

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated July 22, 2005 should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended June 30, 2005 and 2004, and should also be read in conjunction with the audited consolidated financial statements and MD&A in Annual Report of zed.i solutions inc. (the "Company" or "zed.i") for the year ended December 31, 2004.

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

Additional information is available on the Company's website ([www.zedisolutions.com](http://www.zedisolutions.com)) and all previous public filings, including the annual information form (AIF) 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.

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## [1] BUSINESS OVERVIEW

zed.i solutions inc. (“the Company” or “zed.i”) is a leading provider of innovative technologies for the management of production operations in the energy sector. The focus of our business is three fold. One is zed.i Field Intelligence, including electronic production monitoring as well as optimization solutions that maximize oil and gas production by controlling equipment in real time. The second focus is zed.i’s Web Services, comprised of network communications and software designed to manage the business information needs to link remote assets and production with operations, head office and throughout the enterprise. The third focus is zed.i’s Service Culture, where we invest in our people and infrastructure across the organization to continually improve customer experience. Energy producers can increase earnings by using digital information to improve the complex business processes that impact oil and gas production. zed.i seeks to develop and commercialize technologies that improve customer cash flow from the reservoir to the point of sale and address the needs of field, regional and head office operating personnel.

## [2] CORPORATE VISION AND STRATEGY

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

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

Various international opportunities the Company is investigating with other partners present substantial opportunities for the Company but do not change the clear vision and strategy to maintain focus on the Canadian market. Early in 2004 zed.i announced international agreements to perform market feasibility studies with Sumitomo and Fuji. The Company continues with various efforts to pursue these international opportunities. While progress has been made, the Company is not projecting revenue in 2005 from these opportunities.

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

### [3] KEY PERFORMANCE INDICATORS

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

#### ▣ Recurring revenue as a percentage of Operations and SG&A

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

#### ▣ Total revenue

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

#### ▣ Percent gross margin

This serves to measure our success in developing our products and services on a scalable basis.

#### ▣ Income per share

As a primary measure of return to shareholders, this measure also ensures the acquisitions we make are accretive to shareholders.

### [4] OVERALL PERFORMANCE

#### (4.1) EVENTS OR ACTIVITIES IMPACTING THE BUSINESS IN THE SECOND QUARTER

**ROUGHNECK ACQUISITION** On April 6, 2005 the Company completed the acquisition of all the issued and outstanding shares of Roughneck.ca Inc. ("Roughneck"). The acquisition of Roughneck was accounted for by the purchase method and the results of operations of Roughneck are included in the consolidated financial statements from April 6, 2005. The purchase price was 50% in cash consideration and 50% in the form of common shares of zed.i. Based on the achievement of 2005 revenue performance targets for Roughneck operations, the Company may be required to pay up to \$4.384 Million over and above the initial payment of \$ 2.672 Million (see note 5(c) of the second quarter financial statements). This earnout will be paid as 20% cash and 80% in zed.i common shares valued at the weighted average market value at the time of issuance.

The combined value of the two companies will impact customer earnings through solutions designed to increase revenues and reduce costs. Our aim is to be recognized by energy producers as the emerging standard in production operations management, with solutions and services that increase run time, optimize production, improve decision-making, increase worker safety and reduce liabilities associated with regulatory reporting and compliance. Our short-term goal will be to integrate the zed.i Field Intelligence applications Smart-Alek and MTRAC with the broad suite of Roughneck's asset, workflow and compliance management services, via an expanded zed.i Web Services platform.

#### [4] OVERALL PERFORMANCE (CONTINUED)

The Roughneck acquisition represents a key milestone in zed.i's strategy to create a technology services company focused on oil and gas operations management. The Company sees a significant opportunity to provide customers with a suite of technologies and applications that deliver transparent, reliable and accurate production and operations management information to all stakeholders. The transaction was immediately accretive to zed.i's earnings. Roughneck contributed approximately \$480,000 in revenues in the second quarter, which represents approximately 8% of total revenue. Similar to zed.i, Roughneck's revenue model includes a recurring revenue stream.

The addition of Roughneck resulted in an immediate increase to total SG&A of approximately \$240,000 per quarter.

**RECORD AMOUNT OF RAIN IN JUNE** Many areas of the Province of Alberta experienced record amounts of rain in the month of June. This impacted drilling activity and other services in the field. This had a negative impact on revenues as some planned projects were delayed.

**NEW STAFF** In addition to the nine new staff from the Roughneck acquisition, the Company added eleven new staff in the second quarter. The new employees were primarily in the areas of sales and customer support. We anticipate the new staff will have a positive impact on revenues as the Company expands its reach for greater market share.

#### (4.2) CONSOLIDATED HIGHLIGHTS

(\$ in thousands except per share amounts)	Three Months ended June 30		
	2005	2004	Change
Revenue	5,888	4,241	1,647
Gross Profit	2,909	1,678	1,231
EBITDA <sup>(1)</sup>	749	359	390
Net Income	349	198	151
Earnings per share, basic	0.004	0.003	0.001
Earnings per share, diluted	0.004	0.003	0.001
Cash from operations	3,349	1,206	2,143
Free cash flow <sup>(2)(3)</sup>	(928)	315	(1,243)

Note: (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.

(3) The acquisition of Roughneck accounts for the significant change in free cash flow with net cash invested for the acquisition of \$1,287,000.

## [5] SELECTED QUARTERLY INFORMATION

### (5.1) SUMMARY TABLE

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

(expressed in \$000's except per share and % amounts)	2005			2004			2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenues	5,888	5,194	5,916	4,366	4,241	3,761	2,884	1,887
Recurring Revenue <sup>(1)</sup> as a % of Operation Expenses <sup>(2)</sup>	60%	70%	58%	61%	49%	33%	30%	28%
Percent Gross Margin	49%	42%	44%	43%	39%	39%	34%	37%
Income (Loss)	349	298	866	318*	198*	(274)*	(434)	(577)
Income (Loss) (per share) - basic and diluted	0.004	0.003	0.009	0.004*	0.003*	(0.004)*	(0.010)	(0.010)

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

(2) Operational expenses are all expenses except for R&D and Stock based compensation.

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

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

### (5.2) COMMENTS ON TRENDS

Revenue continues to demonstrate strong year over year growth. In spite of the fact that there are various factors that can cause fluctuations in quarterly revenue, as has been experienced in prior years as well, the Company expects to continue to produce strong year over year growth and maintain the trends established over the past eight quarters. Management is specifically encouraged that despite negative weather factors (an early spring breakup in the first quarter and record rainfall within the second quarter) revenues continue a very strong growth trend.

Recurring revenue as a percentage of operational expenses is somewhat lower than the first quarter, which primarily reflects the added expenses from the Roughneck acquisition. While the Roughneck operation does have a recurring revenue component it is at an earlier stage of the business model and therefore recurring revenue is a much lower percentage of the operating expenses. We expect the growth trend of the recurring revenue as a percentage of operating expenses to continue as demonstrated over the past eight quarters.

Percent gross margin is above the range projected by management. Higher gross margins reflect the higher margin business of the Roughneck operation. Management expects to maintain gross margins in the low to mid-forty percent range.

The income in the second quarter is significantly reduced by a stock based compensation expense of \$406,000, which is a non cash expense item. The Company has expanded operations over the first half of 2005 to sustain high growth rates and to prepare for significantly larger revenue. Earnings growth is impacted by these investments.

## **[6] RESULTS OF OPERATIONS – SECOND QUARTER 2005**

### **(6.1) REVENUE**

The Company is reporting strong year over year revenue growth in the second quarter. The Company generated revenues of \$5,888,000 for the three months ended June 30, 2005 as compared to \$4,241,000 for the three months ended June 30, 2004. This represents an increase of 39%, and while it is mostly attributed to increased sales of the Company's digital gas well-monitoring solution, the Smart-Alek, the Company's revenue growth is becoming more and more diversified.

### **(6.2) COST OF SALES**

The cost of sales for the three months ended June 30, 2005 was \$2,979,000 resulting in a 49% margin compared to a 39% margin on cost of sales of \$2,563,000 for the same period in 2004. The increase in margins is attributable to the addition of the higher margin Roughneck business and growth of the recurring revenue stream for network services fees, which has higher margins.

### **(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.

Operating expenses for the quarter ended June 30, 2005 were \$394,000, which is higher than the same period for 2004 by \$144,000 or 58%. The increase is primarily attributed to the addition of Menex and Roughneck operations, which were added in July of 2004 and April of 2005 respectively, as well as some growth in operations overall. Operating expense, as a percentage of revenue was 7% for the quarter ended June 30, 2005, as compared to 6% for the same quarter in 2004. This increase in operating expenses is consistent with managements' expectations following the acquisition of Menex and Roughneck. Operating expenses will decrease over time as a percentage of revenue, with anticipated sales growth from those acquisitions. The consolidation of operations in one facility and completion of integration of Roughneck will result in increased efficiencies later in the year.

### **(6.4) SALES, GENERAL AND ADMINISTRATION 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.

S.G.&A. expense was \$1,197,000 for the second quarter ended June 30, 2005. This expense was \$567,000 more during the quarter ended June 30, 2005, compared to the same quarter last year. This is due to staff and expenses from the acquisition of Menex and Roughneck and from new hires and higher sales commissions paid on higher sales numbers. S.G.&A. expense as a percentage of revenue was 20% for the quarter ended June 30, 2005 as compared to 15% for the same quarter in 2004. This increase in costs is consistent with managements' expectations following the acquisitions of Menex and Roughneck. S.G.&A. expenses will decrease over time as a percentage of revenue with anticipated sales growth from those acquisitions.

### **(6.5) RESEARCH & DEVELOPMENT**

The accounting policy has been and continues to be as set out in our December 31, 2004 MD&A and notes to Financial Statements, as follows: the Company is engaged in research and development work. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by GAAP. Further, in accordance

## **[6] RESULTS OF OPERATIONS – SECOND QUARTER 2005 (CONTINUED)**

with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research tax credits.

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

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 \$555,000 in the second quarter 2005 up from \$348,000 in the second quarter of the prior year. The total R&D expense as a percentage of revenue was 9% for the quarter ended June 30, 2005 as compared to 8% for the same quarter in 2004. The Company capitalized \$392,000 development costs in the second quarter and expensed \$163,000. The overall increase in R&D activity primarily reflects the additional development activity related to the integration of the Menex technology and a new Smart-Alek model.

### **(6.6) STOCK-BASED COMPENSATION**

Effective January 1, 2004, Canadian accounting standards require recognition of compensation costs arising out of stock-based compensation plans under the fair value based method. Under the fair value based method, compensation cost is measured at fair value at the date of the grant and expensed over the stock option's vesting period.

The Company's compensation non-cash stock-based compensation expense was \$406,000 for the quarter ended June 30, 2005.

### **(6.7) NET EARNINGS**

The overall net income for the second quarter, 2005 was \$349,000 or \$0.004 per share compared to \$198,000 or \$0.003 per share for the same period in 2004 for an overall increase of \$151,000 or 76%.

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

### **(6.8) AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS**

In the second quarter the amortization of capital and intangible assets was \$417,000 of which \$166,000 related to intangible assets acquired in the purchase of Menex and Roughneck, which are non-recurring capital expenditures. Amortization of deferred development costs accounted for \$51,000 and patents accounted for \$1,000. The balance of \$199,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

## [7] FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between March 31, 2005 and June 30, 2005.

(\$ thousands)	June 30 2005	March 31 2005	Change	Explanation
<b>Current Assets</b>				
Cash and cash equivalents	<b>6,056</b>	4,488	1,568	Collection of receivables
Accounts receivable	<b>5,297</b>	6,976	(1,679)	Collection of receivables
Inventories	<b>6,482</b>	5,763	719	Build up of 1xRTT version of Smart-Alek for switch out throughout 2005.
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	<b>2,457</b>	1,425	1,032	Reflects growth in payables for inventory build up referred to above.
Deferred revenue	<b>2,135</b>	2,397	(262)	Deferred revenue is primarily related to the annual billing of network fees that are earned throughout the year.
Working Capital <sup>(1)</sup>	<b>13,469</b>	13,862	(393)	Working capital reduced as result of the Roughneck acquisition.
Capital Assets	<b>2,292</b>	1,689	603	As at June 30, 2005 deferred development is separated from capital assets, but they are combined here for accurate comparison with March 31, 2005. Approximately \$375,000 relates to increase in deferred development and the balance for purchases in the normal course of business.
<b>Other Assets</b>				
Intangibles	<b>4,713</b>	4,032	681	Roughneck acquisition
Goodwill	<b>5,181</b>	3,394	1,787	Roughneck acquisition

Note: (1) Current Assets minus Current liabilities is an indicator of the ability to finance current operations and meet obligations as they fall due.

## [8] LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance at June 30, 2005 was \$6,056,000, an increase of \$1,568,000 from the March 31, 2005. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

(\$ thousands)	Quarters ended June 30	
	2005	2004
<b>Opening cash</b>	4,488	2,409
Cash provided by operations	3,349	1,206
Cash provided by financing	321	17
Cash used in investing	(2,102)	(76)
<b>Closing cash</b>	6,056	3,556

The following table presents summarized working capital information.

(\$ thousands)	Quarters ended June 30	
	2005	2004
Current assets	18,062	9,778
Current liabilities	(4,593)	(2,312)
Working capital	13,469	7,466
Current ratio	3.93	4.23

The Company experiences two normal trends that impact liquidity throughout the year. Inventory build up and annual fee billing. The Company's inventory typically peaks through the winter months reflecting the buildup for the peak activity period. The Company bills network fees on an annual basis and this results in a growth in cash in the second quarter as these billings are received. This results as well in an increase in the deferred revenue as the revenue is recognized on a monthly basis for network fees and the unrecognized revenue appears in the deferred revenue until it is earned.

The Company had capital spending of \$1,539,000 during the first two quarters of 2005 funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$305,000
Computer Software	\$300,000
Vehicles	\$ 36,000
Furniture & Equipment	\$ 58,000
Manufacturing Tools & Equipment	\$ 13,000
Leasehold Improvements	\$ 41,000
Patents and Trademarks	\$ 33,000
Deferred Development Costs	\$753,000

## [8] LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

**CREDIT FACILITIES** The Company has increased credit facilities to \$5,000,000 to cover increased cash needs during peak demand periods. The interest rate is at Royal Bank Prime plus 1.5%. Security interest in all of the Company's personal property. The Credit facility contains customary covenants. zedi is currently not using any of the credit facility available.

**CASH REQUIREMENTS** The following aggregated information about our contractual obligations and other commitments is to provide insight into the Company's short and long term liquidity and capital resource requirements. The information does not include obligations that have original maturities of less than one year or planned capital expenditures.

(\$ thousands)	Total	Within 1 year	1 to 3 years	3 to 5 years
Long-term debt	65	2	6	6
Operating leases	965	179	474	312
Other commitments	-	-	-	-
Total	1,030	181	480	318

*LONG-TERM DEBT* The long-term debt is a loan payable to Natural Resources Canada under an Industry Energy Research and Development (IERD) program. The loan is repayable at the rate of 1.5% of gross revenues from the sale of product developed under the program. Payments are due semi-annually, no more than 30 days after the end of June and December. The loans bears no interest except for over due payments, which bear interest at Bank of Canada prime plus 2%. The loan is unsecured.

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

**CAPITAL EXPENDITURES** During the balance of 2005 the Company expects to incur capital expenditures of approximately \$964,000 to sustain operations at existing levels and approximately \$266,000 for discretionary opportunity capital. Capital expenditures will be funded from cash flow from operations. The Company may adjust opportunity capital spending throughout the year depending on results. The most significant capital spending will be for deferred development costs.

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

## OUTSTANDING SHARE INFORMATION

	Quarter ending June 30, 2005
<b>Common Shares</b>	
<b>Opening shares</b>	95,685,697
Stock options exercised	500,332
Issued pursuant to acquisition of Roughneck	535,714
<b>Closing shares</b>	96,721,743

## **[9] CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES**

### **(9.1) CRITICAL ACCOUNTING ESTIMATES**

zed.i's significant accounting policies are described in Note 2 of its annual 2004 consolidated financial statements and the 2004 MD&A.

### **(9.2) CHANGES IN ACCOUNTING POLICIES**

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

## **[10] OUTLOOK**

The Company will continue to communicate the business value of its solutions suite of products, now including the Roughneck software, to producers and the positive impact on their earnings performance. The Company has had success in expanding sales while containing costs. The Company remains firmly focused on improving customer service and maintaining strong financial discipline.

The Company has made significant progress over the past eight quarters, continuing to demonstrate the scalability and growth potential of the Company's business model and products. Throughout 2005 we expect to see increasing contribution from the Menex and Roughneck products to the Company's bottom line. The continued growth of the recurring revenue stream through 2005 will further establish the financial stability necessary to move the Company closer to a dominant position in the Canadian remote gas monitoring market.

Management is pleased with the positive response of customers to the performance of the Smart-Alek and expects the increasing adoption of the Smart-Alek as the solution of choice to improve earnings will continue.

With the acquisitions of Menex and Roughneck, the Company will strengthen its capability to maximize the earnings of energy producers with its operation solutions. Over the next six months the Company will continue the integration of the MTRAC and Roughneck technology to create plug and play solutions for monitoring, controlling and managing well site conditions.

## **[11] BUSINESS RISKS AND UNCERTAINTY**

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

## [12] RECONCILIATION OF NON-GAAP MEASURES

### (12.1) EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

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

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

The following is a reconciliation of EBITDA with Net Income.

(\$ thousands)	Six months ended June 30	
	2005	2004
<b>Net Income</b>	349	198
Amortization of capital assets and intangibles	417	102
Gain on disposal of assets	2	-
Interest	(19)	59
<b>EBITDA</b>	749	359

## (12.2) FREE CASH FLOW

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

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

(\$ thousands)	Three months ended June 30	
	2005	2004
<b>EBITDA</b>	749	359
Stock-based compensation	406	91
Cash interest (paid)	19	(59)
Cash available for discretionary spending and capital expenditures	1,174	391
Capital expenditures		
Acquisition of Roughnecks.ca	(1,287)	-
Proceeds from disposal of capital assets	2	-
Deferred development	(392)	-
Purchase of other capital assets	(425)	(76)
<b>Free Cash Flow</b>	(928)	315