

# CONSOLIDATED BALANCE SHEETS

(\$ thousands)	AS AT	
	MARCH 31,	DECEMBER 31,
	2006	2005
	(Unaudited)	(Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
CASH AND CASH EQUIVALENTS	\$ 7,217	\$ 6,368
ACCOUNTS RECEIVABLE	11,814	7,749
INVENTORIES	6,126	7,115
PREPAID EXPENSES AND DEPOSITS	162	218
	25,319	21,450
<b>CAPITAL ASSETS</b>		
DEFERRED DEVELOPMENT COSTS	1,431	1,087
INTANGIBLE ASSETS	4,295	4,450
GOODWILL	7,932	7,932
FUTURE INCOME TAX ASSETS	3,280	2,380
	\$ 43,590	\$ 38,493
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
ACCOUNTS PAYABLE	\$ 1,348	\$ 1,985
ACCRUED LIABILITIES	2,147	3,874
DEFERRED REVENUE	3,163	1,265
CURRENT PORTION OF LONG-TERM DEBT	2	2
	6,660	7,126
LONG-TERM DEBT	61	61
	6,721	7,187
<b>SHAREHOLDERS' EQUITY:</b>		
SHARE CAPITAL	52,360	49,961
CONTRIBUTED SURPLUS	2,678	2,222
DEFICIT	(18,169)	(20,877)
	36,869	31,306
	\$ 43,590	\$ 38,493

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

THREE MONTHS ENDED MARCH 31

(\$ thousands, except share and per share amounts)	2006	2005
	(Unaudited)	(Unaudited)
<b>SALES</b>	<b>\$ 11,308</b>	<b>\$ 5,194</b>
<b>COST OF SALES</b>	<b>6,078</b>	3,003
<b>GROSS PROFIT</b>	<b>5,230</b>	2,191
<b>EXPENSES</b>		
OPERATIONS	397	396
SALES, GENERAL AND ADMINISTRATIVE	1,853	715
STOCK BASED COMPENSATION	539	361
RESEARCH AND DEVELOPMENT	235	195
	<b>3,024</b>	1,667
	<b>2,206</b>	524
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	424	273
GAIN ON DISPOSAL OF ASSETS	–	(3)
INTEREST	(26)	(44)
	<b>398</b>	226
NET INCOME BEFORE INCOME TAXES	<b>1,808</b>	298
FUTURE INCOME TAXES	900	–
NET INCOME	<b>2,708</b>	298
DEFICIT, BEGINNING OF PERIOD	<b>(20,877)</b>	(25,854)
DEFICIT, END OF PERIOD	<b>\$ (18,169)</b>	\$ (25,556)
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	<b>0.027</b>	0.003
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	<b>99,126,788</b>	95,614,799

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31

(\$ thousands)	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
NET INCOME	\$ 2,708	\$ 298
ADJUSTMENTS FOR:		
AMORTIZATION	424	273
GAIN ON DISPOSAL OF ASSETS	–	(3)
STOCK BASED COMPENSATION	539	361
FUTURE INCOME TAXES	(900)	–
CHANGES IN NON-CASH OPERATING WORKING CAPITAL	(737)	(143)
	2,034	786
<b>FINANCING</b>		
PROCEEDS FROM SHARES ISSUED	116	46
REPAYMENT OF LONG-TERM DEBT	–	(4)
	116	42
<b>INVESTING</b>		
ACQUISITIONS OF CAPITAL ASSETS	(751)	(723)
ACQUISITION OF ROUGHNECK.CA, PAYMENT OF EARNOUT	(550)	–
PROCEEDS ON DISPOSAL OF CAPITAL ASSETS	–	7
	(1,301)	(716)
<b>INCREASE IN CASH</b>	<b>849</b>	<b>112</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,368	4,376
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,217	\$ 4,488
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
CASH	2,846	1,412
CASH EQUIVALENTS	4,371	3,076

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2006 and 2005

## **[1] NATURE OF OPERATIONS:**

zed.i solutions® inc. (the “Company”) is engaged in the development, production and sale of high technology products primarily for the energy sector. Activities are directed from the Company’s head office in Calgary, Canada with additional sales and service offices in Edmonton and Grande Prairie Canada.

zed.i solutions® inc. is a leading provider of innovative optimization technologies for the management of production operations in the energy sector. The Company’s solutions focus on well site infrastructure (flow measurement, metering shacks, optimization, well bore manipulation, plunger lift control, booster compression) and the business information needs that link the field with head office and throughout the enterprise.

## **[2] SIGNIFICANT ACCOUNTING POLICIES:**

**(A) BASIS OF PRESENTATION** The consolidated financial statements have been prepared by management and include the accounts of the Company and the Company’s wholly owned subsidiaries, zed.i solutions® (Canada) inc., zed.i solutions® (USA) inc., Quail Hill Mining Corporation and Roughneck.ca® Inc. All significant inter-company accounts and transactions have been eliminated. Quail Hill Mining Corporation is dormant and has no operations.

**(B) 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 receivables, inventories, capital assets, intangible assets, deferred development costs, future income taxes, acquisition earnout provision and goodwill are the more significant items subject to estimates in these consolidated financial statements.

**(C) FOREIGN CURRENCY CONTRACTS** At March 31, 2006, the Company had outstanding foreign currency forward contracts for the purchase of JPY40,000,000 at a fixed rate expiring April 28, 2006. The carrying value of the Company’s foreign exchange contract is \$22,840. The fair value of the contract is \$409,880. The carrying value of cash and accrued liabilities approximate their fair values due to the relatively short periods to maturity and recent purchase of the instruments.

*(D) FOREIGN EXCHANGE RISK* The cost of certain components in cost of sales and the associated accounts payable are denominated in foreign currency. At March 31, 2006, the Company had entered into forward currency contracts to purchase Yen with a financial institution at a rate of 0.010494 due April 28, 2006.

*(E) 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 throughout the year.

*(F) 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 the statement of 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 of 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 future income tax assets.

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.

*(G) GUARANTEES* Management of the Company believes there are no material guarantees, which require disclosure.

*(H) RESEARCH AND DEVELOPMENT COSTS* The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for 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.

**[2] SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**(I) 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.

**(J) 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 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.

**(K) PURCHASED INTANGIBLE ASSETS** Purchased intangible assets are recorded at cost and amortized on a straight-line basis over their expected useful lives. The net carrying amount of purchased intangible assets is reviewed at least annually or when circumstances change to determine whether there has been impairment in value. The review methodology is comprised of an assessment of the continuing contribution of the applicable product contribution to operations and an assessment of expected future cash flows. Intangibles acquired on the acquisition of WebTech 2000 Inc., D.G. Wehrhahn Company Ltd., Menex Technologies Inc. and Roughneck.ca<sup>®</sup> Inc. are being amortized as follows:

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

### [3] SHARE CAPITAL

(A) **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:

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,	
	2006		2005	
	NUMBER	AMOUNT	NUMBER	AMOUNT
<b>BALANCE OUTSTANDING, BEGINNING OF PERIOD</b>	<b>97,862,341</b>	<b>\$ 49,960,802</b>	95,564,576	\$ 47,693,244
<b>SHARES ISSUED:</b>				
ISSUED PURSUANT TO ACQUISITION OF ROUGHNECK, NET OF SHARE ISSUANCE COSTS	–	–	535,714	1,305,544
ISSUED FROM TREASURY PURSUANT TO EARNOUT PROVISION OF ROUGHNECK (note 3(c))	<b>1,467,361</b>	<b>2,201,042</b>	–	–
STOCK OPTIONS EXERCISED (note 3(b))	<b>294,297</b>	<b>198,445</b>	1,762,051	962,014
<b>BALANCE OUTSTANDING, END OF PERIOD</b>	<b>99,623,999</b>	<b>\$ 52,360,289</b>	97,862,341	\$ 49,960,802

(B) **STOCK OPTIONS EXERCISED:** During the three months ended March 31, 2006, 294,297 stock options were exercised for proceeds of \$198,445.

(C) 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. The total earnout approved for payment was \$2,751,302, which was paid as provided in the purchase and sale agreement as to 20% cash (\$550,260) and 80% common shares in zed.i solutions inc. (1,467,361 shares based on a deemed price of \$1.50 per share, based on the average closing market price for the 20 trading days prior to the execution of the letter of intent, discounted by 10%).

**[3] SHARE CAPITAL: (CONTINUED)**

**(D) SHARES HELD IN ESCROW** The following is a summary of the Company's common shares held in escrow:

	MARCH 31,	DECEMBER 31,
	2006	2005
BALANCE OUTSTANDING, BEGINNING OF PERIOD	207,950	809,890
SHARES IN ESCROW, ADDITIONAL	–	45,972
SHARES RELEASED FROM ESCROW IN THE PERIOD	(161,978)	(647,912)
BALANCE OUTSTANDING, END OF PERIOD	45,972	207,950

**(E) STOCK OPTIONS OUTSTANDING:** On May 30, 2000, the Company established a stock option plan for directors, officers, employees and consultants, which permits the granting of options to purchase up to a maximum of 10% of the Company's issued and outstanding common shares. The number of options and exercise price thereof is set by the Board of Directors at the time of grant provided that such exercise price shall not be less than that from time to time permitted under the rules of any stock exchange or exchanges on which the Company's shares may be listed. The maximum number of options that may be granted to any one individual shall not exceed 5% of the Company's issued and outstanding common shares. The options granted under the plan may be exercisable for a period not exceeding five years and may vest at such times, as the Board of Directors may determine at the time of grant.

During the three months ended March 31, 2006, a total of 187,416 options were granted. On November 8, 2002, the Company's Board of Directors approved a re-pricing of 1,062,200 options, held by employees who were not executives or officers, at an exercise price of \$0.20.

The number of shares reserved for stock options is 10% of the total issued shares.

**[3] SHARE CAPITAL: (CONTINUED)**

**(E) STOCK OPTIONS OUTSTANDING: (CONTINUED)**

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

	MARCH 31,		DECEMBER 31,	
	2006		2005	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING, BEGINNING OF PERIOD	9,143,357	\$ 1.41	4,669,239	\$ 0.36
GRANTED	187,416	1.45	6,341,835	1.76
EXERCISED	(294,297)	0.39	(1,762,051)	0.35
EXPIRED/CANCELLED	(84,668)	1.61	(105,666)	2.09
OUTSTANDING, END OF PERIOD	8,951,808	\$ 1.44	9,143,357	\$ 1.41
OPTIONS EXERCISABLE, END OF PERIOD	3,023,356		2,639,148	

EXERCISE PRICES	Options Outstanding			Options Exercisable	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.00 – \$0.20	317,071	0.9 yrs	\$0.20	313,738	\$0.20
\$0.21 – \$0.49	1,275,153	1.6 yrs	\$0.42	1,108,139	\$0.42
\$0.50 – \$1.00	351,667	0.9 yrs	\$0.50	348,333	\$0.50
\$1.01 – \$2.00	4,951,417	3.4 yrs	\$1.48	253,833	\$1.57
\$2.01 – \$2.88	2,056,500	2.1 yrs	\$2.33	999,313	\$2.33
\$0.20 – \$2.88	8,951,808	2.6 yrs	\$1.44	3,023,356	\$1.13

**[3] SHARE CAPITAL: (CONTINUED)**

**(E) STOCK OPTIONS OUTSTANDING: (CONTINUED)**

The fair-value of each option grant by the Company was estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions for grants assuming no dividends are paid on common shares. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

	2006	2005
RISK FREE INTEREST RATE	3.16%	3.07%
EXPECTED LIFE IN YEARS	3.0	3.0
VOLATILITY	73%	78%

**[4] INCOME TAXES:**

**FUTURE INCOME TAX ASSETS**

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. During the three months ended March 31, 2006, the Company recognized the benefit of \$900,000 in previously unrecognized tax losses carried forward.

**[5] SUBSEQUENT EVENTS:**

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