

CONSOLIDATED BALANCE SHEETS

As at (in thousands)	June 30 2005 (unaudited)	December 31 2004 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,056	\$ 4,376
Accounts receivable	5,297	5,599
Inventories	6,482	4,325
Sales leases receivable, current portion	-	207
Prepaid expenses and deposits	146	345
ITC receivable	81	-
	18,062	14,852
Sales leases receivable, long-term portion	-	366
Capital assets	1,608	1,120
Deferred development costs	684	-
Intangibles (Note 5(c))	4,713	4,155
Goodwill (Note 5(c))	5,181	3,394
	\$ 30,248	\$ 23,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,457	\$ 1,314
Deferred revenue	2,135	-
Current portion of long-term debt	1	4
	4,593	1,318
Long-term debt (Note 4)	64	65
	4,657	1,383
Shareholders' equity		
Share capital (Note 5)	49,275	47,567
Contributed surplus	1,523	791
Deficit	(25,207)	(25,854)
	25,591	22,504
	\$ 30,248	\$ 23,887

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(in thousands, except share and per share amounts)	Three Months June 30, 2005 (unaudited)	Three Months June 30, 2004 (unaudited)	Six Months June 30, 2005 (unaudited)	Six Months June 30, 2004 (unaudited)
		(Restated Note 3)		(Restated Note 3)
Sales	\$ 5,888	\$ 4,241	\$ 11,082	\$ 8,002
Cost of sales	2,979	2,563	5,982	4,841
Gross profit	2,909	1,678	5,100	3,161
Expenses				
Operations	394	250	790	525
Sales, general and administrative	1,197	630	1,912	1,180
Stock-based compensation	406	91	767	529
Research and development	163	348	358	688
	2,160	1,319	3,827	2,922
	749	359	1,273	239
Amortization of capital assets and intangibles	417	102	690	195
Gain (loss) on disposal of assets	2	0	(1)	(10)
Interest	(19)	59	(63)	130
	400	161	626	315
Net Income (loss)	349	198	647	(76)
Deficit, beginning of period, as previously reported:	(25,556)	(26,415)	(25,854)	(26,141)
Adjustment for change in accounting policy (Note 3)	-	(410)	-	(410)
Deficit, beginning of period, as restated	(25,556)	(26,825)	(25,854)	(26,551)
Deficit, end of period	\$ (25,207)	\$ (26,627)	\$ (25,207)	\$ (26,627)
Net Income (loss) per common share - Basic and Diluted	0.004	0.003	0.007	(0.001)
Weighted average number of common shares - Basic	95,099,655	65,357,443	96,002,764	63,784,400

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Three Months June 30, 2005 (unaudited)	Three Months June 30, 2004 (unaudited)	Six Months June 30, 2005 (unaudited)	Six Months June 30, 2004 (unaudited)
Cash Provided by (used in)		(Restated Note 3)		(Restated Note 3)
Operations				
Net income (loss)	\$ 349	\$ 198	\$ 647	\$ (76)
Adjustments for:				
Amortization	417	102	690	195
Gain on disposal of assets	2	-	(1)	(10)
Stock-based compensation	406	91	767	529
Changes in non-cash operating working capital	2,175	815	2,031	1,618
	3,349	1,206	4,134	2,256
Financing				
Proceeds from shares issued	321	561	367	1,186
Repayment of long-term debt	-	(544)	(4)	(1,155)
Repayment of capital lease obligations	-	-	-	(1)
	321	17	363	30
Investing				
Acquisitions of capital assets	(817)	(76)	(1,539)	(105)
Acquisition of Roughneck.ca Inc., net of cash acquired (Note 4(c))	(1,287)	0	(1,287)	-
Proceeds on disposal of capital assets	2	0	9	19
	(2,102)	(76)	(2,817)	(86)
Increase in cash	1,568	1,147	1,680	2,200
Cash and cash equivalents, beginning of period	4,488	2,409	4,376	1,356
Cash and cash equivalents, end of period	\$ 6,056	\$ 3,556	\$ 6,056	\$ 3,556
Supplemental Disclosure of Cash Flow Information				
Interest paid	\$ -	\$ 60	\$ -	\$ 141
Components of cash and cash equivalents				
Cash	2,566	1,852	2,566	1,852
Cash equivalents	3,490	1,704	3,490	1,704

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH ENDED JUNE 30, 2005 AND 2004

The unaudited interim financial statements for the period ended June 30, 2005 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004, as the interim financial statements do not necessarily conform in all respects to the note disclosure requirements of Canadian generally accepted accounting principles for annual financial statements.

The interim financial statements are prepared in accordance with the same accounting policies and methods of their application as the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2004.

[1] NATURE OF OPERATIONS

zed.i solutions inc. (the Company) is engaged in the development, production and sale of high technology products primarily for the energy sector. Activities are directed from the Company's head office in Calgary, Canada with additional sales and service offices in Edmonton and Grande Prairie Canada.

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

[2] SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

- The consolidated financial statements have been prepared by management and include the accounts of the Company and the Company's wholly-owned subsidiaries, zed.i solutions (Canada) inc., zed.i solutions (USA) inc., Quail Hill Mining Corporation and Roughneck.ca Inc. All significant inter-company accounts and transactions have been eliminated. Quail Hill Mining Corporation is dormant and has no operations.

(B) USE OF ESTIMATES

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

(C) 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 and net income.

(D) STOCK-BASED COMPENSATION

- The Company has two stock-based compensation plans, a stock option plan and an employee share trust. The Company accounts for stock options using the fair value based method beginning

[2] SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) STOCK-BASED COMPENSATION (CONTINUED)

- 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 prior periods.

(E) DEFERRED DEVELOPMENT COSTS

- Deferred development costs incurred on new product development projects which, in the Company's view, have clearly defined market prospects, are deferred and amortized on a straight-line basis over the estimated useful life of respective products, which is 3 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. The effect on the financial statements of changes in such estimates in future periods could be significant.

(F) PURCHASED INTANGIBLE ASSETS

- Purchased intangible assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the respective assets. 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 to operations and an assessment of future cash flows. Intangible assets acquired on the acquisition of WebTech 2000 Inc., D.G. Wehrhahn Company Ltd., Menex Technologies Inc. and Roughneck.ca Inc. are being amortized as follows:

INTANGIBLES – PURCHASED SOFTWARE	(5 YEARS)
INTANGIBLES – WORKFORCE	(2 YEARS)
INTANGIBLES – WORKFORCE MENEX	(3 YEARS)
INTANGIBLES – INTELLECTUAL PROPERTY MENEX	(12 YEARS)
INTANGIBLES – WORKFORCE, CUSTOMER RELATIONSHIPS ROUGHNECK	(3 YEARS)
INTANGIBLES – DEVELOPED SOFTWARE AND PATENTROUGHNECK	(5 YEARS)

[3] CHANGE IN ACCOUNTING POLICY AND RESTATEMENT

Effective January 1, 2004, Canadian accounting standards require recognition of compensation expense arising out of stock based compensation plans using the fair value based method. The Company adopted this requirement, retroactively without restatement of prior periods, as permitted by the CICA Handbook Section 3870. Under the fair value based method, compensation cost is measured at fair value at the date of the grant and expensed over the vesting period. Using the fair value method, with respect to options issued since January 1, 2002, the Company's compensation costs were \$410,000 applied to the deficit for options issued in prior years.

Restatement of 2004 Quarterly financial statement information:

The stock based compensation expense (a non-cash expense item) was calculated incorrectly for each of the three 2004 quarterly financial statements. Stock based compensation for the three months ended June 30, 2004, previously reported as \$131,000, has been restated to \$91,000. As a result, net income for the three months ended June 30, 2004, previously reported as \$158,000, has been restated to \$198,000. Similarly, net income per share, for the three months ended June 30, 2004, previously reported as \$0.002, has been restated to \$0.003.

[4] LONG-TERM DEBT

During the Quarter, the Company established a demand revolving credit facility in the amount of \$5,000,000 cover increased cash needs during peak demand periods. Security consists of a general security agreement, creating a security interest in all of the Company's personal property. The interest rate is at Royal Bank Prime plus 1.5%. As of June 30, 2005 the Company had not drawn on the credit facility.

[5] SHARE CAPITAL

(A) AUTHORIZED AND ISSUED SHARES

- The Company is authorized to issue an unlimited number of common voting shares without nominal or par value. The following is a summary of the Company's issued and outstanding common shares:

	Six Months Ended June 30, 2005		Year Ended December 31, 2004	
	Number	Amount	Number	Amount
Balance outstanding, beginning of period	95,564,576	\$ 47,693,244	60,607,467	\$ 30,514,632
Shares issued:				
Issued pursuant to acquisition of Menex	–	–	4,347,780	4,999,947
Issued pursuant to acquisition of Roughneck, net of share issuance costs (note 5(c))	535,714	1,305,544	–	–
Debentures converted	–	–	21,970,500	4,394,100
Stock options exercised (note 5(b))	621,453	394,145	2,113,829	916,733
Shares issued pursuant to Private financing	–	–	6,525,000	6,867,832
Balance outstanding, end of period	96,721,743	49,392,933	95,564,576	47,693,244
Less employee share trust Plan (note 5(f))	–	(118,121)	–	(126,121)
Balance outstanding, end of period	96,721,743	\$ 49,274,812	95,564,576	\$ 47,567,123

[5] SHARE CAPITAL (CONTINUED)

(B) STOCK OPTIONS EXERCISED

- During the six months ended June 30, 2005, 621,453 stock options were exercised for proceeds of \$394,145.

(C) ACQUISITION OF ROUGHNECK.CA INC.

- On April 6, 2005 the Company completed the acquisition of all the issued and outstanding shares of Roughneck.ca Inc. ("Roughneck"). The acquisition of Roughneck was accounted for by the purchase method and the results of operations of Roughneck are included in the consolidated financial statements from April 6, 2005. The purchase price was 50% in cash consideration and 50% in the form of common shares of zed.i. Based on the achievement of 2005 revenue performance targets for Roughneck operations, the Company may be required to pay up to \$4.384 Million over and above the initial payment. This earnout will be paid as 20% cash and 80% in zed.i common shares upon approval by the board of directors. The shares will be valued at the weighted average market value at the time of issuance. The issuance of 535,714 shares of zed.i solutions inc. are accounted for at a weighted average market price of \$2.45 per share for a total value of \$1,312,499. The fair value of the net assets acquired were:

Net assets acquired:	\$
Cash	44,394
Working capital	(49,245)
Property, plant and equipment	34,491
Intangibles	855,000
Goodwill	1,787,266
	2,671,906
Financed by:	\$
Cash	1,359,407
Shares issued	1,312,499
Total purchase consideration	2,671,906

Of the 535,714 shares issued, 45,972 are held in escrow for a period of two years, to be released in equal parts on April 6, 2006 and April 6, 2007.

(D) SHARES HELD IN ESCROW

-The following is a summary of the Company's common shares held in escrow:

Balance outstanding, beginning of period	–
Shares in escrow	1,179,818
Shares released from escrow in the period	(647,905)
Balance outstanding, end of period	531,913

(E) STOCK OPTIONS OUTSTANDING

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

[5] SHARE CAPITAL (CONTINUED)

(E) STOCK OPTIONS OUTSTANDING (CONTINUED)

- The maximum number of options that may be granted to any one individual shall not exceed 5% of the Company's issued and outstanding Common Shares. The options granted under the plan may be exercisable for a period not exceeding five years and may vest at such times, as the Board of Directors may determine at the time of grant.

During the six months ended June 30, 2005, a total of 2,166,834 options were granted. On November 8, 2002, the Company's Board of Directors approved a re-pricing of 1,062,200 options, held by employees who were not executives or officers, at an exercise price of \$0.20.

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

A summary of the plan as at June 30, 2005, is presented below:

	June 30, 2005		December 31, 2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,669,239	\$ 0.55	3,940,367	\$ 0.32
Granted	2,166,834	2.32	2,965,167	0.67
Exercised	(621,453)	0.43	(2,113,829)	0.37
Expired/Cancelled	(39,335)	1.89	(122,466)	1.07
Outstanding, end of period	6,175,285	\$ 1.18	4,669,239	\$ 0.36
Options exercisable, end of period	3,240,372		2,861,072	

	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	1,025,606	1.3 yrs	\$ 0.20	987,276	\$ 0.20	
\$0.21-\$0.49	1,787,845	2.3 yrs	\$ 0.42	1,307,838	\$ 0.42	
\$0.50-\$1.00	575,000	1.1 yrs	\$ 0.50	568,333	\$ 0.50	
\$1.01-\$2.00	663,000	2.5 yrs	\$ 1.60	85,500	\$ 1.50	
\$2.01-\$2.88	2,123,834	2.9 yrs	\$ 2.33	291,425	\$ 2.34	
\$0.20-\$2.88	6,175,285	2.2 yrs	\$ 1.18	3,240,372	\$ 0.57	

[5] SHARE CAPITAL (CONTINUED)

(E) STOCK OPTIONS OUTSTANDING (CONTINUED)

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

	2005	2004
Risk free interest rate	3.00%	4.87%
Expected life in years	3.0	3.0
Volatility	82%	104%

(F) EMPLOYEE SHARE TRUST

- The Company previously established an employee share trust through an interest-free loan of \$1,250,000 to enable the trust to purchase 1,250,000 shares from treasury. Under the terms of the trust deed, the shares vest monthly over a period of five years from the date of the beneficiaries' first day of employment with the Company. The beneficiaries have an option to purchase vested shares from the trust at \$1.00 per share. The loan is repayable by the trust proportionately as shares are transferred to employees. The option period for each beneficiary ends at varying dates upon resignation or termination of employment. Further, the trust agreement provides that 25% of the 1,250,000 shares designated for purchase under the trust agreement expire on each of September 1, 2002 through 2005. The trust agreement also provides that upon expiry of the designated shares, the Company will repurchase such shares at \$1.00 per share.

As at June 30, 2005, all of the 118,121 remaining shares have vested.

A summary of the status of the plan as at June 30, 2005, is presented below:

	June 30, 2005	December 31, 2004
	Number	Number
Balance outstanding, beginning of period	126,121	337,654
Shares issued	(8,000)	(211,533)
Balance outstanding, end of period	118,121	126,121