

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the years ended December 31, 2005 and 2004, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2005.

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.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.

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 system and over 4,000 installed systems, zed.i has enabled a productive shift in operational performance for more than 170 upstream, midstream and oilfield services clients.

zed.i continues to build its capabilities through intense research & 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 global 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 & 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 & gas industry, helping its clients move toward a more disciplined and precise production operations management business model.

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 towards 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 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 or changed if the information were omitted or misstated.

4.2 EVENTS OR ACTIVITIES IMPACTING THE BUSINESS IN 2005

Oil and Gas industry Exploration and Production levels continued in 2005 with very similar drilling objectives and operational plans experienced in 2004. Oil and gas commodity prices were strong throughout the year, and reached new highs toward the end of the year. Smart-Alek installations followed the industry trend, but were impacted in a negative fashion during the summer when access to well sites was made difficult due to one of the wettest summers on record. The pent up demand was released in the final quarter of 2005 when strong energy demand and a backlog of work combined to create the strongest quarterly sales performance on record. zed.i was able to meet the strong surge in sales and achieved forecasted sales expectations.

We continue to invest time, effort and resources to create an on demand business information service that enables oil and gas production operations management to accomplish demanding performance and compliance objectives. We are moving toward a seamless integration through a single website of all our products and services. In fulfilling our vision of increasing customer earnings, zed.i solutions is developing and delivering solutions that continue to build on the foundation of recurring revenue. The integration of Roughneck™ into zed.i and the full suite of products and services for operations management is proceeding as planned and we are pleased with the financial performance of that acquisition.

The sales of MTRAC wellsite monitoring and control system continue to advance since the acquisition by zed.i and associated marketing expenses have significantly been reduced. The technical complexity of the solution has created some integration hurdles but we are encouraged with the progress being made around system processes and technology that will fully integrate this technology into a zed.i solution suite.

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.

We achieved significant growth in our Smart-Alek installation base due to, in large part, our ability to strengthen our position within existing accounts.

zed.i received two patents in 2005 titled, "Systems for Acquiring Data from a Facility and Method", which protects the proprietary function of the Company's Smart-Alek system and FINE System® operating network. Both patents together ensure that the protection zed.i has extends well beyond the

instrument to the entire network. The FINE System brings significant value to zed.i in reducing operating maintenance and support cost and improving scalability. In addition our customers are ensured ongoing quality of service through data accuracy, integrity and reliability. The Company will continue to support and deliver an exceptional customer experience through its speed of deployment, network reliability and customer service and support.

4.3 CONSOLIDATED HIGHLIGHTS

	THREE MONTHS ENDED DECEMBER 31		
	2005	2004	Change
<i>(\$ in thousands except per-share amounts)</i>			
REVENUE	9,348	5,916	3,432
GROSS PROFIT	4,514	2,606	1,908
EBITDA⁽¹⁾	2,009	1,090	919
NET INCOME BEFORE INCOME TAXES	1,411	866	545
NET INCOME	1,813	866	947
EARNINGS PER SHARE, BASIC AND DILUTED	0.019	0.009	0.010
CASH FROM OPERATIONS	(149)	(2,910)	2,761
FREE CASH FLOW⁽²⁾	2,267	903	1,364

⁽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.

	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
<i>(\$ in thousands except per-share amounts)</i>					
REVENUE	26,416	18,284	9,704	7,185	5,010
GROSS PROFIT	12,705	7,629	3,396	1,953	2,621
EBITDA⁽¹⁾	4,313	1,854	(1,196)	(4,736)	(7,393)
NET INCOME (LOSS) BEFORE INCOME TAXES	2,597	1,107	(2,132)	(6,596)	(8,128)
NET INCOME (LOSS)	4,977	1,107	(2,132)	(6,596)	(8,128)
EARNINGS PER SHARE, BASIC AND DILUTED	0.052	0.014	(0.038)	(0.12)	(0.23)
CASH FROM OPERATIONS	4,629	(1,181)	(1,806)	(6,393)	(9,976)
FREE CASH FLOW⁽²⁾	3,813	2,273	(1,000)	(4,744)	(8,612)

⁽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 Company continues to grow at an optimal pace and over a five year period has sustained an average annual compound growth rate of 52.8% for revenue. This consistent growth supports the positioning of zed.i as a high growth company. One of the priorities has been to drive more revenue directly to the bottom line. In 2004 earnings before taxes was just

under 6% of revenue and for 2005 it was just under 10%. If stock-based compensation is factored out then the percentage is over 16% in 2005 compared to approximately 10% in 2004. This is a very encouraging trend and one the Company is focused on continuing. For specific comments on trends and financial performance please see Sections 5.3 and 6.

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, 2005:

(expressed in \$000's except per share and % amounts)	2005	2004	2003
TOTAL REVENUES	26,416	18,284	9,704
INCOME (LOSS) BEFORE TAXES	2,597	1,107	(2,132)
INCOME (LOSS) BEFORE TAXES PER SHARE – BASIC	0.027	0.014	(0.038)
INCOME (LOSS) BEFORE TAXES PER SHARE – DILUTED	0.027	0.014	(0.038)
INCOME (LOSS) AFTER TAXES	4,977	1,107	(2,132)
INCOME (LOSS) AFTER TAXES PER SHARE – BASIC	0.052	0.014	(0.038)
INCOME (LOSS) AFTER TAXES PER SHARE – DILUTED	0.052	0.014	(0.038)
TOTAL ASSETS	38,494	23,887	9,050
TOTAL LONG-TERM LIABILITIES	61	1,383	4,901

5.2 QUARTERLY RESULTS SUMMARY

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			
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
TOTAL REVENUES	9,348	5,986	5,888	5,194	5,916	4,366	4,241	3,761
RECURRING REVENUE ⁽¹⁾ AS A % OF OPERATION EXPENSES ⁽²⁾	69%	72%	60%	70%	58%	61%	49%	33%
PERCENT GROSS MARGIN	48%	52%	49%	42%	44%	43%	39%	39%
INCOME (LOSS)	1,813	2,517	349	298	866	318*	198*	(274)*
INCOME (LOSS) (PER SHARE) – BASIC AND DILUTED	0.019	0.026	0.004	0.003	0.009	0.004*	0.003*	(0.004)*

⁽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.

5.3 COMMENTS ON CORPORATE PERFORMANCE TRENDS

The three-year performance trends affirm our positioning as a high growth company. In 2003 the company was still investing a considerable amount on development and the commercial launch of the Smart-Alek-Intelligent Flow Monitoring System and revenues were just beginning to build. In 2004 we began to build a base of earnings as we expanded our position in the market. In 2005 the results begin to show the scalability of our business model as the base of installations became much more significant. The company expects similar trends to continue.

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 fourth quarter again proved to be our strongest quarter, with another record performance. There were some weather factors that delayed some activity in the second and third quarters.

Recurring revenue as a percentage of operational expenses was slightly lower in the fourth quarter than the third quarter. 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 but 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 above the range projected by management. Fluctuations between quarters reflect the different revenue mix, which have different gross margins.

The income in 2005 and the fourth quarter is significantly reduced by a stock-based compensation expense of \$1,649,000 for the year and \$500,000 for the fourth quarter, which is a non-cash expense item that has no actual 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 revenue growth at 44% and year over year earnings growth (before taxes) at 135%.

6 RESULTS OF OPERATIONS – ANNUAL 2005

6.1 REVENUE

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

The Company generated revenues of \$9,348,000 for the three months ended December 31, 2005 as compared to \$5,916,000 for the three months ended December 31, 2004 and annual revenues of \$26,416,000 for the year ended December 31, 2005 as compared to \$18,284,000 for the year ended December 31, 2004. This represents an increase of 58% for the further quarter and 44% growth for the year. While it is mostly attributed to increased sales of the Company's Smart-Alek-Intelligent Flow Monitoring System, the Company's revenue growth is diversifying through increasing sales of the MTRAC and Roughneck products.

6.2 COST OF SALES

The cost of sales for the three months ended December 31, 2005 was \$4,834,000 resulting in a 48% margin compared to a 44% margin on cost of sales of \$3,310,000 for the same period in 2004. 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. 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.

The cost of sales for the year ended December 31, 2005 was \$13,711,000 resulting in a 48% margin compared to a 42% margin on cost of sales of \$10,655,000 for the same period in 2004. The positive growth in margins for the year is due to the same considerations that resulted in the fourth quarter increase.

6.3 OPERATING EXPENSES

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

Operating expenses for the quarter ended December 31, 2005 were \$383,000, which is higher than the same period for 2004 by \$99,000 or 35%. Operating expenses for the year ended December 31, 2005 were \$1,505,000, which is higher than 2004 by \$430,000 or 40%. 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 4% for the quarter ended December 31, 2005, as compared to 5% for the same quarter in 2004. 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 \$1,476,000 for the fourth quarter ended December 31, 2005, an increase of \$685,000 compared to the same quarter last year. SG&A expense as a percentage of revenue was 16% for the quarter ended December 31, 2005 compared to 13% for the same quarter in 2004. The SG&A expense for the year ended December 31, 2005 was \$4,563,000, which was \$1,960,000 more than 2004. As a percentage of revenue SG&A was 17% for the year ended December 31, 2005 compared to 14% for 2004. The increase in the SG&A expense for the fourth quarter and the year is due to staff and expenses from the acquisition of Roughneck and from new hires and higher sales commissions paid on higher sales numbers. This increase in costs is consistent with managements' expectations following the acquisition of Roughneck and increase in software development activity. SG&A expenses are expected to decrease over time as a percentage of revenue with anticipated sales growth from the acquisition.

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 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 (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 \$416,000 in the fourth quarter 2005 up from \$340,000 in the fourth quarter of the prior year. The total R&D expense as a percentage of revenue was 4% for the quarter ended December 31, 2005 as compared to 6% for the same quarter in 2004. The Company capitalized \$270,000 of development costs in the fourth quarter.

For the year ended December 31, 2005, the total R&D expense was \$2,016,000 compared to \$1,343,000 in the prior year. The Company capitalized \$1,341,000 of its development costs in the year. 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 \$500,000 for the quarter ended December 31, 2005 and \$1,649,000 for 2005, compared with \$101,000 for the quarter ended December 31, 2004 and \$754,000 for 2004.

6.7 NET EARNINGS

The overall net income for the fourth quarter, 2005 was \$1,813,000 or \$0.019 per share compared to \$866,000 or \$0.009 per share for the same period in 2004 for an overall increase of \$947,000 or 109%. A future income tax amount of \$402,000 was recognized in the quarter. For the year ended December 31, 2005 the overall net income was \$4,977,000 or \$0.052 per share compared to \$1,107,000 or \$0.014 per share for 2004 for an overall increase of \$3,870,000 or 350%. A future income tax amount of \$2,380,000 was recognized in the year.

Net Income before taxes better represents the performance of the Company, with 63% growth in the fourth quarter over the fourth quarter in 2004 and 135% growth on the year. Net Income before taxes in the fourth quarter of 2005 is \$1,411,000 and for the year it is \$2,597,000.

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 fourth quarter 2005 result.

6.8 AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS

In the fourth quarter the amortization of capital and intangible assets was \$498,000, of which \$150,000 related to intangible assets acquired in the purchase of Menex and Roughneck and are non-recurring. Amortization of deferred development costs accounted for \$104,000 and patents accounted for \$2,000. The balance of \$242,000 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 will be paid as 20% cash (\$550,260) and 80% in zed.i common shares (1,467,361 based on a deemed share price of \$1.50). During the year ended December 31, 2005, \$2,751,302 has been accrued for the earnout provision.

Subsequent to the end of the year the board of directors approved the calculation of the earnout as part of the purchase price in the acquisition of Roughneck .ca Inc. The payment of the earnout was made on January 26, 2006.

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 twelve months ended December 31, 2005, the Company recognized the benefit of \$2,379,500 in previously unrecognized tax losses of \$12,457,440 of losses carried forward.

7 FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between December 31, 2005 and December 31, 2004.

(\$ thousands)	December 31, 2005	December 31, 2004	Change	Explanation
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	6,368	4,376	1,992	Increase in revenue and earnings throughout 2005
ACCOUNTS RECEIVABLE	7,551	5,599	1,952	Increase in sales
INVENTORIES	7,115	4,325	2,790	More product to accommodate increase in sales activity and specifically some larger orders to fill through the early part of 2006
CURRENT LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	5,860	1,314	4,546	\$2,748 accrued for the earnout for Roughneck acquisition and general increase in level of activity
DEFERRED REVENUE	1,265	–	1,265	Invoicing of contracts yearly, revenue is deferred and recognized monthly
WORKING CAPITAL ⁽¹⁾	14,323	13,534	789	
CAPITAL ASSETS	1,281	1,120	161	Normal budgeted purchases for continued operations
OTHER ASSETS				
INTANGIBLES	4,364	4,155	209	Acquisition of Roughneck
GOODWILL	7,932	3,394	4,538	\$2,748 for Earnout for Roughneck and \$1,787 recognized on the acquisition of Roughneck

⁽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 December 31, 2005 was \$6,368,000, an increase of \$1,992,000 from the December 31, 2004 balance. 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 (\$ thousands)	2005	2004
OPENING CASH	4,376	1,356
CASH PROVIDED BY OPERATIONS	4,629	(1,181)
CASH PROVIDED BY FINANCING	863	7,515
CASH USED IN INVESTING	(3,500)	(3,314)
CLOSING CASH	6,368	4,376

The increase in cash from operations reflects the continued growth in earnings. The cash from financing is from the exercise of options throughout the year. The cash used in investing is related to the normal capital purchases throughout

the year, which is more fully described in a later section and the acquisition of Roughneck.

The following table presents summarized working capital information.

<i>Years ended December 31 (\$ thousands)</i>	2005	2004
CURRENT ASSETS	21,450	14,852
CURRENT LIABILITIES	7,127	1,318
WORKING CAPITAL	14,323	13,534
CURRENT RATIO	3.01	11.27

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.

The Company had capital spending of \$2,224,000 during 2005 funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$ 334,000
Computer Software	\$ 347,000
Vehicles	\$ 36,000
Furniture and Equipment	\$ 66,000
Manufacturing Tools and Equipment	\$ 16,000
Leasehold Improvements	\$ 41,000
Patents and Trademarks	\$ 42,000
Deferred Development Costs	\$ 1,342,000

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 December 31, 2005, the Company had outstanding foreign currency forward contracts for the purchase of JPY80,000,000 and JPY40,000,000 at fixed rates expiring March 31, 2006 and April 28, 2006 respectively. These contracts were entered into to protect the Canadian dollar purchase price for components payable in Japanese Yen. The carrying value of the Company's foreign exchange contracts is \$113,400. The fair value of the contracts is \$861,600 and \$409,880 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	63	2	6	6
OPERATING LEASES	2,547	442	1,030	1,075
OTHER COMMITMENTS	–	–	–	–
TOTAL	2,610	444	1,036	1,081

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.

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.

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

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:

Years ended December 31	2005		2004	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BALANCE OUTSTANDING, BEGINNING OF YEAR	95,564,576	\$ 47,693,244	60,607,467	\$ 30,514,632
SHARES ISSUED:				
ISSUED PURSUANT TO ACQUISITION OF MENEX	–	–	4,347,780	4,999,947
ISSUED PURSUANT TO ACQUISITION OF ROUGHNECK, NET OF SHARE ISSUANCE COSTS	535,714	1,305,544	–	–
DEBENTURES CONVERTED	–	–	21,970,500	4,394,100
STOCK OPTIONS EXERCISED	1,762,051	962,014	2,113,829	916,733
SHARES ISSUED PURSUANT TO PRIVATE FINANCING	–	–	6,525,000	6,867,832
BALANCE OUTSTANDING, END OF YEAR	97,862,341	49,960,802	95,564,576	47,693,244
LESS EMPLOYEE SHARE TRUST PLAN	–	–	–	(126,121)
BALANCE OUTSTANDING, END OF YEAR	97,862,341	\$ 49,960,802	95,564,576	\$ 47,567,123

9 CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

9.1 CRITICAL ACCOUNTING ESTIMATES

USE OF ESTIMATES The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Scientific research tax credits recoverable, amortization rates and the recoverable amounts for inventories, capital assets, intangible assets, deferred development costs, future income taxes and goodwill are the more significant items subject to estimates in these consolidated financial statements.

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

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

REVENUE RECOGNITION Revenues from the Company's well-test product-line are recorded when the goods are shipped and services are rendered. Revenue from the sale of the Company's Smart-Alek product-line is recorded for the unit when it is shipped and installation fees are recognized when the installation of the Smart-Alek unit is completed. Revenue from monthly network service fees is recorded in the month in which the services are provided.

FINANCIAL INSTRUMENTS At December 31, 2005, the Company had outstanding foreign currency forward contracts for the purchase of JPY80,000,000 and JPY40,000,000 at fixed rates expiring March 31, 2006 and April 28, 2006 respectively. The carrying value of the Company's foreign exchange contract is \$113,400. The fair value of the contracts is \$861,600 and \$409,880 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.

FOREIGN EXCHANGE RISK The cost of certain components of cost of sales and the associated accounts payable are denominated in foreign currency. At December 31, 2005, the Company had entered into a forward option to purchase Yen with a financial institution at rates of 0.010956 due March 31, 2006 and 0.010494 due April 28, 2006.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

STOCK-BASED COMPENSATION The Company has two stock-based compensation plans, a stock option plan and an employee share trust. 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.

DEFERRED DEVELOPMENT COSTS Deferred development costs incurred on new product development projects, which, in the Company's view, have clearly defined market prospects, are deferred and amortized on a straight-line basis over 3 years, commencing in the year in which the new products begin generating revenue. The ability to recover the carrying value of deferred development costs is based on estimates, which by their nature, are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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

Intangibles – Purchased software	(5 years)
Intangibles – Workforce	(2 years)
Intangibles – Workforce Menex	(3 years)
Intangibles – Intellectual property Menex	(12 years)
Intangibles – Workforce, customer relationships Roughneck	(3 years)
Intangibles – Developed software and Patent Roughneck	(5 years)

9.2 CHANGES IN ACCOUNTING POLICIES

On January 1, 2004, Canadian accounting standards require recognition of compensation expense arising out of stock-based compensation plans using the fair-value based method. The Company adopted this requirement, retroactively without restatement of prior periods, as permitted by the CICA Handbook Section 3870. Under the fair-value based method, compensation cost is measured at fair value at the date of the grant and expensed over the award's vesting period. Using the fair-value method, with respect to options issued since January 1, 2002, the Company's compensation costs were \$410,000 applied to the deficit for prior years and \$754,000 for the year ended December 31, 2004.

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 a web based remote control system within the FINE™ paradigm of monitoring and control. This system will have the ability to communicate with any field device in the world, including Smart Alek and traditional SCADA systems, and will deliver customers a seamless web interface through 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 is expected to be very significant as the capital outlay for traditional SCADA system infrastructure have large cost elements that are difficult for smaller organizations to absorb into the cost of operations.

In addition, the company will continue to invest in its people and support systems in order to deliver exceptional customer experiences. In 2006, zed.i will conduct end user training on our surveillance, control, as well as workflow and compliance management solutions in order to enable production operations staff in the field and in head office to effectively utilize the full set of capabilities associated with making a productive shift in operational performance. Through timely and effective training and customer support, zed.i customers' will have the ability to manage their production operations with even greater predictability of optimal performance.

11 BUSINESS RISKS AND UNCERTAINTY

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

FAIR VALUES The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The carrying value of Sales leases receivable does not differ significantly from its fair value.

CREDIT RISK At December 31, 2005, 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 but mitigates this risk by dealing with financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

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. The Company has on occasion purchased some forward contracts for Yen to fix rates on orders that are in process for components from Japan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and 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 and gas producers. A reduction in spending by producers could have a material adverse effect on the Company's business, results of operations and financial condition.

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

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

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

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

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

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>Years Ended December 31 (\$ thousands)</i>	2005	2004	2003	2002	2001
NET INCOME	4,977	1,107	(2,132)	(6,596)	(8,128)
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	1,653	641	467	706	753
(GAIN)LOSS ON DISPOSAL OF ASSETS	(1)	(10)	(5)	35	–
FUTURE INCOME TAXES	(2,380)	–	–	–	–
INTEREST	64	116	474	222	(18)
GAIN ON SALE OF INTELLECTUAL PROPERTY	–	–	–	(500)	–
WRITE-DOWN OF INVENTORY	–	–	–	1,397	–
EBITDA	4,313	1,854	(1,196)	(4,736)	(7,393)

<i>Three months ended December 31 (\$ thousands)</i>	2005	2004
NET INCOME	1,813	866
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	498	222
(GAIN) LOSS ON DISPOSAL OF ASSETS	–	–
FUTURE INCOME TAXES	(402)	–
INTEREST	100	2
EBITDA	2,009	1,090

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>Years Ended December 31 (\$ thousands)</i>	2005	2004	2003	2002	2001
EBITDA	4,313	1,854	(1,196)	(4,736)	(7,393)
STOCK-BASED COMPENSATION	1,649	754	–	–	–
CASH INTEREST (PAID)	64	116	474	222	(18)
CASH AVAILABLE FOR DISCRETIONARY SPENDING AND CAPITAL EXPENDITURES	6,026	2,724	(722)	(4,514)	(7,411)
CAPITAL EXPENDITURES					
PROCEEDS FROM DISPOSAL OF CAPITAL ASSETS	11	19	29	62	–
DEFERRED DEVELOPMENT	(1,087)	–	–	–	–
PURCHASE OF OTHER CAPITAL ASSETS	(1,137)	(470)	(307)	(292)	(1,201)
FREE CASH FLOW	3,813	2,273	(1,000)	(4,744)	(8,612)

<i>Three months ended December 31 (\$ thousands)</i>	2005	2004
EBITDA	2,009	1,090
STOCK-BASED COMPENSATION	500	101
CASH INTEREST (PAID)	100	2
CASH AVAILABLE FOR DISCRETIONARY SPENDING AND CAPITAL EXPENDITURES	2,609	1,193
CAPITAL EXPENDITURES		
PROCEEDS FROM DISPOSAL OF CAPITAL ASSETS	–	–
DEFERRED DEVELOPMENT	(167)	–
PURCHASE OF OTHER CAPITAL ASSETS	(175)	(290)
FREE CASH FLOW	2,267	903