



## Management's Discussion and Analysis

May 13, 2009

**The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the three months ended March 31, 2009 and 2008, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008. All dollar values are expressed in thousands of Canadian Dollars, except for per-share figures.**

The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports on certain non-GAAP measures that are used by management to evaluate performance of the business. Because non-GAAP measures do not have a standardized meaning, securities regulators require that non-GAAP measures be clearly defined and qualified, reconciled to their nearest GAAP measure and be given no more prominence than the closest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of non-GAAP measures is provided in section 12: Reconciliation of Non-GAAP Measures.

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

### Forward-Looking Statements

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

## Management's Discussion and Analysis Contents

Section	Contents
<b>1 Business Overview</b>	A description of the business of the Company.
<b>2 Corporate Vision and Strategy</b>	A description of the corporate vision and strategy.
<b>3 Key Performance Indicators</b>	A description of the Company's key performance indicators and their relationship to corporate strategy.
<b>4 Overall Performance</b>	A summary of the consolidated results and key events during the first three months of 2009.
<b>5 Selected Annual &amp; Quarterly Information</b>	A summary of selected annual and quarterly financial information and comments on trends of the information.
<b>6 Results of Operations</b>	A detailed discussion of operating results.
<b>7 Financial Condition</b>	A discussion of significant changes in the balance sheet from the end of the last reported period.
<b>8 Liquidity and Capital Resources</b>	A discussion of cash flow, liquidity, credit facilities and other disclosures.
<b>9 Critical Accounting Estimates</b>	A description of accounting estimates, which are critical to determining financial results and forthcoming changes to accounting policies and financial reporting.
<b>10 Outlook</b>	A discussion of the outlook for the Company's performance over the next year.
<b>11 Business Risks and Uncertainty</b>	A discussion of risks and uncertainties that may affect the business of the Company.
<b>12 Reconciliation of Non-GAAP Measures</b>	A description, calculation and reconciliation of certain non-GAAP measures used by management.

## 1 Business Overview

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

Established in 1987, Zedi™ has over 300 upstream, midstream and oilfield services customers who are primarily located in Western Canada. Zedi monitors approximately 36,000 sites and manages approximately 200,000 assets with its end-to-end solution for data management across the production operations space, delivered through:

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

## 2 Corporate Vision and Strategy

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

- *People – Zedi will partner with its employees to promote their personal development, growth and success and together the company and the employees will share in the benefits of corporate success.*
- *Customers – With a primary view toward improving customer earnings, Zedi will structure all of its customer interactions to deliver a personal experience that positively addresses customer needs, enabling them to achieve greater success.*
- *Data – Zedi will deliver and further develop products and services that add to the quality and quantity of well and field operation data and increase its value by transforming it to information.*
- *Open Interface – Zedi will leverage the high data value through developing the FINE® system, Zedi’s intelligent network, to be vendor neutral, seeking to be an industry standard and enabling broad surveillance inputs and application extractions through an open interface.*
- *Execution – Zedi will balance near term returns with long term wealth by focusing on market sectors that it can dominate and by making pragmatic decisions that maximize shareholder return.*

### 3 Key Performance Indicators

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

- **RECURRING REVENUE AS A PERCENTAGE OF OPERATIONS EXPENSE**

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

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

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

- **TOTAL REVENUE**

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

- **GROSS MARGIN PERCENTAGE**

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

- **INCOME PER SHARE**

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

## **4 Overall Performance**

### **4.1 Materiality for Disclosure**

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

### **4.2 Events or Activities Impacting the Business in the first three months of 2009**

#### **Integration of Acquisitions**

Throughout the first quarter of 2009, Zedi continued to integrate the operations acquired via the three acquisitions completed in fiscal 2008, offering the expanded suite of products and services to the combined customer base, thereby increasing the value proposition Zedi provides to each of its customers.

#### **Execute on Strategy**

Zedi remained focused on execution against the company’s strategic plan throughout the first quarter of 2009, as evidenced by the following activities, which will have both short term and long term impacts:

- Zedi announced an expanded footprint in the United States following the successful completion of the first phase of a corporate-wide retrofit project with National Fuel Corporation, deploying Zedi products on all producing gas wells. National Fuel chose Zedi as a partner for end-to-end service that enables them to control and optimize intermittent flowing wells, reduce site visits, and to enable field and head office decision makers to view critical well site information.
- Zedi established a sales presence in Denver with a Business Development Manager. This will facilitate further penetration of the Rocky Mountain region, capitalizing on the success with National Fuel Corporation.
- Zedi Field Operations secured a contract with Shell Canada Energy to manage contract operators for 150 gas wells and plants in northeastern British Columbia which were previously owned by Duvernay Oil Co. Outsourcing the management of the contract operators was done to reduce costs, liability and risk and to allow Shell to focus on more strategic asset optimization activities.

#### **Global Economic Factors**

The continuing impact of the credit crisis, namely the global economic slowdown and in particular, the negative impact on the commodity prices including oil and gas, has dramatically affected the marketplace into which Zedi sells its products. However, the nature and extent of impact on energy producers continues to vary dramatically depending upon their geographical areas of operation, product mix and the strength of their balance sheets prior to entering the slowdown.

The Company was able to avoid any significant direct impacts of the global credit crisis throughout the latter part of 2008 but in the first three months of 2009 the impact has become noticeable. Although the Company’s recurring revenue model remains strong and certain of its service lines have grown, those service lines dependent upon new drilling activity have contracted, although not to the same extent as the industry in general.

Management continues to evaluate economic conditions and various third-party projections regarding the extent and duration of the market downturn, including ongoing contact with many of our customers.

### 4.3 Impact of Stock-Based Compensation on Reported Results

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

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

#### Stock Options

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

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

	Three months ended March 31, 2009		Year ended December 31, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,810,496	\$ 0.94	8,932,186	\$ 1.20
Granted	39,576	0.60	2,792,583	0.62
Exercised	-	-	(265,345)	0.42
Expired/Forfeited	(588,840)	1.47	(3,648,928)	1.25
<b>Outstanding, end of period</b>	<b>7,261,232</b>	<b>\$ 0.83</b>	<b>7,810,496</b>	<b>\$ 0.94</b>
Options exercisable, end of period	2,582,306		3,114,802	
Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$0.21-\$0.49	6,000	2.6 yrs	2,000	\$0.47
0.50-1.00	5,937,783	2.8 yrs	1,409,966	0.79
1.01-2.00	1,317,449	0.6 yrs	1,170,340	1.46
<b>\$0.21- \$2.00</b>	<b>7,261,232</b>	<b>2.4 years</b>	<b>2,582,306</b>	<b>\$1.09</b>

### Deferred Share Units

A deferred share unit (“DSU”) is compensation paid in the form of a right to a share that is not received until the occurrence of a future event. During the three month period, the Company did not issue any DSUs as director fee compensation. The Company has an obligation under the DSU plan at March 31, 2009 of \$4 (2008 - \$3).

### Restricted Share Units

A restricted share unit is compensation paid in the form of a right to a share that is received at a later date. During the three months ended March 31, 2009, the Company issued 14,841 (2008 – 887,753) RSUs with a weighted average fair value of \$0.60 (2008 - \$0.62).

### Pending Changes to Stock-based Compensation Plans

In the second quarter of 2009, the Company intends to introduce an employee share purchase plan and thereafter decrease the scope and number of future option grants under the stock option plan. Under the new employee share purchase plan, eligible employees who elect to contribute funds to purchase shares will receive a 40% matching contribution from the Company, whereafter the combined total funds will be used to purchase common shares of the Company on the market.

### Stock-based Compensation Expense

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

The following table shows the breakdown of the stock-based compensation expense of \$310 reported in the three months ended March 31, 2009.

<b>Annual Option Grant Date</b>	<b>Number of options outstanding as at March 31, 2009</b>	<b>Exercise Price</b>	<b>Expensed in Q1 2009</b>	<b>Remaining to be expensed in future periods.</b>
November 1, 2005 <sup>1</sup>	1,098,562	\$1.46	-	-
December 13, 2006	1,885,216	\$0.91	96	274
November 13, 2007	1,253,646	\$0.53	23	150
November 13, 2008	2,087,139	\$0.60	47	503
Various dates <sup>2</sup>	936,669	\$1.46 <sup>3</sup>	48	155
Option Totals	7,261,232		\$214	\$ 1,082
<b>DSU Grant Date</b>	<b>Number of DSUs as at March 31, 2009</b>	<b>Price</b>	<b>Expensed in Q1 2009</b>	<b>Remaining to be expensed in future periods.</b>
June 30, 2006	2,143	\$0.48	\$ 0.2	-
September 29, 2006	3,879	\$0.48	0.5	-
December 31, 2006	1,579	\$0.48	0.2	-
September 25, 2006	250,000	\$1.16	-	-
DSU Totals	257,601		\$ 0.9	-
<b>RSU Grant Date</b>	<b>Number of RSUs as at March 31, 2009</b>	<b>Price</b>	<b>Expensed in Q1 2009</b>	<b>Remaining to be expensed in future periods.</b>
September 25, 2006	400,000	\$1.16	\$ -	\$ -
August 2, 2007	19,220	0.63	2	2
August 31, 2007	9,657	0.60	1	1
October 31, 2007	2,250	0.47	0.1	0.3
November 13, 2007	470,120	0.53	31	77
November 13, 2008	703,609	0.60	52	342
Various dates <sup>2</sup>	133,729	\$0.72 <sup>3</sup>	9	49
RSU Totals	1,738,585		\$ 95.1	\$ 471.3
All stock-based comp. totals			\$310	\$1,553.3

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

#### Discussion of Performance Results Excluding the Stock-based Compensation Expense

Significant historical share price volatility has impacted the valuation of stock options for the purpose of recording of a stock-based compensation expense. A number of options that have already been expensed have in fact expired without being exercised and a large number of options that were expensed in 2008 and the first three months of 2009 remain significantly out of the money. The expensed options do not impact cash flow or the operations of the Company. From the table above the reader can assess the specific options that the expense relates to, with approximately 67% of the expense being for options that are significantly out of the money and some of which have already expired. Therefore, the Company will at times discuss the performance of the Company with this expense excluded (a reconciliation to the nearest GAAP measure is provided in section 12).

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

#### 4.4 Impact of Change in Accounting Policy on Reported Results

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

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

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

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Reduction to opening equity to recognize cumulative impact for fiscal years 2005 through 2007					(1,357)
Increase in development costs expensed in period	410	307	366	212	200
Decrease in amortization of previously capitalized development costs	(174)	(167)	(155)	(143)	(143)
Change in net income before tax	(236)	(140)	(211)	(69)	(57)
Change in future income tax provision	(47)	(33)	(58)	(19)	(44)
Change in net income	(189)	(107)	(153)	(50)	(13)
Change to ending balance of internally-generated intangible assets	(236)	(140)	(211)	(69)	(1,415)

## 4.5 Consolidated Highlights

Figures in the following tables, including historical comparatives, reflect the change in accounting policy as described in the preceding section.

	Three Months ended March 31				Year ended December 31			
	2009	2008	Change	% Change	2008	2007	Change	% Change
Revenue	12,712	11,377	1,335	12%	46,178	29,121	17,057	59%
Gross Profit	6,781	5,819	962	17%	23,385	15,562	7,823	50%
EBITDA <sup>(1)</sup>	1,351	1,896	(545)	(29%)	5,561	3,005	2,556	85%
Net Income before income taxes	495	1,349	(854)	(63%)	2,581	1,134	1,447	128%
Net income	301	864	(563)	(65%)	1,902	951	951	100%
Net income per share, basic	0.00	0.01	-		0.02	0.01	0.01	
Net Income per share, diluted	0.00	0.01	-		0.02	0.01	0.01	
Cash from operations	(216)	4,490	(4,706)	(105%)	8,305	9,321	(1,016)	(11%)
Free cash flow <sup>(2)</sup>	489	1,548	(1,059)	(68%)	3,114	2,349	860	38%

(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 cash from operations figures shown above include the effects of changes in non-cash working capital. If these changes are excluded, cash from operations in the first quarter of 2009 was \$1,606 and for the first quarter of 2008 it was \$2,412.

The following table reviews some results, adjusted for the change in accounting policy explained in section 4.4 and **excluding stock-based compensation** (please see section 4.3 above for a full explanation of the stock-based compensation expense).

	Three Months ended March 31				Year ended December 31			
	2009	2008	Change	% Change	2008	2007	Change	% Change
EBITDA <sup>(1)</sup>	1,661	2,309	(648)	(28%)	7,074	4,855	2,219	46%
Net Income before income taxes <sup>(1)</sup>	805	1,762	(957)	(54%)	4,094	2,984	1,110	37%
Net Income per share before taxes, basic <sup>(1)</sup>	0.01	0.02	(0.01)		0.04	0.03	0.01	
Net Income per share before taxes, diluted <sup>(1)</sup>	0.01	0.02	(0.01)		0.04	0.03	0.01	

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

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

## 5 Selected Annual and Quarterly Information

### 5.1 Summary Table

The following table sets forth selected three-year consolidated financial information, adjusted for the change in accounting policy as described in section 4.4, and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008:

	2008	2007	2006
Total Revenues	<b>46,178</b>	29,121	37,137
Net Income Before Taxes	<b>2,581</b>	1,134	3,742
Net Income Before Taxes per share - basic	<b>0.03</b>	0.01	0.04
Net Income Before Taxes per share - diluted	<b>0.03</b>	0.01	0.04
Net Income After Taxes	<b>1,902</b>	951	3,669
Net Income After Taxes per share - basic	<b>0.02</b>	0.01	0.04
Net Income After Taxes per share - diluted	<b>0.02</b>	0.01	0.04
Total Assets	<b>52,580</b>	47,216	46,875

### 5.2 Quarterly Results Summary

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

	2009	2008				2007			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenues	<b>12,712</b>	14,339	10,429	10,033	11,377	8,619	7,197	4,870	8,435
Recurring Revenue <sup>(1)</sup>	<b>7,881</b>	6,177	5,007	4,935	4,633	2,795	2,531	2,381	2,123
Recurring Revenue <sup>(1)</sup> as a % of Operations Expense <sup>(2)(5)</sup>	<b>154%</b>	125%	132%	141%	132%	95%	98%	88%	87%
Recurring Revenue <sup>(1)</sup> as a % of Total Cash Expenditures <sup>(3)</sup>	<b>126%</b>	98%	107%	106%	106%	76%	76%	69%	66%
Percent Gross Margin	<b>53%</b>	51%	51%	49%	51%	57%	54%	49%	52%
Net Income (Loss) <sup>(5)</sup>	<b>301</b>	741	206	91	864	1,679	253	(1,138)	157
Net Income (Loss) (per share) - basic and diluted <sup>(5)</sup>	<b>0.00</b>	0.01	0.00	0.00	0.01	0.02	0.00	(0.01)	0.00
Net Income (loss) before taxes excluding stock-based compensation expense <sup>(4)(5)</sup>	<b>805</b>	780	739	813	1,762	1,643	894	(851)	1,298
Net Income (loss) per share before taxes excluding stock-based compensation expense - basic and diluted <sup>(4)(5)</sup>	<b>0.01</b>	0.01	0.01	0.01	0.02	0.02	0.01	(0.01)	0.01
Notes:	<sup>(1)</sup> Recurring Revenue includes all fees that are billed to customers on a recurring basis. <sup>(2)</sup> Operations Expenses includes all expenses except for stock based compensation and allowances for doubtful accounts. <sup>(3)</sup> Total Cash Expenditures includes Operationsl Expenses plus the amount of R&D capitalized in the period and all amounts for the acquisition of capital assets <sup>(4)</sup> This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure. <sup>(5)</sup> Comparative amounts adjusted for change in accounting policy as described in section 4.4								

### **5.3 Comments on Corporate Performance – Key Performance Indicator Trends**

The following comments and figures, where relevant, have been adjusted for the change in accounting policy described in section 4.4 above.

Revenue for Q1 was \$12,712, an increase of \$1,335 over Q1, 2008, in keeping with the year over year positive revenue growth trend the Company had established over the past seven years. The Company anticipates volatility in the industry well into 2009 as the industry continues to adjust to the global negative market conditions. The company therefore expects this volatility in the industry activity to be reflected in its revenues.

The Company's recurring revenue stream remains strong, providing a solid foundation to weather poor market conditions. As a result of the acquisition of J&J Oilfield, UMS and OAS, the recurring revenue percentages of operation expenses and total cash expenditures were significantly higher in 2008 and this trend has continued into 2009. Recurring revenue increased from \$4,633 in Q1 2008 to \$7,881 for Q1 of 2009.

For 2008 the percentage ratio of recurring revenue to operating expenses was 132%, growing from 102% in 2007. This trend continued into 2009, with a Q1 figure of 154%. The Company expects there may be some fluctuation in this percentage quarter to quarter but tracks the year over year trend to be sure the Company is continuing to take advantage of the scalability of its business model.

The Company also tracks recurring revenue as a percentage of total cash requirements, which is calculated by combining the investment in R&D and capital assets with the operating expenses. For 2008 the percentage ratio of recurring revenue to total cash expenditures was 101%, growing from 72% in 2007. In the first three months of 2009, this figure was 126%. The trend tracks relatively close to the prior measure that looks solely at operation expenses, and similarly, will fluctuate from quarter to quarter..

Gross margin percentage grew throughout 2007 based on growth of the PetroNet production accounting business and network service fees, both of which have higher margins than the surveillance and optimization product lines. These product lines continued to grow significantly in 2008 with sustained margin levels, but the consolidated gross margin dropped slightly based on introduction of the field services and chart reading services acquired from J&J and OAS respectively, which have lower margins. In the first three months of 2009, consolidated gross margins were 53%, consistent with 2008 values.

The Company expects some volatility in the gross margin on a quarterly basis as a result of fluctuations in revenue mix. There is a significant margin difference between hardware, software and recurring fees and therefore, if the revenue mix changes between periods the total gross margin percentage can vary. The Company expects that service line margins will continue into the remainder of 2009 at levels consistent with 2008, with a slight drop in consolidated margin as OAS results are included for the full quarters being reported on.

## **6 Results of Operations – First Three Months of 2009**

### **6.1 Revenue**

The Company generated revenues of \$12,712 for the three months ended March 31, 2009 compared to \$11,377 for the three months ended March 31, 2008. This represents an increase of 12% for the first quarter. The increase in revenue was driven by the three 2008 acquisitions.

## **6.2 Cost of Sales**

The cost of sales for the three months ended March 31, 2009 was \$5,931 resulting in a 53% margin compared to a 51% margin and cost of sales of \$5,558 for the same period in 2008. These results are consistent with the margin discussion in Section 5.3 above.

## **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, 2009 were \$712, which is higher than the same period for 2008 by \$61 or 9%. As a percentage of revenue, operating expense was 5.6% for the first quarter ended March 31, 2009, as compared to 5.7% for the same quarter in 2008. Operating expenses have continued on a similar, stable trend over the past three years and reflect the scalability of our business model.

## **6.4 Sales, General and Administrative Expenses**

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

The SG&A expense was \$3,543 for the first quarter ended March 31, 2009. This expense was \$1,162 more than during the quarter ended March 31, 2008. SG&A expense as a percentage of revenue was 27.9% for the quarter ended March 31, 2009 as compared to 20.9% for the same quarter in 2008. The increase in the SG&A expense for the year is primarily due to:

- addition of staff in sales and marketing, finance, human resources and administration
- continued expansion of international marketing efforts
- the ongoing integration of operations acquired in 2008

## **6.5 Research & Development**

The total R&D cost was \$1,722 in the first quarter 2009 up from \$1,209 in the first quarter of the prior year. Under the new accounting policy as described in section 4.4 above, the Company capitalized \$857 of development costs in the first quarter and expensed \$865 of the costs. The overall increase in R&D activity reflects the Company's continued efforts at bringing new products to market more quickly, including the expansion of our optimization product suite. The success of this initiative was demonstrated by the significant number of new product introductions in 2008, diversifying and strengthening Zedi's product line and providing a strong foundation to support the revenue and cash flow targets set for 2009 and beyond.

## **6.6 Stock-based Compensation**

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

The Company's non-cash stock-based compensation expense was \$310 for the quarter ended March 31, 2009, compared with \$413 for the quarter ended March 31, 2008 (please refer to section 4.3 for a full discussion of the breakdown of the stock-based compensation expense).

## **6.7 Net Income**

The overall net income for the first quarter, 2009 was \$301 compared to \$864 for the same period in 2008, for an overall decrease of \$563 or 65%. A future income tax provision of \$194 was recognized in the quarter.

Net Income before taxes (excluding the impact of recognition of the future tax asset) better represents the performance of the Company. Net Income before taxes in the first quarter of 2009 was \$495. With stock-based compensation factored out net income before taxes was \$805 in the first quarter.

## **6.8 Amortization of Capital and Intangible Assets**

In the first quarter the amortization of capital and intangible assets was \$804, of which \$381 related to acquired intangible assets, which are non-recurring capital expenditures, and amortization of internally-generated intangible assets accounted for \$206. The balance of \$217 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

## **6.9 Future Income Tax Assets**

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. During the three months ended March 31, 2009, the Company recognized a provision of \$194 against previously unrecognized tax losses.

## **6.91 Earnouts**

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

During 2008 the Company completed the acquisition of all issued and outstanding shares of J & J Oilfield Ltd. ("J & J"). The purchase price is comprised of an upfront payment and an earnout to a maximum aggregate payout of \$5 million. The amount of the upfront payment at closing was \$2.9 million, which was paid in cash. Based on the achievement of performance targets over the next five years, the shareholders of J & J have an opportunity to earn an additional amount up to a maximum of \$2 million, payable in cash and/or Zedi shares. The earnout performance targets have been set based on expected future growth from the performance level of J & J at the time of the acquisition. On an annual basis, following each fiscal year, a calculation will be completed based on a normalized EBITDA (Earnings Before Income Taxes Depreciation and Amortization) for the J & J operations and the growth over the prior year's performance. The maximum earnout will be achieved when EBITDA growth averages about 15% per year over the five year period. Earnout of \$321 was accrued for the year ended December 31, 2008. Earnout for 2009 will be calculated and accrued at the end of fiscal 2009.

## 7 Quarterly Change in Financial Condition

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

	March 31, 2009	December 31, 2008	Change	Explanation
<b>Current Assets</b>				
Cash and cash equivalents, including credit facilities	(1,318)	15	(1,333)	The Company anticipated using its credit facility in early 2009 after funding each of the 2008 acquisitions with cash. The credit facility balance peaked midway through Q1 and the company is now rebuilding cash reserves consistent with the usual seasonal billing cycle.
Accounts receivable	14,471	12,133	2,338	Receivables continue to be stable with the Q1 growth primarily attributed to advance billing of 2009 annual fees, which corresponds directly to the increase in Deferred Revenue.
Inventories	8,681	7,903	778	Finished product inventories have increased slightly with the lag in sales related to new drilling activity slowdowns.
Prepaid expenses and deposits	196	321	(125)	The decrease is in line with expectations
<b>Current Liabilities</b>				
Accounts payable	2,107	3,131	(1,024)	Decrease is in line with expectations.
Accrued liabilities	2,471	3,106	(635)	The decrease is in line with expectations.
Deferred revenue	6,910	4,079	2,831	Service contracts are invoiced annually, but revenue is deferred and recognized monthly. This amount fluctuates seasonally based upon the timing of contract renewals.
<b>Working Capital<sup>(1)</sup></b>	<b>11,503</b>	<b>10,527</b>	<b>976</b>	Consistent with expectations
<b>Capital Assets</b>	<b>2,419</b>	<b>2,386</b>	<b>33</b>	Capital purchases are in line with expectations.
<b>Other Assets</b>				
Intangibles, under new accounting policy as per section 4.4	9,045	8,761	284	Increase is consistent with the continuing investment in product development.
Goodwill	18,664	18,664	Nil	No acquisitions in period
<sup>1</sup> Current assets minus current liabilities is an indicator of the ability to finance current operations and meet obligations as they fall due.				

## 8 Liquidity and Capital Resources

The Company's net cash overdraft at March 31, 2009 was \$1,318, a decrease of \$1,333 from the December 31, 2008 net cash balance of \$15. Cash flow from operations continues to be strong, with \$2,016 contributed in Q1 2009 prior to changes in non-cash working capital balances. None of the Company's cash or cash equivalents is invested in asset-backed commercial paper. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Opening cash</b>	<b>15</b>	12,539
Cash provided by operations, after changes in non-cash working capital	<b>(216)</b>	4,490
Cash (used) in financing	-	(514)
Cash (used) in investing	<b>(1,117)</b>	(3,276)
<b>Closing cash</b>	<b>(1,318)</b>	13,239

The following table presents summarized working capital information.

	<b>As at March 31,</b>	
	<b>2009</b>	<b>2008</b>
Current assets	<b>24,309</b>	30,069
Current liabilities	<b>12,806</b>	11,235
Working capital	<b>11,503</b>	18,883
Current ratio	<b>1.90</b>	2.68

The primary reason for the decrease in cash balances and working capital compared to Q1 of 2008 relates to the additional 2008 acquisitions, which were paid for in cash.

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

Capital expenditures were \$1,122 during the three months ended March 31, 2009, funded from cash flow from operations. Capital expenditures break down as follows:

Automotive	\$ 32
Computer Hardware	167
Computer Software	35
Furniture & Equipment	7
Manufacturing Tools & Equipment	7
Leasehold Improvements	3
Patents and Trademarks	14
Internally-generated Intangible Assets	857
Total	<u>\$1,122</u>

#### Credit Facilities

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

#### Financial Instruments

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

#### Other Debt

Accrued liabilities include a loan payable to Natural Resources Canada of \$58 (2008 - \$58) under an Industry Energy Research and Development (IERD) program. The loan is repayable at the rate of 1.5% of gross revenues from the sale of product developed under the program. Payments are due semi-annually, no more than 30 days after the end of June and December. The loan bears no interest except for overdue payments, which bear interest at Bank of Canada prime plus 2%. The loan is unsecured and due in September, 2009.

#### Operating Leases

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

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

#### Outstanding Share Information

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value. As of May 13, 2009, the date of this MD&A document, the Company had 93,889,568 common shares issued and outstanding.

## **9 Critical Accounting Estimates**

### **9.1 Critical Accounting Estimates**

The Company's accounting policies, including new or changed policies adopted in the current period, are detailed in notes 2 and 3 of the financial statements, and the impact of a current period change in accounting policy is described in section 4.4 above. In addition to these disclosures, the following commentary is intended to provide further insight into the assumptions and estimates used by management in preparing the financial statements:

#### Use of estimates

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

#### Cash and cash equivalents

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

#### 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.

#### Research & development costs

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

#### Internally-generated Intangible Assets

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

## **9.2 Forthcoming Changes in Accounting Policies and Financial Reporting**

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

### **Convergence with International Financial Reporting Standards:**

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

- The Company engaged external consultants from PricewaterhouseCoopers LLP to conduct an initial assessment of the impact of adopting IFRS within the Company. This engagement was conducted in December 2008 to understand, identify and assess the overall effort required to adopt IFRS within the timelines outlined by the AcSB.
- The Company plans to adopt IFRS according the schedule recommended by the AcSB and is still evaluating the options and potential exemptions available upon initial adoption of IFRS. In addition to an increase in the amount of general disclosure involved, based on the work done to date, the Company expects the greatest potential impact of IFRS adoption to be within the following areas:
  - Intangible Assets – IFRS has explicit requirements to ascertain the degree of certainty and timing of future economic benefits attributable to the Company’s internally developed software, including a greater requirement for external evidence
  - Impairment of Long-Lived Assets, Intangibles and Goodwill – IFRS requires a more elaborate impairment test than under GAAP, and this test must be applied at a more detailed level, to individual assets or groups of assets assessed to be Cash Generating Units. IFRS requires the reversal of impairment writedowns where previous adverse circumstances have changed and impairment tests must be completed upon transition to IFRS
  - Share Based Compensation – IFRS requires recognition of stock-based compensation expense to incorporate the concept of graded vesting and prohibits the intrinsic method of valuing stock based compensation.
- Also expected to require changes, but with potentially lesser impact on existing reporting, are:
  - Revenue Recognition – guidance for revenue recognition under IFRS is actually less extensive than current GAAP
  - Foreign Currency – IFRS is more specific regarding the process used to ascribe a functional currency to each entity within a corporate group and does not distinguish between different types of foreign operations as GAAP currently does.
  - Provisions – IFRS requires any provisions to be discounted rather than shown at face value, and does not permit the use of general provisions
- Lastly, the Company anticipates smaller potential impacts in the following areas:
  - Business Combinations – for future acquisitions
  - Property Plant and Equipment
  - Leases
  - Income Taxes
  - Earnings Per Share
  - Cash and Cash Equivalentents
- The Company has begun to use the results of the initial assessment to further evaluate each of the above areas as well as any new findings (the above list is not necessarily exhaustive).

The next phase of IFRS adoption efforts is now underway, and the Company continues to monitor ongoing changes in both IFRS and GAAP in the period leading up to adoption.

#### Business Combinations:

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

#### Consolidation:

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

## **10 Outlook**

The economic challenges due to the global financial crisis and low commodity prices that were evident in late 2008 and throughout the first three months of 2009, are now predicted to continue into 2010. Continuing through the remainder of 2009, the Company plans to protect its strong balance sheet and continually reassess its opportunities as it navigates through the economic downturn and prepares for the subsequent recovery.

In order to survive and thrive in this current market, Zedi's customers need to optimize production, reduce their operating costs, and have their key people accomplish more with less. Zedi is actively engaged in sales and marketing activities that are intended to help customers understand how Zedi's products and services are capable of improving business efficiencies and reducing costs for producers, thereby meeting their immediate needs in these turbulent times.

Zedi also plans to maintain strong cash flows from operations by leveraging both its recurring revenue model and scalable business operations. As a result, Zedi's key priorities remain to:

- Maintain focus on customer service excellence
- Complete the integration of the businesses acquired in 2008
- Introduce additional optimization solutions for both gas and oil wells.
- Sustain research and development to enhance existing products and services, protecting Zedi's technological advantage.

- Continue to control costs and improve business efficiency.
- Continue to invest in select international markets, specifically the Russian and Asia- Pacific regions.
- Continue penetration in the United States, following National Fuel's corporate adoption of Zedi products on all of its producing gas wells.

## **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.

### Credit risk

At March 31, 2009, no customer represented a significant percentage of total accounts receivable. The Company does not obtain collateral or other security to support financial instruments subject to credit risk.

### Foreign exchange risk

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

### Regulatory Risks

The Company is subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on the Company. The Company may also be subject to regulation in both its domestic market and 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 domestic or foreign countries or other regulatory bodies 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 with comparable products. There are several very large companies involved in remote data management processes. Such companies have more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources than the Company. It is the Company's intention to establish marketing and distribution alliances with several of these companies but there can be no assurance that such alliances will be formed.

### Dependence on a Market that has Historic Volatility

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

### Reliance Upon the Internet

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

### Liability Risks

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

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

### Dependence on Key Personnel

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

### Management of Growth

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

### Convergence with International Financial Reporting Standards

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

section 9.2, the Company is still in the process of determining the full effect of this transition on its financial reporting.

## 12 Reconciliation of Non-GAAP Measures

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

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

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

The following is a reconciliation of EBITDA with Net Income.

	Three Months Ended March 31		Years ended December 31	
	2009	2008	2008	2007
<b>Net Income</b>	<b>301</b>	864	<b>1,902</b>	951
Amortization of capital assets and intangibles	<b>804</b>	647	<b>3,220</b>	2,344
Loss on disposal of capital assets	<b>(3)</b>	3	<b>3</b>	1
Future income taxes	<b>194</b>	485	<b>679</b>	183
Interest expense (income)	<b>55</b>	(103)	<b>(243)</b>	(474)
<b>EBITDA</b>	<b>1,351</b>	1,896	<b>5,561</b>	3,005

## 12.2 Free Cash Flow

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

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

	Three Months ended March 31,		Years ended December 31	
	2009	2008	2008	2007
<b>EBITDA</b>	<b>1,351</b>	1,896	<b>5,561</b>	3,005
Stock-based compensation	<b>310</b>	413	<b>1,513</b>	1,850
Cash interest (paid)	<b>(55)</b>	103	<b>243</b>	474
Cash available for discretionary spending and capital expenditures	<b>1,606</b>	2,412	<b>7,317</b>	5,329
Capital expenditures				
Proceeds from disposal of capital assets	<b>5</b>	7	<b>7</b>	4
Deferred development	<b>(857)</b>	(731)	<b>(3,194)</b>	(2,033)
Purchase of other capital assets	<b>(265)</b>	(140)	<b>(1,016)</b>	(1,046)
<b>Free Cash Flow</b>	<b>489</b>	1,548	<b>3,114</b>	2,254

### 12.3 Net Income before Taxes with Stock-based Compensation Excluded

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

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

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

	Three Months ended March 31		Years ended December 31	
	2009	2008	2008	2007
<b>Net Income before Taxes</b>	<b>495</b>	1,349	<b>2,581</b>	1,134
Stock-based compensation	<b>310</b>	413	<b>1,513</b>	1,850
<b>Net Income before Taxes Excluding Stock-based Compensation</b>	<b>805</b>	1,762	<b>4,094</b>	2,984

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

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

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

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

(\$)	Three Months ended March 31		Years ended December 31	
	2009	2008	2008	2007
<b>Income (loss) per Share, basic and diluted</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>0.01</b>
Future Income Tax per Share	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>
<b>Income (loss) per Share before Taxes, basic and diluted</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>
Stock-based compensation per share	<b>0.00</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>
<b>Income (loss) per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted</b>	<b>0.01</b>	<b>0.02</b>	<b>0.04</b>	<b>0.03</b>