zed.i solutions

ANNUAL REPORT

2000

zed.i solutions is a technology company engaged in providing intelligent remote access, wireless equipment and technology for asset monitoring and real-time measurement for the oil, natural gas and pipeline industries. The Company plans to introduce its end-to-end monitoring technology solution to a wide range of industries with the goal of significantly reducing the cost associated with the remote monitoring of assets.

www.zedisolutions.com

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FINANCIAL HIGHLIGHTS

(thousands)	**Year ended Dec. 31, 2000**	16 months ended Dec. 31, 1999
Revenue	**$ 3,752**	$ 5,160
Net loss	**(5,940)**	(1,144)
Long-term debt	**973**	1,075
Shareholders' equity	**2,705**	1,018

OPERATIONAL HIGHLIGHTS – 2000

- Re-structured the Company to focus on the development and deployment of intelligent remote access solutions.
- Significantly enhanced the depth of the management team through the addition of four new key members at the senior executive level.
- Completed final development and testing of the Smart-Alek™ remote monitoring solution for the oil and gas and pipeline industries.
- Substantially completed an amalgamation with publicly traded Colony Pacific Explorations Ltd.
- Raised over $7.8 million in equity financing through two private placements and a special warrant issue.
- Strengthened the balance sheet and prepared the Company for substantial growth as it proceeds to build a leadership position as a provider of leading intelligent remote access technology solutions.

The past 12 months were witness to a substantial transformation of zed.*i* solutions, from a private company experiencing limited growth to a company with breakthrough technology poised for substantial growth.

Our Company has been transformed. We will be the leader in intelligent remote access solutions for a variety of industries – providing technologically advanced and highly productive end-to-end solutions for our customers.

What a remarkable difference a year can make in the life of a company.

Over the past year, zed.*i* solutions has achieved an impressive list of milestones that have transformed our Company into a multi-product, advanced technology enterprise.

Achievements have included the development of compelling new strategies for international growth, finalizing the commercial introduction of a major new product line, the identification of strategic partners, taking steps to become publicly traded, strengthening the leadership team, and introducing a new name and corporate identity.

These achievements combined to lay the foundation for a successful introduction of Smart-Alek™, the first of our new generation of intelligent remote access solutions. Smart-Alek™ alone has the potential to save oil and gas industry participants billions of dollars. This product is the first commercial version of a series of planned products that will revolutionize the remote monitoring of assets in a wide variety of industries in the years to come.

A TRANSITION YEAR

The year 2000 was in every respect a pivotal year for zed.*i* solutions.

With a unique range of new products emerging to complement a successful line of legacy products, zed.*i* solutions had reached a crossroads in its history. Achieving the next level of development meant "building-out," that is, adding new skills, new structure and additional capital.

A key step in this building-out was putting an appropriate management team in place. In recent months, zed.*i* solutions has secured a new Chief Executive Officer, a new Chief Financial Officer, a new Vice President of Corporate Development and a new Vice President of Marketing and Sales.

A SOLID BASE

We now have the management, organizational structure, processes, systems and discipline required to fuse the energy of our strong scientific and research and development tradition with the characteristics of large established, technologically advanced business enterprises.

With the arrival of 2001, zed.*i* solutions begins a period of substantial growth, driven by the Company's new breakthrough technologies. This very advanced one-stop, turnkey package of applications and instrumentation is called the FINE™ system, for **F**ield **I**ntelligence **N**etwork **E**nd-user Interface.

The FINE™ system collects and intelligently monitors a wide range of data, and delivers it in real time to users over the Internet. At the heart of the system is Smart-Alek™, which is both an intelligent field instrument and an integrated and complete Web-based information system.

With the first field trials completed successfully in 1999 and field testing and product definition completed in 2000, our priority target markets in 2001 are gas well operators, operators of pipelines and pipeline distribution systems and oil well operators. Independent assessments confirm that the FINE™ system's addressable market demand, by the oil and gas industry alone, is in excess of $11.2 billion in instrumentation and $840 million in services.

Looking beyond oil and gas, our research and development team is developing applications for a growing list of other vertical markets including the transportation industry, utilities, environmental services, smart homes and health care.

OUTLOOK FOR 2001

zed.*i* solutions has set aggressive targets for the next 12 months. We are committed to:

- meeting budgeted targets for revenue and earnings growth;
- moving beyond oil and gas into other vertical markets; and
- creating substantial shareholder value.

For 2001, we will direct our focus to three operational imperatives:

- extending our corporate expertise as required;
- establishing a shared-value culture; and
- becoming not just Web-based, but Web-paced – moving at high speed to efficiently deliver solutions to our customers.

Building a successful technology company is normally done in three stages: concept, product and commercialization. Each requires a unique combination of expertise. As zed.*i* solutions has evolved, it acquired expertise appropriate to each stage. This means people – in our case a remarkable combination of very talented and dedicated people, each of whom is focused on producing innovative commercial solutions to meet the multi-faceted needs of our growing customer base.

We at zed.*i* solutions would like to recognize two in particular: Dr. Toku Ito, a company founder and our Chief Technology Officer, whose vision and commitment inspire all of us, and Dr. Alan Winter, the Chairman of our Board of Directors, whose business guidance is valuable beyond measure and whose confidence in zed.*i* solutions is indispensable.

On behalf of the Board, management and employees, we invite our customers, shareholders and suppliers to join us as we build zed.*i* solutions into a world leader in intelligent remote access monitoring products and solutions.

Trevor M. Apperley
President and Chief Executive Officer

*The **Smart-Alek™**, about the size of a soft drink can, replaces most of the functionality of much larger and more expensive SCADA systems. It is easily installed and provides remote real-time data on well function. With its own IP address, Smart-Alek™ is accessible at any time over the Internet using wireless technologies. Smart-Alek™ will alert the operator of any deviation from preset operational parameters.*

A BRIEF HISTORY

The Company has served the oil and gas industry since 1987, designing, developing and manufacturing world-class electronic field instruments. Incorporated as Advanced Tech Gauge Corporation and subsequently named Z.I. Probes, the Company spent its formative years enhancing and revolutionizing oilfield tools and practices.

The Company first developed an Electronic Memory Recorder (EMR), which became the basis for its expertise in silicon sensor technology, power management, high temperature operation and the miniaturization of processing capabilities. These core technical competencies enabled the Company to expedite development of the oil and gas industry's first reliable electronic shut-in tool. The Company next developed a Surface Data System, which provided remote data collection and communication. Based on the success of these systems, the Company became a recognized North American leader in the development and deployment of accurate, high-quality field instrumentation.

In 1995, the Company began the transition from a manufacturer and seller of electronic instruments to a designer of fully integrated information technology solutions. This research and development effort led to the development of the Smart-Alek™, an intelligent remote access monitoring system, slated to be commercially deployed in 2001. The first market to be targeted is gas well monitoring.

A YEAR IN REVIEW

The past year witnessed accelerated activities aimed at transforming the Company's prime focus from the design, manufacturing, sale and service of legacy products to the development and commercialization of Smart-Alek™. Accordingly many changes occurred.

MANAGEMENT TEAM SIGNIFICANTLY STRENGTHENED

During the past 12 months, the senior management team at zed.*i* has been strengthened. In the second quarter, Keith Smith and Denise Laforge joined as Vice President, Corporate Development and Vice President, Marketing and Sales, respectively. In the third quarter, Richard Charron was named Chief Financial Officer and, in November, Trevor Apperley became President and CEO. This group joined Dr. Toku Ito, a Company founder and Chief Technology Officer, and Bob Gordon, Vice President, Operations and General Counsel. With the addition of these new skills, the zed.*i* team will transform the Company into an information technology solutions provider.

FINANCING ACTIVITIES ACCELERATED

During the past 12 months, the Company witnessed an accelerated pace of financing activities and a move to amalgamate the Company with Toronto Stock Exchange listed

Colony Pacific Explorations Ltd. The financing accelerated our preparations for the field testing, development and commercial introduction of the Smart-Alek™ for both gas wells and pipeline facilities.

In May 2000, a private placement was completed consisting of 5.6 million shares at $0.50 per share, for proceeds of $2.8 million. On September 15, 2000, the Company signed a letter of intent with Colony Pacific Explorations Ltd., to enter into a formal amalgamation agreement. That agreement was executed on November 15, 2000. On October 31, 2000 and November 15, 2000, the Company completed additional private placements of 6.4 million shares at $0.50 per share for aggregate proceeds of $3.2 million.

In November 2000, the Company and Yorkton Securities Inc. signed an agreement in which Yorkton agreed to sponsor an application to publicly list the shares of the Company upon completion of the amalgamation. Subsequently, the Company signed an agreement with Yorkton to assist in raising up to $12 million in equity via a special warrant issue and public offering.

As a first stage, the Company issued 2.1 million special warrants at $1.00 per share for aggregate proceeds of $2.1 million. At the time of publication of this annual report, the Company is engaged in securing the remaining financing by way of a public offering. Proceeds will be used to support the manufacturing, marketing and sales of Smart-Alek™, as well as to support further research activities.

SMART-ALEK™ TRIALS

Fifteen months of field tests have established both the reliability of Smart-Alek™ and the FINE™ system (Field Intelligence Network End-user Interface), and has confirmed a strong demand for the product amongst many of North America's leading oil and gas producers. The Company has arranged for a significant number of trials with oil and gas companies who stand ready to introduce Smart-Alek™ as a major component of their remote well monitoring strategy.

There are strong economic and practical incentives for these companies to adopt a Smart-Alek™ solution. Currently only about 10% of the 975,000 operating oil and gas wells in North America are monitored remotely. In these cases, expensive SCADA installations that rely on Remote Telemetry Units (RTUs) and on-site SCADA sheds and infrastructure are employed. These installations cost from $15,000 to $40,000 per site. Consequently, they are not economically appropriate for most remote well monitoring opportunities. At a much lower cost per well, Smart-Alek™ represents a solution that is economically viable for most remote well monitoring needs. The Company estimates that 70% of all oil and gas wells are candidates for a Smart-Alek™ solution, defining a North American market potential of some 670,000 plus wells.

FINANCIAL PERFORMANCE

During the past year, the Company continued the sale of its suite of legacy products which includes *ZipWin*™ *Report Data Software*, the *Surface Data System* (SDS), *ASD Data Server*, *Electronic Memory Recorder* (EMR), and the *Shut-in Tool*. Combined, these products and services accounted for all of the Company's reported revenue of $3.8 million for the 12-month period ending December 31, 2000.

Net losses for the 12-month period increased to $5.9 million as compared to a net loss of $1.1 million for the 16-month period ended December 31, 1999. This increase is directly attributable to the costs associated with accelerating research and development activities, development of the FINE™ system, expanding the infrastructure required to support the commercialization of Smart-Alek™ and follow-up products, and in taking the Company public.

Fully 70% of the 975,000 remote oil and gas wells in North America are prime candidates for deployment of Smart-Alek™.

SMART-ALEK™ DEVELOPMENT

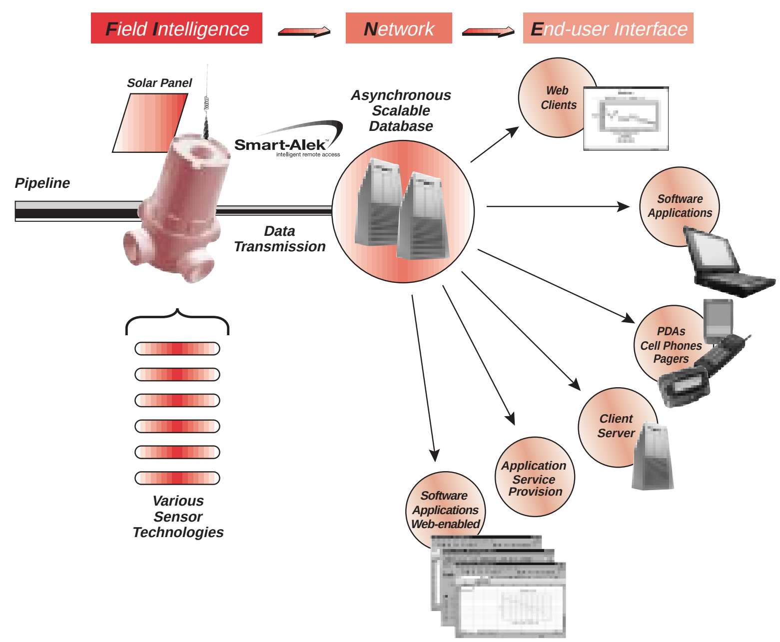
Over the preceding years, management concluded that the sales of legacy products were likely to remain flat, and that a much larger opportunity existed in the commercialization of a suite of FINE™ system products and services. Smart-Alek™ is the first implementation of the FINE™ system – it has been successfully field-tested and was introduced commercially during the first quarter of 2001.

The oil and gas industry has demonstrated substantial demand for quality remote monitoring solutions. Kenonic Controls Ltd., an engineering firm that assembles and installs remote monitoring systems for gas wells and pipelines, was engaged to provide market intelligence on existing remote monitoring systems. They concluded that Smart-Alek™ represents a significant improvement over known remote monitoring technology because it is specifically designed to eliminate the engineering, design, construction and installation costs associated with a typical remote monitoring system. The study indicated that no other single integrated device is able to operate, collect and monitor pressure, temperature and flow in a high-risk environment and relay that data to offsite locations as does Smart-Alek™.

The markets targeted by Smart-Alek™ are large and have few competitors. The Company estimates the size of the market in the oil and gas industry alone is $11.2 billion for instrumentation sales with another $840 million available on annual service revenues. Many of the other markets that are being considered for Smart-Alek™ applications have similar or larger market potential making the market available to zed.*i* a multibillion-dollar opportunity.

FINE™ SYSTEM

At the heart of the Company's new technology solution is the FINE™ system. Smart-Alek™ is the foundational element of the system. This field instrument monitors pressure, temperature and flow, converting the data into digital information, which is stored by Smart-Alek™ on site, compressed, encrypted and then transmitted via wireline, CDPD and satellite wireless services. The system provides access to real-time data that can be used to enhance well performance. Smart-Alek™ can also be programmed to send alarms that allow for immediate response to problems that might impact overall well performance. This real-time communication of data and alarms means that Smart-Alek™ has a positive impact on the costs associated with operating a gas or oil well. It supports the analysis required to maximize performance and ensures that problems causing sub-optimal well performance are known to the operator on a real-time basis.



SUMMARY AND OUTLOOK

While much of the Company's transformation was accomplished in 2000, the pace of this transformation will accelerate throughout 2001. Field trials will be expanded during the first two quarters of the year. These trials, and the further development of channels of distribution, will be a key focus for senior management. The successful completion of the current round of financing will further strengthen the Company's balance sheet and lay a firm foundation for further expansion and market development efforts.

In 2001, zed.*i* solutions will launch its drive to become a world leader in the development and distribution of intelligent remote monitoring solutions.

Field Intelligence *– The Smart-Alek™ is a lightweight, portable device that is easy to install or replace and incorporates proprietary sensors measuring temperature, pressure and flow.*

Network *– The zed.i network asynchronously collects data from a very large number of remote sensing points over public wireless networks. This data is stored in scalable databases configured to relay real-time data to individual customers based on pre-defined requirements.*

End-user Interface *– A Web browser interface allows the Smart-Alek™ device to communicate with any authorized desktop, cellular phone, pager or other preferred wireless hand-held device.*

Significant balance sheet improvement reflects the impact of raising over $7.5 million in new equity during fiscal 2000.

RESULTS OF OPERATIONS

The Company generated revenues of $3,800,000 (average $317,000 per month) for the 12-month period ended December 31, 2000, as compared to $5,200,000 (average of $325,000 per month) for the 16 months ended December 31, 1999. These revenues were generated from the Company's legacy products, including EMR gauges, SDS units, Shut-in Tools, accessories and service. There were no sales of the Company's new Smart-Alek™ product in 2000. For the 12-month period ended December 31, 1999 the sales were $3,900,000 (average of $325,000 per month) while sales for the four months ended December 31,1998 were $1,300,000 (average of $325,000 per month). Sales for 2000 closely tracked 1999 sales. There are no significant variances in sales between the periods.

Cost of sales as a percentage of revenues increased to 47% for the year ended December 31, 2000, as compared to 26% for the period ended December 31, 1999. This increase is directly attributable to a write down of finished goods inventory of $954,000 in 2000 to better reflect the net realizable value of this inventory as compared to $481,000 in the 16-month period ended December 31, 1999. The increase in cost of sales is also a result of increased competition for these products, which has resulted in lower margins. Costs associated with raw materials have increased due to greater demand for electronic components and the scarce availability of some of these components.

Effective December 31, 1998, the Company changed its year end from August 31 to December 31. The consolidated financial statements include comparative figures as at and for the sixteen months ended December 31, 1999. Audited consolidated financial statements are not available for the period ended December 31, 1998, as the Company did not perform physical counts of its inventories as of December 31, 1998.

OPERATING EXPENSES

Expenses from operations for the year ended December 31, 2000 were $3,200,000 (average of $268,000 per month) as compared to $1,800,000 (average of $112,000 per month) for the 16 months ended December 31, 1999. The increase partially resulted from the hiring of additional employees in the operations area and the development of new systems and infrastructure. In 2000, the Company hired an information systems group and began to develop internal systems. Additional support staff were also added to support the Company's growth. The remainder of the increase primarily related to $1,300,000 in research and development costs that were expensed during the period ended December 31, 2000. In the period ended December 31, 1999, the Company capitalized approximately $800,000 in development costs. The Company's unamortized deferred development costs as at December 31, 1999 of $912,000 were written off during the year ended December 31, 2000. The research and development costs have not been capitalized due to the uncertainty related to the future recoverability of the research and development.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2000 were $3,100,000 (average of $259,000 per month) as compared to $2,200,000 (average of $137,000 per month) for the 16 months ended December 31, 1999. This increase is partially attributable to increased employee costs and contract fees as the Company added new employees in the last two quarters of the year. New employees were added in both Calgary and Edmonton. The Company has grown from approximately 40 employees at the end of 1999 to 70 at the end of 2000, including four new executives in Calgary. The Company also incurred additional infrastructure expenditures in support of these employees. In 2000, the Company entered into an agreement to merge with Colony Pacific Explorations Ltd., which resulted in additional legal and accounting costs being incurred. The Company has also moved to new offices in 2000 in Calgary to accommodate its future growth.

FINANCIAL CONDITION AND LIQUIDITY

The Company's balance sheet as at December 31, 2000 has improved significantly as compared to December 31,1999. This improvement is a direct result of the raising of equity financing. Twelve million shares were issued in 2000 at $0.50 per share in two private placements, which resulted in approximately $6,000,000. In addition, 1,743,000 special warrants were issued at $1.00 per share in December of 2000, which yielded approximately $1,570,000 after agency costs. The Company has used these funds to facilitate its growth and development, reduce its debt by approximately $680,000, and improve its working capital position by approximately $1,100,000. At December 31, 2000, the Company had approximately $1,000,000 in cash as compared to bank indebtedness of $980,000 at December 31, 1999. The Company also has $700,000 of scientific research tax credits recoverable as compared to $400,000 at December 31, 1999. This increase is a direct result of the Company's research and development activity related to the prototyping and development of its Smart-Alek™ product.

AUDITORS' REPORT

We have audited the consolidated balance sheets of 628916 Alberta Ltd. (operating as zed.*i* solutions) as at December 31, 2000 and December 31, 1999, and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2000, sixteen months ended December 31, 1999 and year ended August 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2000 and December 31, 1999, and the results of its operations and its cash flows for the year ended December 31, 2000, sixteen months ended December 31, 1999 and the year ended August 31, 1998 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Edmonton, Canada
January 26, 2001

CONSOLIDATED BALANCE SHEETS

	Dec. 31, 2000	Dec. 31, 1999
ASSETS		
Current assets:		
Cash	**$ 999,488**	$ –
Accounts receivable	**788,668**	1,159,683
Inventories *(note 3)*	**786,624**	1,169,855
Net investment in sales leases, current portion *(note 4)*	**500,208**	120,201
Scientific research tax credits recoverable *[note 16(d)]*	**403,368**	403,368
Prepaid expenses and deposits	**75,006**	22,754
	3,553,362	2,875,861
Inventories, non-current portion *(note 3)*	**509,700**	466,882
Net investment in sales leases, non-current portion *(note 4)*	**391,501**	87,568
Scientific research tax credits recoverable, non-current portion *[note 16(d)]*	**299,287**	–
Deferred development costs *(note 5)*	**–**	912,472
Capital assets *(note 6)*	**808,098**	211,870
	$ 5,561,948	$ 4,554,653
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness *(note 7)*	**$ –**	$ 979,690
Accounts payable and accrued liabilities *(note 8)*	**1,120,644**	620,313
Current portion of obligations under capital leases *(note 9)*	**192,187**	79,836
Current portion of long-term debt *(note 10)*	**736,743**	529,547
Current portion of advances from shareholders *(note 11)*	**–**	245,984
	2,049,574	2,455,370
Obligations under capital leases *(note 9)*	**66,364**	172,378
Long-term debt *(note 10)*	**236,594**	545,793
Advances from shareholders *(note 11)*	**504,034**	363,587
Shareholders' equity:		
Share capital *(note 12)*	**10,341,904**	4,287,210
Special warrants *[note 12(b)]*	**1,573,560**	–
Deficit	**(9,210,082)**	(3,269,685)
	2,705,382	1,017,525
Commitments *(notes 12 and 18)*		
Subsequent events *(notes10 and 12)*		
	$ 5,561,948	$ 4,554,653

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Martin A. Lambert
Director

Douglas G. Marlin
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Year ended Dec. 31, 2000	Sixteen months ended Dec. 31, 1999	Year ended Aug. 31, 1998
Revenue *(note 13)*	**$ 3,752,231**	$ 5,159,672	$ 4,449,871
Expenses:			
Cost of sales *(note 3)*	**1,759,358**	1,341,771	716,464
Operations *(note 5)*	**3,216,676**	1,806,792	1,857,630
Sales, general and administrative	**3,146,388**	2,236,695	2,189,999
	8,122,422	5,385,258	4,764,093
Loss before the undernoted	**(4,370,191)**	(225,586)	(314,222)
Amortization of capital assets	**332,506**	371,273	292,785
Interest *(note 14)*	**325,228**	386,089	235,959
Write-off of deferred development costs *(note 5)*	**912,472**	161,421	–
	1,570,206	918,783	528,744
Net loss for the period	**(5,940,397)**	(1,144,369)	(842,966)
Deficit, beginning of period:			
As previously reported	**(3,269,685)**	(2,299,811)	(1,351,202)
Prior period adjustment *(note 15)*	**–**	174,495	68,852
As restated	**(3,269,685)**	(2,125,316)	(1,282,350)
Deficit, end of period	**$ (9,210,082)**	$ (3,269,685)	$ (2,125,316)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended Dec. 31, 2000	Sixteen months ended Dec. 31, 1999	Year ended Aug. 31, 1998
Cash provided by (used in):			
Operations *(note 19)*:			
Net loss for the period	**$ (5,940,397)**	$ (1,144,369)	$ (842,966)
Adjustments for:			
Amortization	**332,506**	371,273	292,785
Loss on disposal of capital assets	**2,978**	–	1,803
Write-down of inventories	**953,681**	481,149	41,590
Write-off of deferred development costs	**912,471**	161,421	–
Changes in non-cash operating working capital	**(43,464)**	768,403	(944,593)
	(3,782,225)	637,877	(1,451,381)
Financing:			
Line of credit advances (repayment)	**(940,000)**	–	80,000
Proceeds from shares issued	**5,524,739**	38,383	943,130
Proceeds from special warrants issued	**1,573,560**	–	–
Repayment of long-term debt	**(557,714)**	(105,557)	–
Proceeds from long-term debt	**–**	–	960,543
Proceeds from sale and leaseback	**–**	250,000	–
Repayment of capital lease obligations	**(102,988)**	(17,124)	–
Advances from shareholders	**530,000**	315,000	50,452
Repayment of shareholder advances	**(385,537)**	–	(50,855)
	5,642,060	480,702	1,983,270
Investments:			
Deferred development costs	**–**	(1,154,096)	(486,484)
Acquisition of capital assets	**(826,604)**	(37,049)	(90,370)
Proceeds on disposal of capital assets	**5,947**	–	53,493
	(820,657)	(1,191,145)	(523,361)
Increase (decrease) in cash position	**1,039,178**	(72,566)	8,528
Cash position, beginning of period	**(39,690)**	32,876	24,348
Cash position, end of period	**$ 999,488**	$ (39,690)	$ 32,876

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

628916 Alberta Ltd. (the "Company") is incorporated under the Business Corporations Act of Alberta. It 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 gas wells and pipelines. Following field trials and market surveys to research the needs and expectations of oil and gas producers, the Company commenced production of the first commercial version of Smart-Alek™, however as at December 31, 2000 no units had been sold. The Company has begun to design the next version of the Smart-Alek™, which it plans to mass produce.

The Company currently sells a number of its legacy 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.

During the year ended December 31, 2000, the Company raised additional capital through various private placements of shares and special warrants and the conversion of debt (see note 12). The Company plans to fund future development of Smart-Alek™ and the FINE™ system through the issue of additional share capital.

Effective December 31, 1998, the Company changed its year end from August 31 to December 31. These consolidated financial statements include comparative figures as at and for the sixteen months ended December 31, 1999. Audited consolidated financial statements are not available for the period ended December 31, 1998, as the Company did not perform physical counts of its inventories as of December 31, 1998.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and the Company's wholly-owned subsidiaries, Z.I. Probes Inc. and Z.I. Probes (U.S.) Inc. 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 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) Inventories

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) 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. The investment in the lease for purposes of income recognition is composed of net minimum lease payments and earned finance income.

(e) Research and 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 Canadian generally accepted accounting principles ("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.

(f) 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	8%

(g) Foreign currency
Z.I. Probes (U.S.) Inc. is an integrated foreign subsidiary of the Company. Monetary items denominated in U.S. 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.

(h) Stock based compensation
The Company has two stock based compensation plans, a stock option plan and an employee share trust. The Company's policy is to recognize no compensation expense when the stock options or shares are granted under either plan. Any consideration paid on exercise will be credited to share capital.

(i) 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.

(j) Comparative figures
Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the year ended December 31, 2000.

3. INVENTORIES

	Dec. 31, 2000	Dec. 31, 1999
Raw materials and consumable supplies	**$ 474,585**	$ 327,887
Work-in-progress	**110,222**	31,586
Finished goods	**711,517**	1,277,264
	1,296,324	1,636,737
Less finished goods classified as non-current	**509,700**	466,882
	$ 786,624	$ 1,169,855

During the year ended December 31, 2000, the Company reclassified all of its "manufactured products for commercial use" to finished goods inventory. Prior to the reclassification, these products were primarily held for rental purposes, and therefore classified as capital assets or assets under capital lease (note 6). The reclassification was made because the Company is now primarily holding these items for resale.

As at December 31, 2000, finished goods of $509,700 have been classified as non-current for two reasons. First, Canadian generally accepted accounting principles do not allow for the reclassification of non-current assets to current assets unless the Company has sold the assets prior to the reporting date. Secondly, although finished goods are now being held primarily for resale purposes, certain items are more likely to be rented than sold in the next twelve months. As at December 31, 1999, items previously classified as "manufactured products for commercial use" and included in capital assets and assets under capital lease have been reclassified to non-current finished goods inventory to conform to the current presentation.

As at December 31, 2000 and 1999, a portion of the non-current finished goods are assets held under capital leases. The related capital leases were fully repaid by the Company in January 2001.

During the year ended December 31, 2000, the Company wrote down raw materials and finished goods inventory by $953,681 (1999 – $481,149 and 1998 – $41,590) to reflect technological advancements that have reduced the service value of older products, a decrease in the recoverable value of products used for rental purposes and items that have been removed from service. The write-down has been recorded in cost of sales.

4. SALES LEASES

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

	Dec. 31, 2000	Dec. 31, 1999
Total minimum lease payments receivable:		
2000	–	139,325
2001	579,890	94,109
2002	415,142	–
Total receivable	995,032	233,434
Less unearned income	103,323	25,665
	891,709	207,769
Less current portion	500,208	120,201
Long-term portion	$ 391,501	$ 87,568

During the year ended December 31, 2000, 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, 2000 is the principal amount of the Company's obligation to the Purchaser of the lease receivables being $607,324.

5. DEFERRED DEVELOPMENT COSTS

	Dec. 31, 2000	Dec. 31, 1999
Labour for technical assistance	$ –	$ 1,047,389
Materials	–	167,145
Engineering and facility use	–	414,503
	–	1,629,037
Less accumulated scientific research tax credits	–	(716,565)
	$ –	$ 912,472

Deferred development costs to December 31, 1999 were for the development of the FINE™ system, which combines the Company's surface data system technology with wireless communications and data access technology for the end-user. In October 2000, the Company wrote off the balance of its deferred development costs of $912,472 because their recovery could not reasonably be regarded as assured. The Company also wrote off $161,421 during the sixteen months ended December 31, 1999.

Included in operations expense for the year ended December 31, 2000 is approximately $1,310,000 (1999 – $nil; 1998 – $250,000) in research and development costs that were expensed during the period.

6. CAPITAL ASSETS

		Cost		Accumulated amortization		Net book value
December 31, 2000						
Office furniture and fixtures	$	**412,609**	$	**178,245**	$	**234,364**
Equipment		**191,476**		**79,701**		**111,775**
Computer hardware		**543,486**		**284,497**		**258,989**
Computer software		**314,792**		**181,016**		**133,776**
Automotive		**25,396**		**7,619**		**17,777**
Patents		**54,631**		**3,214**		**51,417**
	$	**1,542,390**	$	**734,292**	$	**808,098**
December 31, 1999						
Office furniture and fixtures	$	227,300	$	126,020	$	101,280
Equipment and automotive		197,388		151,125		46,263
Computer hardware		239,540		175,213		64,327
Computer software		52,564		52,564		–
	$	716,792	$	504,922	$	211,870

As at December 31, 2000, computer hardware with a net book value of $68,706 (1999 – $13,008) and the automotive are assets held under capital lease.

7. BANK INDEBTEDNESS

		Dec. 31, 2000		Dec. 31, 1999
Cheques issued in excess of funds on deposit (cash)	$	**(999,488)**	$	39,690
Line of credit advances		**–**		940,000
Bank indebtedness (cash)	$	**(999,488)**	$	979,690

In September 2000, the Company arranged a $1,000,000 demand revolving loan with a new lender, which bears interest at the Bank's prime rate plus 1%. The loan is secured by a general security agreement, a first fixed charge over specific assets, including accounts receivable and inventories and a charge over all present and after acquired property and the postponement of all other secured creditors.

Previously, the Company's revolving line of credit bore interest at the lender's prime rate plus 2% and shared security with the advanced technology loans (note 10).

8. DUE TO RELATED PARTY

During the year ended December 31, 1999, the Company entered into an arrangement with certain shareholders and other investors ("investors") to finance the manufacture of a limited number of the Company's products ("ZIP Investor Joint Venture"). Under the terms of the agreements between the Company and the investors, the investors provided $410,000 to purchase the raw material inventory required for the agreed quantity of finished goods. The investors, through the ZIP Investor Joint Venture, owned the raw material inventory, or the finished goods produced from that inventory. The Company was obligated to repurchase finished goods from the ZIP Investor Joint Venture to supply customers in priority to similar products owned by the Company. As consideration for their investment, the investors received proceeds equal to the raw material cost of the products on the sale of the finished goods plus 25%. During the year ended December 31, 2000, the Company met its obligation under the arrangement.

Included in accounts payable and accrued liabilities as at December 31, 1999 is $78,730 owing to the ZIP Investor Joint Venture on normal commercial terms. During the year ended December 31, 2000, certain of the shareholders in the ZIP Investor Joint Venture converted the amounts due to them into common shares [note 12(a)].

9. OBLIGATIONS UNDER CAPITAL LEASES

	Dec. 31, 2000	Dec. 31, 1999
Copelco Capital, monthly payments of $1,690 (1999 – $699; 1998 – $375) with interest at 9.7% to 30.9%, due between November 1999 and November 2002	**$ 28,875**	$ 13,444
Calaken Leasing Ltd., monthly payments of $8,490 with interest at 13.5%, due December 2002. This lease was repaid in January 2001	**158,010**	238,770
Chrysler Credit Canada, monthly payments of $427 (1999 – $nil) with interest at 5.5%, due March 2003	**20,965**	–
Dell Finance Services Canada, monthly payments of $1,955 with interest at 11.6% to 19.0%, due between June 2003 and December 2003	**50,701**	–
	258,551	252,214
Less current portion	**192,187**	79,836
Long-term portion	**$ 66,364**	$ 172,378

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

	Dec. 31, 2000	Dec. 31, 1999
Year ending December 31:		
2000	**$ –**	$ 110,256
2001	**146,492**	107,687
2002	**144,716**	88,931
2003	**28,460**	–
Total minimum lease payments	**319,668**	306,874
Less interest therein	**61,117**	54,660
Present value of net minimum lease payments	**$ 258,551**	$ 252,214

10. LONG-TERM DEBT, INCLUDING ACCRUED INTEREST

	Dec. 31, 2000	Dec. 31, 1999
Convertible subordinated debenture, unsecured, bearing interest at 10.5% payable annually. The debenture, including accrued and unpaid interest, is convertible into common shares at a price of $1.00 per share. This debenture was converted to common shares in January 2001	**$ 366,013**	$ 330,803
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 then remit such amounts to the Purchasers. The Company's exposure is limited to the credit risk related to the collection of the lease payments	**607,324**	–
Western Diversification Program, unsecured, bearing interest at 8% to 8.5%, repayable in quarterly instalments to September 2000	**–**	135,784
Toronto Dominion Bank advanced technology loans, due on demand, bearing interest at the Bank's prime rate plus 3% payable in monthly instalments of $5,226, plus interest, due November 2003, secured by a general security agreement providing a charge over book debts and inventories and postponement of certain shareholders' advances (note 11)	**–**	206,940
Promissory note, secured by a general security agreement providing a charge against the assets of the Company, subordinated to the security interests of the Company's bank, bearing interest at 12% to March 31, 1999 and at 18% per annum thereafter, compounded annually, due January 10, 2000; guaranteed by two shareholders in the amount of $500,000 each and by the pledge of common shares owned by a shareholder [see note 12(d)]	**–**	186,823
Promissory note, secured by a general security agreement providing a charge against the assets of the Company, subordinated to the security interests of the Company's bank, bearing interest at 12% per annum to May 17, 2000 and at 15% per annum thereafter, due May 17, 2001 [see note 12(d)]	**–**	214,990
	973,337	1,075,340
Less current portion	**736,743**	529,547
Long-term portion	**$ 236,594**	$ 545,793

11. ADVANCES FROM SHAREHOLDERS, INCLUDING ACCRUED INTEREST

		Dec. 31, 2000		Dec. 31, 1999
Convertible, redeemable debenture, secured by a general security agreement, at 9.5% per annum, due January 24, 2002. Prior to maturity, the debenture, including all accrued and unpaid interest, is convertible into common shares at a price of $1.125 per share [note 12(f)]	**$**	**504,034**	$	–
Secured advances, bearing interest at 13% per annum, due on demand (see below)		**–**		245,984
Unsecured advances, bearing interest at 8% to 9.5% per annum, payable annually or at the end of the term at the discretion of the lender, with no fixed terms of repayment		**–**		37,434
Unsecured, postponed in favour of the Company's bank (note 10), interest payable annually or at maturity at the discretion of the lender:				
Advance, bearing interest at 12% per annum, with no fixed terms of repayment		**–**		40,052
Advance, bearing interest at 12% per annum to December 1999 and 15% thereafter, due December 23, 2000 [see note 12(d)]		**–**		50,164
Advances, bearing interest at 12% per annum to December 1999 and at 15% thereafter, no fixed terms of repayment [see note 12(d)]		**–**		235,937
		504,034		609,571
Less current portion		**–**		245,984
Long-term portion	**$**	**504,034**	$	363,587

The secured advances as at December 31, 1999 were secured by an assignment of the Company's proceeds of the scientific tax credits for the period September 1, 1998 to December 31, 1999 [note 16(b)]. During the year ended December 31, 2000, these advances including accrued interest for a total of $250,000 were converted to 500,000 common shares [note 12(a)].

12. 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:

	Dec. 31, 2000		Dec. 31, 1999	
	Number	**Amount**	Number	Amount
Balance outstanding, beginning of period	**8,373,396**	**$ 5,537,210**	7,086,612	$ 4,248,827
Shares issued:				
From treasury for cash	**11,021,078**	**5,524,738**	1,286,784	1,288,383
Due to related party converted (note 8)	**168,880**	**84,440**	–	–
Promissory note converted (note 10)	**391,032**	**195,516**	–	–
Shareholder advances converted (note 11)	**500,000**	**250,000**	–	–
	12,080,990	**6,054,694**	1,286,784	1,288,383
Repurchase of shares from employee trust	**(20,109)**	**(20,109)**	–	–
Balance outstanding, end of period	**20,434,277**	**11,571,795**	8,373,396	5,537,210
Less employee share trust plan	**–**	**(1,229,891)**	–	(1,250,000)
	20,434,277	**$ 10,341,904**	8,373,396	$ 4,287,210

On May 30, 2000, the Board of Directors of the Company approved an increase in the number of issued and outstanding common shares of the Company on the basis of four new common shares for each one common share presently issued and outstanding ("Stock Split"). All references to common shares and per share amounts in the consolidated financial statements have been restated to reflect the Stock Split on a retroactive basis.

(b) Special warrants, broker warrants and second offering

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.

Pursuant to the terms of the private placement, if certain conditions are not met, each holder of the Special Warrants shall be entitled to 1.1 common shares for each Special Warrant exercised.

In conjunction with the private placement, an aggregate of 209,500 broker warrants were issued to the agent. Each broker warrant entitles the holder thereof to acquire one common share of the Company at the greater of $1.00 per share and the offering price in the Second Offering noted below. These broker warrants expire eighteen months after the closing date.

In conjunction with agency agreement noted above, the Company and the agent also entered into an engagement agreement pursuant to which the agent agreed to assist the Company in raising gross proceeds of up to $10,000,000 through the issue of common shares, or securities convertible into common shares ("Second Offering"). The pricing and structure of the Second Offering is to be determined in the context of the market.

(c) Stock options

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.

On December 19, 2000, the Board of Directors of the Company approved a resolution increasing the number of shares reserved for issuance under the stock option plan to 5,300,000. This increase is subject to shareholder approval.

During the year ended December 31, 2000, the Company granted a total of 1,965,500 stock options. Of the stock options granted, 1,945,500 were granted with an exercise price of $0.50 per share and an expiry date between May and November 2005. The remaining 20,000 options were granted with an exercise price of $1.00 per share and an expiry date of November 2005. During the year, no options were exercised, while 30,500 issued at $0.50 per share were forfeited.

As at December 31, 2000, 1,935,000 stock options remain outstanding, of which 885,000 have vested. The remaining options vest over a period of two to three years.

Subsequent to December 31, 2000, the Company granted an additional 25,000 stock options that have an exercise price of $1.10 per share and an expiry date of January 2006.

(d) Warrants issued pursuant to promissory notes and shareholder advances

As at December 31, 2000, pursuant to promissory notes (note 10) and shareholder advances (note 11), the Company has issued 132,104 (December 31, 1999 – 132,104) share purchase warrants, exercisable at $1.38 per share and expiring between December 2001 and May 2002.

(e) Employee share trust

During the period ended December 31, 1999, the Company created an employee share trust and made 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, 2000, no shares have been purchased by employees pursuant to this trust, 20,190 shares expired and substantially all of the 1,229,891 remaining shares have vested.

(f) Convertible debentures

As described in notes 10 and 11, the Company has issued debentures which are convertible into common shares of the Company.

(g) Consulting agreement

On February 5, 2001, the Company is required, pursuant to a consulting agreement, to issue common shares, the number of which is determined by dividing the value of the services provided by the market price of the shares on that day. The market price, if the Company is publicly traded, is the trading price on the listed exchange at the close of business on February 5, 2001. If the Company is private, the market price is the most recent price of shares issued from treasury prior to February 5, 2001. In addition, the Company granted share purchase warrants entitling the holder thereof to acquire 34,500 common shares. The warrants have an exercise price at $1.37 per share and expire February 5, 2002. As at December 31, 2000, the value of the services provided under this contract total $138,000, which has been recorded in accounts payable and accrued liabilities.

13. REVENUE

Revenue for the year ended December 31, 2000 includes $48,482 from interest on sales leases (1999 – $49,256; 1998 – $18,097).

During the year ended December 31, 2000, the Company generated approximately 57% of its revenue in the U.S., 9% in Canada, 13% in the Middle East and 21% in other geographic regions. The Company's operations and assets are primarily located in Canada with approximately 17% of its identifiable assets based in the U.S.

The sixteen month period ended December 31, 1999 includes revenues of $1,270,182 from the period September 1, 1998 to December 31, 1998 and revenues of $3,889,490 from the period January 1, 1999 to December 31, 1999.

14. INTEREST

Interest expense in the statement of operations is comprised of:

	Dec. 31, 2000	Dec. 31, 1999	Aug. 31, 1998
Bank indebtedness	**$ 23,363**	$ 198,398	$ 84,984
Advance from shareholders	**57,744**	67,082	50,452
Long-term debt and capital leases	**244,121**	120,609	100,523
	$ 325,228	$ 386,089	$ 235,959

15. PRIOR PERIOD ADJUSTMENT

Effective September 1, 1998, the accounting treatment of certain leases related to manufactured products provided to customers, which had previously been accounted for as operating leases, has been changed to reflect such leases as sales type leases. This change has been applied on a retroactive basis and the prior years have been restated. As a result, for the year ended August 31, 1998, revenue was increased by $184,084, net investment in sales leases was increased by $308,603, cost of sales was increased by $78,441 and manufactured products for commercial use (now classified as finished goods inventory) were decreased by $134,108 and the opening deficit as of September 1, 1997 was decreased by $68,852 (September 1, 1998 deficit decreased by $174,495).

16. INCOME TAXES

(a) Expected tax rate

The expected effective tax rate for a public company in Alberta is approximately 44% and approximately 35% for the Company's U.S. subsidiary.

(b) Change in accounting policy

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standards relating to the accounting for income taxes. The Company has adopted the new income tax accounting standard as of December 31, 2000 and has applied the provisions of the standard retroactively to September 1, 1997.

The CICA's new standard on accounting for income taxes adopts the liability method of accounting for future income taxes. Under the liability method, income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance, reviewed quarterly by management, is recorded sufficient to reduce the future income tax asset to the amount that is more likely than not to be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

Prior to adoption of this new accounting standard, income tax expense was determined using the deferral method. Under this method, deferred income tax expense was determined based on "timing differences" (differences between the accounting and tax treatment of items of expense or income), and were measured using the tax rates in effect in the year the differences originated. Certain deferred tax assets, such as the benefit of tax losses carried forward, were not recognized unless there was virtual certainty that they would be realized.

(c) Net future tax asset

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2000 and 1999 are presented below:

	Dec. 31, 2000	Dec. 31, 1999
Future tax assets and liabilities:		
Non-capital losses carried forward CDN	**$ 1,970,000**	$ 199,000
Non-capital losses carried forward U.S.	**300,000**	300,000
Capital assets, differences between net book value and undepreciated capital cost	**195,000**	445,000
Scientific research tax pools and credits	**858,000**	228,000
Total	**3,323,000**	1,172,000
Less valuation allowance	**(3,323,000)**	(1,172,000)
Net future tax asset	**$ –**	$ –

The non-capital losses carried forward expire primarily between 2004 and 2007.

(d) Scientific research tax credits carried forward

Z.I. Probes Inc. is eligible to receive scientific research tax credits arising from scientific research and experimental development activities. During the period ended December 31, 2000, the Company accrued scientific research tax credits of $299,287, which were applied against research and development expense. In the sixteen months ended December 31, 1999 , the Company accrued scientific research tax credits of $403,368, and applied these credits against deferred development costs. Unclaimed tax credits of $2,600 (1999 – $2,600) remain at December 31, 2000. The claims for tax credits are subject to review by Canada Customs and Revenue Agency.

The scientific research tax credits recoverable were previously pledged as security for certain advances from shareholders (note 11).

17. 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, 2000, 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 only 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 U.S. 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.

18. COMMITMENTS

(a) Amalgamation agreement

On November 15, 2000, the Company entered into an amalgamation agreement with Colony Pacific Explorations Ltd. ("Colony"), a company whose shares are listed on the Canadian Venture Exchange ("CDNX") and the Toronto Stock Exchange ("TSE"). The amalgamation agreement provides that the Company and Colony will amalgamate once the necessary shareholder and regulatory approvals are obtained, which management anticipates to be received in February 2001. The amalgamated corporation will continue under the name zed.*i* solutions inc. ("zed.*i*"). Upon the amalgamation becoming effective, the Colony shares will cease to be listed on the CDNX and TSE. Management intends to have the zed.*i* shares listed for trading on the TSE as soon as practicable on or after the effective date of the transaction, subject to zed.*i* fulfilling all of the listing requirements of the TSE. In the event the TSE listing requirements are not met, zed.*i* intends to remain listed on the CDNX, subject to meeting the CDNX listing requirements.

The amalgamation agreement provides that the shares of Colony and the Company will be exchanged as follows:

(i) each shareholder of Colony will exchange their shares of Colony for zed.*i* shares on the basis of 0.342 zed.*i* shares for each Colony share; and

(ii) each shareholder of the Company will exchange their shares of the Company for zed.*i* shares on the basis of one zed.*i* share for every one Company share.

Following completion of the share exchanges noted above, including giving effect to the Company's common shares that will be issued pursuant to the subsequent shares issuances described in note 12(b), the proportion of zed.*i* shares attributable to Colony shareholders will be approximately 21%, while the number of zed.*i* shares attributable to current shareholders of the Company will be approximately 79%.

The transaction will be accounted for as a reverse take-over whereby the Company is the acquirer and Colony is the acquiree, since shareholders of the Company will own 79% of zed.*i* once the amalgamation is complete.

The estimated net assets of Colony being acquired, at assigned values, in exchange for the share consideration being issued using the purchase method of accounting, as at October 31, 2000, are as follows:

(in thousands of dollars)		
Cash and cash equivalents	$	1,376
Accounts receivable		71
Note receivable		133
Oil and natural gas properties		600
Accounts payable and accrued liabilities		(44)
Future site restoration costs		(36)
Net assets acquired at assigned values	$	2,100

The assigned values at December 31, 2000 do not materially differ from those at October 31, 2000.

(b) Operating leases

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

2001	$ 208,000
2002	219,000
2003	229,000
2004	94,000
2005	109,000
	$ 859,000

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

19. SUPPLEMENTAL INFORMATION ON CASH FLOWS

	Dec. 31, 2000	Dec. 31, 1999	Aug. 31, 1998
Scientific research tax credits recovered	**$ –**	$ 348,351	$ –
Interest paid	**281,594**	196,920	215,551

See notes 3, 9, 10, 11 and 12 for non-cash transactions not disclosed in the statement of cash flows.

BOARD OF DIRECTORS

ALAN E. WINTER, *Chairman*
Vancouver, British Columbia
President, Winteck Consulting Inc.

TREVOR M. APPERLEY
Calgary, Alberta
President and Chief Executive Officer, zed.i solutions

MARTIN A. LAMBERT *†
Calgary, Alberta
Partner, Bennett Jones LLP

DORINGTON LITTLE *
Paradise Valley, Arizona
President, Rodeo Resources Ltd.

DOUG MARLIN *†
Calgary, Alberta
President, Marlin Ventures Inc.

OFFICERS AND MANAGEMENT

TREVOR M. APPERLEY
President and Chief Executive Officer

RICHARD R. CHARRON
Chief Financial Officer

ROBERT W. GORDON
Corporate Secretary and Vice President, Operations

TOKUNOSUKE ITO
Chief Technology Officer

M.J. DENISE LAFORGE
Vice President, Marketing and Sales

KEITH T. SMITH
Vice President, Corporate Development

* *Audit Committee Member*
† *Compensation Committee Member*

STOCK EXCHANGE LISTING

The common shares of the Company are listed on the Canadian Venture Stock Exchange under the trading symbol: ZED.

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TRANSFER AGENT

Valiant Corporate Trust Company
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