



Management's Discussion and Analysis

May 18, 2010

The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of financial results for the three months ended March 31, 2010 and 2009, and should be read in conjunction with the quarterly consolidated financial statements for the same period, as well as both the management discussion and analysis and audited consolidated financial statements as at and for the year ended December 31, 2009. All dollar values are expressed in thousands, except for per-share figures.

The annual and quarterly 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) and all previous public filings, are available through SEDAR (www.sedar.com).

Forward-Looking Statements

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the conduct of the Company's businesses including revenue generation, fluctuating oil and gas prices and other industry factors that may impact the business operations of Zedi's customers and their decisions to use Zedi products and services; product and service delivery, manufacturing and field operations; currency exchange rates; the possibility of development project cost overruns or unanticipated costs and expenses; and other factors described in this discussion under the heading "Outlook" and the heading "Business Risks and Uncertainties". Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

Management's Discussion and Analysis Contents

Section	
1	Business Overview
2	Corporate Vision and Strategy
3	Key Performance Indicators
4	Overall Performance
5	Selected Annual & Quarterly Information
6	Results of Operations
7	Changes in Financial Condition
8	Liquidity and Capital Resources
9	Critical Accounting Estimates
10	Outlook
11	Business Risks and Uncertainty
12	Reconciliation of Non-GAAP Measures

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 900 upstream, midstream and oilfield services customers who are primarily located in Western Canada. Zedi monitors approximately 36,000 sites and manages approximately 270,000 assets with its end-to-end solution for data management across the production operations space, delivered through:

- *Zedi Surveillance™* – products and services that monitor, collect, and digitize high quality data gathered at the source
- *Zedi Optimization™* – solutions to analyze the surveillance data collected and prompt action to impact operations in order to improve hydrocarbon production.
- *Zedi Production Applications™* –web-based, on demand, applications purpose built for the oil and gas industry that manage production, data, assets and revenue.
- *Zedi Field Operations™* – the provision of 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 indication of the progress toward realization upon the Company's business strategies.

- **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 Q1 of 2010

Despite continued uncertainty in the energy industry, Zedi recorded record revenue in Q1 of 2010. The growth in sales was primarily from the Canadian market, building on the strong results that were posted in Q4 2009. These sales were derived from a combination of existing and new Zedi customers and can be attributed to a number of factors, both internal and external, including:

- An increase in retrofit sales (putting new technology on existing wells) as a result of the Zedi team strengthening relationships and demonstrating improved operational efficiencies through the use of Zedi products and services.
- The introduction of the ERCB’s recent Enhanced Production Audit Program, creating a greater demand for technologies and information systems, like those Zedi offers, that improve the controls and accuracy of production accounting.
- The disposition of conventional assets by Tier 1 producers to junior and intermediate producers, historically Zedi’s sweet spot in the market.
- Field Operations continued to outperform expectations while the remaining Zedi products and services met expectations.

In addition to the Q1 revenue achievements, continued focus and dedication of employees to improve efficiencies and maintain cost discipline through the downturn has Zedi well-positioned to support our customers as markets appear to be stabilizing allowing transition from economic crisis management to cautious investment in growth.

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 will provide readers of our financial statements with an opportunity to 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 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, 2010		Year ended December 31, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,346,053	\$ 0.57	7,810,496	\$ 0.94
Granted	-	-	2,275,576	0.40
Exercised	-	-	-	-
Expired/Forfeited	(85,917)	0.66	(3,740,019)	0.96
Outstanding, end of period	6,260,136	\$ 0.57	6,346,053	\$ 0.57
Options exercisable, end of period	2,126,059		2,123,050	

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.21-0.49	2,236,000	2.6 yrs	\$0.40	-	\$ -
0.50-1.00	4,014,525	1.3 yrs	0.66	2,116,448	0.73
1.01-1.50	9,611	0.6 yrs	1.50	9,611	1.50
\$0.21-1.50	6,260,136	1.8 years	\$0.57	2,126,059	\$0.73

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 year, the Company did not issue any DSUs as director fee compensation. The Company has an obligation under the DSU plan at March 31, 2010 of \$3 (2009 - \$4).

Restricted Share Units

A restricted share unit (“RSU”) 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, 2010, the Company issued no RSUs (2009 – 14,841 RSU’s issued, with a weighted average fair value of \$0.60). During the year ended December 31, 2009, the Company issued 362,041 (2008 – 887,753) RSUs with a weighted average fair value of \$0.40 (2008 - \$0.62).

Stock-based Compensation Expense

The total of the stock-based compensation expense for the three months ended March 31, 2010 was \$194 (2009 – \$310), which is broken down in the table below.

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 an 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, for which the standard is 3 years.

The following table shows the breakdown of the stock-based compensation expense reported in the three months ended March 31, 2010.

Annual Option Grant Date	Number of options outstanding as at March 31, 2010	Exercise Price	Expensed in the three months ended March 31, 2010	Remaining to be expensed in future periods.
December 13, 2006	920,386	\$0.91	\$-	\$-
November 13, 2007	800,424	0.53	21	55
November 13, 2008	1,822,068	0.60	40	274
November 12, 2009	2,236,000	0.40	51	282
Various dates ²	481,258	0.70 ³	11.7	58
Option Totals	6,260,136		\$123.7	\$ 669
DSU Grant Date	Number of DSUs as at March 31, 2010	Price	Expensed in the three months ended March 31, 2010	Remaining to be expensed in future periods.
June 30, 2006	2,143	\$0.48	\$ 0.1	-
September 29, 2006	3,879	\$0.48	0.1	-
December 31, 2006	1,579	\$0.48	0.1	-
September 25, 2006	250,000	\$1.16	-	-
DSU Totals	257,601		\$ 0.3	-
RSU Grant Date	Number of RSUs as at March 31, 2010	Price	Expensed in the three months ended March 31, 2010	Remaining to be expensed in future periods.
November 13, 2008	663,257	0.60	42	123
November 12, 2009	347,200	0.40	16	107
Various dates ²	146,195	\$0.70 ³	12	15
RSU Totals	1,156,652		\$ 70	\$ 245
All stock-based comp. totals			\$194	\$ 914

²There are some options granted in between the annual grants related to new hires during the year or staff added through acquisitions.
³This 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 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 59% of the total options-related expense pertaining to options that are significantly out of the money. Therefore, the Company will at times discuss the performance of the Company with stock-based compensation 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 Consolidated Highlights

	Three Months ended March 31				Year ended December 31			
	2010	2009	Change	% Change	2009	2008	Change	% Change
Revenue	14,720	12,712	2,008	16%	46,664	46,178	486	1%
Gross Profit	7,138	6,781	357	5%	24,164	23,385	779	3%
EBITDA ⁽¹⁾	1,999	1,351	648	48%	5,152	5,560	(408)	(7)%
Net Income before income taxes	1,339	495	844	171%	1,149	2,581	(1,432)	(55)%
Net income	913	301	612	203%	718	1,902	(1,184)	(62)%
Net income per share, basic	0.01	0.00	0.01	n/a	0.01	0.02	(0.01)	(50)%
Net Income per share, diluted	0.01	0.00	0.01	n/a	0.01	0.02	(0.01)	(50)%
Cash from operations	6,089	(216)	6,305	2919%	5,112	8,626	(3,514)	(41)%
Free cash flow ⁽²⁾	1,702	489	1,213	248%	2,683	3,155	(472)	(15)%

(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 following table reviews some results **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			
	2010	2009	Change	% Change	2009	2008	Change	% Change
EBITDA ⁽¹⁾	1,999	1,351	648	48%	6,276	7,073	(797)	(11)%
Net Income before income taxes ⁽¹⁾	1,533	805	728	90%	2,273	4,094	(1,821)	(44)%
Net Income per share before taxes, basic ⁽¹⁾	0.02	0.01	0.01	100%	0.02	0.04	(0.02)	(50)%
Net Income per share before taxes, diluted ⁽¹⁾	0.02	0.01	0.01	100%	0.02	0.04	(0.02)	(50)%

(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 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009:

	2009	2008	2007
Total Revenues	46,664	46,178	29,121
Net Income Before Taxes	1,149	2,581	1,134
Net Income Before Taxes per share - basic	0.01	0.03	0.01
Net Income Before Taxes per share - diluted	0.01	0.03	0.01
Net Income After Taxes	718	1,902	951
Net Income After Taxes per share - basic	0.01	0.02	0.01
Net Income After Taxes per share - diluted	0.01	0.02	0.01
Total Assets	51,884	52,580	47,216

5.2 Quarterly Results Summary

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

	2010	2009				2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenue	14,720	13,600	11,197	9,155	12,712	14,339	10,429	10,033	11,377
Recurring Revenue ⁽¹⁾	8,535	8,219	7,815	7,635	7,881	6,177	5,007	4,935	4,633
Recurring Revenue ⁽¹⁾ as a % of Operating Expenses ⁽²⁾	173%	181%	197%	179%	154%	125%	132%	141%	132%
Recurring Revenue ⁽¹⁾ as a % of Total Cash Expenditures ⁽³⁾	157%	164%	161%	145%	126%	98%	107%	106%	106%
Gross Margin Percentage	48%	50%	53%	50%	53%	51%	51%	49%	51%
Net Income (Loss)	913	642	464	(691)	301	741	206	91	864
Net Income (Loss) (per share) - basic and diluted	0.01	0.01	0.00	(.01)	0.00	0.01	0.00	0.00	0.01
Net Income (loss) before taxes excluding stock-based compensation expense ⁽⁴⁾	1,533	880	1,077	(491)	805	780	739	813	1,762
Net Income (loss) per share before taxes excluding stock-based compensation expense - basic and diluted ⁽⁴⁾	0.02	0.01	0.01	(.01)	0.01	0.01	0.01	0.01	0.02
<p>Note: ⁽¹⁾ Recurring Revenue is comprised of all fees that are billed to customers on a recurring basis. ⁽²⁾ Operating Expenses includes all expenses except for stock based compensation and allowances for doubtful accounts. ⁽³⁾ Total Cash Expenditures includes Operational Expenses plus the amount of development costs capitalized as internally-generated intangibles in the period and all amounts for the acquisition of capital assets in the period ⁽⁴⁾ This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure.</p>									

5.3 Comments on Corporate Performance – Key Performance Indicator Trends

Revenue for Q1 2010 was \$14,720, up 16% from the same quarter in 2009 and up 3% from the previous record revenues of \$14,339 posted in Q4 2008. While the Company anticipates continued volatility in the energy industry throughout 2010, recent customer activity levels indicate renewed, although tempered, optimism.

The Company continues to grow its recurring revenue, despite market conditions, which provided stability to overall financial performance throughout 2009 and Q1 of 2010. The recurring revenue percentages of operation expenses and total cash expenditures continued to increase, as follows:

Recurring revenue increased from \$8,219 in Q4 2009 to \$8,535 for Q1 of 2010, of which \$3,427 was contributed by field operations and \$5,108 from production operations management. The amount of recurring revenue in 2009 was \$31,550 compared to \$20,752 in 2008 and \$9,830 for 2007. Of this 2009 increase, \$5,571 was generated by production operations management while the remaining \$5,227 was from field operations.

For Q1-2010, the percent of recurring revenue to operating expenses was 173%, consistent with the 176% throughout 2009 and growing from 137% in 2008, 102% in 2007, 77% in 2006, 66% in 2005 and 51% in 2004. The Company expects there may be some fluctuation in this percentage quarter to quarter.

The Company 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. The trend tracks relatively close to the prior measure which looks solely at operation expenses. For 2009 the percent of recurring revenue to total cash expenditures was 157%, growing from 148% in 2009, 101% in 2008, 72% in 2007, 57% in 2006, 49% in 2005 and 46% in 2004.

Gross margin percentages in Q1-2010 were slightly lower than 2009. The Company expects some volatility in the percentage gross margin on a quarterly basis as a result of fluctuations in revenue mix. There is a significant margin difference between hardware, software, recurring fees and other services, therefore, if the revenue mix changes between periods the total gross margin percentage can vary. The Company expects that margins will continue into 2010 within the range experienced over the past six months.

6 Results of Operations

6.1 Revenue

The Company generated revenues of \$14,720 for the three months ended March 31, 2010 compared to \$12,712 for the three months ended March 31, 2009. This represents an increase of 16% for the first quarter, reflecting the increase in activity levels in the industry relative to 2009. New sales were driven primarily by retrofit programs of larger customers and merger and acquisition transactions that transitioned assets formerly owned by Tier 1 producers to smaller producers who traditionally use more of Zedi's services to operate these same wells. Field Operations continued to grow faster than expected. Although experience in the first three months of the year was very positive, uncertainty remains based on low natural gas prices and management is continually reassessing the industry outlook for the remainder of the year.

6.2 Cost of Sales

The cost of sales for the three months ended March 31, 2010 was \$7,582 resulting in a 48% margin compared to a 53% margin and cost of sales of \$5,931 for the same period in 2009.

The variations in these margin figures are expected as the product and service mix in any particular period can vary.

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 the Edmonton development and production facility and all related expenditures for these departments, excluding those amounts charged to cost of sales.

Operating expenses for the quarter ended March 31, 2010 were \$671, which is lower than the same period for 2009 by \$41 or 6%. As a percentage of revenue, operating expense was 4.6% for the first quarter ended March 31, 2010, as compared to 5.6% for the same quarter in 2009.

Operating expenses have continued on a similar, stable trend over the past three years and reflect the scalability of our business model. The cost decreases experienced in the latter stages of 2009 resulted from both cost containment initiatives as well as reduced production volumes.

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 \$3,124 for the first quarter ended March 31, 2010. This expense was \$419 less than during the quarter ended March 31, 2009. SG&A expense as a percentage of revenue was 21% for the quarter ended March 31, 2010 as compared to 28% for the same quarter in 2009. This reduction reflects cost containment initiatives and reorganization efficiencies instituted in response to 2009 market conditions.

6.5 Product Development

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

These internally-generated intangibles are amortized over a five-year period, which is consistent with the historical lifecycle of prior product versions and appropriately matches the product revenue stream with its development costs.

Product development expenses include compensation and benefits of all the development teams working on the continuing development of new and existing products as well as the testing activities. These expenses also include the cost to retain independent contractors and consultants, software licensing expenses, prototypes, certification, and all related administrative expenses and supplies.

The total product development cost was \$1,524 in the first quarter of 2010, down from \$1,722 in the first quarter of the prior year. The Company capitalized \$374 of development costs in the first quarter and expensed \$1,150 of the costs. The overall R&D activity level reflects the Company's continued efforts at bringing new products to market more quickly, including the expansion of our optimization product suite.

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 \$194 for the quarter ended March 31, 2010 compared with \$310 for the quarter ended March 31, 2009 (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, 2010 was \$913 or \$0.01 per share compared to \$301 or \$0.00 per share for the same period in 2009 for an overall increase of \$612 or 203%. A future income tax expense amount of \$426 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 2010 was \$1,339. With stock-based compensation factored out net income before taxes was \$1,533 in the first quarter.

6.8 Amortization of Capital and Intangible Assets

In the first quarter the amortization of capital and intangible assets was \$644, of which \$236 related to acquired intangible assets, which are non-recurring capital expenditures, and regular amortization of internally-generated intangible assets accounted for \$232. The balance of \$176 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, 2010, the Company recognized a provision of \$426 in previously unrecognized tax losses and other credits.

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 subsequent five years, the former 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 totalling \$700 was accrued in fiscal years 2008 and 2009. For fiscal 2010, no earnout has yet been accrued.

7 Changes in Financial Condition

The following are the significant changes in the consolidated balance sheets between December 31, 2009 and March 31, 2010.

	March 31, 2010	December 31, 2009	Change	Explanation
Current Assets				
Cash and cash equivalents	6,859	1,245	5,614	The increase is in line with expectations and reflects the peak of the billing cycle in early Q1 now being converted to cash.
Accounts receivable	12,753	11,009	1,744	Receivables continue to be stable, with the increase due to the peak of the annual billing cycle early in Q1.
Inventories	6,780	7,696	(916)	The decrease is consistent with increased sales activity that was only partially offset by replenishment.
Prepaid expenses and deposits	296	299	(3)	Consistent with expectations and prior periods.
Current Liabilities				
Accounts payable	2,527	1,463	1,064	Increase reflects manufacturing-related purchasing .
Accrued liabilities	2,641	1,804	837	In line with expectations.
Deferred revenue	7,349	4,511	2,838	Invoicing of service contracts are yearly, but revenue is deferred and recognized monthly. This amount fluctuates seasonally based upon the timing of contract renewals.
Working Capital⁽¹⁾	14,428	12,878	1,550	In line with expectations.
Capital Assets	2,327	2,412	(59)	In line with expectations.
Other Assets				
Internally-generated Intangibles	4,256	4,114	142	Continued investment in product development
Acquired Intangibles	3,700	3,926	(226)	Reflects regular amortization of acquisition-related intangibles
Goodwill	19,047	19,047	-	No Change
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 March 31, 2010 was \$6,859, an increase of \$5,614 from the December 31, 2009 balance. Cash flow from operating activities continues to be very strong, with \$6,089 contributed in the first three months of 2010. 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 Flows, are summarized below:

	Three months ended March 31,	
	2010	2009
Opening cash	1,245	15
Cash provided by operations	6,089	(216)
Cash (used) in financing	-	-
Cash (used) in investing	(475)	(1,117)
Closing cash	6,859	(1,318)

The following table presents summarized working capital information.

	As at March 31,	
	2010	2009
Current assets	26,945	24,309
Current liabilities	12,517	12,806
Working capital	14,428	11,503
Current ratio	2.15	1.90

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 unrecognized revenue remains in the deferred revenue until it is earned. In 2005 the Company changed its contract renewal policy and began to renew contracts on their anniversaries. This 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 \$475 during the three months ended March 31, 2010, funded from cash flow from operations. Capital expenditures were:

Automotive	\$	39
Computer Hardware		19
Computer Software		29
Furniture & Equipment		4
Patents and Trademarks		10
Internally-generated Intangibles		374

Credit Facilities

The Company has current credit facilities of \$3 million, of which none was drawn upon throughout Q1 2010. The interest rate is at Royal Bank Prime plus 1.25%. 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.

Cash Commitments / Operating Leases

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

	Total	Within 1 year	2 to 3 years	3 to 5 years
Operating leases	2,969	1,088	1,251	630
Total	2,969	1,088	1,251	630

Capital Expenditures

Capital expenditures are funded from cash flow from operating activities. The Company may adjust 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 achieve projected increasing sales and production levels.

Outstanding Share Information

Authorized and issued shares:

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value. The following is a summary of the Company's issued and outstanding common shares:

	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
	Number	Amount	Number	Amount
Balance outstanding, beginning of period	94,772,021	\$51,218	94,358,168	\$50,960
Shares issued:				
Issued from treasury	8,025	6	882,453	258
Cancellation of treasury stock outstanding	-	-	(468,600)	-
Balance outstanding, end of period	94,780,046	\$51,224	94,772,021	\$51,218

As of May 18, 2010, the date of this MD&A document, the Company had 94,780,046 common shares issued and outstanding.

9 Critical Accounting Estimates

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:

The Company has undertaken to adopt International Financial Reporting Standards (“IFRS”) to replace Canada’s current Generally Accepted Accounting Principles (“GAAP”), on the schedule mandated by the Canadian Institute of Chartered Accountants (“CICA”).

- The Company engaged external consultants 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.
- Following the above assessment, the Company formed a team to plan and conduct the transition to IFRS over the period up to and including the CICA mandated adoption date of January 1, 2011. The IFRS team is led by the Chief Financial Officer who reports progress to the Board of Directors at the latter’s regular meetings. The IFRS team has completed an initial training program and has the budget and mandate to engage external resources where required.
- The IFRS team has used a risk-based approach to prepare a detailed evaluation of the options and potential exemptions available upon initial adoption of IFRS and is finalizing the accounting policies that will be followed under IFRS. As of the date of this report, the Company has not fully determined the impact that adopting IFRS will have on its financial position and future results, however, in addition to significant changes in format and level of detail reported, the majority of potential first time adoption changes that may arise are expected to impact the following financial statement items:
 - Goodwill – the Company is evaluating the option available to retroactively apply IFRS Business Combinations guidance which could change the treatment of transaction costs and earnout clauses from prior acquisitions;
 - Stock-based compensation – the company is evaluating changes to the amortization method and period associated with its stock based plans;
 - Capital assets – the company is evaluating options for the deemed transition value of its capital assets and expects to retain a cost, as opposed to fair value, based value for the majority of its capital assets;
 - Income taxes, leases and financial statement presentation – among others, these three areas of IFRS guidance remain open to further changes prior to the adoption date and the Company continues to monitor the proposed changes in both IFRS and GAAP during this period. The Company has not yet made final decisions with respect to the financial statement format options to be adopted.
- Under IFRS guidance on impairment of assets, impairment assessments must be made at a cash generating unit (CGU) level, which will change the level at which certain of Zedi’s assets will be periodically evaluated for potential impairment. The Company has made an initial determination of its cash generating units as they existed as of the IFRS transition date and preliminary work has not identified evidence of impairment at the new level of application of the impairment tests.
- The Company has implemented a number of changes to its business systems and processes to facilitate the preparation of IFRS compliant financial statements. Two related projects that were not complete as of the date of this MD&A remain on track for targeted completion prior to the IFRS conversion date.

10 Outlook

The company expects that the momentum created in Q1 will sustain growth throughout 2010. Having weathered an extremely difficult business climate during Q2 2009, the Company has positioned itself to respond quickly in the event similar market downturns become evident in future quarters. The increased stability in both the regulatory regime and the pricing in the commodity market are reflected in the revived operational activity of Zedi's customers.

Subsequent to Q1, the Company received one award and made two announcements:

- For the second year in a row, Zedi placed in the top 75 employers for the Great Places to Work Survey as recognized in the Globe and Mail on April 13, 2010. This award illustrates the commitment and dedication that the company's employees bring to work every day as the key to Zedi's success.
- The first press release, on April 29, 2010 was an announcement by the Company of a purchase agreement in the amount of \$1,046,000 from a major producer in the Russian Federation related to a trial utilizing Zedi's technology that was conducted in northern Siberia.
- The second press release, on May 5, 2010, announced the signing by the Company of a letter of intent to acquire all the issued and outstanding shares of Skyways Technical Services Ltd., a private corporation providing field operations and management services to the oil and gas industry in north-east British Columbia, expanding our presence in this key geography.

Looking ahead, the company expects to:

- Maintain a strong focus on cost containment,
- Experience continued pricing pressure in the Western Canadian Sedimentary Basin for both products and services,
- Continue working closely with existing and new customers to identify strong business cases for retrofitting Zedi technology on operating wells,
- Expand the products and services offered to capitalize on the ERCB's EPAP regulatory requirements,
- Continue to invest in the development of oil solutions,
- Continue to invest in targeted international markets,
- Continue to manage the ongoing technology investment to improve the company's existing capabilities and explore new opportunities for revenue generation.

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.

Credit risk

At March 31, 2010, 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.

Regulatory Risks

The Company is subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on the Company. The Company may also be subject to regulation in foreign countries in connection with certain of its business activities. Changes in the regulatory environment imposed upon the Company could adversely affect the ability of the Company to attain its corporate objectives. There can be no assurance that foreign countries will not adopt laws or regulatory requirements that could adversely affect the Company.

Competition

The markets for remote production operations management are expected to remain highly competitive. While the Company believes that it currently has unique products and has patents that protect its technology, there can be no assurance that competitors will not emerge in the near to medium term with comparable products. There are several very large companies involved in remote data management processes. Such companies have more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources than the Company. It is the Company's intention to establish marketing and distribution alliances with several of these companies but there can be no assurance that such alliances will be formed.

Dependence on a Market that has Historic Volatility

The Company's products are sold into the oil & 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 stability, availability and expansion of the Internet as a medium of communication and commerce. Interruption in the availability of Internet services or a failure of such services to scale with anticipated growth in usage 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.

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	
	2010	2009	2009	2008
Net Income	913	301	718	1,902
Amortization of capital assets and intangibles	644	804	3,876	3,219
Loss (gain) on disposal of capital assets	-	(3)	(14)	3
Future income taxes	426	194	431	679
Interest	16	55	141	(243)
EBITDA	1,999	1,351	5,152	5,560

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	
	2010	2009	2009	2008
EBITDA	1,999	1,351	5,152	5,560
Stock-based compensation	194	310	1,124	1,513
Cash interest (paid)	(16)	(55)	(141)	285
Cash available for discretionary spending and capital expenditures	2,177	1,606	6,135	7,358
Capital expenditures				
Proceeds from disposal of capital assets	-	5	45	7
Internally-generated intangibles	(374)	(857)	(2,321)	(3,194)
Purchase of other capital assets	(101)	(265)	(1,176)	(1,016)
Free Cash Flow	1,702	489	2,683	3,155

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	
	2010	2009	2009	2008
Net Income before Taxes	1,339	495	1,149	2,581
Stock-based compensation	194	310	1,124	1,513
Net Income before Taxes, Excluding Stock-based Compensation	1,533	805	2,273	4,094

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	
	2010	2009	2009	2008
Income (loss) per Share, basic and diluted	0.01	0.00	0.01	0.02
Future Income Tax per Share	0.00	0.00	0.00	0.01
Income (loss) per Share before Taxes, basic and diluted	0.01	0.00	0.01	0.03
Stock-based compensation per share	0.00	0.00	0.01	0.02
Income (loss) per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted	0.01	0.00	0.02	0.04