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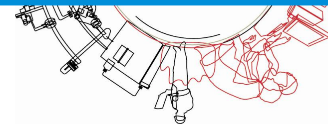

Management's Discussion and Analysis

February 13, 2009

The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the years ended December 31, 2008 and 2007, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008. All dollar values are expressed in thousands, except for per-share figures.
The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports on certain non-GAAP measures that are used by management to evaluate performance of the business. Because non-GAAP measures do not have a standardized meaning, securities regulators require that non-GAAP measures be clearly defined and qualified, reconciled to their nearest GAAP measure and be given no more prominence than the closest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of non-GAAP measures is provided in section 12: Reconciliation of Non-GAAP Measures.

Additional information is available on the Company's website (www.zedi.ca) and all previous public filings, are available through SEDAR (www.sedar.com).

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon.

Management's Discussion and Analysis Contents

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1	Business Overview	A description of the business of the Company.
2	Corporate Vision and Strategy	A description of the corporate vision and strategy and comment on recent activities furthering its vision and strategy.
3	Key Performance Indicators	A description of the Company's key performance indicators and their relationship to corporate strategy.
4	Overall Performance	A summary of the 2008 consolidated results and key events during the year.
5	Selected Annual & Quarterly Information	A summary of selected annual and quarterly financial information and comments on trends of the information.
6	Results of Operations	A detailed discussion of operating results.
7	Financial Condition	A discussion of significant changes in the balance sheet from the end of the last reported period.
8	Liquidity and Capital Resources	A discussion of cash flow, liquidity, credit facilities and other disclosures.
9	Critical Accounting Estimates	A description of accounting estimates, which are critical to determining financial results and forthcoming changes to accounting policies and financial reporting.
10	Outlook	A discussion of the outlook for the Company's performance over the next year.
11	Business Risks and Uncertainty	A discussion of risks and uncertainties that may affect the business of the Company.
12	Reconciliation of Non-GAAP Measures	A description, calculation and reconciliation of certain non-GAAP measures used by management.

1 Business Overview

Zedi Inc. (the “Company” or “Zedi”) specializes in production operations management, delivering systems and services that help oil and gas producers to better manage people, assets and information. Zedi helps customers increase earnings and decrease operating costs, through improved utilization of human and corporate assets. In addition, Zedi solutions and services help customers mitigate compliance risk.

Established in 1987, Zedi™ has over 300 upstream, midstream and oilfield services customers who are primarily located in Western Canada. Zedi monitors approximately 36,000 sites and manages approximately 200,000 assets with its solutions that are delivered through four lines of business:

- *Zedi Surveillance™* – the business of monitoring, collecting, and digitizing high quality data at the source.
- *Zedi Optimization™* – the business of analyzing the data collected and taking action to impact operations in order to improve hydrocarbon production.
- *Zedi Production Applications™* – the business of web-based, on demand, applications purpose built for the oil and gas industry that manage production, data, assets and revenue.
- *Zedi Field Operations™* – the business of providing trained field personnel to operate and manage oil and gas field operations.

2 Corporate Vision and Strategy

The Zedi vision is to be a global leader in production operations management and the company will accomplish this through five strategic imperatives. They are:

- *People – Zedi will partner with its employees to promote their personal development, growth and success and together the company and the employees will share in the benefits of corporate success.*

- *Customers – With a primary view toward improving customer earnings, Zedi will structure all of its customer interactions to deliver a personal experience that positively addresses customer needs, enabling them to achieve greater success.*

- *Data – Zedi will deliver and further develop products and services that add to the quality and quantity of well and field operation data and increase its value by transforming it to information.*

- *Open Interface – Zedi will leverage the high data value through developing the FINE® system, Zedi's intelligent network, to be vendor neutral, seeking to be an industry standard and enabling broad surveillance inputs and application extractions through an open interface.*

- *Execution – Zedi will balance near term returns with long term wealth by focusing on market sectors that it can dominate and by making pragmatic decisions that maximize shareholder return.*

3 Key Performance Indicators

Zedi monitors a number of key performance indicators including those set out below *(see selected quarterly information table for past eight quarters in section 5)*. In addition, Zedi tracks a number of customer specific indicators:

- *RECURRING REVENUE AS A PERCENTAGE OF OPERATIONS EXPENSE*

  Growth of this indicator ensures that the decisions and actions taken by Zedi are supporting a strategy of building a significant foundation of recurring revenue in relation to the size of the operations, with operations defined to include operations, selling general & administrative expenses as well as the non-capitalized portion of research and development costs. This also serves to measure the success in structuring the operations on a scalable basis.

- *RECURRING REVENUE AS A PERCENTAGE OF TOTAL CASH EXPENDITURES*

  This indicator combines the investment in research and development and capital assets with the operating expenses to monitor the scalability of the business model with operating and investing activities combined.

- *TOTAL REVENUE*

  This measure is an overall indication of the success and progress toward achieving a dominant position in the marketplace.

- *GROSS MARGIN PERCENTAGE*

  This serves to measure the success in developing and delivering products and services efficiently and on a scalable basis.

- *INCOME PER SHARE*

  As a primary measure of return to shareholders, this measure also ensures the acquisitions made by Zedi are accretive to shareholders.

4 Overall Performance

4.1 Materiality for Disclosure

Management determines whether or not information is “material” based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Company would be significantly influenced by the information.

4.2 Events or Activities Impacting the Business in 2008

Zedi exited year one of a five year strategic plan having made significant progress in several key areas, including an expanded suite of products and services that was the result of both continued investment in research and development and three successful acquisitions. In addition, Zedi created a foundation on which future growth will benefit from a scalable business model supported by recurring revenues.

Acquisitions

Zedi Inc. acquired three privately owned companies: J&J Oilfield Ltd. (J&J), Universal Measurement Solutions Ltd. (UMS) and Oilfield Operations Accounting Services Ltd. (OAS).

- J&J, closed effective for January 1, 2008 and branded Zedi Field Operations™, delivers contract operations to oil and gas producers primarily in North-East British Columbia. With a complement of over 70 operators, foremen and health, safety and environment specialists, Zedi has the ability to combine field operations experience with proven technology to deliver increased value to producers. Zedi Field Operations strengthens the Zedi service portfolio and contributes to an end to end solution for production operations management.
- UMS, closed effective for May 1, 2008, increased the company’s total number of electronically monitored sites to over 11,000. In addition to increased market penetration, the acquired technology has been fully integrated within the platform for Zedi’s ongoing development of surveillance and optimization technologies.
- OAS, closed October 31, 2008 and branded Zedi True Chart™, provides gas flow chart reading and integration services to the oil and gas industry. With approximately 25,000 sites monitored by charts and over 11,000 sites monitored electronically, the acquisition brings the total number of sites monitored by Zedi to approximately 36,000. Producers will ultimately benefit from the ability to view all sites through a single web-based portal, improving their ability to make production operations decisions.

New Product Introductions

Zedi continued to invest in its business with several updates and enhancements to the core solutions in addition to the introduction of several net new products throughout 2008. New products that were introduced in 2008 include:

- Zedi EFM Walk–up™ is a low cost electronic flow measurement system that provides an alternative to manual chart recorders and is targeted at wells that have lower production, relatively few maintenance issues and are easy to access. Introduced to expand the company’s ability to address producers’ operating philosophies, Zedi EFM Walk–up™ provides immediate reporting both at the well site and via the Internet and includes Zedi’s comprehensive customer service and support.
- Zedi Vital™ is a field data management system where data from oil and gas production and processing facilities is collected, input and analyzed using Zedi’s purpose-built software. The information is then made available to all authorized users through Zedi’s secure web application. Producers that have adopted Zedi technology at the well and for production

accounting benefit from a simplified implementation process that automates data integration and eliminates manual work processes. With the introduction of Zedi Vital™ the company significantly enhanced its ability to provide an end-to-end production operations management solution.

- Zedi introduced a handheld option for EFM Walk-up™ which allows the operator to instantly retrieve their data at the well site through Bluetooth technology on select models of RIM's BlackBerry™ device. The company worked with field operators to design the handheld interface, capitalizing on existing work processes and equipment to help producers reduce costs. EFM Walk-up™, with the handheld option is a featured component in TELUS' Field Pack for producers.

Execute on Strategy

Zedi remained focused on execution against the company's strategic plan throughout 2008, as evidenced by:

- The achievement of two critical milestones in Q1 with over 100% of the company's cash requirements covered by recurring revenue and with the highest quarterly revenue recorded in the company's history. The quarterly revenue milestone was advanced again in Q4, with a further 26% increase over Q1 revenues.
- The development and introduction of new learning curriculum that is delivered to Zedi customers through on-line and face-to-face training sessions. The continued exploration of international opportunities in Russia and the Asia-Pacific region.

Global Economic Factors

Zedi funded all of the acquisitions noted above, plus the continued investment in product development, with cash on hand at the beginning of 2008 plus cash generated by operations throughout the year. As such, the Company was able to avoid any significant direct impacts of the global credit crisis throughout the latter part of 2008 and continuing into 2009. Zedi enters the cash building portion of its annual cycle in late Q1 / early Q2, so the Company does not expect any need for additional credit facilities or funding to continue executing on its current business strategy.

The more general impact ot the credit crisis, being the global economic slowdown and in particular, the negative impact on the commodity prices including oil and gas, has dramatically affected the marketplace into which Zedi sells its products. However, the nature and extent of impact on energy producers varies dramatically depending upon their geographical areas of operation, product mix and the strength of their balance sheets prior to entering the slowdown. The most dramatically impacted are companies focused on oilsands and other non-conventional sources, as well as companies dependent solely upon certain types of production that were impinged by Alberta royalty regime changes coming into effect for 2009 – these companies are cutting capital budgets significantly. Of course, almost all of those companies with little or no capital going into the downturn are severely constrained in terms of ability to continue their development programs until the capital markets improve. Other players, including some majors, that are focused on areas such as North-East British Columbia and South-East Saskatchewan, are continuing with existing development plans and a few are even increasing their initial capital budgets to take advantage of decreasing drilling and contractor costs.

The Company's results for 2008, as evidenced by the record revenue recorded in the three months ended December 31, 2008, were not significantly affected by the economic and industry conditions. The Company's 2009 budgets, originally prepared prior to many of the worsening indicators of market downturn, were reevaluated and prudently revised prior to final approval in November of 2008. Management continues to evaluate economic conditions and various third-party projections for the extent and duration of the market downturn, including ongoing contact with many of our customers.

4.3 Impact of Stock-Based Compensation on Reported Results

Throughout this MD&A the Company will at times describe or discuss results with Stock-based compensation not included. The following information will provide readers of our financial statements with an opportunity to fully understand the impact of stock-based compensation on results and to provide context for the Company's discussion of results with stock-based compensation excluded.

The Company currently has three forms of stock-based compensation: stock options, deferred share units and restricted share units.

Stock Options

The shareholders of the Company approve the stock option plan each year at the AGM. The current plan authorizes the Board of Directors of the Company to grant options numbering up to 10% of the number of issued and outstanding shares, which structure has remained unchanged since the Company's initial public offering. As an important part of the Company's compensation strategy, options are granted annually to all employees to recruit and retain the best talent. All options are granted at market price on the date of grant, vest in thirds on the first three anniversaries from the date of grant and expire in thirds on the second, third and fourth anniversaries. This results in a rolling plan with options expiring each year and new ones being granted at then current market prices.

A summary of the status of the plan is presented below:

	December 31, 2008		December 31, 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	8,932,186	$ 1.20	10,222,763	$ 1.33
Granted	2,792,583	0.62	1,469,739	0.62
Exercised	(265,345)	0.42	(232,678)	0.41
Expired/Cancelled	(3,648,928)	1.25	(2,527,638)	1.38
Outstanding, end of period	7,810,496	$ 0.94	8,932,186	$ 1.20
Options exercisable, end of period	3,114,802		3,705,209	

		Options Outstanding		Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.21-$0.49	6,000	2.8 yrs	$0.47	2,000	$0.47
$0.50-$1.00	5,913,584	3.0 yrs	0.69	1,386,166	0.69
$1.01-$2.00	1,333,785	0.9 yrs	1.46	1,169,509	1.46
$2.01-$2.88	557,127	0.1 yrs	2.30	557,127	2.30
$0.21- $2.88	7,810,496	2.4 years	$0.94	3,114,802	$1.31

Deferred Share Units

A deferred share unit ("DSU") is compensation paid in the form of a right to a share that is not received until the occurrence of a future event. During the year, the Company did not issue any DSUs as director fee compensation. The Company has an obligation under the DSU plan at December 31, 2008 of $3 (2007 - $4).

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Restricted Share Units

A restricted share unit is compensation paid in the form of a right to a share that is received at a later date. During the year ended December 31, 2008, the Company issued 887,753 (2007 – 548,758) RSUs with a weighted average fair value of $0.62 (2007 - $0.54)

Stock-based Compensation Expense

The total of the stock-based compensation expense for the year ended December 31, 2008 was $1,513, which is broken down in the table below.

The portion of the expense related to stock options is calculated using the Black-Scholes option pricing model at the time the options are granted. The model incorporates an historical volatility analysis to determine valuation. Historical volatility may or may not be a reliable indication of future volatility. Although the expense is calculated at the time options are granted, it is reported over the vesting period for the options. The Company's standard vesting period is three years in which case the expense will be reported proportionately in each of the 12 quarters following the date of grant.

The following table shows the breakdown of the stock-based compensation expense reported in the year ended December 31, 2008.

Annual Option Grant Date	Number of options outstanding as at December 31, 2008	Exercise Price	Expensed in 2008	Remaining to be expensed in future periods.
January 6, 2005	551,793	$2.30	$ 3	$ -
November 1, 2005[1]	1,098,562	$1.46	655	-
December 13, 2006	1,885,216	$0.91	390	370
November 13, 2007	1,253,646	$0.53	92	173
November 13, 2008	2,091,570	$0.60	25	552
Various dates[2]	929,709	$1.46[3]	162	194
Option Totals	7,810,496		$1,327	$ 1,289
DSU Grant Date	**Number of DSUs as at December 31, 2008**	**Price**	**Expensed in 2008**	**Remaining to be expensed in future periods.**
June 30, 2006	2,143	$0.48	$ (0.1)	-
September 29, 2006	3,879	$0.48	(0.2)	-
December 31, 2006	1,579	$0.48	(0.1)	-
September 25, 2006	250,000	$1.16	-	-
DSU Totals	257,601		$ (0.4)	-
RSU Grant Date	**Number of RSUs as at December 31, 2008**	**Price**	**Expensed in 2008**	**Remaining to be expensed in future periods.**
September 25, 2006	400,000	$1.16	$ -	$ -
August 2, 2007	19,220	0.63	5	4
August 31, 2007	9,657	0.60	3	2
October 31, 2007	2,250	0.47	0.4	0.4
November 13, 2007	470,120	0.53	123	108
November 13, 2008	719,281	0.60	28	395
Various dates[2]	141,525	$0.72[3]	27	59
RSU Totals	1,762,053		$ 186.4	$ 568.4
All stock-based comp. totals			$1,513	$1,857.4

[1]The timing of the annual grant was shifted from the beginning of the year to the fall board meeting to align with annual compensation program reviews.
[2]There are some options granted in between the annual grants related to new hires during the year or staff added through acquisitions.
[3]This is the weighted average exercise price.

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Discussion of Performance Results Excluding the Stock-based Compensation Expense

Significant historical share price volatility has impacted the valuation of stock options for the purpose of recording of a stock-based compensation expense. A number of options that have already been expensed have in fact expired without being exercised and a large number of options that were expensed in 2008 remain significantly out of the money. The expensed options do not impact cash flow or the operations of the Company. From the table above the reader can assess the specific options that the expense relates to, with approximately 84% of the expense being for options that are significantly out of the money and some of which having already expired. Therefore, the Company will at times discuss the performance of the Company with this expense excluded (a reconciliation to the nearest GAAP measure is provided in section 12).

The cost of Stock-based compensation is primarily associated with its dilutive effect on share value and therefore the Company believes that "earnings per share fully diluted" is a reliable method of measuring value with the impact of stock-based compensation taken into account. Where the Company discusses a result with stock-based compensation not included it also discusses the result including stock-based compensation so that the reader can accurately assess the performance of the Company.

4.4 Consolidated Highlights

	Three Months ended December 31				Year ended December 31			
	2008	**2007**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
Revenue	14,339	8,619	5,720	66%	46,178	29,121	17,057	59%
Gross Profit	7,331	4,920	2,411	49%	23,385	15,562	7,823	50%
EBITDA(1)	1,834	1,886	(52)	(3%)	6,646	4,089	2,557	63%
Net Income before income taxes	610	1,279	(669)	(52%)	3,059	1,740	1,319	76%
Net income	849	1,798	(949)	(53%)	2,226	1,446	780	54%
Net income per share, basic	0.01	0.02	(0.01)		0.02	0.01	0.01	
Net Income per share, diluted	0.01	0.02	(0.01)		0.02	0.01	0.01	
Cash from operations	463	2,542	(2,079)	(82%)	9,390	10,405	(1,015)	(10%)
Free cash flow(2)	526	1,383	857	(62%)	3,114	2,353	761	32%

(1) Earnings before interest, taxes, depreciation and amortization is a non-GAAP measure. See Section 12.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

(2) Free cash flow is a non-GAAP measure. See Section 12.2 Free cash flow.

There are a number of period-specific items accounted for within the above figures, as follows:

- During the three months ended December 31, 2008, the company recorded a $158 charge to cost of sales in conjunction with the adoption of the new accounting policy for inventory and a $561 charge to increase the allowance for doubtful accounts. The latter amount was recorded following detailed review of accounts receivable and was calculated using the same formula as used at prior year-ends. Although management anticipates that ongoing collection efforts will result in actual bad debt losses much less than the calculated allowance, given current economic conditions it was deemed prudent to record the full amount. Excluding these two adjustments, for the three months ended December 31, 2008, net income before income taxes would have been $1,329 rather than $610 as shown in the above table, and EBITDA would have been $2,553 rather than $1,834 as shown.

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- In addition to the above amounts, the 3 acquisitions completed during 2008 gave rise to acquisition-related expenses of approximately $185 over the course of the year. These costs include:
  - due diligence activities,
  - additional accounting, legal and audit costs not added to the purchase price of the acquisitions
  - integration efforts,
  - severance payments,
  - moving and relocations.

  If these costs, plus the two amounts identified above for the inventory change and allowance for doubtful accounts, were excluded, net income before income taxes for 2008 would be $3,963 rather than the $3,059 shown above, and EBITDA would be $7,550 rather than $6,646 as shown above.

The following table reviews some results **excluding stock-based compensation** (please see section 4.3 above for a full explanation of the stock-based compensation expense).

	Three Months ended December 31				Year ended December 31			
	2008	**2007**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
EBITDA(1)	2,145	2,309	(164)	(7%)	8,159	5,939	2,220	37%
Net Income before income taxes(1)	921	1,702	(781)	(46%)	4,572	3,590	982	27%
Net Income per share before taxes, basic(1)	0.02	0.02	-		0.05	0.04	0.01	
Net Income per share before taxes, diluted(1)	0.02	0.02	-		0.05	0.04	0.01	

(1) This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure.

If the effects of the inventory change, increased allowance for doubtful accounts and non-recurring acquisition costs were also excluded, EBITDA in the above table would be $2,864 for the three months ended December 31, 2008 and $9,063 for the year ended December 31, 2008, rather than the $2,145 and $8,159 as shown, respectively.

For additional specific comments on trends and financial performance please see sections 5.3 and 6 below.

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5 Selected Annual and Quarterly Information

5.1 Summary Table

The following table sets forth selected three-year consolidated financial information and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008:

	2008	2007	**2006**
Total Revenues	**46,178**	29,121	37,137
Net Income Before Taxes	**3,059**	1,740	4,238
Net Income Before Taxes per share - basic	**0.03**	0.02	0.04
Net Income Before Taxes per share - diluted	**0.03**	0.02	0.04
Net Income After Taxes	**2,226**	1,446	4,019
Net Income After Taxes per share - basic	**0.02**	0.01	0.04
Net Income After Taxes per share - diluted	**0.02**	0.01	0.04
Total Assets	**53,917**	48,230	47,394

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5.2 Quarterly Results Summary

The following table sets forth certain financial information on a consolidated basis for the last eight financial quarters:

	2008				2007			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenues	**14,339**	10,429	10,033	11,377	8,619	7,197	4,870	8,435
Recurring Revenue[(1)]	**6,177**	5,007	4,935	4,633	2,795	2,531	2,381	2,123
Recurring Revenue[(1)] as a % of Operation Expenses[(2)]	**133%**	146%	150%	140%	107%	111%	96%	94%
Recurring Revenue[(1)] as a % of Total Cash Expenditures[(3)]	**98%**	107%	106%	106%	76%	76%	69%	66%
Percent Gross Margin	**51%**	51%	49%	51%	57%	54%	49%	52%
Net Income (Loss)	**849**	359	141	877	1,798	321	(989)	316
Net Income (Loss) (per share) - basic and diluted	**0.01**	0.00	0.00	0.01	0.02	0.00	(0.01)	0.00
Net Income (loss) before taxes excluding the stock-based compensation expense[(4)]	**921**	950	882	1,819	1,702	1,005	(645)	1,528
Net Income (loss) per share before taxes excluding stock-based compensation expense - basic and diluted[(4)]	**0.01**	0.01	0.01	0.02	0.02	0.01	(0.01)	0.01

Note: (1) Recurring Revenue includes all fees that are billed to customers on a recurring basis.
(2) Operational Expenses includes all expenses except for stock based compensation and allowances for doubtful accounts.
(3) Total Cash Expenditures includes Operational Expenses plus the amount of R&D deferred in the period and all amounts for the acquisition of capital assets
(4) This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure.

5.3 Comments on Corporate Performance – Key Performance Indicator Trends

Revenue for Q4 was $14,339 - a new record for the Company, reflecting sustained performance and cyclical nature of the core service lines plus contribution of the revenue streams from businesses acquired in the year. Traditionally, revenue is lower in the middle quarters of the year. Revenue in Q4, 2008 was higher than in Q4, 2007, in keeping with the year over year positive revenue growth trend the Company had established over the past seven years. The Company anticipates volatility in the industry well into 2009 as the industry continues to adjust to the global negative market conditions. The company therefore expects this volatility in the industry activity to be reflected in its revenues. Revenue growth in Q4 of $2,385 can be attributed to the acquisition of J&J Oilfield, with the acquisitions of UMS and OAS contributing revenue of $1,696 .

The Company continues to grow its recurring revenue, providing a solid foundation to weather poor market conditions. As a result of the acquisition of J&J Oilfield, UMS and OAS, the recurring revenue percentages of operation expenses and total cash expenditures are significantly higher in 2008 and are expected to continue at the Company's historical growth trend.

Recurring revenue increased from $2,795 in Q4 2007 to $6,177 for Q4 of 2008, of which $1,560 was contributed by the J&J operations and $1,112 from UMS and OAS operations. The amount of recurring revenue in 2008 was $20,752 compared to $9,830 in 2007 and $7,060 for 2006. Of this

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2008 increase, $2,951 was generated by pre-existing service lines while the remaining $8,021 was from acquired businesses - $6,520 from J&J, $1,501 from UMS and OAS.

For 2008 the percent of recurring revenue to operating expenses was 137%, growing from 102% in 2007, 77% in 2006, 66% in 2005 and 51% in 2004. This trend is expected to continue. The Company expects there may be some fluctuation in this percentage quarter to quarter but tracks the year over year trend to be sure the Company is continuing to take advantage of the scalability of its business model.

The Company also tracks recurring revenue as a percentage of total cash requirements, which is calculated by combining the investment in R&D and capital assets with the operating expenses. The trend tracks relatively close to the prior measure, looking solely at operation expenses. For 2008 the percent of recurring revenue to total cash expenditures was 101%, growing from 72% in 2007, 57% in 2006, 49% in 2005 and 46% in 2004.

Percent gross margin grew throughout 2007 and dropped slightly in 2008, primarily due to the acquisitions of J&J and OAS, which have lower margins on their service models. The Company expects some volatility in the percentage gross margin on a quarterly basis as a result of fluctuations in revenue mix. There is a significant margin difference between hardware, software and recurring fees and therefore, if the revenue mix changes between periods the total gross margin percentage can vary. The Company expects that service line margins will continue into 2009 at levels consistent with 2008, with a slight drop on consolidated margin as OAS results are included for the full quarters being reported on.

6 Results of Operations – Annual 2008

6.1 Revenue

The Company generated revenues of $14,339 for the three months ended December 31, 2008 compared to $8,619 for the three months ended December 31, 2007 and annual revenues of $46,178 for the year ended December 31, 2008 compared to $29,121 for the year ended December 31, 2007. This represents an increase of 66% for the fourth quarter and 59% for the year. The increase in revenue was driven by continued strong demand for the Company's core service lines and the three acquisitions that were immediately accretive to revenue, gross margin and cash flow.

6.2 Cost of Sales

The cost of sales for the three months ended December 31, 2008 was $7,008 resulting in a 51% margin compared to a 57% margin and cost of sales of $3,699 for the same period in 2007. The cost of sales for the year ended December 31, 2008 was $22,793 resulting in a 51% margin compared to a 53% margin and cost of sales of $13,559 for 2007.

In 2007, margins increased over prior years based on growth of the PetroNet production accounting business and network service fees, both of which have higher margins than the surveillance and optimization product lines. These product lines continued to grow significantly in 2008 with sustained margin levels, but the consolidated gross margin dropped slightly based on introduction of the field services and chart reading services acquired from J&J and OAS respectively, which have lower margins.

6.3 Operating Expenses

Operating expenses include compensation and benefits of the information technology, customer support, purchasing, shipping, quality assurance and operations departments, facility cost for Edmonton, Alberta and all related expenditures for these departments, excluding those costs charged to cost of sales.

Operating expenses for the quarter ended December 31, 2008 were $683, which is higher than the same period for 2007 by $201 or 42%. The operating expenses for the year ended December 31, 2008 were $2,699, which is higher than 2007 by $968 or 56%. As a percentage of revenue, operating expense was 4.8% for the fourth quarter ended December 31, 2008, as compared to 5.6% for the same quarter in 2007. Similarly, operating expense was 5.8% of revenue for the year ended December 31, 2008, as compared to 5.9% for 2007. Operating expenses have continued on a similar, stable trend over the past three years and reflect the scalability of our business model.

6.4 Sales, General and Administrative Expenses

Sales, general and administrative (SG&A) expenses include compensation and benefits of sales, marketing, executives, financial, legal, human resources and administrative staff, lease obligations, advertising, trade shows, travel, marketing materials and general supplies.

The SG&A expense was $4,111 for the fourth quarter ended December 31, 2008. This expense was $2,243 more than during the quarter ended December 31, 2007. The SG&A expense for the year ended December 31, 2008 was $11,156, which was $4,270 more than 2007. SG&A expense as a percentage of revenue was 28.7% for the quarter ended December 31, 2008 as compared to 21.7% for the same quarter in 2007. As a percentage of revenue SG&A was 24.2% for the year ended December 31, 2008 as compared to 23.6% for 2007. The increase in the SG&A expense for the year is primarily due to:

- addition of staff in sales and marketing, finance, human resources and administration
- continued expansion of international marketing efforts
- expenditures related to the high level of acquisition activity
- additional allowance for doubtful accounts of $561 taken in the fourth quarter to ensure receivables are conservatively valued
- the non-capitalized portion of the increase in research and development costs

6.5 Research & Development

The Company is engaged in research and development work. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by GAAP. Further, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research tax credits.

The Company defers a portion of development costs, to be amortized over a five-year period. The five-year period is consistent with the historical lifecycle of prior product versions and appropriately matches the product revenue stream with its development costs.

Research and Development (R&D) expenses include compensation and benefits of all the development teams working on the continuing development of our products as well as the testing activities. These expenses also include the cost to retain independent contractors and consultants, software licensing expenses, and all related administrative expenses and supplies.

The total R&D cost was $1,575 in the fourth quarter 2008 up from $1,046 in the fourth quarter of the prior year. The Company capitalized $1,183 of development costs in the fourth quarter and expensed $392 of the costs. For the year ended December 31, 2008, the total R&D cost was $5,650, an increase from $4,024 in the prior year. The Company capitalized $4,279 of development costs in the year and expensed $1,371 of the costs. The overall increase in R&D activity reflects the Company's continued efforts at bringing new products to market more quickly, including the expansion of our optimization product suite. The success of this initiative was demonstrated by the significant number of new product introductions in 2008, diversifying and strengthening Zedi's product line and providing a strong foundation to support the revenue and cash flow targets set for 2009 and beyond.

6.6 Stock-based Compensation

Canadian accounting standards require recognition of compensation costs arising out of stock-based compensation plans under the fair value based method. Under the fair value based method, compensation cost is measured at fair value at the date of the grant and expensed over the stock option's vesting period.

The Company's non-cash stock-based compensation expense was $311 for the quarter ended December 31, 2008 and $1,513 for 2008, compared with $423 for the quarter ended December 31, 2007 and $1,850 for 2007 (please refer to section 4.3 for a full discussion of the breakdown of the stock-based compensation expense).

6.7 Net Income

The overall net income for the fourth quarter, 2008 was $849 or $0.01 per share compared to $1,798 or $0.02 per share for the same period in 2007 for an overall decrease of $949 or 53%. A future income tax recovery amount of $239 was recognized in the quarter. For the year ended December 31, 2008 the overall net income was $2,226 or $0.02 per share compared to $1,446 or $0.01 per share for 2007. A future income tax provision amount of $833 was recognized in the year.

Net Income before taxes (excluding the impact of recognition of the future tax asset) better represents the performance of the Company. Net Income before taxes in the fourth quarter of 2008 was $610 and for the year ended December 31, 2008 it was $3,059. With stock-based compensation factored out net income before taxes was $921 in the fourth quarter and $4,572 for the year.

6.8 Amortization of Capital and Intangible Assets

In the fourth quarter the amortization of capital and intangible assets was $1,235, of which $331 related to acquired intangible assets, which are non-recurring capital expenditures, and amortization of deferred development costs accounted for $614. The balance of $290 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

For the year ended December 31, 2008 the amortization of capital and intangible assets was $3,827, of which $909 related to acquired intangible assets, which are non-recurring capital expenditures. Amortization of deferred development costs accounted for $2,104. The balance of $814 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

6.9 Future Income Tax Assets

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. During the twelve months ended December 31, 2008, the Company recognized a provision of $833 in previously unrecognized tax losses.

6.91 Earnouts

The Company often uses earnout clauses in business acquisitions to incent existing management of the acquired business as well as to share the risk associated with the overall purchase obligation with the vendors. These earnout payments are not charged to earnings, rather they are added to the goodwill associated with that particular business unit.

During 2006 the Company completed the acquisition of all issued and outstanding shares of PetroNet Systems Inc. ("PetroNet"). The acquisition was for a maximum purchase price of $2.5 million. The purchase price was comprised of an upfront payment and an earnout portion. Based on the achievement of revenue performance targets over the subsequent two years, the shareholders of PetroNet had an opportunity to earn an additional amount up to a maximum of approximately $1.3 million. The earnout was payable as to 25% in Zedi common shares and 75% in cash, with the portion paid in Zedi common shares valued at $1.25 per share. Prior to 2008, a total earnout amount of $947 was recorded and paid. During 2008, the maximum earnout was achieved and the Company paid out and additional $28 in cash and issued shares valued at $138 to PetroNet shareholders as final payment.

During 2008 the Company completed the acquisition of all issued and outstanding shares of J & J Oilfield Ltd. ("J & J"). The purchase price is comprised of an upfront payment and an earnout to a maximum aggregate payout of $5 million. The amount of the upfront payment at closing was $2.9 million, which was paid in cash. Based on the achievement of performance targets over the next five years, the shareholders of J & J have an opportunity to earn an additional amount up to a maximum of $2 million, payable in cash and/or Zedi shares. The earnout performance targets have been set based on expected future growth from the performance level of J & J at the time of the acquisition. On an annual basis, following each fiscal year, a calculation will be completed based on a normalized EBITDA (Earnings Before Income Taxes Depreciation and Amortization) for the J & J operations and the growth over the prior year's performance. The maximum earnout will be achieved when EBITDA growth averages about 15% per year over the five year period. Earnout of $321 has been accrued for the year ended December 31, 2008.

7 Quarterly Change in Financial Condition

The following are the significant changes in the consolidated balance sheets between December 31, 2008 and 2007.

	December 31, 2008	December 31, 2007	Change	Explanation
Current Assets				
Cash and cash equivalents	**15**	12,539	(12,524)	The reduction is primarily related to the acquisitions during 2008 and the purchase of shares under the Normal Course issuer Bids
Accounts receivable	**12,133**	6,579	5,554	Receivables continue to be stable with the growth primarily attributed to acquisition of the new companies as well as to revenue growth in existing product lines
Inventories	**7,903**	6,480	1,423	The increase is primarily due to addition of direct labor and overhead costs to finished goods inventory beginning in 2008, as explained in the change in accounting policy note.
Prepaid expenses and deposits	**321**	179	142	The increase is additional lease and related deposits for acquired business premises
Current Liabilities				
Accounts payable	**3,131**	797	2,334	Increase due to acquisitions.
Accrued liabilities	**3,106**	1,403	1,703	Increase due to acquisitions.
Deferred revenue	**4,079**	2,877	1,222	Invoicing of service contracts are yearly, but revenue is deferred and recognized monthly. This amount fluctuates seasonally based upon the timing of contract renewals.
Working Capital[(1)]	**10,527**	20,818	(10,291)	The decrease is primarily due to the decrease in cash as explained above.
Capital Assets	**2,386**	1,552	834	Acquired business assets plus capital purchases in line with expectations.
Other Assets				
Deferred Development Costs	**5,571**	3,715	1,856	Continued investment in product development
Intangibles	**5,025**	3,538	1,487	Increases in both Intangibles and Goodwill arise from the three acquisitions in 2008.
Goodwill	**18,664**	11,140	7,524	

1 Current assets minus current liabilities is an indicator of the ability to finance current operations and meet obligations as they fall due.

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8 Liquidity and Capital Resources

The Company's cash balance at December 31, 2008 was $15, a decrease of $12,524 from the December 31, 2007 balance. Cash flow from operations continues to be very strong, with $8,387 contributed in 2008, but significant cash reserves were used to fund the 3 acquisitions closed during the year, as well as the purchase of Zedi shares under the Normal Course Issuer Bids. None of the Company's cash or cash equivalents is invested in asset-backed commercial paper. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

	Years ended December 31,	
	2008	**2007**
Opening cash	**12,539**	9,753
Cash provided by operations	**9,390**	10,405
Cash (used) in financing	**(3,990)**	(2,613)
Cash (used) in investing	**(17,924)**	(5,006)
Closing cash	**15**	12,539

The 2007 cash provided by operations figure included $3,990 due to non-cash working capital changes, whereas during 2008 non-cash working capital increased by only $988, even through the acquisitions. The cash used in financing is related to the repurchase of shares pursuant to the Normal Course Issuer Bid. The cash used in investing is related to business acquisitions in 2008, continued investment in product development and normal capital purchases throughout the year, which are more fully described in a later section.

The following table presents summarized working capital information.

	Years ended December 31,	
	2008	**2007**
Current assets	**20,843**	25,895
Current liabilities	**10,316**	5,077
Working capital	**10,527**	20,818
Current ratio	**2.02**	5.10

The Company has historically experienced two normal trends that impact liquidity throughout the year: inventory build-up and annual fee billing. The Company's inventory typically peaks through the winter months reflecting the buildup for the peak activity period. The Company bills network fees on an annual basis and in the past, renewals were all timed on a calendar year. This resulted in a growth in cash in the second quarter as these billings were received. This also resulted in an increase in the deferred revenue as the revenue is recognized on a monthly basis for network fees, and the unrecognized revenue remains in the deferred revenue until it is earned. In 2005 the Company changed its contract renewal policy and began to renew contracts on their anniversaries. This change has helped to minimize the peaks and gradually level the receipts and deferred revenue throughout the year, with the result that year-over-year increases in annual recurring revenue have led to much smaller increases in year-end deferred revenue balances.

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Capital expenditures were $5,295 during the year ended December 31, 2008, funded from cash flow from operations. Capital expenditures were:

Computer Hardware	398
Computer Software	313
Furniture & Equipment	68
Manufacturing Tools & Equipment	94
Leasehold Improvements	86
Patents and Trademarks	57
Deferred Development Costs	4,279

Credit Facilities

The Company has credit facilities of $3 million to cover increased cash needs during peak demand periods. The interest rate is at Royal Bank Prime plus .65%. Security consists of a general security agreement creating a security interest in all of the Company's personal property. The credit facility contains customary covenants covering working capital.

Financial Instruments

The Company does not currently have any outstanding derivative financial instrument contracts.

Cash Requirements

The following aggregated information about our contractual obligations and other commitments is to provide insight into the Company's short and long term liquidity and capital resource requirements. The information does not include obligations that have original maturities of less than one year or planned capital expenditures.

	Total	**Within 1 year**	**2 to 3 years**	**3 to 5 years**
Operating leases	5,230	1,134	2,216	992
Total	5,230	1,134	2,216	992

Other Debt

Accrued liabilities include a loan payable to Natural Resources Canada of $58 (2007 - $59) under an Industry Energy Research and Development (IERD) program. The loan is repayable at the rate of 1.5% of gross revenues from the sale of product developed under the program. Payments are due semi-annually, no more than 30 days after the end of June and December. The loan bears no interest except for overdue payments, which bear interest at Bank of Canada prime plus 2%. The loan is unsecured.

Operating Leases

The Company has operating leases for various office premises in Calgary, Edmonton and Fort St. John, as well as vehicles.

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Capital Expenditures

Capital expenditures are funded from cash flow from operations. The Company may adjust opportunity capital spending throughout the year depending on results. The most significant capital spending will be for development costs.

Based on current projections the Company has sufficient working capital required to meet capital spending requirements and achieve projected increasing sales and production levels.

Outstanding Share Information

Authorized and issued shares:

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value. The following is a summary of the Company's issued and outstanding common shares:

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Number	Amount	Number	Amount
(In thousands, except share numbers)				
Balance outstanding, beginning of year	98,254,427	$53,310	101,853,849	$55,261
Shares issued:				
Issued from treasury	-	-	1,000	1
Issued from Treasury pursuant to earnout provision of Petronet	259,996	138	-	-
Stock options exercised	265,345	190	232,678	162
Repurchased shares, net of treasury stock	(4,421,600)	(2,678)	(3,833,100)	(2,114)
Balance outstanding, end of year	94,358,168	$50,960	98,254,427	$53,310

As of February 13, 2009, the date of this MD&A document, the Company had 94,358,168 common shares issued and outstanding.

9 Critical Accounting Estimates

9.1 Critical Accounting Estimates

Use of estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Scientific research tax credits recoverable, amortization rates, stock-based compensation, acquisition earnout provision and the recoverable amounts for receivables, inventories, capital assets, intangible assets, deferred development costs, future income taxes, and goodwill are the more significant items subject to estimates in these consolidated financial statements.

Cash and cash equivalents

The Company considers all balances with banks and highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Inventory

Inventories of raw materials and consumable supplies are valued at the lower of cost and replacement cost. Inventories of work-in-progress and finished goods are valued at the lower of cost and net realizable value.

Revenue recognition

Revenues from the Company's product lines are recognized as follows and when the ability to collect is reasonably assured:

- Revenue from the sale of the Company's Smart-Alek® product-line is recorded for the unit when it is shipped and installation fees are recognized when the installation of the Smart-Alek unit is completed.
- Revenue from the optimization and well-test product-lines is recorded when the goods are shipped and services are rendered.
- Revenue from field services, chart reading, PetroNet software and monthly network service fees are recognized in the month in which the services are provided.
- Revenue for the Roughneck software product is recorded in two parts: the software license fee is recorded at the time the software module is delivered and the software maintenance fees are recorded in the month in which the services are provided

Financial Instruments

The Company does not currently have any outstanding derivative financial instrument contracts.

Foreign exchange

The cost of certain components in sales, cost of sales and the associated accounts payable and accounts receivable that are received in a foreign currency are translated into Canadian dollars at the time of the transactions. At each balance sheet date foreign denominated accounts payable and accounts receivable are revalued at the foreign exchange rate in effect at such date.

Seasonality

The Company sells its products to the Oil and Gas Industry, primarily in Canada, which is subject to seasonal variations in activity. Traditionally, Canadian drilling activities increase during winter months and tend to slow during the spring, which may result in fluctuations in revenue.

Future income tax assets and income taxes

The Company follows the asset and liability method for accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in operations.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided for all or a portion of the value.

The investment tax credits receivable are recoverable from the Government of Canada under the Scientific Research and Experimental Development Incentive Program as a reduction in income taxes otherwise payable. The amounts claimed under the program represent management's best estimate based on research and development costs incurred. Realization is subject to government approval. Any adjustment to the amounts claimed will be recognized in the year in which the adjustment occurs.

Guarantees

On January 1, 2003, the Company adopted CICA Accounting Guideline 14, "Disclosure of Guarantees" ("AcG-14"), that requires the disclosure of significant guarantees without regard as to whether the Company will have to make any payments under the guarantees and in addition to the accounting and disclosure requirements of CICA Handbook 3290, "Contingencies". There are no material guarantees which require disclosure.

Research & development costs

The Company is engaged in research and development work. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by GAAP. Further, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research tax credits.

Deferred development costs

Deferred development costs incurred on new product development projects, which, in the Company's view, have clearly defined market prospects, are deferred and amortized on a straight-line basis over 5 years, commencing in the year in which the new products begin generating revenue. The ability to recover the carrying value of deferred development costs is based on estimates, which by their nature, are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Stock-based compensation

The Company has three forms of stock-based compensation outstanding, stock options, deferred share units and restricted share units. The Company accounts for stock options using the fair-value based method beginning January 1, 2004. Under the fair-value based method, compensation expense for stock options is measured at fair value at the date of grant and is amortized over the stock option vesting period. In accordance with Handbook Section 3870, the Company has applied the fair-value based method to all employee stock options granted after January 1, 2002, but has not restated all prior periods.

Purchased intangible assets

Purchased intangible assets are recorded at cost and amortized on a straight-line basis over a period of up to twelve years. The net carrying amount of purchased intangible assets is reviewed regularly to determine whether there has been impairment in value. The review methodology is comprised of an assessment of the continuing contribution of the applicable product contribution to operations and an assessment of future cash flows. Intangibles acquired on the acquisition of WebTech 2000 Inc., D.G. Wehrhahn Company Ltd., Menex Technologies Inc., Roughneck.ca® Inc. and PetroNet Systems Inc. are being amortized as follows:

- Intangibles – Purchased software (5 years)
- Intangibles – Employment Contracts (2 years)
- Intangibles – Employment Contracts Menex, Roughneck and OAS (3 years)
- Intangibles – Employment Contracts J&J Oilfield Ltd. (5 years)
- Intangibles – Intellectual property Menex (12 years)
- Intangibles – Customer relationships Roughneck (3 years)
- Intangibles – Customer relationships PetroNet, OAS (1 year)
- Intangibles – Developed software and Patent Roughneck (5 years)
- Intangibles – Developed software PetroNet (3 years)
- Intangibles – Office Lease OAS (5 years)
- Patents and Trademarks (17 Years)

9.2 Forthcoming Changes in Accounting Policies and Financial Reporting

The following section describes pending changes to accounting policies currently adopted by the Company:

Convergence with International Financial Reporting Standards:

In January 2006, the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises. The Company is currently evaluating the impact of this changeover on its Consolidated Financial Statements.

- The Company engaged external consultants from PricewaterhouseCoopers LLP to conduct an initial assessment of the impact of adopting IFRS within the Company. This engagement was conducted in December 2008 to understand, identify and assess the overall effort required to adopt IFRS within the timelines outlined by the AcSB.

- The Company plans to adopt IFRS according the schedule recommended by the AcSB and is still evaluating the options and potential exemptions available upon initial adoption of IFRS. In addition to an increase in the amount of general disclosure involved, based on the work done to date, the Company expects the greatest potential impact of IFRS adoption to be within the following areas:

- Intangible Assets – IFRS has explicit requirements to ascertain the degree of certainty and timing of future economic benefits attributable to the Company's internally developed software, including a greater requirement for external evidence
- Impairment of Long-Lived Assets, Intangibles and Goodwill – IFRS requires a more elaborate impairment test than under GAAP, and this test must be applied at a more detailed level, to individual assets or groups of assets assessed to be Cash Generating Units. IFRS requires the reversal of impairment writedowns where previous adverse circumstances have changed and impairment tests must be completed upon transition to IFRS
- Share Based Compensation – IFRS requires recognition of stock-based compensation expense to incorporate the concept of graded vesting and prohibits the intrinsic method of valuing stock based compensation.

- Also expected to require changes, but with potentially lesser impact on existing reporting, are:
  - Revenue Recognition – guidance for revenue recognition under IFRS is actually less extensive than current GAAP
  - Foreign Currency – IFRS is more specific regarding the process used to ascribe a functional currency to each entity within a corporate group and does not distinguish between different types of foreign operations as GAAP currently does. Provisions – IFRS requires any provisions to be discounted rather than shown at face value, and does not permit the use of general provisions
- Lastly, the Company anticipates smaller potential impacts in the following areas:
  - Business Combinations – for future acquisitions
  - Property Plant and Equipment
  - Leases
  - Income Taxes
  - Earnings Per Share
  - Cash and Cash Equivalents

- The Company will use the results of the initial assessment to further evaluate each of the above areas as well as any new findings (the above list is not necessarily exhaustive) as it proceeds with the next phase of IFRS adoption efforts, while continuing to monitor ongoing changes in both IFRS and GAAP in the period leading up to adoption.

<u>Goodwill and intangible assets:</u>

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

<u>Business Combinations:</u>

In January 2009, the CICA issued Section 1582, Business Combinations, to replace Section 1581, Business Combinations. Various changes have been made to other sections of the CICA Handbook for consistency purposes, including revisions to 1601 and 1602 as described below. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2011. It establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; how it recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

Consolidation:

In January 2009, the CICA also issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, to replace Section 1600, Consolidated Financial Statements. Various changes have been made to other sections of the CICA Handbook for consistency purposes, including revisions to 1582 as described above. The new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

10 Outlook

Based on current forecasts, Zedi expects that the challenging economic climate and low commodity prices will continue through 2009. The products and services that were introduced by Zedi during 2008, such as Zedi Vital™ and Zedi EFM Walk-up™, reduce the reliance on new drilling and provide new revenue streams from operational and retrofit activities.

During 2009, the Company plans to protect its strong balance sheet and continually reassess its opportunities as it navigates through the economic downturn and subsequent recovery. Zedi also plans to maintain strong cash flows from operations by leveraging both its recurring revenue model and scalable business operations. Key priorities, therefore, are to:

- Maintain focus on customer service excellence
- Complete the integration of the businesses acquired in 2008
- Introduce additional optimization solutions for both gas and oil wells.
- Sustain research and development to enhance existing products and services, protecting Zedi's technological advantage.
- Continue to control costs and improve business efficiency.
- Continue to invest in international markets, specifically the Russian and Asia- Pacific regions.
- Continue penetration in the United States, capitalizing on the National Fuel corporate adoption announcement dated January 13, 2009.

11 Business Risks and Uncertainty

The Company is exposed to a number of risks in the normal course of business that have the potential to affect its performance. The Company seeks to avoid unnecessary risk and initiates policies and processes to limit any significant risk as much as practical.

Fair values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The carrying value of Sales leases receivable does not differ significantly from its fair value.

Credit risk

At December 31, 2008, no customer represented a significant percentage of total accounts receivable. The Company does not obtain collateral or other security to support financial instruments subject to credit risk.

Foreign exchange risk

The Company earns some revenue and records accounts receivable in foreign currency and translates to Canadian dollars at the time of these transactions. The Company does not use derivative instruments to mitigate the effects of foreign exchange changes between the recording date of the accounts receivable and the receipt of cash. The accounts receivable are short-term in nature. The effect of the foreign exchange changes has not been significant and foreign exchange gains and losses are included in income as they occur. The Company purchases some components priced in US dollars and Japanese Yen. The Company is subject to some risk in the fluctuation of foreign currencies but accounts payable are short-term in nature reducing the risk. During 2006 the Company significantly reduced this risk by negotiating a contract denominated in Canadian dollars with our largest Japanese supplier. The Company has on occasion purchased some forward contracts for Yen to fix rates on orders that are in process for components from Japan.

Regulatory Risks

The Company is subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on the Company. The Company may also be subject to regulation in foreign countries in connection with certain of its business activities. Changes in the regulatory environment imposed upon the Company could adversely affect the ability of the Company to attain its corporate objectives. There can be no assurance that foreign countries will not adopt laws or regulatory requirements that could adversely affect the Company.

Competition

The markets for remote production operations management are expected to remain highly competitive. While the Company believes that it currently has unique products and has patents that protect its technology, there can be no assurance that competitors will not emerge in the near to medium term with comparable products. There are several very large companies involved in remote data management processes. Such companies have more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources than the Company. It is the Company's intention to establish marketing and distribution alliances with several of these companies but there can be no assurance that such alliances will be formed.

Dependence on a Market that has Historic Volatility

The Company's products are sold into the oil & gas industry, which historically has had significant shifts in activity and spending due to fluctuations in commodity prices. The Company's revenues are primarily dependant upon spending by oil & gas producers. A reduction in spending by producers could have a material adverse effect on the Company's business, results of operations and financial condition.

Reliance Upon the Internet

A portion of the Company's revenue is dependent on the continued use and expansion of the Internet. Use of the Internet has grown dramatically, but no assurance can be given of the continued use and expansion of the Internet as a medium of communication and commerce. A decrease in the demand for Internet services or a reduction in the currently anticipated growth for such services could have a material adverse effect on the Company's business, financial condition and results of operations.

Liability Risks

The Company is subject to a variety of potential liabilities connected with its business operations, including potential liabilities and expenses associated with possible product defects. These risks could expose the Company to substantial liability for personal injury, wrongful death, property damage and other damages.

Although the Company has obtained insurance against certain of these risks, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Dependence on Key Personnel

The success of the Company is dependent on management and the performance of key personnel in the areas of finance, product development, marketing and sales. There is intense competition for qualified personnel and there can be no assurance that the Company will be able to attract and retain qualified personnel. The failure to attract or loss of any such personnel could adversely affect the success of the business for the period of time required to recruit a replacement.

Management of Growth

The Company's rapid growth places a significant strain on its financial, operational and managerial resources. While the Company engages in strategic and operational planning to adequately manage anticipated growth, there can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to fully manage its growth. There can be no assurance that the Company will be able to manage its growth successfully. Any inability of the Company to manage its growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

Convergence with International Financial Reporting Standards

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. On February 13, 2008, the AcSB has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current Generally Accepted Accounting Principles ("GAAP") for all publicly accountable profit-oriented enterprises. As described in the section 9.2, the Company is still in the process of determining the full effect of this transition on its financial reporting.

12 Reconciliation of Non-GAAP Measures

12.1 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Company reports EBITDA because it is a key measure used by management to evaluate the performance of the business. The Company also believes EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on GAAP and should not be considered an alternative to Net Income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt reductions and other sources and uses of cash, which are disclosed in the consolidated financial statements. Investors should carefully consider the specific items included in the Company's calculation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by Zedi may not be comparable in all instances to EBITDA reported by other companies.

The following is a reconciliation of EBITDA with Net Income.

	Three Months Ended December 31		**Years ended December 31**	
	2008	**2007**	**2008**	**2007**
Net Income	**849**	1,798	**2,226**	1,446
Amortization of capital assets and intangibles	**1,235**	731	**3,827**	2,822
Loss on disposal of capital assets	**-**	-	**3**	1
Future income taxes	**(239)**	(519)	**833**	294
Interest	**(11)**	(124)	**(243)**	(474)
EBITDA	**1,834**	1,886	**6,646**	4,089

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12.2 Free Cash Flow

The Company reports free cash flow because it is a key measure used by management to evaluate the performance of consolidated operations. Free cash flow excludes certain working capital changes and other sources and uses of cash, which are disclosed in the consolidated statement of cash flows. Free cash flow is not a calculation based on GAAP and should not be considered an alternative to the consolidated statement of cash flows. Free cash flow is a measure that can be used to gauge the Company's performance over time. Investors should be cautioned that free cash flow as reported by Zedi may not be comparable in all instances to free cash flow as reported by other companies. While the closest GAAP measure is cash provided by operating activities less cash used for acquisition of capital assets, free cash flow is relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before proceeds from divested assets and changes in certain working capital items (such as trade receivables and trade payables).

The following shows management's calculation of free cash flow:

	Three Months ended December 31, 2008		**Years ended December 31**	
	2008	**2007**	**2008**	**2007**
EBITDA	**1,834**	1,886	**6,646**	4,089
Stock-based compensation	**311**	423	**1,513**	1,850
Cash interest (paid)	**11**	124	**243**	474
Cash available for discretionary spending and capital expenditures	**2,156**	2,433	**8,402**	6,413
Capital expenditures				
Proceeds from disposal of capital assets	**-**	-	**7**	4
Deferred development	**(1,183)**	(784)	**(4,279)**	(3,018)
Purchase of other capital assets	**(447)**	(266)	**(1,016)**	(1,046)
Free Cash Flow	**526**	1,383	**3,114**	2,353

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12.3 Net Income before Taxes with Stock-based Compensation Excluded

The Company reports net income before taxes with stock-based compensation excluded because it is a key measure used by management to evaluate the performance of the business. The Company believes this measure assists investors in comparing a company's performance on a consistent basis without regard to stock-based compensation, which is non-cash in nature and can vary significantly depending upon non-operating factors such as historical share price volatility. Please reference section 4.3 for further information on the stock-based compensation expense.

Net income before taxes with stock-based compensation excluded is not a calculation based on GAAP and should not be considered an alternative to net income before taxes.

The following shows management's calculation of net income before taxes with stock-based compensation excluded:

	Three Months ended December 31		Years ended December 31	
	2008	**2007**	**2008**	**2007**
Net Income before Taxes	**610**	1,279	**3,059**	1,740
Stock-based compensation	**311**	423	**1,513**	1,850
Net Income before Taxes Excluding Stock-based Compensation	**921**	1,702	**4,572**	3,590

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12.4 Income per Share before Taxes with Stock-based Compensation Excluded, basic and diluted

The Company reports income per share before taxes with stock-based compensation excluded because it is a key measure used by management to evaluate the performance of the business. The Company believes this measure assists investors in comparing a company's performance on a consistent basis without regard to stock-based compensation, which is non-cash in nature and can vary significantly depending upon non-operating factors such as historical share price volatility. Please reference section 4.3 for further information on the stock-based compensation expense.

Income per share before taxes with stock-based compensation excluded, basic and diluted is not a calculation based on GAAP and should not be considered an alternative to income per share before taxes, basic and diluted.

The following shows management's calculation of income per share before taxes with stock-based compensation excluded, basic and diluted:

	Three Months ended December 31		Years ended December 31	
($)	**2008**	**2007**	**2008**	**2007**
Income (loss) per Share, basic and diluted	**0.01**	**0.02**	**0.02**	**0.01**
Future Income Tax per Share	**0.00**	**0.00**	**0.01**	**0.01**
Income (loss) per Share before Taxes, basic and diluted	**0.01**	**0.02**	**0.03**	**0.02**
Stock-based compensation per share	**0.00**	**0.01**	**0.02**	**0.02**
Income (loss) per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted	**0.01**	**0.02**	**0.04**	**0.04**

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