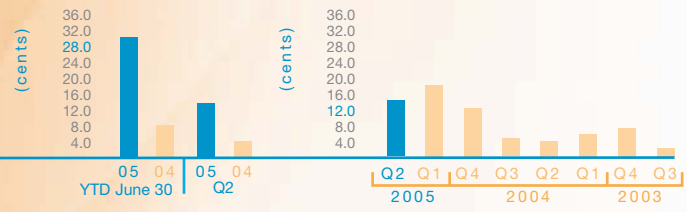
## Funds from Operations



## Earnings (Loss) Per Share (Diluted)



## Funds from Operations Per Share (Diluted)



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 primarily to the oil and gas industry. Divestco's shares are listed on the TSX-Venture Exchange and the Company is based in Calgary, Alberta, Canada.

Our leading software product lines include GeoVista, MapQ, the WinPICS 2D/3D seismic interpretation system, CrossLog Suite, Synthetic Suite, GeoCarta Tools, Envision3D, DataStore, and the Oil Expert mapping and enterprise data management system, together with a wide array of smaller utilities and support applications. In addition, Divestco holds a Canadian and U.S. patent on "The Rat" - a hardware device used widely for digitizing paper well logs and maps, which is manufactured and marketed exclusively by Divestco.

Divestco also operates a significant database containing information relevant to oil and gas exploration. This 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; as well as 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. Since February of 2004, Divestco has acquired more than 52,000 kilometres of 2D and more than 4,200 square kilometres of 3D seismic data.

Our Company is a leading provider of technical services to the oil and gas industry including seismic survey audit, database, and custom mapping services. The Services segment also contains technical and corporate records and information management. A full-service document scanning group, which specializes 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 Archiving division for storing, accessing, and managing seismic data.

We are the largest seismic brokerage house 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.

## About Divestco

(TSX-V: DVT)

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2005, and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2004. The interim and annual 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. These interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies contained in audited consolidated financial statements for the year ended December 31, 2004.

This MD&A is dated August 18, 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 MEASURES

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 principle 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 a key measure 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 (basic and diluted) for the relevant period.

## 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 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 attracting and retaining highly skilled management, geophysical, software development, sales, and other technical personnel. To protect its competitive advance and intellectual property, the Company obtains confidentiality and non-compete agreements from these individuals.

## Technical Services

Technical Services generates steady sales throughout the year. However, Services normally exhibits 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.

## Seismic Brokerage

Seismic 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 with the exception of July and August, which is generally a low volume period for the oil and gas industry. Otherwise, it is generally not susceptible to seasonal effects.

# Divestco Business Segments

You can view copies of the Company's 2004 annual report and other continuous disclosure documents at [www.sedar.com](http://www.sedar.com) or on the Company's Website at [www.divestco.com](http://www.divestco.com).

## 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, which has less demand for seismic data than exploration drilling.

To mitigate this, the Company spends a significant amount of time to determine the optimal location for conducting a survey, which includes utilizing its contacts in the oil and gas exploration and production industry. 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 obtains written cost estimates prior to the commencement of the survey and then regularly follows up with the contractor on the progress and costs incurred during 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 unfeasible 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 June 30			Six months ended June 30			Year ended
	2005 (unaudited)	2004 (unaudited)	% Change	2005 (unaudited)	2004 (unaudited)	% Change	Dec 31, 2004 (audited)
Revenue	\$ 9,221	\$ 6,073	52%	\$ 17,936	\$ 12,270	46%	\$ 25,912
EBITA	3,814	891	328%	7,928	2,366	235%	6,745
Operating income	1,019	151	576%	3,472	930	273%	3,520
Net income	599	388	55%	2,200	1,190	85%	3,948
Per share - basic	0.024	0.015	60%	0.089	0.047	89%	0.156
Per share - diluted	0.024	0.015	60%	0.088	0.046	91%	0.155
Funds from operations	3,584	831	331%	7,543	2,294	229%	6,245
Per share - basic	0.146	0.033	342%	0.306	0.090	240%	0.247
Per share - diluted	0.146	0.033	342%	0.305	0.090	239%	0.246
Shares outstanding (000's)	24,528	25,325		24,528	25,325		24,985
Weighted average shares outstanding (000's)							
Basic	24,503	25,425		24,617	25,424		25,308
Diluted	24,718	25,498		24,743	25,507		25,389

## Financial Position

(\$000's)

	Jun 30, 2005	Jun 30, 2004	Dec 31, 2004
Total assets	\$ 42,238	\$ 35,159	\$ 41,554
Working capital (deficiency) <sup>(1)</sup>	(3,052)	(2,765)	1,573
Long-term debt <sup>(2)</sup>	2,007	235	1,375

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

<sup>(2)</sup> Includes current portion

## Second Quarter - 2005

Divestco generated record revenues and posted its seventh consecutive profitable quarter since becoming a publicly traded company in September 2003. Net income per share (basic and diluted) increased to 2.4 cents in the second quarter of 2005 from 1.5 cents per share (basic and diluted) during the same period in 2004. The Company earned net income of \$599,000, a 55% increase from net income in 2004 of \$388,000. Some highlights of this performance were:

- \$293,000 increase in technical service revenue
- \$2.6 million increase in data revenue primarily related to sales of 3D seismic
- \$278,000 increase in seismic brokerage revenue

This was offset by a \$2.1 million increase in amortization related to recent seismic acquisitions, a reassessment by the Canada Revenue Agency ("CRA") which reduced the Company's 2003 Scientific Research and Development claim by \$200,000, and a \$474,000 future income tax provision.

The Company posted its second best quarter ever in terms of funds from operations with \$3.6 million or 14.6 cents per share (basic and diluted) for the second quarter of 2005. The increase from 2004 was attributed mainly to seismic survey revenue but also to organic growth and operational efficiencies throughout the rest of the Company.

## Year to date results - June 2005

For the first half of 2005, Divestco generated \$17.9 million in revenue; a \$5.6 million or 46% increase from the comparable period in 2004. Since Divestco acquired its first seismic database early in 2004, the Company has bolstered its operating funds and earnings substantially leading to an improvement in shareholder value. Net income was \$2.2 million or 8.8 cents per share (diluted), an increase of \$1.0 million or 4.2 cents per share from 2004. Funds from operations were \$7.5 million or 30.4 cents per share (diluted) surpassing the entire 2004 fiscal year by \$1.3 million or 5.0 cents per share.

In April 2005, the Company announced it had purchased all of the issued and outstanding shares of U.S. based Petro Data Source, Inc. ("PDS"), adding to its expanding database the well header and production data for more than 4.3 million wells, located in most of the producing states in the U.S, including in the federal waters of the Gulf of Mexico and offshore California and Alaska. During the second quarter, a copy of the database was shipped to Technical Services for enhancement and reprocessing. This enhanced data will be shipped back to PDS in the third quarter for sale to customers. Research also continues on the integration of PDS data with Divestco software products. Customers of both Divestco and PDS have already expressed interest in this new bundled product. In addition, Divestco will now be able to take advantage of a license it holds to a vast U.S log library providing customers in the U.S and Canada a more complete set of well data and software products.

The Company ended the second quarter of 2005 with a working capital deficiency<sup>(1)</sup> of \$3.1 million. As at December 31, 2004, the Company had a working capital surplus<sup>(1)</sup> of \$1.6 million. The \$4.7 million decrease was primarily due to \$5.5 million in costs to acquire 3D seismic financed through the use of operating funds and the previously discussed CRA reassessment. This was offset by a \$783,000 in funds received from two sale-lease back transactions. As discussed below, the Company is now in a position to replenish its working capital.

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

## Looking ahead

Divestco recently closed a \$10 million brokered private placement and signed an Offer of Finance to obtain \$10 million in new long-term debt financing. Plans for the equity proceeds include the funding of capital expenditures. A portion of the debt will be used immediately to restore the Company's working capital position, with the remaining funds expected to be allocated towards capital expenditures including new seismic surveys.

## Selected Quarterly Information

(\$000's except per share amounts)

	2005		2004				2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3 (restated)
Revenue	\$ 9,221	\$ 8,715	\$ 8,234	\$ 5,407	\$ 6,073	\$ 6,198	\$ 6,293	\$ 3,056
EBITA	3,814	4,114	3,168	1,210	891	1,476	1,278	124
Operating income (loss)	1,019	2,453	2,042	548	151	779	740	(300)
Net income (loss) from continuing operations	599	1,601	2,135	622	388	803	992	(294)
Per share - basic	0.024	0.065	0.084	0.025	0.015	0.032	0.060	(0.019)
Per share - diluted	0.024	0.064	0.084	0.025	0.015	0.031	0.059	(0.018)
Net income (loss)	599	1,601	2,135	622	388	803	1,238	(294)
Per share - basic	0.024	0.065	0.084	0.025	0.015	0.032	0.075	(0.019)
Per share - diluted	0.024	0.064	0.084	0.025	0.015	0.031	0.074	(0.018)
Funds from continuing operations	3,584	3,959	3,075	876	832	1,462	1,156	133
Per share - basic	0.146	0.160	0.122	0.035	0.033	0.057	0.067	0.008
Per share - diluted	0.146	0.159	0.121	0.035	0.033	0.056	0.066	0.008
Funds from operations	3,584	3,959	3,075	876	832	1,462	1,135	133
Per share - basic	0.146	0.160	0.122	0.035	0.033	0.057	0.066	0.008
Per share - diluted	0.146	0.159	0.121	0.035	0.033	0.056	0.065	0.008

## Segment Review

For the quarter ended June 30, 2005 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,636	\$ 5,244	\$ 1,272	\$ 1,070	\$ 9,221
EBITA	(171)	3,807	(2)	181	3,814
Interest	9	27	7	6	48
Amortization	139	2,468	102	37	2,747
Operating income (loss)	(319)	1,311	(111)	138	1,019

For the quarter ended June 30, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 1,343	\$ 2,638	\$ 1,330	\$ 792	\$ 6,073
EBITA	(496)	1,086	447	(146)	891
Interest	-	125	-	-	125
Amortization	106	264	161	85	615
Operating income (loss)	(602)	697	286	(231)	151

For the six months ended June 30, 2005 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 3,671	\$ 9,708	\$ 2,592	\$ 1,965	\$ 17,936
EBITA	279	6,976	456	218	7,928
Interest	32	50	18	11	111
Amortization	286	3,775	208	76	4,345
Operating income (loss)	(38)	3,151	229	131	3,472

For the six months ended June 30, 2004 (\$000's)

	Services	Data	Software	Brokerage	Total
Revenue	\$ 3,682	\$ 4,261	\$ 2,511	\$ 1,816	\$ 12,270
EBITA	(53)	2,039	430	(50)	2,366
Interest	-	274	-	-	274
Amortization	231	507	311	113	1,162
Operating income (loss)	(284)	1,258	119	(163)	930

## Technical Services

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

### SECOND QUARTER RESULTS - 2005

Technical Services revenue increased by \$300,000 or 22% in the second quarter of 2005 to \$1.6 million from \$1.3 million for the same quarter in 2004, contributing 18% (2004 - 22%) of the Company's revenue. With the exception of Imaging Services, all other divisions increased revenues from 2004. The growth was primarily attributed to the completion of the survey-processing portion of a large 3D seismic survey and the recognition of revenue from long-term archiving contracts. Increased revenues from client projects in the Information Management Services ("IMS") group led to further gains.

EBITA for the second quarter was a negative \$171,000 compared to a negative \$496,000 in 2004, an improvement of \$325,000. In addition to its growth revenue, Technical Services had a reduction in salaries due to the allocation of labour related to internal work completed for the Data segment. Cross training of staff continued which permitted the Imaging, Archiving, and IMS divisions to handle steady increases in the amount of client work without the need for additional hiring. Amortization increased by 31% from 2004 due to purchases of computer equipment and software. Services had an operating loss of \$319,000 compared to a loss of \$602,000 in 2004, an improvement of \$283,000.

### YEAR TO DATE RESULTS - JUNE 2005

Technical Services revenue decreased nominally for the six months ended June 20, 2005 from the same period in 2004, contributing 20% (2004 - 30%) of the Company's revenue. The decrease in contribution from this segment is a direct result of the increase in Data's contribution to total Company revenue in terms of seismic data license sales. Although the acquisition of 3D seismic data in 2005 led to \$250,000 in additional survey processing revenue, this was offset by the absence of Archiving revenue earned in 2004 from the sales of seismic data and archiving bundles. Currently, the data is being reprocessed and was 25% complete at the end of the second quarter of 2005.

EBITA was \$279,000 compared to a negative \$53,000 in 2004 with the improvement being attributed to a decrease in salaries due to labour reallocations related to work done for Data and a decrease in general and administrative expenses related to the implementation of cost-cutting measures. As part of an on-going effort to update old equipment, amortization increased by 24% in 2005 due to purchases of computer equipment and software for the Archiving division. Services had an operating loss of \$38,000 compared to \$284,000 in 2004, an improvement of \$246,000.

#### LOOKING AHEAD

The Company is gaining significant momentum on the NAD83 front as the oil and gas industry progresses towards this new regional datum. Divestco has already been engaged to assist a number of oil and gas companies with their conversion. Revenue is expected to commence in the fall of 2005 and should increase throughout fiscal 2006.

Archive and Information Management Services continue to collaborate more closely, and the archiving process has been redesigned to further leverage the skills and personnel of the Information Management Services Imaging groups. The internal roll-out of DataStore's Archiving module will further facilitate the integration of the Archiving, Imaging, and Information Management Services groups. This will further reduce archiving costs and improve internal efficiencies in all three groups.

Initial client reactions to the new archiving and survey database system have been very positive and it is believed that DataStore will enable the Archiving division to increase its client base significantly over the next year as clients see the advantage of using a single application to manage all their seismic data information.

## Data

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

#### SECOND QUARTER RESULTS - 2005

Data revenue doubled for the second quarter of 2005 to \$5.2 million from \$2.6 million in 2004, contributing 57% (2004 - 43%) towards the Company's total revenue. Leading to the increase was \$3.8 million in 3D seismic data sales with a \$62,000 rise in 2D seismic sales. These were offset by a \$1.4 million decrease in Log Data revenue coming from a significant log license sale in 2004. The Company had no 3D seismic revenue for the second quarter of 2004.

EBITA was \$3.8 million compared to \$1.1 million in 2004, an increase of \$2.7 million or 250%. In addition to the boost in revenue, general and administrative expenses decreased by 38% due to company-wide cost cutting measures and adjustments to the allocation of corporate overhead to the various business segments. Salaries and benefits increased by 57% for survey processing work done on the seismic data library by Technical Services. Amortization was \$2.5 million in 2005 compared to \$264,000 in 2004, with the \$2.2 million increase primarily due to two participation seismic surveys completed in the second quarter of 2005. Operating earnings were \$1.3 million compared to \$697,000 in 2004, an increase of \$0.6 million or 87%.

#### YEAR TO DATE RESULTS - JUNE 2005

Data generated \$9.7 million in revenue for the first half of 2005, contributing 54% (2004 - 35%) of the Company's total revenue. The increase of \$5.5 million or 128% from \$4.3 million for the same period in 2004, primarily related to a \$6.9 million increase in sales of 2D and 3D seismic data. This was offset by a decrease in Log Data revenue of \$1.8 million due to a significant, one-time, log license sale in 2004.

EBITA was \$7.0 million, an increase of \$4.9 million or 242% from 2004. Amortization was \$3.8 million versus \$507,000 in 2004, an increase of \$3.3 million or 644% primarily due to the acquisition of seismic data over the past 12 months. Operating income was \$3.2 million compared to \$1.3 million in 2004, a \$1.9 million or 150% increase.

#### LOOKING AHEAD

Heading into the fall, the Divestco has three additional seismic surveys planned. In addition, Divestco expects to have the reprocessing of a large portion of its 2D data library completed by December 2006. By the end of the second quarter, approximately 25% of the data had been reprocessed. The Company has secured two sales contracts for the reprocessed data totalling \$325,000 with revenue to be recognized over the delivery period of the data.

The Log Data division will complete the depth registration of all historical main logs in the fourth quarter of 2005. The completion of the depth registration backlog combined with increased outsourcing of digitizing services will enable the Log Data division to reduce costs in the second half of 2005. Log Data personnel will continue to focus on addressing any historical quality issues within the log database related to image quality, indexing or depth registration errors. The completion of the internal Log Management System software (Version 1.1) in the third quarter of 2005 will enable two software developers to be reassigned to other internal software development projects within Divestco.

Log Data will also continue to evaluate new data sets. Directional survey data will be added in Q4 of 2005. A yearlong project will commence in 2006 to add core analysis data for Saskatchewan and B.C. to complement the Alberta core analysis data.

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 segment sells software licenses and is responsible for development, maintenance, and support of its products.

### SECOND QUARTER RESULTS - 2005

Revenue for the second quarter decreased marginally from 2004, with Software contributing 14% (2004 - 21%) of Divestco's total revenue. This was due to loss of special project revenue that occurred in 2004 which was offset by general business level increases, specifically in GeoCarta, GeoVista and WinPICS product sales.

EBITA was negative \$2,000 compared to a \$447,000 in 2004, a decrease of \$445,000 primarily due to a reassessment received from the Canada Revenue Agency of the Company's investment tax credit refund from 2003. The ITC was reduced by \$200,000 with the adjustment being reflected in the current quarter. Deferred development costs decreased by 30% from 2004 and \$105,000 of deferred development costs were expensed in the quarter. No deferred development costs were expensed in the second quarter of 2004. Amortization of property and equipment was \$110,000 compared to \$150,000 in 2004, a decrease of \$40,000 or 27%. In 2004, the Company reduced a portion of the intangible assets acquired from International Datashare Corporation ("IDC") through the recognition of a future tax asset. Operating earnings decreased by \$40,000 to a loss of \$110,000 from income of \$290,000 in 2004.

### YEAR TO DATE RESULTS - JUNE 2005

Revenue for the first half of 2005 increased marginally from 2004, with Software contributing 14% (2004 - 20%) of Divestco's total revenue. The decrease in contribution from this segment is a direct result of the increase in Data's contribution to total Company revenue in terms of seismic data license sales. While improvements were realized in GeoCarta, GeoVista, MapQ, and WinPICS sales, there was a large one-time consulting project completed in 2004. In addition certain product lines were discontinued and a portion Software's revenue was reallocated to Data.

EBITA was \$456,000 compared to a \$430,000 in 2004, an increase of \$26,000 primarily due to an increase in sales of the Company's main software products. Amortization of property and equipment was \$208,000 compared to \$311,000 in 2004, a decrease of \$103,000 or 33% again to the reduction in intangible assets. through the recognition of a future tax asset. Operating earnings increased by \$110,000 to \$230,000 from \$120,000 in 2004.

## LOOKING AHEAD

Divestco's commitment to the continued improvement of our existing offerings and to the introduction of new tools to enhance our customers' ability to explore for oil and gas, continues with many major releases planned throughout the months ahead:

- WinPICS V5.2 was released in August 2005 with new feature enhancements and tighter integration with other tools;
- EnvisionVSX V2.0 was released in August, introducing the ability to interpret in true 3D space and, along with the debut of SeisScapeVSX V1.0, provides the industry with analysis tools not available anywhere else. Even better, interpretation is dynamically tied to WinPICS, allowing users to seamlessly move between their tried and true geophysical interpretation tool and the 3D world;
- GeoVista 4.3 was released in August 2005 with an improved production graphing module and an open map interface. Working together with DataStore, querying and reporting on proprietary seismic assets have become greatly simplified;
- GeoCarta Tools 1.8 is slated for release in the September 2005. The main focus of this release is on-going feature improvements and functional additions;
- MapQ 3.1 is currently under development with its release scheduled for September 2005. Highlights include improved mineral rights querying and enhancements to viewing and drawing tools;
- Commencing in November 2005, Divestco will release a set of products (covering WinPICS, GeoVista, EarthTools, and more) focused on supporting the Canadian Association of Petroleum Producer's NAD83 initiative. Divestco software will ensure compliance and support for a mixed datum environment, easing the transition for our clients over the coming years.

## Seismic Brokerage

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

### SECOND QUARTER RESULTS - 2005

Revenue for the second quarter was \$1.1 million compared to \$800,000 in 2004, an increase of \$300,000 or 35%, representing 12% (2004 - 13%) of the Company's revenue. The increase was primarily due to \$170,000 in commissions earned on sales of the Company's 3D seismic data and a \$173,000 increase in commissions on brokered seismic transactions. These were offset by \$50,000 decrease in 2D seismic commissions as a bulk of the Company's 2D seismic library is being reprocessed.

EBITA was \$181,000, up from a negative \$146,000 in 2004, an improvement of \$327,000. Amortization decreased in 2005 to \$37,000 from \$85,000 in 2004 due to a change in the method in allocation of amortization of corporate assets. Operating income was \$138,000 in 2005 versus a loss of \$231,000 in 2004, a \$369,000 increase.

### YEAR TO DATE RESULTS - JUNE 2005

Revenue for the first half of 2005 was \$2.0 million compared to \$1.8 million in 2004, an increase of \$200,000 or 12% representing 14% (2004 - 20%) of the Company's revenue. The increase was primarily due the previously discussed commissions earned on 3D seismic data sales and an \$181,000 increase in commissions on brokered seismic transactions. These were offset by a \$101,000 decrease in 2D seismic commissions as the bulk of the Company's 2D seismic library is being reprocessed, and a \$119,000 decrease in library card sales as this service has been discontinued by the Company.

EBITA was \$218,000, up from a negative \$50,000 in 2004, an improvement of \$268,000. Amortization decreased in 2005 to \$76,000 from \$113,000 in 2004 due to a change in the method in allocation of amortization of corporate assets. This amounted to operating income of \$131,000 in 2005 versus a loss of \$163,000 in 2004, a \$294,000 increase.

## LOOKING AHEAD

Seismic brokerage continues to be instrumental in the marketing of Divestco's seismic data library and a number of new seismic surveys are being planned for the winter of 2005. The Company is now using its in-house tool DataStore, which integrates the Archive, Seismic Brokerage, and Database divisions, for more efficient processing of seismic brokerage transactions.

Another growth area within this segment is the Brokerage Data Management division, which manages seismic data related transactions to the industry on behalf of the customer. In July 2005, an experienced senior employee joined the Company to build and manage this division. This service will enable customers to outsource their seismic data infrastructure.

## Amortization

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

### SECOND QUARTER RESULTS - 2005

Amortization for the second quarter of 2005 was \$2.7 million compared to \$615,000 in 2004, an increase of \$2.1 million or 346%. The increase was primarily due to:

- \$2.5 million incurred to complete two 3D seismic surveys; and
- \$130,000 in computer equipment and software purchases.

### YEAR TO DATE RESULTS - JUNE 2005

Amortization for the first half of 2005 was \$4.3 million compared to \$1.2 million in 2004, an increase of \$3.1 million or 259%. The increase was primarily due to:

- \$7.6 million incurred to complete three 3D seismic surveys;
- \$193,000 incurred to acquire a freehold land file; and
- \$657,000 in computer equipment and software purchases related to upgrading within the Arching division.

## Interest

### SECOND QUARTER RESULTS - 2005

Interest for the second quarter of 2005 was \$48,000 down 62% from \$125,000 in 2004, primarily due to the June 2004 repayment of debentures that were issued in February 2004. Interest in the current quarter related mainly to the Company's operating line, non-revolving demand loan, and capital leases.

### YEAR TO DATE RESULTS - JUNE 2005

Interest for the first half 2005 was \$111,000 down 59% from \$274,000 in 2004, again primarily due to the repayment of debentures in 2004. Interest during the six months related mainly to the Company's operating line, non-revolving demand loan, and capital leases.

## Income taxes and tax pools

The Company recorded a future tax provision in the second quarter of 2005 of \$406,000 as the Company continues to grind through its tax pools. A \$200,000 recovery was recorded for the same period of 2004 as the Company had not recognized the full benefit of its tax pools. The full benefit of the Company's tax pools have been recognized in these interim consolidated financial statements as a future income tax asset assuming that the Company will be able to fully utilize these future income tax assets before expiry.

As at June 30, 2005, the Company had non capital losses of approximately \$3.3 million (December 31, 2004 - \$6.8 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 \$5.5 million (December 31, 2004 - \$6.4 million) in undepreciated capital cost. PDS has a nominal amount of available U.S. tax pools.

The Company files Scientific Research and Development ("SR&ED") claims on an annual basis and had approximately \$3.1 million (December 31, 2004 - \$2.2 million) of SR&ED expenses as at June 30, 2005 available to reduce future taxable income. In addition, the Company has approximately \$1.1 million (December 31, 2004 - \$0.6 million) of unclaimed investment tax credits (ITCs) available to reduce income taxes payable in future years. If not utilized, these ITCs will begin to expire in 2012. The full benefit of the ITCs has been recognized as of June 30, 2005, as the Company expects to utilize the ITCs before they expire.

In July 2005, the Company received a Notice of Assessment from the CRA for its 2003 SR&ED ITC application, approving it for a \$124,000 ITC refund and an additional ITC carry \$173,000 ITC carry forward. This was reduced from the Company's \$500,000 ITC refund it originally claimed. Therefore, the overall \$203,000 reduction was recorded in the second quarter.

## MAJOR TRANSACTIONS

### Seismic Related

During the second quarter of 2005, the Company completed the acquisition of an additional 275 square kilometres of 3D seismic data spread over two separate areas. \$2.2 million of expenditures to acquire the data were incurred in the current quarter, bringing the total cost to \$7.3 million. The balance of costs were incurred in the first quarter.

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. The Company's portion is being financed via an agreement entered into simultaneously with another oil and gas company. During the second quarter of 2005, one of the two surveys was completed. The second survey is expected to be completed by the end of third quarter of 2005.

### Corporate

In April 2005, the Company acquired all of the issued and outstanding shares of PDS for U.S. \$650,000 (C\$810,000) and the assumption of U.S. \$150,000 (C\$187,000) of debt. U.S. \$250,000 (C\$311,000) of the consideration was paid on the date of closing with the remaining U.S. \$400,000 (C\$498,000) to be paid in quarterly installments of U.S. \$50,000 (C\$60,000), plus 7% interest per annum, which commenced on June 30, 2005.

### Subsequent to June 30, 2005

Effective July 27, 2005, the Company accepted an Offer of Finance (the "Offer") from a lender, which is subject to certain closing conditions and determination of loan collateral. The Offer provides \$10.0 million in long-term debt. The debt is non-revolving with two \$5.0 million tranches, each having five-year terms of repayment. The aggregate facility will bear interest at the lender's base rate plus 3% per annum. As part of the arrangement, the Company paid the lender a \$100,000 commitment fee and will issue the lender 100,000 common shares of the Company at the closing price of its stock on the date of closing.

On August 18, 2005, the Company closed a brokered private placement with First Associates Investments Inc. and Northern Securities Inc. (collectively, the "Underwriters"), whereby the Company sold 5,000,000 Units at a price of \$2.00 per Unit, for aggregate gross proceeds to the Company of \$10 million. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole purchase warrant entitles the holder to acquire a common share at a price of \$2.50 at any time on or before August 18, 2007. The shares are subject to a hold period expiring December 19, 2005. The Underwriters were paid a commission equal to 7% of the gross proceeds plus out of pocket expenses and were granted 350,000 options to acquire common shares of the Company at an exercise price of \$2.00 per share. Each option entitles the holder to acquire one common share of the Company and expires on August 18, 2007. The Company received aggregate net proceeds of \$9.3 million.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

Funds from operations in the second quarter of 2005 were \$3.6 million compared to \$0.8 million in 2004. The increase of \$2.8 million or 331% was primarily due to \$3.4 million in 3D seismic sales, increases of \$293,000 and \$278,00 in Technical Services and Seismic Brokerage revenue, respectively, and a 4% reduction in operating costs. These were offset by the absence of a substantial log license sale and bundled seismic/software/archiving sales of more than one-half of the Company's 2D seismic library, which is currently being reprocessed.

Funds from operations in the first half of 2005 were \$7.5 million compared to \$2.3 million in 2004, an increase of \$5.2 million or 229% related to same factors discussed above.

### Financing activities

The Company financing activities for the second quarter are highlighted as follows:

- \$156,000 (YTD - \$319,000) increase in bank indebtedness from the continued reliance on operating funds to finance both capital expenditures and day-to-day operations;
- \$339,000 (YTD - \$775,000) repayment of capital lease obligations and promissory notes;
- \$446,000 (YTD - \$783,000) in proceeds received from a sale/leaseback transaction;
- \$73,000 (YTD - \$129,000) in proceeds received from the exercise of stock options; and
- \$194,000 (YTD - \$822,000) incurred to repurchase the Company's shares through its first normal course issuer bid.

YTD - year-to-date June 30, 2005

### Investing activities

In addition to the purchase of PDS, the Company had capital expenditures of \$2.6 million in the second quarter of which \$2.3 million related to 3D seismic acquisitions. The remaining capital additions related to computer equipment and software purchases. Capital expenditures for the first half of 2005 totalled \$8.4 million with seismic accounting for \$7.6 million and \$0.8 million related to computer equipment and software purchases.

### Working capital

At the end of the second quarter of 2005, the Company had a \$3.1 million working capital deficiency (excluding current deferred revenue of \$1.7 million), a reduction of \$4.7 million from \$1.6 million in working capital (excluding current deferred revenue of \$4.6 million) at the end of 2004. The decrease was due to the \$8.4 million in seismic and equipment expenditures during the first half of 2005 and a reassessment of the Company's 2003 SR&ED ITC claim reducing it from \$0.5 million to \$0.1 million. These were offset by a collection of approximately \$5.9 million accounts receivable related to seismic sales made in the fourth quarter of 2004 and in the first quarter of 2005.

### Debt instruments

The Company has the following credit facilities in place:

- \$3.0 million operating line, bearing interest at bank prime plus 0.75%. The aggregate borrowing under this facility cannot exceed 75% of the Company's accounts receivable balance. As at June 30, 2005, \$2.6 million (December 31, 2004 - \$2.1 million) was drawn on this facility;
- U.S. \$75,000 non-revolving demand loan bearing interest at U.S. bank prime plus 1.25%. The loan will be fully repaid on September 30, 2005; and
- \$150,000 corporate credit card facility reserved for senior management and officers.

The facilities are secured by a general security agreement creating a first-priority security interest in all present and after acquired personal property of the Company, and a floating charge over all of the Company's present and after-acquired real property. In addition, the facilities are subject to the Company meeting certain covenants. As at June 30, 2005, 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 June 30, 2005. In an effort to deal with the seasonal nature of the Company's business (see the "Business Risks and Environment" section of this MD&A), the Company had the bank agree to amend its working capital covenant effective August 8, 2005.

Expectations are that the credit facilities and funds from operations are sufficient in the short-term to maintain the Company's current requirements. To improve its working capital position, meet planned growth, and to fund future capital expenditures, the Company is in the process of closing a transaction to obtain new long-term debt and a further \$10 million was raised through a recently announced equity issue.

## OUTSTANDING SHARE DATA

Divestco is authorized to issue an unlimited number of voting common shares. The common shares of the Company trade on the TSX Venture Exchange under the symbol "DVT".

The following table provides details of the Company's share capital and stock options for the periods ended June 30, 2005, June 30, 2004 and December 31, 2004:

	Authorized	Balance as at		
		Jun 30, 2005	Jun 30, 2004	Dec 31, 2004
<b>Common Shares</b>				
Outstanding	Unlimited	25,527,896	25,423,091	24,985,000
Basic		24,616,941	25,423,997	25,308,266
Diluted		24,743,494	25,506,899	25,388,826
<b>Stock Options</b>				
Outstanding	2,650,000	1,993,772	1,810,744	1,845,494
Exercise price range		\$0.83-\$1.40	\$0.54-\$1.40	\$0.54-\$1.40

On June 2, 2004, the Company received approval from the TSX Venture Exchange to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve-month period ending June 9, 2005. During the six months ended June 30, 2005, the Company repurchased 673,000 shares at a purchase cost of \$822,206 (\$1.22 average price per share) resulting in a \$336,120 reduction to retained earnings. Since approval was received for the normal course issuer bid, the Company repurchased 1,123,100 shares at a purchase cost of \$1,240,338 (\$1.10 average price per share).

On June 10, 2005, the Company received approval to renew its normal course issuer bid to repurchase up to 1,425,000 of its common shares at prevailing market prices during the twelve-month period ending June 14, 2006. No repurchases were made under the new bid during the six months ended June 30, 2005.

During the six months ended June 30, 2005:

- 507,748 stock options were granted, including 234,946 to officers and directors, at exercise prices ranging from \$1.25 to \$1.40.
- 215,896 stock options were exercised at exercise prices ranging from \$0.54 to \$1.20; and
- 143,304 stock options were forfeited with exercise prices ranging from \$1.00 to \$1.40.

Subsequent to June 30, 2005:

- 153,200 stock options were granted, including 110,000 to officers and directors, at an exercise price \$1.69;
- 30,508 stock options were exercised at exercise prices ranging from \$1.04 to \$1.25; and
- 7,166 stock options were forfeited with exercise prices ranging from \$1.00 to \$1.20.

## COMMITMENTS

Under the terms of the acquisition of Westcan Oilmaps (1993) Ltd. ("Westcan"), the Company is committed to issue deferred consideration of 100,000 common shares of the Company or \$100,000 in cash, at the option of the Company. The consideration was accrued in 2004 and is payable upon the seller's provision of additional documents contemplated by the acquisition agreement.

Under the terms of two seismic acquisition agreements, the Company is jointly acquiring approximately \$51.6 million in seismic data. One survey was completed in June 2005 with the second survey expected to be completed by September 2005. The Company's portion is approximately \$16.3 million. The Company simultaneously entered into an agreement to share its portion of the expenditures with an unrelated third party. In exchange, the unrelated party will receive a majority ownership interest in the data. The Company remains liable for the full \$16.3 million. As at June 30, 2005, \$12.0 million had been received from the third party. Subsequent to June 30, 2005, an additional \$2.0 million had been received from the third party.

Under the terms of the agreement to reprocess a portion of the Company's seismic library, the Company is required to pay royalties on future sales of the reprocessed seismic data library to a third party, which shared in the cost of the project. The royalties will be recorded as incurred when the data is sold and delivered. The maximum royalty on sales of the entire database is limited to \$600,000. Royalties of individual lines sales are limited to a period of five years.

The Company has no other new material commitments other than those disclosed in its 2004 annual report.

## RELATED PARTY TRANSACTIONS

The Company had the following related party transactions for the six months ended June 30, 2005:

- The Company earned \$19,000 (June 30, 2004 - \$170,000) in revenue related to data loading, workstation rentals, and leasing of office space, from companies with common directors. Included in accounts receivable is \$Nil (June 30, 2004 - \$Nil) related to this revenue;
- The Company paid \$451,000 (June 30, 2004 - \$57,000) in brokerage commissions to a company controlled by a director. Included in accounts payable is \$30,000 (June 30, 2004 - \$4,000) related to these commissions.
- The Company paid \$154,000 (June 30, 2004 - \$90,000) in legal fees to the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable is \$77,000 (June 30, 2004 - \$22,000) owing to this firm.
- As at June 30, 2005, \$81,000 (June 30, 2004 - \$231,000) was payable to the law firm at which a director is a partner. A predecessor company, International Datashare Corporation, incurred these legal fees.

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.

## CRITICAL ACCOUNTING ESTIMATES

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

**Divestco Inc.** Consolidated Balance Sheets  
(In thousands of dollars)

Assets	Jun 30, 2005 (unaudited)	Dec 31, 2004 (audited)
<b>Current Assets</b>		
Accounts receivable	\$ 10,205	\$ 13,981
Prepaid expenses, supplies and deposits	474	337
Investment tax credits recoverable	124	500
	10,803	14,818
Long-term accounts receivable	63	312
Future income taxes	1,002	2,317
Investment in affiliated company	76	85
Data libraries (Note 3)	21,037	15,336
Property and equipment	3,051	2,934
Deferred development costs (Note 4)	1,745	1,151
Intangibles (Note 5)	2,512	2,652
Goodwill	1,949	1,949
	\$ 42,238	\$ 41,554
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 6)	\$ 2,709	\$ 2,321
Accounts payable and accrued liabilities	10,281	10,197
Current portion of deferred revenue	1,737	4,565
Current portion of long-term debt obligations (Note 7)	864	727
	15,591	17,810
Deferred revenue	1,481	737
Long-term debt obligations (Note 7)	1,143	648
	18,215	19,195
<b>Shareholders' Equity</b>		
Equity instruments (Note 8(b))	17,423	18,127
Contributed surplus (Note 8(d))	818	314
Retained earnings	5,782	3,918
	24,023	22,359
	\$ 42,238	\$ 41,554
<b>Commitments</b> (Note 11)		
<b>Subsequent event</b> (Note 13)		

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

**Divestco Inc.** Consolidated Statements of Income and Retained Earnings  
(In thousands of dollars, except per share data)

	For the three months ended June 30		For the six months ended June 30	
	2005 (unaudited)	2004 (unaudited)	2005 (unaudited)	2004 (unaudited)
Revenue	\$ 9,221	\$ 6,073	\$ 17,936	\$ 12,270
Operating Expenses				
Salaries and benefits	4,148	3,549	7,450	6,826
General and administrative	1,040	1,605	2,231	2,662
Research and development	105	-	170	277
Stock compensation expense	114	28	157	139
	5,407	5,182	10,008	9,904
<b>Earnings before interest, taxes and amortization</b>	3,814	891	7,928	2,366
<b>Interest Expense</b>	48	125	111	274
<b>Amortization</b>	2,747	615	4,345	1,162
<b>Operating income</b>	1,019	151	3,472	930
<b>Other income (loss)</b>				
Foreign exchange gain (loss)	(8)	38	(12)	62
Equity investment loss	(6)	(1)	(9)	(2)
	(14)	37	(21)	60
<b>Income before income taxes</b>	1,005	188	3,451	990
<b>Future income tax expense (reduction)</b>	406	(200)	1,251	(200)
<b>Net income for the period</b>	599	388	2,200	1,190
Retained earnings, beginning of period	5,519	864	3,918	62
Purchase price of common shares repurchased in excess of book value (Note 8(c))	(336)	(26)	(336)	(26)
<b>Retained earnings, end of period</b>	\$ 5,782	\$ 1,226	\$ 5,782	\$ 1,226
<b>Earnings per share</b>				
Basic	\$ 0.02	\$ 0.02	\$ 0.09	\$ 0.05
Diluted	\$ 0.02	\$ 0.02	\$ 0.09	\$ 0.05
<b>Weighted average number of shares</b>				
Basic	24,503	25,425	24,617	25,424
Diluted	24,718	25,498	24,743	25,507

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

**Divestco Inc.** Consolidated Statements of Cash Flows  
(In thousands of dollars)

	For the three months ended June 30		For the six months ended June 30	
	2005 (unaudited)	2004 (unaudited)	2005 (unaudited)	2004 (unaudited)
<b>Cash flows from operating activities</b>				
Net income for the period	\$ 599	\$ 388	\$ 2,200	\$ 1,190
Items not affecting cash:				
Equity investment loss	6	1	8	3
Amortization	2,747	615	4,345	1,162
Future income tax expense	406	(200)	1,251	(200)
Future investment tax credits recoverable	(292)	-	(425)	-
Unrealized foreign exchange loss	4	-	7	-
Stock compensation expense	114	27	157	139
Funds from operations	3,584	831	7,543	2,294
Changes in non-cash working capital balances (Note 9)	(1,005)	532	1,222	1,581
Decrease in long-term accounts receivable	63	(371)	250	(371)
Increase in non-current deferred revenue	434	105	744	105
	<u>3,076</u>	<u>1,097</u>	<u>9,759</u>	<u>3,609</u>
<b>Cash flows from financing activities</b>				
Bank indebtedness	156	2,093	319	2,373
Repayment of debentures	-	(3,377)	-	(4,250)
Repayment of long term debt obligations	(339)	(975)	(775)	(1,014)
Proceeds received from issuance of debentures	-	-	-	4,250
Proceeds received from non-revolving demand loan	-	3,055	-	3,055
Proceeds received from long-term debt obligations	446	-	783	-
Issue of common shares, net of related expenses	73	(25)	129	(19)
Repurchase of common shares (Note 8(c))	(194)	(106)	(822)	(106)
	<u>142</u>	<u>665</u>	<u>(366)</u>	<u>4,289</u>
<b>Cash flows from investing activities</b>				
Purchase of data libraries	(2,488)	(1,279)	(7,796)	(8,787)
Purchase of property and equipment	(130)	(247)	(657)	(726)
Deferred development costs	(254)	(510)	(594)	(510)
Acquisition of Petro Data Source, Inc. (Note 2)	(343)	-	(343)	-
	<u>(3,215)</u>	<u>(2,036)</u>	<u>(9,390)</u>	<u>(10,023)</u>
Foreign exchange gain on cash held in a foreign currency	(3)	-	(3)	-
Decrease in cash	-	(274)	-	(2,125)
<b>Cash, beginning of period</b>	-	274	-	2,125
<b>Cash, end of period</b>	\$ -	\$ -	\$ -	\$ -

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

## Divestco Inc. Notes to Consolidated Financial Statements (Unaudited)

JUNE 30, 2005

### 1) Significant Accounting Policies

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

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

The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of results to be expected for the entire year ending December 31, 2005. The Corporation records seismic data revenue related to its shot seismic programs, which are carried out primarily during the winter months. Revenue is recognized upon completion of a program after the related data has been delivered. Therefore, a significant portion of the Corporation's revenue for its shot seismic data is recognized in the winter and spring seasons.

### 2) Corporate Acquisition

On April 27, 2005, the Company acquired 100% of the issued and outstanding common shares of Petro Data Source, Inc. ("PDS"), a U.S. based company. The acquisition has been accounted for using the purchase price method. The following summarizes the estimated fair value of the assets and liabilities assumed as the date of acquisition:

	Amount	
	(\$US)	(\$CDN)
<b>Allocation of purchase price</b>		
Working capital deficiency	\$ (43)	\$ (52)
Long-term debt obligations	(150)	(187)
Log library	1,162	1,446
Customer lists	100	125
Future income tax liability	(394)	(490)
	\$ 675	\$ 842
<b>Consideration for the acquisition</b>		
Cash	\$ 275	\$ 343
Issuance of promissory note	400	499
	\$ 675	\$ 842

### 3) Data Libraries

	Balance as at			
	Jun 30, 2005		Dec 31, 2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Seismic data library	\$ 18,138	\$ 4,068	\$ 10,537	\$ 648
Data sets	632	253	438	231
Log library	6,618	512	5,171	450
Reference library	445	186	445	157
Map library	239	16	239	8
	<u>\$ 26,072</u>	<u>\$ 5,035</u>	<u>\$ 16,830</u>	<u>\$ 1,494</u>
Net book value		\$ 21,037		\$ 15,336

### 4) Deferred Development Costs

	Balance as at	
	Jun 30, 2005	Dec 31, 2004
Balance, beginning of period	\$ 1,151	\$ -
Salaries and benefits	664	1,195
General and administrative	100	159
	<u>764</u>	<u>1,354</u>
Amortization <sup>(1)</sup>	(170)	(203)
<b>Balance, end of period</b>	<b>\$ 1,745</b>	<b>\$ 1,151</b>

<sup>(1)</sup> Included with Research and development on the Consolidated Statements of Income and Retained Earnings

### 5) Intangibles

	Balance as at			
	Jun 30, 2005		Dec 31, 2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer lists	\$ 1,189	\$ 531	\$ 1,064	\$ 437
Patents and trademarks	4	1	4	1
Proprietary software and code	2,181	886	2,181	777
Well logs license agreement	750	194	750	132
	<u>\$ 4,124</u>	<u>\$ 1,612</u>	<u>\$ 3,999</u>	<u>\$ 1,347</u>
Net book value		\$ 2,512		\$ 2,652

## 6) Bank Indebtedness

	Balance as at		
	Authorized	As at Jun 30, 2005	As at Dec 31, 2004
Operating line	\$ 3,000	\$ 2,617	\$ 2,050
Non-revolving demand loan	92	92	271
	\$ 3,092	\$ 2,709	\$ 2,321

The terms of these facilities remain substantially unchanged from those reported in the December 31, 2004. A final payment of U.S. \$75,000 will be made on the non-revolving demand loan on September 30, 2005.

The facilities are subject to the Company meeting certain covenants. As at June 30, 2005, 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 June 30, 2005. In an effort to deal with the seasonal nature of the Company's business (Note 1), effective August 8, 2005, the bank approved an amendment to the working capital covenant. Bank indebtedness includes cheques written in excess of amounts on deposit.

## 7) Long-Term Debt Obligations

	Balance as at	
	Jun 30, 2005	Dec 31, 2004
Capital lease obligations (a)	\$ 1,403	\$ 801
Promissory notes (b)	604	574
	2,007	1,375
Current portion	(864)	(727)
	\$ 1,143	\$ 648

A The Company has capital lease obligations, which have terms of three years and bear interest at 5.8 % per annum. Minimum annual lease payments are as follows:

	2005	\$ 241
	2006	503
	2007	511
	2008	148
		\$ 1,403

B The Company has promissory notes, which bear interest at 7% to 8% per annum. Principal payments are as follows:

	2005	\$ 212
	2006	329
	2007	63
		\$ 604

The terms of these facilities remain substantially unchanged from those reported in the December 31, 2004 financial statements.

## 8) Equity Instruments

### A Authorized

An unlimited number of voting common shares

### B Issued

	Balance as at			
	Jun 30, 2005		Dec 31, 2004	
	# of Shares (000's)	Amount (000's)	# of Shares (000's)	Amount (000's)
Common Shares				
Balance, beginning of period	24,985	\$ 18,046	25,423	\$ 18,366
Exercise of options - cash consideration	216	137	12	7
Exercise of options - reclassification from contributed surplus	-	1	-	-
Repurchased under normal course issuer bid (5(c))	(673)	(486)	(450)	(327)
Balance, end of period	24,528	17,698	24,985	18,046
Share Purchase Warrants				
Balance, beginning of period	-	\$ 348	1,598	\$ 348
Expired	-	(348)	(1,598)	-
Balance, end of period	-	\$ -	-	\$ 348
Share issue costs, net of future income taxes		\$ (275)		\$ (267)
Total equity instruments		\$ 17,423		\$ 18,127

### C Normal course issuer bid

On June 2, 2004, the Company received approval from the TSX Venture Exchange to repurchase up to 1,278,000 of its common shares at prevailing market prices during the twelve-month period ending June 9, 2005. During the six months ended June 30, 2005, the Company repurchased 673,000 shares at a purchase cost of \$822,206 (\$1.22 average price per share) resulting in a \$336,120 reduction to retained earnings. Since approval was received for the normal course issuer bid, the Company repurchased 1,123,100 shares at a purchase cost of \$1,240,338 (\$1.10 average price per share).

On June 10, 2005, the Company received approval to renew its normal course issuer bid to repurchase up to 1,425,000 of its common shares at prevailing market prices during the twelve-month period ending June 14, 2006. No repurchases were made under the new bid during the six months ended June 30, 2005.

### D Contributed Surplus

	Balance as at	
	Jun 30, 2005	Dec 31, 2004
Balance, beginning of period	\$ 314	\$ 97
Stock compensation expense	199	217
Reclassification to common shares on exercise of options	(1)	-
Reduction for stock options forfeited	(42)	-
Expiry of warrants	\$ 348	\$ -
Balance, end of period	818	314

## E Stock options

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

	# of Options	Option Price	Weighted Average Exercise Price
Options outstanding, December 31, 2004	1,845	\$0.54-\$1.40	\$1.10
Options granted <sup>(1)</sup>	508	\$1.25-\$1.40	\$1.30
Exercised	(216)	\$0.54-\$1.20	\$0.63
Forfeited	(143)	\$1.00-\$1.40	\$1.23
Options outstanding, June 30, 2005	1,994	\$0.83-\$1.40	\$1.19

<sup>(1)</sup> Granted to an officer of the Company

Subsequent to June 30, 2005, 153,000 options were granted to officers and directors with an exercise price of \$1.69, including 110,000 options to officers; 31,000 options were exercised at exercise prices ranging from \$1.04 to \$1.25; and 7,200 options were forfeited with exercise prices ranging from \$1.00 to \$1.20.

The options as at June 30, 2005, are summarized as follows:

Options Outstanding (000's)	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable (000's)	Weighted Average Exercise Price of Options Currently Exercisable (000's)
51	\$0.83	\$0.83	0.70	51	\$0.83
123	\$1.00	\$1.00	4.35	41	\$1.00
387	\$1.04	\$1.04	1.94	387	\$1.04
439	\$1.20	\$1.20	3.57	292	\$1.20
784	\$1.25	\$1.25	3.59	559	\$1.25
210	\$1.40	\$1.40	4.09	97	\$1.40
1,994	\$0.83-\$1.40	\$1.19	3.29	1,427	\$1.17

The fair value of share options was estimated using the Black Scholes option pricing model with the following assumptions: an expected volatility of 60% (2004 - 20% to 60%), a risk free interest rate of 5.0%, and an expected life of 5 years. The compensation expense is recognized over the 2-year vesting period of the stock options.

The Corporation continues to disclose the pro-forma earnings impact of stock options granted in 2002. If the fair value method had been used for options granted in 2002, net earnings for the three and six months ended June 30, 2004 ended would have been reduced by \$14,441 and \$28,883, respectively. Basic and diluted earnings per share would have remained unchanged. There would have been no impact on net income or earnings per share for the three and six months ended June 30, 2005, as all of the options granted in 2002 and prior were fully vested by December 31, 2004.

## 9) Cash Flows

	For the three months ended Jun 30		For the six months ended Jun 30	
	2005	2004	2005	2004
<b>A Interest and income taxes paid (recovered)</b>				
Interest paid	\$ 69	\$ 159	\$ 110	\$ 274
Income taxes paid (recovered)	\$ -	\$ (106)	\$ -	\$ (180)
<b>B Changes in non-cash working capital balances</b>				
Funds held in trust	\$ -	\$ (7)	\$ -	\$ (20)
Account receivable	840	1,986	3,796	989
Investment tax credits recoverable	376	106	376	180
Prepaid expenses, supplies and deposits	(46)	6	(137)	(149)
Accounts payable and accrued liabilities	(1,268)	(1,802)	15	101
Deferred revenue	(907)	243	(2,828)	480
	\$ (1,005)	\$ 532	\$ 1,222	\$ 1,581

## 10) Related Party Transactions

The Company had the following related party transactions:

- A** For the six months ended June 30, 2005, the Company earned \$19,000 (June 30, 2004 - \$170,000) in revenue related to data loading, workstation rentals, and leasing of office space, from companies with common directors. Included in accounts receivable is \$Nil (June 30, 2004 - \$Nil) related to this revenue.
- B** For the six months ended June 30, 2005, the Company paid \$451,000 (June 30, 2004 - \$57,000) in brokerage commissions to a company controlled by a director. Included in accounts payable is \$30,000 (June 30, 2004 - \$4,000) related to these commissions.
- C** For the six months ended June 30, 2005, the Company paid \$154,000 (June 30, 2004 - \$90,000) in legal fees to the law firm at which the Company's Corporate Secretary is employed. Included in accounts payable is \$77,000 (June 30, 2004 - \$22,000) owing to this firm.
- D** As at June 30, 2005, \$81,000 (June 30, 2004 - \$231,000) was payable to the law firm at which a director is a partner. A predecessor company, International Datashare Corporation, incurred these legal fees.

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

## 11) Commitments

**A** Under the terms of the acquisition of Westcan Oilmaps (1993) Ltd. ("Westcan"), the Company is committed to issue deferred consideration of 100,000 common shares of the Company or \$100,000, at the option of the Company. The consideration was accrued in 2004 and is payable upon the seller's provision of additional documents contemplated by the acquisition agreement.

**B** Under the terms of two seismic acquisition agreements, the Company is jointly acquiring approximately \$51.6 million in seismic data. One survey was completed in June 2005 with the second survey expected to be completed by September 2005. Both are subject to a nine-month exclusivity period. The Company's portion is approximately \$16.3 million. The Company simultaneously entered into an agreement to share its portion of the expenditures with an unrelated third party. In exchange, the unrelated party will receive a majority ownership interest in the data. The Company remains liable for the full \$16.3 million. As at June 30, 2005, \$12.0 million had been received from the third party. Subsequent to June 30, 2005, an additional \$2.0 million had been received from the third party.

**C** Under the terms of the agreement to reprocess a portion of the Company's seismic library, the Company is required to pay royalties on future sales of the reprocessed seismic data library to the third party, which shared in the cost of the project. The royalties will be recorded as incurred when the data is sold and delivered. The maximum royalty on sales of the entire database is limited to \$600,000. Royalties of individual lines sales are limited to a period of five years.

The Company has no other commitments other than those disclosed in its annual audited financial statements for the year ended December 31, 2004.

## 12) Segmented Information

The Company operates in four segments within the oil and gas industry. Technical Services provides seismic survey audit, information management, mapping, archiving services, imaging and geophysical/geological services. Data provides log services and a full suite of support data layers. This segment also develops and maintains the Company's log library and seismic data libraries. Software sells software licenses and provides maintenance and support. Seismic Brokerage offers full service seismic brokerage. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the annual financial statements. The Company eliminates inter-segment sales and transfers. Operating income (loss) is measured as profit (loss) before consideration of foreign exchange gains (losses), equity investment income (loss), income taxes and discontinued operations.

	As at and for the three months ended June30, 2005				
	Technical Services	Data	Software	Brokerage	Total
Revenue	\$ 1,636	\$ 5,244	\$ 1,272	\$ 1,069	\$ 9,221
Operating income (loss)	(319)	1,311	(111)	138	1,019
Amortization	139	2,468	102	38	2,747
Research and development	-	-	105	-	105
Total assets	4,038	24,810	6,207	7,234	42,289
Capital expenditures <sup>(2)</sup>	48	4,685	24	11	4,768
Deferred development costs	-	-	254	-	254

## 12) Segmented Information - continued

	As at and for the three months ended June 30, 2004				
	Technical Services	Data	Software	Brokerage	Total
Revenue	\$ 3,671	\$ 9,708	\$ 2,592	\$ 1,965	\$ 17,936
Operating income (loss)	(38)	3,151	229	130	3,472
Amortization	286	3,775	208	76	4,345
Research and development	-	-	170	-	170
Total assets	4,038	24,810	6,207	7,234	42,289
Capital expenditures <sup>(2)</sup>	240	10,184	120	59	10,603
Deferred development costs	-	-	594	-	594

	As at and for the six months ended June 30, 2005				
	Technical Services	Data	Software	Brokerage	Total
Revenue	\$ 1,343	\$ 2,638	\$ 1,300	\$ 792	\$ 6,073
Operating income (loss)	(602)	697	286	(230)	151
Amortization	106	264	161	84	615
Research and development	-	-	-	-	-
Total assets <sup>(1)</sup>	4,978	17,870	6,494	4,710	34,052
Capital expenditures <sup>(2)</sup>	145	1,202	106	73	1,526
Deferred development costs	-	-	510	-	510

	As at and for the six months ended June 30, 2004				
	Technical Services	Data	Software	Brokerage	Total
Revenue	\$ 3,682	\$ 4,261	\$ 2,511	\$ 1,816	\$ 12,270
Operating income (loss)	(284)	1,258	119	(163)	930
Amortization	231	507	311	113	1,162
Research and development	-	-	277	-	277
Total assets <sup>(1)</sup>	4,978	17,870	6,494	4,710	34,052
Capital expenditures <sup>(2)</sup>	242	9,028	141	102	9,513
Deferred development costs	-	-	510	-	510

<sup>(1)</sup> Excludes future income taxes of \$1,472,770 (March 31, 2004 - \$906,752)

<sup>(2)</sup> Excludes business acquisitions

During the three months ended March 31, 2005, the Company had foreign sales of \$186,690 (March 31, 2004 - \$598,000).

## 13) Subsequent Events

**A** Effective July 27, 2005, the Company accepted an Offer of Finance (the "Offer") from a lender, which is subject to certain closing conditions and determination of loan collateral. The Offer provides \$10.0 million in long-term debt. The debt is non-revolving with two \$5.0 million tranches, each having five-year terms of repayment. The aggregate facility will bear interest at the lender's base rate plus 3% per annum. As part of the arrangement, the Company paid the lender a \$100,000 commitment fee and will issue the lender 100,000 common shares of the Company at the closing price of its stock on the date of closing.

**B** On August 18, 2005, the Company closed a brokered private placement with First Associates Investments Inc. and Northern Securities Inc. (collectively, the "Underwriters"), whereby the Company sold 5,000,000 Units at a price of \$2.00 per Unit, for aggregate gross proceeds to the Company of \$10.0 million. This included an overallotment provision of 500,000 units for gross proceeds of \$1.0 million. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole purchase warrant entitles the holder to acquire a common share at a price of \$2.50 at any time on or before August 18, 2007. The shares are subject to a hold period expiring December 19, 2005. The Underwriters were paid a commission equal to 7% of the gross proceeds and were granted 350,000 options to acquire common shares of the Company at an exercise price of \$2.00 per share. Each option entitles the holder to acquire one common share of the Company and expires on August 18, 2007.

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## BOARD OF DIRECTORS

Stephen Popadynetz  
John A. Brussa<sup>1,2,3</sup>  
Wade Brillon  
M. Scott Ratushny<sup>2,4</sup>  
Edward L. Molnar<sup>3</sup>  
Brent Gough<sup>2,3,4</sup>

## Corporate Information

- <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  
Terry Barnhart - President  
Roderick Chisholm - Chief Financial Officer  
Steve Sinclair-Smith - VP Operations  
Mathew Hepton - VP Software Development  
Shannon Niemi - VP Sales & Marketing  
Peter Ciavarella - VP Geological Software  
Chuck Smith - VP Geomatics  
Cary Sabraw - VP Logs and Archiving

## CORPORATE SECRETARY

Faralee A. Chanin

## MANAGER, FINANCIAL REPORTING

Danny Chiarastella

## STOCK EXCHANGE LISTING

TSX Venture Exchange: DVT

## BANKERS

HSBC Bank Canada

## REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company

## AUDITORS

KPMG LLP

## LEGAL COUNSEL

Field LLP





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