



**2007**  
Nine Month Report

## **Sirit Inc.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following management's discussion and analysis ("MD&A") has been prepared to help investors understand the financial performance of the Company and provides information that management believes is relevant to an assessment and understanding of the Company's risks, opportunities and performance measures. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate internal controls in its effort to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors, consisting of three independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.*

*This discussion, which has been prepared as of October 31, 2007 at which time 145,703,308 shares were outstanding, should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended September 30, 2007 and the audited annual consolidated financial statements, including the notes thereto included in the Company's December 31, 2006 Annual Report. This discussion contains forward-looking statements that involve inherent risks and uncertainties. The Company's actual results and the results of its investees may differ materially from those anticipated in these forward-looking statements. All amounts presented in this MD&A are in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in thousands of Canadian dollars (except per share amounts) unless otherwise specifically noted.*

#### **GENERAL**

Sirit Inc. ("Sirit" or the "Company") is a Radio Frequency Identification ("RFID") company that has been designing, developing, manufacturing and selling RFID hardware and solutions for over 14 years. Sirit has been providing its RFID technology to customers based primarily in the United States and Europe and continues to expand throughout the Americas and Asia. More information on the Company, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

On August 16, 2007, Sirit hosted its first interactive Webinar with Mr. Patrick Sweeney, President and CEO, ODIN technologies ("ODIN") and reviewed the ODIN European RFID Reader Benchmark™, the first vendor neutral evaluation of European RFID readers available on the market. In the test, Sirit's INfinity 510 worldwide Gen 2 certified reader took top rankings over six other leading competitive European Telecommunication Standards Institute compliant readers including adjacent dock door portal testing to existing and proposed regulations.

On September 10, 2007, the Company announced the availability of a device driver for the INfinity 510 RFID readers to provide compatibility with Microsoft's BizTalk Server 2006 R2. This feature facilitates fast and simple integration of Sirit readers into RFID implementations that use BizTalk Server 2006 R2.

On October 2, 2007 Sirit completed the development of a device agent which enables the seamless integration between the INfinity 510 and IBM's WebSphere RFID Premises Server.

On October 9, 2007, Sirit introduced its latest Automatic Vehicle Identification ("AVI") reader solution, the IDentity 5100, at the International Bridge, Tunnel and Turnpike Association's 75th Annual Meeting and Exhibition in Vienna, Austria. The IDentity 5100 builds on the Company's AVI expertise and advanced architecture to deliver an RFID reader solution for use in a variety of traditional and new AVI applications including Electronic Vehicle Registration (EVR) and Electronic Vehicle Identification (EVI) deployments.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### RESULTS

For the three and nine months ended September 30, 2007 compared to the three and nine months ended September 30, 2006

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenue	\$ 5,635	\$ 5,086	\$ 19,098	\$ 16,006
Cost of sales	3,610	3,399	12,311	10,480
Gross profit	2,025	1,687	6,787	5,526
Expenses	3,869	4,382	11,146	12,577
Operating loss	(1,844)	(2,695)	(4,359)	(7,051)
Other income	90	81	1,676	166
Net loss for the period	\$ (1,754)	\$ (2,614)	\$ (2,683)	\$ (6,885)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.06)
Total assets	\$ 21,523	\$ 26,431	\$ 21,523	\$ 26,431
Long-term financial liabilities	\$ -	\$ -	\$ -	\$ -

#### Revenue

Revenue for the third quarter continued on an annual growth trend, surpassing the prior year's third quarter total revenue. For the three months ended September 30, 2007, total revenue reached \$5.6 million, a \$0.5 million or 11% increase over the \$5.1 million reported for the three months ended September 30, 2006. Revenue for the third quarter of 2007 has been negatively impacted by the decrease in the US dollar versus the Canadian dollar. For comparison purposes, revenue in US dollars for the third quarter of 2007 has increased by 19% over the third quarter of 2006. The impact of foreign exchange volatility is discussed further below. For the nine months ended September 30, 2007, revenue reached \$19.1 million, a \$3.1 million or 19% increase over the \$16.0 million reported in the first nine months of 2006.

As has now been the case for the third consecutive year, revenue during the third quarter has declined when compared to the second quarter. This trend can be considered a seasonal issue primarily associated with AVI applications as the Company receives fewer orders during the summer months. This trend has resulted in the third quarter being the slowest quarter for revenue generation annually over the past three years.

In addition, revenue for the quarter has been impacted by foreign exchange volatility. The average US dollar to Canadian dollar foreign exchange rate decreased 2.5% during the third quarter alone. As an example, at the beginning of the third quarter, every US\$1 in revenue converted to a year-to-date average of CDN\$1.1357 and by the end of the third quarter, every US\$1 in revenue converted to a year-to-date average of CDN\$1.1071.

For comparison purposes, the following presents revenue in Canadian dollars compared to US dollars demonstrating the impact on revenue of the fluctuation in the average currency exchange rate for the year. This chart demonstrates that both increases and decreases in revenue reported in Canadian dollars are negatively impacted due only to conversion impacts for financial reporting purposes.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

	Q3 2007	Q2 2007	Q3 2006
Revenue, Canadian Dollars	\$ 5,635	\$ 6,964	\$ 5,086
Revenue, US Dollars	\$ 5,411	\$ 6,310	\$ 4,540
	CDN\$	US\$	
Percentage decrease in reported Q3 07 revenue compared to Q2 07	-19.1%	-14.2%	
Percentage increase in reported Q3 07 revenue compared to Q3 06	10.8%	19.2%	

It should be noted that as operations are conducted in US dollars the impact of currency fluctuations are minimal on day-to-day operations.

#### Automatic Vehicle Identification ("AVI") Applications

Revenue from AVI applications of \$4.2 million during Q3 2007 increased by \$0.5 million, or 14% from \$3.7 million reported in the three months ended September 30, 2006. Revenue was down by \$0.9 million when compared to Q2 2007. The increase in Q3 2007 compared to Q3 2006 reflects growth resulting from both new customers as well as general market demand. The decline compared to the second quarter reflects seasonality trends as discussed earlier. For the three months ended September 30, 2007, AVI applications revenue represented 75% of total revenue which is consistent with both the second quarter of 2007 and the third quarter of 2006. For the nine months ended September 30, total AVI revenue increased from \$12.5 million in 2006 to \$14.5 million in 2007; a \$2 million or 16% increase. AVI applications can be further broken down between toll applications and parking and access control ("PACS") applications.

Toll revenue increased from \$3.1 million for the three months ended September 30, 2006, to \$3.4 million for the three months ended September 30, 2007; an increase of \$0.3 million or 10%. Toll revenue for the nine months ended September 30 increased from \$10.6 million in 2006 to \$12.5 million in 2007; a \$1.9 million or 18% increase. The increase in revenue for both periods is the result of increased volumes with the Company's largest toll customers.

PACS revenue has remained relatively consistent at \$2.0 million for the nine months ended September 30, 2007 and \$1.9 million for the comparable period of 2006.

#### Radio Frequency Solutions ("RFS") Applications

Revenue from RFS applications remained consistent for the three months ended September 30, 2007 and 2006, totaling \$1.4 million. RFS revenue represents 25% of total revenue in the third quarter of 2007 compared to 27% in the third quarter of 2006 and 26% in the second quarter of 2007. The decline in RFS revenue from the second quarter of 2007 reflects the inconsistency surrounding the timing, volume and order size for new RFID pilots and tests as sizeable recurring orders remain a future expectation.

RFS revenue for the first nine months of 2007 totaled \$4.6 million versus \$3.5 million for the first nine months of 2006; an increase of \$1.1 million or 31%. The increase over the prior year is attributable to the expansion of pilots into small scale production roll outs as well as new customers utilizing Sirit's RFID technology.

#### Gross Profit

Gross profit for the third quarter and nine months ended September 30, 2007 have increased over the prior year comparables: 35.9% and 35.5% respectively, for 2007 (33.2% and 34.5% respectively, for 2006). These improvements result primarily from a change in AVI customer mix.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Selling, General and Administrative Expenses ("SG&A")**

Total SG&A expenses for the three months ended September 30, 2007 were \$2.2 million remaining in-line with the first two quarters of 2007. SG&A expenses have decreased from the \$2.4 million reported in Q3 2006. For the first nine months of 2007, SG&A expenses were \$6.5 million down from \$7.2 million in 2006; a decrease of \$0.7 million. The primary components of SG&A expenses are described in more detail as follows:

Salaries and benefits during the third quarter of 2007 totaled \$1.3 million and are consistent with Q2 2007 and Q3 2006. For the nine months ended September 30, total salaries and benefits decreased from \$4.0 million in 2006 to \$3.7 million in 2007. Total staff complement as at September 30, 2007 was 30 compared to 25 as at September 30, 2006, however salaries reflect staff costs for 30 individuals for the majority of the third quarter in 2006.

The remaining SG&A expenses, comprised primarily of rent, professional fees, travel and office expenses totaled \$0.9 million for the three months ended September 30, 2007 and \$1.2 million for the comparable period of 2006. The decrease is due primarily to a decrease in professional fees as 2006 included consultant fees for various special projects conducted during the third quarter. Total other SG&A expenses for the nine months ended September 30 decreased from \$3.2 million in 2006 to \$2.8 million in 2007. This decrease is due primarily to reduction in expenses associated with supporting the two acquisitions in Q2 2006 which were in the process of being integrated during the third quarter of last year.

**Stock-Based Compensation**

Stock-based compensation of \$0.1 million and \$0.5 million for the three months and nine months ended September 30, 2007, respectively are relatively consistent with the comparative periods in 2006 (\$0.2 million and \$0.6 million).

**Development Expenses**

Development expenses in 2007 continue to be lower than the prior period comparatives corresponding to streamlined operations in 2007 reflecting normal ongoing development efforts which have been focused on both improvements and variants of current product offerings as well as improvements to the cost structure of products. Development expenses have decreased from \$1.6 million in the third quarter of 2006 to \$0.7 million in the third quarter of 2007.

Development expenses for the nine months ended September 30 decreased from \$4.0 million in 2006 to \$1.9 million in 2007. Development staff at September 30, 2007 was 14 compared to 31 at September 30, 2006. The change from 2006 reflects terminations of 13 staff due to redundancy during the second half of 2006 as well as the reclassification of expenses for 4 employees to better reflect daily responsibilities. The Company has increased the use of temporary contractors to complete unique tasks or small projects as specific needs arise.

**Foreign Exchange Loss**

During the first nine months of 2007, the US dollar has decreased in value relative to the Canadian dollar by approximately 14% (6% in the third quarter alone). As the Company's net current assets are predominately maintained in US dollars, currency devaluation generates a foreign exchange loss when the US dollar denominated assets are converted to Canadian dollars for financial reporting purposes.

Day-to-day activities and transactions are conducted primarily in US dollars and are not converted into Canadian dollars; therefore, reported exchange losses have minimal impact from an operations

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perspective. During the third quarter of 2007, the devaluation of the US dollar resulted in a foreign exchange loss of \$0.6 million (\$1.6 million for the first nine months of 2007) compared to \$0.1 million for first nine months of 2006 (nil for the third quarter of 2006).

### RESOURCES

#### Cash Flows, Liquidity and Capital Resources

Total cash and cash equivalents at September 30, 2007 were \$8.8 million, a decrease of \$0.6 million compared to \$9.4 million at December 31, 2006 and a \$0.9 million decrease compared to \$9.7 million at June 30, 2007. The decrease in cash is primarily the result of the fluctuation in the US to Canadian dollar exchange rate which negatively impacted cash by \$0.6 million in the third quarter of 2007 and \$1.5 million for the nine months ended September 30, 2007.

Eliminating the impact of foreign exchange on cash and cash equivalents, the Company utilized \$0.3 million of cash in the three months ended September 30, 2007 and generated \$0.9 million in the nine months ended September 30, 2007. These fluctuations are discussed in greater detail below.

#### Operating Activities

Sirit used \$0.2 million in cash to support Operating Activities during the third quarter of 2007, consistent with expectations, as total revenue was lower during the quarter. Operations were partially funded by a decrease of \$0.6 million in non-cash working capital during the three months ended September 30, 2007 from \$1.4 million at June 30, 2007 to \$0.8 million at September 30, 2007. For the nine months ended September 30, 2007, the Company used \$0.8 million to support Operating Activities. The use of cash was partially funded by the cash generated from a decrease of \$0.6 million in non-cash working capital. The changes from both June 30, 2007 and December 31, 2006 are explained in more detail as follows:

Accounts receivable decreased from \$4.0 million at June 30, 2007 and December 31, 2006 to \$3.4 million at September 30, 2007. The decrease is a result of both the decrease in sales from the second quarter of 2007, as well as continued focus on collection efforts. The average age of receivables improved from an annual average of 54 days in 2006 to 52 days during the third quarter of 2007.

Inventory decreased to \$2.5 million at September 30, 2007 from \$2.8 million at June 30, 2007 and \$3.0 million at December 31, 2006. The reduction is due primarily to timing of purchases and sales of inventory.

There was minimal change in prepaids and deposits from \$0.3 million at December 31, 2006, to \$0.4 million at June 30, 2007 and \$0.3 million at September 30, 2007, reflecting the timing of payments for normal operating items. This balance consists primarily of prepaid rent, insurance and prepayments for tradeshow, travel and purchases.

Accounts payable and accrued liabilities totaled \$4.3 million at September 30, 2007, compared to \$5.0 million at December 31, 2006, and \$4.7 million at June 30, 2007. The decrease is due to decreased sales which corresponds to lower inventory purchases during the third quarter of 2007.

#### Investing Activities

The Company generated \$1.7 million from Investing Activities as a result of the \$2.0 million proceeds from the sale of its investment in Applied Data Systems, Inc. during the first quarter of 2007 and \$0.2 million utilized to purchase capital assets during the first nine months of 2007. Cash utilized from Investing Activities for the third quarter of 2007 were \$0.1 million. The \$2.9 million utilized in Investing

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Activities in the first nine months of 2006 is primarily the result of \$2.7 million utilized in the two acquisition completed during the second quarter of 2006.

#### Financing Activities

Financing Activities have been minimal for the first nine months of 2007. The Company generated cash of \$11.6 million from Financing Activities in the nine months ended September 30, 2006, as a result of a public offering of 48,500,000 common shares for net proceeds of \$11.5 million in May and June 2006.

#### Commitments

Commitments are comprised of premises rental costs. During the quarter, the Company consolidated operations from two locations to one in North Carolina and signed a new five year lease. As at September 30, 2007, premises rental costs are expected to be incurred as follows:

	Payments due by Period				
Contractual Obligations	Total	Up to 1 year	2 to 3 years	4 to 5 years	Over 5 years
Premises Leases	\$ 1,115	\$ 369	\$ 533	\$ 187	\$ 26

As at September 30, 2007, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$0.1 million (December 31, 2006 – \$0.2 million).

There were no additional commitments entered into during the third quarter of 2007.

#### Quarterly Results

	Sept 30 2007	June 30 2007	Mar 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006	Mar 31 2006	Dec 31 2005
Revenue	\$ 5,635	\$ 6,964	\$ 6,499	\$ 5,709	\$ 5,086	\$ 5,536	\$ 5,384	\$ 4,254
Cost of sales	3,610	4,465	4,236	4,144	3,399	3,685	3,396	2,731
Gross profit	2,025	2,499	2,263	1,565	1,687	1,851	1,988	1,523
Expenses	3,869	3,980	3,297	3,770	4,382	5,178	3,017	2,739
Operating loss	(1,844)	(1,481)	(1,034)	(2,205)	(2,695)	(3,327)	(1,029)	(1,216)
Other income/(expense)	90	89	1,497	131	81	49	36	(1,063)
Net (loss)/income for the period	\$ (1,754)	\$ (1,392)	\$ 463	\$ (2,074)	\$ (2,614)	\$ (3,278)	\$ (993)	\$ (2,279)
Basic and diluted income/(loss) per share	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ (0.02)

Revenue decreased in the third quarter of 2007 primarily due to seasonality experience during the quarter. Excluding the impact of the foreign exchange loss of \$0.6 million in the third quarter, total expenses increased by approximately \$0.2 million due primarily to increased product development.

Revenue once again increased in the second quarter of 2007, as a result of increased sales to new customers and increased sales volumes to recurring customers. Total expenses were negatively impacted by the decrease in the US dollar relative to Canadian dollar which resulted in a foreign exchange loss of \$0.9 million for the quarter. Excluding the impact of foreign exchange, total expenses were \$3.1 million.

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Revenue increased in the first quarter of 2007 due to increased sales volume with the Company's largest toll customer. Total expenses decreased as the first quarter of 2007 was the first full quarter of savings related to the integration of the two acquisitions completed in 2006. Other income included a \$1.4 million gain recognized on the sale of the Company's investment in Applied Data Systems, Inc.

Revenue in the fourth quarter of 2006 increased as a result of the continued rebound in toll revenue as well as the sale of new products in both PACS and RFS applications. Gross profit and net loss were negatively impacted by product rationalization efforts which resulted in a \$0.4 million inventory writedown.

Third quarter 2006 revenue decreased when compared to the prior quarter due to timing of transponder shipments. Q3 2006 expenses were lower than the prior quarter as a result of severance costs incurred in the second quarter as well as resulting lower salary costs incurred during the third quarter.

Revenue in the second quarter of 2006 increased as toll transponder sales returned to historical levels. Net loss for the second quarter of 2006 was high as a result of incremental salaries, benefits, SG&A and development expenses related to the SAMSys Technologies Inc. and TradeWind Technologies LLP acquisitions which were completed during the quarter.

Revenue in the first quarter of 2006 was higher than the first quarter of 2005 due primarily to increased toll transponder sales. Net loss for the first quarter was consistent with the prior year as increased sales are offset by increased development expenditures as well as a slight decrease in gross margin.

Fourth quarter 2005 revenue increased when compared to the third quarter of 2005 due primarily to the start of recovering of toll transponder sales not seen earlier in the year. Other income/(expense) for the 2005 fourth quarter included a write-down of long-term investments by \$1.1 million.

### **OUTSTANDING SHARE DATA**

As of October 31, 2007, the Company had 145,703,308 common shares outstanding.

As of October 31, 2007, the Company had 7,677,683 issued and outstanding stock options which are exercisable for common shares of Sirit on a one-for-one basis.

### **SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 1530, "Comprehensive Income," section 3251, "Equity," section 3855, "Financial Instruments – Recognition and Measurement" and section 3865, "Hedges." These standards result in changes in the accounting for financial instruments and hedges as well as introduce comprehensive income as a separate component of shareholders' equity. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated. Please refer to note 2 of the Notes to the Interim Consolidated Financial Statements (unaudited) for full details of these standards. There was no material impact on the financial statements as a result of the adoption of these standards.

There have been no other changes to the significant accounting policies and management estimates presented in the Annual Report of the Company as at December 31, 2006, and the Annual Information

**Sirit Inc.**

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Form dated March 19, 2007. Please refer to these reports for a detailed analysis of the significant accounting policies and estimates made by management at that time.

**RISKS**

Sirit's management team has the responsibility for the daily evaluation and management of risk factors affecting the Company. Management's assessment of the most significant potential risks which would have the greatest impact on the Company over the ensuing 12 to 24 months given currently available information have not changed significantly from those presented in the 2006 Annual Report.

**Sirit Inc.**  
**Interim Consolidated Balance Sheets**  
**(expressed in thousands of Canadian Dollars)**  
**Unaudited**

	<b>As at September 30 2007</b>	<b>As at December 31 2006</b>
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 8,846	\$ 9,397
Accounts receivable	3,359	3,957
Inventory	2,527	2,997
Prepays and deposits	365	348
	<u>15,097</u>	<u>16,699</u>
Long-term investments (note 3)	110	849
Property and equipment	1,100	1,095
Intangible assets	1,311	1,734
Goodwill	3,905	3,905
	<u>\$ 21,523</u>	<u>\$ 24,282</u>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 4,305	\$ 4,954
Current deferred revenue	399	293
Current warranty obligations	106	136
	<u>4,810</u>	<u>5,383</u>
Long-term deferred revenue	562	507
Long-term warranty obligations	109	162
	<u>5,481</u>	<u>6,052</u>
<b>Commitments and contingencies (note 8)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 4)	47,852	47,830
Contributed surplus (note 5)	2,548	2,075
Deficit	(34,358)	(31,675)
	<u>16,042</u>	<u>18,230</u>
	<u>\$ 21,523</u>	<u>\$ 24,282</u>

Approved by the Directors:

"N. Dawalibi"  
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 Director

"H. Johnson"  
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 Director

See accompanying notes

**Sirit Inc.****Interim Consolidated Statements of Operations, Comprehensive Income and Deficit  
(expressed in thousands of Canadian Dollars except per share amounts)**

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenue	\$ 5,635	\$ 5,086	\$ 19,098	\$ 16,006
Cost of sales	3,610	3,399	12,311	10,480
<b>Gross profit</b>	<b>2,025</b>	<b>1,687</b>	<b>6,787</b>	<b>5,526</b>
<b>Expenses</b>				
Selling, general and administrative	2,234	2,387	6,541	7,197
Stock-based compensation	106	168	473	596
Development	698	1,551	1,870	4,044
Amortization	234	262	689	621
Foreign exchange loss	597	14	1,573	119
	3,869	4,382	11,146	12,577
<b>Operating loss</b>	<b>(1,844)</b>	<b>(2,695)</b>	<b>(4,359)</b>	<b>(7,051)</b>
Gain on sale of long-term investment	-	-	1,401	-
Interest income, net	90	81	275	166
<b>Net loss and comprehensive income for the period</b>	<b>\$ (1,754)</b>	<b>\$ (2,614)</b>	<b>\$ (2,683)</b>	<b>\$ (6,885)</b>
Deficit, beginning of period	(32,604)	(26,987)	(31,675)	(22,716)
<b>Deficit, end of period</b>	<b>\$ (34,358)</b>	<b>\$ (29,601)</b>	<b>\$ (34,358)</b>	<b>\$ (29,601)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>
<b>Basic and diluted weighted average number of common shares ('000s)</b>	<b>145,703</b>	<b>145,527</b>	<b>145,642</b>	<b>117,893</b>

See accompanying notes

**Sirit Inc.****Interim Consolidated Statements of Cash Flows  
(expressed in thousands of Canadian Dollars)  
Unaudited**

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Cash provided by/(used in):</b>				
<b>Operating Activities</b>				
Net loss for the period	\$ (1,754)	\$ (2,614)	\$ (2,683)	\$ (6,885)
Items not involving cash and cash equivalents (note 7)	340	430	1,162	1,217
Gain on sale of long-term investment	-	-	(1,401)	-
Foreign exchange loss	597	14	1,573	119
	<u>(817)</u>	<u>(2,170)</u>	<u>(1,349)</u>	<u>(5,549)</u>
Net change in non-cash working capital items (note 7)	595	(419)	564	(154)
	<u>(222)</u>	<u>(2,589)</u>	<u>(785)</u>	<u>(5,703)</u>
<b>Investing Activities</b>				
Additions to property and equipment	(61)	(120)	(271)	(274)
Acquisitions, net of cash acquired	-	-	-	(2,667)
Proceeds on sale of long-term investment	-	-	2,010	-
	<u>(61)</u>	<u>(120)</u>	<u>1,739</u>	<u>(2,941)</u>
<b>Financing Activities</b>				
Public offering of common shares, net of associated expenses	-	(38)	-	11,523
Issuance of common shares upon exercise of stock options	-	1	22	109
	<u>-</u>	<u>(37)</u>	<u>22</u>	<u>11,632</u>
Exchange rate impact on cash and cash equivalents	(560)	(18)	(1,527)	(106)
(Decrease)/increase in cash and cash equivalents	(843)	(2,764)	(551)	2,882
Cash and cash equivalents, beginning of period	9,689	11,725	9,397	6,079
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 8,846</u></b>	<b><u>\$ 8,961</u></b>	<b><u>\$ 8,846</u></b>	<b><u>\$ 8,961</u></b>
<b>Cash and cash equivalents consist of:</b>				
Cash	\$ 1,960	\$ 1,392	\$ 1,960	\$ 1,392
Short-term commercial paper	6,886	7,569	6,886	7,569
	<b><u>\$ 8,846</u></b>	<b><u>\$ 8,961</u></b>	<b><u>\$ 8,846</u></b>	<b><u>\$ 8,961</u></b>

See accompanying notes

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)  
(expressed in thousands of Canadian Dollars except per share amounts)****1. BASIS OF PREPARATION**

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles are not provided. Except as disclosed in Note 2, these interim unaudited consolidated financial statements have been prepared by management based on the accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited financial statements of Sirit Inc. ("Sirit" or the "Company") for the year ended December 31, 2006. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. Note disclosures have been presented for material updates to the information previously reported.

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

**2. CHANGE IN ACCOUNTING POLICIES**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) handbook section 1530, "Comprehensive Income," section 3251, "Equity," section 3855, "Financial Instruments – Recognition and Measurement" and section 3865, "Hedges." These standards result in changes in the accounting for financial instruments and hedges as well as introduce accumulated other comprehensive income as a separate component of shareholders' equity. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated.

**Comprehensive Income**

Comprehensive income is comprised of net earnings or loss and other comprehensive income ("OCI"). OCI represents the change in equity for a period that arises from unrealized gain and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as cash flow hedges. The Company does not currently have any OCI and accordingly no statement of OCI is presented in these financial statements.

**Equity**

This section establishes the standards for presentation of equity and changes in equity during the period. It requires that separate presentation of changes in equity for the period arising from net income, OCI, contributed surplus, retained earnings, share capital and reserves. Accumulated OCI would be included in the consolidated balance sheet as a separate component of shareholders' equity.

**Financial Instruments – Recognition and Measurement**

This section establishes standards for the recognition and measurement of financial instruments; which is comprised of financial assets, financial liabilities and financial derivatives.

A financial asset is cash or a contractual right to receive cash or another financial asset, including equity, from another party. A financial liability is the contractual obligation to deliver cash or another financial asset to another party.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and it is settled at a future date. An embedded derivative is a derivative that is a part of a non-derivative contract and not directly related to that contract. Under this standard, embedded derivatives must be accounted for as a separate financial instrument recorded in net income/(loss) except for derivatives that are designated as cash flow hedges for which the fair value change is recognized in OCI. A non-financial derivative is a contract that can be settled net in cash or another financial instrument.

Under this standard, all financial instruments are initially recorded at fair value and are subsequently accounted for based on one of four classifications: held for trading, held-to-maturity, loans and receivables or available-for-sale. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)  
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cost. Fair-values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models.

***(i) Held for trading***

Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading, unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value recorded directly into earnings.

The Company does not have any held for trading financial instruments.

***(ii) Held-to-maturity***

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity that the Company has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are recorded directly into net income/(loss). All of the Company's cash equivalents are designated as held-to-maturity investments.

The fair values of cash and cash equivalents approximate their carrying value due to their short-term nature.

***(iii) Loans and receivables***

Receivables continue to be accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are recorded in net income/(loss).

The fair value of accounts receivable approximate their carrying values due to the short-term nature of this instrument.

***(iv) Available-for-sale***

Available-for-sale assets are those financial assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in OCI and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is transferred in net income/(loss).

The Company's remaining long-term investment in Horizon Wimba, Inc. is classified as available-for-sale, however since there is no quoted price in an active market for this private company investment and it is not classified as held-to-maturity it is recorded at cost in the financial statements.

***(v) Transaction costs***

Transaction costs relating to all financial instruments are expensed as incurred.

There was no impact on the financial statements as a result of the adoption of this standard.

**Hedges**

Hedge accounting is optional and the Company may elect not to designate the hedging instrument as a hedge for accounting purposes. When hedge accounting is not applied, the change in the fair value of the hedging instrument is recorded directly into net income/(loss). The Company currently does not have any hedging instruments.

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)**  
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	<b>September 30</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
Applied Data Systems, Inc.	\$ -	\$ 739
Horizon Wimba, Inc.	110	110
	<b>\$ 110</b>	<b>\$ 849</b>

On January 10, 2007, the Company sold its non-core investment in Applied Data Systems, Inc. for total proceeds of US\$1,823 (\$2,140), resulting in a gain on the sale of \$1,401. \$130 of the total proceeds are being held in escrow and have been included in accounts receivable as the escrow balance should be received within the next 12 months.

**4. SHARE CAPITAL AND STOCK OPTIONS**

(a) Common shares issued and outstanding:

	<b>Shares</b>	<b>Amount</b>
<b>Balance at December 31, 2006</b>	<b>145,536,281</b>	<b>\$ 47,830</b>
Issued on exercise of stock options	106,257	14
Balance at March 31, 2007	145,642,538	47,844
Issued on exercise of stock options	60,770	8
<b>Balance at June 30 and September 30, 2007</b>	<b>145,703,308</b>	<b>\$ 47,852</b>

(b) During the period January 1, 2007 to September 30, 2007, the Company granted 2,075,334 stock options to employees and directors. All options were issued with an exercise price equal to market value at grant date and vest over a three year period. During this period, the Company also issued 50,000 options to an external consultant which vested immediately. The Company determines compensation costs on options granted based on the fair value at the grant date in accordance with the fair value based method of accounting for stock-based compensation. Assumptions used in the Black-Scholes option-pricing model during the period January 1, 2007 to September 30, 2007 are as follows:

Risk-free interest rate	3.95% - 4.59%
Expected life	3 to 7 years
Expected volatility	67% - 84%
Expected dividends	Nil

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The following summarizes stock option activity for the nine months ended September 30, 2007:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>Sirit Transaction Options Outside the Plan</b>		
Balance, December 31, 2006	227,797	\$ 0.14
Exercised	(106,257)	(0.13)
Expired/terminated	-	-
	<u>          </u>	<u>          </u>
Balance, March 31, 2007	121,540	0.15
Exercised	(60,770)	(0.13)
Expired/terminated	(30,770)	(0.13)
	<u>          </u>	<u>          </u>
Balance, June 30, 2007 and September 30, 2007	<u>30,000</u>	<u>\$ 0.22</u>
<b>Options Outstanding Inside the Plan</b>		
Balance, December 31, 2006	6,801,100	\$ 0.55
Granted to employees	70,000	0.25
Expired/terminated	(39,000)	(0.20)
	<u>          </u>	<u>          </u>
Balance, March 31, 2007	6,832,100	0.55
Granted to employees and directors	1,937,000	0.29
Granted to consultant	50,000	0.36
Expired/terminated	(274,500)	(0.21)
	<u>          </u>	<u>          </u>
Balance, June 30, 2007	8,544,600	0.50
Granted to employees	68,334	0.42
Expired/terminated	(854,501)	(0.62)
	<u>          </u>	<u>          </u>
Balance, September 30, 2007	7,758,433	\$ 0.48
Total options outstanding at September 30, 2007	<u>7,788,433</u>	<u>\$ 0.48</u>
Options exercisable at September 30, 2007	<u>2,824,124</u>	<u>\$ 0.70</u>
Options available for issuance at September 30, 2007	<u>13,992,874</u>	

On April 26, 2007, pursuant to the Annual General Meeting of Sirit Inc., the shareholders approved an amendment to the Stock Option Plan for Key Persons. The amendment increased the number of common shares available for issuance upon the exercise of options issued by 13,307,989 to 21,750,000. In addition, the amendment extended the term of issued and issuable options that expire in a Company self-imposed blackout period for up to ten business days following the lifting of such blackout period.

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)**  
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The following table reconciles contributed surplus for the nine months ended September 30, 2007:

	<u>Amount</u>
<b>Balance at December 31, 2006</b>	<b>\$ 2,075</b>
Stock-based compensation on stock options granted	<u>172</u>
Balance at March 31, 2007	2,247
Stock-based compensation on stock options granted	<u>195</u>
Balance at June 30, 2007	2,442
Stock-based compensation on stock options granted	<u>106</u>
<b>Balance at September 30, 2007</b>	<b>\$ 2,548</b>

**6. SEGMENTED INFORMATION**

The Company operates in the technology sector in two reportable business segments. The Company's assets by business segment are as follows:

	<u>September 30</u>	<u>December 31</u>
	<u>2007</u>	<u>2006</u>
Radio Frequency Identification Business	\$ 21,413	\$ 23,433
Portfolio Investments Business	<u>110</u>	<u>849</u>
<b>Total assets</b>	<b>\$ 21,523</b>	<b>\$ 24,282</b>

For the nine months ended September 30, the Company's revenue and expenses by reportable business segment are as follows:

	<u>2007</u>		
	<u>RFID</u>	<u>Portfolio</u>	
	<u>Business</u>	<u>Investments</u>	<u>Total</u>
Revenue	\$ 19,098	\$ -	\$ 19,098
Expenses	23,457	-	23,457
Operating loss	(4,359)	-	(4,359)
Gain on sale of long-term investment	-	1,401	1,401
Interest income, net	<u>275</u>	<u>-</u>	<u>275</u>
<b>Net (loss)/income for the period</b>	<b>\$ (4,084)</b>	<b>\$ 1,401</b>	<b>\$ (2,683)</b>

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)**  
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	<b>2006</b>		
	<b>RFID</b>	<b>Portfolio</b>	<b>Total</b>
	<b>Business</b>	<b>Investments</b>	
Revenue	\$ 16,006	\$ -	\$ 16,006
Expenses	23,057	-	23,057
Operating loss	(7,051)	-	(7,051)
Interest income, net	166	-	166
<b>Net loss for the period</b>	<b>\$ (6,885)</b>	<b>\$ -</b>	<b>\$ (6,885)</b>

Of the \$19,098 revenue in the RFID business segment in the nine months ended September 30, 2007, the three largest individual customers represent 29.0%, 13.1% and 6.6% respectively.

Of the \$16,006 revenue in the RFID business segment in the nine months ended September 30, 2006, the three largest individual customers represent 31.0%, 12.6% and 3.8% respectively.

For the three months ended September 30, the Company's revenue and expenses by reportable business segment are as follows:

	<b>2007</b>		
	<b>RFID</b>	<b>Portfolio</b>	<b>Total</b>
	<b>Business</b>	<b>Investments</b>	
Revenue	\$ 5,635	\$ -	\$ 5,635
Expenses	7,479	-	7,479
Operating loss	(1,844)	-	(1,844)
Interest income, net	90	-	90
<b>Net loss for the period</b>	<b>\$ (1,754)</b>	<b>\$ -</b>	<b>\$ (1,754)</b>

	<b>2006</b>		
	<b>RFID</b>	<b>Portfolio</b>	<b>Total</b>
	<b>Business</b>	<b>Investments</b>	
Revenue	\$ 5,086	\$ -	\$ 5,086
Expenses	7,781	-	7,781
Operating loss	(2,695)	-	(2,695)
Interest income, net	81	-	81
<b>Net loss for the period</b>	<b>\$ (2,614)</b>	<b>\$ -</b>	<b>\$ (2,614)</b>

Of the \$5,635 revenue in the RFID business segment in the three months ended September 30, 2007, the three largest individual customers represent 26.4%, 15.2% and 6.6% respectively.

Of the \$5,086 revenue in the RFID business segment in the three months ended September 30, 2006, the three largest individual customers represent 27.5%, 13.2% and 11.8% respectively.

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)**  
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(a) Items not involving cash and cash equivalents:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Amortization:				
Property and equipment	\$ 93	\$ 106	\$ 266	\$ 271
Intangibles	141	140	423	302
Deferred development costs	-	16	-	48
Stock-based compensation	106	168	473	596
	<b>\$ 340</b>	<b>\$ 430</b>	<b>\$ 1,162</b>	<b>\$ 1,217</b>

(b) Net change in non-cash working capital items:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Accounts receivable	\$ 456	\$ (231)	\$ 320	\$ (783)
Inventory	244	(134)	385	(1,386)
Prepays and deposits	35	(57)	(51)	(298)
Accounts payable and accrued liabilities	(261)	(101)	(210)	1,709
Deferred revenue	253	133	192	80
Warranty obligations	(132)	(29)	(72)	100
Non-cash working capital assumed on acquisitions	-	-	-	424
	<b>\$ 595</b>	<b>\$ (419)</b>	<b>\$ 564</b>	<b>\$ (154)</b>

**8. COMMITMENTS AND CONTINGENCIES**

(a) As at September 30, 2007, certain accounts receivable and inventory in the amount of \$95 (December 31, 2006 - \$207) are pledged as security in connection with accounts payable.

(b) The Company's total future minimum operating lease commitments are summarized as follows:

	<u>Amount</u>
2007 (3 months)	\$ 95
2008	361
2009	284
2010	216
2011	75
Thereafter	84
	<u>\$ 1,115</u>



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