

zed.i solutions inc.

Consolidated Financial Statements

For the three months ended March 31, 2007 and 2006

Consolidated Financial Statements:

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at <i>(In thousands)</i>	March 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,656	\$ 9,753
Accounts receivable	10,161	9,757
Inventories	7,882	7,164
Prepaid expenses and deposits	116	157
	29,815	26,831
Capital assets	1,511	1,441
Deferred development costs	2,585	2,140
Intangible assets	4,040	4,227
Goodwill	8,480	8,480
Future income tax assets (Note 6)	3,704	4,275
	\$ 50,135	\$ 47,394
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,430	\$ 2,018
Accrued liabilities	718	1,169
Deferred revenue	4,432	1,680
Current portion of long-term debt	1	2
	6,581	4,869
Long-term debt	59	59
	6,640	4,928
Shareholders' equity:		
Share capital (Note 4(a))	55,385	55,261
Contributed surplus (Note 4(g))	4,652	4,063
Deficit	(16,542)	(16,858)
	43,495	42,466
	\$ 50,135	\$ 47,394

*See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Martin A. Lambert, Director



Douglas G. Marlin, Director

Consolidated Statements of Operations, Comprehensive Income and Deficit

<i>(In thousands, except share and per share amounts)</i>	Three Months Ended	
	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)
Sales	\$ 8,435	\$ 11,308
Cost of sales	4,088	6,078
Gross profit	4,347	5,230
Expenses		
Operations	434	397
Sales, general and administrative	1,576	1,853
Stock based compensation	641	539
Research and development	245	235
	2,896	3,024
	1,451	2,206
Amortization of capital assets and intangibles	648	424
Interest	(84)	(26)
	564	398
Net Income before income taxes	887	1,808
Future income tax recovery (provision)	(571)	900
Net Income	316	2,708
Other comprehensive income (Note 2)	-	-
Comprehensive income (Note 2)	316	2,708
Deficit, beginning of period	(16,858)	(20,877)
Deficit, end of period	\$ (16,542)	\$ (18,169)
Net Income per common share - Basic and Diluted (Note 5)	0.00	0.03
Weighted average number of common shares-Basic	101,985,902	99,126,788

*See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>(In thousands)</i>	Three Months Ended	
	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)
Cash Provided by (used in)		
Operations		
Net income	\$ 316	\$ 2,708
Items not affecting cash:		
Amortization	648	424
Stock based compensation	641	539
Future income taxes	571	(900)
Changes in non-cash operating working capital	630	(737)
	<u>2,806</u>	<u>2,034</u>
Financing		
Proceeds from shares issued	74	116
Repayment of long-term debt	(1)	-
	<u>73</u>	<u>116</u>
Investing		
Acquisitions of capital assets	(976)	(751)
Acquisition of Roughneck.ca, net of cash acquired	-	(550)
	<u>(976)</u>	<u>(1,301)</u>
Increase in cash and cash equivalents	1,903	849
Cash and cash equivalents, beginning of period	9,753	6,368
Cash and cash equivalents, end of period	<u>\$ 11,656</u>	<u>\$ 7,217</u>
Components of cash and cash equivalents		
Cash	2,995	2,846
Cash equivalents	8,661	4,371

*See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2007 and 2006

1. Nature of operations:

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 Edmonton and Grande Prairie Canada.

zed.i solutions inc. is a leading provider of innovative optimization technologies for the management of production operations in the energy sector. The Company's solutions focus on well site infrastructure (flow measurement, metering shacks, optimization, well bore manipulation, plunger lift control, booster compression) and the business information needs that link the field with head office and throughout the enterprise.

2. Changes in accounting policies

(a) Financial Instruments and Hedging Activities

On January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants; Comprehensive Income, Financial Instruments – Recognition and Measurement, and Hedges. The standards require the classification of all financial instruments by category; loans and receivables, held-to maturity investments, available for sale financial assets, held for trading, or other liabilities. The standards prescribe the measurement bases; either amortized cost or fair value, of the specified classes of financial instruments subsequent to their initial recognition; the timing and recognition of realized and unrealized gains and losses on financial instruments; and disclosures, including a new category of shareholders' equity – accumulated other comprehensive income. These accounting policies were adopted on a prospective basis with no restatement of prior period financial statements.

For the three months ended March 31, 2007 the Company did not recognize any items of other comprehensive income (loss) or accumulated other comprehensive income.

(b) Accounting Changes

On January 1, 2007, the Company adopted the revised recommendations of CICA section 1506, "Accounting Changes."

The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

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., and Quail Hill Mining Corporation. All significant inter-company accounts and transactions have been eliminated. Quail Hill Mining Corporation is dormant and has no operations. These consolidated financial statements do not include all of the disclosures applicable to annual financial statements; therefore, they should be read in conjunction with the December 31, 2006 audited consolidated financial statements.

The interim financial statements have been prepared using the same accounting policies and methods of application as the most recent annual financial statements, except for the adoption of new accounting requirements; Comprehensive Income, Financial Instruments – Recognition and Measurement, and Hedges.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Scientific research tax credits recoverable, amortization rates and the recoverable amounts for receivables, inventories, capital assets, intangible assets, deferred development costs, future income taxes, stock-based compensation, acquisition earnout provision and goodwill are the more significant items subject to estimates in these consolidated financial statements.

(c) Revenue recognition

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

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

(d) Foreign currency contracts

At March 31, 2007, the Company had no outstanding foreign currency forward contracts. At March 31, 2006 the Company had \$22,840 outstanding.

(e) Foreign exchange risk

The cost of certain components in sales, cost of sales and the associated accounts payable and accounts receivable that are received in a foreign currency are translated into Canadian dollars at the time of the transactions.

3. Significant accounting policies, continued:

(f) Seasonality

The Company sells its products to the Oil and Gas Industry, primarily in Canada, which is subject to seasonal variations in activity. Traditionally, Canadian drilling activities increase during winter months and tend to slow during the spring, which may result in fluctuations in revenue throughout the year.

(g) Future income tax assets and income taxes

The Company follows the asset and liability method for accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in the statement of operations.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period of the substantive enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided for all or a portion of the future income tax assets.

The investment tax credits receivable are recoverable from the Government of Canada under the Scientific Research and Experimental Development Incentive Program as a reduction in income taxes otherwise payable. The amounts claimed under the program represent management's best estimate based on research and development costs incurred. Realization is subject to government approval. Any adjustment to the amounts claimed will be recognized in the year in which the adjustment occurs.

(h) Guarantees

Management of the Company believes there are no material guarantees that require disclosure.

(i) Research and development costs

The Company is engaged in research and development. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by GAAP. Further, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. Research and development costs are reduced by any scientific research tax credits.

3. Significant accounting policies, continued:

(j) *Stock-based compensation*

The Company has the following stock-based compensation plans, a stock option plan, an employee share trust and a deferred share unit plan. The Company accounts for stock options using the fair-value based method. Under the fair-value based method, compensation expense for stock options is measured at fair value at the date of grant and is amortized over the stock option vesting period. The Company has a deferred share unit plan for non-employee directors which allows for settlements in cash or shares at the holder's option, and is accounted for as a liability award. The Company's obligations are measured at each reporting period on a mark to market basis with any required adjustments reflected in sales, general and administrative expense.

(k) *Deferred development costs*

Deferred development costs incurred on new product development projects, which, in the Company's view, have clearly defined market prospects, are deferred and amortized on a straight-line basis over 5 years, commencing in the year in which the new products begin generating revenue. Prior to 2007, deferred development costs were capitalized and expensed over 3 years, management revised its assessment based on new information with respect to its operation, the new development costs will be expensed over 5 years. The timeframe over which the deferred expense is amortized is determined based on an historical life cycle of the company's primary product. The ability to recover the carrying value of deferred development costs is based on estimated future cash flow models, which by their nature, are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The net carrying amount of these costs are reviewed at least annually or when circumstances change to determine whether there has been impairment in value.

(l) *Purchased intangible assets*

Purchased intangible assets are recorded at cost and amortized on a straight-line basis over their expected useful lives. The net carrying amount of purchased intangible assets is reviewed at least annually or when circumstances change to determine whether there has been impairment in value. The review methodology is comprised of an assessment of the continuing contribution of the applicable product contribution to operations and an assessment of expected future cash flows. Intangibles acquired on the acquisition of WebTech 2000 Inc., D.G. Wehrhahn Company Ltd., Menex Technologies Inc., Roughneck.ca[®] Inc., and PetroNet Systems Inc. are being amortized as follows:

Intangibles – Purchased software	(5 years)
Intangibles – Employment Contracts	(2 years)
Intangibles – Employment Contracts Menex and Roughneck	(3 years)
Intangibles – Intellectual property Menex	(12 years)
Intangibles – Customer relationships Roughneck	(3 years)
Intangibles – Customer relationships PetroNet	(1 year)
Intangibles – Developed software and Patent Roughneck	(5 years)
Intangibles – Developed software PetroNet	(3 years)
Patents and Trademarks	(17 Years)

4. 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:

	Three Months Ended March 31, 2007		Year Ended December 31, 2006	
	Number	Amount	Number	Amount
Balance outstanding, beginning of period	101,853,849	\$55,260,565	97,862,341	\$49,960,802
Shares issued:				
Issued from treasury	1,000	1,060	-	-
Issued from Treasury pursuant to earnout provision of Roughneck (note 4(c))	-	-	1,467,361	2,201,042
Stock options exercised (note 4(b))	174,344	123,798	1,804,147	1,314,318
Issued pursuant to acquisition of PetroNet, net of share issuance costs (note 4(d))	-	-	720,000	1,030,403
Issuance of RSU and DSU	-	-	-	754,000
Balance outstanding, end of period	102,029,193	\$55,385,423	101,853,849	\$55,260,565

(b) *Stock options exercised:*

During the three months ended March 31, 2007, 174,344 stock options were exercised for proceeds of \$123,798.

- (c) The board of directors approved the calculation of the earnout as part of the purchase price in the acquisition of Roughneck.ca Inc., the payment of the earnout was made on January 26, 2006. The total earnout approved for payment was \$2,751,302, which was paid as provided in the purchase and sale agreement as to 20% cash (\$550,260) and 80% common shares in zed.i solutions inc. (1,467,361 shares based on a deemed price of \$1.50 per share, based on the average closing market price for the 20 trading days prior to the execution of the letter of intent, discounted by 10%).

4. Share capital, continued:

(d) Acquisition of PetroNet Systems Inc.

On April 1, 2006 the Company completed the acquisition of all the issued and outstanding shares of PetroNet Systems Inc. ("PetroNet"). The acquisition of PetroNet was accounted for using the purchase method and the results of operations of PetroNet are included in the consolidated financial statements from April 1, 2006. PetroNet shareholders received 25% of the consideration paid on closing in cash and 75% in common shares of zed.i. Based on the achievement of revenue performance targets over the next two years, the former shareholders of PetroNet have an opportunity to earn an additional amount up to a maximum of approximately \$1.3 million. The earnout is payable as to 25% in zed.i common shares and 75% in cash, with the portion paid in zed.i common shares valued at \$1.25 per share. The maximum payout is calculated on the basis of a multiple of approximately 3.1 times 2007 earnings from PetroNet Systems Inc. The issuance of 720,000 shares of zed.i solutions inc. are accounted for at a weighted average market value of \$1.44 per share for a total value of \$1,036,800. The fair value of the net assets acquired were:

<i>Net assets acquired:</i>	\$
Working capital	(265,050)
Property, plant and equipment	8,488
Future income tax asset	82,670
Intangibles	740,691
Goodwill	<u>547,948</u>
	<u>1,114,747</u>
<i>Financed by:</i>	\$
Cash	77,947
Shares issued	<u>1,036,800</u>
Total purchase consideration	<u>1,114,747</u>

4. Share capital, continued:

(e) Stock options outstanding:

On May 30, 2000, the Company established a stock option plan for directors, officers, employees and consultants, which permits the granting of options to purchase up to a maximum of 10% of the Company's issued and outstanding common shares. The number of options and exercise price thereof is set by the Board of Directors at the time of grant provided that such exercise price shall not be less than that from time to time permitted under the rules of any stock exchange or exchanges on which the Company's shares may be listed. The maximum number of options that may be granted to any one individual shall not exceed 5% of the Company's issued and outstanding common shares. The options granted under the plan may be exercisable for a period not exceeding five years and may vest at such times, as the Board of Directors may determine at the time of grant.

During the three months ended March 31, 2007, no options were granted.

The number of shares reserved for stock options is 10% of the total issued shares.

A summary of the status of the plan, is presented below:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	10,222,763	\$ 1.33	9,143,357	\$ 1.41
Granted	-	-	4,306,496	1.02
Exercised	(174,344)	0.42	(1,804,147)	0.44
Expired/Cancelled	(142,033)	1.68	(1,422,943)	1.92
Outstanding, End of period	9,906,386	\$ 1.34	10,222,763	\$ 1.33
Options exercisable, end of period	2,854,649		2,471,986	

Exercise Prices	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.00-\$0.20	3,334	1.1 yrs	\$0.20	3,334	\$0.20
\$0.21-\$0.49	332,691	0.8 yrs	\$0.42	332,691	\$0.42
\$0.50-\$1.00	3,423,249	3.7 yrs	\$0.91	3,334	\$0.62
\$1.01-\$2.00	4,910,213	2.5 yrs	\$1.47	1,509,911	\$1.47
\$2.01-\$2.88	1,236,899	1.8 yrs	\$2.32	1,005,379	\$2.31
\$0.20 - \$2.88	9,906,386	2.8 yrs	\$1.34	2,854,649	\$1.64

(e) *Stock options outstanding, continued:*

The fair-value of each option grant by the Company was estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions for grants assuming no dividends are paid on common shares. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

	2007	2006
Risk free interest rate	-	4.08%
Expected life in years	-	3.0
Expected Volatility	-	62%

(f) *Deferred share unit plan for non-employee directors*

The Company maintains a deferred share unit (DSU) plan to provide directors with the option to elect to receive DSUs in lieu of cash payment for all or a portion of their director fees. When such an election is made, the Company credits to the account of each director a number of DSUs equal to the amount of fees divided by the fair market value of the common shares. DSUs vest immediately and are equivalent in value to common shares. The directors' accounts shall be credited with dividend equivalents in the form of additional DSUs if and when the Company pays dividends on the common shares. Units are redeemable, in cash or Common shares only following termination of the director's services and must be redeemed by December 31 of the following year or in certain cases a shorter time period. During the period, the Company did not issue any DSUs (2006 – nil) in director fee compensation. The Company has an obligation under the DSU plan at March 31, 2007 of \$7,373 (2006 - \$nil).

(g) *Contributed Surplus*

Balance at December 31, 2006	\$ 4,063
Stock based compensation expense	641
Fair value of options exercised	<u>(52)</u>
Balance at March 31, 2007	<u>\$ 4,652</u>

5. Reconciliation of earnings per share amounts:

The following table set forth the reconciliation of basic and diluted earnings per share.

	March 31, 2007	March 31, 2006
Net Income	<u>\$316,000</u>	<u>\$2,708,000</u>
Weighted average number of common shares outstanding – basic	101,985,902	99,126,788
Net Shares assumed issued	604,435	1,452,081
Weighted average number of common shares outstanding – diluted	<u>102,590,337</u>	<u>100,578,869</u>
Earnings per share:		
Basic	\$0.00	\$0.03
Diluted	\$0.00	\$0.03

6. Income taxes:

Future Income Tax Assets

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of temporary differences, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. During the three months ended March 31, 2007, the estimate of current tax expense is nil due to the availability of tax losses carrying forward. As the Company has expenses that are non-deductible for tax purposes, the provision for taxes is higher than the expense based on the expected tax rate of 32%.