

Creating Value



integrated information instantly

Corporate Profile zed.i solutions inc. increases the earnings of natural gas producers by providing meaningful and readily available well-monitoring data directly from the wellhead to the desktop. Our Smart-Alek™ System replaces mechanical flow meters and paper charts with an end-to-end digital network that instantly delivers well site information to numerous end-users via our website. Our applications at www.smart-alek.com merge real-time production data with public and proprietary data, providing our clients with integrated information instantly.

Notice of Annual General and Special Meeting

The Annual General and Special Meeting of the shareholders of zed.i solutions inc. will be held at 1:00 pm, Tuesday June 3, 2003, at 4500 Bankers Hall East, Bennett Boardroom, 855 – 2nd Street SW, Calgary, Alberta. All shareholders and others interested in the affairs of the Company are welcome to attend.

Work smarter. Make more money. It's that simple.

Our clients experience increased earnings. This is a direct result of adopting zedi's intelligent remote gas monitoring solutions. They find that using zed.i's technology is a simple, reliable, and cost effective way of increasing efficiencies and reducing costs. zed.i is also utilizing this principle of working smarter and the result is an increase in revenues and reduced costs.

More earnings – that's the bottom line.

Letter to Shareholders

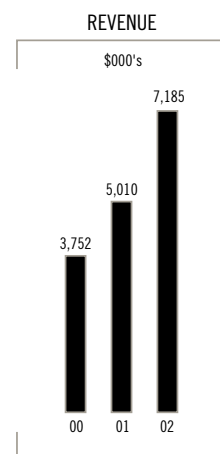


Keith Smith
President & Chief Executive Officer

The Year in Overview Persistence and progress best describe the activity and results for zed.i solutions in 2002. We were relentless in delivering the message to natural gas producers that we can increase their earnings with our unique well-monitoring solution, Smart-Alek™ and this perseverance produced measurable progress throughout the year. The operating deficit was reduced by 56% between the first and fourth quarters, continuing a five quarter trend of decreasing losses. (This trend excludes second quarters losses which were impacted by an inventory write-down.) From January to December the number of wells being monitored by Smart-Alek grew over 500%, with the number now close to 1,000. Our customer base more than doubled with over 50% of the companies already making strategic repurchase decisions. Furthermore, a number of these customers have corporately adopted the Smart-Alek technology whereby all new wells will be outfitted with Smart-Alek and current mechanical charts will be replaced. We believe the market penetration rate to date is considerable and demonstrates that we are delivering value to our customers. They have realized the benefits of intelligent electronic monitoring and are making the decision to adopt our solutions to increase their earnings and productivity.

Corporate Activity This growth, however, was not without cost. A number of difficult, but necessary, decisions were made during the year to secure the future success of the Company. While sales and revenues progressively increased throughout 2002, the rate of growth was slower than anticipated. Accordingly, several actions occurred: SGA was reduced by 42% over the course of the year; R & D costs were also reduced as core functionalities were completed; and steps were taken to reduce the costs of goods sold for Smart-Alek. Furthermore, zed.i ceased new well-test operations in the USA and sold one of its well-test technologies, as the resources required for continuing these revenue streams were no longer feasible. Unfortunately, the cumulative effect of these actions was still not enough to establish profitability in the expected timeframe and the raising of additional funds was required. The above cost reduction measures and progressive sales and revenue supported the raising of over \$5 Million in convertible debentures in 2002. Early in 2003, warrants were exercised for over \$500,000 in additional debentures. It was very encouraging to be able to raise these funds in a less than favourable market environment.

Management There were two key people added to our team in the latter part of 2002. In November, Kevin Fleury, former president of Syndicated Technologies Ltd. ("Syntech"), joined our management team as Vice-President Business Development. Kevin was the driving force behind Syntech's growth from a start up company to a leading field services company in Western Canada. Through his extensive network at the field level, the value of the Smart-Alek technology is being disseminated and recognized. The board of directors welcomed Matthew Heffernan, Vice-President TELUS Enterprise Solutions in December. His areas of expertise include data communications, system design and development and network management. With TELUS as our communications provider and host server for Smart-Alek, the addition of Mr. Heffernan will serve to strengthen these business relations and provide new opportunities in the future.



We believe being in a position to enhance our customers' financial performance will lead to Smart-Alek™ corporate adoption by more and more companies.

Marketing Activity and Product Development The efforts of our marketing and sales team are being rewarded with significant increases in both the number of customers and sales of Smart-Alek. The development of an integrative sales process involving all potential Smart-Alek data beneficiaries has been instrumental in this growth. Through ongoing interaction and feedback with our clients we expanded, and will continue to expand, the Smart-Alek functionality to meet the diverse needs of energy producers. An example of this expansion was the development and completion of Virtual Smart-Alek (VSA) and Joint Venture Smart-Alek (JVSA). VSA is a universal web-enabled data delivery system that preserves the value of sunk costs in SCADA and other traditional electronic well-monitoring equipment. JVSA allows joint interest owners access to real-time production data while the operator maintains control over system configuration, alarms and other operating functions. We also developed the ability to integrate additional monitoring sensors at the well site, such as casing and tubing pressure and tank levels. Finally, in order to provide our customers with access to their well performance data regardless of their proximity to terrestrial communications, we completed and launched a satellite version of Smart-Alek. We now have the ability to monitor a well, and deliver the data, anywhere in the world.

Outlook The key to increasing revenues and becoming profitable over the next year will be the continued expansion of our customer base with customer testimonials and validating results to demonstrate how zed.i can improve their bottom line. We believe being in a position to enhance our customers' financial performance will lead to Smart-Alek corporate adoption by more and more companies. Our current value proposition is compelling, and it will only get better as we seek synergistic alliances and applications to efficiently convert the field data we collect into valuable information and knowledge that will enhance the productivity and increase the earnings of our customers.

I encourage you, as a zed.i shareholder, to consider our business prospects in the context of the market potential for Smart-Alek. The oil and gas industry utilizes the best science and technology available and spends billions of dollars annually to find natural gas reserves. However, the predominant method of monitoring the production of these valuable reserves is a mechanical chart that winds up like a clock and was patented 100 years ago. This dated technology requires operators to regularly attend at each well, pick up inaccurate paper charts and determine the operating status of the well. Neither field operators nor head office engineers truly know at any given time whether their wells are producing optimally or at all. This situation negatively impacts producers' revenues, but now can be profitably addressed by zed.i solutions. The benefits of our technology are undeniable and we are now convinced more than ever that wholesale adoption of electronic monitoring of gas wells will occur in the next three to five years. With the only end-to-end solution currently available, zed.i is well positioned to capture a leading role in this evolving market.

In closing, this letter would not be complete without acknowledging the hard work and dedication of zed.i's employees, management and directors. My sincere thanks to everyone for their continued efforts and loyalty to help make zed.i a success and to our shareholders for their ongoing support.

(signed)

Keith Smith

President and Chief Executive Officer

March , 2003

Operations Review

Corporate Development Customer feedback and validation of the Smart-Alek™ technology guided the ongoing refinement of the corporate strategy and led to a strengthened business model. Our disciplined focus on the Canadian well-monitoring market resulted in the divestiture of two well-test based revenue streams: the USA well-test business; and the Shut-In-Tool technology. The resources required to maintain profitability with these products no longer fit our mandate. Year-end results indicate these were prudent decisions as the quarterly loss was reduced by 56% from the first to the fourth quarter, and our revenue growth from Smart-Alek more than compensated for the lost sales. In retrospect, the evolution of the business model in 2002 furthers the transition of zed.i from a pure well-test company to a more diversified well-monitoring and data management company.

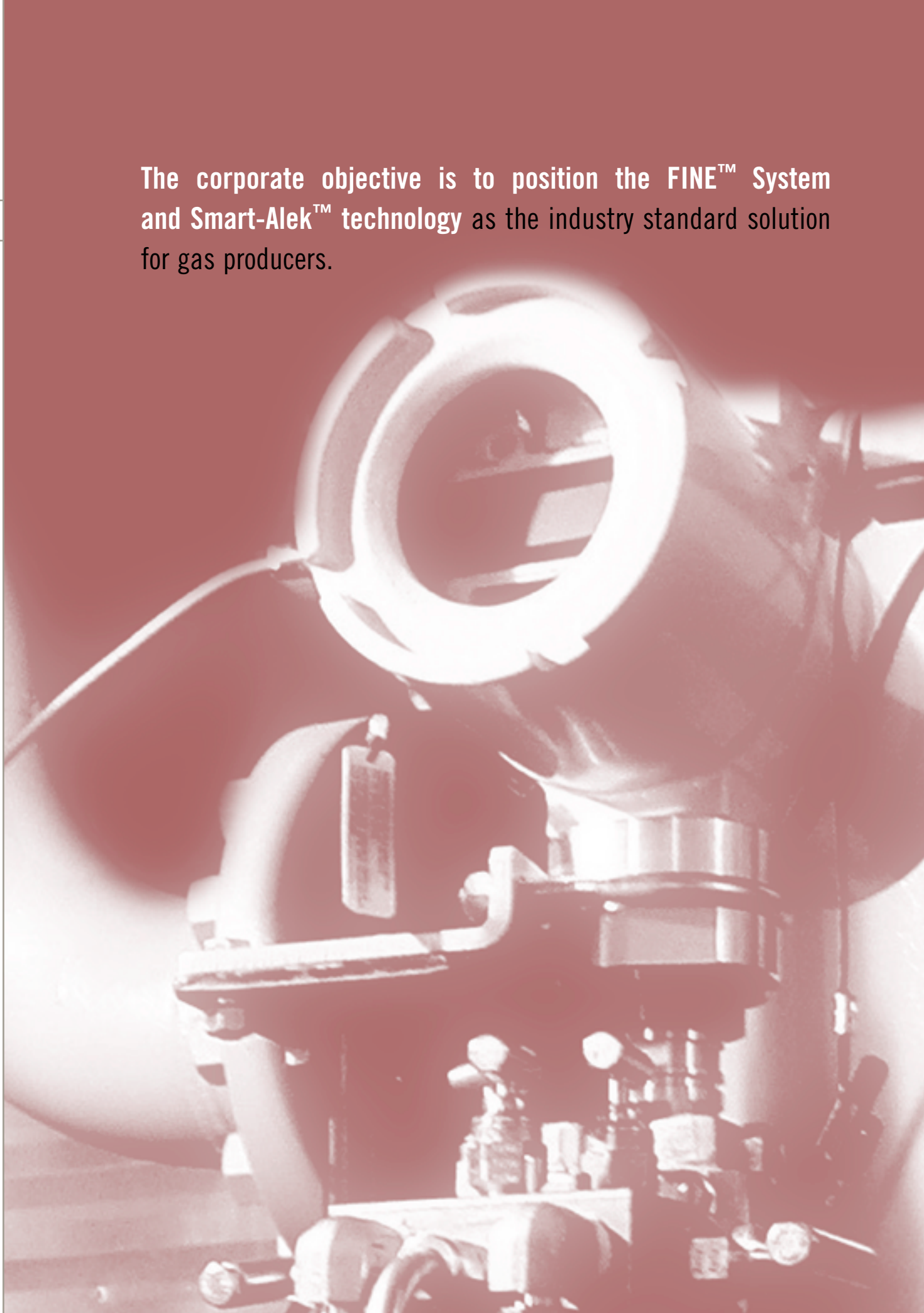
The core of zed.i's business model is based on the Smart-Alek technology and the concept of an integrated end-to-end system. We have trademarked the acronym FINE™ to help describe the three main components of this concept. FI represents the Field Instrument where data is collected from sensors and then analyzed and interpreted in an intelligent form. N stands for communications Network where data is processed, encrypted and transmitted from a remote location to the desktop. E represents the End-user interface where customers can seamlessly access and utilize production data together with other proprietary data and applications. Through FINE, zed.i can provide a solution that pushes real-time production data from the field to the desktop and beyond. Our mission is to increase the earnings of energy producers by providing integrated information instantly.

As noted, zed.i's primary target market is Canadian gas producers. The corporate objective is to position the FINE System and Smart-Alek technology as the industry standard solution for this market. While the technology is in place to enter the US and other global well-monitoring markets, entry is on hold until a secure customer base with profitability is established in Canada. Once this occurs, strategic moves into the US market will be made through Canadian customers also active in the USA and customers who are Canadian subsidiaries of American companies. Our market experience and research indicates our satellite communication provides zed.i with a universal solution that will support the feasibility of entering the US and international markets when the time is right.

Other corporate activity involved negotiating various reseller and service agreements to build stronger relationships with key suppliers and service providers. zed.i formalized VAR agreements with manufacturers of the pressure and liquid measurement sensors being used with the Smart-Alek System. Outsource service agreements were also struck with a number of service companies providing installation services to zed.i. Lastly, relations were strengthened with our two primary telecommunication providers, one of which also acts as the server host for the Smart-Alek website. Through increased interaction between our respective communication technology experts, numerous processes have been streamlined and features enhanced.

The ongoing benefits of these interactions are invaluable to zed.i. The processes instituted will provide a scalable reduction in the cost of goods and improve operating efficiencies without generating an increase in SG&A.

The corporate objective is to position the FINE™ System and Smart-Alek™ technology as the industry standard solution for gas producers.





Manufacturing The manufacturing group continued to demonstrate that less is more. In anticipation of outsource manufacturing, the size of the group was considerably reduced in 2002, yet increased production volumes were effectively managed. The group produced over 600 Smart-Alek units, many requiring different configurations and accessories for completion. In addition, ongoing manufacturing requirements for zed.i's well-test equipment were also met.

Procedures were established for in-house Burn-In-Tests for each Smart-Alek System produced. This involves subjecting each unit to extreme high and low temperatures and assessing the data and functionality for accuracy before approving it for sale and installation in the field. These internal procedures assisted the Company in passing four CSA audits last year.

During 2002 a number of initiatives were undertaken to promote and ensure the Company's quality standards. These standards are driven by zed.i's Quality Policy which states: "zed.i is committed to customer satisfaction by focusing on their needs and expectations. We strive for excellence through the involvement of all employees, at all levels, in continuous improvement." The Company moved from ISO 9002 to ISO 9001 certification standards, providing us with the highest ISO rating available. In preparation for certification, measures were instituted to track product performance and gather customer feedback. Components within the system responsible for logging problems and corrective adjustments were also refined.

In addition, plans are currently underway to acquire ISO 9000/2000 certification before 2004. This is the newest level of ISO certification possible and similar to ISO 9001 certification. The required quality control measures will ensure all our customer contact points are consistent and provide a standard high level of customer service.

Current projections for Smart-Alek in 2003/2004 indicate demand will exceed the existing capacity of our manufacturing facility. Rather than expand the current facility and increase overhead costs, a phased-in shift to outsource manufacturing is underway. Certain components of the system are already being produced outside zed.i's facility and complete production outsourcing will occur when demand surpasses our capacity. The benefits of this action will be twofold; higher volume production output and reduced inventory carrying costs.

PID With the commercialization of Smart-Alek, the research and development activity phase is now behind us. Various projects are now in progress to enhance and expand the functionality of the core system. To better reflect this new mode of operation, the R & D group re-named themselves the Product Innovation Department ("PID").

The completion of Smart-Alek's core functionality reduced the resources required for PID, and consequently, a reduction in PID costs occurred throughout the year. Highlights of the functionalities and enhancements completed by PID in 2002 include:

- release of the satellite version of Smart-Alek
- release of CSC system for the USA market
- availability of Virtual Smart-Alek and Joint Venture VSA capabilities
- release of alarm cryout capabilities from the unit itself
- integrated external pressure sensors and liquid flow meters into the Smart-Alek System
- enhanced website reporting capabilities through development of a Report Wizard

In addition to these accomplishments, PID is continually monitoring and upgrading the Smart-Alek website to maintain the integrity of the system and make it more user friendly and versatile for our customers. Many of the changes made, and that will continue to be made, are a direct result of customer feedback and in line with zed.i's corporate value of being customer driven.

During 2002, an agreement was reached with Fuji Electric of Japan to supply sensors for the Smart-Alek. The new sensors will be more cost-effective and reduce the battery power required to operate Smart-Alek in the field. Furthermore, this change will generate a reduction in cost of goods sold. It is anticipated that units with these new sensors will be released in June, 2003.

FINANCE The finance group was focused on securing and prudently managing fiscal resources throughout 2002. Three tranches of debenture based financings were completed for a total of \$5,379,500. Additionally, \$505,600 was received in early 2003 from exercised warrants. These additional resources were required to support ongoing operations and are expected to see the Company through to profitability. Based on quarterly results, SG&A costs were reduced by 42% and revenues increased by 44% from the previous year. Losses for the year were decreased by 19% over 2001 for a total of \$6,596,000 and includes an inventory write-down of \$1.4 million that occurred mid-year to better align the Company's assets with its strategic focus. This was offset by a \$500,000 gain on the sale of the Shut-In-Tool technology.

A number of fiscal restraint policies were implemented to ensure maximum value for resources spent. Initiatives were taken to further streamline and integrate all facets of the accounting system to reduce redundancy of tasks. Changes were also made to accounting practices for Cost of Goods Sold to include allocation of direct labour and other tangible costs.

MARKETING AND SALES The marketing and sales team demonstrated that they could be just as innovative as the technology they are selling. Many new initiatives were implemented in 2002 and the results speak for themselves. Smart-Alek was commercially launched in October 2001; as of February 2003, almost 1,000 wells are being monitored with Smart-Alek technology. Our client base, which includes a number of companies on the Top 25 Producers List, more than doubled in 2002. Furthermore, research shows that our existing customers collectively own approximately 45,000 gas wells in Western Canada.

Our customers are validating our technology every day. Several clients are now corporate adopters of the technology for all new drills with plans to retrofit some of their existing manual monitoring systems. One of these customers is working very closely with our team to document improved operational efficiencies and realized a revenue increase of over \$1.25M in one year from 17 Smart-Alek monitored wells. The increased revenue is a direct result of reduced downtime through features that immediately alert the operator of this condition. This information has been documented in cases studies and the results are being disseminated through presentations and testimonials.

During this documentation process, a valuable sales tool evolved. An economic analysis was developed to help customers understand the potential impact of the Smart-Alek System on their revenue and operating costs. The tool uses historical production data to calculate the lost revenues due to downtime. The sales team then validates the assumptions with our customers to determine the ROI of implementing Smart-Alek technology in a specified gas field. The analysis is a powerful sales tool that demonstrates payback in as little as three months. Customers are now requesting the analysis to document their own potential for increased revenues. We are proving we can deliver on our mission statement to provide producers with increased earnings.

The distinguishing features of the Smart-Alek technology are that it is fully turnkey and an end-to-end solution. These concepts are reflected in the FINE acronym describing the technology: Field Instrument Network End-user interface. In support of our customer driven philosophy and our desire to own the customers' problems end-to-end, three new initiatives were launched in 2002 to develop increased customer contact and feedback.

The first involved sending members of the sales team and product engineers to meet with field personnel. The field customers received enhanced onsite training to assist them in effectively utilizing the Smart-Alek technology. These training sessions were done with individuals and groups alike, often with several different companies attending the same group session. The second was the introduction of user-group meetings. These meetings brought together various users of the system: production accountants, reservoir engineers, operations managers and executives. The premise of these meetings was to provide an open forum for discussing usage inquiries, individual requirements and proposed innovations for the system. Third was the invitational lunch and learn sessions for key industry decision makers. The sales team introduced the technology to a wide cross section of the industry with case studies and testimonials providing validity as to the benefits of the system. Attendees could see a tangible potential increase in their revenues and a positive return on investment.

All three initiatives were well received and provided a valuable exchange of information between current clients, potential clients and the sales team. This interaction will continue throughout 2003.

Based on feedback from these sessions, some innovative solutions evolved to supplement the Smart-Alek System. In addition to the recording of gas flow and temperature measurements, optional supplemental sensors for wellhead pressure and liquid flow were integrated into the system. An initial barrier to purchase was that many companies had invested major resources in the traditional SCADA system of well-monitoring. The PID group went to work and created a Virtual Smart-Alek interface that extracts the SCADA data and pushes it through the Smart-Alek website. This innovation then led to the introduction of the Joint Venture Smart-Alek whereby joint venture partners of an operator using Smart-Alek can also access their well data via the Smart-Alek website. While relatively new, early sales in 2003 of the JVSA are quite promising and validate our business model's ability to identify value additions for customers.

Management's Discussion and Analysis

Results of Operations The Company generated revenues of \$2,239,000 in the fourth quarter of 2002 as compared to \$1,506,000 for the fourth quarter ended December 31, 2001. This increase is largely attributed to growth in sales of the Company's main product, the Smart-Alek™. Revenue for the twelve months ended December 31, 2002 was \$7,185,000 compared to \$5,010,000 for the same period last year representing a 43% increase.

Cost of sales for the three months ended December 31, 2002 was \$1,730,000 for a 23% margin compared to \$899,000 and a 40% margin for the same period in 2001. Similarly, gross margin for the year ended December 31, 2002 was 27% compared to 52% for the prior year. The drop in margins is largely attributable to a new full-costing approach applied in 2002. In addition to the full-costing changes, the margins on Smart-Alek sales are less than those from the Company's traditional well-test equipment, and the 2002 revenues have a higher component of Smart-Alek sales than in 2001.

Operating Expenses Operating expense for the quarter ended December 31, 2002 was \$197,000 compared to \$796,000 for the same period in 2001. This decrease reflects the cost-savings of the Company's decision in the second quarter of this year to eliminate virtually all overhead costs from the U.S. operations. Operating expenses for the year ended December 31, 2002 were \$2,074,000, which is lower by \$211,000 compared to the prior year.

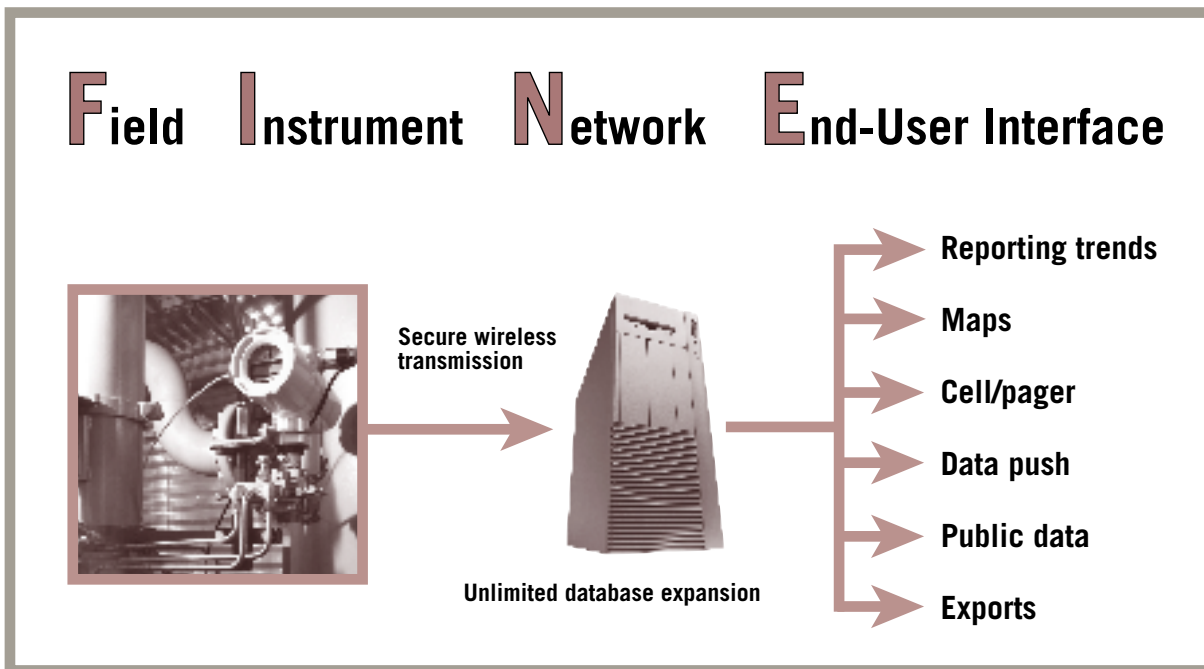
Sales, General and Administration Expenses Sales, General and Administrative expense was \$577,000 for the three months ended December 31, 2002. This expense was \$754,000 less compared to the same quarter last year. For the year ended December 31, 2002, the costs decreased by \$2,249,000 to \$3,054,000 compared to the prior year. These decreases are consistent with the aforementioned full costing approach to allocation of SG&A costs to cost of sales as well as continued efforts by the Company to significantly reduce overhead.

Research & Development R&D costs were also reduced in the fourth quarter to \$311,000 in 2002 from \$404,000 in the fourth quarter of the prior year. For the year ended December 31, 2002, R&D costs were \$1,561,000, a reduction of \$865,000 from the prior year. These reductions reflect the transition from the development stage into the full production stage of Smart-Alek.

Net Earnings The overall net loss for the fourth quarter in 2002 was \$ 862,000 or \$0.02 per share compared to a net loss of \$2,210,000 or \$0.05 per share for the same period in 2001. For the year ended, the loss decreased from \$8,128,000 or \$0.23 per share in 2001 to \$6,596,000 or \$0.12 per share in 2002. Consistent with losses in prior quarters, the fourth quarter loss was not unexpected and reflects the invested capital committed to the development, restructuring and inventory build up required for realizing the significant growth potential of the Company's new Smart-Alek technology.

Financial Condition and Liquidity The Company's cash balance at December 31, 2002 was \$3,305,000 and results from applying the cash proceeds of the August 2002 private placement and the December 2002 private placement and rights offering of convertible debentures to complete the full commercialization of the Smart-Alek. As at December 31, 2002 the Company has positive working capital of \$7,899,000.

The ongoing commercial production and sale of Smart-Alek, which commenced in the third quarter of 2001, will continue to require additional working capital next year to achieve projected sales and production levels. The proceeds from the recent private placement and the rights offering, combined with revenues, are anticipated to provide the necessary working capital the Company requires to reach profitability.



Corporate Governance

The zed.i Board of Directors is committed to the application of the best corporate governance practices regardless of the size of the corporation. The corporation's corporate governance policies are intended to ensure the Board is able to effectively supervise management and the strategic direction of the corporation to enhance shareholder value. In 2002 the Board appointed Martin Lambert as a lead director for increased and regular monitoring of management activity, providing an appropriate level of accountability to the Board.

As a result of assessment of Board effectiveness, a new director, Mr. Matthew Heffernan, was added in 2002, bringing the experience and strengths of a senior telecom executive to an already strong team. The Board continues to assess the performance of the Board and management team, anticipating areas of need as the corporation grows and expands.

The Board recently formed a governance committee, tasked with monitoring and making recommendations to the Board on governance issues to improve corporate performance and Board effectiveness. In addition to regular quarterly and special meetings of the Board of Directors, directors are involved in the management's quarterly strategic planning and assessment meetings.

Officers of the Company

Keith Smith – *President & CEO*

Keith was appointed President and CEO in April 2001. Prior to his appointment he served as Vice President, Corporate Development of zed.i solutions. Keith has almost 20 years of experience in the oil and gas business as an executive, a financial and business advisor and as a partner in the oil and gas department of a major Calgary law firm. His broad base of experience and his extensive contact with various oil & gas companies and institutional investors has provided him with the diverse business management insight needed to guide the talented executives at zed.i solutions.

Kevin Fleury – *Vice President Business Development*

Kevin joined zed.i solutions in Fall, 2002. Kevin has over 25 years experience in the electrical, instrumentation and control technologies contracting industry. This experience was acquired through a succession of positions with a major oilfield services company, culminating in that of President and CEO. Kevin's background and field operations network is being utilized to assist zed.i in establishing business relations at the field level for promoting and implementing the Smart-Alek technology.

Clem Gaudet – *Vice President Production & Operations*

Clem started with zed.i solutions in Spring, 2001 and brings with him over 20 years experience in operations management and data communication R & D. Clem has been instrumental in organizing and moving zed.i's manufacturing group forward to meet the commercial production demands for Smart Alek.

Robert Gordon – *Vice President, General Counsel*

Robert (Bob) has been with zed.i solutions since 1992 at which time he served as Vice President General Counsel and Operations. As the company grew, Bob also held executive positions in Finance and Marketing & Sales as required. Currently Bob's responsibilities are focused on general counsel, administration and human resources activities.

Rod Heard – *CFO & Vice President Corporate Development*

Rod started with zed.i solutions in the summer of 2001 as a consultant to assist in defining and developing our strategic plan. Rod's enthusiasm for corporate planning, excellent communication skills and attention to detail resulted in an offer of full time employment. Rod's primary responsibilities include corporate strategy, business development, investor relations and finance.

Toku Ito – *Chief Technology Officer*

Dr. Toku Ito co-founded zed.i solutions in 1987. His experience includes R & D work for the US Army Human Engineering Lab and Rocket Dynamics, a Space Shuttle associate. Through his technical insight and progressive thought processes, Dr. Ito has led the design, development and evolution of zed.i solutions products and technologies, notably the current Smart-Alek technology.

Denise LaForge – *Vice President Marketing & Sales*

Denise started with zed.i solutions in May 2000. Denise's varied experience in the oil & gas industry and investment management has been instrumental in zed.i's marketing and sales success. Under Denise's leadership zed.i's Smart-Alek technology has now been successfully launched in Western Canada with a strong client base in place.

Board of Directors

Alan Winter

Chairman of the Board – President and CEO of Genome BC in Vancouver. This organization was established to help position British Columbia and Canada as a world leader in selected areas of genomics research and commercial development. Formerly President and CEO of MPR Teltech, and President of the ComDev Space Group, he brings experience from various corporate and government related positions to provide a broadly based perspective to zed.i solutions on the high tech sector in Canada.

Matthew Heffernan

Vice-President TELUS Enterprise Solutions. Matthew is responsible for overseeing a range of enhanced communication and data services for a number of large private and public Alberta clients, notably in the oil and gas sector. His areas of expertise include data communications, system design and development and network management. Matthew's experience and current responsibilities with TELUS will serve to strengthen these business relations and open the door for new opportunities in the future.

Martin Lambert

Martin is a Senior partner in the Corporate/Commercial Department of Bennett Jones, LLP. He is recognized by the legal community as a leading expert in mergers and acquisitions. Martin's diverse corporate experience assists in guiding the executive through its strategy and business decisions.

Pierre Lebel

Chairman of Imperial Metals Corporation, listed on the TSE. His experience in managing public companies and past performance transitioning an organization to an operating company is key to zed.i solutions management.

Dorington Little

President of Rodeo Resources Ltd., a private consulting company with an international client base, which was established after his retirement from Mobil Oil in 1985. Dory is the former President of Mobil Oil Canada (1978-1981) and Mobil Oil Indonesia (1971 – 1978). Dory's high profile experience in the oil & gas industry has been beneficial in understanding the industry's adoption process of new technology in the field.

Doug Marlin

President of Marlin Ventures Inc., a private consulting firm in Calgary. Formerly President of JDA Software Canada, which is now a part of JDA Software Group Inc., a business solutions company listed on NASDAQ. Also a director of AeroMechanical Services and Firetrace Systems LLP, both technology companies. Doug's vast experience in software development and the high tech industry has contributed to the development and ongoing implementation of zed.i solutions strategic plan.

Auditors' Report

We have audited the consolidated balance sheets of zed.i solutions inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta

January 31, 2003

Chartered Accountants

Consolidated Balance Sheets

As at December 31	2002	2001
<i>(In thousands)</i>		
ASSETS		
Current assets:		
Cash	\$ 3,305	\$ 4,312
Accounts receivable	2,156	1,176
Inventories <i>(note 5)</i>	2,980	3,881
Net investment in sales leases, current portion <i>(note 9)</i>	434	585
Scientific research tax credits recoverable <i>(note 17(c))</i>	—	198
Prepaid expenses and deposits	126	65
	9,001	10,217
Inventories, non-current portion <i>(note 5)</i>	—	338
Net investment in sales leases, non-current portion <i>(note 9)</i>	96	344
Note receivable <i>(note 6)</i>	—	102
Deferred financing costs	203	—
Capital assets (net) <i>(note 10)</i>	1,074	1,391
Intangibles <i>(note 11)</i>	354	1,026
	\$ 10,728	\$ 13,418
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 601	\$ 1,326
Current portion of obligations under capital leases <i>(note 12)</i>	29	37
Current portion of long-term debt <i>(note 13)</i>	472	287
Advances from shareholders <i>(note 14)</i>	—	504
	1,102	2,154
Obligations under capital leases <i>(note 12)</i>	—	29
Long-term debt <i>(note 13)</i>	4,832	—
	5,934	2,183
Shareholders' equity:		
Share capital <i>(note 15)</i>	28,573	28,573
Equity component of convertible debenture <i>(note 13)</i>	640	—
Deficit	(24,419)	(17,338)
	4,794	11,235
Commitments <i>(note 20)</i>		
Subsequent events <i>(note 21)</i>		
	\$ 10,728	\$ 13,418

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed)
Martin A. Lambert
Director

(signed)
Douglas G. Marlin
Director

Consolidated Statements of Operations and Deficit

	Three Months December 31		Year Ended December 31	
	2002	2001	2002	2001
<i>(In thousands, except share amounts)</i>				
Sales	\$ 2,239	\$ 1,506	\$ 7,185	\$ 5,010
Cost of sales	1,730	899	5,232	2,389
Gross profit	509	607	1,953	2,621
Expenses:				
Operations	197	796	2,074	2,285
Sales, general and administrative	577	1,331	3,054	5,303
Research and development	311	404	1,561	2,426
	1,085	2,531	6,689	10,014
Loss before the undernoted	(576)	(1,924)	(4,736)	(7,393)
Amortization of capital assets and intangibles	182	273	706	753
Gain on sale of intellectual property <i>(note 7)</i>	–	–	(500)	–
Loss on disposal of assets	–	–	35	–
Write-down of inventory	–	–	1,397	–
Interest	104	13	222	(18)
	286	286	1,860	735
Net loss	(862)	(2,210)	(6,596)	(8,128)
Deficit, beginning of year:				
As previously reported	(23,557)	(15,128)	(17,338)	(9,210)
Adjustment for goodwill	–	–	(485)	–
As restated	(23,557)	(15,128)	(17,823)	(9,210)
Deficit, end of year	\$ (24,419)	\$ (17,338)	\$ (24,419)	\$ (17,338)
Net loss per common share – basic and diluted	(0.02)	(0.05)	(0.12)	(0.23)
Weighted average number of common shares	53,707,139	41,501,639	53,707,139	35,063,741

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

	Three Months December 31		Year Ended December 31	
	2002	2001	2002	2001
<i>(In thousands)</i>				
Cash Provided by (used in)				
Operations				
Net income (loss)	\$ (862)	\$ (2,210)	\$ (6,596)	\$ (8,128)
Adjustments for:				
Amortization	182	273	706	753
Gain on sale of intellectual property	—	—	(500)	—
Loss on disposal of assets	—	—	35	—
Changes in non-cash operating working capital	(989)	(225)	(38)	(2,601)
	(1,669)	(2,162)	(6,393)	(9,976)
Financing				
Proceeds from shares issued	—	4,704	—	13,381
Proceeds from special warrants issued	—	—	—	325
Repayment of shareholder advances	(500)	—	(504)	—
Proceeds from payment of note receivable	—	—	—	22
Proceeds from /(repayment of) long-term debt	2,767	(90)	5,657	(686)
Proceeds from/(repayment of) capital lease obligations	(10)	(9)	(37)	(192)
	2,257	4,605	5,116	12,850
Investments				
Acquisitions of capital assets	(13)	(306)	(292)	(1,201)
Cash acquired on amalgamation	—	—	—	1,046
Cash acquired on acquisition	—	—	—	(31)
Proceeds on sale of Shut-In Tool	—	—	500	—
Proceeds on disposal of assets	—	—	62	—
Proceeds on disposal of net assets held for sale	—	—	—	625
	(13)	(306)	270	439
Increase (decrease) in cash position	575	2,137	(1,007)	3,313
Cash position, beginning of period	2,730	2,175	4,312	999
Cash position, end of period	\$ 3,305	\$ 4,312	\$ 3,305	\$ 4,312
Supplemental Disclosure of Cash Flow Information				
Interest paid	22	24	101	122
Income taxes paid	—	—	—	—
Income tax recovered	—	—	198	274

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2002 and 2001

1. Nature of operations

zed.i solutions inc. (formerly 628916 Alberta Ltd.) (the "Company") is incorporated under the Business Corporations Act of Alberta by Certificate of Incorporation dated October 19, 1994. By Certificate of Amendment dated March 16, 2001, the Company changed its name to "zed.i solutions inc.". On March 29, 2001, the Company amalgamated with Colony Pacific Explorations Ltd. and continued operations under the name "zed.i solutions inc.". The Company is engaged in the development, production and sale of high technology products primarily for the energy sector. Activities are directed from the Company's head office in Calgary, Canada with additional sales and service offices in Canada and the United States.

The Company has designed and developed a unique remote monitoring instrument that is part of a system solution it calls Smart-Alek™. Smart-Alek is both a field instrument and complete Web-based information system. Smart-Alek was designed around a system concept which the Company calls the FINE™ System, an acronym that stands for Field Intelligence, a communications and processing Network and an End-user interface. Smart-Alek is currently targeted for application on natural gas wells. Following field trials and market surveys to research the needs and expectations of gas producers, the Company commenced commercial production and sales of Smart-Alek in 2001.

The Company continues to sell a number of well-test electronic measurement and monitoring products into the marketplace, however the Company expects to place less emphasis on these products as sales for Smart-Alek grow.

2. Going concern assumption

These consolidated financial statements are prepared on the going concern basis, which assumes that the Company will be able to realize its assets at the amounts recorded and discharge its liabilities in the normal course of business for the foreseeable future. Continued operations are dependent upon the Company being able to raise additional working capital to fund future operations, increase sales and achieve profitability. The outcome of these events is uncertain at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to raise additional working capital, increase sales, achieve profitability and to continue as a going concern.

3. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared by management and include the accounts of the Company and the Company's wholly-owned subsidiaries, zed.i solutions (Canada) inc., zed.i solutions (USA) inc., WebTech 2000 Inc., and Quail Hill Mining Corporation. All significant inter-company accounts and transactions have been eliminated.

(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 inventories, capital assets and deferred development costs are the more significant items subject to estimates in these financial statements.

(c) 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.

(d) 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 upon the completed installation of the Smart-Alek unit. Revenue from monthly network service fees is recorded in the month in which they are provided.

(e) Net investment in sales leases

Finance income related to the sales leases is recognized in a manner that produces a constant rate of return on the investment in the lease. Due to the nature of the leases, the Company has determined that these leases represent the sale of the product and an investment in a long-term accounts receivable. Accordingly, the Company records a sale and cost of sales for each lease sold upon delivery of the product. Finance charges included in the lease payments received are recorded over the life of the lease. The investment in the lease for purposes of income recognition is composed of net minimum lease payments and earned finance income.

(f) Research & development costs

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

(g) 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 and automotive	Declining balance	10% to 30%
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Patents	Straight-line	17 Years

(h) Purchased intangible assets

Purchased intangible assets are recorded at cost and amortized on a straight-line basis over a period of up to five years. The net carrying amount of purchased intangible assets is reviewed regularly 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 future cash flows. Intangibles acquired on the acquisition of WebTech 2000 Inc. are being amortized as follows:

Intangibles – Purchased software	(5 years)
Intangibles – Workforce	(2 years)

(i) Foreign currency

zed.i solutions (USA) inc. is an integrated foreign subsidiary of the Company. Accordingly, the subsidiary's accounts in foreign currencies and operations have been translated into Canadian dollars using the temporal method. Monetary items denominated in US dollars are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange when the assets were acquired. Revenues and expenses are translated at the average exchange rate for the month the transaction occurred. Gains or losses arising on translation are included in income.

(j) Stock-based compensation

The Company has two stock-based compensation plans, a stock option plan and an employee share trust. Under these plans, the Company has elected to account for stock options by measuring compensation expense as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price. Any consideration paid on exercise will be credited to share capital.

(k) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(l) Deferred financing costs

The financing costs directly attributable to the debentures issued by the Company have been deferred and are being amortized over the term of the related debt.

4. Changes in accounting policies

(a) Stock-based compensation plans

Effective January 1, 2002 the Company and its subsidiaries adopted Section 3870 of the Handbook of The Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting and disclosure of stock-based compensation, which recommends that awards to employees be valued using a fair value method of accounting. These new rules also require that companies account for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, by measuring compensation expense on an ongoing basis, as the amount by which the quoted market price exceeds the exercise price at each measurement date.

The Company has elected to account for stock options by measuring compensation expense as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price.

Under CICA 3870, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash or other assets.

(b) Goodwill and other intangible assets

In accordance with CICA Handbook requirements, the new CICA standards on "Business Combinations" and "Goodwill and Other Intangible Assets", are to be applied to any acquisition subsequent to June 30, 2001. Under the new accounting standards, goodwill and other intangible assets with indefinite lives are no longer amortized, but are tested for impairment at least annually. The Company's goodwill as at December 31, 2001, in the amount of \$484,500, resulting from the purchase of shares from a dissident Company shareholder pursuant to the amalgamation with Colony Pacific Explorations Ltd. ("Colony"), has been assessed as having no future value to the Company. Accordingly, as provided for under the new CICA Standards the amount has been recorded as a charge against opening retained deficit.

The Company's intangible assets, consisting of purchased software and workforce, which have defined useful lives, are amortized over their estimated useful lives of five and two years respectively, from date of acquisition.

5. Inventories

December 31	2002	2001
Raw materials and consumable supplies	\$ 1,804,602	\$ 2,112,353
Work-in-progress	—	250,618
Finished goods	1,197,779	1,855,598
	3,002,381	4,218,569
Less finished goods classified as non-current	—	337,986
	\$ 3,002,381	\$ 3,800,583

In June 2002, the Company wrote down raw materials and finished goods inventory by \$1,397,000 to reflect technological advancements in the industry as well as a shift in the focus of the Company's sales and marketing strategy. There was no corresponding write-down for the year ended December 31, 2001.

As at December 31, 2001, finished goods of \$337,986 have been classified as non-current because certain items were more likely to be rented than sold in the next twelve months. At December 31, 2002, this \$337,986 was completely written off.

6. Sale of note receivable

On May 30, 2002, the Company sold its interest in a long-term note on a mineral property in California. The note was settled for a cash payment of \$79,310.

7. Sale of intellectual property

On June 28, 2002, the Company signed an agreement to sell its Shut-In Tool assets, including all associated technology, patents and know-how to make, use and sell or rent and install the Shut-In Tool. As part of the agreement, the Company will retain the right to receive a royalty payment for a period of three years on future sales of the Shut-In Tool as well as the right to sell and market the Shut-In Tool in a limited geographic area for a specific period of time. No value has been ascribed in the proceeds to the anticipated future royalties.

The sale of the Shut-In Tool has been accounted for as follows:

Proceeds from sale of Shut-In Tool assets	\$ 650,000
Less: Portion of sale price allocated to inventory	150,000
Gain on sale of intellectual property	\$ 500,000

8. U.S. subsidiary

On June 28, 2002, the Company entered into an agreement with a U.S. company, Well Test Solutions LLC ("Well Test"), formed by a number of the Company's former U.S. divisional employees, to sell the furniture and computer equipment of its U.S. subsidiary, zed.i solutions (U.S.A.) inc., at book value in the amount of \$US 24,800. In addition, the Company entered into an agreement with Well Test, to license Well Test as an installer of the Company's Smart-Alek products in the United States and as a distributor of the Company's legacy well testing products. As a result, the Company will no longer sell well-test equipment through its U.S. subsidiary. An Agency Agreement also provides that the buyer will undertake to collect and support the existing receivables of the U.S. subsidiary in exchange for a commission.

9. Sales leases

The Company's net investment in sales leases includes the following:

December 31	2002	2001
Total minimum lease payments receivable:		
2002	—	666,573
2003	472,879	364,700
2004	98,109	—
Total receivable	570,988	1,031,273
Less unearned income	40,774	102,100
	530,214	929,173
Less current portion	434,079	585,110
Long-term portion	\$ 96,136	\$ 344,063

During the year ended December 31, 2002, the Company sold a portion of its lease receivables to unrelated third parties ("Purchaser") at a discounted amount for cash. Under the terms of these sales, the Company continues to collect the lease payments from the customer and then forwards the payments collected to the Purchaser. The Company has also guaranteed the amount to be received by the Purchaser. Included in net investment in sales leases and long-term debt at December 31, 2002 and 2001 is the principal amount of the Company's obligation to the Purchaser of the lease receivables being \$564,403 (2001 – \$286,789).

10. Capital assets

December 31	Cost	Accumulated amortization	Net book value
2002			
Office furniture and fixtures	\$ 521,044	\$ 276,402	\$ 244,642
Equipment	675,942	293,994	381,948
Computer hardware	916,617	564,930	351,687
Computer software	656,381	616,830	39,551
Automotive	31,496	20,693	10,803
Patents	54,631	9,641	44,990
	\$ 2,856,111	\$ 1,782,490	\$ 1,073,621
2001			
Office furniture and fixtures	\$ 587,953	\$ 251,944	\$ 336,009
Equipment	505,589	150,725	354,864
Computer hardware	938,464	445,123	493,341
Computer software	581,632	484,542	97,090
Automotive	80,305	18,503	61,802
Patents	54,631	6,427	48,204
	\$ 2,748,574	\$ 1,357,263	\$ 1,391,311

As at December 31, 2002, computer hardware and automotive assets with a cost of \$129,877 (2001 – \$129,877) and a net book value of \$42,377 (2001 – \$60,538) are assets held under capital lease.

11. Intangible assets

December 31	Cost	Accumulated amortization	Net book value
2002			
Purchased Software	\$ 459,317	\$ 145,445	\$ 313,872
Workforce	192,000	152,000	40,000
Goodwill(<i>note 4(b)</i>)	—	—	—
	\$ 651,317	\$ 297,445	\$ 353,872
2001			
Purchased Software	\$ 459,317	\$ 53,585	\$ 405,732
Workforce	192,000	56,000	136,000
Goodwill	510,000	25,500	484,500
	\$ 1,161,317	\$ 135,085	\$ 1,026,232

12. Obligations under capital leases

December 31	2002	2001
Copelco Capital, monthly payments of \$1,316 with interest at 9.7% to 30.9%, due between January 2001 and July 2003	\$ 4,240	\$ 16,746
Chrysler Credit Canada, monthly payments of \$427 with interest at 5.5%, due March 2003	12,616	16,906
Dell Finance Services Canada, monthly payments of \$1,955 with interest at 11.6% to 19.0%, due between June 2003 and December 2003	12,336	32,712
	29,192	66,364
Less current portion	29,192	37,172
Long-term portion	\$ —	\$ 29,192

Future minimum lease payments and the present value of the net minimum lease payments under the capital leases are as follows:

December 31	2002	2001
Year ending December 31		
2002	\$ —	\$ 42,837
2003	30,243	30,243
Total minimum lease payments	30,243	73,080
Less interest therein	1,051	6,716
Present value of net minimum lease payments	\$ 29,192	\$ 66,364

13. Long-term debt

(a) Private placement

On August 8, 2002 the Company completed a private placement of 8% convertible debentures and warrants for total proceeds of \$2,500,000. The debentures mature on July 31, 2004 and are convertible to zed.i solutions inc. common shares at \$0.20 per share. The warrants entitle the subscribers, in aggregate, to acquire up to an additional \$985,200 of such debentures prior to January 31, 2003. These \$2,500,000 convertible debentures are compound financial instruments and the proceeds of the offering have been allocated between the liability and equity components in the amounts of \$2,190,000 and \$310,000 respectively. The equity component reflects the equity value of the conversion option embedded in the \$2,500,000 convertible debentures.

(b) Rights offering

On December 20, 2002 the Company closed a fully subscribed rights offering of 8% convertible debentures for total proceeds of \$2,685,500. The debentures mature on July 31, 2004 and are convertible to zed.i solutions inc. common shares at \$0.20 per share. These convertible debentures are compound financial instruments and the proceeds of the offering have been allocated between the liability and equity components in the amounts of \$2,375,500 and \$310,000 respectively. The equity component reflects the equity value of the conversion option embedded in the \$2,685,500 of convertible debentures.

In conjunction with the rights offering, the Company also completed an additional private placement of 8% convertible debentures for total proceeds of \$194,000. The debentures mature on July 31, 2004 and are convertible to zed.i solutions inc. common shares at \$0.20 per share. These convertible debentures are compound financial instruments and the proceeds of the offering have been allocated between the liability and equity components in the amounts of \$174,000 and \$20,000 respectively. The equity component reflects the equity value of the conversion option embedded in the \$194,000 of convertible debentures.

(c) Sale of lease receivables

On March 28 and May 23, 2002, the Company, through its U.S. subsidiary, sold a portion of its lease receivables to unrelated third parties ("Purchaser") at a discounted amount for cash, on a recourse basis to the U.S. subsidiary only. Under the terms of these sales, the Company pays the Purchaser a monthly payment for all the leases and continues to collect the lease payments from the customer and remit payments to the Purchaser. Included in net investment in sales leases and long-term debt at December 31, 2002 and 2001 is the principal amount of the Company's obligation to the Purchaser of the lease receivables being \$564,403 (2001 – \$286,789).

December 31	2002	2001
Debt related to the sale of lease receivables to unrelated third parties ("Purchaser"), where the Company is required to collect the lease payments from the customers and remit payments to the Purchaser. The Company's exposure is limited to the credit risk related to the collection of the lease payments receivable	\$ 564,403	\$ 286,789
Debt related to the aggregate of \$5,379,500 8% convertible debentures that mature on July 31, 2004 and are convertible into zed.i solutions inc. common shares at \$0.20 per share	4,739,500	–
	5,303,903	286,789
Less current portion	472,233	286,789
Long-term portion	\$ 4,831,670	\$ –

14. Advances from shareholders

On January 24, 2002 a debenture held by the Company in the amount of \$504,034 matured and was repaid in full on that date. In conjunction with this repayment, on February 5, 2002 the Company negotiated a new debenture in the amount of \$500,000, secured by a general security agreement, at 6.5% per annum, due August 3, 2003. Prior to maturity, the debenture, including all accrued and unpaid interest, was convertible into common shares at a price of \$0.35 for the first 12 months and \$0.43 for the last six months.

In conjunction with the December rights offering (described in note 13(b)), the \$500,000 debenture was redeemed at a small discount and repaid in full. The same shareholder then acquired the right to subscribe for a total of \$1,000,000 in debentures offered under the Company's December rights offering. As the rights offering was fully subscribed and the shareholder was only able to obtain \$806,000 in debentures under this offering, the remaining \$194,000 was obtained through a private placement. The total of \$1,000,000 in debentures has been disclosed in note 13 as long-term debt.

15. 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:

	December 31, 2002		December 31, 2001	
	Number	Amount	Number	Amount
Balance outstanding, beginning of period	53,707,139	\$ 29,707,747	20,434,277	\$ 11,571,795
Shares issued:				
From treasury for cash	—	—	245,100	245,100
Issued pursuant to prospectus (note 15(b))	—	—	8,850,600	7,967,552
Issued pursuant to amalgamation (note 15(c))	—	—	6,339,162	2,321,902
Special warrants converted (note 15(h))	—	—	2,095,000	1,898,400
Issued pursuant to acquisition of WebTech (note 15(d))	—	—	800,000	630,336
Issued pursuant to private financing (note 15(e))	—	—	14,214,000	4,703,662
Promissory note converted (note 15(g))	—	—	360,000	—
Shareholder advances converted	—	—	369,000	369,000
	—	—	33,272,862	18,135,952
Repurchase of shares from employee trust	—	—	—	—
Balance outstanding, end of period	53,707,139	29,707,747	53,707,139	29,707,747
Less employee share trust plan (note 15(j))	(462,030)	(672,372)	—	(1,134,402)
	53,245,109	\$ 29,035,375	53,707,139	\$ 28,573,345

(b) Initial public offering

On March 30, 2001, the Company closed its initial public offering. In conjunction with the offering, the Company issued 8,850,600 units at a price of \$1.00 per unit for net proceeds of \$8,087,552. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole purchase warrant entitled the holder thereof to acquire one common share at a price of \$1.35 per share at any time on or before March 30, 2002. All such warrants expired unexercised.

Pursuant to the terms of the agency agreement, the Company paid the agents a fee equal to that number of compensation options that is equal to 10% of the units issued under the offering, for no additional consideration. Each compensation option entitled the holder thereof to acquire, subject to adjustment, one unit at a price of \$1.00 per unit at any time on or before September 30, 2002.

Upon completion of the offering 3,300,000 shares were placed in escrow and were released as to 25% on the date the common shares were listed on the CDNX and as to 25% thereof on each of the six, 12 and 18 month anniversaries of the listing.

In addition, 2,095,000 common shares were also issued pursuant to the prospectus. These common shares were issued for no additional consideration upon exercise or deemed exercise of 2,095,000 special warrants of the Company previously issued by way of private placement exemptions under applicable securities legislation.

(c) Acquisition of Colony Pacific Explorations Ltd.

Effective March 29, 2001, the Company completed an amalgamation with Colony Pacific Explorations Ltd. ("Colony") effectively acquiring Colony. The continuing corporation upon amalgamation is "zed.i solutions inc." ("Amalco"). The amalgamation was accomplished as follows:

- each Colony shareholder exchanged their Colony Shares for Amalco Shares on the basis of 0.342 of an Amalco Share for every one Colony Share, resulting in approximately 5,939,007 Amalco Shares issued to Colony shareholders;
- each shareholder of the Company exchanged their Common Shares for Amalco Shares on the basis of one Amalco Share for every one Common Share, resulting in 21,163,277 Amalco Shares issued to the shareholders of the Company; and
- each Special Warrant in relation to the Prospectus and Initial Public Offering was deemed to be exercised for one Common Share which, in turn, was exchanged for one Amalco Share, resulting in 2,095,000 Amalco Shares being issued.

As a result the shareholders of the Company received 79% of the Amalco Shares. As a result, the Company acquired control of Colony. The acquisition of Colony was accounted for by the purchase method with the results of operations included in the consolidated financial statements from March 29, 2001. The fair value of the net assets acquired were:

Cash and cash equivalents	\$ 1,315,682
Accounts receivable	39,273
Note receivable	123,508
Oil & natural gas properties	625,000
Accounts payable and accrued liabilities	(21,561)
	\$ 2,081,902

One shareholder, holding 1,600,000 Common Shares of the Company, dissented from a resolution approving the amalgamation with Colony and was entitled to be paid fair value for his Common Shares in accordance with applicable laws. In September 2001, this claim was settled in full through the payment of \$270,000 cash and the issuance of 400,000 shares from Treasury at a price of \$0.60 per Common Share. This transaction has been recorded as a \$240,000 adjustment to capital recorded pursuant to the amalgamation and the addition of \$510,000 of goodwill representing an increase in the fair value of the net assets acquired.

(d) Acquisition of WebTech 2000 Inc.

Effective June 11, 2001, the Company acquired Calgary-based software developer WebTech 2000 Inc. ("WebTech") for 800,000 Common Shares. The acquisition of WebTech was accounted for by the purchase method with the results of operations included in the consolidated financial statements from June 11, 2001. The fair value of the net assets acquired were valued based on a share price of \$0.84 cents per Common Share. Of the 800,000 shares issued, 320,000 and 160,000 were to be held in escrow for a period of one and two years respectively and accordingly have been discounted by a factors of 8% and 15% respectively resulting in a net issued share capital of \$630,000 plus an acquired working capital deficit of \$21,000 resulting in a net purchase price of \$651,000. The net purchase price has been recorded and allocated as follows:

Intangibles – Workforce	\$ 192,000
Intangibles – Software	459,317
Total intangibles acquired	651,317
Cash and cash equivalents	(31,102)
Accounts receivable	75,620
Other assets	11,158
Accounts payable	(76,657)
Acquired working capital deficit	(20,981)
Net issued share capital	\$ 630,336

(e) Private placement

On December 18, 2001, the Company completed a private placement pursuant to which 14,214,000 Common Shares were issued at a price of \$0.35 per Common Share. The net proceeds to the Company after the related issuance costs (agency fee and other offering costs of \$271,238) were \$4,703,662 and were credited to share capital.

(f) Shares held in escrow

The following is a summary of the Company's Common Shares held in escrow giving effect to the acquisitions described in notes 15(c) and 15(d).

December 31	2002 Number	2001 Number
Balance outstanding, beginning of period	2,542,629	0
Shares in escrow:		
Held pursuant to Prospectus offering	–	2,062,629
Held pursuant to acquisition of WebTech (note 15(d))	120,000	480,000
Share released from escrow	(2,542,629)	–
	120,000	2,542,629

(g) Stock options exercised

During the year ended December 31, 2001, stock options were exercised for an aggregate of 360,000 Common Shares at a price of \$0.50 per share. In return the Company took back non-interest bearing notes from Shareholders of the Company of \$180,000.

(h) Special warrants

In December 2000, the Company and an agent entered into an agency agreement pursuant to which the agent agreed to assist the Company in issuing up to 2,000,000 special share purchase warrants ("Special Warrants") at a price of \$1.00 per Special Warrant on a private placement basis. The Special Warrants would entitle the holder thereof to acquire one Common Share of the Company for no additional consideration.

On December 22, 2000, the Company completed a portion of the private placement pursuant to which 1,743,000 Special Warrants were issued at a price of \$1.00 per Special Warrant. The net proceeds to the Company after the related issuance costs (8% agency fee and other offering costs of \$30,000) were \$1,573,560.

In January 2001, the Company completed the private placement whereby an additional 352,000 Special Warrants were issued at \$1.00 per Special Warrant, for net proceeds after agent costs of \$324,840.

In relation to the Prospectus and Initial Public Offering, each Special Warrant was deemed to be exercised for one Common Share which, in turn, was exchanged for one Common Share of the Company, resulting in 2,095,000 Common Shares being issued.

(i) 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, 2002, a total of 2,669,500 options were granted. In addition, 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. As a condition of the repricing, the re-priced options had accelerated expiry dates and now expire in thirds annually from November 2004 to November 2006. The re-priced employee options had been granted previously at exercise prices of \$0.50 and \$1.00.

A summary of the status of the plan as at December 31, 2002, is presented below:

	2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,794,427	\$ 0.83	1,965,500	\$ 0.83
Granted	2,669,500	0.28	2,708,294	1.01
Exercised	—	—	(360,000)	0.50
Expired/cancelled	(2,170,039)	0.88	(519,367)	0.73
Outstanding, end of year	4,293,888	\$ 0.37	3,794,427	\$ 0.83
Options exercisable, end of year	2,788,434		1,654,161	

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.20	2,714,700	2.9 yrs	\$ 0.20	924,509	\$ 0.20
\$0.50	1,201,834	3.1 yrs	0.50	829,584	0.50
\$1.00	257,354	3.4 yrs	1.00	914,341	1.00
\$1.37 – \$1.50	120,000	2.7 yrs	1.46	120,000	1.46
\$0.20 – \$1.50	4,293,888	3.0 yrs	\$ 0.50	2,788,434	\$ 0.61

The Company accounts for its stock-based compensation plans using the intrinsic-value method whereby no costs have been recognized in the financial statements for share options granted to employees and directors. As now required by Canadian Generally Accepted Accounting Principles, the impact on compensation costs of using the fair value method, whereby compensation costs had been recorded in net earnings, must be disclosed.

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, a risk-free interest rate of 4.87%, an average life of 5.0 and 3.0 years and an expected volatility of 124%. 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.

If the fair value method had been used, with respect to options issued in 2002, the Company's net loss and net loss per share would approximate the following pro forma amounts:

Compensation Costs (in thousands)	December 31, 2002
Net Loss:	
As reported	(6,479)
Pro forma	(6,601)
Net Loss per Common Share:	
Basic and diluted	
As reported	(0.12)
Pro forma	(0.12)

(j) Employee share trust

The Company has previously established an employee share trust through an interest-free loan of \$1,250,000 to enable the trust to purchase 1,250,000 (formerly 312,500 before Stock Split) shares from treasury. Under the terms of the trust deed, the shares vest monthly over a period of five years from the date of the beneficiaries' first day of employment with the Company. The beneficiaries have an option to purchase vested shares from the trust at \$1.00 per share. The loan is repayable by the trust proportionately as shares are transferred to employees. The option period for each beneficiary ends at varying dates upon resignation or termination of employment. Further, the trust agreement provides that 25% of the 1,250,000 shares designated for purchase under the trust agreement expire on each of September 1, 2002 through 2005. The trust agreement also provides that upon expiry of the designated shares, the Company will repurchase such shares at \$1.00 per share.

During the year ended December 31, 2002, no shares (2001 – 95,489) shares were purchased by employees pursuant to this trust, 360,298 (2001 – 101,732) shares expired but have yet to be purchased and returned to Treasury. As at December 31, 2002, all of the 672,372 remaining shares have vested.

A summary of the status of the plan as at December 31, 2002, is presented below:

December 31	2002 Number	2001 Number
Balance outstanding, beginning of period	1,134,402	1,229,891
Shares issued	–	(95,489)
Shares expired	(462,030)	(101,732)
Shares remaining to be repurchased	–	101,732
	672,372	1,134,402

(k) Convertible debentures

As described in notes 13(a) and 13(b), the Company has issued debentures which are convertible into Common Shares of the Company.

16. Revenue

Revenue for the year ended December 31, 2002, includes \$107,811 (2001 – \$98,827) from interest on sales leases.

During the year ended December 31, 2002, the Company generated approximately 19% (2001–53%) of its revenue in the US, 69% (2001 – 23%) in Canada, 1% (2001 – 10%) in the Middle East and 11% (2001 – 14%) in other geographic regions. The Company's operations and assets are primarily located in Canada with approximately 6% of its identifiable assets based in the US.

17. Income taxes**(a) Expected tax rate**

The expected effective tax rate for a public company in Alberta will range from approximately 39% in 2002 to 35% in 2004 and approximately 35% for the Company's US subsidiary.

(b) 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, 2002 and 2001 are presented below:

December 31	2002	2001
Future tax assets and liabilities:		
Non-capital losses carried forward CDN	\$ 6,272,000	\$ 4,182,000
Non-capital losses carried forward US	804,000	480,000
Capital assets, differences between net book value and undepreciated capital cost	364,000	23,000
Scientific research tax pools and credits	994,000	483,000
Other	318,000	36,000
Total	8,752,000	5,204,000
Less valuation allowance	(8,752,000)	(5,204,000)
Net future tax asset	\$ –	\$ –

The non-capital losses carried forward expire primarily between 2006 and 2009.

(c) Scientific research tax credits

Up to March 28, 2001, zed.i solutions (Canada) inc. was eligible to receive scientific research tax credits arising from scientific research and experimental development activities. During the period ended December 31, 2002, the Company received refundable scientific research tax credits of \$198,000 relating to the previous taxation year.

18. Financial instruments

Fair values

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and due to related parties approximate their fair value due to the relatively short periods to maturity of the instruments.

The carrying values of net investment in sales leases and obligations under capital leases do not differ significantly from their fair values.

Credit risk

At December 31, 2002, 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 in foreign currency translated to Canadian dollars at the time of the 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 and the receipt of cash. The accounts receivable are short-term in nature. The sales leases are of a longer term and are subject to fluctuations in the value of the US dollar. The effect of the foreign exchange changes have not been significant and foreign exchange gains and losses are included in income as they occur.

19. Related party transactions

During the year, the Company had \$478,024 (2001 – \$125,868) in sales to a company controlled by an Officer of the Company. These sales were completed in the normal course of operations on normal market terms and are measured at the exchange amounts.

20. Commitments

(a) Operating leases

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

2003	\$ 283,000
2004	126,000
2005	136,000
2006	65,000
2007	—
	<hr/>
	\$ 610,000

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

21. Subsequent events

(a) Exercise of warrants

On February 5, 2003 the Company completed the distribution of an aggregate of \$505,600 principle amount of 8% convertible debentures of the Company. The debentures were issued to exercising warrant holders who acquired the warrants under a private placement announced on August 12, 2002. The remaining unexercised warrants expired on January 31, 2003. The debentures mature on July 31, 2004 and are convertible to zed.i solutions inc. Common Shares at \$0.20 per share.

Corporate Information

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Vancouver, British Columbia
President & CEO, Genome BC

Matthew Heffernan •
Calgary, Alberta
Vice-President, TELUS Enterprise Solutions

Martin A. Lambert*†•
Calgary, Alberta
Partner, Bennett Jones LLP

Pierre Lebel*
North Vancouver, British Columbia
Chairman, Imperial Metals Corporation

Dorington Little •
Paradise Valley, Arizona
President, Rodeo Resources Ltd.

Doug Marlin*†
Calgary, Alberta
President, Marlin Ventures Inc.

OFFICERS & MANAGEMENT

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President & Chief Executive Officer

Kevin Fleury
Vice President, Business Development

Clement Gaudet
Vice President, Production & Operations

Robert W. Gordon
Vice President General Counsel

Roderick Heard
CFO & Vice President Corporate Development

Tokunosuke Ito
Chief Technology Officer

M.J. Denise LaForge
Vice President Marketing & Sales

* Audit Committee

† Compensation Committee

• Governance and Nominating Committee

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Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

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