



November 13, 2007

The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the three months ended September 30, 2007 and 2006, and should be read in conjunction with the unaudited consolidated financial statements as at and for the three months ended September 30, 2007, and should also be read in conjunction with the audited consolidated financial statements and the MD&A for Zedi Inc. (the "Company" or "Zedi") for the year ended December 31, 2006

The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports on certain non-GAAP measures that are used by management to evaluate performance of the business. Because non-GAAP measures do not have a standardized meaning, securities regulators require that non-GAAP measures be clearly defined and qualified, reconciled to their nearest GAAP measure and be given no more prominence than the closest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of non-GAAP measures is provided in section 13: Reconciliation of Non-GAAP Measures.

Additional information is available on the Company's website (www.zedi.ca) and all previous public filings, including the annual information form (AIF), are available through SEDAR (www.sedar.com).

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

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1 Business Overview

Zedi™ specializes in production operations management, delivering systems and services that help oil and gas producers better manage people, assets and information. Zedi customers are able to increase earnings and decrease operating costs through improved utilization of assets. In addition, our solutions and services help our customers mitigate compliance risk.

Established in 1987, Zedi has over 240 upstream, midstream and oilfield services customers who are primarily located in Western Canada. Zedi monitors over 7,600 wells and manages over 100,000 assets with solutions that are delivered through five lines of business:

- a. *Zedi Fixed Asset Management™* – the business of maximizing the utilization and effectiveness of fixed assets used during production operations, plus meeting compliance standards, all delivered through Roughneck™.
- b. *Zedi Health, Safety & Environment™* – the business of tracking, reporting, managing, and communicating HS&E programs to ensure a safe work environment and regulatory compliance, delivered through our Roughneck application.
- c. *Zedi Surveillance™* – the business of monitoring, collecting, and digitizing high quality data at the source, delivered with Smart-Alek®, Zedi SCADA™, Smart-Skid™ and MTRAC®.
- d. *Zedi Production Optimization™* – the business of analyzing the data collected and taking action to impact operations in order to improve hydrocarbon production, and is delivered to our customers through our secure online Internet portal, www.zedi.ca, and with our Zedi SCADA and embedded MTRAC offerings.
- e. *Zedi Production Volume Measurement™* – the business of web-based, on demand, production and revenue accounting, delivered through our PetroNet™ application.

2 Corporate Vision and Strategy

The vision of Zedi is to be a global leader in the management of decentralized production operations through continued focus on:

- a. *People* – Zedi will partner with its employees to promote their personal development, growth and success and together they achieve and share the benefits of corporate success.
- b. *Customers* – With a primary view toward improving customer earnings, Zedi will structure all of its customer interactions to deliver a personal experience that positively addresses customer needs, enabling them to achieve greater success.
- c. *Data* – Zedi will deliver and further develop products and services that add to the quality and quantity of well and field operation data and increase its value by transforming it to information.
- d. *Open Interface* – Zedi will leverage the high data value through developing the FINE® system, Zedi's intelligent network, to be vendor neutral, seeking to be an industry standard and enabling broad surveillance inputs and application extractions through an open interface.
- e. *Execution* – Zedi will balance near term returns with long term wealth by focusing on market sectors that it can dominate and by making pragmatic decisions that maximize shareholder return.

3 Key Performance Indicators

Zedi monitors a number of key performance indicators including those set out below (see *selected quarterly information table for past eight quarters in section 5*). In addition, Zedi tracks a number of customer specific indicators:

- a. *RECURRING REVENUE AS A PERCENTAGE OF OPERATIONS AND SG&A*(sales, general and administrative expense (SG&A))
Growth of this indicator ensures that our decisions and actions are supporting a strategy of building a significant foundation of recurring revenue in relation to the size of the operations. This also serves to measure our success in structuring our operations on a scalable basis.
- b. *RECURRING REVENUE AS A PERCENTAGE OF TOTAL CASH EXPENDITURES*
This indicator combines the investment in R&D and capital assets with the operating expenses to monitor the scalability of the business model with operating and investing activities combined.
- c. *TOTAL REVENUE*
This measure is an overall indication of our success and progress toward achieving a dominant position in the marketplace.
- d. *PERCENT GROSS MARGIN*
This serves to measure our success in developing and delivering our products and services efficiently and on a scalable basis.
- e. *INCOME PER SHARE*
As a primary measure of return to shareholders, this measure also ensures the acquisitions we make are accretive to shareholders.

4 Overall Performance

4.1 Materiality for Disclosure

Management determines whether or not information is “material” based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Company would be significantly influenced or changed if the information were omitted or misstated.

4.2 Events or Activities Impacting the Business in the Third Quarter of 2007

Activities that took place during Q3 of 2007 that will have both short and long term impact include:

- Rollout of retrofit strategy positively impacted revenues. While the general market conditions for natural gas remained negative throughout Q3, Zedi delivered improved performance which was in part an outcome of the introduction of a retrofit strategy that was designed to buffer the company from low drilling activity.
- The royalty review announcement created turmoil in the industry. Coming on the heels of the income trust announcement, low gas prices and a continued downturn in drilling activity, the industry reaction to the royalty review recommendations stalled activity with many producers.
- Continuation of Share repurchase as provided for under the Normal Course Issuer Bid that was announced May 14, 2007.

4.3 Impact of Stock-Based Compensation on Reported Results

Throughout this MD&A the Company will at times describe or discuss results with Stock-based compensation not included. The following information will provide readers of our financial statements with an opportunity to fully understand the impact of stock-based compensation on results and to provide context for the Company's discussion of results with stock-based compensation excluded.

The Company currently has three forms of stock-based compensation: stock options, deferred share units and restricted share units.

Stock Options

The shareholders of the Company approve the stock option plan each year at the AGM. The current plan authorizes the Board of Directors of the Company to grant options numbering up to 10% of the number of issued and outstanding shares, which structure has remained unchanged since the Company's initial public offering. As an important part of the Company's compensation strategy options are granted annually to all employees to recruit and retain the best talent. All options are granted at market price on the date of grant, vest in thirds on the first three anniversaries from the date of grant and expire in thirds on the second third and fourth anniversaries. This results in a rolling plan with options expiring each year and new ones being granted at market prices at that time.

The following table shows the status of stock options outstanding for the first three quarters of 2007 and for the year 2006:

<u>2006</u>	<u>September 30, 2007</u>		<u>December 31,</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	10,222,763	\$ 1.33	9,143,357	\$ 1.41
Granted	95,725	0.62	4,306,496	1.02
Exercised	(232,678)	0.41	(1,804,147)	0.44
Expired/cancelled	(924,893)	1.48	(1,422,943)	1.92
Outstanding, end of period	9,160,917	\$ 1.35	10,222,763	\$ 1.33
Options exercisable, end of period	2,895,039		2,471,986	

Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.00-\$0.20	-	-	\$0.00	-	\$0.00
\$0.21-\$0.49	277,691	0.3 yrs	\$0.42	277,691	\$0.42
\$0.50-\$1.00	3,240,556	3.2 yrs	\$0.90	3,334	\$0.62
\$1.01-\$2.00	4,428,106	2.0 yrs	\$1.46	1,592,968	\$1.47
\$2.01-\$2.88	1,214,564	1.3 yrs	\$2.31	1,021,046	\$2.31
\$0.20 - \$2.88	9,160,917	2.3 yrs	\$1.35	2,895,039	\$1.66

Deferred Share Units

A deferred share unit is compensation paid in the form of a right to a share that is not received until the occurrence of a future event. The Company currently offers to directors an option to receive compensation for directors' fees either in cash or deferred share units. Non-Management Directors' fees are currently \$24,000 per year.

Restricted Share Units

A restricted share unit is compensation paid in the form of a right to a share that is not received until a later date.

Stock-based Compensation Expense

The total of the stock-based compensation expense for Q3 2007 was \$286,000, which is broken down in the table below.

The portion of the expense related to stock options is calculated using the Black-Scholes option pricing model at the time the options are granted. The model incorporates an historical volatility analysis to determine valuation. Historical volatility may or may not be a reliable indication of future volatility. Although the expense is calculated at the time options are granted, it is reported over the vesting period for the options. The Company's standard vesting period is three years in which case the expense will be reported proportionately in each of the next 12 quarters from the date of grant.

The following table shows the breakdown of the stock-based compensation expense reported in Q3 2007.

Annual Option Grant Date	Number of options outstanding as at September 30, 2007	Exercise Price	Expensed in Q3 2007	Remaining to be expensed in future periods
January 29, 2004	277,691	\$0.42	\$ -	\$ -
January 6, 2005	1,145,227	\$2.30	48,763	58,789
November 1, 2005 ¹	3,626,115	\$1.46	165,825	928,364
December 13, 2006	3,145,497	\$0.91	88,662	956,247
Various dates ²	966,387	\$1.51 ³	(16,293)	270,155
Option Totals	9,160,917		\$286,957	\$ 2,213,555
DSU Grant Date	Number of DSUs as at September 30, 2007	Price	Expensed in Q3 2007	Remaining to be expensed in future periods.
June 30, 2006	2,143	\$0.52	\$ (621)	-
September 29, 2006	3,879	\$0.52	(1,125)	-
December 31, 2006	1,579	\$0.52	(458)	-
September 25, 2006	250,000	\$1.16	-	-
DSU Totals	257,601	\$0.52	\$ (2,204)	-
RSU Grant Date	Number of RSUs as at September 30, 2007	Price	Expensed in Q3 2007	Remaining to be expensed in future periods.
September 25, 2006	400,000	\$1.16	-	-
August 3, 2007	24,743	.63	1,299	14,289
August 31, 2007	9,657	.60	241	5,553
RSU Totals	434,400		1,540	19,842
All stock-based compensation totals			\$286,293	

¹ The timing of the annual grant was shifted from the beginning of the year to the fall board meeting to align with annual compensation program reviews.
² There are some options granted in between the annual grants related to new hires during the year or staff added through acquisitions.
³ This is the weighted average exercise price.

Discussion of Performance Results Excluding the Stock-based Compensation Expense

Significant historical share price volatility has impacted the valuation of stock options for the purpose of recording of a stock-based compensation expense. A number of options that have already been expensed have in fact expired without being exercised and all of the options that were expensed in the third quarter of 2007 remain significantly out of the money. The expensed options do not impact cash flow or the operations of the Company. From the table above the reader can assess the specific options that the expense relates to, a significant portion of the expense being for options that are significantly out of the money and some of which having already expired. Therefore, the Company will at times discuss the performance of the Company with this expense excluded (a reconciliation to the nearest GAAP measure is provided in section 13).

Although there is no cash impact from stock-based compensation the Company recognizes there is a dilutive effect and therefore the Company believes that "earnings per share fully diluted" is a reliable method of measuring value with the impact of stock-based compensation taken into account. Where the Company discusses a result with stock-based compensation not included it also discusses the result including stock-based compensation so that the reader can accurately assess the performance of the Company.

4.4 Annual Grant of Stock-Based Compensation

The Company granted 1,380,917 options to employees, officers and directors of the corporation. The exercise price of the options is \$0.53, which is the closing price at the time the options were granted by the Board of Directors on November 13, 2007. All of the options vest equally in thirds over a three year period and expire in equal amounts on the second, third and fourth anniversaries from the date of grant. The Company also granted 517,844 Restricted Stock Units to employees, officers and directors of the corporation vesting two years from the date of grant.

4.5 Consolidated Highlights

(\$ in thousands except per-share amounts)	Three Months ended September 30			
	2007	2006	Change	% Change
Revenue	7,197	6,793	404	6%
Gross Profit	3,895	2,993	902	30%
EBITDA ¹	1,335	(238)	1,573	N/A
Net Income (loss) before income taxes	719	(829)	1,548	N/A
Net income (loss)	321	(850)	1,171	N/A
Net income (loss) per share, basic	0.00	(0.01)	0.01	N/A
Net Income (loss) per share, diluted	0.00	(0.01)	0.01	N/A
Cash from operations	354	1,827	(1,473)	(81%)
Free cash flow ²	698	463	235	51%

¹ Earnings before interest, taxes, depreciation and amortization is a non-GAAP measure. See Section 13.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

² Free cash flow is a non-GAAP measure. See Section 13.2 Free cash flow.

The following table reviews some results excluding stock-based compensation (please see section 4.3 above for a full explanation of the stock-based compensation expense).

(\$ in thousands except per-share amounts)	Three Months ended September 30			
	2007	2006	Change	% Change
Net Income(loss) before income taxes ¹	1,005	504	501	99%
Net Income(loss) per share before taxes, basic ¹	0.01	0.00	0.01	N/A
Net Income(loss) per share before taxes, diluted ¹	0.01	0.00	0.01	N/A

¹This is a non-GAAP measure. See Section 13 for reconciliation to the nearest GAAP measure.

The Company continues to maintain positive growth trends. For specific comments on trends and financial performance please see sections 5.3 and 6 below.

5 Selected Quarterly Information

5.2 Quarterly Results Summary

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

	2007			2006				2005
(expressed in \$000's except per share and % amounts)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Total Revenues	7,197	4,870	8,435	10,760	6,793	8,276	11,308	9,348
Recurring Revenue ¹	2,531	2,381	2,123	2,220	1,764	1,651	1,425	1,303
Recurring Revenue ¹ as a % of Operation Expenses ²	111%	96%	94%	90%	93%	73%	57%	65%
Recurring Revenue ¹ as a % of Total Cash Expenditures ³	76%	69%	66%	65%	68%	54%	44%	56%
Percent Gross Margin	54%	49%	52%	49%	44%	43%	46%	48%
Income / (loss)	321	(989)	316	1,759	(850)	402	2,708	1,813
Income / (loss) per share - basic and diluted	0.00	(0.01)	0.00	0.02	(0.01)	0.00	0.03	0.02
Income / (loss) before taxes excluding the stock-based compensation expense ⁴	1,005	(645)	1,528	3,827	504	675	2,347	1,911
Income (loss) per share before taxes excluding stock-based compensation expense – basic and diluted ⁴	0.01	(0.01)	0.01	0.04	0.01	0.01	0.02	0.02
¹ Recurring Revenue includes all fees that are billed to customers on a recurring basis. ² Operational Expenses includes all expenses except for Stock-based compensation. In addition, the \$1,656,000 reduction in R&D expense recorded in Q4 2006 is not included in Operational Expenses. ³ Total Cash Expenditures includes all Operational Expenses plus the amount of R&D deferred in the period and all amounts for the acquisition of capital assets. In addition, the \$1,656,000 reduction in R&D expense recorded in Q4 2006 is not included in Operational Expenses. ⁴ This is a non-GAAP measure. See Section 13 for reconciliation to the nearest GAAP measure.								

5.3 Comments on Corporate Performance Trends

Revenue in the third quarter shows significant improvement over our second quarter in spite of the continued general slow down that has been experienced in the Canadian oil and gas industry, with a 48% increase over the second quarter and a 6% increase in revenue compared to the third quarter of 2006. A combination of market factors has resulted in significantly reduced drilling activity, particularly for natural gas. The Company anticipates activity in the industry to remain substantially slower than 2006 for the balance of the year and into 2008 with the result that predicting activity levels will be difficult and there could continue to be some volatility in revenues until the market strengthens. The company continues to see good growth in its recurring revenue providing a strong foundation to weather poor market conditions.

The recurring revenue in Q3 of \$2,531,000 was up \$150,000 from Q2 2007 and up \$767,000 over Q3 2006. Recurring revenue as a percentage of operational expenses continues to grow, with this being the first quarter to see the performance over 100%. The Company expects there to be some fluctuation in this number quarter to quarter but tracks the year over year trend to be sure the Company is continuing to take advantage of the scalability of its business model. Year to date is at 100% while for 2006 the percent of recurring revenue to operating expenses was 77%, growing from 66% in 2005, 51% in 2004 and 27% in 2003. Management expects growth of recurring revenue to continue.

At the end of 2006 the Company added a second key performance indicator related to recurring revenue. By combining the investment in R&D and capital assets with the operating expenses the Company is able to monitor the ability of recurring revenue to meet the total cash requirements. The trend tracks relatively close to the prior measure, looking solely at operation expenses. The third quarter was at 76% while year to date is at 70% while for 2006 the percent of recurring revenue to total cash expenditures is 57%, growing from 49% in 2005, 46% in 2004 and 25% in 2003. Management expects this type of growth trend for the recurring revenue to continue as we have achieved in the past.

Percent gross margin increased in the quarter as a result of the impact of an increasing percentage of higher margin products in our revenue mix. In addition, there were some timing factors that if normalized would bring margins more in line with the year to date of 52%. On an ongoing basis we expect that there may be fluctuations between quarters reflecting variable revenue and the different revenue mix, which have different gross margins. Year over year trends are expected to continue to be positive.

The net income trend tends to follow the revenue trend fairly closely.

6 Results of Operations – Third Quarter 2007

6.1 Revenue

The Company is reporting an increase in revenue year over year in spite of the slow down that has been experienced in the Canadian oil and gas industry that has been commented on earlier.

The Company generated revenues of \$7,197,000 for the three months ended September 30, 2007 compared to \$6,793,000 for the three months ended September 30, 2006. This represents an increase of 6% for the quarter. The increase is primarily a result of the growth of the recurring revenue and highlights the importance of that revenue stream as the market experiences volatility.

6.2 Cost of Sales

The cost of sales for the three months ended September 30, 2007 was \$ 3,302,000 resulting in a 54% margin compared to a 44% margin on cost of sales of \$3,800,000 for the same period in 2006. The increase in margins is attributable to the addition of the higher margin PetroNet production accounting business, a lower cost Smart-Alek model, growth of the recurring revenue stream for network service fees, which has higher margins and completion of the 1xRtt conversion program undertaken in 2006.

6.3 Operating Expenses

Operating expenses include compensation and benefits of the information technology, customer support, purchasing, shipping, quality assurance and operations departments, facility cost for Edmonton, Alberta and all related expenditures for these departments, excluding those costs charged to cost of sales.

Operating expenses for the quarter ended September 30, 2007 were \$430,000, which is higher than the same period for 2006 by \$27,000 or 7%. Operating expense, as a percentage of revenue was 6% for the third quarter ended September 30, 2007, as compared to 6% for the same quarter in 2006. The Company's operating expenses are fairly stable, reflecting the scalability of the business model, but similarly they do not reduce as revenues are lower, which results in a higher percentage of revenue during slower periods.

6.4 Sales, General and Administrative Expenses

Sales, general and administrative (SG&A) expenses include compensation and benefits of sales, marketing, executives, financial, legal, human resources and administrative staff, lease obligations, advertising, trade shows, travel, marketing materials and general supplies.

The SG&A expense was \$1,604,000 for the third quarter ended September 30, 2007. This expense was \$366,000 more during the quarter ended September 30, 2007, compared to the same quarter last year. SG&A expense as a percentage of revenue was 22% for the third quarter 2007 as compared to 18% for the same quarter in 2006. The SG&A expense is somewhat higher as a percentage of revenue primarily due to expenses from new hires and increased activity in international marketing. The importance of the international opportunities have been highlighted during the recent slow down in Canada and additional investment in this area will help diversify revenues in the future.

6.5 Research & Development

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.

The Company defers a portion of its development costs, to be amortized over a five-year period. The five-year period was consistent with the historical lifecycle of prior product versions and more appropriately matches the product revenue stream with its development costs.

Research and Development (R&D) expenses include compensation and benefits of all the development teams working on the continuing development of our products as well as the testing activities. These expenses also include the cost to retain independent contractors and consultants, software licensing expenses, and all related administrative expenses and supplies.

The total R&D cost was \$979,000 in the third quarter 2007 up from \$734,000 in the third quarter of the prior year. The Company capitalized \$739,000 of development costs in the third quarter and expensed \$240,000 of the costs. The overall increase in R&D activity primarily reflects the additional development activity related to the continuing integration of new technology from previous acquisitions and the development of new products to complete the solutions suite for production operations management.

6.6 Stock-based Compensation

Effective January 1, 2004, Canadian accounting standards require recognition of compensation costs arising out of stock-based compensation plans under the fair value based method. Under the fair value based method, compensation cost is measured at fair value at the date of the grant and expensed over the stock option's vesting period.

The Company's non-cash stock-based compensation expense was \$286,000 for the quarter ended September 30, 2007, compared with \$1,333,000 for the quarter ended September 30, 2006 (please refer to section 4.3 for a full discussion of the breakdown of the stock-based compensation expense).

6.7 Net Income

The overall net income for the third quarter 2007 was \$321,000 or \$0.00 per share compared to net loss of \$850,000 or \$(0.01) per share for the same period in 2006 for an overall increase of \$1,171,000. A future income tax provision amount of \$398,000 was recognized in the third quarter 2007 as compared to a provision of \$21,000 for the same period in 2006.

Net Income before taxes (excluding the impact of recognition of the future tax asset) better represents the performance of the Company. Net income before taxes in the third quarter of 2007 was \$719,000. With stock-based compensation factored out, net income before taxes was \$1,005,000 in the third quarter. This represents 99% increase in the third quarter over the third quarter in 2006.

6.8 Amortization of Capital and Intangible Assets

In the third quarter the amortization of capital and intangible assets was \$747,000, of which \$190,000 related to intangible assets acquired in the purchase of Menex, Roughneck and PetroNet, which are non-recurring capital expenditures. Amortization of deferred development costs accounted for \$369,000 and patents accounted for \$3,000. The balance of \$185,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

6.9 Future Income Tax Assets

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of 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 nine months ended September 30, 2007, the estimate of current tax expense is nil due to the availability of tax losses carrying forward. As the Company has certain 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%.

6.10 Letter of Intent to Acquire J&J Oilfield Ltd.

Subsequent to the end of the third quarter, the Company executed a letter of intent to acquire all of the issued and outstanding shares of J&J Oilfield Ltd. J&J Oilfield is a British Columbia based private corporation providing 3rd party well operations management, with annual revenue of approximately \$8,000,000 and EBITDA of approximately \$1,500,000.

The acquisition of J&J is a natural extension to Zedi's current business of delivering production operations management solutions. Operating over 400 wells in NE British Columbia and NW Alberta, J&J's primary services include contract well operations, inspection and supervision. Customers will benefit from the combination of skilled field operations personnel who have access to surveillance and optimization technology to deliver improved asset performance.

The purchase price is comprised of an upfront payment and an earnout portion to a maximum payout of \$5,000,000. The amount of the upfront payment at closing will be \$3,000,000, which will be paid in cash. Based on the achievement of revenue performance targets over the next five years, the shareholders of J&J have an opportunity to earn an additional amount up to a maximum of \$2,000,000. The transaction is conditional upon the completion of due diligence and obtaining the necessary board and regulatory approvals and is expected to close on or about January 8, 2008, with an effective date of January 1, 2008.

7 Financial Condition

The following are the significant changes in the consolidated balance sheets between September 30, 2007 and June 30, 2007.

(\$ thousands)	September 30, 2007	June 30, 2007	Change	Explanation
Current Assets				
Cash and cash equivalents	11,899	13,477	(1,578)	The reduction in cash is primarily a result of growth in accounts receivable, repurchase of share under the NCIB and an earnout payment to PetroNet.
Accounts receivable	5,432	4,200	1,232	The increase in receivables reflects the improved revenue performance in Q3 compared to Q2.
Inventories	7,590	8,233	(643)	Inventory levels remained relatively stable although there have been efforts to reduce inventories, which is showing success.
Current Liabilities				
Accounts payable	1,001	1,103	(102)	In line with expectations
Accrued liabilities	655	471	184	In line with expectations
Deferred revenue	3,226	4,001	(775)	Invoicing of contracts are yearly, but revenue is deferred and recognized monthly. This amount fluctuates depending upon the timing of contract renewals, a higher percentage at the beginning of the year.
Working Capital¹	20,228	20,407	(179)	This reflects a reduction resulting from purchases under the NCIB and an earnout payment referenced above.
Capital Assets	1,582	1,551	31	Increase is in line with expectations and growth.
Other Assets				
Intangibles	3,716	3,835	(119)	Reducing as result of depreciation.
¹ Current Assets minus current liabilities is an indicator of the ability to finance current operations and meet obligations as they fall due.				

8 Liquidity and Capital Resources

The Company's cash balance at September 30, 2007 was \$11,899,000, a decrease of \$1,578,000 from the June 30, 2007 balance. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

	Three Months ended September 30	
(\$ thousands)	2007	2006
Opening cash	13,477	9,043
Cash provided by operations	354	1,827
Cash (used) provided by financing	(564)	1
Cash used in investing	(1,368)	(710)
Closing cash	11,899	10,161

The increase in cash from operations reflects the continued growth in earnings. The use of cash from financing is from the repurchase of issued shares pursuant to the normal course issuer bid in the quarter. The cash used in investing is related to the normal capital purchases throughout the year, which is more fully described in a later section and earnout payments from the acquisition of PetroNet.

The following table presents summarized working capital information.

	Three Months ended September 30	
(\$ thousands)	2007	2006
Current assets	25,110	24,404
Current liabilities	4,882	5,827
Working capital	20,228	18,577
Current ratio	5.14	4.19

The Company has historically experienced two normal trends that impact liquidity throughout the year. Inventory build up and annual fee billing. The Company's inventory typically peaks through the winter months reflecting the buildup for the peak activity period. The Company bills network fees on an annual basis and in the past renewals were all timed on a calendar year this resulted in a growth in cash in the third quarter as these billings are received. This as well resulted in an increase in the deferred revenue as the revenue is recognized on a monthly basis for network fees and the unrecognized revenue appears in the deferred revenue until it is earned. In 2005 the Company changed its contract renewal policy and began to renew contracts on their anniversaries.

The Company had capital spending of \$1,054,000 during the third quarter of 2007 funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$ 95,000
Computer Software	\$ 64,000
Furniture & Equipment	\$ 50,000
Manufacturing Tools & Equipment	\$ 33,000
Patents and Trademarks	\$ 18,000
Deferred Development Costs	\$739,000
Intangibles	\$ 55,000

Credit Facilities

The Company has credit facilities of \$5,000,000 to cover increased cash needs during peak demand periods. The interest rate is at Royal Bank Prime plus 1.5%. Security consists of a general security agreement creating a security interest in all of the Company's personal property. The credit facility contains customary covenants. Zedi is currently not using any of the credit facility available.

Financial Instruments

The Company does not currently have any outstanding financial instrument contracts.

Cash Requirements

The following aggregated information about our contractual obligations and other commitments is to provide insight into the Company's short and long term liquidity and capital resource requirements. The information does not include obligations that have original maturities of less than one year or planned capital expenditures.

(\$ thousands)	Total	Within 1 year	2 to 3 years	3 to 5 years
Long-term debt	60	1	2	3
Operating leases	3,326	610	1,240	1,476
Total	3,386	611	1,242	1,479

Long-term Debt

The long-term debt is a loan payable to Natural Resources Canada under an Industry Energy Research and Development (IERD) program. The loan is repayable at the rate of 1.5% of gross revenues from the sale of product developed under the program. Payments are due semi-annually, no more than 30 days after the end of June and December. The loans bears no interest except for over due payments, which bear interest at Bank of Canada prime plus 2%. The loan is unsecured.

Operating Leases

The Company has various operating leases for office premises in Edmonton and Calgary and vehicles.

Capital Expenditures

Capital expenditures are funded from cash flow from operations. The Company may adjust opportunity capital spending throughout the year depending on results. The most significant capital spending will be for deferred development costs.

Based on current projections the Company has sufficient working capital required to meet capital spending requirements and achieve projected sales and production levels, as sales increase.

Outstanding Share Information

	Quarter ending September 30, 2007
Common Shares	
Opening shares	100,262,927
Stock options exercised	-
Shares purchased under NCIB*	(1,002,000)
Closing shares	99,260,927

* The Corporation announced the filing of a Normal Course Issuer Bid on May 15, 2007 and during the third quarter of 2007 the Corporation purchased 1,002,000 shares for a total of \$563,410.

9 Critical Accounting Estimates

9.1 Critical Accounting Estimates

Zedi's significant accounting policies are described in Note 2 of its annual 2006 consolidated financial statements and the 2006 MD&A.

10 Disclosure Controls and Internal Controls

The Company has established and maintains disclosure controls and procedures. The CEO and CFO of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2007 and have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that material information relating to the Company and its subsidiaries would be made known to them by others within those entities.

During 2006, the Company implemented a new software program to coordinate and manage its internal control system. This replaced a system that was primarily paper-based and prepares the Company to more adequately manage internal controls as it continues to grow. There were no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting in the third quarter of 2007 other than as described below.

The Company conducts regular reviews and internal audits to identify weaknesses in its internal controls over financial reporting and to ensure that an environment of continuous improvement becomes a part of the culture of the Company.

11 Outlook

Moving forward in 2007 and into 2008, Zedi expects to:

- Introduce new products and services. Zedi will continue to accelerate development initiatives that drive toward the vision of being the Global Leader in Production Operations Management. These initiatives will augment its current capabilities with application for both field and office operations activities, opening further market opportunities.
- Continue progressing toward full coverage of operating expenses and cash requirements by recurring revenues. Zedi's business model remains sound in a difficult business climate for natural gas as evidenced by its ability to continue to generate positive cash and earnings.
- Continue to repurchase shares. Zedi believes it is currently undervalued in the market and that use of excess cash to repurchase and cancel shares is a good strategy for increasing shareholder value. Zedi will consider all options available to it to increase shareholder value.
- Continue to investigate opportunities to diversify growth through expansion into other markets, including U.S., Russia and China.
- Identify new business opportunities through current products and services in an uncertain operating environment. The overhang of recent government decisions combined with low gas prices tempers our enthusiasm somewhat and while our Q3 results were better than many others are experiencing in this market, it is too early to predict this is a trend that will continue in the short term.

12 Business Risks and Uncertainty

The business risks and uncertainty are described in the Company's 2006 MD&A. The business risks and uncertainty are not materially changed from what is disclosed in the 2006 MD&A.

13 Reconciliation of Non-GAAP Measures

13.1 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Company reports EBITDA because it is a key measure used by management to evaluate the performance of the business. The Company also believes EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on GAAP and should not be considered an alternative to Net Income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the interim consolidated financial statements of cash flows. Investors should carefully consider the specific items included in the Company's calculation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by Zedi may not be comparable in all instances to EBITDA reported by other companies.

The following is a reconciliation of EBITDA with Net Income.

	Three Months ended September 30	
(\$ thousands)	2007	2006
Net Income	321	(850)
Amortization of capital assets and intangibles	747	669
Gain on disposal of capital assets	-	-
Future income taxes	398	21
Interest	(131)	(78)
EBITDA	1,335	(238)

13.2 Free Cash Flow

The Company reports free cash flow because it is a key measure used by management to evaluate the performance of consolidated operations. Free cash flow excludes certain working capital changes and other sources and uses of cash, which are disclosed in the interim consolidated statements of cash flows. Free cash flow is not a calculation based on GAAP and should not be considered an alternative to the interim consolidated statements of cash flows. Free cash flow is a measure that can be used to gauge the Company's performance over time. Investors should be cautioned that free cash flow as reported by Zedi may not be comparable in all instances to free cash flow as reported by other companies. While the closest GAAP measure is Cash provided by operating activities less Cash used for acquisition of capital assets, free cash flow is relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before proceeds from divested assets and changes in certain working capital items (such as trade receivables and trade payables).

The following shows management's calculation of free cash flow:

Three Months ended September 30		
(\$ thousands)	2007	2006
EBITDA	1,335	(238)
Stock-based compensation	286	1,333
Cash interest (paid)	131	78
Cash available for discretionary spending and capital expenditures	1,752	1,173
Capital expenditures		
Deferred development	(739)	(477)
Proceeds from disposal of capital assets	-	17
Purchase of other capital assets	(315)	(250)
Free Cash Flow	698	463

13.3 Net Income before Taxes with Stock-based Compensation Excluded

In addition to reporting net income before tax, the Company reports net income before taxes excluding stock-based compensation because it is a key measure used by management to evaluate the performance of the business. The Company believes this measure assists investors in comparing a company's performance on a consistent basis without regard to stock-based compensation, which is non-cash in nature and can vary significantly depending upon non-operating factors such as historical share price volatility. Please reference section 4.3 for further information on the stock-based compensation expense.

Net income before taxes with stock-based compensation excluded is not a calculation based on GAAP and should not be considered an alternative to net income before taxes.

The following shows management's calculation of net income before taxes with stock-based compensation excluded:

Three Months ended September 30		
(\$ thousands)	2007	2006
Net Income before Taxes	719	(829)
Stock-based compensation	286	1,333
Net Income before Taxes Excluding Stock-based Compensation	1,005	504

13.4 Income per Share before Taxes with Stock-based Compensation Excluded, basic and diluted

In addition to reporting income per share before tax, the Company reports income per share before taxes excluding stock-based compensation because it is a key measure used by management to evaluate the performance of the business. The Company believes this measure assists investors in comparing a company's performance on a consistent basis without regard to stock-based compensation, which is non-cash in nature and can vary significantly depending upon non-operating factors such as historical share price volatility. Please reference section 4.3 for further information on the stock-based compensation expense.

Income per share before taxes with stock-based compensation excluded, basic and diluted is not a calculation based on GAAP and should not be considered an alternative to income per share before taxes, basic and diluted.

The following shows management's calculation of income per share before taxes with stock-based compensation excluded, basic and diluted:

	Three Months ended September 30	
(\$)	2007	2006
Income per Share, basic and diluted	0.00	(0.01)
Future Income Tax per Share	0.00	(0.00)
Income per Share before Taxes, basic and diluted	0.01	(0.01)
Stock-based compensation per share	0.00	0.01
Income per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted	0.01	0.01

