

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated April 26, 2006 should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2006 and 2005, and should also be read in conjunction with the audited consolidated financial statements and MD&A for zed.i solutions inc. (the "Company" or "zed.i") for the year ended December 31, 2005.

The interim 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.zedisolutions.com) and all previous public filings, including the annual information form (AIF), 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.

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1 BUSINESS OVERVIEW

zed.i solutions inc.[®] (the "Company" or "zed.i") is a leader in production intelligence management for resource industries – with a principle focus on the energy sector. The zed.i suite of automated systems and expert services enables the monitoring, measurement, analysis and management of production operations intelligence. This helps visionary companies and their people to ensure compliance and realize untapped profitability and performance potential.

Established in 1987, zed.i has collaborated with clients and strategic alliances to champion a new discipline in oil and gas industry performance. With over 70,000 fixed assets managed by customers using our technology and over 4,000 installed systems, zed.i has enabled a productive shift in operational performance for more than 200 upstream, midstream and oilfield services clients.

zed.i continues to build its capabilities through intense research and development, strategic alliances and partnerships to meet the growing challenges associated with producing oil and gas in a declining basin and with a looming shortage of skilled labour. In 2005, the Company focused efforts on selling and supporting the Smart-Alek, an end to end wireless digital flow monitoring system which enables gas producers to access and utilize production in real time, and the MTRAC, a production enhancement (optimization) technology, which maximizes production from gas wells. With the acquisition of Roughneck zed.i extended its capabilities in 2005 to include a full suite of decentralized production operations management systems and services that enable customers to meet compliance objectives and production workflow demands.

2 CORPORATE VISION AND STRATEGY

"By the end of the decade, our customers and stakeholders will recognize zed.i as the market leader in production intelligence management for decentralized operations"

Market forces including skilled labour shortages, increased compliance requirements, declining reserves, increased consumption, and increasing commodity prices all combine to present a number of challenges and opportunities for oil and gas producers. In light of these market realities, zed.i believes that producers must make a significant productive shift in the way people work, in order to achieve demanding performance objectives. The productive shift begins when producers have access to real time production information in order to identify and address problems and opportunities in a more timely and effective manner. The Smart-Alek[®] system, including the real time web portal that supports this solution, is one example of how zed.i delivers production operations insight to our customers.

Additional productivity gains are accomplished when producers optimize well production and maximize recoverable reserves over the entire life cycle of a well. The MTRAC[®] – Wellsite Monitoring & Control System, delivers this set of capabilities through a remote controller that mimics the behavior of a seasoned production engineer by monitoring and manipulating well bore and surface conditions to maximize net gas production. zed.i has concentrated on delivering well bore solutions that span the entire life cycle of a gas well, from the initial completion through to later stages where artificial lift and booster compression technologies are often deployed. MTRAC, in combination with Smart-Alek, allows producers to spend less time traveling between sites to do routine tasks, and allocate more time toward making decisions that increase production.

An increasingly important factor in the oil and gas industry is a producer's ability to accomplish demanding performance and compliance objectives. Through the acquisition of Roughneck[™] in April, 2005, zed.i is now able to deliver a comprehensive operation management software solution to the Canadian oil and gas industry, helping its clients move toward a more disciplined and precise production operations management business model.

zed.i's Internet development team is creating an on-demand business information service that will enable oil and gas production operations management teams to use intelligent data to guide analytics, reporting, strategic planning and prioritize execution plans.

3 KEY PERFORMANCE INDICATORS

The Company 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, the Company tracks a number of customer specific indicators.

- **RECURRING REVENUE AS A PERCENTAGE OF OPERATIONS AND SG&A**

Growth of this indicator ensures that our decisions and actions are supporting a strategy of building a significant foundation of recurring revenue in relation to the size of the operations. This also serves to measure our success in structuring our operations on a scalable basis.

- **TOTAL REVENUE**

This measure is an overall indication of our success and progress toward achieving a dominant position in the marketplace. We enable companies and their people to make a productive shift in operational performance by bringing certainty to remote production operations management.

- **PERCENT GROSS MARGIN**

This serves to measure our success in developing and delivering our 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 we make will be 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 or changed if the information were omitted or misstated.

4.2 EVENTS OR ACTIVITIES IMPACTING THE BUSINESS IN THE FIRST QUARTER

Oil and Gas industry Exploration and Production levels continued very strong in the first quarter. Despite the unusually warm winter, which has delayed activities in many Northern areas, zed.i has seen a sustained demand for its products and services. In 2006, zed.i continues to penetrate the junior and intermediate oil and gas markets, in Canada. We are further penetrating existing accounts by delivering additional field monitoring technology, optimization and software solutions as well as professional services to address critical business issues.

We continue to explore international opportunities with our joint-venture partners, which present substantial opportunities, but will not change the clear vision and strategy to maintain focus on the Canadian market. While progress has been made, from a financial perspective, we are not committing significant resources to these initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We achieved significant growth in our Smart-Alek installation base due to, in large part, our ability to strengthen our position within existing accounts. Oil and gas companies are continuing to expand their utilization of our solutions.

The Company relocated its Calgary head office in the first quarter, which does impact productivity for a few weeks around the move. In addition, there are some increased costs related to the move. The Company secured larger space in downtown Calgary and now has access to additional space for further growth.

On April 1, 2006 the Company completed the acquisition of PetroNet Systems Inc. for a maximum purchase price of \$2.5 million. The purchase price is comprised of an upfront payment and an earnout portion. The amount of the upfront payment at closing was approximately \$1.2 million, which was paid 75% in zed.i common shares and 25% in cash. The portion of the payment in zed.i common shares is based on a share price of \$1.25 per share. Based on the achievement of revenue performance targets over the next two years, the former shareholders of PetroNet have an opportunity to earn an additional amount up to a maximum of approximately \$1.3 million. The earnout is payable as to 25% in zed.i common shares and 75% in cash, with the portion paid in zed.i common shares valued at \$1.25 per share. The maximum payout is calculated on the basis of a multiple of approximately 3.1 times 2007 earnings from PetroNet Systems Inc.

4.3 CONSOLIDATED HIGHLIGHTS

	THREE MONTHS ENDED MARCH 31		
	2006	2005	Change
<i>(\$ in thousands except per-share amounts)</i>			
REVENUE	11,308	5,194	6,114
GROSS PROFIT	5,230	2,191	3,039
EBITDA⁽¹⁾	2,206	524	1,682
NET INCOME BEFORE INCOME TAXES	1,808	298	1,510
NET INCOME	2,708	298	2,410
EARNINGS PER SHARE, BASIC AND DILUTED	0.027	0.003	0.024
CASH FROM OPERATIONS	2,034	786	1,248
FREE CASH FLOW⁽²⁾	1,968	125	1,843

⁽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.

5 SELECTED QUARTERLY INFORMATION

5.1 SUMMARY TABLE

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

<i>(expressed in \$000's except per share and % amounts)</i>	2006	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
TOTAL REVENUES	11,308	9,348	5,986	5,888	5,194	5,916	4,366	4,241
RECURRING REVENUE⁽¹⁾ AS A % OF OPERATIONAL EXPENSES⁽²⁾	66%	69%	72%	60%	70%	58%	61%	49%
PERCENT GROSS MARGIN	46%	48%	52%	49%	42%	44%	43%	39%
INCOME	2,708	1,813	2,517	349	298	866	318*	198*
INCOME (PER SHARE) – BASIC AND DILUTED	0.027	0.019	0.026	0.004	0.003	0.009	0.004*	0.003*

⁽¹⁾ *Recurring Revenue includes all fees that are billed to customers on a recurring basis.*

⁽²⁾ *Operational expenses are all expenses except for Stock-based compensation.*

* *Restatement of 2004 Quarterly financial statement information (\$000's):*

The stock-based compensation expense (a non-cash expense item) was calculated incorrectly for each of the three 2004 quarterly financial statements. Stock-based compensation for the three months ended March 31, June 30 and September 30, 2004, previously reported as \$89, \$131 and \$174, has been restated to \$438, \$91 and \$124 respectively. As a result, net income (loss) for the three months ended March 31, June 30 and September 30, 2004, previously reported as \$75, \$158 and \$268 has been restated to \$(274), \$198 and \$318 respectively. Similarly, net income (loss) per share, for the three months ended March 31, June 30 and September 30, 2004, previously reported as \$0.001, \$0.002 and \$0.003 has been restated to \$(0.004), \$0.003 and \$0.004 respectively. In addition, the change to opening deficit as at January 1, 2004, as a result of adopting the new standard of accounting for stock-based compensation, previously reported as \$213, has been restated to \$410.

5.2 COMMENTS ON CORPORATE PERFORMANCE TRENDS

Revenue continues to demonstrate strong year over year growth. The Company expects to continue to produce strong year over year growth and maintain the trends established over the past eight quarters. The first quarter has continued the growth trend, with another record performance. There were some weather factors that delayed some activity in the second and third quarters of 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Recurring revenue as a percentage of operational expenses has been slightly lower in the last two quarters. This result primarily reflects some higher expenses related to higher revenues and is similar to the pattern in 2004 between the third and fourth quarters. The Company expects there to be some fluctuation in this number due to the fact that our recurring revenue grows in a linear fashion while expenses will fluctuate with higher hardware revenues. Nevertheless, the Company tracks the year over year trend to ensure that it is continuing to take advantage of the scalability of its business model. Management expects the growth trend in recurring revenues as a percentage of operating expenses to continue as it has in the past.

Percent gross margin continues to be within the range projected by management. Fluctuations between quarters reflect the different revenue mix, which have different gross margins.

The income in the first quarter is significantly reduced by a stock-based compensation expense of \$539,000 for the quarter, which is a non-cash expense item that has no impact on operations. The earnings growth is impacted by the stock-based compensation amounts. Nevertheless, earnings growth continues at a much higher rate than revenue growth, with year over year first quarter revenue growth at 118% and year over year first quarter earnings growth (before taxes) at 507%.

6 RESULTS OF OPERATIONS – FIRST QUARTER 2006

6.1 REVENUE

The Company is reporting strong year over year revenue growth in the first quarter.

The Company generated revenues of \$11,308,000 for the three months ended March 31, 2006 as compared to \$5,194,000 for the three months ended March 31, 2005. This represents an increase of 118% for the quarter. While it is mostly attributed to increased sales of the Company's Smart-Alek-Intelligent Flow Monitoring System, the Company's revenue growth is continuing to diversify through increasing sales of the MTRAC and Roughneck products.

6.2 COST OF SALES

The cost of sales for the three months ended March 31, 2006 was \$6,078,000 resulting in a 46% margin compared to a 42% margin on cost of sales of \$3,003,000 for the same period in 2005. The increase in margins is attributable to the addition of the higher margin Roughneck-Operations Management System business and growth of the recurring revenue stream for network service fees, which have higher 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 March 31, 2006 were \$397,000, which is higher than the same period for 2005 by \$1,000. Operating expenses have remained fairly flat and reflect the scalability of the business. Operating expense, as a percentage of revenue was 4% for the quarter ended March 31, 2006, as compared to 8% for the same quarter in 2005. The consolidation of operations in one facility and completion of integration of Roughneck-Operations Management System has resulted in increased efficiencies.

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 \$1,853,000 for the first quarter ended March 31, 2006, an increase of \$1,138,000 compared to the same quarter last year. SG&A expense as a percentage of revenue was 16% for the quarter ended March 31, 2006 compared to 14% for the same quarter in 2005. The increase in the SG&A expense for the first quarter is due to staff increases, higher sales commissions paid on higher sales numbers and bonus payments, which is discussed further below. In addition, the Company completed a move of its head office in Calgary, with some increased costs in the first quarter. This increase in costs is consistent with managements' expectations following the acquisition of Roughneck and increase in sales and marketing staff. SG&A expenses are expected to decrease over time as a percentage of revenue with anticipated sales growth.

The board of directors approved a bonus plan for all employees of the Corporation effective January 1, 2006. The bonus pool available for payment is calculated from achieved growth in revenue, net income and free cash flow, with a 50% discretionary portion. The bonus pool calculation for the first quarter was approximately \$213,000, 50% of which is immediately payable and 50% of which is solely at the board's discretion after the end of the fiscal year.

6.5 RESEARCH AND 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 (R&D) costs are reduced by any scientific research tax credits.

The Company takes a conservative approach in capitalizing development costs. In the three years prior to 2005 it expensed all development costs. This was considered appropriate because the Company was developing a new product that it had not sold before and the Company had significant losses and relatively low working capital. With the significant market acceptance and growth in earnings experienced in 2004 as well as the current strong working capital position, the Company began to defer a portion of development costs effective January 1, 2005, to be amortized over a three-year period. The three-year period is consistent with the historical lifecycle of prior product versions and more appropriately matches the product revenue stream with its development costs.

Research and Development 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 expense was \$235,000 in the first quarter 2006 up from \$195,000 in the first quarter of the prior year. The total R&D expense as a percentage of revenue was 2% for the quarter ended March 31, 2006 as compared to 4% for the same quarter in 2005. The Company capitalized \$479,000 of development costs in the first quarter. The overall increase in R&D activity primarily reflects the additional development activity related to the integration of the Menex and Roughneck technologies and a new Smart-Alek model.

6.6 STOCK-BASED COMPENSATION

Effective January 1, 2004, 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 \$539,000 for the quarter ended March 31, 2006, compared with \$361,000 for the quarter ended March 31, 2005.

6.7 NET EARNINGS

The overall net income for the first quarter, 2006 was \$2,708,000 or \$0.027 per share compared to \$298,000 or \$0.003 per share for the same period in 2005 for an overall increase of \$2,410,000 or 809%. A future income tax amount of \$900,000 was recognized in the quarter. The before tax net income in the first quarter was \$1,808,000 an overall increase of \$1,510,000 or 507% over the first quarter of 2005.

The increased market penetration and corporate wide adoption of the Company's Smart-Alek-Intelligent Flow Monitoring System, were the primary reasons for the positive first quarter 2006 result.

6.8 AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS

In the first quarter the amortization of capital and intangible assets was \$424,000, of which \$156,000 related to intangible assets acquired in the purchase of Menex and Roughneck and are non-recurring. Amortization of deferred development costs accounted for \$135,000 and patents accounted for \$1,000. The balance of \$132,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

6.9 ROUGHNECK EARNOUT

The purchase price for the Roughneck-Operations Management System included an earnout provision calculated on revenues achieved from September 2004 through to December 31, 2005. The Company completed calculations of the earnout, with the total payable to Roughneck shareholders in the amount of \$2,751,302. The earnout was paid on January 26, 2006 as 20% cash (\$550,260) and 80% in zed.i common shares (1,467,361 based on a deemed share price of \$1.50 based on the average closing market price for the 20 trading days prior to the execution of the letter of intent, discounted by 10%).

6.91 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 three months ended March 31, 2006, the Company recognized the benefit of \$900,000 in previously unrecognized tax losses carried forward.

7 FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between March 31, 2006 and December 31, 2005.

<i>(\$ thousands)</i>	March 31, 2006	December 31, 2005	Change	Explanation
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	7,217	6,368	849	The growth in cash is primarily a result of continuing positive earnings.
ACCOUNTS RECEIVABLE	11,814	7,749	4,065	Increase in sales.
INVENTORIES	6,126	7,115	(989)	Increase in sales activity and and specifically some larger orders to fill through the early part of 2006.
CURRENT LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	3,495	5,859	(2,400)	\$2,748 accrued for the earnout for Roughneck acquisition was paid out and general increase in level of activity.
DEFERRED REVENUE	3,163	1,265	1,898	Invoicing of contracts are yearly, but revenue is deferred and recognized monthly. Increase reflects the higher number of contracts that renew early in the year.
WORKING CAPITAL ⁽¹⁾	18,499	14,324	4,175	Continued strong growth.
CAPITAL ASSETS	1,333	1,194	139	Normal budgeted purchases for continued operations.
OTHER ASSETS				
INTANGIBLES	4,295	4,450	(155)	No impairment.
GOODWILL	7,932	7,932	–	No impairment.

⁽¹⁾ 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 March 31, 2006 was \$7,217,000, an increase of \$849,000 from the December 31, 2005 balance. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

<i>Quarters ended March 31 (\$ thousands)</i>	2006	2005
OPENING CASH	6,368	4,376
CASH PROVIDED BY OPERATIONS	2,034	786
CASH PROVIDED BY FINANCING	116	42
CASH USED IN INVESTING	(1,301)	(716)
CLOSING CASH	7,217	4,488

The increase in cash from operations reflects the continued growth in earnings. The cash from financing is from issuance of shares for the payment of the earnout in the Roughneck acquisition and the exercise of options throughout the period. The cash used in investing is related to the normal capital purchases throughout the period, which is more fully described in a later section and the acquisition of Roughneck.

The following table presents summarized working capital information.

<i>Quarters ended March 31 (\$ thousands)</i>	2006	2005
CURRENT ASSETS	25,319	17,684
CURRENT LIABILITIES	6,660	3,822
WORKING CAPITAL	18,499	13,862
CURRENT RATIO	3.80	4.63

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 are received. This as well resulted in an increase in the deferred revenue as the revenue is recognized on a monthly basis for network fees and the unrecognized revenue appears 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 will minimize the peaks and gradually level the receipts and deferred revenue throughout the year, although due to activity cycles the Company expects higher cash levels in the first two quarters of 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company had capital spending of \$751,000 during the first quarter funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$ 141,000
Computer Software	\$ 99,000
Vehicles	\$ 20,000
Furniture and Equipment	\$ 4,000
Leasehold Improvements	\$ 7,000
Patents and Trademarks	\$ 1,000
Deferred Development Costs	\$ 479,000

CREDIT FACILITIES

The Company has increased credit facilities to \$5,000,000 to cover increased cash needs during peak demand periods. The interest rate is at Royal Bank Prime plus 1.5%. 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. zed.i is currently not using any of the credit facility available.

FINANCIAL INSTRUMENTS

At March 31, 2006, the Company had an outstanding foreign currency forward contract for the purchase of JPY40,000,000 at a fixed rate to April 28, 2006. The contract was entered into to protect the Canadian dollar purchase price for components payable in Japanese Yen. The carrying value of the Company's foreign exchange contract is \$22,840. The fair value of the contracts is \$409,880. The carrying values of cash and accrued liabilities approximate their fair values due to the relatively short periods to maturity and recent purchase of the instruments.

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.

(\$ thousands)	Total	Within 1 year	1 to 3 years	3 to 5 years
LONG-TERM DEBT	63	2	6	6
OPERATING LEASES	2,105	510	1,042	1,118
TOTAL	2,168	512	1,048	1,124

LONG-TERM DEBT The long-term debt is a loan payable to Natural Resources Canada 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 loans bears no interest except for over due payments, which bear interest at Bank of Canada prime plus 2%. The loan is unsecured.

OPERATING LEASES The Company has various operating leases for office premises in Edmonton and Calgary and vehicles.

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 deferred development costs.

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

OUTSTANDING SHARE INFORMATION

<i>Quarter ending March 31</i>	2006
COMMON SHARES	
OPENING SHARES	97,862,341
STOCK OPTIONS EXERCISED	294,297
ISSUED FROM TREASURY PURSUANT TO EARNOUT PROVISION OF ROUGHNECK	1,467,361
CLOSING SHARES	99,623,999

9 CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

9.1 CRITICAL ACCOUNTING ESTIMATES

zed.i's significant accounting policies are described in Note 2 of its annual 2005 consolidated financial statements and the 2005 MD&A.

9.2 CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in Note 3 of the Company's annual 2005 consolidated financial statements and the 2005 MD&A.

10 OUTLOOK

In 2006, zed.i intends to invest technical resources to continue work on defining its intellectual property and applying for new patents associated with the FINE System-Network Architecture. This will further strengthen the protection of the ongoing investment in the FINE System, which creates a robust wireless network management operating system for zed.i customers.

zed.i will launch a number of products and services that are designed to meet the growing demands on oil and gas producers including integrating the zed.i on-demand global automation solution. Through this integration, the system will have network reliability and security associated with FINE, which also provides producers with the ability to centralize production monitoring, surveillance data and control functions within a single application www.smart-alek.com. The system will facilitate remote manipulation of infrastructure for all oil wells, gas wells, and compressors. The market demand for this service has been higher than forecasted and we expect this trend to continue through 2006.

zed.i and PetroNet Systems Inc. will join forces to deliver on-demand production accounting capabilities that bring greater certainty to production operations management. Combining zed.i's capability of managing real time data from the wellhead with a robust production accounting system will enable producers to manage their production operations with greater certainty of optimal performance.

zed.i will further penetrate the junior and intermediate oil and gas markets. In particular there is growing momentum and interest in zed.i eTube, which helps energy producers to accurately measure operations at the well site. We will invest in our internal infrastructure to be able to fulfill and deliver on-demand global automation solution in a timely fashion. We continue to see a high demand for this product in the marketplace.

11 BUSINESS RISKS AND UNCERTAINTY

The business risks and uncertainty are described in the Company's 2005 MD&A. The business risks and uncertainty are not materially changed from what is disclosed in the 2005 MD&A.

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 principal reductions and other sources and uses of cash, which are disclosed in the interim consolidated financial statements of cash flows. 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 zed.i may not be comparable in all instances to EBITDA reported by other companies.

The following is a reconciliation of EBITDA with Net Income.

<i>Three months ended March 31 (\$ thousands)</i>	2006	2005
NET INCOME	2,708	298
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	424	273
(GAIN) LOSS ON DISPOSAL OF ASSETS	–	(3)
FUTURE INCOME TAXES	(900)	–
INTEREST	(26)	(44)
EBITDA	2,206	524

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 interim consolidated statements of cash flows. Free cash flow is not a calculation based on GAAP and should not be considered an alternative to the interim consolidated statements 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 zed.i 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 by investing activities, 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:

<i>Three months ended March 31 (\$ thousands)</i>	2006	2005
EBITDA	2,206	524
STOCK-BASED COMPENSATION	539	361
CASH INTEREST (EARNED)	(26)	(44)
CASH AVAILABLE FOR DISCRETIONARY SPENDING AND CAPITAL EXPENDITURES	2,719	841
CAPITAL EXPENDITURES		
PROCEEDS FROM DISPOSAL OF CAPITAL ASSETS	–	7
DEFERRED DEVELOPMENT	(479)	(361)
PURCHASE OF OTHER CAPITAL ASSETS	(272)	(362)
FREE CASH FLOW	1,968	125