

# CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 and 2004 (\$ thousands)

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
CASH AND CASH EQUIVALENTS	\$ 6,368	\$ 4,376
ACCOUNTS RECEIVABLE	7,749	5,599
INVENTORIES (Note 4)	7,115	4,325
SALES LEASES RECEIVABLE, CURRENT PORTION	–	207
PREPAID EXPENSES AND DEPOSITS	218	345
	21,450	14,852
SALES LEASES RECEIVABLE, LONG TERM PORTION	–	366
CAPITAL ASSETS (Note 5)	1,194	1,070
DEFERRED DEVELOPMENT COSTS (Note 6)	1,087	–
INTANGIBLE ASSETS (Note 7)	4,450	4,205
GOODWILL (Note 8)	7,932	3,394
FUTURE INCOME TAX ASSETS (Note 13)	2,380	–
	\$ 38,493	\$ 23,887
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
ACCOUNTS PAYABLE	\$ 1,985	\$ 882
ACCRUED LIABILITIES (Note 10(c))	3,874	432
DEFERRED REVENUE	1,265	–
CURRENT PORTION OF LONG-TERM DEBT (Note 9)	2	4
	7,126	1,318
LONG-TERM DEBT (Note 9)	61	65
	7,187	1,383
<b>SHAREHOLDERS' EQUITY:</b>		
SHARE CAPITAL (Note 10)	49,961	47,567
CONTRIBUTED SURPLUS	2,222	791
DEFICIT	(20,877)	(25,854)
	31,306	22,504
	\$ 38,493	\$ 23,887

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Douglas G. Marlin  
Director



Martin A. Lambert  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)		
<i>(\$ thousands, except share and per share amounts)</i>				
<b>SALES</b>	<b>\$ 9,348</b>	<b>\$ 5,916</b>	<b>\$ 26,416</b>	<b>\$ 18,284</b>
<b>COST OF SALES</b>	<b>4,834</b>	<b>3,310</b>	<b>13,711</b>	<b>10,655</b>
<b>GROSS PROFIT</b>	<b>4,514</b>	<b>2,606</b>	<b>12,705</b>	<b>7,629</b>
<b>EXPENSES</b>				
OPERATIONS	383	284	1,505	1,075
SALES, GENERAL AND ADMINISTRATIVE	1,476	791	4,563	2,603
STOCK-BASED COMPENSATION	500	101	1,649	754
RESEARCH AND DEVELOPMENT	146	340	675	1,343
	2,505	1,516	8,392	5,775
	2,009	1,090	4,313	1,854
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	498	222	1,653	641
GAIN ON DISPOSAL OF ASSETS	–	–	(1)	(10)
INTEREST	100	2	64	116
	598	224	1,716	747
NET INCOME BEFORE INCOME TAXES	1,411	866	2,597	1,107
FUTURE INCOME TAXES (Note 13)	402	–	2,380	–
NET INCOME	1,813	866	4,977	1,107
DEFICIT, BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	(22,690)	(26,310)	(25,854)	(26,551)
ADJUSTMENT FOR CHANGE IN ACCOUNTING POLICY (Note 3)	–	(410)	–	(410)
DEFICIT, BEGINNING OF PERIOD, AS RESTATED	(22,690)	(26,720)	(25,854)	(26,961)
DEFICIT, END OF PERIOD	\$ (20,877)	\$ (25,854)	\$ (20,877)	\$ (25,854)
NET INCOME PER COMMON SHARE – BASIC AND DILUTED (Note 11)	0.019	0.009	0.052	0.014
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	97,506,515	95,099,655	96,589,466	76,458,269

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(\$ thousands)	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
	2005 <i>(Unaudited)</i>	2004 <i>(Unaudited)</i>	2005	2004
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATIONS</b>				
NET INCOME	\$ 1,813	\$ 866	\$ 4,977	\$ 1,107
ADJUSTMENTS FOR:				
AMORTIZATION	498	222	1,653	641
GAIN ON DISPOSAL OF ASSETS	–	–	(1)	(10)
STOCK-BASED COMPENSATION	500	101	1,649	754
EARNOUT PROVISION	(1,534)	–	(2,751)	–
FUTURE INCOME TAXES	(402)	–	(2,380)	–
CHANGES IN NON-CASH OPERATING WORKING CAPITAL	(1,024)	(4,099)	1,482	(3,673)
	(149)	(2,910)	4,629	(1,181)
<b>FINANCING</b>				
PROCEEDS FROM SHARES ISSUED	281	357	869	5,149
PROCEEDS FROM PRIVATE PLACEMENT, NET OF SHARE ISSUE COSTS	–	–	–	6,867
REPAYMENT OF LONG-TERM DEBT	–	–	(6)	(4,500)
REPAYMENT OF CAPITAL LEASE OBLIGATIONS	–	–	–	(1)
	281	357	863	7,515
<b>INVESTING</b>				
ACQUISITIONS OF CAPITAL ASSETS	(342)	(290)	(2,224)	(470)
ACQUISITION OF ROUGHNECK.CA, NET OF CASH ACQUIRED	–	–	(1,287)	–
ACQUISITION OF MENEX, NET OF CASH ACQUIRED	–	–	–	(2,863)
PROCEEDS ON DISPOSAL OF CAPITAL ASSETS	–	–	11	19
	(342)	(290)	(3,500)	(3,314)
(DECREASE) INCREASE IN CASH POSITION	(210)	(2,843)	1,992	3,020
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,578	7,219	4,376	1,356
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,368	\$ 4,376	\$ 6,368	\$ 4,376
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
INTEREST PAID	\$ –	\$ –	\$ –	\$ 159
INCOME TAXES PAID	–	–	–	–
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>				
CASH	2,030	818	2,030	818
CASH EQUIVALENTS	4,338	3,558	4,338	3,558

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

## [1] NATURE OF OPERATIONS:

zed.i solutions<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> (Canada) inc., zed.i solutions<sup>®</sup> (USA) inc., Quail Hill Mining Corporation and Roughneck.ca<sup>®</sup> 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) **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.

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

(E) **REVENUE RECOGNITION:** Revenues from the Company's well-test product-line are recorded when the goods are shipped and services are rendered. Revenue from the sale of the Company's Smart-Alek product-line is recorded for the unit when it is shipped and installation fees are recognized when the installation of the Smart-Alek unit is completed.

Revenue from monthly network service fees is recorded in the month in which the services are provided.

(F) **FOREIGN CURRENCY CONTRACTS:** At December 31, 2005, the Company had outstanding foreign currency forward contracts for the purchase of JPY80,000,000 and JPY40,000,000 at fixed rates expiring March 31, 2006 and April 28, 2006 respectively. The carrying value of the Company's foreign exchange contracts is \$113,400. The fair value of the contracts is \$861,600 and \$409,880 respectively. The carrying values of cash and accrued liabilities approximate their fair value due to the relatively short periods to maturity and recent purchase of the instruments.

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

(H) **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.

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

**(I) 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.

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

**(K) 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.

**(L) 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.

**(M) CAPITAL ASSETS AND ASSETS UNDER CAPITAL LEASES:** Capital assets and assets under capital leases are recorded at acquisition cost less related investment tax credits, with amortization calculated using the following methods and annual rates:

Asset	Basis	Rate
Office furniture and fixtures	Declining balance	20%
Equipment	Declining balance	30%
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Automotive	Declining balance	10% to 30%
Leasehold Improvements	Straight-line	3 Years
Patents	Straight-line	17 Years

**(N) 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 model, 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 is reviewed at least annually or when circumstances change to determine whether there has been impairment in value.

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

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

*(P) GOODWILL:* Goodwill represents the excess of the purchase price over the value attributed to net tangible assets acquired. Goodwill is assessed for impairment at least annually or when circumstances change. The impairment is based on management's best estimate of the fair value of the Company compared to the carrying amounts of the Company.

**[3] CHANGE IN ACCOUNTING POLICY AND RESTATEMENT:**

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

*RESTATEMENT OF 2004 QUARTERLY FINANCIAL STATEMENT INFORMATION:* 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 September 30, 2004, previously reported as \$174,000, has been restated to \$124,000. As a result, net income for the three months ended June 30, 2004, previously reported as \$268,000, has been restated to \$318,000. Similarly, net income per share, for the three months ended June 30, 2004, previously reported as \$0.003, has been restated to \$0.004.

**[4] INVENTORIES:**

DECEMBER 31	2005	2004
RAW MATERIALS AND CONSUMABLE SUPPLIES	\$ 2,461,564	\$ 1,147,112
FINISHED GOODS	4,516,717	3,177,486
WORK IN PROGRESS	136,893	–
	<b>\$ 7,115,174</b>	<b>\$ 4,324,598</b>

**[5] CAPITAL ASSETS:**

DECEMBER 31, 2005	Cost	Accumulated amortization	Net book value
OFFICE FURNITURE AND FIXTURES	\$ 589,632	\$ 402,438	\$ 187,194
EQUIPMENT	838,476	598,409	240,067
COMPUTER HARDWARE	1,638,546	1,010,935	627,611
COMPUTER SOFTWARE	1,157,972	1,077,525	80,447
AUTOMOTIVE	60,782	19,508	41,274
LEASEHOLD IMPROVEMENTS	53,236	35,688	17,548
	<b>\$ 4,338,644</b>	<b>\$ 3,144,503</b>	<b>\$ 1,194,141</b>
<hr/>			
DECEMBER 31, 2004			
OFFICE FURNITURE AND FIXTURES	\$ 523,793	\$ 360,982	\$ 162,811
EQUIPMENT	826,827	509,852	316,975
COMPUTER HARDWARE	1,263,307	779,119	484,188
COMPUTER SOFTWARE	809,180	732,628	76,552
AUTOMOTIVE	30,140	8,543	21,597
LEASEHOLD IMPROVEMENTS	11,856	4,281	7,575
	<b>\$ 3,465,103</b>	<b>\$ 2,395,405</b>	<b>\$ 1,069,698</b>

As at December 31, 2005, computer hardware with a cost of \$104,482 and a net book value of \$11,547 (2004 – \$16,496) are assets held under capital lease.

**[6] DEFERRED DEVELOPMENT COSTS:**

DECEMBER 31, 2005	Cost	Accumulated amortization	Net book value
DEFERRED DEVELOPMENT COSTS	\$ 1,341,602	\$ 254,743	\$ 1,086,859
	<b>\$ 1,341,602</b>	<b>\$ 254,743</b>	<b>\$ 1,086,859</b>

**[7] INTANGIBLE ASSETS:**

DECEMBER 31, 2005	Cost	Accumulated amortization	Net book value
PURCHASED SOFTWARE	\$ 559,317	\$ 462,692	\$ 96,625
INTELLECTUAL PROPERTY	3,955,297	463,546	3,491,751
DEVELOPED SOFTWARE	855,000	154,750	700,250
WORKFORCE	342,000	267,000	75,000
PATENTS AND TRADEMARKS	108,157	21,416	86,741
	<b>\$ 5,819,771</b>	<b>\$ 1,369,404</b>	<b>\$ 4,450,367</b>
<b>DECEMBER 31, 2004</b>			
PURCHASED SOFTWARE	\$ 559,317	\$ 350,832	\$ 208,485
INTELLECTUAL PROPERTY	3,994,135	172,776	3,821,359
WORKFORCE	342,000	217,000	125,000
PATENTS AND TRADEMARKS	67,292	16,698	50,594
	<b>\$ 4,902,744</b>	<b>\$ 757,306</b>	<b>\$ 4,205,438</b>

**[8] GOODWILL:**

	2005	2004
BALANCE, BEGINNING OF YEAR	\$ 3,393,618	\$ -
ACQUISITION OF ROUGHNECK.CA INC. (Note 10 (c))	1,787,266	-
EARNOUT PROVISION (Note 10 (c))	2,751,302	-
ACQUISITION OF MENEX	-	3,393,618
BALANCE, END OF YEAR	<b>\$ 7,932,186</b>	<b>\$ 3,393,618</b>

**[9] LONG-TERM DEBT:**

DECEMBER 31	2005	2004
DEBT RELATED TO THE INDUSTRY ENERGY RESEARCH AND DEVELOPMENT ("IERD") LOAN PAYABLE, NATURAL RESOURCES CANADA, THROUGH ITS PROGRAM, IERD HAS SPONSORED THE COMPANY'S FLOW CONTROL RESEARCH AND DEVELOPMENT. THE LOAN COMMENCED REPAYMENT WHEN THE PRODUCT WAS COMMERCIALY VIABLE. THE COMPANY IS REQUIRED TO REPAY THE LOAN BASED ON 1.5% OF GROSS REVENUES FROM PRODUCT SALES UNTIL REPAYED IN FULL. PAYMENTS ARE DUE NO LATER THAN 30 DAYS AFTER THE END OF JUNE AND DECEMBER, WITH INTEREST ON OVERDUE AMOUNTS AT THE BANK OF CANADA PRIME RATE PLUS 2%. THE LOAN IS UNSECURED. DURING YEAR ENDED DECEMBER 31, 2005 THE COMPANY MADE LOAN PAYMENTS OF \$5,888 (DECEMBER 31, 2004 - \$5,386).	63,448	69,336
	63,448	69,336
LESS CURRENT PORTION	2,106	4,331
LONG-TERM PORTION	<b>\$ 61,342</b>	<b>\$ 65,005</b>

## [10] 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:

YEAR ENDED DECEMBER 31	2005		2004	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BALANCE OUTSTANDING, BEGINNING OF YEAR	95,564,576	\$ 47,693,244	60,607,467	\$ 30,514,632
SHARES ISSUED:				
ISSUED PURSUANT TO ACQUISITION OF MENEX	–	–	4,347,780	4,999,947
ISSUED PURSUANT TO ACQUISITION OF ROUGHNECK, NET OF SHARE ISSUANCE COSTS (NOTE 10(C))	535,714	1,305,544	–	–
DEBENTURES CONVERTED	–	–	21,970,500	4,394,100
STOCK OPTIONS EXERCISED (NOTE 10(B))	1,762,051	962,014	2,113,829	916,733
SHARES ISSUED PURSUANT TO PRIVATE FINANCING	–	–	6,525,000	6,867,832
BALANCE OUTSTANDING, END OF YEAR	97,862,341	49,960,802	95,564,576	47,693,244
LESS EMPLOYEE SHARE TRUST PLAN (NOTE 10(F))	–	–	–	(126,121)
BALANCE OUTSTANDING, END OF YEAR	97,862,341	\$ 49,960,802	95,564,576	\$ 47,567,123

(B) **STOCK OPTIONS EXERCISED:** During the year ended December 31, 2005, 1,762,051 stock options were exercised for proceeds of \$962,014.

(C) **ACQUISITION OF ROUGHNECK.CA<sup>®</sup> INC.:** On April 6, 2005 the Company completed the acquisition of all the issued and outstanding shares of Roughneck.ca<sup>®</sup> 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 payment on closing was 50% in cash consideration and 50% in common shares of zed.i. This resulted in the payment of \$1,190,500 cash and the issuance of 535,714 shares of zed.i solutions inc., which are accounted for at a weighted average market price of \$2.45 per share for a total value of \$1,312,499. Based on revenue performance targets achieved by Roughneck to December 31, 2005 an earnout of \$2,751,302 was payable as 20% cash and 80% in zed.i common shares. During the year ended December 31, 2005, \$2,751,302 has been accrued for the earnout provision and has been included in accrued liabilities.

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

**(C) ACQUISITION OF ROUGHNECK.CA® INC.: (CONTINUED)**

The fair value of the net assets acquired was:

<b>NET ASSETS ACQUIRED</b>	
CASH	\$ 44,394
WORKING CAPITAL	(49,245)
PROPERTY, PLANT AND EQUIPMENT	34,491
INTANGIBLES	855,000
GOODWILL	1,787,266
	<b>2,671,906</b>
<b>FINANCED BY:</b>	
CASH	1,359,407
SHARES ISSUED	1,312,499
<b>TOTAL PURCHASE CONSIDERATION</b>	<b>\$ 2,671,906</b>

Of the 535,714 shares issued, 45,972 are to be held in escrow for a period of two years, to be released in equal parts on April 6, 2006 and April 6, 2007.

**(D) SHARES HELD IN ESCROW:** The following is a summary of the Company's common shares held in escrow at December 31:

	2005	2004
<b>BALANCE OUTSTANDING, BEGINNING OF YEAR</b>	<b>809,890</b>	–
<b>SHARES IN ESCROW, ADDITIONAL</b>	<b>45,972</b>	1,133,846
<b>SHARES RELEASED FROM ESCROW IN THE YEAR</b>	<b>(647,912)</b>	(323,956)
<b>BALANCE OUTSTANDING, END OF YEAR</b>	<b>207,950</b>	809,890

**(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 year ended December 31, 2005, a total of 6,341,835 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.

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

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

A summary of the status of the plan as at December 31, 2005, is presented below:

	December 31, 2005		December 31, 2004	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING, BEGINNING OF YEAR	4,669,239	\$ 0.36	940,367	\$ 0.32
GRANTED	6,341,835	1.76	2,965,167	0.67
EXERCISED	(1,762,051)	0.35	(2,113,829)	0.37
EXPIRED/CANCELLED	(105,666)	2.09	(122,466)	1.07
OUTSTANDING, END OF YEAR	9,143,357	\$ 1.41	4,669,239	\$ 0.36
OPTIONS EXERCISABLE, END OF YEAR	2,639,148		2,861,072	

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	353,841	1.1 yrs	\$ 0.20	342,175	\$ 0.20
\$0.21 – \$0.49	1,535,681	1.9 yrs	\$ 0.42	1,059,841	\$ 0.42
\$0.50 – \$1.00	355,000	1.2 yrs	\$ 0.50	348,333	\$ 0.50
\$1.01 – \$2.00	4,823,001	3.6 yrs	\$ 1.48	246,333	\$ 1.56
\$2.01 – \$2.88	2,075,834	2.3 yrs	\$ 2.33	642,466	\$ 2.34
\$0.20 – \$2.88	9,143,357	2.8 yrs	\$ 1.41	2,639,148	\$ 0.98

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.

	2005	2004
RISK FREE INTEREST RATE	3.07%	4.87%
EXPECTED LIFE IN YEARS	3.0	3.0
VOLATILITY	78%	104%

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

(F) **EMPLOYEE SHARE TRUST:** The Company previously established an employee share trust through an interest-free loan of \$1,250,000 to enable the trust to purchase 1,250,000 shares from treasury.

As at December 31, 2005, all of the shares have been purchased and the full amount of the loan has been repaid.

A summary of the status of the plan as at December 31, 2005, is presented below:

DECEMBER 31	2005	2004
	NUMBER	NUMBER
BALANCE OUTSTANDING, BEGINNING OF YEAR	126,121	337,654
SHARES ISSUED	(126,121)	(211,533)
BALANCE OUTSTANDING, END OF YEAR	–	126,121

**[11] RECONCILIATION OF EARNINGS PER SHARE AMOUNTS:**

DECEMBER 31	2005	2004
	NUMBER	NUMBER
BALANCE OUTSTANDING, BEGINNING OF YEAR	76,458,269	56,750,102
STOCK OPTIONS	20,131,197	19,708,167
BALANCE OUTSTANDING, END OF YEAR	96,589,466	76,458,269

**[12] REVENUE:**

Revenue for the year ended December 31, 2005, includes \$1,178 (2004 – \$1,178) from interest on sales leases receivable.

During the year ended December 31, 2005, the Company generated approximately 0.2% (2004 – 0.1%) of its revenue in the US, 99% (2004 – 99%) in Canada, 0.3% (2004 – 0.4%) in the Middle East and 0.5% (2004 – 0.5%) in other geographic regions. The Company's operations and assets are primarily located in Canada.

**[13] INCOME TAXES:**

(A) **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 year ended December 31, 2005, the Company recognized the benefit of \$2,379,500 in previously unrecognized tax losses of \$12,457,440 of losses carried forward.

**[13] INCOME TAXES: (CONTINUED)**

(B) **EXPECTED TAX RATE:** The expected effective tax rate for a public company in Alberta will range from approximately 34% in 2004 to 34% in 2005 and approximately 35% for the Company's US subsidiary.

	2005	2004
COMBINED BASIC CANADIAN FEDERAL AND PROVINCIAL AND US INCOME TAX RATE	34%	34%
EXPECTED COMBINED CANADIAN FEDERAL AND PROVINCIAL AND US TAX PAYABLE (RECOVERY) BASED ON ABOVE RATES	\$ 873,000	\$ 372,000
NON-DEDUCTIBLE ITEMS	734,000	327,000
CREATION AND REVERSAL OF TEMPORARY DIFFERENCES	296,000	390,000
OTHER	1,000	–
UTILIZATION OF LOSS CARRYFORWARDS	(1,904,000)	(1,225,000)
CHANGE IN VALUATION ALLOWANCE	(2,379,500)	136,000
CONSOLIDATED INCOME TAX RECOVERY	\$ (2,379,500)	\$ –

The Company provided a valuation allowance against the future income tax assets based on the Company's evaluation of the likelihood of realization of these assets. The Company will continue to evaluate and examine the valuation allowance on a regular basis.

(C) **NET FUTURE TAX ASSET:** Future income taxes arise from temporary differences which are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2005 and 2004 are presented below:

DECEMBER 31	2005	2004
FUTURE TAX ASSETS AND (LIABILITIES):		
NON-CAPITAL LOSSES CARRIED FORWARD CANADA	\$ 4,188,200	\$ 6,026,300
SCIENTIFIC RESEARCH TAX POOLS AND CREDITS	1,053,600	541,100
CANADIAN EXPLORATION AND DEVELOPMENT TAX POOLS	1,090,200	1,090,200
FOREIGN EXPLORATION AND DEVELOPMENT TAX POOLS	2,706,900	2,706,900
FINANCING FEES	143,600	261,700
REORGANIZATION COSTS	195,600	195,600
CAPITAL ASSETS, DIFFERENCES BETWEEN NET BOOK VALUE AND UNDEPRECIATED CAPITAL COST	149,700	289,100
OTHER	(29,200)	–
TOTAL	9,498,600	11,110,900
LESS VALUATION ALLOWANCE	(7,119,100)	(11,110,900)
NET FUTURE TAX ASSET	\$ 2,379,500	\$ –

**[13] INCOME TAXES: (CONTINUED)**

*(C) NET FUTURE TAX ASSET: (CONTINUED)*

The non-capital losses carried forward expire primarily between 2008 and 2010 as follows:

2007	\$ 42
2008	2,808,047
2009	3,759,296
2010	4,973,733
2014	351,361
2015	564,961
	<b>\$ 12,457,440</b>

**[14] FINANCIAL INSTRUMENTS:**

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

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

**CREDIT RISK:** At December 31, 2005, no customer represented a significant percentage of total accounts receivable. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing with financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

**FOREIGN EXCHANGE RISK:** The Company earns revenue and records accounts receivable and sales leases receivable in foreign currency and translates these amounts 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 or sales leases receivable and the receipt of cash. The accounts receivable are short-term in nature. The sales leases receivable are of a longer term and are subject to fluctuations in the exchange rate of the US dollar. The effect of the foreign exchange changes has not been significant and foreign exchange gains and losses are included in income as they occur.

**[15] COMMITMENTS:**

**OPERATING LEASES:** The Company is committed to various operating leases for office premises and vehicles. The approximate annual base rental payments are as follows:

2006	\$ 442,000
2007	510,000
2008	520,000
2009	522,000
2010	553,000
	\$ 2,547,000

Under the terms of the leases, the Company is also responsible for its proportionate share of operating costs.

**[16] COMPARATIVE FIGURES:**

Certain comparative figures presented in these consolidated financial statements have been reclassified to conform to the current year's presentation.

**[17] SUBSEQUENT EVENTS:**

(A) Subsequent to the end of the year the board of directors approved the calculation of the earnout as part of the purchase price in the acquisition of Roughneck .ca Inc. The total earnout approved for payment was \$2,751,302, to be 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). The payment of the earnout was made on January 26, 2006.

(B) On February 9, 2006 the Company signed a letter of intent ("LOI") with PetroNet Systems Inc. The LOI provides for a maximum purchase price of \$2.5 million, comprised of an upfront payment and an earnout portion. The amount of the upfront payment, which will be paid 75% in zed.i common shares and 25% cash, will vary depending upon the monthly recurring revenue that is achieved by PetroNet within 90 days of the closing. The maximum total upfront payment is \$1.2 million and will be distributed in two payments, one on closing and the second 90 days after closing. The portion of the payment in zed.i common shares is based on the average closing market price for the 20 trading days prior to the execution of the LOI, discounted by 10%. Based on the achievement of revenue performance targets over the next two years, the shareholders of PetroNet have an opportunity to earn an additional amount up to a maximum total purchase price of \$2.5 million. The earnout is payable as 25% zed.i common shares and 75% cash, with the portion paid in zed.i common shares using the same share price as used in the upfront payment. The offer is conditional upon the completion of due diligence and obtaining the necessary regulatory approval.