



2006
Six Month Report

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This discussion, which has been prepared as of August 2, 2006 at which time 145,523,786 shares are outstanding, should be read in conjunction with the unaudited interim consolidated financial statements for the period ended June 30, 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.

On April 3, 2006, Sirit completed the acquisition of all of the outstanding shares of Tennessee-based TradeWind Technologies LLC ("TradeWind"), a developer and manufacturer of RFID readers and technology with an emphasis on high frequency ("HF") operation. In accordance with the terms of the agreement as announced on February 27, 2006, Sirit acquired all of the outstanding shares of TradeWind for an aggregate consideration of \$1,858 including US\$600 (CDN\$702) in cash, 3,000,000 common shares valued at \$1,020 and associated acquisition costs of \$136.

On April 13, 2006, Sirit announced the acquisition of the assets and undertaking of SAMSys Technologies Inc. ("SAMSys") out of a court appointed receivership proceeding. Sirit paid a total of \$4,335 including cash of \$4.0 million and acquisition costs of \$335, for the assets of SAMSys which included cash of \$2.5 million. SAMSys provided RFID reader hardware solutions to North American and European customers in the automatic identification and data capture industry, specifically targeting supply chain management and asset management targets.

On April 20, 2006, Mr. Howard Johnson was elected to the Board of Directors and Mr. Art Mesher was appointed Chairman of the Board of Directors. Mr. Mesher is Chief Executive Officer of Descartes Systems Group Inc. a leading provider of on-demand software-as-a-service delivery management solutions for transportation, logistics, manufacturing, retail, distribution and service provider enterprises. Mr. Johnson is a Chartered Accountant, Certified Management Accountant and Chartered Business Valuator. Mr. Johnson is currently President of Veracap Corporate Finance Ltd. as well as a Partner with Campbell Valuation Partners Limited in Toronto.

On May 1, 2006, the Company introduced its next-generation, INfinity 510, ultra high frequency ("UHF") RFID reader for use in a variety of applications including global supply chain deployments. The INfinity 510 has been developed from the ground-up as a Gen 2 compliant multi-protocol reader and is expected to provide the best price performance in its class.

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On May 26, 2006, the Company completed its public offering issuing 42,500,000 common shares at a price of \$0.26 per common share for total gross proceeds of \$11,050. On June 9, 2006, the Company issued an additional 6,000,000 common shares pursuant to the exercise of the over-allotment option granted to the underwriters for total gross proceeds of \$1,560.

On June 21, 2006, Sirit announced that it secured an order valued at \$5.9 million from the Bay Area Toll Authority in California. The one year contract calls for Sirit to deliver a combination of its traditional sealed and new battery replaceable Title-21 based toll transponders including packaged tags which are available at retail locations.

Subsequent Event

On July 20, 2006, the Company announced that it will receive cash proceeds of approximately US\$1.9 million upon completion of a sale transaction involving one of its long-term investments, Medsite, Inc., from its Portfolio Investments business segment. The transaction is expected to close within the next 30 days with 10% of the proceeds to be held in escrow for a period of up to one year.

RESOURCES

Cash Flows, Liquidity and Capital Resources

Total cash and cash equivalents at June 30, 2006 is \$11.7 million, a \$5.6 million increase over the balance of \$6.1 million at December 31, 2005. During the second quarter of 2006, the Company generated a total of \$6.5 million of cash and cash equivalents with \$11.6 million generated from financing activities offset by \$2.7 million utilized for investing activities, primarily acquisitions and \$2.4 million utilized in operations.

Operating Activities

Sirit utilized \$3.2 million of cash to fund operating activities through the first six months of 2006 (first six months of 2005 - \$2.2 million). Approximately \$2.4 million of the total was spent in the second quarter of 2006 (second quarter of 2005 - \$1.6 million). The difference in both the second quarter and first six months of 2006 when compared to the prior year relates to the SAMSys and TradeWind acquisitions resulting in incremental cash costs during the second quarter of approximately \$1.6 million, including approximately \$0.3 million of non-recurring severance costs. The second quarter of 2005 included a one-time payment to a retiring executive of \$0.2 million.

Total working capital (excluding cash and cash equivalents) at June 30, 2006 is \$0.6 million compared to \$0.4 million at December 31, 2005 and \$0.6 million at March 31, 2006. The change from December 31, 2005 is due to the following fluctuations:

Accounts receivable increased by \$0.5 million from \$2.9 million at December 31, 2005 to \$3.4 million at June 30, 2006. This fluctuation is due to both higher sales levels overall and higher sales in the latter part of the quarter (\$5.5 million in the second quarter of 2006 compared to \$4.3 million in the fourth quarter of 2005). The average age of receivables has improved from 64 days in 2005 to 50 days in the first six months of 2006.

Inventory has increased by \$1.2 million from a balance of \$2.0 million at December 31, 2005 to \$3.2 million at June 30, 2006. Inventory increased by \$0.4 million as a result of inventory acquired and product transitions associated with the products assumed in the SAMSys and TradeWind acquisitions. The remaining increase is due to timing of purchases as the Company takes advantage of bulk purchases in order to minimize per unit costs and the impact of increasing lead times on certain components.

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepays and deposits increased from \$0.1 million at December 31, 2005 to \$0.3 million at June 30, 2006 due to the timing of ongoing activities, such as insurance, which are paid for at the beginning of the year and utilized throughout the calendar year.

Accounts payable and accrued liabilities increased to \$5.2 million at June 30, 2006 compared to \$3.5 million at December 31, 2005 and \$4.2 million at March 31, 2006. The increase corresponds with higher purchasing volumes to support new products and improved sales throughout the first six months of 2006. Accrued liabilities at June 30 have increased to include unpaid severance, timing of payroll and bonuses. The average age of payables has decreased from 65 days in 2005 to 56 days in the first six months of 2006.

Investing Activities

The Company utilized \$2.7 million in the second quarter of 2006 and \$2.8 million in the first six months of 2006 for investing activities (second quarter of 2005 - \$0.1 million; first six months of 2005 - \$0.2 million). Substantially all of the increase relates to the acquisitions of SAMSys and TradeWind during the second quarter of 2006. The Company completed its acquisition of the assets and undertaking of SAMSys on April 13, 2006. The Company paid a total of \$4.3 million, including acquisition costs, to acquire net assets including cash of approximately \$2.5 million, for a net amount of just over \$1.8 million. On April 3, 2006, the cash portion of the acquisition of TradeWind was approximately \$800, also including acquisition costs.

Financing Activities

The Company generated a total of \$11.7 million from financing activities for both the second quarter and the first six months of 2006 (second quarter of 2005 - \$0.2 million; first six months of 2005 - \$0.3 million). Cash was generated in a public offering of 48,500,000 shares at a share price of \$0.26 for gross proceeds of \$12.6 million. Expenses related to this offering totaled \$1.0 million for net proceeds of \$11.6 million. The balance relates to the exercise of 750,000 options for proceeds of \$0.1 million.

Commitments

Commitments are comprised of premises rental costs associated with the Company's six operating locations. Three of these locations were obtained through the acquisitions of TradeWind and SAMSys (one location in the state of Tennessee and two in the state of North Carolina). The rental costs are expected to be incurred as follows:

| | Payments due by Period | | | | |
|-------------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| Contractual Obligations | Total | Up to 1 year | 2 to 3 years | 4 to 5 years | Over 5 years |
| Premises Leases | <u>\$ 1,470</u> | <u>\$ 566</u> | <u>\$ 690</u> | <u>\$ 214</u> | <u>\$ -</u> |

There are commitments to purchase capital assets of approximately \$90 in the third quarter of 2006.

As at June 30, 2006, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$1.3 million (December 31, 2005 - \$1.0 million).

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

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Related Party Transactions

The Company incurred directors' fees of \$25 for their services during the second quarter of 2006 (second quarter of 2005 - \$24).

In the second quarter of 2006, the Company paid \$1 to one of its directors for legal services (second quarter of 2005 - \$30 under a consulting agreement).

RESULTS

For the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005

| | Three months ended June 30 | | Six months ended June 30 | |
|---|----------------------------|------------|--------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | \$ 5,536 | \$ 4,632 | \$ 10,920 | \$ 9,058 |
| Cost of sales | 3,685 | 3,113 | 7,081 | 5,879 |
| Gross profit | 1,851 | 1,519 | 3,839 | 3,179 |
| Expenses | 5,178 | 4,177 | 8,195 | 6,915 |
| Operating (loss) | (3,327) | (2,658) | (4,356) | (3,736) |
| Interest income, net | 49 | 39 | 85 | 76 |
| Net (loss) | \$ (3,278) | \$ (2,619) | \$ (4,271) | \$ (3,660) |
| Basic and diluted (loss) per share | \$ (0.03) | \$ (0.03) | \$ (0.04) | \$ (0.04) |
| Basic and diluted weighted average number of shares outstanding ('000s) | 114,305 | 92,514 | 103,847 | 92,353 |
| Total assets | \$ 28,966 | \$ 22,348 | \$ 28,966 | \$ 22,348 |
| Total long-term financial liabilities | \$ - | \$ - | \$ - | \$ - |

Revenue

Revenue for the first six months of 2006 is \$1.9 million, or 21%, higher than the first six months of 2005. Revenue for the second quarter of 2006 is \$0.9 million, or 20%, higher than the second quarter of 2005. A further analysis of revenue by the Company's primary RFID applications follows.

Automatic Vehicle Identification (AVI) Applications

AVI revenue increased from \$6.7 million for the first six months of 2005 to \$8.8 million for the first six months of 2006, a 31% increase. For the second quarter, revenue increased from \$3.3 million in 2005 to \$4.4 million in 2006. AVI revenue represents 80.5% of total year-to-date revenue, an increase over the 73.5% in 2005. AVI applications can be further broken down between tolling applications and parking and access control ("PACS") applications.

Tolling revenue increased to \$3.8 million in the second quarter of 2006, a \$1.2 million or 46% increase over the second quarter of 2005. Year-to-date 2006 tolling revenue has increased to \$7.5 million, a \$2.1 million increase or 39%, compared to the \$5.4 million in the first six months of 2005. The increase is attributable to growth in toll tag sales as sales volumes continue to reflect return-to-normal historic levels.

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PACS revenue for the first six months of 2006 remained consistent compared to the first six months of 2005 at \$1.3 million. Second quarter revenue decreased slightly from \$0.7 million in 2005 to \$0.6 million in 2006.

Radio Frequency Solutions (RFS) Applications

RFS revenue reached \$2.1 million through the first half of 2006 compared to \$2.4 million in the first half of 2005, a 13% decline. Second quarter RFS revenue was \$1.3 million in 2005 compared to \$1.1 million in 2006. RFS revenue represents 19.5% of total revenue for the first six months of 2006, a decrease over the 26.5% in 2005.

During the second quarter of 2005, the Company shipped a single order valued at approximately \$0.8 million representing over 1,000 modules to a large US-based OEM customer for installation in a retail environment to manage inventory at the item level.

Quarterly RFS revenues continue to be unpredictable as large-scale implementations are not yet mainstream. There have been recent positive developments with ISO having recently ratified the EPC Gen 2 standard.

Gross Margin

Gross margin for the second quarter and first six months of 2006 of 33.4% and 35.2% respectively remained relatively consistent with the 32.8% and 35.1% reported in the corresponding periods of 2005. Gross margin for the second quarter of 2006 has decreased from the 36.9% reported in the first quarter of 2006 due to customer and product mix changes plus increased overhead costs to support the larger product portfolio.

Selling, General and Administrative Expenses (SG&A)

Total SG&A expenses have increased by approximately \$0.3 million for both the second quarter of 2006 and the first six months of 2006 when compared to the previous year. SG&A expenses increased from \$2.7 million in the second quarter of 2005 to \$3.0 million in the second quarter of 2006. These expenses are comprised of the following:

Salaries and benefits of \$1.8 million (second quarter of 2005 - \$1.7 million) are higher than the prior year due primarily to additional headcount related to the SAMSys and TradeWind acquisitions (increase of approximately \$0.6 million) as well as severance charges in June 2006. This is compared to higher than normal expenses in the second quarter of 2005 with the inclusion of an executive retirement package of approximately \$0.6 million. Total staff complement at June 30, 2006 was 35 compared to 25 at June 30, 2005.

The remaining increase in the second quarter of 2006 SG&A expenses of approximately \$0.2 million is due to higher rent, professional and travel expenses related to the SAMSys and TradeWind operations.

Stock-Based Compensation

Stock-based compensation of \$0.2 million (second quarter of 2005 - \$0.4 million) has decreased over the prior year due primarily to \$0.2 million of cost related to the recording of an executive retirement package in the second quarter of 2005.

Sirit Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Development Expenses

Development expenses have increased by \$0.8 million to \$1.7 million in the second quarter of 2006 (second quarter of 2005 - \$0.9 million). The increase results from increased development staff related to the SAMSys and TradeWind acquisitions (increase of approximately \$0.7 million). Development staff complement at June 30, 2006 was 33 compared to 17 at June 30, 2005.

Quarterly Results

| | 2006 2nd Q | 2006 1st Q | 2005 4th Q | 2005 3rd Q | 2005 2nd Q | 2005 1st Q | 2004 4th Q | 2004 3rd Q |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | \$ 5,536 | \$ 5,384 | \$ 4,254 | \$ 3,107 | \$ 4,632 | \$ 4,426 | \$ 4,876 | \$ 5,162 |
| Net (loss)/income for the period | (3,278) | (993) | (2,279) | (2,759) | (2,619) | (1,041) | (913) | (642) |
| Net (loss)/income per share, basic and diluted | \$ (0.03) | \$ (0.01) | \$ (0.02) | \$ (0.03) | \$ (0.03) | \$ (0.01) | \$ (0.01) | \$ (0.01) |

Revenue in the second quarter of 2006 is higher than the second quarter of 2005 due to increased toll transponder sales as sales return to historical levels. Net loss for the second quarter of 2006 is higher due primarily to incremental salaries, benefits, SG&A and development expenses related to the SAMSys and TradeWind acquisitions.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

| | As at June 30 2006 | As at December 31 2005 |
|--|-----------------------------------|---------------------------------------|
| Assets | | |
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$ 11,725 | \$ 6,079 |
| Accounts receivable | 3,395 | 2,941 |
| Inventory | 3,165 | 2,020 |
| Prepays and deposits | 345 | 108 |
| | <u>18,630</u> | <u>11,148</u> |
| Long-term investments | 3,182 | 3,182 |
| Property and equipment | 1,206 | 838 |
| Intangible asset | 2,016 | 370 |
| Deferred development costs | 27 | 59 |
| Goodwill | 3,905 | 2,829 |
| | <u>\$ 28,966</u> | <u>\$ 18,426</u> |
| Liabilities | | |
| <i>Current Liabilities</i> | | |
| Accounts payable and accrued liabilities | \$ 5,175 | \$ 3,526 |
| Deferred revenue | 743 | 815 |
| Warranty obligations | 407 | 290 |
| | <u>6,325</u> | <u>4,631</u> |
| Shareholders' Equity | | |
| Share capital | 47,884 | 35,195 |
| Contributed surplus | 1,744 | 1,316 |
| Deficit | (26,987) | (22,716) |
| | <u>22,641</u> | <u>13,795</u> |
| | <u>\$ 28,966</u> | <u>\$ 18,426</u> |

Commitments and guarantees (note 6)

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | \$ 5,536 | \$ 4,632 | \$ 10,920 | \$ 9,058 |
| Cost of Sales | 3,685 | 3,113 | 7,081 | 5,879 |
| Gross profit | <u>1,851</u> | <u>1,519</u> | <u>3,839</u> | <u>3,179</u> |
| Expenses | | | | |
| Selling, general and administrative | 2,972 | 2,710 | 4,810 | 4,534 |
| Stock-based compensation | 226 | 424 | 428 | 583 |
| Development | 1,699 | 937 | 2,493 | 1,582 |
| Amortization | 219 | 152 | 359 | 300 |
| Foreign exchange loss/(gain) | 62 | (46) | 105 | (84) |
| | <u>5,178</u> | <u>4,177</u> | <u>8,195</u> | <u>6,915</u> |
| Operating (loss) | <u>(3,327)</u> | <u>(2,658)</u> | <u>(4,356)</u> | <u>(3,736)</u> |
| Interest income, net | 49 | 39 | 85 | 76 |
| Net (loss) for the period | <u>\$ (3,278)</u> | <u>\$ (2,619)</u> | <u>\$ (4,271)</u> | <u>\$ (3,660)</u> |
| Deficit, beginning of period | <u>(23,709)</u> | <u>(15,059)</u> | <u>(22,716)</u> | <u>(14,018)</u> |
| Deficit, end of period | <u>\$ (26,987)</u> | <u>\$ (17,678)</u> | <u>\$ (26,987)</u> | <u>\$ (17,678)</u> |
| Basic and diluted (loss) per share | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> | <u>\$ (0.04)</u> | <u>\$ (0.04)</u> |
| Basic and diluted weighted average number of common shares ('000s) | 114,305 | 92,514 | 103,847 | 92,353 |

See accompanying notes

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-----------------|-------------------------|-----------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| Cash provided by/(used in): | | | | |
| Operating Activities | | | | |
| (Loss) from operations | \$ (3,278) | \$ (2,619) | \$ (4,271) | \$ (3,660) |
| Items not involving cash and cash equivalents (note 5a) | 445 | 576 | 787 | 883 |
| | <u>(2,833)</u> | <u>(2,043)</u> | <u>(3,484)</u> | <u>(2,777)</u> |
| Net change in non-cash working capital items (note 5b) | 439 | 446 | 282 | 550 |
| | <u>(2,394)</u> | <u>(1,597)</u> | <u>(3,202)</u> | <u>(2,227)</u> |
| Investing Activities | | | | |
| Additions to property and equipment | (74) | (100) | (154) | (165) |
| Acquisitions, net of cash acquired | (2,667) | - | (2,667) | - |
| | <u>(2,741)</u> | <u>(100)</u> | <u>(2,821)</u> | <u>(165)</u> |
| Financing Activities | | | | |
| Public offering of common shares, net of associated expenses | 11,561 | - | 11,561 | - |
| Issuance of common shares upon exercise of stock options | 108 | 188 | 108 | 281 |
| | <u>11,669</u> | <u>188</u> | <u>11,669</u> | <u>281</u> |
| Exchange rate impact on cash and cash equivalents | - | 14 | - | 14 |
| Increase/(Decrease) in cash and cash equivalents | 6,534 | (1,495) | 5,646 | (2,097) |
| Cash and cash equivalents, beginning of period | <u>5,191</u> | <u>9,419</u> | <u>6,079</u> | <u>10,021</u> |
| Cash and cash equivalents, end of period | \$ 11,725 | \$ 7,924 | \$ 11,725 | \$ 7,924 |
| Cash and cash equivalents consist of: | | | | |
| Cash and deposit accounts with banks | \$ 10,204 | \$ 1,238 | \$ 10,204 | \$ 1,238 |
| Short-term commercial paper | <u>1,521</u> | <u>6,686</u> | <u>1,521</u> | <u>6,686</u> |
| | \$ 11,725 | \$ 7,924 | \$ 11,725 | \$ 7,924 |

See accompanying notes

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

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles are not provided. 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. ACQUISITIONS

- (a) On April 3, 2006, the Company completed the acquisition of all of the outstanding shares of TradeWind Technologies LLC ("TradeWind"), a private Knoxville, Tennessee based radio frequency identification ("RFID") development company. The results of TradeWind's operations have been included in the unaudited interim consolidated financial statements since that date. 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 \$1,858 including US\$600 (CDN\$702) cash, 3,000,000 common shares valued at \$1,020 and associated acquisition costs of \$136. The value of the 3,000,000 common shares issued was \$0.34 per share and was determined based on the average market price of Sirit's common shares over the five trading days prior to and the five trading days subsequent to the public announcement of the acquisition (February 27, 2006).

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is preliminary and subject to refinement as Sirit is in the process of finalizing the valuation of the purchase price allocation.

| | |
|----------------------------|------------------------|
| Intangible assets | \$ 840 |
| Goodwill | 1,076 |
| Total assets acquired | <u>1,916</u> |
| Current liabilities | (58) |
| Total liabilities assumed | <u>(58)</u> |
| Net assets acquired | <u>\$ 1,858</u> |

The intangible assets acquired consist of RFID reader-writer technology and software developed by TradeWind. The entire balance is being amortized straight-line over the estimated useful life of 5 years. The second quarter of 2006 includes amortization of these intangible assets since the date of acquisition of \$28.

- (b) On April 13, 2006, the Company completed the acquisition of the assets and undertakings of SAMSys Technologies Inc. ("SAMSys") out of a court appointed receivership proceeding. The results of SAMSys' operations have been included in the unaudited interim consolidated financial statements since that date. SAMSys was a publicly listed company on the TSX (symbol SMY) and provided RFID reader hardware solutions to customers in the automatic identification and data capture industry, specifically targeting supply chain management and asset management targets.

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

The aggregate purchase price was \$4,335 including \$4,000 in cash and \$335 in associated acquisition costs. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is preliminary and subject to refinement as Sirit is in the process of finalizing the valuation of the purchase price allocation.

| | | |
|----------------------------|-----------|---------------------|
| Current assets | \$ | 3,672 |
| Property and equipment | | 380 |
| Intangible assets | | 967 |
| Total assets acquired | | <u>5,019</u> |
| Current liabilities | | <u>(684)</u> |
| Total liabilities assumed | | <u>(684)</u> |
| Net assets acquired | \$ | <u>4,335</u> |

The intangible assets acquired consist of technology related to a new platform for UHF readers and RFID tag and module technologies. The entire balance is being amortized straight-line over the estimated useful life of 5 years. The second quarter of 2006 includes amortization of these intangible assets since the date of acquisition of \$31.

3. SHARE CAPITAL

- (a) Common shares issued and outstanding:

| | <u>Shares</u> | <u>Amount</u> |
|--|---------------------------|-------------------------|
| Balance at December 31, 2005 and March 31, 2006 | 93,273,786 | \$ 35,195 |
| Issued on public offering | 48,500,000 | 12,610 |
| Issued on TradeWind acquisition (note 2) | 3,000,000 | 1,020 |
| Issued on exercise of stock options | 750,000 | 108 |
| Expenses related to stock issuances | | <u>(1,049)</u> |
| Balance at June 30, 2006 | <u>145,523,786</u> | <u>\$ 47,884</u> |

- (b) During the second quarter of 2006, the Company completed a public offering of 48,500,000 common shares of Sirit at a price of \$0.26 per common shares, for total gross proceeds of \$12,610. The Company incurred expenses totalling \$1,049 related to this equity offering.
- (c) During the period April 1, 2006 to June 30, 2006, the Company granted 1,359,000 stock options to employees and directors. All options were issued with an exercise price equal to market value at grant date and vest over a three year period. The stock-based compensation related to stock options was \$226 in the second quarter, with a year-to-date total of \$428. The Company determines compensation costs on options granted based on the fair value at the grant date in accordance with the fair value based method of accounting for stock-based compensation. Assumptions used in the Black-Scholes option-pricing model are as follows:

| | |
|-------------------------|---------------|
| Risk-free interest rate | 4.09% - 4.47% |
| Expected life | 3 years |
| Expected volatility | 77% |
| Expected dividends | Nil |

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

The following summarizes stock option activity for the six months ended June 30, 2006:

| | Number of Options | Weighted Average Exercise Price |
|---|------------------------------|--|
| Sirit Transaction Options Outside the Plan | | |
| Balance, December 31, 2005 and March 31, 2006 | 240,292 | \$0.14 |
| Exercised | - | - |
| Expired/terminated | - | - |
| | <u>240,292</u> | <u>\$ 0.14</u> |
| Balance, June 30, 2006 | 240,292 | \$ 0.14 |
| Options Outstanding Inside the Plan | | |
| Balance, December 31, 2005 and March 31, 2006 | 7,599,233 | \$ 0.68 |
| Granted: | | |
| Employees and Directors | 1,359,000 | 0.28 |
| Exercised | (750,000) | 0.14 |
| Expired/terminated | (698,333) | 1.37 |
| | <u>7,509,900</u> | <u>\$ 0.61</u> |
| Balance, June 30, 2006 | 7,509,900 | \$ 0.61 |
| Total options outstanding at June 30, 2006 | <u>7,750,192</u> | <u>\$0.60</u> |
| Options exercisable at June 30, 2006 | <u>4,325,587</u> | <u>\$0.55</u> |
| Options available for issuance at June 30, 2006 | <u>933,418</u> | |

(d) The following table reconciles contributed surplus for the six months ended June 30, 2006:

| | Amount |
|---|------------------------|
| Balance at December 31, 2005 | <u>\$ 1,316</u> |
| Stock-based compensation on stock options granted | <u>202</u> |
| Balance at March 31, 2006 | \$ 1,518 |
| Stock-based compensation on stock options granted | <u>226</u> |
| Balance at June 30, 2006 | <u>\$ 1,744</u> |

Sirit Inc.**Notes to the Interim Consolidated Financial Statements (unaudited)**
(expressed in thousands of Canadian Dollars except per share amounts)**4. SEGMENTED INFORMATION**

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

| | June 30 | December 31 |
|---|------------------|--------------------|
| | 2006 | 2005 |
| Radio Frequency Identification Business | \$ 25,784 | \$ 15,244 |
| Portfolio Investments Business | 3,182 | 3,182 |
| | \$ 28,966 | \$ 18,426 |

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

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

| | 2005 | | |
|----------------------------------|-------------------|--------------------|-------------------|
| | RFID | Portfolio | |
| | Business | Investments | Total |
| Revenue | \$ 9,058 | \$ - | \$ 9,058 |
| Expenses | 12,794 | - | 12,794 |
| Operating (loss) | (3,736) | - | (3,736) |
| Interest income, net | 76 | - | 76 |
| Net (loss) for the period | \$ (3,660) | \$ - | \$ (3,660) |

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

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

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

| | 2005 | | |
|----------------------------------|-------------------|--------------------|-------------------|
| | RFID | Portfolio | Total |
| | Business | Investments | |
| Revenue | \$ 4,632 | \$ - | \$ 4,632 |
| Expenses | 7,290 | - | 7,290 |
| Operating (loss) | (2,658) | - | (2,658) |
| Interest income, net | 39 | - | 39 |
| Net (loss) for the period | \$ (2,619) | \$ - | \$ (2,619) |

5. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS

(a) Items not involving cash and cash equivalents:

| | Three months ended | | Six months ended | |
|--------------------------|---------------------------|---------------|-------------------------|---------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| Amortization | \$ 219 | \$ 152 | \$ 359 | \$ 300 |
| Stock compensation costs | 226 | 424 | 428 | 583 |
| | \$ 445 | \$ 576 | \$ 787 | \$ 883 |

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

| | Three months ended | | Six months ended | |
|--|---------------------------|---------------|-------------------------|---------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| Accounts receivable | \$ (197) | \$ (186) | \$ (454) | \$ 345 |
| Inventory | (744) | 368 | (1,145) | (255) |
| Prepays and deposits | (87) | 254 | (237) | 280 |
| Accounts payable and accrued liabilities | 961 | (110) | 1,649 | 352 |
| Deferred revenue | (35) | 79 | (72) | (98) |
| Warranty obligations | 117 | 41 | 117 | (74) |
| Non-cash working capital assumed on acquisitions | 424 | - | 424 | - |
| | \$ 439 | \$ 446 | \$ 282 | \$ 550 |

Sirit Inc.

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

6. COMMITMENTS AND GUARANTEES

- (a) As at June 30, 2006, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$1,348 (December 31, 2005 - \$1,017).
- (b) The Company's total future minimum operating lease commitments are summarized as follows:

| | <u>Amount</u> |
|-----------------|-----------------|
| 2006 (6 months) | \$ 283 |
| 2007 | 479 |
| 2008 | 333 |
| 2009 | 232 |
| 2010 | 143 |
| Thereafter | <u>-</u> |
| | <u>\$ 1,470</u> |

7. RELATED PARTY TRANSACTIONS

The Company incurred directors fees of \$25 for their services during the second quarter of 2006 (\$24 in the second quarter of 2005). The fees were included in selling, general and administrative expenses.

In the second quarter of 2006, the Company paid \$1 to one of its directors for legal services (\$30 in the second quarter of 2005 under a consulting agreement).

8. SUBSEQUENT EVENT

On July 20, 2006, the Company announced it will receive US\$1,981 upon completion of the sale of one of its minority interest investments, Medsite, Inc. The transaction is expected to close in August 2006 with 10% of the proceeds to be held in escrow for a period of up to one year.