



**2007**  
**Six 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 July 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 six months ended June 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 13 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 April 17, 2007, Sirit introduced a European version of its market leading IDentity MaX UHF RFID reader for use in vehicle parking and access control deployments. The reader operates at the 865-868 MHz band for automatic vehicle identification performance in single-lane read applications.

On May 10, 2007, the Company announced that it had been awarded, through a competitive bid process, an order valued up to US\$4.8 million from the Bay Area Toll Authority ("BATA") in California. Commencing in July 2007, the contract calls for Sirit to continue to deliver its RFID Title 21-based toll transponders. Additionally, terms of the contract grant BATA the option to add on transponder orders to a maximum of US\$1.6 million once the initial contract has been satisfied.

On June 5, 2007, Sirit announced it had secured a Near Field Communications ("NFC") contract with BenQ Corporation ("BenQ"), one of the world's largest consumer electronics original equipment manufacturers. Sirit will serve as BenQ's supplier of embedded NFC software and technology engineering services for BenQ's forthcoming NFC mobile smartphones and handsets.

On June 15, 2007, Sirit was awarded a contract worth approximately US\$10.6 million over three years from the Transportation Corridor Agencies in Southern California. Sirit will supply its RFID Title 21-based toll transponders with shipments under this renewal contract which began in July 2007.

On June 28, 2007, the Company announced that METRO Group selected Sirit's INfinity 510 UHF reader for its 2007 rollout program at 99 Real hypermarket locations throughout Germany. This rollout program will see one INfinity 510 reader installed at each of the 99 locations to track incoming products using Gen 2 tag technology.

## Sirit Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### RESULTS

**For the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006**

\$000s except per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue	\$ 6,964	\$ 5,536	\$ 13,463	\$ 10,920
Cost of sales	4,465	3,685	8,701	7,081
Gross profit	2,499	1,851	4,762	3,839
Expenses	3,980	5,178	7,277	8,195
Operating loss	(1,481)	(3,327)	(2,515)	(4,356)
Other income	89	49	1,586	85
<b>Net loss for the period</b>	<b>\$ (1,392)</b>	<b>\$ (3,278)</b>	<b>\$ (929)</b>	<b>\$ (4,271)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>
<b>Total assets</b>	<b>\$ 23,521</b>	<b>\$ 28,966</b>	<b>\$ 23,521</b>	<b>\$ 28,966</b>
<b>Long-term financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

#### Revenue

Revenue reached a new record high for the third consecutive quarter. For the three months ended June 30, 2007 total revenue reached \$7.0 million, a \$0.5 million or 7% increase over the previous quarterly high of \$6.5 million reported for the three months ended March 31, 2007. When compared to the three months ended June 30, 2006, revenue increased by \$1.5 million or 26%. For the six months ended June 30, 2007, revenue totaled \$13.5 million, a \$2.6 million or 23% increase over the \$10.9 million reported in the prior year comparable period.

Revenue for the three months ended June 30, 2007 has increased over the three months ended March 31, 2007 despite a 3% decrease in the average US to Canadian foreign exchange rate in the same period. The impact versus Q2 2006 is nil as the exchange rates are the same for the two periods. For comparison purposes, the following presents revenue in Canadian dollars compared to US dollars demonstrating the impact on revenue of the fluctuation in the currency exchange rate:

	Q2 2007	Q1 2007	Q2 2006
Revenue, Canadian Dollars	\$ 6,964	\$ 6,499	\$ 5,536
Growth rate over Q1 2007	7.2%		
Growth rate over Q2 2006	25.8%		
Revenue, US Dollars	\$ 6,132	\$ 5,547	\$ 4,862
Growth rate over Q1 2007	10.5%		
Growth rate over Q2 2006	26.1%		

#### Automatic Vehicle Identification (“AVI”) Applications

Revenue from AVI applications increased from \$4.4 million reported in the three months ended June 30, 2006 to \$5.2 million for the three months ended June 30, 2007; an increase of 18%. AVI revenue represents 74% of total revenue compared to 79% in both the second quarter of 2006 and the first quarter of 2007 (\$5.2 million).

## **Sirit Inc.**

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

AVI revenue increased from \$8.8 million for the first six months of 2006 to \$10.3 million for the first six months of 2007; an increase of \$1.5 million or 17%. AVI applications can be further broken down between toll applications and parking and access control ("PACS") applications.

Toll revenue for the three months ended June 30, 2007 was \$4.6 million; a \$0.8 million or 21% increase over the prior year comparable of \$3.8 million. Toll revenue for the first six months of 2007 totaled \$9.1 million versus \$7.5 million for the same period of 2006; a \$1.6 million or 22% increase. The increase in revenue for both the second quarter and year to date period is associated with supplying the SR-125, a new toll road in California as well as increased volume with the Company's largest toll customers.

PACS revenue has remained consistent at \$0.6 million for the three months ended June 30, 2007 and 2006.

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

Revenue from RFS applications totaled \$1.8 million for the three months ended June 30, 2007; an increase of \$0.7 million or 56% over the \$1.1 million reported in the same period of 2006. RFS revenue represents 26% of total revenue in the second quarter of 2007 compared to 21% in both the second quarter of 2006 and the first quarter of 2007. RFS revenue for the first six months of 2007 totaled \$3.2 million versus \$2.1 million for the first six months of 2006; an increase of \$1.1 million or 49%. 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 of 35.9% and 35.4% for the second quarter and first six months of 2007 respectively have increased when compared to the 33.4% and 35.2% reported in the corresponding periods of 2006. Additionally, gross profit for the second quarter of 2007 is higher than the first quarter 2007 gross profit of 34.8%. These improvements result primarily from a change in AVI customer mix.

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

SG&A expenses for the three months ended June 30, 2007 (\$2.1 million) were lower than the three months ended June 30, 2006 (\$3.0 million) and consistent with the first three months of 2007 (\$2.2 million). For the first six months of 2007, SG&A expenses totaled \$4.3 million, a decrease of \$0.5 million from the \$4.8 million reported in the same period in the prior year. These expenses were comprised of the following:

Salaries and benefits totaled \$2.4 million and \$1.2 million for the six months and three months ended June 30, 2007, respectively. These are lower than the \$2.8 million and \$1.8 million reported for the corresponding periods of 2006. Prior year comparables were higher resulting from increased headcount assumed in the two acquisitions completed in the second quarter of 2006 as well as associated severance costs related to various terminations resulting from the acquisitions. Total staff complement at June 30, 2007 was 30 compared to 35 at June 30, 2006. Salaries and benefits for the second quarter of 2007 are consistent with the \$1.2 million reported for the first quarter of 2007.

The remaining SG&A expenses of \$0.9 million for the three months ended June 30, 2007 are \$0.3 million lower than the prior year comparable due primarily to a decrease in travel and tradeshow expenses as a result of the decrease in headcount noted above. In addition, professional fees have decreased as 2006 included various costs associated with investigating potential acquisitions. The balance for the second quarter of 2007 is consistent with the \$1.0 million for the first quarter of 2007.

## **Sirit Inc.**

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

#### **Stock-Based Compensation**

Stock-based compensation of \$0.2 million and \$0.4 million for the three months and six months ended June 30, 2007, respectively are consistent with the comparative periods in 2006.

#### **Development Expenses**

In accordance with expectations, development expenses are lower in 2007 corresponding to a decrease in engineering headcount and associated expenses. The consolidation of two acquisitions during the second quarter of 2006 added significant engineering resources to allow for the completion of certain large development projects. Fiscal 2007 reflects a streamlined operation focusing efforts towards improvements and variants of current product offerings as well as improvement to the cost structure of products. Development expenses have decreased from \$1.7 million in the second quarter of 2006 to \$0.6 million in the second quarter of 2007 while for the six months ended June 30, expenses decreased from \$2.5 million in 2006 to \$1.2 million in 2007. Development staff at June 30, 2007 was 14 compared to 33 at June 30, 2006. The change from 2006 reflects terminations of 15 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 second quarter of 2007, the US dollar decreased in value relative to the Canadian dollar by approximately 9%. 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 are conducted primarily in US dollars and are not converted into Canadian dollars; therefore, reported exchange losses have minimal impact from an operations perspective. During the second quarter of 2007, the devaluation of the US dollar resulted in a foreign exchange loss of \$0.9 million (\$1.0 million for the first six months of 2007) compared to \$0.1 million for both the second quarter and first six months of 2006.

#### **Other Income**

During the first quarter of 2007, the Company sold its long-term investment in Applied Data Systems, Inc. for total proceeds of \$2.1 million resulting in a gain of approximately \$1.4 million.

### **RESOURCES**

#### **Cash Flows, Liquidity and Capital Resources**

Total cash and cash equivalents at June 30, 2007 was \$9.7 million, a \$0.4 million increase compared to \$9.4 million at December 31, 2006 and a \$0.2 million decrease compared to \$9.9 million at March 31, 2007. In the second quarter of 2007, the Company generated \$0.6 million from Operating Activities; however, as noted above, the fluctuation in the US to Canadian dollar exchange rate negatively impacted cash by \$0.7 million. For the six months ended June 30, 2007, the Company has generated \$0.3 million in cash due to \$1.9 million of cash generated from Investing Activities and \$1.6 million of cash utilized comprised of \$0.9 million in Operating Activities and \$0.7 million related to exchange rate impact on cash.

#### **Operating Activities**

Sirit generated \$0.6 million in cash from Operating Activities during the second quarter of 2007 including \$0.8 million generated from working capital. Non-cash working capital items at June 30, 2007 totaled \$1.4 million compared to \$2.2 million at March 31, 2007 and \$1.3 million at December 31, 2006. The changes from both March 31, 2007 and December 31, 2007 are explained in more detail as follows:

## Sirit Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounts receivable has remained relatively consistent at \$4.0 million at June 30, 2007 and December 31, 2006 and \$4.1 million at March 31, 2007. As sales have been increasing over the last three quarters, staff have been focused on effectively managing accounts receivable by emphasizing collection efforts. The average age of receivables improved from an annual average of 54 days in 2006 to 51 days during the first quarter of 2007 and 47 days for the second quarter of 2007.

Inventory was \$2.8 million at June 30, 2007 compared to \$3.3 million at March 31, 2007 and \$3.0 million at December 31, 2006. The reduction from March 31, 2007 is due to timing of shipments and the overall increase in sales volume.

There was minimal change in prepaids and deposits from \$0.3 million at December 31, 2006 to \$0.4 million at March 31, 2007 and June 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 \$4.7 million at June 30, 2007 compared to \$5.0 million at December 31, 2006 and \$4.5 million at March 31, 2007. The changes resulted primarily from the payment of compensation related accruals during the first quarter while supporting the increasing volume of product related purchases associated with increased sales levels.

#### Investing Activities

The Company generated \$1.9 million from Investing Activities as a result of the \$2.1 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 six months of 2007. Investing Activities for the second quarter of 2007 were minimal. This compares to \$2.7 million of cash utilized in the second quarter of 2006 associated with the two acquisitions completed during that quarter.

#### Financing Activities

Cash from Financing Activities has been minimal for the first six months of 2007. In the second quarter of 2006, the Company generated cash of \$11.7 million primarily from a public offering of 48,500,000 common shares for net proceeds of \$11.6 million.

#### Commitments

Commitments are comprised of premises rental costs. As at June 30, 2007, rental costs are expected to be incurred as follows:

	<b>Payments due by Period (\$000's)</b>				
Contractual Obligations	<b>Total</b>	<b>Up to 1 year</b>	<b>2 to 3 years</b>	<b>4 to 5 years</b>	<b>Over 5 years</b>
Premises Leases	\$ 851	\$ 347	\$ 433	\$ 71	\$ -

As at June 30, 2007, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$0.4 million (December 31, 2006 – \$0.2 million).

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

## Sirit Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Quarterly Results

<b>\$000s except per share amounts</b>	<b>June 30 2007</b>	<b>Mar 31 2007</b>	<b>Dec 31 2006</b>	<b>Sept 30 2006</b>	<b>June 30 2006</b>	<b>Mar 31 2006</b>	<b>Dec 31 2005</b>	<b>Sept 30 2005</b>
Revenue	6,964	6,499	5,709	5,086	5,536	5,384	4,254	3,107
Cost of sales	4,465	4,236	4,144	3,399	3,685	3,396	2,731	2,070
Gross profit	2,499	2,263	1,565	1,687	1,851	1,988	1,523	1,037
Expenses	3,980	3,297	3,770	4,382	5,178	3,017	2,739	2,923
Operating loss	(1,481)	(1,034)	(2,205)	(2,695)	(3,327)	(1,029)	(1,216)	(1,886)
Other income/(expense)	89	1,497	131	81	49	36	(1,063)	(873)
Net (loss)/income for the period	(1,392)	463	(2,074)	(2,614)	(3,278)	(993)	(2,279)	(2,759)
Basic and diluted income/(loss) per share	(0.01)	0.00	(0.01)	(0.02)	(0.03)	(0.01)	(0.02)	(0.03)

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. Ignoring the impact of foreign exchange, total expenses were \$3.1 million.

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/(expense) 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.

The 2005 third quarter revenue decline was attributable to lower transponder sales along with a lower level of RFS application sales when compared to the second quarter of 2005. Other income/(expense)

## **Sirit Inc.**

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

included a write-down of one long-term investment of \$0.9 million in addition to \$150 of severance costs associated with staff reductions which occurred during the quarter.

#### **OUTSTANDING SHARE DATA**

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

As of July 31, 2007 the Company had 8,303,430 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 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 June 30 2007</b>	<b>As at December 31 2006</b>
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 9,689	\$ 9,397
Accounts receivable	3,977	3,957
Inventory	2,841	2,997
Prepays and deposits	415	348
	<u>16,922</u>	<u>16,699</u>
Long-term investments (note 3)	110	849
Property and equipment	1,132	1,095
Intangible assets	1,452	1,734
Goodwill	3,905	3,905
	<u>\$ 23,521</u>	<u>\$ 24,282</u>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 4,740	\$ 4,954
Deferred revenue	733	800
Warranty obligations	358	298
	<u>5,831</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)	2,442	2,075
Deficit	(32,604)	(31,675)
	<u>17,690</u>	<u>18,230</u>
	<u>\$ 23,521</u>	<u>\$ 24,282</u>

Approved by the Directors:

"N. Dawalibi"  
 Director

"H. Johnson"  
 Director

**Sirit Inc.****Interim Consolidated Statements of Operations****(expressed in thousands of Canadian Dollars except per share amounts)****Unaudited**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue	\$ 6,964	\$ 5,536	\$ 13,463	\$ 10,920
Cost of sales	4,465	3,685	8,701	7,081
<b>Gross profit</b>	<b>2,499</b>	<b>1,851</b>	<b>4,762</b>	<b>3,839</b>
<b>Expenses</b>				
Selling, general and administrative	2,118	2,972	4,307	4,810
Stock-based compensation	195	226	367	428
Development	568	1,699	1,172	2,493
Amortization	232	219	455	359
Foreign exchange loss	867	62	976	105
	3,980	5,178	7,277	8,195
<b>Operating loss</b>	<b>(1,481)</b>	<b>(3,327)</b>	<b>(2,515)</b>	<b>(4,356)</b>
Gain on sale of long-term investment	-	-	1,401	-
Interest income, net	89	49	185	85
<b>Net loss for the period</b>	<b>\$ (1,392)</b>	<b>\$ (3,278)</b>	<b>\$ (929)</b>	<b>\$ (4,271)</b>
Deficit, beginning of period	(31,212)	(23,709)	(31,675)	(22,716)
<b>Deficit, end of period</b>	<b>\$ (32,604)</b>	<b>\$ (26,987)</b>	<b>\$ (32,604)</b>	<b>\$ (26,987)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>
<b>Basic and diluted weighted average number of common shares ('000s)</b>	<b>145,673</b>	<b>114,305</b>	<b>145,611</b>	<b>103,847</b>

See accompanying notes

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

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Cash provided by/(used in):</b>				
<b>Operating Activities</b>				
Net loss for the period	\$ (1,392)	\$ (3,278)	\$ (929)	\$ (4,271)
Items not involving cash and cash equivalents (note 7)	427	445	(579)	787
Exchange rate impact on cash and cash equivalents	740	-	740	-
	<u>(225)</u>	<u>(2,833)</u>	<u>(768)</u>	<u>(3,484)</u>
Net change in non-cash working capital items (note 7)	791	439	(152)	282
	<u>566</u>	<u>(2,394)</u>	<u>(920)</u>	<u>(3,202)</u>
<b>Investing Activities</b>				
Additions to property and equipment	(17)	(74)	(210)	(154)
Acquisitions, net of cash acquired	-	(2,667)	-	(2,667)
Proceeds on sale of long-term investment	-	-	2,140	-
	<u>(17)</u>	<u>(2,741)</u>	<u>1,930</u>	<u>(2,821)</u>
<b>Financing Activities</b>				
Public offering of common shares, net of associated expenses	-	11,561	-	11,561
Issuance of common shares upon exercise of stock options	8	108	22	108
	<u>8</u>	<u>11,669</u>	<u>22</u>	<u>11,669</u>
Exchange rate impact on cash and cash equivalents	<u>(740)</u>	<u>-</u>	<u>(740)</u>	<u>-</u>
(Decrease)/increase in cash and cash equivalents	(183)	6,534	292	5,646
Cash and cash equivalents, beginning of period	<u>9,872</u>	<u>5,191</u>	<u>9,397</u>	<u>6,079</u>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 9,689</u></b>	<b><u>\$ 11,725</u></b>	<b><u>\$ 9,689</u></b>	<b><u>\$ 11,725</u></b>
<b>Cash and cash equivalents consist of:</b>				
Cash	\$ 2,455	\$ 1,521	\$ 2,455	\$ 1,521
Short-term commercial paper	<u>7,234</u>	<u>10,204</u>	<u>7,234</u>	<u>10,204</u>
	<b><u>\$ 9,689</u></b>	<b><u>\$ 11,725</u></b>	<b><u>\$ 9,689</u></b>	<b><u>\$ 11,725</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.

#### **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 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, derivatives and non-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. Fair-values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models.

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)  
(expressed in thousands of Canadian Dollars except per share amounts)****(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 and 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 and accounts payable and accrued liabilities and warranty obligations approximate their carrying values due to the short-term nature of these instruments.

**(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.

**3. LONG-TERM INVESTMENTS**

	<b>June 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>

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

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
<b>Balance at March 31, 2007</b>	<b>145,642,538</b>	<b>47,844</b>
Issued on exercise of stock options	60,770	8
<b>Balance at June 30, 2007</b>	<b>145,703,308</b>	<b>\$ 47,852</b>

(b) During the period January 1, 2007 to June 30, 2007, the Company granted 2,037,000 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 June 30, 2007 are as follows:

Risk-free interest rate	3.95% - 4.17%
Expected life	3 to 7 years
Expected volatility	67% - 84%
Expected dividends	Nil

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

The following summarizes stock option activity for the six months ended June 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	-	-
	<hr/>	<hr/>
Balance, March 31, 2007	121,540	\$ 0.15
Exercised	(60,770)	(0.13)
Expired/terminated	(30,770)	(0.13)
	<hr/>	<hr/>
Balance, June 30, 2007	30,000	\$ 0.22
	<hr/>	<hr/>
<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)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Balance, June 30, 2007	8,544,600	\$ 0.50
	<hr/>	<hr/>
Total options outstanding at June 30, 2007	8,574,600	\$0.50
Options exercisable at June 30, 2007	3,293,453	\$0.70
Options available for issuance at June 30, 2007	13,206,707	

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)**  
**(expressed in thousands of Canadian Dollars except per share amounts)****5. CONTRIBUTED SURPLUS**

The following table reconciles contributed surplus for the six months ended June 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>
<b>Balance at June 30, 2007</b>	<b><u>\$ 2,442</u></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>June 30</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
Radio Frequency Identification Business	\$ 23,411	\$ 23,433
Portfolio Investments Business	<u>110</u>	<u>849</u>
<b>Total assets</b>	<b><u>\$ 23,521</u></b>	<b><u>\$ 24,282</u></b>

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

	<u>2007</u>		
	<u>RFID</u> <u>Business</u>	<u>Portfolio</u> <u>Investments</u>	<u>Total</u>
Revenue	\$ 13,463	\$ -	\$ 13,463
Expenses	<u>15,978</u>	<u>-</u>	<u>15,978</u>
Operating loss	(2,515)	-	(2,515)
Gain on sale of long-term investment	-	1,401	1,401
Interest income, net	<u>185</u>	<u>-</u>	<u>185</u>
<b>Net (loss)/income for the period</b>	<b><u>\$ (2,330)</u></b>	<b><u>\$ 1,401</u></b>	<b><u>\$ (929)</u></b>

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

	<b>2006</b>		
	<b>RFID Business</b>	<b>Portfolio Investments</b>	<b>Total</b>
Revenue	\$ 10,920	\$ -	\$ 10,920
Expenses	15,276	-	15,276
Operating loss	(4,356)	-	(4,356)
Interest income, net	85	-	85
<b>Net loss for the period</b>	<b>\$ (4,271)</b>	<b>\$ -</b>	<b>\$ (4,271)</b>

Of the \$13,463 revenue in the RFID business segment in the six months ended June 30, 2007, the three largest individual customers represent 30.1%, 12.3% and 9.4% respectively.

Of the \$10,920 revenue in the RFID business segment in the six months ended June 30, 2006, the three largest individual customers represent 32.2%, 10.7% and 8.5% respectively.

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

	<b>2007</b>		
	<b>RFID Business</b>	<b>Portfolio Investments</b>	<b>Total</b>
Revenue	\$ 6,964	\$ -	\$ 6,964
Expenses	8,445	-	8,445
Operating loss	(1,481)	-	(1,481)
Interest income, net	89	-	89
<b>Net loss for the period</b>	<b>\$ (1,392)</b>	<b>\$ -</b>	<b>\$ (1,392)</b>

	<b>2006</b>		
	<b>RFID Business</b>	<b>Portfolio Investments</b>	<b>Total</b>
Revenue	\$ 5,536	\$ -	\$ 5,536
Expenses	8,863	-	8,863
Operating loss	(3,327)	-	(3,327)
Interest income, net	49	-	49
<b>Net loss for the period</b>	<b>\$ (3,278)</b>	<b>\$ -</b>	<b>\$ (3,278)</b>

Of the \$6,964 revenue in the RFID business segment in the three months ended June 30, 2007, the three largest individual customers represent 23.5%, 13.8% and 12.4% respectively.

Of the \$5,536 revenue in the RFID business segment in the three months ended June 30, 2006, the three largest individual customers represent 29.9%, 11.4% and 11.0% respectively.

**Sirit Inc.****Notes to the Interim Consolidated Financial Statements (unaudited)**  
**(expressed in thousands of Canadian Dollars except per share amounts)****7. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS**

(a) Items not involving cash and cash equivalents:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Amortization:				
Property and equipment	\$ 91	\$ 92	\$ 173	\$ 165
Intangibles	141	111	282	162
Deferred development costs	-	16	-	32
Stock-based compensation	195	226	367	428
Gain on sale of long-term investment	-	-	(1,401)	-
	<b>\$ 427</b>	<b>\$ 445</b>	<b>\$ (579)</b>	<b>\$ 787</b>

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Accounts receivable	\$ 170	\$ 412	\$ (20)	\$ 155
Inventory	444	(221)	156	(622)
Prepays and deposits	(18)	(54)	(67)	(204)
Accounts payable and accrued liabilities	237	390	(214)	1,078
Deferred revenue	(39)	(34)	(67)	(71)
Warranty obligations	(3)	(54)	60	(54)
	<b>\$ 791</b>	<b>\$ 439</b>	<b>\$ (152)</b>	<b>\$ 282</b>

**8. COMMITMENTS AND GUARANTEES**

(a) As at June 30, 2007, certain accounts receivable and inventory in the amount of \$379 (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:

	<b>Amount</b>
2007 (6 months)	\$ 191
2008	301
2009	216
2010	143
Thereafter	-
	<b>\$ 851</b>