MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated July 20, 2006 should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three months ended June 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

1 BUSINESS OVERVIEW

zed.i solutions inc.® (the "Company" or "zed.i") is a leader in production intelligence management for resource industries – with a principle 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 consistent 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, combined, present a number of challenges and opportunities for oil and gas producers. In light of these market realities, zed.i believes that producers must 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 growth in sales organically and through acquisitions is 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 SECOND QUARTER

The number of wells drilled in the second quarter was down approximately 20% from Q2 2005, which impacted our sales results. Despite a reduced number of wells drilled, the Company grew its revenue by 41% compared to the second quarter 2005. Historically, Q2 is a slower period for the Industry due to "spring break" and wetter weather. Q2 2006 followed this trend.

Following NORTEL's decision to discontinue support of CDPD technology in favor of the faster and more resilient 1xRtt technology, TELUS Mobility advised that it would be discontinuing CDPD service in 2007. Accordingly, the Company has been working with its customers to help them transition seamlessly to the new technology. As an indication of support for our customers and our commitment to protect the integrity of our services we have offered to complete the upgrades on a shared cost basis. Our transition program includes an offer of pricing at cost for the upgrade and a discount on new units purchased.

During the transition period there will be an impact on margins as evident in the second quarter results. With approximately half of the Smart-Alek's requiring upgrade having been completed and the balance to be completed prior to year-end, some impact on margins will continue through the third quarter and to a lesser extend into the fourth quarter.

The Company experienced further pressure on margins in the second quarter as a result of rising field labor costs being experienced across the industry, which increased our installation and service costs. Adjustments to our installation price will be made to recover this lost margin. In addition, we had a greater percentage of sales in Q2 that were to clients that have committed to larger purchases, which reflect volume discounts that reduce our overall margins. For further discussion on margins refer to Section 6.2.

zed.i continues to invest in areas that will position the Company to continue and accelerate the growth rates that have been established. The investment is focused on two areas, sales and marketing and development of proprietary products and services. As part of this ongoing investment, the Company added 23 new staff in the past three and half months. While this investment in staff has an immediate negative impact on our Net Income, as reflected in Q2 results, the Company believes this will significantly increase Net Income in the future. A number of the staff relate to the recent launch of our On-Demand Global Automation solution, which we expect to have a growing impact through the balance of 2006.

During the second quarter the Company completed the acquisition of all issued and outstanding shares of PetroNet Systems Inc. ("PetroNet"). PetroNet's core asset is an on-demand production accounting application for junior to intermediate Canadian oil and gas producers. The maximum purchase price is $2.5 million, comprised of an upfront payment and an earnout. The amount of the upfront payment at closing was approximately $1.2 million, paid 75% in zed.i common shares and 25% in cash. The portion of the payment in zed.i common shares is based on a share price of $1.25 per share. Dependent on the achievement of revenue performance targets over the next 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 25% in zed.i common shares and 75% in cash, with the zed.i common shares valued at $1.25 per share. The maximum payout is calculated on the basis of a multiple of approximately 3.1 times 2007 earnings.

After three months of integrating PetroNet within our organization, we are beginning to realize the synergies associated with this 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 address the market with 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, the Industry will move toward a more disciplined and precise production operations management business model.

On May 4, 2006, zed.i announced the appointment of Daryl Gilbert to the Board of Directors. Mr. Gilbert brings over 30 years of petroleum engineering, software regulatory experience to zed.i. Mr. Gilbert served as an independent reserves evaluation consultant at Gilbert Laustsen Jung (GLJ) Associates Ltd from 1975-2005. He served as President and CEO of the firm from 1994 until his retirement in 2005. He is a Director for a number of public companies including AltaGas Income Trust, Canetic Resources Trust, Kereco Energy Ltd and Chamaelo Exploration Ltd. His extensive knowledge of the industry and years of experience will add considerably to the depth of the board as we continue to deliver measurable value to our customers by bring certainty to production operations management.

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 this spring 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*.

4.3 CONSOLIDATED HIGHLIGHTS

	THREE MONTHS ENDED JUNE 30		
($ in thousands except per-share amounts)	**2006**	**2005**	**Change**
REVENUE	**8,276**	5,888	2,388
GROSS PROFIT	**3,547**	2,909	638
EBITDA (1)	**725**	749	(24)
NET INCOME BEFORE INCOME TAXES	**127**	349	(222)
NET INCOME	**402**	349	53
EARNINGS PER SHARE, BASIC AND DILUTED	**0.004**	0.004	–
CASH FROM OPERATIONS	**2,593**	3,349	(756)
FREE CASH FLOW (2)	**408**	(928)	1,336

(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.*

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
TOTAL REVENUES	**8,276**	**11,308**	9,348	5,986	5,888	5,194	5,916	4,366
RECURRING REVENUE (1) AS A % OF OPERATIONAL EXPENSES (2)	**70%**	**66%**	69%	72%	60%	70%	58%	61%
PERCENT GROSS MARGIN	**43%**	**46%**	48%	52%	49%	42%	44%	43%
INCOME	**402**	**2,708**	1,813	2,517	349	298	866	318*
INCOME (PER SHARE) – BASIC AND DILUTED	**0.004**	**0.027**	0.019	0.026	0.004	0.003	0.009	0.004*

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

(2) *Operational expenses are all expenses except for stock-based compensation.*

* *Restatement of 2004 Quarterly financial statement information ($000's):*
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 September 30, 2004, previously reported as $174, has been restated to $124. As a result, net income (loss) for the three months ended September 30, 2004, previously reported as $268 has been restated to $318. Similarly, net income (loss) per share, for the three months ended September 30, 2004, previously reported as $0.003 has been restated to $0.004.

5.2 COMMENTS ON CORPORATE PERFORMANCE TRENDS

Revenue continues to demonstrate strong year over year growth. The Company expects to continue to produce year over year growth and maintain the trends established over the past eight quarters. The second quarter has continued the growth trend, with 41% growth year over year. There was a drop in the number of wells drilled in the quarter compared to the same period in 2005 that had a negative impact on sales in Q2.

Recurring revenue as a percentage of operational expenses has increased slightly, which is an indication that in spite of increasing SG&A our recurring revenue is continuing to grow at a faster pace. The Company expects there to be some fluctuation in this number due to the fact that recurring revenue grows in a linear fashion while expenses 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 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 sales increase as a percentage of revenue mix.

The income in the second quarter is significantly reduced by a stock-based compensation expense of $548,000, which is a non-cash expense that has no impact on operations. Income is lower in the second quarter due to lower margins as referenced above and expansion efforts in the addition of 23 new staff. At historical margin levels over the past year, income growth year over year would have been consistent with recent trends. While we will likely continue to see lower margins in the near term due to one time technology transitioning costs and investment in additional staff, we expect that these investments in our customers and our growth with have a positive and lasting impact on future income.

6 RESULTS OF OPERATIONS – SECOND QUARTER 2006

6.1 REVENUE

The Company is reporting consistent year over year revenue growth in the second quarter.

The Company generated revenues of $8,276,000 for the three months ended June 30, 2006 as compared to $5,888,000 for the three months ended June 30, 2005. This represents an increase of 41% 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 June 30, 2006 was $4,729,000 resulting in a 43% margin compared to a 46% margin on cost of sales of $2,979,000 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.

Product mix impacts margins. The Company expects that over the long term recurring revenue and software sales will represent a larger percentage of revenue mix, with resulting positive impact on margins.

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 June 30, 2006 were $383,000, which is lower than the same period for 2005 by $11,000. Operating expenses have remained fairly flat and reflect the scalability of the business. Operating expense, as a percentage of revenue was 5% for the quarter ended June 30, 2006, as compared to 7% for the same quarter in 2005. The consolidation of operations in one facility and integration of Roughneck-Operations Management System has resulted in increased efficiencies. We do expect to see some gradual increase in operating expenses as we are experiencing increasing salary expectations in the highly competitive Alberta labor market.

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 $1,621,000 for the second quarter ended June 30, 2006, an increase of $424,000 compared to the same quarter last year. SG&A expense as a percentage of revenue was 19.6% for the quarter ended June 30, 2006 compared to 20.3% for the same quarter in 2005. The increase in the SG&A expense for the second quarter is primarily due to investments made for the future through strategic staff increases. The investment ultimately positions the Company to continue and accelerate the growth demonstrated over the past five years. This increase in costs is consistent with managements' expectations following the acquisition of PetroNet and increase in sales and marketing staff. In spite of the increase we still saw a decrease as a percentage of revenue and SG&A expenses are expected to continue to decrease over time as a percentage of revenue with anticipated sales growth.

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 $270,000 in the second quarter 2006 up from $163,000 in the second quarter of the prior year. The total R&D expense as a percentage of revenue was 1% for the quarter ended June 30, 2006 as compared to 3% for the same quarter in 2005. The Company capitalized $512,000 of development costs in the second quarter. R&D is the second major area of expansion as we invested in the resources to expand the Company's proprietary products and services. Through development and strategic acquisitions zed.i is further distinguishing itself as the market leader in production intelligence management for decentralized operations. 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 $548,000 for the quarter ended June 30, 2006, compared with $406,000 for the quarter ended June 30, 2005.

6.7 NET INCOME

The net income in the second quarter increased 15% to $402,000 or $0.004 per share compared to $349,000 or $0.004 per share for the same period in 2005. A future income tax amount of $275,000 was recognized in the quarter. The before tax net income in the second quarter was $190,000 an overall decrease of $159,000 or 46% over the second quarter of 2005.

The primary factors, as discussed earlier, for the lower net income were lower gross margins and increased SG&A. These, as well, both occurred in an historically slower quarter, which did not provide as much opportunity to offset the factors. At margins more in line with the last year's average we would have added approximately $500,000 more to the bottom line, maintaining consistent healthy growth in net income year over year. 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 second quarter the amortization of capital and intangible assets was $639,000, of which $290,000 related to intangible assets acquired in the purchase of Menex, Roughneck and PetroNet and are non-recurring. Amortization of deferred development costs accounted for $179,000 and patents accounted for $2,000. The balance of $168,000 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 six months ended June 30, 2006, the Company recognized the benefit of $1,175,000 in previously unrecognized tax losses carried forward.

7 FINANCIAL CONDITION

The following are the significant changes in the consolidated balance sheets between June 30, 2006 and March 31, 2006.

($ thousands)	June 30, 2006	March 31, 2006	Change	Explanation
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	**9,043**	7,217	1,826	The growth in cash is primarily a result of continuing positive earnings.
ACCOUNTS RECEIVABLE	**8,472**	11,814	(3,342)	Normal collection efforts following a peak revenue period in the first quarter.
INVENTORIES	**7,411**	6,126	1,285	Increase in sales activity and begin stocking for increased activity for the fall of 2006.
CURRENT LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**2,854**	3,495	(641)	Normal reduction after increased activity in the first quarter.
DEFERRED REVENUE	**3,217**	3,163	54	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]	**18,951**	18,499	452	Continued growth.
CAPITAL ASSETS	**1,441**	1,333	108	Normal budgeted purchases for continued operations.
OTHER ASSETS				
INTANGIBLES	**4,744**	4,295	449	Increase due to PetroNet Systems Inc. acquisition.
GOODWILL	**8,480**	7,932	548	Increase due to PetroNet Systems Inc. acquisition.

[1] *Working capital 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 June 30, 2006 was $9,043,000, an increase of $1,826,000 from the March 31, 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:

Quarters ended June 30 ($ thousands)	2006	2005
OPENING CASH	**7,217**	4,488
CASH PROVIDED BY OPERATIONS	**2,593**	3,349
CASH PROVIDED BY FINANCING	**139**	321
CASH USED IN INVESTING	**(906)**	(2,102)
CLOSING CASH	**9,043**	6,056

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 and the acquisition of PetroNet.

The following table presents summarized working capital information.

Quarters ended June 30 ($ thousands)	2006	2005
CURRENT ASSETS	**25,024**	18,062
CURRENT LIABILITIES	**(6,073)**	(4,593)
WORKING CAPITAL	**18,951**	13,469
CURRENT RATIO	**4.12**	3.93

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 also resulted in an increase in 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 two quarters of 2006.

The Company had capital spending of $779,000 during the second quarter funded from the cash flow from operations. Spending was as follows:

Computer Hardware	$	72,000
Computer Software	$	83,000
Furniture and Equipment	$	103,000
Leasehold Improvements	$	8,000
Patents and Trademarks	$	1,000
Deferred Development Costs	$	512,000

CREDIT FACILITIES

The Company has line of 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. The Company has currently not drawn on its line of credit.

FINANCIAL INSTRUMENTS

The company does not currently have any outstanding financial instruments.

CASH REQUIREMENTS

The following describes 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	1 to 3 years	3 to 5 years
LONG-TERM DEBT	63	2	6	6
OPERATING LEASES	2,105	510	1,042	1,118
TOTAL	2,168	512	1,048	1,124

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 bear no interest except for overdue 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 development costs.

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

OUTSTANDING SHARE INFORMATION

Quarter ending June 30	2006
COMMON SHARES	
OPENING SHARES	99,623,999
STOCK OPTIONS EXERCISED	128,167
ISSUED FROM TREASURY PURSUANT TO ACQUISITION OF PETRONET	720,000
CLOSING SHARES	100,472,166

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 2005 consolidated financial statements and MD&A.

9.2 CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies are described in Note 3 of the Company's 2005 consolidated financial statements and 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 enable 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 Q3 2006 will follow historic trends, and look forward to focusing our efforts on delivering a robust set of solutions to our Customers throughout the year.

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 AND AMORTIZATION (EBITDA)

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

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

The following is a reconciliation of EBITDA with Net Income.

Three months ended June 30 ($ thousands)	2006	2005
NET INCOME	**402**	349
AMORTIZATION OF CAPITAL ASSETS AND INTANGIBLES	**639**	417
(GAIN) LOSS ON DISPOSAL OF ASSETS	**–**	2
FUTURE INCOME TAXES	**(275)**	–
INTEREST	**(41)**	(19)
EBITDA	**725**	749

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:

Three months ended June 30 ($ thousands)	2006	2005
EBITDA	**725**	749
STOCK-BASED COMPENSATION	**548**	406
CASH INTEREST (EARNED)	**41**	19
CASH AVAILABLE FOR DISCRETIONARY SPENDING AND CAPITAL EXPENDITURES	**1,314**	1,174
CAPITAL EXPENDITURES		
ACQUISITION OF ROUGHNECK.CA	**–**	(1,287)
ACQUISITION OF PETRONET SYSTEMS INC.	**(127)**	–
PROCEEDS FROM DISPOSAL OF CAPITAL ASSETS	**–**	2
DEFERRED DEVELOPMENT	**(512)**	(392)
PURCHASE OF OTHER CAPITAL ASSETS	**(267)**	(425)
FREE CASH FLOW	**408**	(928)