



2007
Three 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 April 30, 2007 at which time 145,673,308 shares were outstanding, should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2007 and the audited annual consolidated financial statements, including the notes thereto included in the Company's December 31, 2006 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 has been designing, developing, manufacturing and selling RFID hardware and solutions for over 13 years. Sirit has been providing its RFID technology to customers based primarily in the United States and Europe and continues to expand throughout the Americas and Asia. More information on the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

On January 10, 2007, Sirit sold its long-term investment in Applied Data Systems, Inc. for total proceeds of US\$1.8 million (CDN\$2.1 million). As a result of this transaction, Sirit has no further ownership interest in Applied Data Systems, Inc.

On January 30, 2007, the Company announced that NXP Software appointed Sirit as NXP Software's first global reseller and integration partner for Java-based Near Field Communication ("NFC") middleware. In connection with this, the Company also announced the availability of the Sirit Mobile NFC Platform ("Sirit MNP") middleware solution for mobile phone original equipment manufacturers. NFC-enabled mobile phones are expected to drive revolutionary applications (e.g. secure mobile payments, ticketing, etc.), create new revenue streams and provide differentiation for mobile handsets.

On February 27, 2007, Sirit announced that Kyocera Technology Research Corp. ("KTRC") selected the Company to supply Sirit MNP NFC software and related technology engineering services. KTRC will make the NFC technology available for new wireless handsets from Kyocera Wireless Corp., a leading global supplier of code-division multiple access wireless devices and accessories.

On March 27, 2007, the Company announced that Component Distributors, Inc. ("CDI"), a high-tech electronics distributor based in Denver, Colorado, had signed an extended distributor agreement with Sirit to carry its full line of INfinity RFID reader modules throughout the United States, Canada and Mexico. CDI officially launched their support of Sirit's INfinity product line with an eWave campaign.

On April 3, 2007, the Company announced that it had secured an order totaling US\$2.0 million from the Orange County Transportation Authority in Southern California. The contract calls for Sirit to deliver its UHF RFID transponder technology over the next 4 years with deliveries to commence in Q2 2007.

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RESULTS

For the three months ended March 31, 2007 compared to the three months ended March 31, 2006

\$000s except per share amounts	Three Months Ended March 31	
	2007	2006
Revenue	\$ 6,499	\$ 5,384
Cost of sales	4,236	3,396
Gross profit	2,263	1,988
Expenses	3,297	3,017
Operating loss	(1,034)	(1,029)
Other income	1,497	36
Net income/(loss) for the period	\$ 463	\$ (993)
Basic and diluted income/(loss) per share	\$ 0.00	\$ (0.01)
Total assets	\$ 24,515	\$ 18,286
Long-term financial liabilities	\$ -	\$ -

Revenue

For the second consecutive quarter, revenue has exceeded previous record highs. For the three months ended March 31, 2007 total revenue reached \$6.5 million, a \$1.1 million or 21% increase over the \$5.4 million reported for the three months ended March 31, 2006. This continued growth represents an increase of \$0.8 million or 14% when compared to reported revenue of \$5.7 million from the prior quarter ended December 31, 2006. A further analysis of revenue follows:

Automatic Vehicle Identification ("AVI") Applications

Revenue from AVI applications increased from \$4.4 million in the first three months of 2006 to \$5.2 million for the first three months of 2007; an increase of 18%. AVI revenue represents 79% of total revenue compared to 82% in the first quarter of 2006. AVI applications can be further broken down between toll applications and parking and access control ("PACS") applications.

Toll revenue in the first three months of 2007 was \$4.6 million; a \$0.9 million or 22% increase over the first three months of 2006 (\$3.7 million). Contributing to the increase is revenue associated with the opening of the SR-125, a new toll road in California as well as increased volume with the Company's largest customer. PACS revenue has remained relatively consistent at \$0.6 million for the three months ended March 31, 2007 and \$0.7 million for the same period in 2006.

Radio Frequency Solutions ("RFS") Applications

RFS revenue totaled \$1.3 million through the first three months of 2007, an increase of \$0.4 million, or 40% over the first three months of 2006 and consistent with the prior quarter. RFS revenue represents 21% of total revenue for the first three months of 2007, a 3% increase from 18% in the first quarter of 2006.

The increase in RFS revenue during the first quarter of 2007 when compared to the first quarter of 2006 is attributable to new customers implementing an increasing number of small pilots. The Company continues to experience uneven quarterly RFS revenue however, anticipates an overall growth trend throughout 2007.

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Gross Profit

Gross profit for the three months ended March 31, 2007 was 34.8% versus 36.9% for the same period in 2006 and consistent with the gross profit for fiscal 2006 of 34.6% (excluding the inventory adjustment of \$0.4 million in the fourth quarter of 2006). The quarterly decrease when compared to 2006 relates to competitive pricing pressure on transponder sales.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses for the first three months of 2007 were \$2.2 million, an increase of \$0.4 million over the \$1.8 million in the same period in the prior year. These expenses were comprised of the following:

Salaries and benefits of \$1.4 million were \$0.2 million higher than the prior period comparative (first quarter of 2006 - \$1.2 million). This change is the result of a reallocation of certain employee responsibilities from development expense to SG&A as well as an increase in the number of staff. Total staff complement at March 31, 2007 was 30 compared to 25 at March 31, 2006.

The remaining SG&A expenses of \$0.8 million in the first three months of 2007 were \$0.2 million higher than the \$0.6 million for the first three months of 2006. This is associated with additional locations assumed from the acquisitions which were first recorded in the second quarter of 2006, including higher rent, office and travel expenses.

Stock-Based Compensation

Stock-based compensation is consistent for the first three months of 2007 and 2006 at \$0.2 million.

Development Expenses

Development expenses decreased from \$0.8 million in the first three months of 2006 to \$0.6 million during the first three months of 2007. This relates to the reallocation of employee responsibilities discussed above as well as a decrease in development materials usage. The Company has modified certain of its development efforts toward improvements and variants of products based on current platforms. Therefore required material usage has decreased. Development staff at March 31, 2007 was 11 compared to 16 at March 31, 2006. The Company continues to utilize contractors as specific needs arise.

Other Income

During the first quarter of 2007, the Company sold its long-term investment in Applied Data Systems, Inc. for total proceeds of \$2.1 million resulting in a gain of approximately \$1.4 million.

RESOURCES

Cash Flows, Liquidity and Capital Resources

Total cash and cash equivalents at March 31, 2007 was \$9.9 million, a \$0.5 million increase compared to \$9.4 million at December 31, 2006. The Company generated \$1.9 million from investing activities and utilized \$0.5 million to support operations and \$0.9 million to fund working capital.

Operating Activities

Sirit utilized \$1.5 million of cash to fund operating activities for the first three months of 2007 (first three months of 2006 - \$0.8 million). The additional \$0.7 million of cash spent during the first quarter of 2007 compared to the prior year was due to an increase in non-cash working capital items to \$2.2 million at March 31, 2007 compared to \$1.3 million at December 31, 2006 and \$0.6 million at March 31, 2006. The change from December 31, 2006 is due to the following fluctuations:

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Accounts receivable increased from \$4.0 million at December 31, 2006 to \$4.1 million at March 31, 2007. Even with the increase in sales during the quarter, management's efforts to collect receivables in a timely manner have effectively maintained control over the cash tied to this working capital item. The average age of receivables improved from an annual average of 54 days in 2006 to 51 days in the first three months of 2007.

Inventory increased by \$0.3 million from a balance of \$3.0 million at December 31, 2006 to \$3.3 million at March 31, 2007. This increase is a result of build up of inventory in anticipation of increased sales activity in the following quarters of 2007.

Prepays and deposits increased from \$0.3 million at December 31, 2006 to \$0.4 million at March 31, 2007 due to the timing of payments for normal operating items. This balance consists primarily of prepaid rent, insurance and prepayments for tradeshow, travel and purchases.

Accounts payable and accrued liabilities decreased by \$0.5 million from \$5.0 million at December 31, 2006 to \$4.5 million at March 31, 2007. The overall decrease resulted primarily from the payment of compensation related accruals and the final payment under the retirement plan to the former CEO while increasing the volume of product related purchases to support increased sales activity.

Investing Activities

The Company generated \$1.9 million from investing activities in the first quarter of 2007 (first quarter of 2006 – utilized \$0.1 million) as a result of the \$2.1 million proceeds from the sale of Applied Data Systems, Inc. This was offset partially by \$0.2 million to purchase capital assets in the first three months of 2007.

Commitments

Commitments are comprised of premises rental costs. As at March 31, 2007, rental costs are expected to be incurred as follows:

	Payments due by Period (\$000's)				
Contractual Obligations	Total	Up to 1 year	2 to 3 years	4 to 5 years	Over 5 years
Premises Leases	\$ 1,007	\$ 411	\$ 489	\$ 107	\$ -

As at March 31, 2007, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$0.2 million (December 31, 2006 – \$0.2 million).

There were no additional commitments entered into during the first quarter of 2007.

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Quarterly Results

\$000s except per share amounts	Mar 31 2007	Dec 31 2006	Sept 30 2006	June 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005	June 30 2005
Revenue	6,499	5,709	5,086	5,536	5,384	4,254	3,107	4,632
Cost of sales	4,236	4,144	3,399	3,685	3,396	2,731	2,070	3,113
Gross profit	2,263	1,565	1,687	1,851	1,988	1,523	1,037	1,519
Expenses	3,297	3,770	4,382	5,178	3,017	2,739	2,923	4,177
Operating loss	(1,034)	(2,205)	(2,695)	(3,327)	(1,029)	(1,216)	(1,886)	(2,658)
Other income/(expense)	1,497	131	81	49	36	(1,063)	(873)	39
Net income/(loss) for the period	463	(2,074)	(2,614)	(3,278)	(993)	(2,279)	(2,759)	(2,619)
Basic and diluted income/(loss) per share	0.00	(0.01)	(0.02)	(0.03)	(0.01)	(0.02)	(0.03)	(0.03)

Revenue increased in the first quarter of 2007 due to increased sales volume with the Company's top toll customer. Total expenses decreased as the first quarter of 2007 was the first full quarter of savings related to the integration of the two acquisitions completed in 2006. Other income/(expense) included a \$1.4 million gain recognized on the sale of Applied Data Systems, Inc.

Revenue in the fourth quarter of 2006 increased as a result of the continued rebound in toll revenue as well as the sale of new products in both PACS and RFS applications. Gross profit and net loss were negatively impacted by product rationalization efforts which resulted in a \$0.4 million inventory writedown.

Third quarter 2006 revenue decreased when compared to the prior quarter due to timing of transponder shipments. Q3 2006 expenses were lower than the prior quarter as a result of severance costs incurred in the second quarter as well as resulting lower salary costs incurred during the third quarter.

Revenue in the second quarter of 2006 increased as toll transponder sales returned to historical levels. Net loss for the second quarter of 2006 was high as a result of incremental salaries, benefits, SG&A and development expenses related to the SAMSys Technologies Inc. and TradeWind Technologies LLP acquisitions which were completed during the quarter.

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

Fourth quarter 2005 revenue increased when compared to the third quarter of 2005 due primarily to the start of recovering of toll transponder sales not seen earlier in the year. Other income/(expense) for the 2005 fourth quarter included a write-down of long-term investments by \$1.1 million.

The 2005 third quarter revenue decline was attributable to lower transponder sales along with a lower level of RFS application sales when compared to the second quarter of 2005. Other income/(expense) included a write-down of one long-term 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 included lower than anticipated AVI revenue in addition to non-recurring adjustments totaling \$1.2 million during the quarter and continued RFS application development efforts.

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OUTSTANDING SHARE DATA

As of April 30, 2007 the Company had 145,673,308 common shares outstanding.

As of April 30, 2007 the Company had 6,692,870 issued and assumed stock options outstanding and are exercisable for common shares of Sirit on a one-for-one basis.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges." These standards result in changes in the accounting for financial instruments and hedges as well as introduce comprehensive income as a separate component of shareholders' equity. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated. Please refer to note 2 of the Notes to the Interim Consolidated Financial Statements (unaudited) for full details of these standards. There was no material impact on the financial statements as a result of the adoption of these standards.

There have been no other changes to the significant accounting policies and management estimates presented in the Annual Report of the Company as at December 31, 2006 and the Annual Information Form dated March 19, 2007. 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 have not changed significantly from those presented in the 2006 Annual Report.

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

Unaudited

	As at March 31 2007	As at December 31 2006
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 9,872	\$ 9,397
Accounts receivable	4,147	3,957
Inventory	3,285	2,997
Prepays and deposits	397	348
	<u>17,701</u>	<u>16,699</u>
Long-term investments (note 3)	110	849
Property and equipment	1,206	1,095
Intangible assets	1,593	1,734
Goodwill	3,905	3,905
	<u>\$ 24,515</u>	<u>\$ 24,282</u>
Liabilities		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 4,503	\$ 4,954
Deferred revenue	772	800
Warranty obligations	361	298
	<u>5,636</u>	<u>6,052</u>
Commitments and contingencies (note 9)		
Shareholders' Equity		
Share capital (note 4)	47,844	47,830
Contributed surplus (note 6)	2,247	2,075
Deficit	(31,212)	(31,675)
	<u>18,879</u>	<u>18,230</u>
	<u>\$ 24,515</u>	<u>\$ 24,282</u>

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)

Three Months Ended March 31

Unaudited

	2007	2006
Revenue	\$ 6,499	\$ 5,384
Cost of sales	4,236	3,396
Gross profit	2,263	1,988
Expenses		
Selling, general and administrative	2,189	1,838
Stock-based compensation	172	202
Development	604	794
Amortization	223	140
Foreign exchange loss	109	43
	<u>3,297</u>	<u>3,017</u>
Operating loss	(1,034)	(1,029)
Gain on sale of long-term investment	1,401	-
Interest income, net	96	36
Net income/(loss) for the period	\$ 463	\$ (993)
Deficit, beginning of period	<u>(31,675)</u>	<u>(22,716)</u>
Deficit, end of period	\$ (31,212)	\$ (23,709)
Basic and diluted income/(loss) per share	\$ 0.00	\$ (0.01)

See accompanying notes

Sirit Inc.
Interim Consolidated Statements of Cash Flows
(expressed in thousands of Canadian dollars)
Three Months Ended March 31

Unaudited

	<u>2007</u>	<u>2006</u>
Cash provided by/(used in):		
Operating Activities		
Net income/(loss) for the period	\$ 463	\$ (993)
Items not involving cash and cash equivalents (note 8)	(1,006)	342
	<u>(543)</u>	<u>(651)</u>
Net change in non-cash working capital items (note 8)	(943)	(157)
	<u>(1,486)</u>	<u>(808)</u>
Investing Activities		
Additions to property and equipment	(193)	(80)
Proceeds on sale of long-term investment	2,140	-
	<u>1,947</u>	<u>(80)</u>
Financing Activities		
Issuance of common shares upon exercise of stock options	14	-
	<u>14</u>	<u>-</u>
Increase/(decrease) in cash and cash equivalents	475	(888)
Cash and cash equivalents, beginning of period	<u>9,397</u>	<u>6,079</u>
Cash and cash equivalents, end of period	<u>\$ 9,872</u>	<u>\$ 5,191</u>
Cash and cash equivalents consist of:		
Cash	\$ 2,162	\$ 1,478
Short-term commercial paper	<u>7,710</u>	<u>3,713</u>
	<u>\$ 9,872</u>	<u>\$ 5,191</u>

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. Except as noted in note 2, these interim unaudited consolidated financial statements have been prepared by management 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, 2006. 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. CHANGE IN ACCOUNTING POLICY

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges." These standards result in changes in the accounting for financial instruments and hedges as well as introduce comprehensive income as a separate component of shareholders' equity. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated.

Comprehensive Income

Comprehensive income is comprised of net earnings or loss and other comprehensive income ("OCI"). OCI represents the change in equity for a period that arises from unrealized gain and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as cash flow hedges. The Company does not currently have any OCI and accordingly no statement of OCI is presented in those financial statements.

Equity

This section establishes the standards for presentation of equity and changes in equity during the period. It requires that separate presentation of changes in equity for the period arising from net income, OCI, contributed surplus, retained earnings, share capital and reserves. Accumulated OCI would be included in the consolidated balance sheet as a separate component of shareholders' equity.

Financial Instruments – Recognition and Measurement

This section establishes standards for the recognition and measurement of financial instruments; which is comprised of financial assets, financial liabilities, derivatives and non-financial derivatives.

A financial asset is cash or a contractual right to receive cash or another financial asset, including equity, from another party. A financial liability is the contractual obligation to deliver cash or another financial asset to another party.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and it is settled at a future date. An embedded derivative is a derivative that is a part of a non-derivative contract and not directly related to that contract. Under this standard, embedded derivatives must be accounted for as a separate financial instrument recorded in net income/(loss) except for derivatives that are designated as cash flow hedges for which the fair value change is recognized in OCI. A non-financial derivative is a contract that can be settled net in cash or another financial instrument.

Under this standard, all financial instruments are initially recorded at fair value and are subsequently accounted for based on one of four classifications: held for trading, held-to-maturity, loans and receivables or available-for-sale. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired. Fair-values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models.

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

Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading, unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value recorded directly into earnings.

The Company does not have any held for trading financial instruments.

(ii) Held-to-maturity

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity that the Company has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are recorded directly into earnings. All of the Company's cash and cash equivalents are designated as held-to-maturity investments.

The fair values of cash and cash equivalents approximate their carrying value due to their short-term nature.

(iii) Loans and receivables

Receivables continue to be accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are recorded in net income/(loss).

The fair value of accounts receivable and accounts payable and accrued liabilities and warranty obligations approximate their carrying values due to the short-term nature of these instruments.

(iv) Available-for-sale

Available-for-sale assets are those financial assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in OCI and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is transferred in net income/(loss).

The Company's remaining long-term investment in Horizon Wimba, Inc. is classified as available-for-sale, however since there is no quoted price in an active market for this private company investment and it is not classified as held-to-maturity it is recorded at cost in the financial statements.

(v) Transaction costs

Transaction costs relating to all financial instruments are expensed as incurred.

There was no impact on the financial statements as a result of the adoption of this standard.

Hedges

Hedge accounting is optional and the Company may elect not to designate the hedging instrument as a hedge for accounting purposes. When hedge accounting is not applied, the change in the fair value of the hedging instrument is recorded directly into earnings. The Company currently does not have any hedging instruments.

3. LONG-TERM INVESTMENTS

	March 31	December 31
	2007	2006
Applied Data Systems, Inc.	\$ -	\$ 739
Horizon Wimba, Inc.	110	110
	\$ 110	\$ 849

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

On January 10, 2007, the Company sold its non-core investment in Applied Data Systems, Inc. for total proceeds of US\$1,823 (CDN\$2,140), resulting in a gain on the sale of \$1,401. \$130 of the total proceeds are being held in escrow and have been included in accounts receivable as the escrow balance should be received within the next 12 months.

4. SHARE CAPITAL AND STOCK OPTIONS

(a) Common shares issued and outstanding:

	Shares	Amount
Balance at December 31, 2006	145,536,281	\$ 47,830
Issued on exercise of stock options	106,257	14
Balance at March 31, 2007	145,642,538	\$ 47,844

(b) During the period January 1, 2007 to March 31, 2007, the Company granted 70,000 stock options to employees. All options were issued with an exercise price equal to market value at grant date and vest over a three year period. 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	3.95% - 3.97%
Expected life	3 years
Expected volatility	67%
Expected dividends	Nil

The following summarizes stock option activity for the three months ended March 31, 2007:

	Number of Options	Weighted Average Exercise Price
Sirit Transaction Options Outside the Plan		
Balance, December 31, 2006	227,797	\$0.14
Exercised	(106,257)	(0.13)
Expired/terminated	-	-
Balance, March 31, 2007	121,540	\$ 0.15
Options Outstanding Inside the Plan		
Balance, December 31, 2006	6,801,100	\$ 0.55
Granted to employees	70,000	0.25
Expired/terminated	(39,000)	(0.20)
Balance, March 31, 2007	6,832,100	\$ 0.55
Total options outstanding at March 31, 2007	6,953,640	\$0.54
Options exercisable at March 31, 2007	2,442,669	\$0.68
Options available for issuance at March 31, 2007	1,611,218	

Sirit Inc.**Notes to the Interim Consolidated Financial Statements (unaudited)**
(expressed in thousands of Canadian Dollars except per share amounts)**5. WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING**

The following table reconciles the basic weighted average number of common shares outstanding to the diluted weighted average number of common shares outstanding for the three months ended March 31:

	<u>2007</u>	<u>2006</u>
Weighted average number of shares outstanding - basic	145,548,020	93,273,786
Dilutive effect of stock options	505,826	-
Adjusted weighted average number of shares outstanding - diluted	<u>146,053,846</u>	<u>93,273,786</u>

At March 31, 2007, options to purchase 4,690,100 common shares were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. At March 31, 2006, as a result of the net loss applicable to the common shares, the outstanding options are excluded in the diluted loss per share calculation as their inclusion would be anti-dilutive.

6. CONTRIBUTED SURPLUS

The following table reconciles contributed surplus for the three months ended March 31, 2007:

	<u>Amount</u>
Balance at December 31, 2006	<u>\$ 2,075</u>
Stock-based compensation on stock options granted	172
Balance at March 31, 2007	<u>\$ 2,247</u>

7. 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> <u>2007</u>	<u>December 31</u> <u>2006</u>
Radio Frequency Identification Business	\$ 24,405	\$ 23,433
Portfolio Investments Business	110	849
	<u>\$ 24,515</u>	<u>\$ 24,282</u>

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

	<u>2007</u>		
	<u>RFID</u> <u>Business</u>	<u>Portfolio</u> <u>Investments</u>	<u>Total</u>
Revenue	\$ 6,499	\$ -	\$ 6,499
Expenses	7,533	-	7,533
Operating loss	(1,034)	-	(1,034)
Gain on sale of long-term investment	-	1,401	1,401
Interest income, net	96	-	96
Net income/(loss) for the period	<u>\$ (938)</u>	<u>\$ 1,401</u>	<u>\$ 463</u>

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

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

Of the \$6,499 revenue in the RFID business segment in the three months ended March 31, 2007, the three largest individual customers represent 37.2%, 10.7% and 6.2% respectively.

Of the \$5,384 revenue in the RFID business segment in the three months ended March 31, 2006, the three largest individual customers represent 35.1%, 12.0% and 7.2% respectively.

8. SUPPLEMENTARY DISCLOSURES RELATED TO CASH FLOWS

(a) Items not involving cash and cash equivalents for the three months ended March 31:

	2007	2006
Amortization		
Property and equipment	\$ 82	\$ 73
Intangibles	141	51
Deferred development costs	-	16
Stock-based compensation	172	202
Gain on sale of long-term investment	(1,401)	-
	\$ (1,006)	\$ 342

(b) Net change in non-cash working capital items for the three months ended March 31:

	2007	2006
Accounts receivable	\$ (190)	\$ (257)
Inventory	(288)	(401)
Prepays and deposits	(49)	(150)
Accounts payable and accrued liabilities	(451)	688
Deferred revenue	(28)	(37)
Warranty obligations	63	-
	\$ (943)	\$ (157)

9. COMMITMENTS AND GUARANTEES

(a) As at March 31, 2007, certain accounts receivable and inventory are pledged as security in connection with accounts payable in the amount of \$222 (December 31, 2006 - \$207).

Sirit Inc.

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

(b) The Company's total future minimum operating lease commitments are summarized as follows:

	<u>Amount</u>
2007 (9 months)	326
2008	315
2009	223
2010	143
Thereafter	<u>-</u>
	<u>\$ 1,007</u>