sirit Inc.

2004
Nine 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 October 26, 2004 at which time 91,111,260 shares are outstanding, should be read in conjunction with the unaudited consolidated financial statements for the period ended September 30, 2004 and 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.

On July 9, 2004 SIRIT announced that it had been named to Microsoft Canada's new RFID Partner Advisory Council. SIRIT is one of the seven founding partners of the Council, which was formed to look at RFID requirements and how to take advantage of today's technology to make it easier for Canadian retailers and manufacturers to reduce inventories, improve product availability and track and ship merchandise.

During September 2004 SIRIT began shipping the most recent member of the Company's reader module family, the ST 200 multi-protocol UHF RFID reader module. SIRIT showcased the ST 200 reader module at the EPCglobal US™ Conference in Baltimore in late September 2004. Designed for integration into hand helds, portable data terminals, printers, label applicators, mobile computers and other OEM devices, SIRIT's ST 200 simultaneously supports multiple RFID tag protocols in a single OEM module including EPCglobal Class 0 and Class 1 standards. Additionally, the module is hardware ready and firmware upgradeable to support the EPCglobal UHF Gen2 protocol and ISO 18000-6.

On September 27, 2004 SIRIT announced that it had secured an order totaling approximately $12,000,000 from the Transportation Corridor Agencies ("TCA") in Southern California. The contract calls for SIRIT to deliver its RFID technology to TCA over 36 months, with deliveries commencing in January 2005.

On September 29, 2004 SIRIT announced a partnership with AVIDWireless, a wireless software and hardware developer and provider of wireless solutions. AVIDWireless has adopted a new RFID option for the AVIDirector product line using SIRIT's UHF EPC compliant ST 200 RFID reader module.

On September 30, 2004 SIRIT announced a partnership with Data Ltd Inc., a nationally recognized data collection solutions provider and manufacturer. Concurrently, Data Ltd Inc. announced that it was incorporating SIRIT product into three new mobile RFID solutions recently introduced by Data Ltd Inc.

On October 13, 2004 SIRIT announced that it had secured its first order in the state of Florida for its advanced Traffic Management Systems ("TMS") solution, which is used to monitor commute time and traffic patterns. The contract, which is valued at approximately $1,000,000, calls for SIRIT to deliver an RFID hardware solution. This contract will be fulfilled predominantly in the fourth quarter of 2004.

RESOURCES

Liquidity and Capital Resources

SIRIT's liquid cash resources of $10,267,000 at September 30, 2004 represents an increase of $7,663,000 from a cash balance of $2,604,000 at December 31, 2003 and a decrease of $1,015,000 from June 30, 2004. The decline in the Q3 cash resources since June 30, 2004 is primarily due to a cash deposit required to support the bid submission for the Florida TMS contract of approximately $763,000 (US$600,000) which was fully refunded on October 5, 2004. Cash was also used to fund development activities during the quarter.

The Company's working capital position (which includes all current assets and current liabilities) remained relatively stable during Q3, beginning with $12,130,000 at June 30, 2004 compared to $11,928,000 at September 30, 2004.

Commitments

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

	Amount
2004 (3 months)	$ 64,634
2005	272,363
2006	257,655
2007	249,712
2008	184,744
Thereafter	81,544
	$ 1,110,652

During the second quarter of 2004, the Company committed to the installation of a new ERP system. During the third quarter, the Company has spent approximately $135,000 in relation to the implementation and anticipates a further $50,000 will be required in the fourth quarter to complete the installation.

The Company has committed to purchase certain capital assets during the fourth quarter for approximately $84,000.

Related Party Transactions

The Company paid $22,000 to a director for services.

Cash Flows

During the third quarter, SIRIT utilized cash from operations totaling $1,253,000 compared to cash used in operations in Q3 2003 of $1,178,000. In Q3 2004, cash was used to fund working capital including the cash deposits on the Florida TMS contract and support development efforts including increases in development staff whereas in Q3 2003, cash was used primarily to fund working capital. Year-to-date 2004 total cash used in operating activities is $419,000 compared to cash used in operating activities year-to-date 2003 of $3,338,000. The largest uses of cash from operations during the nine months ended September 30, 2003 ear-include funding working capital as well as the costs associated with the restructuring efforts.

Cash utilized from investing activities in Q3 2004 of $119,000 included the purchase of capital assets to support staff additions as well as the new ERP system. This is compared to cash generated from investing activities in Q3 2003 of $180,000 resulting primarily from the sale of a long-term investment. For the nine months ended September 30, 2004, cash generated from investing activities of $2,706,000 resulted primarily from the sale of long-term investments offset by purchases of capital assets. For the same period in 2003, the use of cash from investing activities was $1,054,000 consisting of various items including additions to capital assets and discontinued operations.

Cash generated from financing activities in Q3 2004 of $358,000 resulted primarily from the exercise of the 2,500,000 outstanding warrants for proceeds of $325,000. This is compared to cash generated from financing activities of $1,588,000 in Q3 2003 resulting primarily from capital raising activities. For the nine months ended September 30, 2004, cash of $5,373,000 was generated from financing activities specifically the exercise of options and warrants. This is compared to cash generated from financing activities in the same period in 2003 of $2,910,000 which also resulted from the exercise of options.

For the nine months ended September 30, 2004, total cash increased by $7,663,000 compared to the nine months ended September 30, 2003 where total cash decreased by $1,586,000.

RESULTS

Comparative results for the three and nine months ended September 30, 2004 compared to the same period in 2003

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
REVENUE	$ 5,161,681	$ 4,534,829	$ 15,623,338	$ 13,536,389
Cost of Sales	2,925,073	2,886,147	9,066,909	8,685,073
GROSS MARGIN	2,236,608	1,648,682	6,556,429	4,851,316
Expenses	2,918,291	1,798,774	7,137,330	6,113,709
OPERATING (LOSS)	(681,683)	(150,092)	(580,901)	(1,262,393)
Other income	-	-	294,378	-
Gain on sale of long-term investments	-	-	2,018,823	-
Bridge loan excluding interest	-	(11,984)	-	(285,568)
Loss on sale of assets	-	(20,115)	-	(20,115)
Restructuring costs	-	(1,307,233)	-	(1,307,233)
Interest, net	39,634	(44,779)	104,666	1,482
INCOME/(LOSS) FROM CONTINUING OPERATIONS	**$ (642,049)**	**$ (1,534,203)**	**$ 1,836,966**	**$ (2,873,827)**

Revenue

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

- Q3 2004 total revenue increased 14% over the same period in 2003: operating loss represents 13% of revenue. However, excluding the impact of foreign exchange the operating loss would be 5%.
- During the third quarter of 2004, sales in US Dollars (after conversion to Canadian Dollars) represented 93% of total sales, an increase from 89% in 2003.

- Had the Company converted the third quarter 2003 US Dollar sales into Canadian Dollars at the 2004 year-to-date exchange rate, total Q3 revenues in 2003 would have been $291,000 less, or approximately $4,244,000. This is due to a 7% decrease in the average US Dollar to CDN dollar exchange rate during the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003.

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

- For the first three quarters of 2004 revenue increased 15% over the same period in 2003: operating loss represents 4% of revenue. However, excluding the impact of foreign exchange the operating loss would be 1%.
- For the nine months ended September 30, 2004 sales in US Dollars (after conversion to Canadian Dollars) represented 94% of total sales, up slightly from 92% in 2003.
- Had the Company converted US Dollar sales into Canadian Dollars for the first nine months of 2003 at the 2004 year-to-date exchange rate, revenues for the nine months ended September 30, 2003 would have been $874,000 lower or approximately $12,662,000. This is due to a 7% decrease in the average US Dollar to CDN Dollar exchange rate during 2004 when compared to 2003. Therefore, upon eliminating foreign exchange fluctuations, revenue for the first nine months of 2004 increased approximately 23% over the same period in 2003.

SCM (Supply Chain Management)

- SCM third quarter 2004 sales have increased 71% over the third quarter of 2003. Year-to-date 2004 SCM sales have increased by 88% or $1,296,000 when compared to sales for the same period in 2003. Q3 2004 SCM sales comprise 19% of total revenues compared to 12% in Q3 2003. Increased 2004 SCM sales reflect what the Company believes is the gradual increase in demand for RFID products primarily in the supply chain with the increased market awareness of the benefits of RFID and the commercial production of SIRIT's ST 200 reader module in mid-September 2004.

AVI (Automatic Vehicle Identification)

- Q3 2004 Toll Solutions revenues of $3,335,000 were approximately equal to Q3 2003 revenues. For the first nine months of 2004, revenues increased $758,000 or almost 8% over the first nine months of 2003. Increases in demand for toll tags, replacement of old 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. Year-to-date 2004 Toll Solutions revenues comprise 69% of total revenue compared to 75% for the same period in 2003.

- Parking and Access Control Solutions ("PACS") revenues improved in Q3 2004 over Q3 2003 as well as over Q2 2004. PACS sales in Q3 2004 were $857,000 up from $709,000 in Q3 2003. Year-to-date, PACS revenues are equivalent to 2003 and approximate $2,000,000 or 13% of revenue (15% - 2003). PACS revenues are generally smaller dollar value, non-recurring orders, the timing of which does not follow trends or seasonality spikes.

Gross Margin

Third quarter 2004 gross margin of 43.3% increased from the Q3 2003 gross margin of 36.4%. The 2004 year-to-date gross margin is 42% (year-to-date 2003 – 35.8%). The increase in the current year gross margin reflects changes in the mix of business with higher Toll Solutions and SCM sales compared to 2003 which included lower margins associated with the Toll Integration Project. The year-to-date 2004 gross margin reflects a mix of business with AVI and SCM representing 82% and 18% revenues respectively (2003 – 90% and 10% respectively).

Expenses

The primary components of the expenses for the three and nine months ended September 30, 2004 compared to the same period in 2003 include the following:

- Salaries and Benefits of $2,653,000 (2003 - $2,650,000): For the three months ended September 30, 2004, salaries and benefits expense was $864,000 compared to $908,000 in 2003. Excluding the stock compensation expense for the quarter of $72,000, the 2004 salaries and benefits are lower then 2003 reflecting savings resulting from the restructuring efforts during Q3 2003. Included in year-to-date 2004 salaries and benefits are stock compensation costs of $177,000 (2003 - $21,000). Excluding these non-cash stock compensation costs, salaries and benefits represented 15.8% of 2004 revenues (19.4% in 2003) reflecting growth in 2004 sales greater then increases in 2004 salaries and benefits costs.

- Operating Expenses of $2,356,000 (2003 - $1,908,000): These expenses include sales costs, travel expenses, tradeshows, premises rental costs and insurance. Expenses in 2004 continue to reflect higher sales, travel and marketing costs associated with the support for and growth in the SCM business. For the three months ended September 30, 2004, operating expenses were $897,000 compared to $503,000 at September 30, 2003 reflecting higher sales and marketing costs during the quarter.

- Development Expenses of $1,389,000 (2003 - $726,000): 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. In Q3 2004, SIRIT began production of the ST 200 UHF reader module and added members to its development team in accordance with Company strategy resulting in increased development costs primarily in support of the RFID supply chain market growth.

- Foreign exchange of $351,000 (2003 - $321,000): As the Company maintains greater assets than liabilities denominated in US funds and revenues earned are greater than expenses incurred in US funds, any significant decline in the US Dollar in relation to the Canadian Dollar will result in a foreign exchange loss. During the quarter ended September 30, 2004 the US Dollar declined over 7 cents in relation to the Canadian dollar resulting in a foreign exchange loss to the Company of $437,000.

- Restructuring costs of $nil (2003 – 1,307,000): During the third quarter of 2003 the Company restructured its operations in order to scale back expenses to bring costs in-line with the then expectations for the levels of revenue and gross margin to be earned in fiscal 2003. The restructuring costs consisted primarily of termination benefits, disposals and impairment in value of equipment and write-down of inventory. Please refer to note 5 for further details.

Quarterly Results

	2004 3rd Q	2004 2nd Q	2004 1st Q	2003 4th Q	2003 3rd Q	2003 2nd Q	2003 1st Q	2002 4th Q
Revenue	$5,161,681	$5,524,884	$4,936,773	$4,010,949	$4,534,829	$4,554,054	$4,447,506	$3,952,921
Net Income/(loss) from continuing operations	(642,049)	1,889,027	589,987	(526,116)	(1,534,203)	(1,151,317)	(193,685)	108,757
Net income/(loss) for the period	(642,049)	1,889,027	589,987	(526,116)	(1,534,203)	(1,158,246)	(947,405)	(1,154,761)
Net income/(loss) per share, from continuing operations, basic and diluted	$ (0.01)	$ 0.02	$ 0.01	$ (0.01)	$ (0.03)	$ (0.03)	$ -	$ -
Net income/(loss) per share, basic and diluted	$ (0.01)	$ 0.02	$ 0.01	$ (0.01)	$ (0.03)	$ (0.03)	$ (0.02)	$ (0.03)

The first three quarters of 2004 revenues reflect higher sales volume in all lines of business and an overall increase of 15% in sales when compared to the first nine months of 2003. The net loss for Q3 2004 is comprised primarily of foreign exchange losses of $437,000 as well as an increase in development expenses during the quarter of $127,000 compared to Q2 of 2004.

Included in the 2003 third quarter net loss is $1,307,000 of internal restructuring costs. This effort resulted in termination costs associated with a staff reduction of 30%, 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 to the Mississauga, Ontario location.

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.

Supply Chain RFID Market Evolution

Throughout 2003 and early 2004, several international companies including 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 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 third quarter of 2004, SIRIT moved into production its ST 200 UHF 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 six months of 2004 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. As at September 30, 2004, SIRIT's investment in Horizon Wimba, Inc. is recorded at a book value of $519,000. The listing of the common shares of Horizon Wimba, Inc. on an over the counter exchange in the US has been delayed until 2005. 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 impairment in value or a gain in value of this investment to SIRIT.

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

	As at September 30 2004	As at December 31 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 10,267,269	$ 2,603,558
Accounts receivable	3,677,543	2,796,372
Inventory	905,339	845,201
Prepaids and deposits	1,312,353	1,364,745
	16,162,504	7,609,876
Long-term investments (note 2)	5,190,759	6,174,943
Property, plant and equipment, net	694,542	596,707
Intangible asset, net	623,309	775,113
Deferred development costs, net	139,398	187,652
Goodwill	2,828,836	2,828,836
	$ 25,639,348	**$ 18,173,127**
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,670,314	$ 2,936,796
Deferred revenue	1,213,954	588,511
Warranty obligations	350,382	629,960
	4,234,650	4,155,267
Shareholders' Equity		
Share capital (note 4)	34,193,681	28,639,550
Contributed surplus	315,948	320,207
Deficit	(13,104,931)	(14,941,897)
	21,404,698	14,017,860
	$ 25,639,348	**$ 18,173,127**

Commitments and Contingency (note 8)

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 September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Revenue	$ 5,161,681	$ 4,534,829	$ 15,623,338	$ 13,536,389
Cost of sales	2,925,073	2,886,147	9,066,909	8,685,073
Gross margin	2,236,608	1,648,682	6,556,429	4,851,316
Expenses				
Selling, general and administrative	1,761,366	1,410,699	5,008,531	4,557,902
Development	590,499	178,815	1,389,394	725,764
Amortization	129,198	157,312	388,127	509,448
Foreign exchange	437,228	51,948	351,278	320,595
	2,918,291	1,798,774	7,137,330	6,113,709
Operating income/(loss)	(681,683)	(150,092)	(580,901)	(1,262,393)
Other income	-	-	294,378	-
Gain on disposal of long-term investment (note 2)	-	-	2,018,823	-
Bridge loan excluding interest (note 3)	-	(11,984)	-	(285,568)
Gain/(loss) on sale of assets	-	(20,115)	-	(20,115)
Restructuring costs (note 5)	-	(1,307,233)	-	(1,307,233)
Interest, net	39,634	(44,779)	104,666	1,482
Income/(loss) from continuing operations	(642,049)	(1,534,203)	1,836,966	(2,873,827)
Loss from discontinued operations				
Loss from operations	-	-	-	(372,855)
Loss on sale	-	-	-	(387,794)
Net income/(loss) for the period	**$ (642,049)**	**$ (1,534,203)**	**$ 1,836,966**	**$ (3,634,476)**
Deficit, beginning of period	12,462,882	12,876,201	14,941,897	10,775,928
Deficit, end of period	$ 13,104,931	$ 14,410,404	$ 13,104,931	$ 14,410,404
Basic and diluted income/(loss) per share, continuing operations	$ (0.01)	$ (0.03)	$ 0.02	$ (0.06)
Basic and diluted income/(loss) per share, discontinued operations	-	-	-	(0.02)
Basic and diluted income/(loss) per share, total	**$ (0.01)**	**$ (0.03)**	**$ 0.02**	**$ (0.08)**

See accompanying notes

SIRIT Inc.

Interim Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

Unaudited

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2004	2003	2004	2003
Cash provided by/(used in):				
Operating activities				
Income/(loss) from continuing operations	$ (642,049)	$ (1,534,203)	$ 1,836,966	$ (2,873,827)
Items not involving cash and cash equivalents (note 7a)	201,123	958,818	(1,446,123)	1,757,340
	(440,926)	(575,385)	390,843	(1,116,487)
Net change in non-cash working capital items (note 7b)	(812,431)	(602,196)	(809,534)	(2,215,860)
Discontinued operations	-	-	-	(6,006)
	(1,253,357)	(1,177,581)	(418,691)	(3,338,353)
Investing activities				
Investment in Horizon Wimba, Inc.	-	-	(35,816)	(58,522)
Additions to capital assets	(119,329)	(9,311)	(293,576)	(303,893)
Deferred development costs	-	-	-	(316,296)
Proceeds on sale of long-term investment	-	189,392	3,035,744	189,392
Discontinued operations	-	-	-	(564,422)
	(119,329)	180,081	2,706,352	(1,053,741)
Financing activities				
Bridge loan (note 3)	-	(750,000)	-	-
Capital leases	-	(29,704)	-	10,309
Issuance of common shares, net of associated expenses	357,586	2,330,082	5,372,972	2,330,732
Deferred charges	-	37,187	-	-
Discontinued operations	-	-	-	568,800
	357,586	1,587,565	5,372,972	2,909,841
Exchange rate impact on cash and cash equivalents	-	(95,312)	3,078	(103,777)
Increase/(decrease) in cash and cash equivalents	(1,015,100)	494,753	7,663,711	(1,586,030)
Cash and cash equivalents, beginning of period	11,282,369	161,211	2,603,558	2,241,994
Cash and cash equivalents, end of period	**$ 10,267,269**	**$ 655,964**	**$ 10,267,269**	**$ 655,964**
Cash and cash equivalents consist of:				
Cash and cash equivalents	**$ 10,267,269**	**$ 655,964**	**$ 10,267,269**	**$ 655,964**

See accompanying notes

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 disclosures 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:

	September 30 2004	December 31 2003
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
	$ 5,190,759	**$ 6,174,943**

There has been no change in valuation of the above investments during the third quarter of 2004.

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 reported 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 owned 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.

Notes to the Financial Statements (unaudited)

3. BRIDGE LOAN

On June 13, 2003, the Company entered into a $2,500,000 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. On August 19, 2003 the Company completed a $2,500,000 capital raising and fully repaid the bridge loan.

4. SHARE CAPITAL

a) Common shares issued and outstanding:

	Number		Amount
Balance at December 31, 2003	**71,176,951**	**$**	**28,639,550**
Issued pursuant to private placement	16,933,980		5,080,194
Issued on exercise of stock options	500,329		101,396
Issued on exercise of warrants	2,500,000		490,305
Expenses related to stock issuances	-		(117,764)
Balance at September 30, 2004	**91,111,260**	**$**	**34,193,681**

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 for total gross proceeds of $5,197,958 with associated costs of $117,764.

c) During the period January 1, 2004 to September 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 selling, general and administrative expenses and in contributed surplus, in the first quarter of 2004 was $36,300, in the second quarter was $68,675 and in the third quarter was $71,925 for a total year-to-date expense of $176,900.

d) During September 2004, all 2,500,000 outstanding warrants were exercised at a price of $0.13 for 2,500,000 common shares. Upon exercise of the warrants, the original fair value of $165,305 was reclassified from contributed surplus to share capital.

e) Basic net income/(loss) per common share is calculated by dividing net income/(loss) by the weighted average number of common shares outstanding during the period. Diluted net income/(loss) 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.

Notes to the Financial Statements (unaudited)

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

	Nine months ended September 30	
	2004	**2003**
Weighted average number of shares outstanding - basic	87,303,974	48,035,265
Dilutive effect of stock options	3,332,795	-
Adjusted weighted average number of shares outstanding - diluted	**90,636,769**	**48,035,265**

	Three months ended September 30	
	2004	**2003**
Weighted average number of shares outstanding - basic	**88,842,703**	**52,940,158**

At September 30, 2004, options to purchase 285,769 common shares at a weighted average price of $1.28 per share were outstanding. These options were excluded from the computation of diluted net income per common share as the exercise price was greater then the average market price.

5. RESTRUCTURING COSTS

During the third quarter of 2003, the Company underwent an internal restructuring in order to bring operating expenses in-line with revenue expectations. The restructuring involved downsizing the UK operations, disposing of certain assets and inventories and certain staff reductions. As at September 30, 2003, there were approximately $417,500 of accrued liabilities associated with this restructuring. The significant costs associated with the restructuring recorded in the 2003 third quarter includes the following:

Termination benefits	$	551,276
Inventory write-downs		196,143
Loss on disposal of equipment		280,177
Provision for impairment of equipment		192,346
Other exit costs		87,291
	$	**1,307,233**

There are $nil liabilities associated with the restructuring as at September 30, 2004.

6. SEGMENTED INFORMATION

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

Notes to the Financial Statements (unaudited)

The Company's assets by segment are as follows:

	September 30 2004	December 31 2003
Radio Frequency Identification Business	$ 20,448,589	$ 11,998,184
Portfolio Investments Business	5,190,759	6,174,943
	$ 25,639,348	**$ 18,173,127**

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

	2004		
	RFID	**Portfolio Investments**	**Total**
Revenue	$ 15,623,338	$ -	$ 15,623,338
Expenses	16,204,239	-	16,204,239
Operating (loss)	(580,901)	-	(580,901)
Other income	294,378	-	294,378
Gain on sale of long-term investments	-	2,018,823	2,018,823
Interest, net	104,666	-	104,666
Net income/(loss) before discontinued operations	**$ (181,857)**	**$ 2,018,823**	**$ 1,836,966**

	2003		
	RFID	**Portfolio Investments**	**Total**
Revenue	$ 13,536,389	$ -	$ 13,536,389
Expenses	14,785,526	13,256	14,798,782
Operating (loss)	(1,249,137)	(13,256)	(1,262,393)
Bridge loan excluding interest	(285,568)	-	(285,568)
(Loss) on sale of assets	(20,115)	-	(20,115)
Restructuring costs	(1,307,233)	-	(1,307,233)
Interest, net	(3,387)	4,869	1,482
Net (loss) before discontinued operations	**$ (2,865,440)**	**$ (8,387)**	**$ (2,873,827)**

Notes to the Financial Statements (unaudited)

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

	2004		
	RFID	Portfolio Investments	Total
Revenue	$ 5,161,681	$ -	$ 5,161,681
Expenses	5,843,364	-	5,843,364
Operating (loss)	(681,683)	-	(681,683)
Interest, net	39,634	-	39,634
Net (loss) before discontinued operations	**$ (642,049)**	**$ -**	**$ (642,049)**

	2003		
	RFID	Portfolio Investments	Total
Revenue	$ 4,534,829	$ -	$ 4,534,829
Expenses	4,680,485	4,436	4,684,921
Operating (loss)	(145,656)	(4,436)	(150,092)
Bridge loan excluding interest	(11,984)	-	(11,984)
(Loss) on sale of assets	(20,115)	-	(20,115)
Restructuring costs	(1,307,233)	-	(1,307,233)
Interest, net	(45,250)	471	(44,779)
Net (loss) before discontinued operations	**$ (1,530,238)**	**$ (3,965)**	**$ (1,534,203)**

7. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Amortization	$ 129,198	$ 157,312	$ 388,127	$ 509,448
Gain on disposal of long-term	-	-	(2,018,823)	-
Unrealized gain/(loss) on cash	-	95,312	-	103,777
Loss on disposal of assets	-	280,177	7,673	280,177
Provision for impairment of equipment	-	192,346	-	192,346
Decrease in long-term receivable	-	233,671	-	655,738
Stock compensation costs	71,925	-	176,900	15,854
	$ 201,123	**$ 958,818**	**$ (1,446,123)**	**$ 1,757,340**

Notes to the Financial Statements (unaudited)

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

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Accounts receivable	$ (676,823)	$ (363,087)	$ (881,171)	$ 433,752
Inventory	276,819	516,842	(60,138)	165,015
Prepaids and deposits	(785,503)	(27,861)	52,392	(1,277,573)
Accounts payable and accrued liabilities	(5,788)	487,644	(266,482)	152,047
Deferred revenue	519,757	(440,051)	625,443	(366,460)
Warranty obligations	(140,893)	(775,683)	(279,578)	(1,322,641)
	$ (812,431)	**$ (602,196)**	**$ (809,534)**	**$ (2,215,860)**

8. COMMITMENTS AND CONTINGENCY

a) As at September 30, 2004, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of $706,355.

b) The Company's total leased premises commitments are summarized as follows:

	Amount
2004 (3 months)	$ 64,634
2005	272,363
2006	257,655
2007	249,712
2008	184,744
Thereafter	81,544
	$ 1,110,652

c) During the second quarter of 2004, the Company committed to the installation of a new ERP system. During the third quarter, the Company has spent approximately $135,000 in relation to the implementation and anticipates a further $50,000 will be required in the fourth quarter to complete the installation.

d) The Company has committed to purchase certain capital assets during the fourth quarter for approximately $84,000.

e) The Company has instituted a cause of action against a supplier and has received a counterclaim. Management believes that the counterclaim is without merit and the Company's counsel is preparing a response to the counterclaim.

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