



## Management's Discussion and Analysis

February 24, 2010

**The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of financial results for the years ended December 31, 2009 and 2008, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2009. 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](http://www.zedi.ca)) and all previous public filings, are available through SEDAR ([www.sedar.com](http://www.sedar.com)).

### Forward-Looking Statements

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the conduct of the Company's businesses including revenue generation, fluctuating oil and gas prices and other industry factors that may impact the business operations of Zedi's customers and their decisions to use Zedi products and services; product and service delivery, manufacturing and field operations; currency exchange rates; the possibility of development project cost overruns or unanticipated costs and expenses; and other factors described in this discussion under the heading "Outlook" and the heading "Business Risks and Uncertainties". Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

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## **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 900 upstream, midstream and oilfield services customers who are primarily located in Western Canada. Zedi monitors approximately 36,000 sites and manages approximately 270,000 assets with its end-to-end solution for data management across the production operations space, delivered through:

- *Zedi Surveillance™* – products and services that monitor, collect, and digitize high quality data gathered at the source
- *Zedi Optimization™* – solutions to analyze the surveillance data collected and prompt action to impact operations in order to improve hydrocarbon production.
- *Zedi Production Applications™* –web-based, on demand, applications purpose built for the oil and gas industry that manage production, data, assets and revenue.
- *Zedi Field Operations™* – the provision of 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 indication of the progress toward realization upon the Company's business strategies.*

- **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 2009**

Zedi continued to execute against strategy and improve operational efficiencies, exiting 2009 with a strong balance sheet and an enhanced suite of products and services. The global economic crisis and volatile natural gas prices both had a negative impact on the energy sector resulting in a reduction of drilling activity and a pull-back of spending of all products and services, impacting Zedi’s net new revenue streams. The trend began to change toward year end as producers solidified their operating plans in the new environment and as there was increased recognition of the value that technology-based solutions provide to improve productivity of both new and existing wells.

Following Q2, the most difficult quarter of the year, the company undertook a number of initiatives that improved its ability to deliver results in the new economic regime. The initiatives, as announced during 2009, included:

#### **Products and Solutions Announcements:**

Zedi continued to invest in both new product development and in enhancing current solutions to differentiate its offerings and expand the addressable market. The Company’s investments were focused on those products and services that provide increased business efficiencies for producers. Specific announcements were:

- The launch of Zedi Connect™, the next generation of web-based SCADA. Zedi Connect is an enhanced SCADA solution that improves reliability, lowers costs and increases the quality of data for producers.
- The integration of Zedi TrueChart™ with Zedi Access™. This integration consolidates chart and electronic flow measurement (EFM) data on one secure web portal. The integration of TrueChart extends to a seamless integration with Zedi Vital™. Zedi maximized the value of the Q4 2008 acquisition of Oilfield Accounting Services (OAS) with this data integration.
- Zedi provided a series of customer seminars designed to bring awareness and understanding to ERCB’s EPAP (Enhanced Production Audit Program). The series reviewed the requirements of the program and how Zedi products and services can strengthen a producer’s ability to be compliant.

#### **Operational Announcements:**

Zedi’s focus on strategy resulted in the following activity during 2009:

- Zedi was recognized as one of Canada’s Great Places to Work on April 9, 2009 based on the GPTW® survey documented in the Globe and Mail.
- James (Jim) Artindale was appointed to the Board of Directors on June 4, 2009 at the annual general meeting. Jim brings over 30 years of experience in the energy sector to Zedi. His expertise in oil and gas production compliments the existing strength of the Board of Directors.

- The Company announced a change of responsibilities for some individuals on the Executive Team effective October 1, 2009. The changes were as follows:
  - The appointment of Mr. Grant Exner as Chief Financial Officer
  - The appointment of Mr. James Freeman as Chief Marketing Officer
  - The appointment of Mr. Clement Gaudet as Chief Operations Officer; and
  - Mr. Bob Gordon will now oversee Corporate Development and Human Resources in addition to continuing his role as General Counsel.

### 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 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, 2009		December 31, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	7,810,496	\$ 0.94	8,932,186	\$ 1.20
Granted	2,275,576	0.40	2,792,583	0.62
Exercised	-	-	(265,345)	0.42
Expired/Forfeited	(3,740,019)	0.96	(3,648,928)	1.25
Outstanding, end of year	6,346,053	\$ 0.57	7,810,496	\$ 0.94
Options exercisable, end of year	2,123,050		3,114,802	

Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.21-0.49	2,236,000	2.9 yrs	\$0.40	-	\$ -
0.50-1.00	4,095,442	1.5 yrs	0.66	2,108,439	0.89
1.01-1.50	14,611	0.8 yrs	1.50	14,611	1.50
\$0.21-1.50	6,346,053	2.0 years	\$0.57	2,123,050	\$0.73

### 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, 2009 of \$3 (2008 - \$3).

### Restricted Share Units

A restricted share unit (“RSU”) 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, 2009, the Company issued 362,041 (2008 – 887,753) RSUs with a weighted average fair value of \$0.40 (2008 - \$0.62).

### Stock-based Compensation Expense

The total of the stock-based compensation expense for the year ended December 31, 2009 was \$1,124 (2008 – \$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, for which the standard is 3 years.

The following table shows the breakdown of the stock-based compensation expense reported in the year ended December 31, 2009.

<b>Annual Option Grant Date</b>	<b>Number of options outstanding as at December 31, 2009</b>	<b>Exercise Price</b>	<b>Expensed in 2009</b>	<b>Remaining to be expensed in future periods.</b>
December 13, 2006	925,386	\$0.91	\$353.1	\$-
November 13, 2007	811,312	0.53	90	78
November 13, 2008	1,863,897	0.60	171	320
November 12, 2009	2,236,000	0.40	28	333
Various dates <sup>2</sup>	509,458	0.75 <sup>3</sup>	109	71
Option Totals	6,346,053		\$751.1	\$ 802
<b>DSU Grant Date</b>	<b>Number of DSUs as at December 31, 2009</b>	<b>Price</b>	<b>Expensed in 2009</b>	<b>Remaining to be expensed in future periods.</b>
June 30, 2006	2,143	\$0.48	\$ (0.02)	-
September 29, 2006	3,879	\$0.48	(0.06)	-
December 31, 2006	1,579	\$0.48	(0.02)	-
September 25, 2006	250,000	\$1.16	-	-
DSU Totals	257,601		\$ (0.1)	-
<b>RSU Grant Date</b>	<b>Number of RSUs as at December 31, 2009</b>	<b>Price</b>	<b>Expensed in 2009</b>	<b>Remaining to be expensed in future periods.</b>
September 25, 2006	-	\$1.16	\$ -	\$ -
August 2, 2007	-	0.63	5	-
August 31, 2007	-	0.60	2	-
October 31, 2007	-	0.47	0.4	-
November 13, 2007	-	0.53	108.6	-
November 13, 2008	684,571	0.60	233	178
November 12, 2009	347,200	0.40	9	123
Various dates <sup>2</sup>	155,270	\$0.70 <sup>3</sup>	15	28
RSU Totals	1,187,041		\$ 373	\$ 329
<b>All stock-based comp. totals</b>			<b>\$1,124</b>	<b>\$1,131</b>

<sup>2</sup>There are some options granted in between the annual grants related to new hires during the year or staff added through acquisitions.

<sup>3</sup>This is the weighted average exercise price.

## 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 2009 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 96% of the total options-related expense pertained to options that are significantly out of the money. Therefore, the Company will at times discuss the performance of the Company with stock-based compensation 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 Impact of Change in Accounting Policy on Reported Results**

Effective January 1, 2009, as required by Canadian Generally Accepted Accounting Principles (“GAAP”), the Company adopted a new accounting policy for intangible assets.

The new pronouncement, as adopted, discourages capitalization of additional costs on internally-developed software beyond its initial release and generally applies a more detailed level of analysis to support capitalization of development costs. The Company has maintained a significant annual investment in research and development and expects to continue to do so. However, the application of these new criteria for capitalization of development costs results in changes to the manner in which these costs have been and will be accounted for. In general, the impact is a reduction of the amount of development costs capitalized as internally-generated intangible assets, along with related amortization amounts, and corresponding increases in the amount of development costs expensed each period.

This change was accounted for on a retroactive basis, the impact of which is shown in the following table:

	2008			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Reduction to opening equity to recognize cumulative impact for fiscal years 2005 through 2007				(1,357)
Increase in development costs expensed in period	307	366	212	200
Decrease in amortization of previously capitalized development costs	(167)	(155)	(143)	(143)
Change in net income before tax	(140)	(211)	(69)	(57)
Change in future income tax provision	(33)	(58)	(19)	(44)
Change in net income	(107)	(153)	(50)	(13)
Change to ending balance of internally-generated intangible assets	(140)	(211)	(69)	(1,415)

All 2008 financial results reported in this document have been recast, as appropriate, to reflect the above impacts.

## 4.5 Consolidated Highlights

	Three Months ended December 31				Year ended December 31			
	2009	2008	Change	% Change	2009	2008	Change	% Change
Revenue	13,600	14,339	(739)	(5)%	46,664	46,178	486	1%
Gross Profit	6,854	7,331	(477)	(7)%	24,164	23,385	779	3%
EBITDA <sup>(1)</sup>	2,032	1,527	505	33%	5,152	5,560	(408)	(7)%
Net Income before income taxes	611	470	141	30%	1,149	2,581	(1,432)	(55)%
Net income	642	742	(100)	(13)%	718	1,902	(1,184)	(62)%
Net income per share, basic	0.01	0.01	-	-	0.01	0.02	(0.01)	(50)%
Net Income per share, diluted	0.01	0.01	-	-	0.01	0.02	(0.01)	(50)%
Cash from operations	525	108	417	386%	5,112	8,626	(3,514)	(41)%
Free cash flow <sup>(2)</sup>	1,844	526	1,318	251%	2,683	3,155	(472)	(15)%

(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.

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			
	2009	2008	Change	% Change	2009	2008	Change	% Change
EBITDA <sup>(1)</sup>	2,301	1,838	463	25%	6,276	7,073	(797)	(11)%
Net Income before income taxes <sup>(1)</sup>	880	781	99	13%	2,273	4,094	(1,821)	(44)%
Net Income per share before taxes, basic <sup>(1)</sup>	0.01	0.01	-	-	0.02	0.04	(0.02)	(50)%
Net Income per share before taxes, diluted <sup>(1)</sup>	0.01	0.01	-	-	0.02	0.04	(0.02)	(50)%

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

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

## **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, 2009:

	<b>2009</b>	2008	2007 <sup>(1)</sup>
Total Revenues	<b>46,664</b>	46,178	29,121
Net Income Before Taxes	<b>1,149</b>	2,581	1,134
Net Income Before Taxes per share - basic	<b>0.01</b>	0.03	0.01
Net Income Before Taxes per share - diluted	<b>0.01</b>	0.03	0.01
Net Income After Taxes	<b>718</b>	1,902	951
Net Income After Taxes per share - basic	<b>0.01</b>	0.02	0.01
Net Income After Taxes per share - diluted	<b>0.01</b>	0.02	0.01
Total Assets	<b>51,884</b>	52,580	47,216

- (1) The 2007 figures have been recast to reflect the impact of the change in accounting policy which was applied retroactively, as explained in section 4.4.

## 5.2 Quarterly Results Summary

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

	2009				2008			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenue	<b>13,600</b>	11,197	9,155	12,712	14,339	10,429	10,033	11,377
Recurring Revenue <sup>(1)</sup>	<b>8,219</b>	7,815	7,635	7,881	6,177	5,007	4,935	4,633
Recurring Revenue <sup>(1)</sup> as a % of Operation Expenses <sup>(2)</sup>	<b>181%</b>	197%	179%	154%	125%	132%	141%	132%
Recurring Revenue <sup>(1)</sup> as a % of Total Cash Expenditures <sup>(3)</sup>	<b>164%</b>	161%	145%	126%	98%	107%	106%	106%
Gross Margin Percentage	<b>50%</b>	53%	50%	53%	51%	51%	49%	51%
Net Income (Loss)	<b>642</b>	464	(691)	301	741	206	91	864
Net Income (Loss) (per share) - basic and diluted	<b>0.01</b>	0.00	(.01)	0.00	0.01	0.00	0.00	0.01
Net Income (loss) before taxes excluding the stock-based compensation expense <sup>(4)</sup>	<b>880</b>	1,077	(491)	805	780	739	813	1,762
Net Income (loss) per share before taxes excluding stock-based compensation expense - basic and diluted <sup>(4)</sup>	<b>0.01</b>	0.01	(.01)	0.01	0.01	0.01	0.01	0.02
Note: <sup>(1)</sup> Recurring Revenue is comprised of all fees that are billed to customers on a recurring basis. <sup>(2)</sup> Operational Expenses includes all expenses except for stock based compensation and allowances for doubtful accounts. <sup>(3)</sup> Total Cash Expenditures includes Operational Expenses plus the amount of development costs capitalized as internally-generated intangibles in the period and all amounts for the acquisition of capital assets in the period <sup>(4)</sup> 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 2009 was \$13,600, down 5% from the record revenues of \$14,339 posted in Q4 2008, reflecting the latter stages of volatility and uncertainty experienced by the energy sector, and the economy in general, throughout the year 2009. The Company anticipates continued volatility in the industry well into 2010, particularly as the natural gas industry continues to adjust to the growing unconventional supply and current gas prices, which will continue to impact upon the Company's revenues.

The Company continues to grow its recurring revenue, despite market conditions, which provided stability to overall financial performance throughout 2009. The recurring revenue percentages of operation expenses and total cash expenditures continued to increase throughout 2009.

Recurring revenue increased from \$6,177 in Q4 2008 to \$8,219 for Q4 of 2009, of which \$3,321 was contributed by field operations and \$4,898 from production operations management. The amount of recurring revenue in 2009 was \$31,550 compared to \$20,752 in 2008 and \$9,830 for 2007. Of this 2009 increase, \$5,571 was generated by production operations management while the remaining \$5,227 was from field operations.

For 2009, the percent of recurring revenue to operating expenses was 176%, growing from 137% in 2008, 102% in 2007, 77% in 2006, 66% in 2005 and 51% in 2004. This trend is expected to continue, although at a more moderate pace now that the 2008 acquisitions have been more fully integrated. 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 which looks solely at operation expenses. For 2009 the percent of recurring revenue to total cash expenditures was 148%, growing from 101% in 2008, 72% in 2007, 57% in 2006, 49% in 2005 and 46% in 2004.

Gross margin percentages in 2009 remained consistent with exit rates from 2008. 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, recurring fees and other services, 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 2010 at levels similar to the last two years.

## **6 Results of Operations – Annual 2009**

### **6.1 Revenue**

The Company generated revenues of \$13,600 for the three months ended December 31, 2009 compared to \$14,339 for the three months ended December 31, 2008 and annual revenues of \$46,664 for the year ended December 31, 2009 compared to \$46,178 for the year ended December 31, 2008. This represents an decrease of 5% for the fourth quarter and an increase of 1% for the year. In 2009, the Company was able to recover from Q2 results to obtain annual revenues slightly exceeding the prior year by pursuing opportunities to reduce reliance on new drilling activity which remained low through the remainder of the year.

### **6.2 Cost of Sales**

The cost of sales for the three months ended December 31, 2009 was \$6,746 resulting in a 50% margin compared to a 51% margin and cost of sales of \$7,008 for the same period in 2008. The cost of sales for the year ended December 31, 2009 was \$22,500 resulting in a 52% margin compared to a 51% margin and cost of sales of \$22,793 for 2008.

The small variations in these margin figures are expected as the product and service mix in any particular period can vary.

### **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 the Edmonton development and production facility and all related expenditures for these departments, excluding those amounts charged to cost of sales.

Operating expenses for the quarter ended December 31, 2009 were \$628, which is lower than the same period for 2008 by \$55 or 8%. The operating expenses for the year ended December 31, 2009 were \$2,564, which is lower than 2008 by \$135 or 5%. As a percentage of revenue, operating expense was 4.6% for the fourth quarter ended December 31, 2009, as compared to 4.8% for the same quarter in 2008. Similarly, operating expense was 5.5% of revenue for the year ended December 31, 2009, as compared to 5.8% for 2008.

Operating expenses have continued on a similar, stable trend over the past three years and reflect the scalability of our business model. The cost decreases experienced in 2009 resulted from both cost containment initiatives as well as reduced production volumes.

#### **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 \$3,060 for the fourth quarter ended December 31, 2009. This expense was \$1,051 less than during the quarter ended December 31, 2008. The SG&A expense for the year ended December 31, 2009 was \$12,108, which was \$951 more than 2008. SG&A expense as a percentage of revenue was 22.5% for the quarter ended December 31, 2009 as compared to 28.7% for the same quarter in 2008. As a percentage of revenue SG&A was 25.9% for the year ended December 31, 2009 as compared to 24.2% for 2008. On an annualized basis, SG&A had been expected to increase over 2008 levels, as 2009 was the first full year of inclusion of related expenses for the 3 businesses acquired in 2008. A better indicator of the impact of cost containment initiatives and reorganization efficiencies instituted in response to 2009 market conditions is shown by the year-over-year decline in Q4 SG&A expenses (the benchmark Q4 2008 results would have included both J&J and UMS for the full quarter and OAS for two months).

#### **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 capitalization established by GAAP. Further, in accordance with GAAP, development costs are capitalized 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.

These internally-generated intangibles are amortized over a five-year period, which 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, prototypes, certification, and all related administrative expenses and supplies.

The total R&D cost was \$1,210 in the fourth quarter of 2009, down from \$1,575 in the fourth quarter of the prior year. The Company capitalized \$346 of development costs in the fourth quarter and expensed \$864 of the costs. For the year ended December 31, 2009, the total R&D cost was \$5,537, a decrease from \$5,650 in the prior year. The Company capitalized \$2,321 of development costs in the year and expensed \$3,216 of the costs. The overall R&D activity level reflects the Company's continued efforts at bringing new products to market more quickly, including the expansion of our optimization product suite.

## 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 \$269 for the quarter ended December 31, 2009 and \$1,124 for fiscal 2009, compared with \$311 for the quarter ended December 31, 2008 and \$1,513 for fiscal 2008 (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, 2009 was \$642 or \$0.01 per share compared to \$742 or \$0.01 per share for the same period in 2008 for an overall decrease of \$100 or 13%. A future income tax recovery amount of \$31 was recognized in the quarter. For the year ended December 31, 2009 the overall net income was \$718 or \$0.01 per share compared to \$1,902 or \$0.02 per share for 2008. A future income tax provision amount of \$431 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 2009 was \$611 and for the year ended December 31, 2009 it was \$1,149. With stock-based compensation factored out net income before taxes was \$880 in the fourth quarter and \$2,271 for the year.

## 6.8 Amortization of Capital and Intangible Assets

In the fourth quarter the amortization of capital and intangible assets was \$1,421, of which \$241 related to acquired intangible assets, which are non-recurring capital expenditures, and regular amortization of internally-generated intangible assets accounted for \$288. In addition to regular amortization, a \$596 writedown of internally-generated intangibles was recorded in Q4 2009. The balance of \$295 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

Based on detailed analysis of internally-generated intangible balances, originally prepared in conjunction with International Financial Reporting Standards ("IFRS") preparations, management decided to record a write down in Q4-2009 of \$596, which represented 75% of the carrying value of a particular product line. The resulting carrying value more closely approximates the expected margins on near-term sales for this product line, based on changes to the estimated product life cycle.

For the year ended December 31, 2009 the amortization of capital and intangible assets was \$3,876, of which \$1,149 related to acquired intangible assets, which are non-recurring capital expenditures. Regular amortization of deferred development costs accounted for \$1,070, plus the Q4 writedown of \$596. The balance of \$1,061 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, 2009, the Company recognized a provision of \$431 in previously unrecognized tax losses and other credits.

## 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 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 subsequent five years, the former 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 was accrued in fiscal 2008 and that amount plus an additional \$25 was paid out in 2009. For fiscal 2009, \$354 has been accrued and will be paid in 2010.

## **7 Changes in Financial Condition**

The following are the significant changes in the consolidated balance sheets between December 31, 2009 and 2008.

	December 31, 2009	December 31, 2008	Change	Explanation
<b>Current Assets</b>				
Cash and cash equivalents	1,245	15	1,230	The increase is in line with expectations and reflects moderate cash build from overall operations through the year
Accounts receivable	11,009	12,133	(1,124)	Receivables continue to be stable, with the decrease reflecting the year-over-year variance in Q4 revenues.
Inventories	7,696	7,903	(207)	The decrease is in line with expectations and reflects reduced production based on market conditions
Prepaid expenses and deposits	299	321	(22)	The decrease is due primarily to a reduction in insurance premiums for 2009 renewals
<b>Current Liabilities</b>				
Accounts payable	1,463	3,131	(1,668)	Decrease reflects reduction in manufacturing-related purchasing.
Accrued liabilities	1,804	3,106	(1,302)	2008 figure included employee variable compensation accruals for which there was no equivalent in 2009,
Deferred revenue	4,511	4,079	432	Invoicing of service contracts are yearly, but revenue is deferred and recognized monthly. This amount fluctuates seasonally based upon the timing of contract renewals.
<b>Working Capital<sup>(1)</sup></b>	<b>12,878</b>	<b>10,527</b>	<b>2,351</b>	In line with expectations.
<b>Capital Assets</b>	<b>2,412</b>	<b>2,386</b>	<b>26</b>	In line with expectations.
<b>Other Assets</b>				
Internally-generated Intangibles	4,114	3,736	378	Continued investment in product development
Acquired Intangibles	3,926	5,025	(1,099)	Reflects regular amortization of acquisition-related intangibles
Goodwill	19,047	18,664	383	Increase is the earnout amounts recognized in 2009 related to 2008 acquisitions
<sup>1</sup> Current assets minus current liabilities is an indicator of the ability to finance current operations and meet obligations as they fall due.				

## **8 Liquidity and Capital Resources**

The Company's cash balance at December 31, 2009 was \$1,245, an increase of \$1,230 from the December 31, 2008 balance. Cash flow from operating activities continues to be very strong, with \$5,112 contributed in 2009. 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,	
	2009	2008
<b>Opening cash</b>	<b>15</b>	<b>12,539</b>
Cash provided by operations	5,112	8,626
Cash (used) in financing	-	(3,990)
Cash (used) in investing	(3,882)	(17,160)
<b>Closing cash</b>	<b>1,245</b>	<b>15</b>

The 2008 cash provided by operations figure included \$1,310 due to non-cash working capital changes, whereas during 2009 non-cash working capital impact on cash flow was a decrease of \$1,021. These working capital changes account for \$2,331 of the \$3,514 variance in cash from operating activities between the two fiscal years. The remaining variance of 1,183 basically represents the difference in net income between the two years,. The cash used in investing in 2009 was related to 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,	
	2009	2008
Current assets	20,656	20,843
Current liabilities	7,778	10,316
Working capital	12,878	10,527
Current ratio	2.66	2.02

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.

Capital expenditures were \$3,497 during the year ended December 31, 2009, funded from cash flow from operations. Capital expenditures were:

Condominium	\$ 310
Automotive	134
Computer Hardware	359
Computer Software	221
Furniture & Equipment	32
Manufacturing Tools & Equipment	68
Leasehold Improvements	3
Patents and Trademarks	49
Internally-generated Intangibles	2,321

### 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 1.25%. 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 Commitments / Operating Leases

The Company has operating leases for various office premises in Calgary, Edmonton and Fort St. John, as well as vehicles. 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	4,119	1,150	1,892	1,077
Total	4,119	1,150	1,892	1,077

### Capital Expenditures

Capital expenditures are funded from cash flow from operating activities. The Company may adjust 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, 2009		Year Ended December 31, 2008	
	Number	Amount	Number	Amount
Balance outstanding, beginning of year	94,358,168	\$50,960	98,254,427	53,310
Shares issued:				
Issued from treasury	882,453	258	-	-
Issued from Treasury pursuant to earnout provision of Petronet	-	-	259,996	138
Stock options exercised	-	-	265,345	190
Repurchased shares, net of treasury stock	(468,600)	-	(4,421,600)	(2,678)
Balance outstanding, end of year	94,772,021	\$51,218	94,358,168	\$50,960

As of February 24, 2010, the date of this MD&A document, the Company had 94,772,021 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. Investment tax credits recoverable, amortization rates, stock-based compensation, acquisition earnout provision and the recoverable amounts for receivables, inventories, capital assets, acquired intangible assets, internally-generated intangible assets, 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, 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<sup>®</sup> 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) and loss carryforwards. Changes in the net future tax asset or liability are included in operations.

Future tax assets and liabilities are measured using 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.

### Research costs and internally-generated intangible assets

The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for capitalization as established by GAAP. Research and development costs are reduced by any scientific research tax credits.

Development costs incurred on new product development projects that result in separately identifiable products or identifiable components thereof, and which, in the Company's view, have clearly defined market prospects, are capitalized and amortized on a straight-line basis over 5 years, commencing in the year that the development for the new products is completed. The timeframe over which the capitalized amounts are amortized is determined based on an historical life cycle of the Company's primary products. Further, in accordance with GAAP, development costs are capitalized only to the extent that their recovery can reasonably be regarded as assured. The ability to recover the carrying value of capitalized development costs is based on estimated future cash flow models, 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. The net carrying amount of these costs are reviewed at least annually or when circumstances change to determine whether there has been impairment in value and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income.

### 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 arising through business acquisitions are recorded at cost and amortized on a straight-line basis over their expected useful lives. The net carrying amount of purchased intangible assets is reviewed at least annually or when circumstances change 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 expected future cash flows. Purchased intangibles 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:

The Company has undertaken to adopt International Financial Reporting Standards (“IFRS”) to replace Canada’s current Generally Accepted Accounting Principles (“GAAP”), on the schedule mandated by the Canadian Institute of Chartered Accountants (“CICA”).

- The Company engaged external consultants 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.
- Following the above assessment, the Company formed a team to plan and conduct the transition to IFRS over the period up to and including the CICA mandated adoption date of January 1, 2011. The IFRS team is led by the Chief Financial Officer who reports progress to the Board of Directors at the latter’s regular meetings. The IFRS team has completed an initial training program and has the budget and mandate to engage external resources where required.
- The IFRS team has used a risk-based approach to prepare a detailed evaluation of the options and potential exemptions available upon initial adoption of IFRS and is finalizing the accounting policies that will be followed under IFRS. As of the date of this report, the Company has not fully determined the impact that adopting IFRS will have on its financial position and future results,
- The Company has implemented a number of changes to its business systems and processes to facilitate the preparation of IFRS compliant financial statements. Two related projects that were not complete as of the date of this report are on track for targeted completion prior to the IFRS conversion date.
- The Company continues to monitor ongoing changes in both IFRS and GAAP in the period leading up to the adoption date. At present, the Company expects further changes to IFRS guidance on income taxes, leases and financial statement presentation. Accordingly, adoption efforts in these areas are taking into consideration both current guidance and proposed changes. The Company has not yet made final decisions with respect to the financial statement format options to be adopted.

### Business Combinations:

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 the issuance of Sections 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.

### Revenue Recognition

In December 2009, the CICA issued Emerging Issue Committee Abstract (“EIC”) 175, “Revenue Arrangements with Multiple Deliverables”, an amendment to EIC 142, “Revenue Arrangements with Multiple Deliverables”. EIC 175 provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating activities. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. EIC 175 also includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. EIC 175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. The Company is currently evaluating the impact of the adoption of this new EIC on the consolidated financial statements.

## **10 Outlook**

Zedi expects the general business climate and its associated economic challenges that were witnessed in 2009 to continue through the first half of 2010. While the Company remains realistic and somewhat conservative in its view about a full-scale recovery for the oil and gas industry, the last quarter of 2009 did have some indicators that there may be some general improvement in 2010.

In response to the difficult business climate that was experienced throughout 2009, Zedi put a strong emphasis on efficiency in its operations and will continue to do so in 2010.

During 2010, shareholders can expect to see:

- A continued investment in research and development, primarily directed at addressing data residency issues that prevail in the international market.
- Enhancements to Zedi’s current products and services which will expand the available market and continue to reduce the Company’s reliance on new gas drill activity.
- Increasing pricing pressure in the Western Canadian Sedimentary Basin for both products and services.
- The completion of field trials that were initiated in late 2009 with Zedi’s first full oil well optimization solution.
- The recognition of revenue from international activities.

## **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.

### Credit risk

At December 31, 2009, 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.

### 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 stability, availability and expansion of the Internet as a medium of communication and commerce. Interruption in the availability of Internet services or a failure of such services to scale with anticipated growth in usage 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.

## **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.

	<b>Three Months Ended December 31</b>		<b>Years ended December 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Net Income</b>	<b>642</b>	742	<b>718</b>	1,902
Amortization of capital assets and intangibles	<b>1,421</b>	1,068	<b>3,876</b>	3,219
Loss (gain) on disposal of capital assets	<b>(14)</b>	-	<b>(14)</b>	3
Future income taxes	<b>(31)</b>	(272)	<b>431</b>	679
Interest	<b>14</b>	(11)	<b>141</b>	(243)
<b>EBITDA</b>	<b>2,032</b>	1,527	<b>5,152</b>	5,560

## 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,		Years ended December 31	
	2009	2008	2009	2008
<b>EBITDA</b>	<b>2,032</b>	1,527	<b>5,152</b>	5,560
Stock-based compensation	<b>269</b>	311	<b>1,124</b>	1,513
Cash interest (paid)	<b>(14)</b>	11	<b>(141)</b>	285
Cash available for discretionary spending and capital expenditures	<b>2,287</b>	1,849	<b>6,135</b>	7,358
Capital expenditures				
Proceeds from disposal of capital assets	<b>26</b>	-	<b>45</b>	7
Internally-generated intangibles	<b>(344)</b>	(876)	<b>(2,321)</b>	(3,194)
Purchase of other capital assets	<b>(125)</b>	(447)	<b>(1,176)</b>	(1,016)
<b>Free Cash Flow</b>	<b>1,844</b>	526	<b>2,683</b>	3,155

## 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	
	2009	2008	2009	2008
<b>Net Income before Taxes</b>	<b>611</b>	470	<b>1,149</b>	2,581
Stock-based compensation	<b>269</b>	311	<b>1,124</b>	1,513
<b>Net Income before Taxes, Excluding Stock-based Compensation</b>	<b>880</b>	781	<b>2,273</b>	4,094

## 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	
	2009	2008	2009	2008
(\$)				
<b>Income (loss) per Share, basic and diluted</b>	<b>0.01</b>	0.01	<b>0.01</b>	0.02
Future Income Tax per Share	<b>0.00</b>	0.00	<b>0.00</b>	0.01
<b>Income (loss) per Share before Taxes, basic and diluted</b>	<b>0.01</b>	0.01	<b>0.01</b>	0.03
Stock-based compensation per share	<b>0.00</b>	0.01	<b>0.01</b>	0.02
<b>Income (loss) per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted</b>	<b>0.01</b>	0.01	<b>0.02</b>	0.04