



2005
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 25, 2005 at which time 92,891,231 shares are outstanding, should be read in conjunction with the unaudited consolidated financial statements for the period ended June 30, 2005 and the audited consolidated financial statements, including the notes thereto included in the Company's December 31, 2004 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 GAAP and presented in thousands of Canadian dollars unless otherwise specifically noted.

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 12 years, Sirit and its subsidiaries have been delivering RFID products and solutions to customers based primarily in the United States and Canada and also growing throughout the Americas, Europe and Asia. More information on the Company can be found at www.SEDAR.com.

On May 30, 2005 Sirit announced the appointment of Mr. Norbert Dawalibi as President and CEO. Mr. Staudt, the outgoing President and CEO, will continue in his role as Chairman of the Board. Mr. Dawalibi was formerly President and CEO of Psion Teklogix, a \$300 million company and global provider of solutions for mobile computing, wireless data collection and RFID. In addition to his deep understanding of the RFID technology and markets, Mr. Dawalibi is a proven and skilled manager with a solid background in sales and marketing resulting from his 24 years at IBM where he progressed through increasingly executive roles in Canada and the U.S., including managing marketing for IBM Systems in the Americas and leading sales operations generating in excess of \$1 billion in revenue.

On June 20, 2005 Sirit announced the appointment of Mr. Michael Allocco as Vice President of Sales and Marketing, RF Solutions Group. The RF Solutions Group ("RFS") incorporates Sirit's activities in the supply chain (previously referred to as SCM) and the broader market for open and closed loop RFID technology. Mr. Allocco manages the Company's global channel development and aggressive growth strategies of Sirit's INfinity series of RFID modules and readers. In conjunction with Mr. Allocco's appointment, Mr. Chris Leong, was named Vice President, Strategy and Corporate Development and assumes responsibility for Sirit's strategic partnerships, corporate strategy and corporate development initiatives.

Mr. Allocco was previously Vice President Sales – Americas for Alien Technology Corporation, a supplier of RFID hardware, responsible for building a hybrid "go to market strategy" focused on key retailers, CPG suppliers, & software, solutions & distribution partners. Prior to Alien, Mr. Allocco spent seven years in senior sales and marketing positions with Invensys, a global automation, controls and process solutions company including two years as Vice President Global Strategic Accounts & two years as Vice President Sales and Marketing SCM (Supply Chain Management). Previously, he spent 15 years in leading sales and marketing capacities at GSE Systems, Inc.

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During the second quarter, Sirit manufactured and shipped over 1,000 EPC compliant UHF modules to a large US OEM customer. This is the largest, single order to date for Sirit's Infinity 200 UHF modules. Revenue from this order is included in second quarter results.

Sirit's RFID technology has enabled a retailer to implement an inventory management and stockout prevention application for individual items at the shelf level - an application that is widely considered to be the "ultimate goal" of EPC-based RFID deployment in the supply chain. This successful initial deployment will continue testing through the 2005 holiday seasons.

In total, Sirit shipped over 1,500 EPC UHF handheld modules through the first half of 2005. Sirit believes that this volume would represent over 60% of annual total global shipments of handheld UHF EPC RFID reader units, based upon the figures forecasted for 2005 by leading industry analyst firm Venture Development Corporation ("VDC") in VDC's 2004 Global RFID Planning Service study released in February 2005.

Also during the second quarter, the Company shipped product to support several RFID AVI initiatives. These included an integration project with a customer in California involving the conversion of a HOV ('high occupancy vehicle') lane into a specialized HOT ('high occupancy toll') lane. The Company also installed its ID Zip product to support high volume access control to several parking facilities controlling access to beaches in the northeastern US.

RESOURCES

Cash Flows, Liquidity and Capital Resources

The Company's cash resources were \$7.9 million at June 30, 2005, reflecting the use of \$2.1 million from a December 31, 2004 cash balance of \$10.0 million, with \$1.5 million utilized in the second quarter. The Company continues to focus on development efforts and supporting operations.

There are no commitments to purchase capital assets at this time.

Operating Activities

In the second quarter of 2005, Sirit utilized cash to fund operating activities of \$2.0 million with \$2.8 million spent year-to-date. This is compared to cash generated from operating activities in the second quarter of 2004 of \$0.3 million and \$0.8 million in first half of 2004.

Sirit's working capital position, (which includes total current assets less total current liabilities), at June 30, 2005 is \$8.9 million compared to \$10.8 million at March 31, 2005 and \$11.5 million at December 31, 2004. The change in working capital has resulted primarily from the change in cash resources during the quarter as noted above. Further details regarding the remaining fluctuations of key balances which comprise working capital are noted as follows:

The decrease in accounts receivable of \$0.3 million from December 31, 2004 results from an improved ageing profile of total receivables when compared to December. When compared to March 31, 2005 the receivables have increased by \$0.2 million reflecting higher sales towards the end of the second quarter as compared to the end of the first quarter.

Accounts payable and accruals increased by \$0.4 million from December 31, 2004 and decreased by \$0.1 million from March 31 reduced by the timing of payments made towards the end of the quarter and increased by the executive retirement salary accrual.

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Inventory has increased by \$0.3 million, from December 31, 2004 reflecting the requirement to purchase certain components in bulk which will be utilized throughout the remainder of the year. Inventory has decreased by \$0.4 million when compared to March 31, 2005 when inventory included product associated with the shipments of AVI products which occurred early in the second quarter.

The decrease in prepaids and deposits of \$0.3 million since March 2005 relates to normal operating activities.

Investing Activities

There were minimal investing activities during the first half of 2005. During the first half of 2004, the Company generated cash from investing activities with the sale of one of its long-term investments for total cash proceeds of \$3.0 million.

Financing Activities

Cash generated from the exercise of options in the first half of 2005 was \$0.3 million. This is compared to the first half of 2004 when the Company closed the second tranche of its financing with J L Albright for net cash proceeds of \$5.0 million.

Commitments

The following reflects the Company's commitments under premises leases for the next 5 years. The Company has committed to sign a five year lease for new head office premises in Toronto, Canada. The value of this commitment is in the process of negotiation and has not been included in the figures presented below. There were no additional commitments entered into during the second quarter of 2005.

	Payments due by Period				
Contractual Obligations	Total	Up to 1 year	2 to 3 years	4 to 5 years	Over 5 years
Premises Leases	\$ 826	\$ 251	\$ 383	\$ 192	-

Related Party Transactions

The Company paid directors fees of \$24 for their services during the second quarter of 2005 (nil in the second quarter of 2004).

The Company paid \$30 to one of its directors for consulting services during the second quarter of 2005 (nil in the second quarter of 2004). This contract was completed during the quarter.

There were no other related party transactions during the second quarter of 2005.

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RESULTS

For the three and six months ended June 30, 2005 compared to the three and six months ended June 30, 2004

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenue	\$ 4,632	\$ 5,525	\$ 9,058	\$ 10,462
Cost of Sales	3,113	3,249	5,879	6,142
Gross profit	1,519	2,276	3,179	4,320
Expenses	4,177	2,210	6,915	4,219
Operating income/(loss)	(2,658)	66	(3,736)	101
Net income/(loss)	\$ (2,619)	\$ 1,889	\$ (3,660)	\$ 2,479
Basic and diluted income/(loss) per share	\$ (0.03)	\$ 0.02	\$ (0.04)	\$ 0.03
Total assets	\$ 22,348	\$ 25,479	\$ 22,348	\$ 25,479
Total long-term financial liabilities	\$ -	\$ -	\$ -	\$ -

Revenue

The following highlights significant aspects of the 2005 second quarter and first half revenue:

- Total revenue in the first half of 2005 is lower by approximately \$1.4 million or 13.4% when compared to the first half of 2004 and 16.2% lower in the second quarter of 2005 as compared to the second quarter of 2004.
- The average US to Canadian dollar exchange rate for the first 6 months of 2005 is approximately 7.7% lower when compared to the first 6 months of 2004. Revenues generated in US Dollars are approximately comparable on a year-to-year basis; however, the impact on the 2005 revenue reported in Canadian Dollars is a negative impact of approximately \$0.7 million when compared to 2004 reported revenue.

A further discussion of revenue is presented according to the Company's primary RFID applications.

AVI

- Through the first six months of 2005, revenue generated from AVI application sales represented approximately 74% of total revenue or \$6.7 million compared to 83% or \$8.7 million for the same period in 2004, including the impact of foreign exchange. For the second quarter of 2005 revenue was \$3.3 million. This included \$0.4 million of deferred shipments from the first quarter of 2005 as well as a one-time adjustment to cover a potential liability related to old orders of \$0.4 million. Revenue was \$4.8 million for the second quarter of 2004.
- Year-to-date AVI application revenue has declined by 23% or \$2.0 million when compared to the first six months of 2004. The Company continues to supply transponders and readers to all of its AVI customers and has several, long-term purchase orders with these customers. In addition, the Company won an integration project late in the second quarter.

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- The decline in 2005 revenue is attributed to customers building inventory levels in the prior year which have not continued into the current year as well as delays experienced with several integration Requests for Proposals ("RFPs") such that additional revenue earning opportunities have now shifted into 2006. The pipeline of opportunities for integration projects remains high and due to the inherent risks associated with any bidding process, Sirit is unable to predict its success on current and future bids.
- Considering the above, Sirit does not expect to reach the previously expected growth potential from the sales of AVI applications for 2005.

RFS

- Year-to-date revenue earned on the Company's RFS applications grew to 26% of total revenue or \$2.4 million. For the second quarter, RFS product revenue was approximately 28% of total revenue or \$1.3 million compared to 13% or \$0.7 million in the second quarter of 2004.
- RFS revenue has increased by 33% or \$0.6 million for the first six months of 2005 compared to prior year and by 18% in the second quarter of 2005 when compared to the first quarter of 2005. This increase in sales of RFS products is attributable to the shipment in the first half of 2005 of over 1,500 EPC compliant, UHF 'INfinity 200' modules. In the second quarter alone, a single order of over 1,000 modules was shipped to a large US-based OEM customer for installation in a retail environment to manage inventory at the item level.
- The Company supports the view that the overall RFID market remains in the very early stages of implementation. It is therefore impossible to reasonably estimate future deployment wins and associated revenue potential.

Gross Margin

Gross Margin for the second quarter of 2005 was 32.8% compared to a 41.2% gross margin reported in the second quarter of 2004. This includes the one-time adjustment regarding a potential liability on old orders during the quarter. Without this adjustment, the margin for the second quarter would have been 37.8%, in-line with the margins for the first quarter of 2005. Year-to-date 2005 gross margin would have been 37.6% compared to 41.3% in 2004.

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

- Total SG&A expenses for Q2 2005 were \$3.1 million compared to \$1.6 million in Q2 2004. The components of second quarter 2005 SG&A expenses compared to the same period in 2004 include:
 - Salaries and benefits of \$2.1 million (Q2 2004 - \$0.9 million) are higher than prior year due to the recording of an executive retirement package of \$0.6 million plus associated stock compensation costs of almost \$0.2 million. Total staff complement at June 30, 2005 was 25 compared to 22 at the end of June 2004. Additional stock compensation costs were \$0.2 million compared to less than \$0.1 million in Q2 2004.
 - The remaining Q2 2005 SG&A expenses of \$1.0 million (Q2 2004 - \$0.7 million) have increased due to increased rent and general operating expenses, including sales and marketing, to support entity-wide increased staff levels.

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Development Expenses

- Development expenses for Q2 2005 totaled \$0.9 million (Q2 2004 - \$0.6 million). Development efforts continue to be focused primarily on products to support RFS applications as the Company is committed to introduce RFS products, in conjunction with production levels of Gen 2 tags from all manufacturers and cooperative efforts from all parties. Development staff at June 30, 2005 was 17 compared to 11 at June 30, 2004.

Quarterly Results

	2005 2nd Q	2005 1st Q	2004 4th Q	2004 3rd Q	2004 2nd Q	2004 1st Q	2003 4th Q	2003 3rd Q
Revenue	\$ 4,632	\$ 4,426	\$ 4,876	\$ 5,162	\$ 5,525	\$ 4,937	\$ 4,089	\$ 4,535
Net income/(loss) from continuing operations	(2,619)	(1,041)	(913)	(642)	1,889	590	(526)	(1,534)
Net income/(loss) for the period	(2,619)	(1,041)	(913)	(642)	1,889	590	(526)	(1,534)
Net income/(loss) per share, from continuing operations, basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.01)	\$ (0.03)
Net income/(loss) per share, basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.01)	\$ (0.03)

Second quarter 2005 net loss includes lower than anticipated AVI revenue plus one-time adjustments totaling \$1.2 million during the quarter and continued RFS application development efforts.

The first quarter 2005 revenue was impacted by the timing of shipments of toll transponders which were lower when compared to the first quarter of 2004. The net loss results from on-going development efforts and normal operations with a lower revenue base.

During the third and fourth quarters of 2004, the Company significantly increased its development efforts totaling \$1.3 million and was negatively impacted by foreign exchange costs of \$0.6 million.

The decline in fourth quarter revenue in both 2003 and 2004 is due to reduced sales and available shipping times over the holiday seasons in Canada and the US.

The gain on sale of one of the Company's long-term investments totaling \$2.0 million was included in the Q1 and Q2 2004 net income. Included in the Q1 2004 net income was the one-time sale of an intangible asset of \$294.

Due to rapidly changing market conditions during the second half of 2003, management had changed its strategy with respect to one of its AVI applications. As a result, in Q4 2003, the Company wrote-off \$245 of deferred development costs and \$260 of deposits associated with this development effort.

Included in the 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. Additional costs incurred in completing the restructuring efforts were primarily travel, moving and salary related.

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SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

There have been no material changes to the significant accounting policies and management estimates presented in the Annual Report of the Company as at December 31, 2004 and the Annual Information Form dated March 22, 2005. 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, and except as noted below have not changed significantly from those presented in the 2004 Annual Report. This analysis contains forward looking statements that may differ materially from future actual results.

RFID Adoption Rate

Sirit has been an active participant in the most prominent trade shows and conferences in the first half of 2005, including the RFID World and RFID Journal Live conferences. The Company viewed several key themes emerging from these conferences. First, RFID is clearly gaining greater acceptability with organizations looking to improve efficiencies within their supply chains. Second, the technology is continuing to improve, specifically with respect to tag sensitivity, a key to improving read rates, is getting better with each new generation of chip technology. Third, major organizations other than Wal-Mart and the U.S. Department of Defense are moving somewhat slower than expected in their adoption of RFID. The Company believes that while RFID will achieve the prominence expected within the supply chain market, adoption rates will be somewhat slower overall than 2004 research might have indicated. Sirit is financially positioned to manage any potential slowdowns in the adoption rate or rapid technological changes that may result given its solid cash and working capital balances, as well as, the recurring revenues earned from its AVI applications.

Long-Term Investments

Sirit currently owns three minority interest investments recorded at approximately \$5.2 million. There is a risk that these organizations will face operating or market risks not currently foreseen by local management. Sirit faces the risk that it will not be able to liquidate these investments and realize the reported carrying values. Sirit reviews the valuation of these investments on a regular basis.

Sirit Inc.
Interim Consolidated Balance Sheets
(expressed in thousands of Canadian dollars)

Unaudited

	As at June 30 2005	As at December 31 2004
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 7,924	\$ 10,021
Accounts receivable	2,974	3,319
Inventory	1,551	1,296
Prepays and deposits	436	716
	<u>12,885</u>	<u>15,352</u>
Long-term investments (note 2)	5,191	5,191
Property, plant and equipment, net	880	896
Intangible asset, net	472	573
Deferred development costs, net	91	123
Goodwill	2,829	2,829
	<u>\$ 22,348</u>	<u>\$ 24,964</u>
Liabilities		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 2,948	\$ 2,596
Deferred revenue	815	913
Warranty obligations	236	310
	<u>3,999</u>	<u>3,819</u>
Shareholders' equity		
Share capital (note 3)	35,107	34,763
Contributed surplus	920	400
Deficit	(17,678)	(14,018)
	<u>18,349</u>	<u>21,145</u>
	<u>\$ 22,348</u>	<u>\$ 24,964</u>

Commitments and guarantees (note 6)

Approved by the Directors:

"N. Dawalibi"
Director

"W. W. Staudt"
Director

See accompanying notes

Sirit Inc.**Interim Consolidated Statements of Operations**

(expressed in thousands of Canadian dollars except per share amounts)

Unaudited

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Revenue	\$ 4,632	\$ 5,525	\$ 9,058	\$ 10,462
Cost of Sales	3,113	3,249	5,879	6,142
Gross profit	1,519	2,276	3,179	4,320
Expenses				
Selling, general and administrative	3,134	1,564	5,117	3,247
Development	937	598	1,582	799
Amortization	152	128	300	259
Foreign exchange	(46)	(80)	(84)	(86)
	4,177	2,210	6,915	4,219
Operating income/(loss)	(2,658)	66	(3,736)	101
Gain on sale of long-term investment (note 2)	-	1,789	-	2,019
Other income	-	-	-	294
Interest income, net	39	34	76	65
Net income/(loss) for the period	\$ (2,619)	\$ 1,889	\$ (3,660)	\$ 2,479
Deficit, beginning of period	(15,059)	(14,352)	(14,018)	(14,942)
Deficit, end of period	\$ (17,678)	\$ (12,463)	\$ (17,678)	\$ (12,463)
Basic and diluted income/(loss) per share	\$ (0.03)	\$ 0.02	\$ (0.04)	\$ 0.03

See accompanying notes

Sirit Inc.**Interim Consolidated Statements of Cash Flows**

(expressed in thousands of Canadian dollars except per share amounts)

Unaudited

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Cash provided by/(used in):				
Operating Activities				
Income/(loss) from continuing operations	\$ (2,619)	\$ 1,889	\$ (3,660)	\$ 2,479
Items not involving cash and cash equivalents (note 5a)	576	(1,592)	883	(1,647)
	<u>(2,043)</u>	<u>297</u>	<u>(2,777)</u>	<u>832</u>
Net change in non-cash working capital items (note 5b)	446	(178)	550	3
	<u>(1,597)</u>	<u>119</u>	<u>(2,227)</u>	<u>835</u>
Investing Activities				
Additions to property, plant and equipment	(100)	(151)	(165)	(174)
Proceeds on sale of long-term investment	-	2,701	-	3,036
Investment in Horizon Wimba, Inc.	-	(36)	-	(36)
	<u>(100)</u>	<u>2,514</u>	<u>(165)</u>	<u>2,826</u>
Financing Activities				
Issuance of common shares, net of associated expenses	188	3	281	5,015
	<u>188</u>	<u>3</u>	<u>281</u>	<u>5,015</u>
Exchange rate impact on cash and cash equivalents	14	10	14	3
	<u>14</u>	<u>10</u>	<u>14</u>	<u>3</u>
Increase/(decrease) in cash and cash equivalents	(1,495)	2,646	(2,097)	8,679
Cash and cash equivalents, beginning of period	9,419	8,637	10,021	2,604
	<u>9,419</u>	<u>8,637</u>	<u>10,021</u>	<u>2,604</u>
Cash and cash equivalents, end of period	\$ 7,924	\$ 11,283	\$ 7,924	\$ 11,283
	<u>\$ 7,924</u>	<u>\$ 11,283</u>	<u>\$ 7,924</u>	<u>\$ 11,283</u>
Cash and cash equivalents consist of:				
Cash and deposit accounts with banks	\$ 1,238	\$ 11,283	\$ 1,238	\$ 11,283
Short-term commercial paper	6,686	-	6,686	-
	<u>\$ 7,924</u>	<u>\$ 11,283</u>	<u>\$ 7,924</u>	<u>\$ 11,283</u>

See accompanying notes

Sirit Inc.**Notes to the Financial Statements (unaudited)**

(expressed in thousands of Canadian Dollars except per share info)

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, 2004. 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.

2. LONG-TERM INVESTMENTS

Investments are recorded at the lower of cost and estimated net realizable value and include:

	June 30	December 31
	2005	2004
Medsite, Inc.	\$ 3,933	\$ 3,933
Applied Data Systems, Inc.	739	739
Horizon Wimba, Inc.	519	519
	\$ 5,191	\$ 5,191

Horizon Wimba, Inc.

On June 14, 2004, HorizonLive.com, Inc. and Wimba SA of France announced their merger to form a new U.S.-based entity called Horizon Wimba, Inc. Just prior to the merger transaction, the Company made a follow-on investment in HorizonLive.com, Inc. of \$36 (US\$26). In accordance with the terms of the merger transaction, the Company's entire investment was converted into 796,969 common shares and 70,000 Series A preferred shares of the new entity, Horizon Wimba, Inc.

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 on the sale of 4,022 shares.

In June 2004, the Company sold its remaining investment in Loma de Niquel Holdings Ltd. for gross cash proceeds of \$2.7 million and reported an additional gain on sale of \$1.6 million.

3. SHARE CAPITAL

(a) Common shares issued and outstanding:

	Shares	Amount
Balance at December 31, 2004	92,147,001	\$ 34,763
Issued on exercise of stock options	464,230	290
Issued for services rendered	50,000	54
Balance at June 30, 2005	92,661,231	\$ 35,107

(b) During the period April 1, 2005 to June 30, 2005, the Company granted 1,500,000 stock options to an employee. Total options issued year-to-date are 2,738,400. 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

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

accounting for stock-based compensation. The stock-based compensation expense related to stock options included in selling, general and administrative expenses and in contributed surplus was \$370 in the second quarter, with a year-to-date total of \$529. Included in this amount was stock-based compensation of \$180 for options held by a former executive which vested immediately pursuant to an eighteen month Retirement Agreement dated June 1, 2005.

- (c) The Company issued 50,000 shares to an executive of the Company for services rendered. The Company determined compensation cost on these shares based on the fair value at the grant date. The stock-based compensation expense included in selling, general and administrative expenses associated with this issuance in the second quarter of 2005 was \$54.
- (d) Basic net income/(loss) per common share is computed by dividing net income/(loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income/(loss) per common share is computed using the treasury stock method whereby the weighted average number of common shares used in the basic net income/(loss) per common share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period or at time of issuance, if later. Potential common shares are excluded from the calculation if their effect is anti-dilutive.

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

	Six months ended June 30	
	2005	2004
Weighted average number of shares outstanding - basic	92,353,240	86,517,506
Dilutive effect of stock options	-	2,956,327
Dilutive effect of warrants	-	2,035,714
Adjusted weighted average number of shares outstanding - diluted	92,353,240	91,509,547

At June 30, 2005, as a result of losses applicable to the common shares, the outstanding options are excluded in the diluted loss per share calculation as their inclusion would be anti-dilutive.

4. SEGMENTED INFORMATION

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

	June 30	December 31
	2005	2004
Radio Frequency Identification Business	\$ 17,157	\$ 19,773
Portfolio Investments Business	5,191	5,191
	\$ 22,348	\$ 24,964

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

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

	2005		
	RFID Business	Portfolio Investments	Total
Revenue	\$ 9,058	\$ -	\$ 9,058
Expenses	12,794	-	12,794
Operating (loss)	(3,736)	-	(3,736)
Interest income, net	76	-	76
(LOSS) FOR THE PERIOD	\$ (3,660)	\$ -	\$ (3,660)

	2004		
	RFID Business	Portfolio Investments	Total
Revenue	\$ 10,462	\$ -	\$ 10,462
Expenses	10,359	2	10,361
Operating income/(loss)	103	(2)	101
Other income	294	-	294
Gain on sale of long-term investment	-	2,019	2,019
Interest income, net	65	-	65
NET INCOME FOR THE PERIOD	\$ 462	\$ 2,017	\$ 2,479

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

	2005		
	RFID Business	Portfolio Investments	Total
Revenue	\$ 4,632	\$ -	\$ 4,632
Expenses	7,290	-	7,290
Operating (loss)	(2,658)	-	(2,658)
Interest income, net	39	-	39
LOSS FOR THE PERIOD	\$ (2,619)	\$ -	\$ (2,619)

	2004		
	RFID Business	Portfolio Investments	Total
Revenue	\$ 5,525	\$ -	\$ 5,525
Expenses	5,458	1	5,459
Operating income/(loss)	67	(1)	66
Other income	-	-	-
Gain on sale of long-term investment	-	1,789	1,789
Interest income, net	34	-	34
NET INCOME FOR THE PERIOD	\$ 101	\$ 1,788	\$ 1,889

Sirit Inc.**Notes to the Financial Statements (unaudited)**

(expressed in thousands of Canadian Dollars except per share info)

5. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS

(a) Items not involving cash and cash equivalents:

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Amortization	\$ 152	\$ 128	\$ 300	\$ 259
Gain on sale of long-term investment	-	(1,789)	-	(2,019)
Loss on disposal of assets	-	-	-	8
Stock compensation costs	424	69	583	105
	\$ 576	\$ (1,592)	\$ 883	\$ (1,647)

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

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Accounts receivable	\$ (186)	\$ (1,314)	\$ 345	\$ (204)
Inventory	368	(31)	(255)	(337)
Prepays and deposits	254	957	280	838
Accounts payable and accrued liabilities	(110)	156	352	(261)
Deferred revenue	79	66	(98)	106
Warranty obligations	41	(12)	(74)	(139)
	\$ 446	\$ (178)	\$ 550	\$ 3

6. COMMITMENTS AND GUARANTEES

(a) As at June 30, 2005, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$468 (December 30, 2004 - \$892).

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

	Amount
2005 (6 months)	\$ 148
2006	199
2007	191
2008	192
2009	96
Thereafter	-
	\$ 826

The Company has committed to a five year lease for new head office premises. The value of this commitment is in the process of negotiation and has not been included in the figures presented above.

7. RELATED PARTY TRANSACTIONS

The Company paid directors fees of \$24 for their services during the second quarter of 2005 (nil in the second quarter of 2004).

In the second quarter of 2005, the Company paid fees under a consulting agreement with one of its directors totalling \$30 (nil in the second quarter of 2004). The contract was completed in the second quarter.