February 19, 2008

The following Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the years ended December 31, 2007 and 2006, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2007.

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 12: 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

1 Business Overview

Zedi Inc. (the "Company" or "Zedi") specializes in production operations management, delivering systems and services that help oil and gas producers to better manage people, assets and information. We help our customers increase earnings and decrease operating costs, through improved utilization of human, physical and fiscal 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 has over 8,100 installed systems and in excess of 115,000 assets managed with our proprietary 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 tools available on www.smart-alek.com, 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

Our vision is to be a global leader in the management of decentralized production operations and we will accomplish that through five strategic imperatives. They are:

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*
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 2007

Zedi achieved several milestones throughout 2007 in a challenging market and with volatile commodity pricing that impacted the Oil & Gas industry, our primary customer base.

2007 events and activities included:

- Execution of an agreement to acquire J&J Oilfield Ltd. for a maximum purchase price of $5 million. J&J brings to Zedi an ability to deliver a new level of production operations management that will positively impact its customers’ earnings and customer experience. This transaction was completed effective January 1, 2008.

- The corporate adoption of PetroNet Production Accounting by Crescent Point Energy Trust and Duvernay Oil Corp. was announced in January. The adoption by these two organizations and others resulted in a 17% overall increase in our PetroNet customer base during Q1.

- Industry acceptance of Zedi’s Smart-Skid solution continues to grow. Increased focus and campaigns around the Smart-Skid product received positive results from our customers as they deliver significant savings during well completion. The lower margins on Smart-Skid impacted overall Q2 margins.

- The introduction and delivery of a calendar of customer training sessions delivered in a classroom setting and on-line instructor led training. The sessions were filled to capacity with high satisfaction ratings from participants. We believe corporate adoption of our solutions will be directly impacted by the ability of our customers to effectively utilize the tools we deliver.

- A launch of our new brand in early February with events for customers, analysts and employees. The launch was designed to provide a strategic repositioning of Zedi products and solutions to better reflect the offerings and the value delivered for production operations practices in the oil and gas industry.

- The restructuring of our executive leadership team in line with our strategic direction and in a continuing drive to position the organization for long term success was completed at the beginning of Q3.
    - Focus on international expansion. Zedi has been exploring options for international expansion over the last two years. One of the key shifts in the restructuring of the executive team was to create a portfolio that is primarily focused on international expansion. Although there were no international revenues budgeted for 2007, we believe the international market has the potential to contribute in a significant way to both revenues and earnings in the future.
    - Appointment of an executive to focus on international execution.
    - Increased activity and focus on business development. A highly qualified and experienced executive joined Zedi to lead our Corporate Development initiatives with specific focus on mergers & acquisitions, government relations and educational institutions.

- The rollout of a balanced scorecard and variable compensation program using Revenue as the gating factor with measurements related to Business Efficiency, Customer Excellence, Team, Technical Development & Project Delivery, Business Development and Investor Relations.

- Normal Course Issuer Bid announced May 14, 2007. Zedi announced the intent to purchase up to 5% of the total outstanding common shares on the open market and exercised the right to purchase as allowed under the terms of the Normal Course Issuer Bid.

- Rollout of a strategy to implement our technology on manually monitored sites 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 impact of a shift in customer' contracting directly with service companies for the installation and service of Zedi products. While this had a negative impact on the installation and service revenue in 2007, it reflects a natural evolution as Zedi becomes the de facto standard for a number of these customers. While we recognize the negative impact we support these initiatives as it provides a more flexible installation and service model for our customers.

- Growth occurred in some segments of the business. In spite of an overall weakness in performance as a result of challenging market conditions, the company did experience growth in its newer product lines.
    - eTube sales increased by 98% year over year.

  - The PetroNet customer base growth continued throughout the year with an overall increase in the number of customers of 50%.
  - There was a 27% increase in the number of Zedi SCADA projects executed in 2007.

- The October 31, 2007 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.

- Expanded oil solution still to be completed. The launch of Zedi SCADA marked the initial entry into the oil market. True penetration will come as a result of an expanded oil solution that delivers higher value to producers.

- A 17% reduction in gas well completions year over year resulted in reduced demand for monitoring equipment and consequently lower revenues in 2007.

- Zedi exited 2007 with over 100% coverage of operating expenses by recurring revenues. One of the key metrics that Zedi monitors are recurring revenues as a percentage of operating expenses. The strength of Zedi's business model is especially highlighted during this current period of market unrest experienced in 2007 and which is expected to continue in 2008.

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:

	December 31, 2007		December 31, 2006	
	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	

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	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	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

Deferred Share Units

A deferred share unit (“DSU”) 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. Directors’ fees are currently $24,000 per year.

The total outstanding DSUs as at December 31, 2007 is $3,611.

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 2007 was $1,850,000, 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 2007.

Annual Option Grant Date	Number of options outstanding as at Dec. 31, 2007	Exercise Price	Expensed in 2007	Remaining to be expensed in future periods.
January 29, 2004	266,357	$0.42	$ 2,630	$ -
January 6, 2005	1,126,895	$2.30	217,636	3,407
November 1, 2005[1]	2,334,458	$1.46	830,650	697,494
December 13, 2006	3,058,552	$0.91	420,984	821,516
November 13, 2007	1,355,614	$0.53	13,174	287,636
Various dates[2]	790,310	$1.46[3]	347,013	207,244
Option Totals	8,932,186		$1,832,087	$ 2,017,297
DSU Grant Date	**Number of DSUs as at Dec. 31, 2007**	**Price**	**Expensed in 2007**	**Remaining to be expensed in future periods.**
June 30, 2006	2,143	$0.48	$ (1,018)	-
September 29, 2006	3,879	$0.48	(1,843)	-
December 31, 2006	1,579	$0.48	(750)	-
September 25, 2006	250,000	$1.16	-	-
DSU Totals	257,601		$ (3,611)	-
RSU Grant Date	**Number of RSUs as at Dec. 31, 2007**	**Price**	**Expensed in 2007**	**Remaining to be expensed in future periods.**
September 25, 2006	400,000	$1.16	$ -	$ -
August 2, 2007	24,743	0.63	3,248	12,341
August 31, 2007	9,657	0.60	966	4,828
October 31, 2007	6,000	0.47	235	2,585
November 13, 2007	508,358	0.53	16,839	252,590
RSU Totals	948,758		$ 21,288	$ 272,344
All stock-based comp. totals			$1,849,764	$ 2,289,641

[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 a large number of options that were expensed in 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, with approximately 99% 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).

The cost of Stock-based compensation is primarily associated with its dilutive effect on share value 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 Consolidated Highlights

($ in thousands except per-share amounts)	Three Months ended December 31				Annual			
	2007	**2006**	**Change**	**% Change**	**2007**	**2006**	**Change**	**% Change**
Revenue	8,619	10,760	(2,141)	(20%)	29,121	37,137	(8,016)	(22%)
Gross Profit	4,920	5,326	(406)	(1%)	15,562	17,096	(1,534)	(9%)
EBITDA(1)	1,886	3,809	(1,923)	(50%)	4,089	6,502	(2,413)	(37%)
Net Income before income taxes	1,279	3,132	(1,853)	(59%)	1,740	4,238	(2,498)	(59%)
Net income	1,798	1,759	39	2%	1,446	4,019	(2,573)	(64%)
Net income per share, basic	0.02	0.02	-	-	0.01	0.04	(0.03)	(75%)
Net Income per share, diluted	0.02	0.02	-	-	0.01	0.04	(0.03)	(75%)
Cash from operations	2,542	13	2,529	-	10,405	6,234	4,171	67%
Free cash flow(2)	1,383	3,631	(2,248)	(62%)	2,353	6,649	(4,296)	(65%)

(1) Earnings before interest, taxes, depreciation and amortization is a non-GAAP measure. See Section 12.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)
(2) Free cash flow is a non-GAAP measure. See Section 12.2 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 December 31				Annual			
	2007	**2006**	**Change**	**% Change**	**2007**	**2006**	**Change**	**% Change**
EBITDA[1]	2,309	4,504	2,195	(49%)	5,939	9,617	(3,678)	(38%)
Net Income before income taxes[1]	1,702	3,827	(2,125)	(56%)	3,590	7,353	(3,763)	(51%)
Net Income per share before taxes, basic[1]	0.02	0.04	(0.02)	(50%)	0.04	0.07	(0.03)	(43%)
Net Income per share before taxes, diluted[1]	0.02	0.04	(0.02)	(50%)	0.04	0.07	(0.03)	(43%)
[1]This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure.								

For specific comments on trends and financial performance please see sections 5.3 and 6 below.

5 Selected Annual and Quarterly Information

5.1 Summary Table

The following table sets forth selected three-year consolidated financial information and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007:

(expressed in $000's except per share amounts)	**2007**	**2006**	**2005**
Total Revenues	**29,121**	37,137	26,416
Income Before Taxes	**1,740**	4,238	2,597
Income Before Taxes per share - basic	**0.02**	0.04	0.03
Income Before Taxes per share - diluted	**0.02**	0.04	0.03
Income After Taxes	**1,446**	4,019	4,977
Income After Taxes per share - basic	**0.01**	0.04	0.05
Income After Taxes per share - diluted	**0.01**	0.04	0.05
Total Assets	**48,230**	47,394	38,493
Total Long-term Liabilities	**59**	59	61

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			
(expressed in $000's except per share and % amounts)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenues	**8,619**	**7,197**	**4,870**	**8,435**	10,760	6,793	8,276	11,308
Recurring Revenue(1)	**2,795**	**2,531**	**2,381**	**2,123**	2,220	1,764	1,651	1,425
Recurring Revenue(1) as a % of Operation Expenses(2)	**107%**	**111%**	**96%**	**94%**	90%(5)	93%	73%	57%
Recurring Revenue(1) as a % of Total Cash Expenditures(3)	**76%**	**76%**	**69%**	**66%**	65%(5)	68%	54%	44%
Percent Gross Margin	**57%**	**54%**	**49%**	**52%**	49%	44%	43%	46%
Income (Loss)	**1,798**	**321**	**(989)**	**316**	1,759	(850)	402	2,708
Income (Loss) (per share) - basic and diluted	**0.02**	**0.00**	**(0.01)**	**0.00**	0.02	(0.01)	0.00	0.03
Income before taxes excluding the stock-based compensation expense(4)	**1,702**	**1,005**	**(645)**	**1,528**	3,827	504	675	2,347
Income per share before taxes excluding stock-based compensation expense - basic and diluted(4)	**0.02**	**0.01**	**(0.01)**	**0.01**	0.04	0.01	0.01	0.02

Note: (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.
(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
(4) This is a non-GAAP measure. See Section 12 for reconciliation to the nearest GAAP measure.
(5) The$1,656,000 reduction in R&D expense in Q4 2006 as described in section 6.5 of the 2006 annual MD&A is not included in Operational Expenses for this percentage calculation.

5.3 Comments on Corporate Performance Trends

The revenue for 2007 represented a change from the positive growth trend the Company had established over the past seven years. The lower revenue in 2007 is primarily a result of the significant slow down in the natural gas drilling activity experienced in Canada. The Company anticipates activity in the industry to continue the 2007 level of reduced activity well 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.

On a quarterly basis the Company experienced the most significant impact in the second quarter before rebounding somewhat in the third and fourth quarters.

Recurring revenue continues to reflect a very steady growth trend increasing from $1,425,000 in Q1 2006 to $2,795,000 for Q4 of 2007. This trend is expected to continue. Recurring revenue as a percentage of operational expenses continues to grow year over year as well. The Company expects there may be some fluctuation in this percentage 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. The amount of recurring revenue in 2006 was $7,060,000 increasing to $9,830,000 in 2007, compared to $4,434,000 for 2005. For 2007 the percent of recurring revenue to operating expenses is 102%, growing from 77% in 2006, 66% in 2005, 51% in 2004 and 27% in 2003. Management expects growth of recurring revenue as a percentage of operating expense to continue.

The Company also tracks recurring revenue as a percentage of total cash requirements, which is calculated by combining the investment in R&D and capital assets with the operating expenses. The trend tracks relatively close to the prior measure, looking solely at operation expenses. For 2007 the percent of recurring revenue to total cash expenditures was 72%, growing from 57% in 2006, 49% in 2005, 46% in 2004 and 25% in 2003. Management expects this level of growth trend for recurring revenue to continue. This trend remains positive, validating the stability and strength of the business model and demonstrating significant financial stability for the future.

Percent gross margin has seen some steady growth in 2007. The Company expects there to be some volatility in the percentage gross margin on a quarterly basis as a result of fluctuations in revenue mix. There is a significant margin difference between hardware, software and recurring fees and therefore, if the revenue mix changes between periods the total gross margin percentage can vary. This volatility is not expected in the year over year comparison and with continued growth in the recurring revenue there is an expectation that the yearly trend for gross margin percentage will continue to be positive.

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

6 Results of Operations – Annual 2007

6.1 Revenue

The Company is reporting a year over year decrease in revenues in the fourth quarter and for the year and refers the reader to section 4.2 for reference to a number of factors that impacted revenue in 2007.

The Company generated revenues of $8,619,000 for the three months ended December 31, 2007 compared to $10,760,000 for the three months ended December 31, 2006 and annual revenues of $29,121,000 for the year ended December 31, 2007 compared to $37,137,000 for the year ended December 31, 2006. This represents a decrease of 20% for the fourth quarter and 22% decrease for the year. The decrease in revenue is mostly in respect of hardware sales and related installation services.

6.2 Cost of Sales

The cost of sales for the three months ended December 31, 2007 was $3,699,000 resulting in a 57% margin (the percent gross margin calculation excluding intercompany transactions would be 55%) compared to a 49% margin on cost of sales of $5,434,000 for the same period in 2006. The increase in margins is attributable to the PetroNet production accounting business and growth of the recurring revenue stream for network service fees, which has higher margins. In addition, the Company began to deliver a new model of the Smart-Alek in 2007, which has reduced costs resulting in higher margins. The strength of the Canadian dollar also increased margins as it reduced the cost of foreign currency denominated materials.

The cost of sales for the year ended December 31, 2007 was $13,559,000 resulting in a 53% margin compared to a 46% margin on cost of sales of $20,041,000 for 2006. Over half of the increased margins for the year are due to the transition to 1xRtt technology during 2006 that resulted in significantly lower margins overall. For more information related to this program please refer to the Company's MD&A for the second and third quarters of 2006. The yearly increase in percentage gross margins also resulted from some of the same factors referred to above in respect of the quarterly increases.

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 December 31, 2007 were $482,000, which is lower than the same period for 2006 by $42,000 or 8%. The operating expenses for the year ended December 31, 2007 were $1,731,000, which is higher than 2006 by $24,000 or 1%. The very stable operating expenses reflect the scalability of our business model. Due to the slow down experienced in the industry in 2007 there as well were efforts to find additional efficiencies in our operations, which resulted in a small decrease in the fourth quarter. Operating expense, as a percentage of revenue was 5.6% for the fourth quarter ended December 31, 2007, as compared to 4.9% for the same quarter in 2006. Operating expense, as a percentage of revenue was 5.9% for the year ended December 31, 2007, as compared to 4.6% for 2006.

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 $1,868,000 for the fourth quarter ended December 31, 2007. This expense was $174,000 more than during the quarter ended December 31, 2006. SG&A expense as a percentage of revenue was 21.7% for the quarter ended December 31, 2007 as compared to 15.7% for the same quarter in 2006. The SG&A expense for the year ended December 31, 2007 was $6,886,000, which was $480,000 more than 2006. As a percentage of revenue SG&A was 23.6% for the year ended December 31, 2007 as compared to 17% for 2006. The increase in the SG&A expense for the year is primarily due to additional sales and marketing staff and increased costs for expanded international marketing efforts.

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 development costs, to be amortized over a five-year period. The five-year period is consistent with the historical lifecycle of prior product versions and 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 products as well as 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 $1,046,000 in the fourth quarter 2007 up from $743,000 in the fourth quarter of the prior year. The Company capitalized $784,000 of development costs in the fourth quarter and expensed $262,000 of the costs. For the year ended December 31, 2007, the total R&D cost was $4,024,000, increasing from $2,920,000 in the prior year. The Company capitalized $3,018,000 of development costs in the year and expensed $1,006,000. The overall increase in R&D activity primarily reflects the additional development activity related to the integration of new technology from the acquisitions of Roughneck and PetroNet and the development of new products to continue to fill out a full operations management optimization solution suite.

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 $423,000 for the quarter ended December 31, 2007 and $1,850,000 for 2007, compared with $695,000 for the quarter ended December 31, 2006 and $3,115,000 for 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 fourth quarter, 2007 was $1,798,000 or $0.02 per share compared to $1,759,000 or $0.02 per share for the same period in 2006 for an overall increase of $39,000 or 2%. A future income tax recovery amount of $519,000 was recognized in the quarter. For the year ended December 31, 2007 the overall net income was $1,446,000 or $0.01 per share compared to $4,019,000 or $0.04 per share for 2006. A future income tax provision amount of $294,000 was recognized in the year. During the fourth quarter 2007, the Company recorded a $1,714,000 increase to Goodwill, a $844,000 decrease to future tax asset and a $870,000 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.

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 fourth quarter of 2007 was $1,279,000 and for the year it was $1,740,000. With stock-based compensation factored out, net income before taxes was $1,702,000 in the fourth quarter and $3,590,000 for the year.

6.8 Amortization of Capital and Intangible Assets

In the fourth quarter the amortization of capital and intangible assets was $731,000, of which $196,000 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 $338,000 and patents accounted for $3,000. The balance of $194,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

For the year ended December 31, 2007 the amortization of capital and intangible assets was $2,822,000, of which $803,000 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 $1,328,000 and patents accounted for $10,000. The balance of $681,000 is for the amortization of other capital assets that are required for the day-to-day operations of the Company.

6.9 PetroNet Earnout

During the second quarter of 2006 the Company completed the acquisition of all issued and outstanding shares of PetroNet Systems Inc. ("PetroNet"). The acquisition was for a maximum purchase price of $2.5 million. The purchase price was comprised of an upfront payment and an earnout portion. The amount of the upfront payment at closing was approximately $1.1 million, which was paid 75% in Zedi common shares and 25% in cash. The portion of the payment in Zedi common shares was based on a share price of $1.25 per share. Based on the achievement of revenue performance targets over the subsequent two years, the 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 Zedi common shares and 75% in cash, with the portion paid in Zedi common shares valued at $1.25 per share. The Company paid out $579,242 in cash to PetroNet shareholders in 2007 as payment pursuant to the earnout. An additional, $367,321 has been accrued for payment in 2008 based on earnout calculations to the end of 2007.

6.91 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 twelve months ended December 31, 2007, the Company recognized a provision of $294,000 in previously unrecognized tax losses.

7 Financial Condition

The following are the significant changes in the consolidated balance sheets between December 31, 2007 and December 31, 2006.

($ thousands)	December 31, 2007	December 31, 2006	Change	Explanation
Current Assets				
Cash and cash equivalents	**12,539**	9,753	2,786	The growth in cash is primarily a result of continuing positive cash flow from operations.
Accounts receivable	**6,579**	9,757	(3,178)	The reduction in receivables reflects the lower sales activity compared to the end of 2006 and increased efforts to turn receivables quicker.
Inventories	**6,480**	7,164	(684)	The reduction in inventory levels was primarily due to lower sales volume and efforts to increase inventory turns.
Current Liabilities				
Accounts payable	**797**	2,020	(1,223)	In line with expectations
Accrued liabilities	**1,344**	1,169	175	In line with expectations
Deferred revenue	**2,877**	1,680	1,197	Invoicing of contracts are yearly, but revenue is deferred and recognized monthly. This amount fluctuates depending upon the timing of contract renewals.
Working Capital[1]	**20,759**	21,962	(1,203)	In line with expectations
Capital Assets	**1,552**	1,441	111	Increase is in line with expectations and growth.
Other Assets				
Intangibles	**3,538**	4,227	(689)	Reducing as result of depreciation.
Goodwill	**11,140**	8,480	2,660	Increase is due to PetroNet Systems Inc. earnout and future income tax adjustments

(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 December 31, 2007 was $12,539,000, an increase of $2,786,000 from the December 31, 2006 balance. None of the Company's cash or cash equivalents is invested in asset-backed commercial paper. The Company's cash flows from operating, financing and investing activities, as reflected in the Consolidated Statements of Cash Flow, are summarized below:

	Years ended December 31	
($ thousands)	**2007**	**2006**
Opening cash	**9,753**	6,368
Cash provided by operations	**10,405**	6,234
Cash (used) in financing	**(2,613)**	799
Cash (used) in investing	**(5,006)**	(3,648)
Closing cash	**12,539**	9,753

The increase in cash from operations reflects the continued growth in earnings. The cash used in financing is related to the repurchase of shares pursuant to the Normal Course Issuer Bid. The cash used in investing is related to normal course capital purchases throughout the year, which are more fully described in a later section and the acquisition of PetroNet.

The following table presents summarized working capital information.

	Years ended December 31,	
($ thousands)	**2007**	**2006**
Current assets	**25,777**	26,831
Current liabilities	**5,018**	4,869
Working capital	**20,759**	21,962
Current ratio	**5.14**	5.51

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 were 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.

Capital expenditures were $4,064,000 during 2007 funded from cash flow from operations. Capital expenditures were:

Computer Hardware	$ 340,000
Computer Software	$ 213,000
Vehicles	$ 8,000
Furniture & Equipment	$ 138,000
Manufacturing Tools & Equipment	$ 74,000
Leasehold Improvements	$ 50,000
Patents and Trademarks	$ 43,000
Intangibles	$ 80,000
Deferred Development Costs	$ 3,118,000

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	2,914	680	1,371	863
Total	2,974	681	1,373	866

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 development costs.

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

Outstanding Share Information

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

9 Critical Accounting Estimates

9.1 Critical Accounting Estimates

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.

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 and cash equivalents.

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.

Revenue recognition

Revenues from the Company's product lines are recognized as follows and 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 Smart-Alek 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 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.

Financial Instruments

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

Foreign exchange

Foreign currency transactions are translated into Canadian dollars at the time of the transaction. At each balance sheet date foreign denominated accounts payable and accounts receivable are translated to the Canadian dollar value in effect at such date.

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.

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 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 that includes 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 value.

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

Guarantees

On January 1, 2003, the Company adopted CICA Accounting Guideline 14, "Disclosure of Guarantees" ("AcG-14"), that requires the disclosure of significant guarantees regardless of whether the Company will have to make any payments under the guarantees and in addition to the accounting and disclosure requirements of CICA Handbook 3290, "Contingencies". There are no material guarantees, which require disclosure.

Research & development costs

The Company is engaged in research and development work. Research costs are expensed as incurred. Development costs are expensed in the period incurred, unless they meet the criteria for deferral established by 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.

Deferred development costs

Development costs incurred on new product development projects, which, in the Company's view, have clearly defined market prospects, are deferred and amortized on a straight-line basis over 5 years, commencing in the year in which the new products begin generating revenue. The ability to recover the carrying value of deferred development costs is based on estimates, 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.

Stock-based compensation

The Company has three forms of stock-based compensation outstanding, stock options, deferred share units and restricted share units. The Company accounts for stock options using the fair-value based method beginning January 1, 2004. 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. In accordance with Handbook Section 3870, the Company has applied the fair-value based method to all employee stock options granted after January 1, 2002, but has not restated all prior periods.

Purchased intangible assets

Purchased intangible assets are recorded at cost and amortized on a straight-line basis over a period of up to twelve years. The net carrying amount of purchased intangible assets is reviewed regularly 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 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 – Workforce (2 years)
- Intangibles – Workforce 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)
- Intangibles – Patents and Trademarks (17 years)

10 Outlook

In 2008, Zedi expects to advance on many fronts and is planning to:

- Make further progress toward 100% coverage of total cash requirements by recurring revenues.

- Continue investing in research & development to enhance existing products and to introduce new solutions such as:

    - an electronic flow measurement (EFM) device that is targeted at wells that have low economics (production from 1-10 e3m3/day), relatively few maintenance issues and easy access to wells. This new EFM solution is particularly suited to sites that do not have power or communications access as it is powered by battery and does not have telemetry. The launch of of this product early in 2008 will enable Zedi to offer a solution for most types of well characteristics and economics; and
    - Other products and services in line with its strategies.

- Continue focus on maintaining and building core markets; diversifying market reach through an international strategy; and increase its Tier 1 customer base.

- Increase efficiencies we believe will contribute to the improvement of earnings performance.

- Anticipate and react appropriately to changes in the marketplace as a result of mergers and acquisitions by customers.

- Complete the integration of J&J Oilfield operations.

- Increase market penetration through expanded solution lines that deliver production operations management efficiencies designed to both reduce cost and increase revenues of Zedi customers.

11 Business Risks and Uncertainty

The Company is exposed to a number of risks in the normal course of business that have the potential to affect its performance. The Company seeks to avoid unnecessary risk and initiates policies and processes to limit any significant risk as much as practical.

Fair values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The carrying value of sales leases receivable does not differ significantly from its fair value.

Credit risk

At December 31, 2007, no single 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 from non-payment.

Foreign exchange risk

The Company earns some revenue and records accounts receivable in foreign currency and translates 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 and the receipt of cash. The accounts receivable are short-term in nature. The effect of the foreign exchange changes has not been significant and foreign exchange gains and losses are included in income as they occur. The Company purchases some components priced in US dollars and Japanese Yen. The Company is subject to some risk in the fluctuation of foreign currencies but accounts payable are short-term in nature reducing the risk. During 2006 the Company significantly reduced this risk by negotiating a contract denominated in Canadian dollars with our largest Japanese supplier. The Company has on occasion purchased some forward contracts for Yen to fix rates on orders that are in process for components from Japan.

Regulatory Risks

The Company is subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on the Company. The Company may also be subject to regulation in foreign countries in connection with certain of its business activities. Changes in the regulatory environment could adversely affect the ability of the Company to attain its corporate objectives. There can be no assurance that foreign countries will not adopt laws or regulatory requirements that could adversely affect the Company.

Competition

The markets for remote production operations management will remain highly competitive. While the Company believes that it currently has unique products and has patents that protect its technology, there can be no assurance that competitors will not emerge in the near to medium term with comparable products. There are several very large companies involved in remote data management processes. Such companies have more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources than the Company. It is the Company's intention to establish marketing and distribution alliances with several of these companies but there can be no assurance that such alliances will be formed.

Dependence on a Market that has Historic Volatility

The Company's products are sold into the oil & gas industry, which historically has had significant shifts in activity and spending due to fluctuations in commodity prices. The Company's revenues are primarily dependant upon spending by oil & gas producers. A reduction in spending by producers could have a material adverse effect on the Company's business, results of operations and financial condition.

Reliance Upon the Internet

A portion of the Company's revenue is dependent on the continued use and expansion of the Internet. Use of the Internet has grown dramatically, but no assurance can be given of the continued use and expansion of the Internet as a medium of communication and commerce. A decrease in the demand for Internet services or a reduction in the currently anticipated growth for such services could have a material adverse effect on the Company's business, financial condition and results of operations.

Liability Risks

The Company is subject to a variety of potential liabilities connected with its business operations, including potential liabilities and expenses associated with possible product defects. These risks could expose the Company to substantial liability for personal injury, wrongful death, property damage and other damages.

Although the Company has obtained insurance against certain of these risks, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Dependence on Key Personnel

The success of the Company is dependent on management and the performance of key personnel in the areas of finance, product development, marketing and sales. There is intense competition for qualified personnel and there can be no assurance that the Company will be able to attract and retain qualified personnel. The failure to attract or loss of any such personnel could adversely affect the success of the business for the period of time required to recruit a replacement.

Management of Growth

The Company's rapid growth places a significant strain on its financial, operational and managerial resources. While the Company engages in strategic and operational planning to adequately manage anticipated growth, there can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to fully manage its growth. There can be no assurance that the Company will be able to manage its growth successfully. Any inability of the Company to manage its growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

12 Reconciliation of Non-GAAP Measures

12.1 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 reductions and other sources and uses of cash, which are disclosed in the consolidated financial statements. 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.

	Years ended December 31	
($ thousands)	**2007**	**2006**
Net Income	**1,446**	4,019
Amortization of capital assets and intangibles	**2,822**	2,500
Gain on disposal of assets	**1**	-
Future income taxes	**294**	219
Interest	**(474)**	(236)
EBITDA	**4,089**	6,502

	Three Months ended December 31	
($ thousands)	**2007**	**2006**
Net Income	**1,798**	1,759
Amortization of capital assets and intangibles	**731**	768
Future income taxes	**(519)**	1,373
Interest	**(124)**	(91)
EBITDA	**1,886**	3,809

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 consolidated statement of cash flows. Free cash flow is not a calculation based on GAAP and should not be considered an alternative to the consolidated statement 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:

	Years ended December 31	
($ thousands)	**2007**	**2006**
EBITDA	**4,089**	6,502
Stock-based compensation	**1,850**	3,115
Cash interest (paid)	**474**	236
Cash available for discretionary spending and capital expenditures	**6,413**	9,853
Proceeds from disposal of capital assets	**4**	18
Deferred development	**(3,018)**	(2,143)
Purchase of other capital assets	**(1,046)**	(1,079)
Free Cash Flow	**2,353**	6,649

	Three Months ended December 31	
($ thousands)	**2007**	**2006**
EBITDA	**1,886**	3,809
Stock-based compensation	**423**	695
Cash interest (paid)	**124**	91
Cash available for discretionary spending and capital expenditures	**2,433**	4,595
Capital expenditures		
Proceeds from disposal of capital assets	**-**	1
Deferred development	**(784)**	(564)
Purchase of other capital assets	**(266)**	(401)
Free Cash Flow	**1,383**	3,631

12.3 Net Income before Taxes with Stock-based Compensation Excluded

The Company reports net income before taxes with stock-based compensation excluded 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:

	Years ended December 31	
($ thousands)	**2007**	**2006**
Net Income before Taxes	**1,740**	4,238
Stock-based compensation	**1,850**	3,115
Net Income before Taxes Excluding Stock-based Compensation	**3,590**	7,353

	Three Months ended December 31	
($ thousands)	**2007**	**2006**
Net Income before Taxes	**1,279**	3,132
Stock-based compensation	**423**	695
Net Income before Taxes Excluding Stock-based Compensation	**1,702**	3,827

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

The Company reports income per share before taxes with stock-based compensation excluded 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:

($)	Years ended December 31	
	2007	**2006**
Income per Share, basic and diluted	**0.01**	0.04
Future Income Tax per Share	**0.01**	0.00
Income per Share before Taxes, basic and diluted	**0.02**	0.04
Stock-based compensation per share	**0.02**	0.03
Income per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted	**0.04**	0.07

($)	Three Months ended December 31	
	2007	**2006**
Income per Share, basic and diluted	**0.02**	0.02
Future Income Tax per Share	**0.00**	(0.01)
Income per Share before Taxes, basic and diluted	**0.02**	0.03
Stock-based compensation per share	**0.01**	0.01
Income per Share Before Taxes Excluding Stock-based Compensation, Basic and Diluted	**0.02**	0.04