



Sub-prime mortgage crisis creates exciting upside for Zaio.

Six months from now we expect the demand for appraisals to increase substantially. Learn why we're so optimistic and why Zaio is ideally positioned to capitalize on this opportunity in the story "Zaio finds opportunity in sub-prime mortgage crisis."

If you're new to our newsletter, we're delighted to welcome you. Our goal is to give you a clear picture of our company as it evolves – and discuss the impact our progress has on your business. We invite you to learn about some of the exciting things happening in the Zaio community by selecting topics of interest from the menu on the right.

Issues, past or future?

To review past issues of our newsletter, or add a name to our subscriber list, visit www.zaio.com/Investors.

If you have questions, comments or suggestions for future newsletters, your input and ideas are always welcome. Please email newsletter@zaio.com.



Zaio Summit

Free to all zone owners, zone appraisers and business owners - register today at www.zaio.com!

ZOOM IN ON THE NEWS THAT INTERESTS YOU

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ON THE HORIZON

Conferences

Nov 12-14 Valuation 2007 Las Vegas, NV

Nov 14-15 Zaio Summit Las Vegas, NV

Appraiser Zone Sales Meetings

Our schedule is constantly being updated. To view our current program, please visit our website:
<http://www.zaio.com/Events/>

Need more info?

For details on upcoming events, please email brad@zaio.com, johnr@zaio.com or Jeffvancamp@zaio.com.

ZAIO: A QUICK SNAPSHOT

No other company in the world can match Zaio's comprehensive, up-to-date database of real-estate appraisal data.

Because Zaio's appraisals are conducted in advance, and updated regularly by local experts, Zaio has solved the two biggest challenges facing the lending and mortgage-backed securities industries today: the need for instant access to information, and the need for accurate evaluations based on unbiased information and local, professional input.

In seconds, our appraisal product – GeoScore™ – provides clients with a comprehensive, integrated analysis of any property in a given area. This includes a current exterior photograph, recent comparable sales with photos, site-verified property data, facts on relevant local market issues and trends, plus the opinions of local professionally licensed appraisers who have viewed the property, complete with their digitized signatures.

The potential is truly breathtaking. By tapping Zaio's technology, lenders, agents and appraisers can do their jobs far more efficiently and cost-effectively. For our expanding network of local photographers and appraisers, it's an opportunity to participate in a unique business venture through revenue sharing.

Zaio Corporation is a Canadian public company. Our shares trade on the TSX Venture Exchange under the symbol ZAO. Zaio Corporation stock is also available in the U.S. under the trading symbol ZAOFF.

ZAIO FINDS OPPORTUNITY IN SUB-PRIME MORTGAGE CRISIS

High-risk lending fallout creates heightened demand for appraisals

We've all heard about it in the news. America is in the midst of a sub-prime mortgage crisis. But what exactly does this mean – and why does this bad news create an upside for Zaio?

First let's identify the players. In the United States there are two types of lenders: conventional banks and mortgage companies, which focus on higher-quality, less risky loans; and sub-prime lenders, which lend to those who do not qualify for loans from mainstream lenders. In general terms, sub-prime lenders are dealing with riskier loans to working-class people. Many sub-prime borrowers are in a precarious financial position. They were hit hard when the real-estate market went down, and interest rates went up, resulting in an exceptionally high number of loan defaults and foreclosures.

Fortunately for Zaio, the impact is positive, because the default/foreclosure cycle creates a need for multiple appraisals. Sub-prime lenders' poor appraisal practices are also a factor. Banks are regulated by federal government agencies with very strict operating rules. Sub-prime lenders are regulated at the state level by 50 different agencies with an equally diverse number of rules and regulations. Many states do not require that sub-prime lenders obtain appraisals before advancing funds. It's ironic that in cases where collateral is very important, many lenders cut corners by not getting appraisals. As a result, properties are not valued properly in the first place, or the appraisals are outdated and reflect boom-market prices.

Once borrowers get behind in their payments, appraisals become a key factor. Here's a look at what has historically happened in the lending industry.

When the borrower is behind 60 days or more, lenders often re-value the property. The federal government requires that lenders establish reserves to cover losses in the event of a default. The lender needs to know the accurate value of the property, and the most recent appraisal may be out of date. At this point, the lender does not have the legal right to go into the property, and can only request an exterior appraisal.

Once the loan hits 90-day delinquency, the lender's chances of repayment are minimal, and the lender usually initiates a pre-foreclosure process, which triggers the need for a new appraisal. This is now the second appraisal.

Typically at 120 days the foreclosure process is initiated. The lender claims the property, which then becomes known as a real-estate-owned (REO) property. The lender is now entitled to enter to the home, and may request a more comprehensive third appraisal.

Before marketing the property acquired through foreclosure, the lender's board of directors will require another appraisal (the fourth) to ensure the full value of the property is realized.

Of course, the people buying the property need their own appraisal in order to secure a loan. This means that a single property could have three to five appraisals in less than a year.

According to Zaio Chief Executive Officer, Thomas Inserra, "During a similar, but worse, banking crisis in the 1990s, during the first six to nine months, appraisal volumes declined due to a drop-off

in new home sales and refinancing activity. After about nine months this trend starts to be replaced with an even greater appraisal demand from financial institutions involved in refinancing and foreclosure proceedings." Zaio Chief Financial Officer Rod Mitton expects that we'll see the bottom of the cycle in the next 90 to 120 days, adding that these conditions typically result in a notable increase in demand for a wide range of appraisal products, including those offered by Zaio through its national network of appraisers.

Lending institutions can choose from a range of appraisal options. In all 50 states, Zaio is ideally positioned to provide the full spectrum of appraisal products – Automated Valuation Models (AVM), Broker Price Opinion (BPO), Drive-by (a visual inspection from the street), GeoScore™, and comprehensive, in-depth, on-site appraisals.

INFO-GATHERING PROTECTS PRIVACY, HELPS COMMUNITY

Careful collection of data a boon to local emergency services

As we work to provide thorough, up-to-date profiles of residential properties throughout the United States, we've observed considerable inaccuracy in existing municipal property databases. With Zaio's input, this mass of information is being fine-tuned and errors corrected. An ancillary benefit is the potential use of the data, free of charge, by local police, fire and medical services. Access to Zaio's GeoPic™ images will also mean that units can be alerted to a visual reference before arriving at the scene of a call.

It's important to note that Zaio never collects personally identifiable information. Zaio's privacy policy was developed to respect and protect the public, while ensuring good corporate citizenship. We do not identify property owners, tenants or residents, or collect information about these individuals. All photos are taken from a public vantage point and photographers never trespass onto private property.

Zaio conducts a manual review of every photograph to ensure no people are visible and that no personal information has inadvertently been captured. Our photographers remain on the street and the police are advised in advance of all photo shoots. Furthermore, our database is not generally accessible to the public.

All Zaio photographers must pass a police record check, and are required to wear ID badges. They maintain a dialogue with local enforcement agencies to ensure they are aware of Zaio's presence in their community. Photographers are coached on dealing with the public and carry printed information to share with interested homeowners.

SHOOTING FOR EVERY PROPERTY IN AMERICA

Zaio photographers click towards 12-million-pic target

"Zaio is well on its way to realizing its goal of photographing 12 million properties by the end of the year," says Zaio CEO Thomas Inserra. "In September, we surpassed nine million photographs, and we expect the pace to accelerate even further in the last quarter."

One factor behind our turbo-charged pace is the closure of our Virtual Imaging Corporation purchase in August which enabled Zaio to acquire nearly 300 experienced real-estate photographers almost overnight. Virtual Imaging operates in 40 markets, which means we've been able to strengthen our photography capabilities in many regions. Chicago, Illinois-based Virtual Imaging has provided two million photos and virtual tour services to realtors and MLS boards each year, making it the largest supplier in the U.S.

Thomas Beverly, former CEO of Virtual Imaging and Zaio's Vice President, Photography Operations is now spearheading Zaio's national photography initiative. "Beverly has overseen the capture of over 30 million photographs for real estate transactions since the company was established in 1980," said Zaio CEO Thomas Inserra. "He is America's most experienced and successful executive in this industry. We are pleased to have him on our executive team."

In addition to boosting the daily photography volume, Zaio has launched an on-line training program that will help speed up the appraisal-training process.

ZAIO FINDS NICHE BY FILLING APPRAISAL GAP

Consumer finance/home-equity lending a vibrant vertical market

Lenders are always looking for ways to streamline their operations and respond to opportunities in a more timely fashion. The substantial consumer finance and home-equity sector is a good example – and it's a market that's ripe for Zaio products.

Since interest rates on home-equity loans are generally lower than on credit cards, they're often used by consumers to reduce debt or finance major purchases. What's more, the interest is often tax-deductible. Most of these types of loans fall below the federally regulated transaction amount of \$250,000, which means that in most cases a mathematical property valuation, such as an Automated Valuation Module (AVM) or an exterior only property inspection and valuation, is all that is required.

In order to be competitive, lenders often do not pass along the property valuation costs to consumers. As a result, lenders are looking for the lowest-cost valuation alternative, which effectively mitigates the risk and remains compliant. Not surprisingly, more than 90% rely in part on AVMs, the lowest cost valuation available today. But the AVM trend is changing. Declining real estate markets are warranting an upgraded property valuation product, though not necessarily a traditional interior appraisal.

There are other situations where an AVM may not qualify: lack of coverage, risk profile of the borrower, price tier of the home, type and style of the home, new construction, and combined loan to value (CLTV) of the total debt in relation to the property value.

Savvy lenders are starting to discover Zaio as a cost-efficient alternative. Zaio's GeoScore™ is the only property valuation product that can accommodate the need for speed, with the added benefit of an unbiased, comprehensive and accurate valuation, including a site inspection. The Zaio product has resolved externalities that an AVM cannot, such as observed condition, quality, view, and location factors, positive or negative. "Zaio's product provides the speed of execution lenders have been accustomed to when using AVMs, while offering a higher-quality, more detailed property

valuation – inspected and signed by an appraiser – and a more cost-effective option than a traditional interior appraisal,” says Doug Vincent, Zaio’s Managing Director, Corporate Development.

Vincent adds that in this niche market, there is excellent potential for growth once you have a foot in the door. “In regions where Zaio offers sufficient coverage for a given lender’s use, the competitive advantages will be significant. Ultimately, that lender’s competitors will have to use the Zaio product as well,” adds Vincent.

CYBER-MEETINGS

Online forum keeps appraisers in touch with each other, and on top of the issues

In late December 2006, Zaio established an interactive forum for appraisers. Typical of many forums today, it is accessible by invitation only. Ken Verrett, a Zaio zone owner and a member of the Zaio Zone Appraiser Advisory Committee (ZZAAC) says, “It’s very common for people who have special interest areas to use forums to exchange ideas; forums also make it easy for large groups of people to talk together.”

Zaio’s forum makes it possible for zone owners across the country to get together and talk about problems and opportunities, and make suggestions on how to improve the industry and Zaio’s products specifically. “We regularly discuss things that work and don’t work,” says Verrett, “We’ve got threads of discussion coming in from all over the country. It’s exciting to see discussion from so many different markets.”

In July, use of the forum took off with 250 postings, followed by 450 in August. The number of members continues to grow. “We’re now up to over 200 people, which is still less than half of what we think the potential is,” says Ken, though he concedes that it’s not for everyone. “Some people are just not comfortable with the format.”

According to Ken, “members of Zaio’s executive regularly drop in – Thomas Inserra, Frank O’Neill, Brad Stinson and Steve Oliver – a lot of the Zaio folks attend the forum throughout the day. Each one will offer comments where they think they have something to add. It is a great opportunity for everyone to ask questions and hear answers from everyone in the organization.

“This is unique in my experience. Appraisers are generally a pretty skeptical bunch and very independent minded. Getting appraisers to see a common business opportunity and then buy in and work together is a little like herding cats. But Zaio is truly a partnership. We’ve all invested hard cash and we’re only as strong as our weakest link. I think the forum is so successful because we are all committed to seeing each other succeed.”

So far, it has been a self-policing forum, in that the person who raises the question has ownership and pursues it until they get an answer. However, the team recognizes that as Zaio grows they need to formalize some of the procedures. Verrett and Greg Colton, an Area Development Officer (ADO) and Zaio zone owner from Maryland, have taken a leading role. They’ve proven to be most comfortable with the interactive format and have been assigned the responsibility of monitoring the forum on a daily basis to catch issues that are unanswered.

If you're interested in joining the online Zaio Appraiser's Forum, please email Zone Support at ZoneSupport@Zaio.com. To be eligible for membership, you must be a zone owner, a designated person from a zone owner's office, or a Zaio staff member.

Once Zaio receives your request to join, a formal invitation is sent to you with instructions for the simple registration process. "Don't let the technology intimidate you," says Zaio's Vice President, Zone Operations and Training, Frank O'Neill, "our Tech Support team has assisted a number of zone appraisers to set up the program, and their assistance is available to all invited members. Once online, you'll benefit from the collaboration with members from across the country."

APPRAISERS TEAM UP IN ZZAAC

New committee a bridge between appraisers and Zaio executive

The recent debut of the Zaio Zone Appraiser Advisory Committee (ZZAAC) has given Zaio appraisers a powerful new voice. ZZAAC represents the interests of zone owners across the country, and was designed to facilitate their communication with the Zaio executive on matters relating to deployment of the zone concept.

"Creation of the Zaio Zone Appraiser Advisory Committee (ZZAAC) is a reflection of the openness and transparency of Zaio's executive that is so essential to our overall success," says Ken Verrett, committee chairman, Zaio zone owner and ZZAAC member from Houston, Texas. Seven owners are on the committee – from single-zone owners to multi-zone owners and Area Development Officers (ADOs).

The committee has broad geographic representation. In addition to Verrett, the ZZAAC includes Linda Sepso, SRA, ADO for southern Connecticut; Kevin Allin, SRA, multi-zone owner and ADO for San Diego county; Tony Higley, ADO for Spokane, Washington; John Hottle, MAI, SRA, RM, multi-zone owner and ADO from St. Louis, Missouri; Greg Colton, IFA, multi-zone owner and ADO for southern Maryland; and Mark Silverstein, SRA, ADO for the Tampa/St. Pete area.

In preparation for their first meeting with Zaio executives in late September, ZZAAC used the Zaio interactive forum to engage zone owners, and compiled more than 15 items to discuss with the executive.

John Hottle has been designated to monitor the interactive forum and identify unique issues that require a more thorough investigation. One of the longest-holding Zaio zone owners, Hottle is supported by the other committee members, each of whom has an assigned area of responsibility. They will be responding to issues and concerns as they arise in the interactive forum.

"Of course, we have challenges," notes Verrett, "but once an appraiser joins the Zaio family they benefit from the absolute trust of every zone owner. That's just one of the unique things that we appreciate about Zaio. This is not only a new business venture; it's a venture of unprecedented scope in the appraisal profession. That in itself is damn exciting."

THE LATEST ZAIO NEWS

Links to recent news releases

Zaio provides update on several key metrics:

http://www.zaio.com/PDF/PressRelease/ZaioPressRelease101007_1.pdf

ZAIO IN THE HEADLINES

A selection of third-party news articles featuring Zaio

Zaio ranked among the best performing technology stocks in Canada:

<http://www.canadianbusiness.com/rankings/tech100/index.jsp>

Zaio CFO: Rod Mitton interview on BNN:

<http://www.zaio.com/PDF/PressRelease/RodMittonBNN05-Sep-2007.wmv>

Zaio CEO: Thomas Inserra interview on MoneyTV:

<http://www.zaio.com/PDF/PressRelease/TomInserra%20MoneyTV05-Sep-2007.wmv>

ABC News New York interviews Zaio CEO:

<http://abcnews.go.com/Video/playerIndex?id=3528263>

FEEDBACK

We welcome your ideas!

Please send feedback or ideas for future topics to newsletter@zaio.com.

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