



**2004**  
**Six Month Report**

## **SIRIT Inc.**

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

*The following 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 23, 2004 at which time 88,401,927 shares are outstanding, should be read in conjunction with the audited consolidated financial statements, including the notes thereto included the Company's December 31, 2003 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.*

#### **GENERAL**

SIRIT Inc. ("SIRIT" or "the Company") is a Radio Frequency Identification ("RFID") company that designs, develops, manufactures and sells RFID products and solutions. For over 10 years, SIRIT Technologies, Inc., the Company's wholly owned operating subsidiary, has been providing RFID products and solutions to customers based primarily in the United States and throughout the Americas, Europe and Asia. More information on the Company can be found at [www.SEDAR.com](http://www.SEDAR.com).

On April 21, 2004, 6.5% of the Company's remaining share of its legacy investment in Loma de Niquel Holdings Ltd. were redeemed by the ultimate parent and cancelled for cash proceeds of \$203,000 resulting in a gain of \$143,000. And on June 29, 2004, SIRIT liquidated its entire remaining investment in Loma de Niquel Holdings Ltd. for gross cash proceeds of \$2.7 million and a gain on investment, after expenses, of \$1.6 million. The sale provides significant additional cash resources for the Company to re-invest into its core RFID development and marketing strategy.

On May 20, 2004, the \$1,040,000 (US\$750,000) performance bond related to the Toll Integration Project completed in January 2004 was released to the Company in accordance with the terms of the contract.

On June 14, 2004 SIRIT's total investment in HorizonLive, Inc. was converted to common shares of Horizon Wimba, Inc., a new entity formed from the merger of HorizonLive, Inc. and Wimba SA of France. As of June 30, 2004, SIRIT owns 796,969 common shares in Horizon Wimba, Inc. with no change in the book value of \$483,000 as compared to December 31, 2003. In addition, SIRIT advanced \$36,000 (US\$26,250) as part of the merger process for the purchase of preferred shares. There have been no other material changes to the remaining legacy long-term investments, representing 100% of SIRIT's Portfolio Investments Business, which are recorded at a book value of \$5.2 million at June 30, 2004 (\$6.2 million at June 30, 2003). The Company continues to look for opportunities to liquidate its long-term investments in favour of its RFID business.

On June 14, 2004 SIRIT announced the release of its next-generation Multi-Protocol UHF RFID Reader Module supporting standards including EPCglobal, Inc. Class 0 and Class 1 standards and the International Standards Organization (ISO). Additionally, the module has been designed to be hardware ready and firmware upgradeable to support the forthcoming EPCglobal, Inc. UHF Gen2 protocol and ISO 18000-6. Production availability of the module is estimated to commence during the third quarter of 2004.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 28, 2004, SIRIT Technologies Inc., a wholly-owned subsidiary of SIRIT Inc., announced the signing of an agreement with Intel Corporation to collaborate on RFID reader technology development. The companies will work together to help accelerate the deployment of standards-based building block technology for RFID readers to end users and OEM technology vendors. The agreement includes certain technology licensing and commercial sales components.

#### RESOURCES

##### Liquidity and Capital Resources

As at June 30, 2004, SIRIT's liquid cash resources of \$11,282,000 represent an increase of \$8,678,000 from a cash balance of \$2,604,000 at December 31, 2003 and an increase of \$2,645,000 from March 31, 2004. The improvement in cash resources Q2 2004 includes gross cash proceeds of \$2,700,000 from the sale of one of the Company's portfolio investments as well as conversion to cash of the \$1,040,000 (US\$750,000) performance bond relating to the Toll Integration Project.

SIRIT has significantly improved its working capital position, (which includes all current assets and current liabilities), in Q2 2004 increasing from \$9,307,000 at March 31, 2004 to \$12,131,000 by June 30, 2004.

##### Commitments

The following represent future off-balance sheet commitments relating to premises lease charges for the Company's three operating locations.

	<u>Amount</u>
2004 (6 months)	\$ 129,267
2005	272,363
2006	257,655
2007	249,712
2008	184,744
Thereafter	<u>81,544</u>
	<u>\$ 1,175,285</u>

During the second quarter of 2004, the Company committed to the installation of a new ERP system which is estimated to cost approximately \$160,000. These expenditures will be incurred primarily in Q3 2004.

##### Related Party Transactions

There were no material related party transactions in the second quarter of 2004.

##### Cash Flows

For the second consecutive quarter, SIRIT generated positive cash from operations. First quarter cash generated from operations was \$716,000 plus \$119,000 earned in the second quarter for a year-to-date 2004 total cash generated from operations of \$835,000. This is compared to cash used in operating activities in the first half of 2003 of \$2,161,000. Included in the first half 2004 operating activities is other income of \$294,000 representing the sale of intellectual property from an investment written-off in 2001 by SIRIT Technologies Inc.

## SIRIT Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash generated from investing and financing activities in Q2 2004 consisted of the sale of 100% of the Company's investment in Loma de Niquel Holdings Ltd. for gross cash proceeds of \$2,700,000 partially offset by purchases of capital assets of \$152,000 comprised primarily of computer and other assets to support staff additions.

### RESULTS

**Comparative results for the three and six months ended June 30, 2004 compared to the same period in 2003**

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<b>REVENUE</b>	\$ 5,524,884	\$ 4,554,054	\$ 10,461,656	\$ 9,001,560
Cost of Sales	3,248,907	3,257,118	6,141,835	5,798,926
<b>GROSS MARGIN</b>	2,275,977	1,296,936	4,319,821	3,202,634
Expenses	2,210,300	2,145,904	4,219,040	4,320,313
<b>OPERATING INCOME/(LOSS)</b>	65,677	(848,968)	100,781	(1,117,679)
Other income	-	-	294,378	84,585
Gain on sale of long-term investments	1,789,001	-	2,018,823	-
Bridge loan excluding interest	-	(276,050)	-	(276,050)
Interest, net	34,349	(26,299)	65,032	(35,858)
<b>INCOME/(LOSS) FROM CONTINUING OPERATIONS</b>	<b>\$ 1,889,027</b>	<b>\$ (1,151,317)</b>	<b>\$ 2,479,014</b>	<b>\$ (1,345,002)</b>

#### Revenue

The following highlights significant aspects of revenues for the second quarter of 2004:

- Q2 2004 total revenue increased 21% over the same period in 2003: operating income represents 1% of revenue.
- For the second quarter of 2004, sales in US Dollars (after conversion to Canadian Dollars) represented 94% of total sales, down slightly from 95% in 2003.
- Had the Company converted the second quarter 2003 US Dollar sales into Canadian Dollars at the 2004 year-to-date exchange rate, total Q2 revenues in 2003 would have been \$342,000 less, or approximately \$4,212,000. This is due to an 8% decrease in the average US Dollar to CDN dollar exchange rate during 2004 when compared to 2003.

The following highlights significant aspects of revenues for the first half of 2004:

- First half 2004 revenue increased 16% over the same period in 2003: operating income represents 1% of revenue.
- For the first 6 months of 2004 sales in US Dollars (after conversion to Canadian Dollars) represented 95% of total sales, up slightly from 93% in 2003.
- Had the Company converted US Dollar sales into Canadian Dollars for the first half 2003 at the 2004 year-to-date exchange rate, revenues for the six months ended June 2003 would have been \$666,000 lower or approximately \$8,335,000. This is due to an 8% decrease in the average US Dollar to CDN dollar exchange rate during 2004 when compared to 2003. Therefore, if eliminating foreign exchange fluctuations, revenue for the first half of 2004 has increased approximately 26% over the same period in 2003.

# SIRIT Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SCM (Supply Chain Management)

- For the second of quarter of 2004, SCM sales have increased 179% over the second quarter of 2003. Year-to-date 2004 SCM sales have almost doubled when compared to same period sales in 2003, an increase of \$872,000 or 94%. Q2 2004 SCM sales comprise 13% of total Q2 2004 compared to 5% in Q2 2003. Increased 2004 SCM sales reflect what the Company believes is an increased demand for RFID products primarily in the supply chain with the increased market awareness of the benefits of RFID.

### AVI (Automatic Vehicle Identification)

- Q2 2004 Toll solutions revenues have increased \$385,000 compared to Q2 2003. For the first half of 2004, revenues increased \$719,000 or almost 11% over the first half of 2003. Increases in demand for toll tags and a new customer in Q2 2004 continue to more than offset the reduction in sales with the January 2004 completion of the Toll Integration Project. Toll solutions comprise 73% of Q2 2004 revenues down from 81% in Q2 2003.
- Parking and access control sales ("PACS") improved in Q2 2004 over Q2 of 2003, but are lower year-to-date when compared to last year. PACS revenues are generally smaller dollar value, non-recurring orders, the timing of which does not follow trends or seasonality spikes. For the six months ended June 2004, total sales were down \$132,000 when compared to the same period in 2003. PACS represents 11% of first half 2004 revenues (2003 - 14%).

### Gross Margin

Second quarter gross margin of 41.2% is up significantly from Q2 2003 gross margin of 28.5%. The year-to-date gross margin is 41.3% (year-to-date 2003 – 35.6%). The increase in the current year gross margin reflects changes in the mix of business combined with lower margins associated with the Toll Integration Project in 2003. The year-to-date 2004 gross margin reflects a mix of business with AVI and SCM representing 83% and 17% revenues respectively (2003 – 90% and 10% respectively).

### Expenses

The primary components of the expenses for the 6 months ended June 2004 compared to the same period in 2003 include the following:

- Selling General and Administrative expenses are broken down into two major categories:
  - Salaries and Benefits of \$1,788,000 (2003 - \$1,743,000): These salaries include management and administrative staff and exclude development staff costs which have been reclassified to Development Costs. Included in salaries and benefits are stock compensation costs of \$105,000 (2003 - \$21,000) relating to the cost associated with the issuance and modification of stock options in the first half of 2004. Excluding these non-cash stock compensation costs, salaries and benefits are 16.1% of 2004 revenues (19.1% in 2003) reflecting savings from the 2003 restructuring partially offset by pay raises.
  - Operating Expenses of \$1,459,000 (2003 - \$1,409,000): These expenses include sales, marketing, travel costs, premises rental costs and insurance. The 2004 expenses include higher sales support, travel and marketing costs associated with the support and growth in the SCM business.
- Development Expenses of \$799,000 (2003 - \$547,000): Included in development costs are salaries and benefits for development staff as well as direct expenses associated with development activities including any contract work and materials primarily for the SCM operations. All research and development costs are expensed as incurred. Increases in development costs are in accordance with Company strategy of to develop and introduce new product in support of the RFID supply chain market growth.

## SIRIT Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Quarterly Results

	2004 2nd Q	2004 1st Q	2003 4th Q	2003 3rd Q	2003 2nd Q	2003 1st Q	2002 4th Q	2002 3rd Q
Revenue	\$5,524,884	\$4,936,772	\$4,010,949	\$4,534,829	\$4,554,054	\$4,447,506	\$3,952,921	\$12,064
Net Income/(loss) from continuing operations	1,889,027	589,987	(526,116)	(1,534,203)	(1,151,317)	(193,685)	108,757	104,808
Net income/(loss) for the period	1,889,027	589,987	(526,116)	(1,534,203)	(1,158,246)	(947,405)	(1,154,761)	44,899
Net income/(loss) per share, from continuing operations, basic and diluted	\$ 0.02	\$ 0.01	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ -	\$ -	\$ -
Net income/(loss) per share, basic and diluted	\$ 0.02	\$ 0.01	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ -

The first 2 quarters of 2004 revenues reflect higher sales volume in both the AVI and SCM businesses. Net income has increased due to small operating profits combined with the realized gain on the sale of one of the Company's investments.

Included in 2003 third quarter net loss is \$1.3 million of internal restructuring costs. This effort resulted in termination costs associated with an overall 30% staff reduction, streamlining inventory into a single location in Carrollton, Texas, refocusing efforts in the UK to development activities with limited sales activities and centralizing head office functions in the Mississauga, Ontario location.

The 2003 second quarter results were negatively impacted by fees associated with the bridge financing during the private placement and a change in the mix of business.

The 2002 third quarter results reflect the operations of the Company as an investment company prior to its entrance into the RFID business with the purchase of SIRIT Technologies Inc. on November 1, 2002.

#### SIGNIFICANT MANAGEMENT ESTIMATES

There have been no material changes to the significant management estimates presented in the annual report of the Company as at December 31, 2003. Please refer to this report for a detailed analysis of the estimates made by management at that time.

#### RISKS

SIRIT's management team has the responsibility for the ongoing evaluation and management of risk factors affecting the Company. Management's assessment of potential risks which would have the greatest impact on the Company over the ensuing 12 to 24 months given currently available information and except as noted below, have not changed significantly from those presented in the 2003 annual report. This analysis contains forward looking statements that may differ materially from future actual results.

## **SIRIT Inc.**

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

#### **Supply Chain RFID Market Evolution**

Throughout 2003 and early 2004, several international companies, Wal-Mart, Target, Tesco, Marks & Spencer and the US Department of Defense have made public announcements regarding standards, timing and adoption of RFID applications throughout their respective organizations. However, this market is in its nascent stage and standards are not firmly defined, notwithstanding the fact that the work of EPCglobal is rapidly moving to a strict definition of standards. Wal-Mart continues to push for Top 100 supplier compliance with its RFID mandate by January 2005. Many in the industry believe that that this aggressive target will not be met by some of Wal-Mart's suppliers and that Wal-Mart will allow reasonable time for non-complying suppliers to become compliant. There is a risk that the process of adoption of RFID will not progress as quickly as first anticipated.

#### **Product Development**

A key risk facing the Company is its ability to develop and introduce new reader products to the market on a schedule either equivalent to or earlier than its competitors. During the second quarter of 2004, SIRIT introduced its Multi-Protocol UHF RFID Reader Module for use primarily in hand held computers as a first step in outperforming other similar product introductions in the supply chain market. In order for SIRIT to remain at the forefront of new reader product requirements as demand continues to increase in the supply chain, the Company must continue to focus on the development and timely introduction of new products. SIRIT is addressing this issue with a focus on strengthening its engineering team and executing its strategy of new product introductions.

#### **Price Pressure**

As new reader products are being introduced into the market and standards are being consolidated by EPCglobal, the price of readers and reader modules will be one of several key factors differentiating the various product offerings in the RFID supply chain market. SIRIT believes that it has the ability to remain price competitive with all of its current and future product offerings due to its past 8 years experience in the manufacturing of reader and tag products.

#### **Valuation of Investment**

The first 6 months of 2004 has resulted in a large change to the structure and capitalization of Horizon Wimba, Inc., a Company in which SIRIT currently has approximately a 3% ownership interest. Currently SIRIT's investment in Horizon Wimba, Inc. is recorded at a book value of \$519,000. The common shares of Horizon Wimba, Inc. will be listed and traded on an over the counter exchange in the US sometime during the third quarter of 2004. There is a risk that the value of these shares once they begin to be traded will not equal the book value of the investment by SIRIT. At this time it is difficult to determine whether there will be an impairment in value or a gain in value of this investment to SIRIT.

# SIRIT Inc.

**SIRIT Inc.**  
**Interim Consolidated Balance Sheets**  
(expressed in Canadian dollars)  
Unaudited

	<b>As at June 30 2004</b>	<b>As at December 31 2003</b>
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 11,282,369	\$ 2,603,558
Accounts receivable	3,000,720	2,796,372
Inventory	1,182,158	845,201
Prepays and deposits	526,850	1,364,745
	<u>15,992,097</u>	<u>7,609,876</u>
Long-term investments (note 2)	5,190,759	6,174,943
Property, plant and equipment, net	637,723	596,707
Intangible asset, net	673,910	775,113
Deferred development costs, net	155,483	187,652
Goodwill	2,828,836	2,828,836
	<u><b>\$ 25,478,808</b></u>	<u><b>\$ 18,173,127</b></u>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 2,676,102	\$ 2,936,796
Deferred revenue	694,197	588,511
Warranty obligations	491,275	629,960
	<u>3,861,574</u>	<u>4,155,267</u>
<b>Shareholders' Equity</b>		
Share capital (note 4)	33,670,790	28,639,550
Contributed surplus	409,327	320,207
Deficit	(12,462,883)	(14,941,897)
	<u>21,617,234</u>	<u>14,017,860</u>
	<u><b>\$ 25,478,808</b></u>	<u><b>\$ 18,173,127</b></u>

**Commitments (note 7)**

Approved by the Directors:

"W. W. Staudt"  
Director

"G. C. McKinnis"  
Director

See accompanying notes

# SIRIT Inc.

## SIRIT Inc.

### Interim Consolidated Statements of Income/(Loss) and Deficit

(expressed in Canadian dollars)

Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<b>Revenue</b>	\$ 5,524,884	\$ 4,554,054	\$ 10,461,656	\$ 9,001,560
Cost of sales	3,248,907	3,257,118	6,141,835	5,798,926
<b>Gross margin</b>	<u>2,275,977</u>	<u>1,296,936</u>	<u>4,319,821</u>	<u>3,202,634</u>
<b>Expenses</b>				
Selling, general and administrative	1,698,561	1,538,008	3,247,166	3,152,581
Development	463,224	360,097	798,895	546,949
Amortization	128,354	192,998	258,929	352,136
Foreign exchange	(79,839)	54,801	(85,950)	268,647
	<u>2,210,300</u>	<u>2,145,904</u>	<u>4,219,040</u>	<u>4,320,313</u>
<b>Operating income/(loss)</b>	65,677	(848,968)	100,781	(1,117,679)
Other income	-	-	294,378	84,585
Gain on disposal of long-term investments	1,789,001	-	2,018,823	-
Bridge loan excluding interest (note 3)	-	(276,050)	-	(276,050)
Interest, net	34,349	(26,299)	65,032	(35,858)
<b>Income/(loss) from continuing operations</b>	<u>1,889,027</u>	<u>(1,151,317)</u>	<u>2,479,014</u>	<u>(1,345,002)</u>
<b>Loss from discontinued operations</b>				
Loss from operations	-	(4,441)	-	(372,855)
Loss on sale	-	(2,488)	-	(387,794)
	<u>-</u>	<u>(6,929)</u>	<u>-</u>	<u>(760,649)</u>
<b>Net income/(loss) for the period</b>	<u>\$ 1,889,027</u>	<u>\$ (1,158,246)</u>	<u>\$ 2,479,014</u>	<u>\$ (2,105,651)</u>
Deficit, beginning of period	14,351,910	11,723,333	14,941,897	10,775,928
<b>Deficit, end of period</b>	<u>\$ 12,462,883</u>	<u>\$ 12,881,579</u>	<u>\$ 12,462,883</u>	<u>\$ 12,881,579</u>
Basic and diluted income/(loss) per share, continuing operations	\$ 0.02	\$ (0.03)	\$ 0.03	\$ (0.03)
Basic and diluted income/(loss) per share, discontinued operations	-	-	-	(0.02)
<b>Basic and diluted income/(loss) per share, total</b>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ (0.05)</u>

See accompanying notes

# SIRIT Inc.

## SIRIT Inc.

### Interim Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

Unaudited

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Cash provided by/(used in):</b>				
<b>Operating activities</b>				
Income/(loss) from continuing operations	\$ 1,889,027	\$ (1,151,317)	\$ 2,479,014	\$ (1,345,002)
Items not involving cash and cash equivalents	(1,591,972)	365,481	(1,647,246)	803,900
	<u>297,055</u>	<u>(785,836)</u>	<u>831,768</u>	<u>(541,102)</u>
Net change in non-cash working capital items	(178,255)	(293,473)	2,897	(1,613,664)
Discontinued operations	-	(4,441)	-	(6,006)
	<u>118,800</u>	<u>(1,083,750)</u>	<u>834,665</u>	<u>(2,160,772)</u>
<b>Investing activities</b>				
Investment in Horizon Wimba, Inc.	(35,816)	-	(35,816)	(58,522)
Additions to capital assets	(151,744)	(54,109)	(174,246)	(294,582)
Deferred development costs	-	(57,265)	-	(316,296)
Proceeds on sale of long-term investment	2,700,490	-	3,035,744	-
Discontinued operations	-	(472,888)	-	(564,422)
	<u>2,512,930</u>	<u>(584,262)</u>	<u>2,825,682</u>	<u>(1,233,822)</u>
<b>Financing activities</b>				
Bridge loan (note 3)	-	750,000	-	750,000
Capital leases	-	(48,080)	-	40,013
Issuance of common shares, net of associated expenses	3,856	650	5,015,386	650
Deferred charges	-	(37,187)	-	(37,187)
Discontinued operations	-	470,400	-	568,800
	<u>3,856</u>	<u>1,135,783</u>	<u>5,015,386</u>	<u>1,322,276</u>
<b>Exchange rate impact on cash and cash equivalents</b>	<u>9,908</u>	<u>21,564</u>	<u>3,078</u>	<u>(8,465)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<u>2,645,494</u>	<u>(510,665)</u>	<u>8,678,811</u>	<u>(2,080,783)</u>
Cash and cash equivalents, beginning of period	8,636,875	671,876	2,603,558	2,241,994
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 11,282,369</u></b>	<b><u>\$ 161,211</u></b>	<b><u>\$ 11,282,369</u></b>	<b><u>\$ 161,211</u></b>
<b>Cash and cash equivalents consist of:</b>				
Cash and deposit accounts with banks	\$ 11,282,369	\$ 161,211	\$ 11,282,369	\$ 161,211
	<b><u>\$ 11,282,369</u></b>	<b><u>\$ 161,211</u></b>	<b><u>\$ 11,282,369</u></b>	<b><u>\$ 161,211</u></b>

See accompanying notes

# SIRIT Inc.

## Notes to the Financial Statements (unaudited)

### 1. BASIS OF PREPARATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain disclosure normally included in annual financial statements prepared in accordance with generally accepted accounting principles are not provided. These interim financial statements have been prepared 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 the Company for the year ended December 31, 2003. 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.

Certain balances have been reclassified in a manner more representative of the nature of these amounts.

### 2. LONG-TERM INVESTMENTS

The recorded amounts of long-term investments are summarized as follows:

	<b>June 30</b>	<b>December 31</b>
	<b>2004</b>	<b>2003</b>
Medsite, Inc.	\$ 3,932,577	\$ 3,932,577
Applied Data Systems, Inc.	739,502	739,502
Horizon Wimba, Inc.	518,680	482,864
Loma de Niquel Holdings Ltd.	-	1,020,000
	<b>\$ 5,190,759</b>	<b>\$ 6,174,943</b>

#### **Loma de Niquel Holdings Ltd.**

In March 2004 and April 2004, the ultimate parent of Loma de Niquel Holdings Ltd. distributed cash through the repurchase and cancellation of shares. The Company retained its proportionate share of its investment and reported a gain of \$373,096 on the sale of 4,022 shares.

In June 2004, the Company sold its remaining investment in Loma de Niquel Holding Ltd. for gross cash proceeds of \$2,699,800 and a gain on sale of \$1,645,727.

#### **Horizon Wimba, Inc. (formerly HorizonLive, Inc.)**

On June 14, 2004 SIRIT's total investment in HorizonLive, Inc. was converted to common shares of Horizon Wimba, Inc., a new entity formed from the merger of HorizonLive, Inc. and Wimba SA of France. As of June 30, 2004, SIRIT owns 796,969 common shares in Horizon Wimba, Inc. Also on June 14, 2004 as part of the merger transaction, SIRIT paid \$35,816 (US\$26,250) for the purchase of Series C preferred shares.

## SIRIT Inc.

### Notes to the Financial Statements (unaudited)

#### 3. BRIDGE LOAN

On June 13, 2003, the Company entered into a \$2.5 million bridge loan facility. Pursuant to the terms of the loan, interest was compounded at 8% per annum with the shares of SIRIT Technologies Inc. pledged as security. As at June 30, 2003, the Company had drawn \$750,000 under the bridge loan facility.

#### 4. SHARE CAPITAL

a) Common shares issued and outstanding:

	<b>Number</b>	<b>Amount</b>
<b>Balance at December 31, 2003</b>	<b>71,176,951</b>	<b>\$ 28,639,550</b>
Issued pursuant to private placement	16,933,980	5,080,194
Issued on exercise of stock options	249,663	68,810
Expenses related to stock issuances	-	(117,764)
<b>Balance at June 30, 2004</b>	<b>88,360,594</b>	<b>\$ 33,670,790</b>

- b) On January 19, 2004 the Company completed the second tranche of an \$8.0 million private placement and issued 15,452,381 common shares to J.L. Albright III Venture Fund and 1,481,599 common shares to directors, management and employees with associated costs of \$117,764.
- c) During the period January 1, 2004 to June 30, 2004, the Company granted stock options to ten employees and 1 director totalling 1,860,000 common shares, revised the terms of 150,000 options issued prior to 2003 and cancelled 90,000 options. The Company determined compensation costs on these options granted based on the fair value at the grant date consistent with the fair value method of accounting for stock-based compensation. The stock based compensation expense included in salaries and benefits in the first quarter of 2004 was \$36,300 and in the second quarter was \$68,975 for a total year-to-date expense of \$104,975.
- d) Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by using the weighted average number of common shares outstanding during the period adjusted to include the effect that would occur if in-the-money stock options and warrants were exercised.

The following table reconciles the basic weighted average number of common shares outstanding to the diluted weighted average number of common shares outstanding.

	<b>Six months ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Weighted average number of shares outstanding - basic	86,517,506	45,541,915
Dilutive effect of stock options	2,956,327	-
Dilutive effect of warrants	2,035,714	-
<b>Adjusted weighted average number of shares outstanding - diluted</b>	<b>91,509,547</b>	<b>45,541,915</b>

## SIRIT Inc.

### Notes to the Financial Statements (unaudited)

At June 30, 2004, options to purchase 1,015,587 common shares at a weighted average price of \$0.94 per share were outstanding. These options were excluded from the computation of diluted net income per common share as the exercise price was greater than the average market price.

#### 5. SEGMENTED INFORMATION

The Company and its subsidiaries operate in the technology sector in two reportable business segments, Radio Frequency Identification and Portfolio Investments.

The Company's assets by segment are as follows:

	<b>June 30</b>	<b>December 31</b>
	<b>2004</b>	<b>2003</b>
Radio Frequency Identification Business	\$ 20,288,049	\$ 11,998,184
Portfolio Investments Business	5,190,759	6,174,943
	<b>\$ 25,478,808</b>	<b>\$ 18,173,127</b>

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

	<b>2004</b>		
	<b>Portfolio</b>		
	<b>RFID</b>	<b>Investments</b>	<b>Total</b>
Revenue	\$ 10,461,656	\$ -	\$ 10,461,656
Expenses	10,358,723	2,152	10,360,875
Operating income/(loss)	102,933	(2,152)	100,781
Other income	294,378	-	294,378
Gain on sale of long-term investments	-	2,018,823	2,018,823
Interest, net	65,032	-	65,032
<b>Net income before discontinued operations</b>	<b>\$ 462,343</b>	<b>\$ 2,016,671</b>	<b>\$ 2,479,014</b>
	<b>2003</b>		
	<b>Portfolio</b>		
	<b>RFID</b>	<b>Investments</b>	<b>Total</b>
Revenue	\$9,001,560	\$ -	\$9,001,560
Expenses	10,110,419	8,820	10,119,239
Operating income/(loss)	(1,108,859)	(8,820)	(1,117,679)
Other income	84,585	-	84,585
Bridge loan excluding interest	(276,050)	-	(276,050)
Interest, net	(40,255)	4,397	(35,858)
<b>Net (loss) before discontinued operations</b>	<b>\$ (1,340,579)</b>	<b>\$ (4,423)</b>	<b>\$ (1,345,002)</b>

## SIRIT Inc.

### Notes to the Financial Statements (unaudited)

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

	<b>2004</b>		
	<b>Portfolio</b>		
	<b>RFID</b>	<b>Investments</b>	<b>Total</b>
Revenue	\$ 5,524,884	\$ -	\$ 5,524,884
Expenses	5,458,000	1,207	5,459,207
Operating income/(loss)	66,884	(1,207)	65,677
Gain on sale of long-term investments	-	1,789,001	1,789,001
Interest, net	34,349	-	34,349
<b>Net income before discontinued operations</b>	<b>\$ 101,233</b>	<b>\$ 1,787,794</b>	<b>\$ 1,889,027</b>

	<b>2003</b>		
	<b>Portfolio</b>		
	<b>RFID</b>	<b>Investments</b>	<b>Total</b>
Revenue	\$ 4,554,054	\$ -	\$ 4,554,054
Expenses	5,394,202	8,820	5,403,022
Operating (loss)	(840,148)	(8,820)	(848,968)
Bridge loan excluding interest	(276,050)	-	(276,050)
Interest, net	(28,870)	2,571	(26,299)
<b>Net (loss) before discontinued operations</b>	<b>\$ (1,145,068)</b>	<b>\$ (6,249)</b>	<b>\$ (1,151,317)</b>

### 6. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS

a) Add back of items not involving cash and cash equivalents:

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Amortization	\$ 128,354	\$ 192,998	\$ 258,929	\$ 352,136
Gain on disposal of long-term investments	(1,789,001)	-	(2,018,823)	-
Unrealized gain/(loss) on cash equivalents	-	(21,564)	-	8,465
Loss on disposal of assets	-	-	7,673	-
Decrease in long-term receivable	-	175,290	-	422,067
Stock compensation costs	68,675	18,757	104,975	21,232
	<b>\$ (1,591,972)</b>	<b>\$ 365,481</b>	<b>\$ (1,647,246)</b>	<b>\$ 803,900</b>

## SIRIT Inc.

### Notes to the Financial Statements (unaudited)

b) Net changes in non-cash working capital items:

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Accounts receivable	\$ (1,313,859)	\$ 660,459	\$ (204,348)	\$ 796,839
Inventory	(30,551)	(271,996)	(336,957)	(351,827)
Prepays and deposits	957,336	126,824	837,895	(1,249,712)
Accounts payable and accrued liabilities	155,665	313,261	(260,694)	(335,597)
Deferred revenue	65,592	(693,577)	105,686	73,591
Warranty obligations	(12,438)	(428,444)	(138,685)	(546,958)
	<b><u>\$ (178,255)</u></b>	<b><u>\$ (293,473)</u></b>	<b><u>\$ 2,897</u></b>	<b><u>\$ (1,613,664)</u></b>

### 7. COMMITMENTS

- a) As at June 30, 2004, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$714,288.
- b) During the second quarter the Company increased the size of the leased premises in its Dallas location. The Company also downsized the leased premises in its England location and signed a new 5 year lease. The Company's total leased premises commitments are summarized as follows:

	<b><u>Amount</u></b>
2004 (6 months)	\$ 129,267
2005	272,363
2006	257,655
2007	249,712
2008	184,744
Thereafter	<u>81,544</u>
	<b><u>\$ 1,175,285</u></b>

- c) During the second quarter of 2004, the company committed to the installation of a new ERP system which is expected to cost approximately \$160,000. These expenditures will be incurred primarily in the third quarter of 2004.

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