

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated October 25, 2005 should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended September 30, 2005 and 2004, and should also be read in conjunction with the audited consolidated financial statements and MD&A in Annual Report of zed.i solutions inc. (the "Company" or "zed.i") for the year ended December 31, 2004.

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") except that the note disclosure in interim financial statements do not necessarily conform in all respects to the note disclosure requirements of GAAP for annual financial statements. 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 leading provider of innovative technologies for the management of production operations in the energy sector. The focus of our business is three fold. One is zed.i Field Intelligence, including electronic production monitoring as well as optimization solutions that maximize oil and gas production by controlling equipment in real time. The second focus is zed.i’s Web Services, comprised of network communications and software designed to manage the business information needs to link remote assets and production with operations, head office and throughout the enterprise. The third focus is zed.i’s Service Culture, where we invest in our people and infrastructure across the organization to continually improve customer experience. Energy producers can increase earnings by using digital information to improve the complex business processes that impact oil and gas production. zed.i seeks to develop and commercialize technologies that improve customer cash flow from the reservoir to the point of sale and address the needs of field, regional and head office operating personnel.

2 CORPORATE VISION AND STRATEGY

The Company is committed to becoming the dominant solution provider for well monitoring and field operations management in Canada. zed.i’s mission is to increase the earnings of energy producers. Our solutions in production operations include capabilities to reduce lost revenue, improve operational efficiencies and ensure compliance in five key areas: the production information management process, optimization, safety, environment and asset management. Over the past three years the Company has demonstrated a track record as a unique partner in delivering promised results. The Company has consistently provided production operations management with solutions that increase revenues and reduce costs and is seen as a partner in maximizing the customer’s value.

The Company has established a revenue model that incorporates a recurring revenue stream. In fulfilling its vision to increase customer earnings, the Company is developing and delivering solutions that continue to build on the foundation of recurring revenue. The acquisitions of Menex Technologies Inc. (“Menex”) and more recently Roughneck.ca Inc. (“Roughneck”) both expand the solutions offered by zed.i and add recurring revenue streams. The Company continues to evaluate other strategic initiatives to enhance shareholder value.

Various international opportunities the Company is investigating with other partners present substantial opportunities for the Company but do not change the clear vision and strategy to maintain focus on the Canadian market. Early in 2004 zed.i announced international agreements to perform market feasibility studies with Sumitomo and Fuji. The Company continues with various efforts to pursue these international opportunities. While progress has been made, the Company is not projecting revenue at this point from these opportunities.

Similar to its solution suite, the Company has designed its business model to be scalable. Throughout its technology, marketing, sales and operations zed.i endeavors to structure in such a way that significant growth can be achieved in scale with appropriate expansion of resources. Strategically the Company seeks significant growth rates and to consistently achieve a higher rate of earnings growth than revenue growth.

[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 as well 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 towards achieving a dominant position in the marketplace.
- Percent gross margin
This serves to measure our success in developing our products and services on a scalable basis.
- Income per share
As a primary measure of return to shareholders, this measure also ensures the acquisitions we make are accretive to shareholders.

[4] OVERALL PERFORMANCE

(4.1) EVENTS OR ACTIVITIES IMPACTING THE BUSINESS IN THE THIRD QUARTER
STRONG RECOVERY FROM SLOW JULY June was one of the wettest months on record in western Canada, which had a negative impact on the ability of field personnel to access remote wells. The wet conditions persisted through July resulting in slow sales at the end of the second quarter and the beginning of the third, which was a common trend across the service sector. Many remote sites in much of the Province will now not be accessible until winter freeze-up. Despite these adverse conditions, sales improved significantly in the last half of the quarter, which contributed to strong year over year growth.

[4] OVERALL PERFORMANCE (CONTINUED)

(4.2) CONSOLIDATED HIGHLIGHTS

(\$ in thousands except per-share amounts)	Three Months ended Sept. 30		
	2005	2004	Change
Revenue	5,986	4,366	1,620
Gross Profit	2,895	2,504	391
EBITDA ⁽¹⁾	1,031	526	505
Net Income before income taxes	539	318	221
Net income	2,517	318	2,199
Earnings per share, basic	0.026	0.005	0.021
Earnings per share, diluted	0.026	0.005	0.021
Cash from operations	644	(527)	1,171
Free cash flow ⁽²⁾	1,099	560	(658)

(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:

(expressed in \$000's except per share and % amounts)	2005				2004			2003
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total Revenues	5,986	5,888	5,194	5,916	4,366	4,241	3,761	2,884
Recurring Revenue ⁽¹⁾ as a % of Operation Expenses ⁽²⁾	72%	60%	70%	58%	61%	49%	33%	30%
Percent Gross Margin	52%	49%	42%	44%	43%	39%	39%	34%
Income (Loss)	2,517	349	298	866	318*	198*	(274)*	(434)
Income (Loss) (per share) -basic and diluted	0.026	0.004	0.003	0.009	0.004*	0.003*	(0.004)*	(0.010)

Note: (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 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] SELECTED QUARTERLY INFORMATION (CONTINUED)

(5.2) COMMENTS ON 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. Management is specifically encouraged that, consistent with last year, the Company achieved quarter over quarter growth despite the impact of summer vacations on our customers' schedules.

Recurring revenue as a percentage of operational expenses was somewhat lower in the second quarter than the first quarter. This result reflected the added expenses from the Roughneck acquisition. Roughneck has a strong recurring revenue model but it is at an earlier stage of the business where recurring revenue is a much lower percentage of the expenses. The third quarter showed a strong rebound in this indicator. We expect the growth trend of the recurring revenue as a percentage of operating expenses to continue.

Percent gross margin is above the range projected by management. Higher gross margins reflect the higher margin business of the Roughneck operation. In addition, the Company has saved on components purchased in U.S. dollars and Japanese Yen as a result of the strength of the Canadian dollar. Management expects to maintain gross margins in the low to mid-forty percent range.

The income in the third quarter is significantly reduced by a stock-based compensation expense of \$382,000, which is a non-cash expense item. The Company has expanded operations over the first part of 2005 to sustain high growth rates and to prepare for significantly larger revenue. Earnings growth is impacted by these investments. Nevertheless, earnings growth continues at a much higher rate than revenue growth, with year over year revenue growth at 37% to 39% and year over year earnings growth at 76% for the last two quarters.

[6] RESULTS OF OPERATIONS – THIRD QUARTER 2005

(6.1) REVENUE

The Company is reporting strong year over year revenue growth in the third quarter. The Company generated revenues of \$5,986,000 for the three months ended September 30, 2005 as compared to \$4,366,000 for the three months ended September 30, 2004. This represents an increase of 37%, and while it is mostly attributed to increased sales of the Company's digital gas well-monitoring solution, the Smart-Alek, the Company's revenue growth is becoming more and more diversified with the MTRAC and Roughneck products.

(6.2) COST OF SALES

The cost of sales for the three months ended September 30, 2005 was \$2,895,000 resulting in a 52% margin compared to a 43% margin on cost of sales of \$2,504,000 for the same period in 2004. The increase in margins is attributable to the addition of the higher margin Roughneck business and growth of the recurring revenue stream for network services fees, which has higher margins. In addition, the Company has saved on components purchased in U.S. dollars and Japanese Yen as a result of the strength of the Canadian dollar.

[6] RESULTS OF OPERATIONS – THIRD QUARTER 2005 (CONTINUED)

(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 September 30, 2005 were \$332,000, which is higher than the same period for 2004 by \$66,000 or 25%. The increase is primarily attributed to the addition of the Roughneck operations, which was added in April of 2005, as well as some growth in operations overall. Operating expense, as a percentage of revenue was 6% for the quarter ended September 30, 2005, as compared to 6% for the same quarter in 2004. This increase in operating expenses is consistent with managements' expectations following the acquisition of Roughneck. Operating expenses are expected to decrease over time as a percentage of revenue, with anticipated sales growth from the acquisition. The consolidation of operations in one facility and completion of integration of Roughneck will result in increased efficiencies later in the year.

(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.

SG&A expense was \$1,175,000 for the third quarter ended September 30, 2005. This expense was \$544,000 more during the quarter ended September 30, 2005, compared to the same quarter last year. This is due to staff and expenses from the acquisition of Roughneck and from new hires and higher sales commissions paid on higher sales numbers. SG&A expense as a percentage of revenue was 20% for the quarter ended September 30, 2005 as compared to 14% for the same quarter in 2004. This increase in costs is consistent with managements' expectations following the acquisition of Roughneck. SG&A expenses are expected to decrease over time as a percentage of revenue with anticipated sales growth from the acquisition.

(6.5) RESEARCH & DEVELOPMENT

The accounting policy has been and continues to be as set out in our December 31, 2004 MD&A and notes to Financial Statements, as follows: the Company is engaged in research and development work. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by GAAP. Further, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research tax credits.

The Company takes a conservative approach in the application of the deferred development policy and in the prior three years 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 effective January 1, 2005 began to defer a portion of development costs, 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.

[6] RESULTS OF OPERATIONS – THIRD QUARTER 2005 (CONTINUED)

(6.5) RESEARCH & DEVELOPMENT (CONTINUED)

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

The total R&D expense was \$488,000 in the third quarter 2005 up from \$315,000 in the third quarter of the prior year. The total R&D expense as a percentage of revenue was 8% for the quarter ended September 30, 2005 as compared to 7% for the same quarter in 2004. The Company capitalized \$317,000 development costs in the third quarter and expensed \$171,000. The overall increase in R&D activity primarily reflects the additional development activity related to the integration of the Menex technology 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 \$382,000 for the quarter ended September 30, 2005.

(6.7) NET EARNINGS

The overall net income for the third quarter, 2005 was \$2,517,000 or \$0.026 per share compared to \$318,000 or \$0.005 per share for the same period in 2004 for an overall increase of \$2,199,000 or 692%. A future income tax amount of \$1,978,000 was recognized in the third quarter.

Net income before income taxes for the third quarter 2005 was \$539,000 or \$0.006 per share compared to \$318,000 or \$0.005 per share for the same period in 2004 for an overall increase of \$221,000 or 69%.

The increased market penetration and adoption of the Company's Smart-Alek solution enabled the positive third quarter 2005 result.

(6.8) AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS

In the third quarter the amortization of capital and intangible assets was \$465,000, of which \$150,000 related to intangible assets acquired in the purchase of Menex and Roughneck, which are non-recurring capital expenditures. Amortization of deferred development costs accounted for \$81,000 and patents accounted for \$1,000. The balance of \$233,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

6.9 ROUGHNECK EARNOUT

Based on the achievement of 2005 revenue performance targets for Roughneck operations, the Company may be required to pay up to \$4.384 Million over and above the initial payment. The earnout will be paid as 20% cash and 80% in zed.i common shares upon approval by the Board of Directors. The shares will be valued at the weighted average market value at the time of issuance. During the three months ended September 30, 2005, \$1,217,000 has been accrued for the earnout provision.

6.10 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 nine months ended September 30, 2005, the Company recognized the benefit of \$1,978,000 in previously unrecognized tax losses carried forward.

[7] FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between June 30, 2005 and September 30, 2005.

(\$ thousands)	Sept 30, 2005	June 30, 2005	Change	Explanation
Current Assets				
Cash and cash equivalents	6,578	6,056	522	Collection of receivables
Accounts receivable	4,537	5,297	(760)	Collection of receivables
Inventories	6,192	6,482	(290)	Normal inventory usage
Current Liabilities				
Accounts payable and accrued liabilities	2,590	2,457	133	Mainly due to recording of earnout payable
Deferred revenue	1,534	2,135	(601)	Deferred revenue is primarily related to the annual billing of network fees that are earned throughout the year.
Working Capital ⁽¹⁾	13,510	13,469	41	Working capital consistent
Capital Assets	2,350	2,292	58	As at September 30, 2005 deferred development is separated from capital assets, but they are combined here for accurate comparison with June 30, 2005. Approximately \$317,000 relates to increase in deferred development and the balance for purchases in the normal course of business.
Other Assets				
Intangibles	4,538	4,713	(175)	Roughneck acquisition
Goodwill	6,398	5,181	1,217	Roughneck earnout

Note: (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 September 30, 2005 was \$6,578,000, an increase of \$522,000 from the June 30, 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:

(\$ thousands)	Quarters ended September 30	
	2005	2004
Opening cash	6,056	3,556
Cash provided by operations	644	(527)
Cash provided by financing	219	7,128
Cash used in investing	(341)	(2,938)
Closing cash	6,578	7,219

The following table presents summarized working capital information.

(\$ thousands)	Quarters ended September 30	
	2005	2004
Current assets	17,635	14,970
Current liabilities	(4,125)	(2,675)
Working capital	13,510	12,295
Current ratio	4.28	5.60

The Company experiences 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 this results in a growth in cash in the second quarter as these billings are received. This results as well 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.

The Company had capital spending of \$1,882,000 during the first three quarters of 2005 funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$ 306,000
Computer Software	\$ 322,000
Vehicles	\$ 36,000
Furniture & Equipment	\$ 58,000
Manufacturing Tools & Equipment	\$ 13,000
Leasehold Improvements	\$ 41,000
Patents and Trademarks	\$ 35,000
Deferred Development Costs	\$1,071,000

[8] LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 September 30, 2005, the Company had outstanding foreign currency forward contracts for the purchase of JPY55,000,000 and JPY80,000,000 at fixed rates expiring December 30, 2005 and March 31, 2006 respectively. The carrying value of the Company's foreign exchange contract is \$44,680. The fair value of the contracts are \$592,350 and \$861,600 respectively. The carrying values of cash and accrued liabilities approximate their fair value 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	65	2	6	6
Operating leases	1,666	376	856	904
Other commitments	-	-	-	-
Total	1,731	378	862	910

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 During the balance of 2005 the Company expects to incur capital expenditures of approximately \$578,000 to sustain operations at existing levels and approximately \$266,000 for discretionary opportunity capital. Capital expenditures will be 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.

[8] LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

OUTSTANDING SHARE INFORMATION

Common Share	Quarter ending Sept. 30, 2005
Opening shares	96,721,743
Stock options exercised	228,665
Closing shares	96,950,408

[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 2004 consolidated financial statements and the 2004 MD&A.

(9.2) CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in Note 3 of the Company's annual 2004 consolidated financial statements and the 2004 MD&A.

[10] OUTLOOK

The Company has made significant progress over the past three years. The foundation that has been established puts zed.i solutions in a very strong position for capturing market share. In the last quarter of 2005 and early 2006 we expect to see significantly increasing contribution from the MTRAC and Roughneck products to the Company's bottom line. The continued growth of the recurring revenue stream will further establish the financial stability necessary to move the Company closer to a dominant position in the Canadian remote well monitoring market.

There is a very positive response from customers to the performance of the Smart-Alek solution and it is clearly becoming the solution of choice to improve earnings through optimizing operations management. The Company is confident that it can continue the growth trends that have been established over the past three years.

Over the next quarter the Company will continue the integration of the MTRAC and Roughneck. Investments will be required to complete the technical integration of both solutions. In addition, the Company will continue to invest resources to further completing the full suite of products to enable efficiency and effectiveness for our customers operations. Our ongoing intention is to create plug and play solutions for monitoring, controlling and managing well site conditions.

[11] BUSINESS RISKS AND UNCERTAINTY

The business risks and uncertainty are described in the Company's 2004 MD&A. The business risks and uncertainty are not materially changed from what is disclosed in the 2004 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.

(\$ thousands)	Three months ended September 30	
	2005	2004
Net Income	2,517	318
Amortization of capital assets and intangibles	465	224
Gain (loss) on disposal of assets	-	-
Future income taxes	(1,978)	
Interest	27	16
EBITDA	1031	526

[12] RECONCILIATION OF NON-GAAP MEASURES (CONTINUED)

(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.

(\$ thousands)	Three months ended Sep 30	
	2005	2004
EBITDA	1,031	526
Stock-based compensation	382	124
Cash interest (paid)	27	(16)
Cash available for discretionary spending and capital expenditures	1,440	634
Capital expenditures		
Proceeds from disposal of capital assets	2	-
Deferred development	(317)	-
Purchase of other capital assets	(26)	(74)
Free Cash Flow	1,099	560