



CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2007 and 2006
(Zedi Inc. formerly zed.i solutions inc.)

CORPORATE GOVERNANCE

The Zedi Board of Directors is committed to the application of the best corporate governance practices regardless of the size of the corporation. The corporation's corporate governance policies are intended to ensure the Board is able to effectively supervise management and the strategic direction of the corporation to enhance shareholder value. As a Canadian reporting issuer with securities listed on the TSX Venture Exchange, our corporate governance practices meet, and in some cases exceed, applicable rules adopted by the Canadian Securities Administrators. We continue to monitor regulatory changes and best practices in corporate governance and will consider amendments to our practices as appropriate.

The Board has an active governance committee, tasked with monitoring and making recommendations to the Board on governance issues to improve corporate performance and Board effectiveness. In addition to regular quarterly and special meetings of the Board of Directors, directors are involved in the management's quarterly strategic planning and assessment meetings. Some directors are included in specific marketing or product planning discussions, where their expertise enables them to assess corporate direction.

To assist with its governance oversight, the Board receives monthly reports that provide an overview of the sales and financial performance of the corporation as well as forecasts and projections.

MANAGEMENT'S REPORT

Management has the responsibility for preparing the accompanying financial statements. This responsibility includes selecting appropriate principles and making objective judgements and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Company's Board of Directors has approved the information contained in the financial statements. The Audit Committee is appointed by the Board to review the consolidated financial statements in detail with management and to report to the Board prior to their approval of the financial statements for publication. The Audit Committee is composed entirely of Directors who are neither management nor employees of the Company.

External auditors have full and free access to, and meet periodically and separately with, both management and the Audit Committee to discuss their audit findings.

Matthew Heffernan
President and Chief Executive Officer

Robert Gordon
Chief Financial Officer



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Auditors' Report

To the Shareholders of
Zedi Inc.

We have audited the consolidated balance sheets of **Zedi Inc.** as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income and deficit and cash flows for the years then ended. 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Calgary, Alberta
February 8, 2008

Chartered Accountants

Consolidated Balance Sheets

As at (In thousands)	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,539	\$ 9,753
Accounts receivable	6,579	9,757
Inventories (Note 4)	6,480	7,164
Prepaid expenses and deposits	179	157
	25,777	26,831
Capital assets (Note 5)	1,552	1,441
Deferred development costs (Note 6)	3,715	2,140
Intangible assets (Note 7)	3,538	4,227
Goodwill (Note 8)	11,140	8,480
Future income tax assets (Note 14)	2,508	4,275
	\$ 48,230	\$ 47,394
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 797	\$ 2,020
Accrued liabilities	1,344	1,169
Deferred revenue	2,877	1,680
	5,018	4,869
Long-term debt (Note 9)	59	59
	5,077	4,928
Shareholders' equity:		
Share capital (Note 10)	53,310	55,261
Contributed surplus (Note 11)	5,255	4,063
Deficit	(15,412)	(16,858)
	43,153	42,466
	\$ 48,230	\$ 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>	Year Ended	
	December 31, 2007	December 31, 2006
Sales	\$ 29,121	\$ 37,137
Cost of sales	13,559	20,041
Gross profit	15,562	17,096
Expenses		
Operations	1,731	1,707
Sales, general and administrative	6,886	6,406
Stock-based compensation	1,850	3,115
Research and development (recovery) (Note 14(d))	1,006	(634)
	11,473	10,594
	4,089	6,502
Amortization of capital assets and intangibles	2,822	2,500
Loss on disposal of assets	1	-
Interest	(474)	(236)
	2,349	2,264
Net Income before income taxes	1,740	4,238
Income tax provision (Note 14)	(294)	(219)
Net Income	1,446	4,019
Other comprehensive income (Note 2)	-	-
Comprehensive income (Note 2)	1,446	4,019
Deficit, beginning of year	(16,858)	(20,877)
Deficit, end of year	\$ (15,412)	\$ (16,858)
Net Income per common share – Basic and Diluted (Note 12)	0.01	0.04
Weighted average number of common shares – Basic	100,719,181	100,247,769
Weighted average number of common shares – Diluted	100,899,414	100,569,671

*See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>(In thousands)</i>	Year Ended	
	December 31, 2007	December 31, 2006
Cash Provided by (used in)		
Operations		
Net income	\$ 1,446	\$ 4,019
Items not affecting cash:		
Amortization	2,822	2,500
Loss on disposal of assets	1	-
Stock-based compensation	1,850	3,115
Investment tax credits	-	(1,656)
Income tax provision	294	219
Changes in non-cash operating working capital	3,992	(1,963)
	10,405	6,234
Financing		
Proceeds from shares issued	97	801
Repurchase of shares	(2,708)	-
Repayment of long-term debt	(2)	(2)
	(2,613)	799
Investing		
Acquisitions of capital assets	(4,064)	(3,222)
Acquisition of PetroNet Systems Inc., net of cash acquired	-	106
Earnout PetroNet Systems Inc.	(946)	-
Proceeds on disposal of capital assets	4	18
Changes in non-cash working capital	-	(550)
	(5,006)	(3,648)
Increase in cash and cash equivalents	2,786	3,385
Cash and cash equivalents, beginning of year	9,753	6,368
Cash and cash equivalents, end of year	\$ 12,539	\$ 9,753
Supplemental Disclosure of Cash Flow Information		
Income taxes paid	-	-
Interest received	(534)	(298)
Components of cash and cash equivalents		
Cash	2,035	1,176
Cash equivalents	10,504	8,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

1. Nature of operations:

Zedi 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.

Zedi 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.

On June 20, 2007 the Company changed its name from zed.i solutions inc. to Zedi Inc.

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 year ended December 31, 2007 the Company did not recognize any items of other comprehensive income (loss) or accumulated other comprehensive income.

The Company's financial assets and financial liabilities are classified and measured as follows:

- Cash and cash equivalents are classified as held for trading and are measured at fair value. Gains and losses related to periodic revaluation are recorded in net income.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Accounts payable, accrued liabilities and IERD loan payable are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

2. Changes in accounting policies, continued:

(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, Zedi® (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 and zed.i solutions® (USA) inc are dormant and have no operations.

The financial statements have been prepared using the same accounting policies and methods of application as in the prior year, except for the adoption of new accounting requirements as described in Note 2.

(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, stock-based compensation, acquisition earnout provision and the recoverable amounts for receivables, inventories, capital assets, intangible assets, deferred development costs, future income taxes, and goodwill are the more significant items subject to estimates in these consolidated financial statements.

(c) Cash and cash equivalents

The Company considers all balances with banks and highly liquid investments with original maturities of three months or less to be cash equivalents.

3. Significant accounting policies, continued:

(d) Inventory

Inventories of raw materials and consumable supplies are valued at the lower of cost and replacement cost. Inventories of work-in-progress and finished goods are valued at the lower of cost and net realizable value.

(e) Revenue recognition

Revenues from the Company's product lines are recognized as follows and when the ability to collect is reasonably assured. Revenue from the well-test product-line is 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.

Revenue from the PetroNet fees are recorded in the month in which the services are provided and revenue for the Roughneck software product is recorded in two parts: the software license fee is recorded at the time the software module is delivered and the software maintenance fees are recorded in the month in which the services are provided.

(f) Foreign exchange

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. At each balance sheet date foreign denominated accounts payable and accounts receivable are revalued at the foreign exchange rate in effect at such date.

(g) 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.

3. Significant accounting policies, continued:

(h) 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 ("SRED") 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.

(i) Guarantees

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

(j) 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:

(k) Stock-based compensation

The Company has the following stock-based compensation plans:

1. Stock option 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

2. Deferred share unit and restricted share unit plans for employees: The Company has deferred share unit plan ("DSU") and restricted share unit plan ("RSU") which allow for settlements in cash or shares at the holder's option, and are accounted for using the market value of the underlying stock at the grant date. The Company's compensation expense is recognized on a straight-line basis over the vesting period. Adjustments to compensation expense for employment vesting requirements are accounted for in the period when they occur.

3. Deferred share unit and restricted share unit plans for executive: The Company has deferred share unit plan ("DSU") and restricted share unit plan ("RSU") which allow for settlements in cash or shares at the holder's option, and are accounted for using the market value of the underlying stock at the grant date. The Company's compensation expense is recognized when the related executive services are rendered. Adjustments to compensation expense for employment vesting requirements are accounted for in the period when they occur.

4. Deferred share unit plan for non-employee directors: The Company has a deferred share unit plan ("DSU") 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 value of the liability is re-measured each period based on the current market value of the underlying stock at period end and any changes in the liability are recorded as compensation expense each period.

(l) 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	Declining balance	30%
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Automotive	Declining balance	10% to 30%
Leasehold Improvements	Straight-line	7 Years

3. Significant accounting policies, continued:

(m) *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 that the development for the new products occurs. 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 operations and 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.

(n) *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)

(o) *Goodwill*

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets acquired. Goodwill is assessed for impairment at least annually or when circumstances change. The impairment is based on management's best estimate of the fair value of the reporting unit's goodwill compared with its carrying value.

(p) *Earnings per Share*

Basic earnings per share is determined by dividing the net income by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share is calculated using the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments.

4. Inventories:

	December 31, 2007	December 31, 2006
Raw materials and consumable supplies	\$ 2,028,546	\$ 2,439,539
Finished goods	4,262,906	4,537,050
Work In Progress	188,255	187,890
	\$ 6,479,707	\$ 7,164,479

5. Capital assets:

December 31, 2007	Cost	Accumulated amortization	Net book value
Office furniture and fixtures	\$ 867,966	\$ 527,442	\$ 340,524
Equipment	912,816	717,244	195,572
Computer hardware	2,255,975	1,481,184	774,791
Computer software	1,697,564	1,601,633	95,931
Automotive	82,135	42,581	39,554
Leasehold Improvements	191,483	85,235	106,248
	\$ 6,007,939	\$ 4,455,319	\$ 1,552,620

December 31, 2006	Cost	Accumulated amortization	Net book value
Office furniture and fixtures	\$ 729,929	\$ 456,704	\$ 273,225
Equipment	841,561	658,996	182,565
Computer hardware	1,947,080	1,241,747	705,333
Computer software	1,501,966	1,358,108	143,858
Automotive	84,948	32,105	52,843
Leasehold Improvements	141,946	58,312	83,634
	\$ 5,247,430	\$ 3,805,972	\$ 1,441,458

As at December 31, 2007, computer hardware with a cost of \$104,482 and a net book value of \$5,658 (2006 - \$8,083) are assets held under capital lease.

6. Deferred development costs:

December 31, 2007	Cost	Accumulated amortization	Net book value
Deferred Development Costs	\$ 6,119,298	\$ 2,404,437	\$ 3,714,861
	\$ 6,119,298	\$ 2,404,437	\$ 3,714,861

December 31, 2006	Cost	Accumulated amortization	Net book value
Deferred Development Costs	\$ 3,215,817	\$ 1,076,019	\$ 2,139,798
	\$ 3,215,817	\$ 1,076,019	\$ 2,139,798

During 2007 the Company recognized the benefit of \$240,000 related to SRED investment tax credits for qualifying expenditures of previous years. Of this amount, \$214,000 was recorded as a reduction of deferred development costs, \$26,000 was recorded as a reduction of capital assets.

7. Intangible assets:

December 31, 2007	Cost	Accumulated amortization	Net book value
Purchased Software	\$ 559,317	\$ 559,317	\$ -
Intellectual Property	4,119,034	1,263,235	2,855,799
Developed Software	1,386,954	851,751	535,203
Workforce	467,000	451,375	15,625
Patents and Trademarks	168,930	37,805	131,125
	\$ 6,701,235	\$ 3,163,483	\$ 3,537,752

December 31, 2006	Cost	Accumulated amortization	Net book value
Purchased Software	\$ 559,317	\$ 559,317	\$ -
Intellectual Property	4,094,034	918,711	3,175,323
Developed Software	1,331,954	480,321	851,633
Workforce	467,000	363,875	103,125
Patents and Trademarks	125,507	28,109	97,398
	\$ 6,577,812	\$ 2,350,333	\$ 4,227,479

8. Goodwill:

	2007	2006
Balance, beginning of year	\$8,480,134	\$7,932,186
Earnout provision (Note 10(d))	946,578	-
Adjustment to purchase price allocations (Note 14(c))	1,713,650	-
Acquisition of PetroNet Systems Inc. (Note 10(d))	-	547,948
Balance, end of year	\$11,140,362	\$8,480,134

9. Long-term debt:

	December 31, 2007	December 31, 2006
Debt related to the Industry Energy Research and Development ("IERD") loan payable, Natural Resources Canada, through its program, IERD has sponsored the Company's flow control research and development. The loan commenced repayment when the product was commercially viable. The Company is required to repay the loan based on 1.5% of gross revenues from product sales with any remaining balance due September 30, 2009. Payments are due no later than 30 days after the end of June and December, with interest on overdue amounts at the Bank of Canada prime rate plus 2%. The loan is unsecured. During year ended December 31, 2007 the Company made loan payments of \$1,257 (December 31, 2006-\$2,287)	59,904	61,161
	59,904	61,161
Less current portion	1,300	1,732
Long-term portion	\$ 58,604	\$ 59,429

10. 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:

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Number	Amount	Number	Amount
Balance outstanding, beginning of year	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 10(c))	-	-	1,467,361	2,201,042
Stock options exercised (note 10(b))	232,678	162,297	1,804,147	1,314,318
Issued pursuant to acquisition of PetroNet, net of share issuance costs (note 10(d))	-	-	720,000	1,030,403
Issuance of RSU and DSU	-	-	-	754,000
Repurchased shares (note 10(e))	(3,833,100)	(2,114,039)	-	-
Balance outstanding, end of year	98,254,427	\$53,309,883	101,853,849	\$55,260,565

(b) *Stock options exercised:*

During the year ended December 31, 2007, 232,678 stock options were exercised for proceeds of \$162,297 (2006-1,804,147 stock options were exercised for proceeds of \$1,314,318).

(c) *Roughneck.ca Inc. earnout*

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 Zedi Inc.

10. 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 the Company. 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 the Company common shares and 75% in cash, with the portion paid in the Company 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 the Company 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>
	1,114,747
<i>Financed by:</i>	\$
Cash	77,947
Shares issued	<u>1,036,800</u>
Total purchase consideration	1,114,747

The board of directors approved the calculation of the earnout as part of the purchase price in the acquisition of PetroNet, the payments of the earnout were made on June 27, 2007 and September 24, 2007. The total earnout approved for payment was \$579,243, which was paid as cash. An additional \$367,336 was accrued which was approved and paid out on January 31, 2008.

(e) Repurchase of shares

The Company commenced a normal course issuer bid on May 17, 2007, pursuant to which up to 5,101,676 common shares in the capital of the Company (5% of the issued and outstanding common shares at the time of commencement of the bid) can be repurchased by the Company and cancelled over a maximum one year period. As of December 31, 2007 the Company has acquired 3,833,100 common shares for \$2,707,989 pursuant to the normal course issuer bid, which have been cancelled. The Company allocates the cost of repurchasing these shares to share capital in the amount equal to its assigned value and any excess is recorded in contributed surplus.

10. Share capital, continued:

(f) Stock options outstanding:

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

During the year ended December 31, 2007, a total of 1,469,739 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>December 31, 2007</u>		<u>December 31, 2006</u>	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	10,222,763	\$ 1.33	9,143,357	\$ 1.41
Granted	1,469,739	0.62	4,306,496	1.02
Exercised	(232,678)	0.41	(1,804,147)	0.44
Expired/Cancelled	(2,527,638)	1.38	(1,422,943)	1.92
Outstanding, end of year	8,932,186	\$ 1.20	10,222,763	\$ 1.33
Options exercisable, end of year	3,705,209		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
\$0.21-\$0.49	282,357	0.3 yrs	\$0.42	266,357	\$0.42
\$0.50-\$1.00	4,509,225	3.2 yrs	\$0.79	1,027,890	\$0.91
\$1.01-\$2.00	2,967,706	1.8 yrs	\$1.46	1,419,247	\$1.47
\$2.01-\$2.88	1,172,898	1.0 yrs	\$2.31	991,715	\$2.31
\$0.20 - \$2.88	8,932,186	2.3 yrs	\$1.20	3,705,209	\$1.46

10. Share capital, continued:

(g) *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	4.32%	4.08%
Expected life in years	3.0	3.0
Expected Volatility	51%	62%
Weighted average fair value of options granted	\$0.22	\$0.44

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

The Company maintains a 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 year, the Company did not issue any DSUs (2006 – \$7,601) in director fee compensation. The Company has an obligation under the DSU plan at December 31, 2007 of \$3,611 (2006 - \$7,221).

(i) *Deferred share unit and Restricted share unit plans for employees*

On August 3, 2007 the Company adopted an employee DSU and RSU. The restricted share plan provides that RSUs may be granted to employees, officers, directors and consultants of the Company. An RSU is exercisable into one common share entitling the holder to acquire the common share for no additional consideration or to receive the equivalent amount in cash. Restricted share units vest over a period of up to three years. During the year, the Company issued 548,758 (2006 – nil) RSUs.

10. Share capital, continued:*(j) Deferred share unit and Restricted share unit plan for executive*

In September 2006 the Company issued an aggregate of 250,000 DSUs and 400,000 RSUs in respect of signing bonus compensation. The Company has recorded under the DSU plan nil (2006-\$290,000) and recorded under the RSU plan nil (2006-\$464,000).

11. Contributed Surplus:

	December 31, 2007	December 31, 2006
Balance, beginning of year	\$4,063,000	\$2,222,000
Stock-based compensation expense	1,832,000	2,354,000
Fair value of options exercised	(67,000)	(513,000)
Restricted Share Unit Plan	21,000	-
Repurchase of shares	(594,000)	-
Balance, end of year	\$5,255,000	\$4,063,000

12. Reconciliation of earnings per share amounts:

The following table sets forth the reconciliation of basic and diluted earnings per share for the year ended December 31:

	2007	2006
Net Income	\$ 1,446,000	\$4,019,000
Weighted average number of common shares outstanding – basic	100,719,181	100,247,769
Net Shares assumed issued	180,233	321,902
Weighted average number of common shares outstanding – diluted	100,899,414	100,569,671
Earnings per share:		
Basic	\$0.01	\$0.04
Diluted	\$0.01	\$0.04

13. Revenue:

During the year ended December 31, 2007, the Company generated approximately 0.2% (2006- 4.7%) of its revenue in the US, 99% (2006- 95%) in Canada, 0.1 % (2006 – 0.1%) in the Middle East and 0.7% (2006 – 0.2%) in other geographic regions. The Company's operations and assets are primarily located in Canada.

14. Income taxes:

(a) *Future Income Tax Assets*

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

(b) *Expected tax rate:*

The expected effective tax rate for a public company in Alberta is approximately 32% in 2007 and 32% in 2006.

	2007	2006
Combined basic Canadian federal and provincial income tax rate	32%	32%
Expected combined Canadian federal and provincial tax payable based on above rates	\$560,000	\$1,360,000
Non-deductible items	900,000	1,150,000
Creation and reversal of temporary differences	(1,173,000)	2,634,000
Utilization of loss carry forwards	-	(1,610,000)
Change in valuation allowance	(207,000)	(3,377,000)
Rate Changes	214,000	62,000
Consolidated income tax provision	\$ 294,000	\$ 219,000

The Company provided a valuation allowance against the future income tax assets based on the Company's evaluation of the likelihood of realization of these assets based on positive and negative evidence. The Company will continue to evaluate and examine the valuation allowance on a regular basis.

14. Income taxes, continued:

(c) *Net future tax asset:*

Future income taxes arise from temporary differences which are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2007 and 2006 are presented below:

	December 31, 2007	December 31, 2006
Future tax assets and (liabilities):		
Non-capital losses carried forward Canada	\$ 1,260,000	\$ 1,496,000
Scientific research tax pools and credits	1,819,000	2,267,000
Intangible assets	(844,000)	-
Canadian exploration and development tax pools	810,000	940,000
Foreign exploration and development tax pools	2,013,000	2,335,000
Financing fees	39,000	75,000
Reorganization costs	140,000	166,000
Capital assets, differences between net book value and undepreciated capital cost	203,000	640,000
Other	118,000	98,000
Total	5,558,000	8,017,000
Less valuation allowance	(3,050,000)	(3,742,000)
Net future tax asset	\$ 2,508,000	\$ 4,275,000

The valuation allowance at December 31, 2007 is primarily in respect of Canadian and Foreign exploration and development tax pools. These pools are not subject to expiry, however the amounts are only deductible against income from prescribed activities.

During the fourth quarter 2007, the Company recorded a \$1,714,000 increase to Goodwill, a \$1,214,000 decrease to future tax asset and a \$499,000 adjustment to the future tax provision. This adjustment relates to prior period acquisitions that did not reflect a future income tax impact for a temporary difference.

The non-capital losses carried forward expire between 2010 and 2016 as follows:

2010	\$ 3,251,199
2014	296,294
2015	613,546
2016	173,955
	<u>\$4,334,994</u>

14. Income taxes, continued:

(d) Investment Tax Credits:

During 2007 the Company recognized the benefit of \$240,405 (2006 - \$2,031,000) related to SRED Investment tax credits for qualifying expenditures of previous years. The full amount, (2006 - \$375,000) was recorded as a reduction of deferred development costs and equipment and no amount (2006 - \$1,656,000) was recorded as the reduction of research and development expense.

15. Financial instruments:

Fair values:

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, IERD loan payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

Credit risk:

At December 31, 2007, no customer represented a significant percentage of total accounts receivable. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing with financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Foreign exchange risk:

The Company earns revenue and records accounts receivable and sales leases receivable in foreign currency and translates these amounts to Canadian dollars at the time of these transactions. The Company does not use derivative instruments to mitigate the effects of foreign exchange changes between the recording date of the accounts receivable or sales leases receivable and the receipt of cash. The accounts receivable are short-term in nature. The sales leases receivable are of a longer term and are subject to fluctuations in the exchange rate of the US dollar. The effect of the foreign exchange changes have not been significant and foreign exchange gains and losses are included in income as they occur.

16. Credit Facilities

The Company has credit facilities of \$5,000,000 to cover the possibility of its 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.

17. Commitments:

Operating leases:

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

2008	\$ 680,000
2009	678,000
2010	693,000
2011	690,000
2012	173,000
	<hr/>
	\$ 2,914,000

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

18. Comparative Figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

19. Subsequent Events:

(a) Acquisition J&J Oilfield Ltd.

On January 8, 2008 the Company completed the acquisition of all issued and outstanding shares of J & J Oilfield Ltd. ("J & J") by the wholly owned subsidiary, Zedi Canada Inc. effective January 1, 2008. The purchase price is comprised of an upfront payment and an earnout portion to a maximum aggregate payout of \$5 million. The amount of the upfront payment at closing was \$3 million, which was paid in cash. Based on the achievement of 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 million, payable in cash and/or Zedi shares. The earnout performance targets have been set based on expected future growth from the performance level of J & J at the time of the acquisition. On an annual basis, following each fiscal year, a calculation will be completed based on a normalized EBITDA (Earnings Before Income Taxes Depreciation and Amortization) for the J & J operations and the growth over the prior year's performance. The maximum earnout will be achieved when EBITDA growth averages about 15% per year over the five year period.

(b) Petronet Earnout

On January 31, 2008 the Company paid out the remaining earnout of \$720,757 (\$367,336 from 2007 and \$353,421 from 2008) which was paid by cash of \$395,757 and 260,000 shares.

20. Future Accounting Changes

(a) Capital Disclosures

In fiscal 2008, the Company will be required to adopt the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section -1535 – Capital disclosures. Under the requirements of new standard, the Company will disclose information about its objectives, policies and processes for managing capital, quantitative information about what the Company regards as capital and information regarding its compliance with any externally imposed capital requirements and the consequences of any non-compliance. The Company anticipates that the main impact to its financial statements will be additional disclosures.

(b) Financial Instruments Presentation and Disclosures

In fiscal 2008 the Company will be required to adopt the CICA Handbook Sections 3862 – Financial instruments – disclosures, and 3863 – Financial instruments – presentation. These new Sections are a replacement of and represent a revision and enhancement to Section 3861- Financial instruments – presentation and disclosure, adopted by the Company in the current year. Under the requirements of the new standards, the Company will disclose information about the significance of financial instruments for its financial position and performance and qualitative and quantitative information about its exposure to risks arising from financial instruments and management's objectives, policies and processes for managing such risks. The Company anticipates that the main impact to its financial statements will be additional disclosures.

(c) Going Concern

In fiscal 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its financial statements arising from the accounting pronouncement.

(d) Inventories

On January 1, 2008 the Company will be required to adopt the CICA Handbook Section 3031 – Inventories. The new Section is a replacement of the CICA Handbook Section 3030. Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value, cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, consistent use of either first-in, first out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The Company does not anticipate any material impact to its financial statements arising from the accounting pronouncement.

(e) Convergence with International Financial Reporting Standards

A decision of the CICA Accounting Standards Board (the "AcSB") will require the Company to report under International Financial Reporting Standards in fiscal 2011 though specific requirements of the transition, including confirmation of the implementation date, continue to be under review by the AcSB. The Company is monitoring the requirements but is unable to assess the impact on the financial statements at this time.

20. Future Accounting Changes, continued:

(f) *Goodwill and intangible assets*

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.