



**2006**  
**Three Month Report**

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

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

*This discussion, which has been prepared as of May 4, 2006 at which time 96,273,786 shares are outstanding, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2006 and the audited annual consolidated financial statements, including the notes thereto included in the Company's December 31, 2005 annual report. This discussion contains forward-looking statements that involve inherent risks and uncertainties. The Company's actual results and the results of its investees may differ materially from those anticipated in these forward-looking statements. All amounts presented in this MD&A are in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in thousands of Canadian dollars (except the per share amounts) 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](http://www.SEDAR.com).

On February 15, 2006, Sirit introduced the INfinity 196, a high frequency ("HF") reader module designed to address a wide array of HF applications including cashless payments, secure transactions, access control, identify or product verification and item level tracking in supply chain applications. The INfinity 196 multi-protocol embedded RFID reader allows for easy integration into handheld portable data terminals, mobile computers, cashless payment and fixed terminals and other OEM devices.

On February 27, 2006, Sirit introduced its Plug-n-Play product line – an innovative and cost-effective family of Secure Digital ("SDIO") and USB-based multi-protocol 'plug and play' products, supporting a wide range of RFID applications. Sirit's Plug-n-Play RFID products are designed to be easily installed into a broad range of devices without the need for complex engineering support or technical know-how including smartphones, PDAs, handhelds, point-of-sale terminals and laptop PC's which can quickly transformed into low cost RFID readers and writers.

On March 13, 2006, Sirit announced that it had been selected as a supplier of its Title 21, FasTrak™ toll tags and reader hardware to the new South Bay Expressway in San Diego County, California. Sirit was initially contracted to provide readers and antennas and has received a follow-on purchase order valued at approximately US\$1.3 million to provide FasTrak™ toll tags. This represents a new toll customer for Sirit with incremental revenue commencing in the second half of 2006.

### **Subsequent Events**

On April 5, 2006, Sirit announced the completion of its acquisition of Tennessee-based TradeWind Technologies LLC ("TradeWind"), a developer and manufacturer of RFID readers and technology with an emphasis on HF operation. In accordance with the terms of the agreement as announced on February 27, 2006, Sirit acquired TradeWind for an aggregate consideration of \$1.7 million including US\$0.6 million cash and 3,000,000 common shares.

On April 13, 2006, Sirit announced the acquisition of the assets and undertaking of SAMSys Technologies Inc. ("SAMSys") out of the court appointed receivership proceeding. Sirit paid \$4.0

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

million, exclusive of acquisition costs, for the assets of SAMSys which included cash of \$2.5 million. The Company's immediate focus will be to quickly integrate the operations to ensure a seamless transition for all current SAMSys customers and to bring to market the new product platform that has been in development for over twelve months.

On April 28, 2006, the Company filed a preliminary short form prospectus with the securities regulators in all provinces, except Quebec, for an offering of its common shares. The pricing and other terms of the offering, including the definitive number of shares to be offered, will be established upon the entering into an underwriting agreement and the filing of a final short form prospectus. The offering is subject to usual regulatory approvals.

### RESOURCES

#### Cash Flows, Liquidity and Capital Resources

The Company utilized a total of \$0.9 million of cash and cash equivalents in the first quarter of 2006 to fund normal operations including development efforts. The total cash and cash equivalents at March 31, 2006 is \$5.2 million, compared to \$6.1 million at December 31, 2005.

#### Operating Activities

Sirit utilized \$0.8 million of cash to support operating activities during the first quarter of 2006, compared to \$0.6 million for the first quarter of 2005. The difference is the result of an increase in working capital of \$0.2 million in the first three months of 2006 versus a decrease in working capital of \$0.1 million in the first three months of 2005. Sirit's working capital (excluding cash and cash equivalents) at March 31, 2006 is \$0.6 million compared to \$0.4 million at December 31, 2005. The variance is a result of the following:

Accounts receivable increased by \$0.3 million from December 31, 2005 as a result of increased sales during the quarter. The average age of receivables improved from 64 days in 2005 to 52 days in the first quarter of 2006.

Inventory has increased by \$0.4 million from a balance of \$2.0 million at December 31, 2005 to \$2.4 million at March 31, 2006. As the Company introduces new products a build up of parts is required to support the increased number of products.

Prepays and deposits increased by \$0.2 million from December 31, 2005 due to the timing of ongoing activities, such as insurance, which are paid for in January and utilized throughout the calendar year.

Accounts payable and accrued liabilities increased by \$0.7 million from December 31, 2005, reflecting the growth in activity during the quarter. The average age of payables has decreased from 65 days in 2005 to 55 days in the first quarter of 2006.

#### Investing Activities

There were minimal investing activities in property and equipment during the three months ended March 31, 2006 and 2005.

#### Financing Activities

There were no financing activities during the first three months of 2006 and minimal activities during the first three months of 2005.

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#### Commitments

Commitments are comprised of premises rental costs associated with the Company's three operating locations. These rental costs are expected to be incurred as follows:

|                         | <b>Payments due by Period</b> |                     |                     |                     |                     |
|-------------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| Contractual Obligations | <b>Total</b>                  | <b>Up to 1 year</b> | <b>2 to 3 years</b> | <b>4 to 5 years</b> | <b>Over 5 years</b> |
| Premises Leases         | <u>\$ 1,281</u>               | <u>\$ 330</u>       | <u>\$ 655</u>       | <u>\$ 296</u>       | <u>\$ -</u>         |

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

As at March 31, 2006, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$1.2 million (December 31, 2005 – \$1.0 million).

There were no additional commitments entered into during the first quarter of 2006.

#### Related Party Transactions

The Company incurred directors' fees of \$26 for their services during the first quarter of 2006 (\$83 in the first quarter of 2005, a portion of which related to services performed in 2004).

In the first quarter of 2006, the Company paid nil to its directors for services not in the course of their responsibilities as directors (\$21 was paid in the first quarter of 2005 for legal services).

There were no other related party transactions during the first quarter of 2006.

## Sirit Inc.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### RESULTS

For the three months ended March 31, 2006 compared to the three months ended March 31, 2005

|  | Three months ended March 31 |                   |
|--|-----------------------------|-------------------|
|  | 2006                        | 2005              |
| Revenue  | \$ 5,384                    | \$ 4,426          |
| Cost of sales  | 3,396                       | 2,766             |
| Gross profit   | 1,988                       | 1,660             |
| Expenses   | 3,017                       | 2,738             |
| Operating (loss)   | (1,029)                     | (1,078)           |
| Interest income, net   | 36                          | 37                |
| <b>Net (loss)</b>  | <b>\$ (993)</b>             | <b>\$ (1,041)</b> |
| <b>Basic and diluted (loss) per share</b>                                      | <b>\$ (0.01)</b>            | <b>\$ (0.01)</b>  |
| <b>Basic and diluted weighted average number of shares outstanding ('000s)</b> | <b>93,274</b>               | <b>92,190</b>     |
| <b>Total assets</b>  | <b>\$ 18,286</b>            | <b>\$ 24,345</b>  |
| <b>Total long-term financial liabilities</b>                                   | <b>\$ -</b>                 | <b>\$ -</b>       |

#### Revenue

For the first quarter of 2006, reported revenue is \$5.4 million, an increase of approximately \$1.0 million compared to the first quarter of 2005. A further analysis of revenue by the Company's primary RFID applications follows.

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

Total revenue generated from AVI applications increased by \$1.1 million, or 33%, from the \$3.3 million reported in the first quarter of 2005 to \$4.4 million in the first quarter of 2006. AVI revenue represents 81% of total revenue for the quarter compared to 75% in the prior year. AVI applications can be further broken down into tolling applications and parking and access control ("PACS") applications.

Tolling revenue increased by \$0.9 million to \$3.7 million in the first quarter of 2006, a 32% increase over the \$2.8 million from the first quarter of 2005. The increase is attributable to growth in toll tag sales during the quarter as sales volumes return to historic levels.

PACS revenue increased by \$0.2 million to \$0.7 million in the first quarter of 2006. PACS revenue was \$0.5 million in the first quarter of 2005.

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

RFS revenue remained stable in the first quarter of 2006 reaching \$1.0 million compared to the \$1.1 million reported in the first quarter of 2005. The slight change in revenue is primarily due to changes in foreign exchange rates year over year as sales in US\$ were consistent with the prior year. Quarterly revenues are anticipated to be uneven as trials and pilot projects continue with large-scale implementations remaining unpredictable.

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#### Gross Margin

Gross margin for the first quarter of 2006 of 36.9% remained consistent with the 37.5% reported in the first quarter of 2005. The slight decline in gross margin is due primarily to competitive pricing pressures with certain toll customers, which represent a large portion of the first quarter revenue.

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

Total SG&A expenses remained consistent at \$1.8 million for both the first quarter of 2006 and 2005. These expenses are comprised of salaries, benefits and commissions of \$1.0 million (first quarter of 2005 - \$0.9 million) and the remaining SG&A expenses of \$0.8 million (first quarter of 2005 - \$0.9 million) include rent, professional fees, travel and marketing and acquisition related expenses.

#### Development Expenses

Development expenses for the first quarter of 2006 totaled \$0.8 million (first quarter of 2005 - \$0.6 million). Development efforts continue to be focused primarily on products to support RFS applications. Development staff complement at March 31, 2006 was 16 compared to 15 at March 31, 2005.

#### Quarterly Results

|  | <b>2006<br/>1st Q</b> | <b>2005<br/>4th Q</b> | <b>2005<br/>3rd Q</b> | <b>2005<br/>2nd Q</b> | <b>2005<br/>1st Q</b> | <b>2004<br/>4th Q</b> | <b>2004<br/>3rd Q</b> | <b>2004<br/>2nd Q</b> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenue  | \$ 5,384              | \$ 4,254              | \$ 3,107              | \$ 4,632              | \$ 4,426              | \$ 4,876              | \$ 5,162              | \$ 5,525              |
| Net (loss)/income for the period               | (993)                 | (2,279)               | (2,759)               | (2,619)               | (1,041)               | (913)                 | (642)                 | 1,889                 |
| Net (loss)/income per share, basic and diluted | \$ (0.01)             | \$ (0.02)             | \$ (0.03)             | \$ (0.03)             | \$ (0.01)             | \$ (0.01)             | \$ (0.01)             | \$ 0.02               |

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

The 2005 fourth quarter revenue is lower than the fourth quarter of 2004 which included revenue from the installation of a traffic management system in the state of Florida which did not recur in the fourth quarter of 2005. Toll transponder sales improved during the 2005 fourth quarter when compared to the third quarter of 2005. Net loss for the 2005 fourth quarter includes a further write-down of long-term investments by \$1.1 million.

The 2005 third quarter revenue decline is attributable to lower transponder sales along with a lower level of RFS application sales when compared to the second quarter of 2005. The net loss includes a write-down of one non-core investment of \$0.9 million in addition to \$150 of severance costs associated with staff reductions which occurred during the quarter.

Second quarter 2005 net loss includes lower than anticipated AVI revenue in addition to non-recurring 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 transponders which were lower when compared to the first quarter of 2004. The net loss primarily results from increased costs as a result of on-going development efforts and normal operations with a lower revenue base as noted above due to delayed timing of shipments.

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

The decline in fourth quarter revenue in 2004 is due to reduced sales and available shipping times over the holiday season 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 net income for the first and second quarters of 2004.

### **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, 2005 and the Annual Information Form dated March 16, 2006. 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 2005 Annual Report. This analysis contains forward looking statements that may differ materially from future actual results.

#### **Capital Raising Activities**

The Company has initiated capital raising activities to support its growth efforts including additional working capital needs in support of recent and potential acquisitions. Should the Company be unable to successfully complete these efforts or raise the desired level of funding, future growth efforts may be impacted and the Company may be required to scale back its current operations.

#### **Ability to Achieve Commercialization on a Timely Basis**

Sirit's success will depend, to a great extent, on its ability to achieve commercial sales of products incorporating its RFID technology on a timely basis. There can be no assurance that Sirit's technology and products based on such technology will achieve commercial acceptance on a timely basis or that, if market acceptance is achieved, Sirit will be able to maintain such acceptance for a significant period of time. Failure to obtain commercial sales, or to achieve commercial sales on a timely basis, would have an adverse impact on Sirit's financial condition and its ability to sustain its operations.

#### **Ability to Achieve Commercial Acceptance**

Sirit's targeted end-users will be required to make significant investments in their business processes and systems in order to achieve the intended benefits associated with RFID technology. There is no assurance that targeted end-users will be willing to make these investments and adopt RFID technology or, if they are, that they will choose Sirit's RFID products and services. Although development of Sirit's products has been largely completed, sales of Sirit's current products to date have been primarily for evaluation and pilot testing purposes, have yielded inconsistent revenues and there is no assurance that Sirit's products will achieve commercial acceptance.

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

### **Management of Expanding Operations**

If Sirit achieves significant commercial sales of its products, it will be required to expand its operations rapidly, which will place significant demands on Sirit's managerial, operational and financial personnel and systems. There can be no assurance that Sirit's systems, procedures, controls and existing facilities will be adequate to support expansion of Sirit's operations. Sirit's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If Sirit is unable to respond to and manage changing business conditions, the quality of Sirit's products and services, its ability to retain key personnel and its results of operations could be materially adversely affected.

### **Intellectual Property Rights**

Sirit's success and competitiveness substantially depends on its internally-developed proprietary technologies which are protected through trade secrets, trademarks, copyrights and patents. Patent applications and trademark registrations may not be approved, or, if approved, may be challenged by third parties or invalidated. In addition, patents granted to Sirit may not provide a distinctive or enduring competitive advantage.

Sirit is also dependent on proprietary technologies licensed from third parties. There can be no assurance that these third party licenses will continue to be available to Sirit in the future or that they will not be successfully challenged by third parties.

From time to time, third parties may assert claims or initiate litigation against Sirit alleging that Sirit's products infringe their proprietary rights and Sirit may become increasingly subject to claims of infringement or misappropriation of the intellectual property rights of others. In addition, Sirit may in the future initiate claims or litigation against third parties for infringement of its proprietary rights. Litigation claims, with or without merit, could be time-consuming and costly, divert management's attention, cause product shipment delays, and require Sirit to develop non-infringing technology or enter into royalty or licensing agreements. Such agreements, if required, may not be available on acceptable terms, if at all, which could have a material adverse effect on Sirit's business, financial condition and results of operations.

Sirit may be subject to additional risks as it enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of its rights may be ineffective in such countries. Litigation to defend and enforce its intellectual property rights could result in substantial costs and diversion of resources and could have a material adverse effect on Sirit's business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite Sirit's efforts to safeguard and maintain its proprietary rights in Canada, the United States and abroad, there can be no assurance that it will be successful in doing so, or that the steps taken by Sirit in this regard will be adequate to deter misappropriation or independent third-party development of its technology or to prevent an unauthorized third party from copying or otherwise obtaining and using its products or technology. Any of these events could have a material adverse effect on Sirit's business, financial condition and results of operations.

### **Complexity of Products**

Many of Sirit's new products and products under development are highly complex and innovative. As a result, they may contain defects or errors that are detected only after installation into its customers' systems which could have a negative impact on Sirit's future revenues and its ability to meet its projections.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Dependence on Resellers and Distributors**

Sirit intends to achieve some of its sales through value-added resellers and distributors. Reliance upon third-party distribution sources subjects Sirit to risks of business failure by such value-added resellers and distributors, as well as credit, inventory and business concentration risks. In addition, if there is a shortfall in demand from third-party distribution sources, Sirit's operating results may be negatively affected.

**Dependence on Customers**

Sirit is dependent on a number of significant customers and on large complex contracts with respect to sales of the majority of its products and services. In fiscal 2005, two customers accounted for approximately 17.2% and 16.1% of total consolidated revenues. If any significant customer discontinues its relationship with Sirit for any reason, or reduces or postpones current or expected purchase commitments for its products and services, it could have a material adverse effect on Sirit's business, operating results and financial condition.

**Integration of Acquisitions**

Sirit has recently completed two acquisitions and continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, complement or are otherwise related to Sirit's current business. These activities create risks such as the need to integrate and manage the businesses and products acquired with the business and products of Sirit, additional demands on Sirit's management, resources, systems, procedures and controls, disruption of Sirit's ongoing business, and diversion of management's attention from other business concerns. Such acquisitions, investments or other business collaborations may involve significant commitments of financial and other resources of Sirit. Any such activity may not be successful in generating revenue, income or other returns to Sirit, and the financial or other resources committed to such activities will not be available to Sirit for other purposes. Sirit's inability to address these risks could negatively affect Sirit's operating results.

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

|  | <b>As at<br/>March 31<br/>2006</b> | <b>As at<br/>December 31<br/>2005</b> |
|--|------------------------------------|---------------------------------------|
| <b>Assets</b>                            |                                    |                                       |
| <i>Current Assets</i>                    |                                    |                                       |
| Cash and cash equivalents                | \$ 5,191                           | \$ 6,079                              |
| Accounts receivable                      | 3,198                              | 2,941                                 |
| Inventory                                | 2,421                              | 2,020                                 |
| Prepays and deposits                     | 258                                | 108                                   |
|  | <u>11,068</u>                      | <u>11,148</u>                         |
| Long-term investments                    | 3,182                              | 3,182                                 |
| Property and equipment                   | 844                                | 838                                   |
| Intangible asset                         | 320                                | 370                                   |
| Deferred development costs               | 43                                 | 59                                    |
| Goodwill                                 | 2,829                              | 2,829                                 |
|  | <u>\$ 18,286</u>                   | <u>\$ 18,426</u>                      |
| <b>Liabilities</b>                       |                                    |                                       |
| <i>Current Liabilities</i>               |                                    |                                       |
| Accounts payable and accrued liabilities | \$ 4,214                           | \$ 3,526                              |
| Deferred revenue                         | 778                                | 815                                   |
| Warranty obligations                     | 290                                | 290                                   |
|  | <u>5,282</u>                       | <u>4,631</u>                          |
| <b>Shareholders' Equity</b>              |                                    |                                       |
| Share capital                            | 35,195                             | 35,195                                |
| Contributed surplus                      | 1,518                              | 1,316                                 |
| Deficit                                  | (23,709)                           | (22,716)                              |
|  | <u>13,004</u>                      | <u>13,795</u>                         |
|  | <u>\$ 18,286</u>                   | <u>\$ 18,426</u>                      |

**Commitments and guarantees (note 5)**

Approved by the Directors:

"N. Dawalibi"  
Director

"H. Johnson"  
Director

See accompanying notes

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

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

Unaudited

|   | <b>Three Months Ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>March 31</b>           |                    |
|   | <b>2006</b>               | <b>2005</b>        |
| <b>Revenue</b>  | \$ 5,384                  | \$ 4,426           |
| Cost of Sales   | 3,396                     | 2,766              |
| <b>Gross profit</b>   | <u>1,988</u>              | <u>1,660</u>       |
| <b>Expenses</b>   |                           |                    |
| Selling, general and administrative                                       | 1,838                     | 1,824              |
| Stock-based compensation  | 202                       | 159                |
| Development   | 794                       | 645                |
| Amortization  | 140                       | 148                |
| Foreign exchange loss/(gain)  | 43                        | (38)               |
|   | <u>3,017</u>              | <u>2,738</u>       |
| <b>Operating (loss)</b>   | (1,029)                   | (1,078)            |
| Interest income, net  | 36                        | 37                 |
| <b>Net (loss) for the period</b>  | <u>\$ (993)</u>           | <u>\$ (1,041)</u>  |
| Deficit, beginning of period  | <u>(22,716)</u>           | <u>(14,018)</u>    |
| <b>Deficit, end of period</b>   | <u>\$ (23,709)</u>        | <u>\$ (15,059)</u> |
| <b>Basic and diluted (loss) per share</b>                                 | <u>\$ (0.01)</u>          | <u>\$ (0.01)</u>   |
| <b>Basic and diluted weighted average number of common shares ('000s)</b> | <b>93,274</b>             | <b>92,190</b>      |

See accompanying notes

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

(expressed in thousands of Canadian dollars)

Unaudited

|  | <b>Three Months Ended<br/>March 31</b> |                        |
|--|--|------------------------|
|  | <b>2006</b>                            | <b>2005</b>            |
| <b>Cash provided by/(used in):</b>                       |  |                        |
| <b>Operating Activities</b>                              |  |                        |
| (Loss) from operations                                   | \$ (993)                               | \$ (1,041)             |
| Items not involving cash and cash equivalents (note 4a)  | 342                                    | 307                    |
|  | <u>(651)</u>                           | <u>(734)</u>           |
| Net change in non-cash working capital items (note 4b)   | <u>(157)</u>                           | <u>104</u>             |
|  | <u>(808)</u>                           | <u>(630)</u>           |
| <b>Investing Activities</b>                              |  |                        |
| Additions to property and equipment                      | <u>(80)</u>                            | <u>(65)</u>            |
| <b>Financing Activities</b>                              |  |                        |
| Issuance of common shares upon exercise of stock options | <u>-</u>                               | <u>93</u>              |
| <b>(Decrease) in cash and cash equivalents</b>           | (888)                                  | (602)                  |
| Cash and cash equivalents, beginning of period           | <u>6,079</u>                           | <u>10,021</u>          |
| <b>Cash and cash equivalents, end of period</b>          | <b><u>\$ 5,191</u></b>                 | <b><u>\$ 9,419</u></b> |
| <b>Cash and cash equivalents consist of:</b>             |  |                        |
| Cash and deposit accounts with banks                     | \$ 1,478                               | \$ 2,316               |
| Short-term commercial paper                              | <u>3,713</u>                           | <u>7,103</u>           |
|  | <b><u>\$ 5,191</u></b>                 | <b><u>\$ 9,419</u></b> |

See accompanying notes

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

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles are not provided. These interim unaudited consolidated 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 Sirit Inc. (“Sirit” or the “Company”) for the year ended December 31, 2005. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. Note disclosures have been presented for material updates to the information previously reported.

**2. SHARE CAPITAL**

(a) Common shares issued and outstanding:

|  | <u>Shares</u>     | <u>Amount</u>    |
|--|-------------------|------------------|
| <b>Balance at December 31, 2005 and March 31, 2006</b> | <b>93,273,786</b> | <b>\$ 35,195</b> |

(b) During the period January 1, 2006 to March 31, 2006, the Company did not grant any stock options. The Company determines compensation costs on options granted based on the fair value at the grant date in accordance with the fair value based method of accounting for stock-based compensation.

(c) The following table reconciles contributed surplus for the three months ended March 31, 2006:

|   | <u>Amount</u>   |
|---|-----------------|
| <b>Balance at December 31, 2005</b>               | <b>\$ 1,316</b> |
| Stock based compensation on stock options granted | <u>202</u>      |
| <b>Balance at March 31, 2006</b>                  | <b>\$ 1,518</b> |

**3. SEGMENTED INFORMATION**

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

|   | <u>March 31</u><br><u>2006</u> | <u>December 31</u><br><u>2005</u> |
|---|--------------------------------|-----------------------------------|
| Radio Frequency Identification Business | \$ 15,104                      | \$ 15,244                         |
| Portfolio Investments Business          | <u>3,182</u>                   | <u>3,182</u>                      |
|   | <b>\$ 18,286</b>               | <b>\$ 18,426</b>                  |

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

For the three months ended March 31, the Company's revenue and expenses by reportable business segment are as follows:

|                                  | <b>2006</b>     |                    |                 |
|----------------------------------|-----------------|--------------------|-----------------|
|                                  | <b>RFID</b>     | <b>Portfolio</b>   |                 |
|                                  | <b>Business</b> | <b>Investments</b> | <b>Total</b>    |
| Revenue                          | \$ 5,384        | \$ -               | \$ 5,384        |
| Expenses                         | 6,413           | -                  | 6,413           |
| Operating (loss)                 | (1,029)         | -                  | (1,029)         |
| Interest income, net             | 36              | -                  | 36              |
| <b>Net (loss) for the period</b> | <b>\$ (993)</b> | <b>\$ -</b>        | <b>\$ (993)</b> |

|                                  | <b>2005</b>       |                    |                   |
|----------------------------------|-------------------|--------------------|-------------------|
|                                  | <b>RFID</b>       | <b>Portfolio</b>   |                   |
|                                  | <b>Business</b>   | <b>Investments</b> | <b>Total</b>      |
| Revenue                          | \$ 4,426          | \$ -               | \$ 4,426          |
| Expenses                         | 5,504             | -                  | 5,504             |
| Operating (loss)                 | (1,078)           | -                  | (1,078)           |
| Interest income, net             | 37                | -                  | 37                |
| <b>Net (loss) for the period</b> | <b>\$ (1,041)</b> | <b>\$ -</b>        | <b>\$ (1,041)</b> |

**4. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS**

(a) Items not involving cash and cash equivalents:

|                          | <b>Three months ended</b> |               |
|--------------------------|---------------------------|---------------|
|                          | <b>March 31</b>           |               |
|                          | <b>2006</b>               | <b>2005</b>   |
| Amortization             | \$ 140                    | \$ 148        |
| Stock compensation costs | 202                       | 159           |
|                          | <b>\$ 342</b>             | <b>\$ 307</b> |

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

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

|  | <b>Three months ended<br/>March 31</b> |               |
|--|--|---------------|
|  | <b>2006</b>                            | <b>2005</b>   |
| Accounts receivable                      | \$ (257)                               | \$ 531        |
| Inventory                                | (401)                                  | (623)         |
| Prepays and deposits                     | (150)                                  | 26            |
| Accounts payable and accrued liabilities | 688                                    | 462           |
| Deferred revenue                         | (37)                                   | (177)         |
| Warranty obligations                     | -                                      | (115)         |
|  | <b>\$ (157)</b>                        | <b>\$ 104</b> |

**5. COMMITMENTS AND GUARANTEES**

- (a) As at March 31, 2006, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$1,237 (December 31, 2005 - \$1,017).
- (b) The Company's total future minimum operating lease commitments are summarized as follows:

|                 | <b>Amount</b>   |
|-----------------|-----------------|
| 2006 (9 months) | \$ 248          |
| 2007            | 327             |
| 2008            | 328             |
| 2009            | 235             |
| 2010            | 143             |
| Thereafter      | -               |
|                 | <b>\$ 1,281</b> |

**6. RELATED PARTY TRANSACTIONS**

The Company incurred directors fees of \$26 for their services during the first quarter of 2006 (\$83 in the first quarter of 2005 a portion of which related to services performed in 2004). The fees were included in selling, general and administrative expenses.

In the first quarter of 2006, the Company paid nil to its directors for services not in the course of their responsibility as director (\$21 in the first quarter of 2005 for legal services).

**7. SUBSEQUENT EVENTS**

- (a) On April 5, 2006, the Company completed the acquisition of TradeWind Technologies LLC ("TradeWind"), a private Knoxville, Tennessee based Radio Frequency Identification development company. TradeWind specializes in the development of high frequency ("HF") products and brings to Sirit an immediate complementary suite of HF plug and play readers. Sirit acquired Tradewind for aggregate consideration of \$1,722 including US\$600 cash and 3,000,000 common shares. The Company has yet to complete its preliminary purchase price allocation.
- (b) On April 13, 2006, the Company completed the acquisition of the assets and undertaking of SAMSys Technologies Inc. ("SAMSys") out of the court appointed receivership proceedings. Sirit paid \$4,000 in cash,

**Sirit Inc.**

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

exclusive of acquisition costs, for the assets of SAMSys which included cash resources of approximately \$2,500. The Company has yet to complete its preliminary purchase price allocation.

- (c) On April 28, 2006, the Company filed a preliminary short form prospectus with the securities regulators in all provinces, except Quebec, for an offering of its common shares. The pricing and other terms of the offering, including the definitive number of shares to be offered, will be established upon the entering into of an underwriting agreement and the filing of a final short form prospectus. The offering is subject to usual regulatory approvals.