

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated October 30, 2006 should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended September 30, 2006 and 2005, and should also be read in conjunction with the audited consolidated financial statements and MD&A for zed.i solutions inc. (the "Company" or "zed.i") for the year ended December 31, 2005.

The interim 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 12: Reconciliation of Non-GAAP Measures. Additional information is available on the Company's website (www.zedisolutions.com) 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.

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1 BUSINESS OVERVIEW

zed.i solutions inc.® (the “Company” or “zed.i”) is a leader in production intelligence management for resource industries – with a principal focus on the energy sector. The zed.i suite of automated systems and expert services enables the monitoring, measurement, analysis and management of production operations intelligence. This helps visionary companies and their people to ensure compliance and realize untapped profitability and performance potential.

Established in 1987, zed.i has collaborated with clients and strategic alliances to champion a new discipline in oil and gas industry performance. With over 74,000 fixed assets managed by customers using our system and over 5,000 installed systems, zed.i has enabled a productive shift in operational performance for more than 220 upstream, midstream and oilfield services clients.

zed.i continues to build its capabilities through intense research and development, strategic alliances and partnerships to meet the growing challenges associated with producing oil and gas in a declining basin and with a looming shortage of skilled labour. In 2006, the Company focused efforts on selling and supporting the Smart-Alek®, an end to end wireless digital flow monitoring system which enables gas producers to access and utilize production in real-time, and the MTRAC®, a production enhancement (optimization) technology, which maximizes production from gas wells. With the acquisition of Roughneck™ zed.i extended its capabilities in 2005 to include a full suite of decentralized production operations management systems and services that enable customers to meet compliance objectives and production workflow demands. The acquisition of PetroNet™ in 2006 aligns with zed.i's strategic direction to enable customers to realize the economic benefits associated with collecting accurate and timely field data. This moves zed.i's customers toward a more disciplined and precise production operations management business model.

2 CORPORATE VISION AND STRATEGY

By the end of the decade, our customers and stakeholders will recognize zed.i as the global leader in production intelligence management for decentralized operations.

Market forces including, skilled labour shortages, increased compliance requirements, declining reserves, increased consumption, and fluctuating commodity prices, present a number of challenges and opportunities for oil and gas producers. In light of these market realities, zed.i believes that producers will make a significant productive shift in the way people work in order to achieve demanding performance objectives.

The productive shift begins when producers have access to real-time production information in order to identify and address problems and opportunities in a more timely and effective manner. zed.i Surveillance portfolio includes the Smart-Alek system and zed.i on-demand global automation solution. These products range in capability from a turn-key electronic flow measurement and monitoring solution (Smart-Alek), through to a hardware diagnostic solution that combines the collection of production, flow and sensor data, with the ability to remotely control field assets (zed.i on demand global automation solution). zed.i Surveillance solutions enable producers to access real-time production data via the Internet, delivering production operations insight to our customers.

Additional productivity gains are accomplished when producers are able to optimize well production and maximize recoverable reserves over the entire life cycle of a well. zed.i Production Portfolio Management solutions, including MTRAC, deliver a robust set of capabilities that are all founded on the principle of building predictable production forecasts. Using these forecasts as a base line, measured production is achieved through the implementation of intelligent site control and automation that acts upon data interpretation. This powerful combination ultimately allows operators to prioritize activities according to economic return.

An increasingly important factor in the oil and gas industry is a producer's ability to accomplish demanding performance and compliance objectives. Through the acquisition of Roughneck in April, 2005, zed.i is now able to deliver a comprehensive operation management software solution to the Canadian oil and gas industry. We are planning to further develop the zed.i Health, Safety and Environment and the zed.i Asset Management modules to meet the growing needs associated with on-going compliance requirements.

Ultimately, zed.i believes that oil and gas producers desire a revenue recognition model that is efficient and accurate, to the day; with no discrepancy between actual production numbers and the revenue that is recognized at the end of the year, month or day. With zed.i PetroNet portfolio, we are positioned to help customers instantly leverage daily production data, taken from zed.i Surveillance solutions, within production accounting and allocation practices. Automating the collection of production data and instantly driving this data into the production accounting system will improve efficiency and accuracy throughout our customers' organizations.

zed.i's Internet development team is creating an on-demand business information service that will enable oil and gas production operations management teams to use intelligent data to guide analytics, reporting, strategic planning and prioritize execution plans.

3 KEY PERFORMANCE INDICATORS

The Company 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, the Company tracks a number of customer specific indicators.

- **RECURRING REVENUE AS A PERCENTAGE OF OPERATIONS AND 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.

- **TOTAL REVENUE**

This measure is an overall indication of our success and progress toward achieving a dominant position in the marketplace. We enable companies and their people to make a productive shift in operational performance by bringing certainty to remote production operations management.

- **PERCENT GROSS MARGIN**

This serves to measure our success in developing and delivering our products and services efficiently and on a scalable basis.

- **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

Historically, Q3 is a slower period for the Industry due to holidays and this year there has been an additional impact with lower natural gas prices. A number of producers began responding to lower gas prices in Q3 with reduced or delayed drilling activity and tightening of capital spending. Our revenue was similarly impacted by these market factors. The cycles in commodity prices are common to the industry and gas prices are expected to rebound, with varying opinions on the timing and extent of such a rebound. Based on market information we expect lower drilling activity through this winter drilling season and continued restraint on capital spending. It is difficult to predict the extent of the impact it may have on our revenues until more budgets and drilling programs have been finalized by our customers.

On September 25, 2006, zed.i announced the appointment of Matthew Heffernan as the new President and CEO for zed.i, coming from his role as Managing Director at TELUS in British Columbia, combining their Business Solutions, Client Solutions, wireline and wireless business units and teams. Please reference that press release for more detailed information on Mr. Heffernan. In addition it was announced at that time that, "As a signing incentive for Mr. Heffernan the board granted 650,000 restricted shares, split between deferred share units and restricted share units." The Company has fully recognized \$754,000 as the cost of the signing incentive in the third quarter.

The Company has been working with its customers over the past year to transition cellular communications from CDPD technology to 1xRTT technology. As result of technology changes by NORTEL and its discontinuation of support of CDPD technology, TELUS had announced that it would be discontinuing CDPD service in 2007. It is therefore necessary to upgrade any Smart-Alek that has a CDPD modem to a 1xRTT modem prior to 2007. As an indication of support for our customers we committed to complete the upgrades on a shared cost basis and as well offered a discount available for new units purchased to minimize the impact of this technology change by NORTEL and TELUS. During the period of upgrading there will be an impact on our overall margins, which was evident in the second quarter and the third quarter continues to show the impact of this program. Approximately 80% of the Smart-Aleks requiring an upgrade have been completed and the balance will be completed prior to year end. This program will continue to have an impact on margins through the last quarter of 2006.

After three months of integrating PetroNet within our organization, we are beginning to realize the synergies associated with the acquisition within our sales and marketing activities. The introduction of the PetroNet on-demand production accounting system into zed.i's capabilities enables us to approach the market through a multi- disciplinary approach. Work has already begun to automate the process of turning production volume data into revenues. We are expecting that as customers begin to use real-time production data to drive production accounting practices, we will begin to see the Industry move toward a more disciplined and precise production operations management business model.

zed.i is committed to delivering exceptional value to our customers by providing quality products that are supported by a dedicated and knowledgeable Customer Service and Support team. Following through on this commitment, our CSS team restructured in order to better meet the needs of our growing number of customers. As we expand our set of capabilities, we will continue to focus our talent on delivering exceptional customer service through implementation and support services that are governed by our quality policy: *zed.i is committed to customer satisfaction by focusing on their needs and expectations. We strive for excellence through the involvement of all employees, at all levels, in improvement.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

4.3 CONSOLIDATED HIGHLIGHTS

THREE MONTHS ENDED SEPTEMBER 30

(\$ in thousands except per-share amounts)

	2006	2005	Change
REVENUE	6,793	5,986	807
GROSS PROFIT	2,993	3,091	(98)
EBITDAS ⁽¹⁾	1,095	1,413	(318)
NET INCOME (LOSS) BEFORE INCOME TAXES	(829)	539	(1,368)
NET INCOME (LOSS)	(850)	2,517	(3,367)
EARNINGS (LOSS) PER SHARE, BASIC AND DILUTED	(0.008)	0.026	(0.034)
CASH FROM OPERATIONS	1,827	644	1,183
FREE CASH FLOW ⁽²⁾	307	1,099	(792)

⁽¹⁾ Earnings before interest, taxes, depreciation, amortization and stock-based compensation is a non-GAAP measure. See Section 12.1 Earnings before interest, taxes, depreciation, amortization and stock-based compensation (EBITDAS).

⁽²⁾ Free cash flow is a non-GAAP measure. See Section 12.2 Free cash flow.

5 SELECTED QUARTERLY INFORMATION

5.1 SUMMARY TABLE

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

(expressed in \$000's except per share and % amounts)

	2006			2005				2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
TOTAL REVENUES	6,793	8,276	11,308	9,348	5,986	5,888	5,194	5,916
RECURRING REVENUE ⁽¹⁾ AS A % OF OPERATIONAL EXPENSES ⁽²⁾	92%	73%	66%	69%	72%	60%	70%	58%
PERCENT GROSS MARGIN	44%	43%	46%	48%	52%	49%	42%	44%
INCOME (LOSS)	(850)	402	2,708	1,813	2,517	349	298	866
INCOME (LOSS) (PER SHARE) – BASIC AND DILUTED	(0.008)	0.004	0.027	0.019	0.026	0.004	0.003	0.009

⁽¹⁾ Recurring Revenue includes all fees that are billed to customers on a recurring basis.

⁽²⁾ Operational expenses include all expenses except for Stock-based compensation and the one time charge for Mr. Heffernan's signing incentive is deducted from Q3 2006.

5.2 COMMENTS ON CORPORATE PERFORMANCE TRENDS

Year over year revenue growth in Q3 2006 is quite a bit less than the trend has been which reflects the slowdown discussed section 4.2 above. Over the long term the Company expects to continue to produce year over year growth and maintain the trends established over the past eight quarters, although growth may be somewhat slower until gas prices recover.

Recurring revenue as a percentage of operational expenses has increased significantly, largely due to the addition of PetroNet in the second quarter. The Company expects there to be some fluctuation in this number due to the fact that our recurring revenue grows in a linear fashion while expenses will fluctuate with changes in the revenue makeup quarter to quarter. Nevertheless, the Company tracks the year over year trend to ensure that it is continuing to take advantage of the scalability of its business model. Management expects the growth trend in recurring revenues as a percentage of operating expenses to continue as it has in the past.

Percent gross margin has dropped somewhat in recent quarters. This trend reflects three main factors; the 1xRTT upgrade program described earlier, the reducing margins on installations and service as field labor costs have gone significantly higher and an increase in the number of volume discounts in our sales as more companies commit to larger numbers. While expected installation pricing increases will improve margins, these influences are expected to continue to have some impact our margins over the next one to two quarters. Over the long term we expect to continue to see margins rise as network fees and software continue to become a greater percentage of our revenue mix.

The income in the third quarter is significantly reduced by a stock-based compensation expense of \$572,000 for the quarter, which is a non-cash expense item that has no impact on operations. Income is lower in the third quarter impacted by lower revenues, the lower margins as referenced above and the one time recognition of the signing incentive to Mr. Heffernan. While we will likely continue to see lower margins in the near term we expect increased revenues over the next two quarters that will enable us to continue to increase income as a percent of revenue.

6 RESULTS OF OPERATIONS – THIRD QUARTER 2006

6.1 REVENUE

The Company generated revenues of \$6,793,000 for the three months ended September 30, 2006 as compared to \$5,986,000 for the three months ended September 30, 2005. This represents an increase of 13% for the quarter. While it is mostly attributed to increased sales of the Company's Smart-Alek-Intelligent Flow Monitoring System, the Company's revenue growth is continuing to diversify through increasing sales of the MTRAC, Roughneck and PetroNet products.

6.2 COST OF SALES

The cost of sales for the three months ended September 30, 2006 was \$3,800,000 resulting in a 44% margin compared to a 52% margin on cost of sales of \$2,895,000 for the same period in 2005. As discussed earlier in sections 4.2 and 5.2, there are three main factors that contributed to the reduced margins: (i) The 1xRTT upgrade program with field work completed on a shared cost basis and discounts offered on new purchases. (ii) The Company contracts out all installation and service work and our costs for this work have significantly increased as field labor costs have gone higher. This is being experienced across the industry and we will be able to pass along some of these increases but service costs are part of our overall solution pricing and competitive pricing needs to be considered. (iii) As the Company has matured and increased its market penetration many of our clients are increasing volume commitments that introduce some volume discounts into the pricing. As the number of volume discounts increases compared to full price sales our margins reduce slightly. We expect this trend to continue as our volumes continue to increase. Increases in installation pricing will recover some lost margin.

Overall our product mix impacts total margins and the Company continues to expect that over the long term our margins will increase as recurring revenue and software become a larger proportion of our revenue mix.

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, 2006 were \$403,000, which is greater than the same period for 2005 by \$71,000. Operating expenses have remained fairly flat, reflecting the scalability of the business but there are some increases related to the PetroNet acquisition and salary increases. Operating expense, as a percentage of revenue was 6% for the quarter ended September 30, 2006, as compared to 6% for the same quarter in 2005. We do expect to see some gradual increase in operating expenses as we are experiencing increasing salary expectations as the Alberta labor market continues to be very hot.

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 \$1,238,000 for the third quarter ended September 30, 2006, an increase of \$63,000 compared to the same quarter last year. SG&A expense as a percentage of revenue was 18% for the quarter ended September 30, 2006 compared to 20% for the same quarter in 2005.

6.5 RESEARCH AND 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 (R&D) costs are reduced by any scientific research tax credits.

The Company takes a conservative approach in capitalizing development costs. In the three years prior to 2005 it expensed all development costs. This was considered appropriate because the Company was developing a new product that it had not sold before and the Company had significant losses and relatively low working capital. With the significant market acceptance and growth in earnings experienced in 2004 as well as the current strong working capital position, the Company began to defer a portion of development costs effective January 1, 2005, to be amortized over a three-year period. The three-year period is consistent with the historical lifecycle of prior product versions and more appropriately matches the product revenue stream with its development costs.

Research and Development 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 expense was \$257,000 in the third quarter 2006 up from \$171,000 in the third quarter of the prior year. The total R&D expense as a percentage of revenue was 4% for the quarter ended September 30, 2006 as compared to 3% for the same quarter in 2005. The Company capitalized \$477,000 of development costs in the third quarter. The overall increase in R&D activity primarily reflects the additional development activity related to the integration of the Roughneck and PetroNet technologies, launching of the On-Demand Global Automation solution and a new Smart-Alek model.

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 \$1,333,000 for the quarter ended September 30, 2006, compared with \$382,000 for the quarter ended September 30, 2005. The increase for the third quarter is primarily due to a one time compensation expense related to RSU/DSU units issued in the third quarter of 2006 in the amount of \$754,000.

6.7 NET INCOME (LOSS)

The overall net loss for the third quarter, 2006 was \$(850,000) or \$(0.008) per share compared to \$2,517,000 or \$0.026 per share for the same period in 2005 for an overall decrease of \$3,367,000. A future income tax expense amount of \$21,000 was recognized in the quarter. The before tax net loss in the third quarter was \$(829,000) an overall decrease of \$1,368,000 over the third quarter of 2005.

The primary factors, as discussed earlier, for the lower net income were lower gross margins and a one time compensation expense related to the signing incentive for Mr. Heffernan. These, as well, both occurred in a historically slower quarter, with reducing activity across the industry as well. As discussed in section 6.2 we expect to see some continuing near term impact but still expect to be able to continue a trend of increasing margins.

6.8 AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS

In the third quarter the amortization of capital and intangible assets was \$669,000, of which \$243,000 related to intangible assets acquired in the purchase of Menex, Roughneck and PetroNet and are non-recurring. Amortization of deferred development costs accounted for \$221,000 and patents accounted for \$2,000. The balance of \$203,000 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 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. During the nine months ended September 30, 2006, the Company recognized the benefit of \$1,154,000 in previously unrecognized tax losses carried forward.

7 FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between September 30, 2006 and June 30, 2006.

<i>(\$ thousands)</i>	September 30, 2006	June 30, 2006	Change	Explanation
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	10,161	9,043	1,118	The growth in cash is primarily a result of continuing positive cash flow from operations.
ACCOUNTS RECEIVABLE	6,287	8,472	(2,185)	Normal collection efforts following a peak revenue period in the first quarter.
INVENTORIES	7,758	7,411	347	Increase in sales activity and begin stocking for increased activity for the fall of 2006.
CURRENT LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	3,080	2,854	226	DSU and RSU compensation expense of \$761
DEFERRED REVENUE	2,746	3,217	(471)	Invoicing of contracts is yearly, but revenue is deferred and recognized monthly. This amount fluctuates depending upon the timing of contract renewals.
WORKING CAPITAL ⁽¹⁾	18,577	18,951	(374)	Continues to be fairly stable and strong.
CAPITAL ASSETS	1,494	1,441	53	Normal budgeted purchases for continued operations.
OTHER ASSETS				
INTANGIBLES	4,477	4,744	(267)	Normal amortization.
GOODWILL	8,480	8,480		

⁽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, 2006 was \$10,161,000, an increase of \$1,118,000 from the June 30, 2006 balance. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

<i>Quarters ended September 30 (\$ thousands)</i>	2006	2005
OPENING CASH	9,043	6,056
CASH PROVIDED BY OPERATIONS	1,827	644
CASH PROVIDED BY FINANCING	1	219
CASH USED IN INVESTING	(710)	(341)
CLOSING CASH	10,161	6,578

The increase in cash from operations reflects the continued growth in earnings. The cash from financing is from the exercise of options throughout the period. The cash used in investing is related to the normal capital purchases throughout the period, which is more fully described in a later section

The following table presents summarized working capital information.

<i>Quarters ended September 30 (\$ thousands)</i>	2006	2005
CURRENT ASSETS	24,404	17,635
CURRENT LIABILITIES	(5,827)	(4,125)
WORKING CAPITAL	18,577	13,510
CURRENT RATIO	4.19	4.28

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 second 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. This will minimize the peaks and gradually level the receipts and deferred revenue throughout the year, although due to activity cycles the Company expects higher cash levels in the first three quarters of 2006.

The Company had capital spending of \$727,000 during the third quarter funded from the cash flow from operations. Spending was as follows:

Computer Hardware	\$ 71,000
Computer Software	\$ 118,000
Furniture and Equipment	\$ 13,000
Leasehold Improvements	\$ 43,000
Patents and Trademarks	\$ 5,000
Deferred Development Costs	\$ 477,000

CREDIT FACILITIES

The Company has credit facilities of \$5,000,000. 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. zed.i is currently not using any of the credit facility available.

FINANCIAL INSTRUMENTS

The company does not currently have any outstanding financial instruments.

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.

<i>(\$ thousands)</i>	Total	Within 1 year	1 to 3 years	3 to 5 years
LONG-TERM DEBT	63	2	6	6
OPERATING LEASES	3,033	563	1,200	1,270
TOTAL	3,096	565	1,206	1,276

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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 to achieve projected sales and production levels, as sales increase.

OUTSTANDING SHARE INFORMATION

<i>Quarter ending September 30</i>	2006
COMMON SHARES	
OPENING SHARES	100,472,166
STOCK OPTIONS EXERCISED	9,166
CLOSING SHARES	100,481,332

9 CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

9.1 CRITICAL ACCOUNTING ESTIMATES

zed.i's significant accounting policies are described in Note 2 of its annual 2005 consolidated financial statements and the 2005 MD&A.

9.2 CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in Note 3 of the Company's annual 2005 consolidated financial statements and the 2005 MD&A.

10 OUTLOOK

zed.i will continue to market a robust set of products and services that are designed to meet the growing demands of integrated oil and gas producers. We are focusing on delivering solution enhancements that bring greater certainty and insight to our Customers. Providing our Customers with an intuitive set of functional production operations solutions and applications enables producers to manage their own production operations with greater certainty of optimal performance.

zed.i Roughneck solution enhancements will deliver improved functionality to our Health, Safety and Environment (HSE) and Asset Management modules. Customers will benefit as the enhancements deliver functionality that improves their ability to make decisions and report with greater certainty and predictability in order to meet compliance and performance objectives. As we begin the work of integrating PetroNet on demand production accounting application with the Smart-Alek system, our Customers will start to recognize timesavings and quality assurance associated with using real-time, accurate production data to drive production accounting practices. We continue to integrate zed.i on demand global automation within the FINE[®] system, which provides Customers with the ability to centralize production monitoring, surveillance data and control functions within a single application. In combination, our marketing, development and Customer service efforts are focused on ensuring that our Customers experience an improved ability to accomplish their demanding performance objectives in an Industry that is experiencing critical labor shortages.

Additionally, zed.i intends to invest technical resources to continue work on defining its intellectual property and applying for new patents associated with the FINE System-Intelligent Network Architecture. This will further strengthen the protection of our ongoing investment in the FINE System, which creates a robust wireless network management operating system for zed.i customers.

We anticipate that over the next few quarters we will see continued impact of lower gas prices on our revenues. Nevertheless, we expect to continue year over year growth but at lower rates until gas prices recover significantly.

11 BUSINESS RISKS AND UNCERTAINTY

The business risks and uncertainty are described in the Company's 2005 MD&A. The business risks and uncertainty are not materially changed from what is disclosed in the 2005 MD&A.

12 RECONCILIATION OF NON-GAAP MEASURES

12.1 EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AMORTIZATION AND STOCK-BASED COMPENSATION (EBITDAS)

The Company reports EBITDAS because it is a key measure used by management to evaluate the performance of the business. The Company also believes EBITDAS 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 EBITDAS 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.

EBITDAS 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 EBITDAS. While EBITDAS 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 EBITDAS as reported by zed.i may not be comparable in all instances to EBITDAS reported by other companies.

The following is a reconciliation of EBITDAS with Net Income.

<i>Three months ended September 30 (\$ thousands)</i>	2006	2005
NET INCOME	(850)	2,517
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	669	465
(GAIN)LOSS ON DISPOSAL OF ASSETS	-	-
FUTURE INCOME TAXES	21	(1,978)
INTEREST	(78)	27
STOCK-BASED COMPENSATION	1,333	382
EBITDAS	1,095	1,413

12.2 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 zed.i 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 by investing activities, 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:

<i>Three months ended September 30 (\$ thousands)</i>	2006	2005
EBITDAS	1,095	1,413
CASH INTEREST (EARNED)	(78)	27
CASH AVAILABLE FOR DISCRETIONARY SPENDING AND CAPITAL EXPENDITURES	1,017	1,440
CAPITAL EXPENDITURES		
PROCEEDS FROM DISPOSAL OF CAPITAL ASSETS	17	2
DEFERRED DEVELOPMENT	(477)	(317)
PURCHASE OF OTHER CAPITAL ASSETS	(250)	(26)
FREE CASH FLOW	307	1,099