



# Fireswirl

Technologies Inc.

**Management Discussion and Analysis of the Financial Condition and Results of  
Operations, for the three and nine months ended  
September 30, 2007 and 2006.**

**November 16, 2007**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with Fireswirl Technologies Inc. ("Fireswirl" or the "company") audited consolidated financial statements and the accompanying notes for the year ended December 31, 2006, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Additional information about the company is available on the SEDAR website ([www.sedar.com](http://www.sedar.com)) under Fireswirl Technologies Inc. and on the company website at [www.fireswirl.com](http://www.fireswirl.com).

### **Special Note Regarding Forward Looking Statements**

This MD&A contains certain forward looking statements which reflect Management's expectations regarding the company's growth, results of operations, performance and business prospects and opportunities.

Statements about the company's future plans and intentions, results level of activity, performance or achievements or other future events constitute forward looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "could", "should", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words, have been used to identify these forward looking statements.

The company cautions that the forward-looking statements reflect the current views and/or expectations of the company with respect to its performance, business and future events. Investors are cautioned that all forward looking statements involve risks and uncertainties. Including, without limitations; those relating to a limited operating history, an uncertain regulatory environment, a competitive environment, internet viability and system infrastructure and reliability, dependence on key personnel and foreign exchange fluctuations. These risks may cause the company's actual results to differ materially from those projected in the forward looking statements. The company does not undertake any obligations to release publicly any revisions for updating any voluntary forward looking statements.

Factors which could cause results or events to differ from current expectations include among other things: the impact of government legislation; the impact of competition; the ability of the company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and perspective major customers; general industry and market conditions, growth rates and currency rate fluctuations. The company disclaims any intentions or obligations to update or revise any forward looking statements, whether as a result of new information, future

events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed or implied by forward looking statements within this disclosure will occur; or if they do, that any benefits can be derived from them. Past performance has been considered in drawing conclusions with respect to forward looking statements contained in this MD&A.

EBITDA is defined as earning before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under the Canadian generally accepted accounting principles. However, management believes EBITDA is a useful supplementary measure as it provides an indication of the results of the company's business operations without regard to how these activities were financed or how these results were taxed. The company's method of calculating EBITDA may differ from that of other companies. Accordingly, EBITDA may not be directly comparable to measures used by other companies.

## **OVERVIEW**

Fireswirl was founded in 1999 and operated as a contract software development and project management firm specializing in payment platforms for the internet. In 2004, the company launched its multi-language, multi-currency turnkey online poker application - "Fireswirl Poker Suite" - which had taken two years to develop at an estimated cost of \$2 million.

In mid-2006, after completing its qualifying transaction and a \$3.2 million equity financing, the company recruited additional management and technical staff as the company moved to re-define its target markets and re-brand its products in response to the changing dynamics of the online gaming industry. In September 2006, the company decided to expand its gaming product from "Poker Only" to a "Full Casino Suite."

In fall 2006, the company began to leverage its technologies and solutions recognizing that they had broader applications beyond gaming. The technologies permitted the general ability to allow content providers to conduct electronic commerce with a wide array of users in various languages, currencies, and payment interfaces accessing by either the Internet or Mobile Phone.

In June 2007, a 3rd Generation ("3G") Interactive Video Platform was acquired and the company entered into a reseller agreement with Hutchison Telecom (HT) for deployment in Macau. Over the summer months the company developed 3G content including a "play for free" gaming suite with popular games that can be used for contests and tutorial purposes.

In June 2007 the company filed a provisional patent related to SMS translation. The SMS translator technology platform can connect a cellular phone user with a server, access a data base of approximately one million unique phrases, and access existing online translation databases. The company believes the SMS translation product is well suited

for a defined user having a finite venue with ideal applications for within the travel and tourism sectors, which we continue to pursue.

In Q1 2007, the company began negotiations for distribution rights into Asia for smartphone units with a prominent international company. Our goal was to augment or create new sales channels for the smartphone in Asia, and to pursue bundling opportunities for our products. As of November 2007 the company had yet to consummate a sales channel relationship but continue in active negotiations with this prominent international company. The company can provide no assurances that an agreement will be completed.

In October 2007, a co-founder of the company departed the company on amicable terms to pursue other business matters. The majority of Mr. Mah's shares were acquired by the remaining co-founder (Mr. Lau) with no changes in the capital structure of the company.

In November 2007, the company made alignments to our business plan and establish a "base case" reflecting: 1) changing attitudes of the market to our products 2) improvements and advancements in technology 3) an over reliance of the company on short term profitability from hardware sales that had yet to materialize. The company "base case" is focused on achieving a break even or better scenario in 2008 while continuing with additional synergistic projects that will be incremental and accretive.

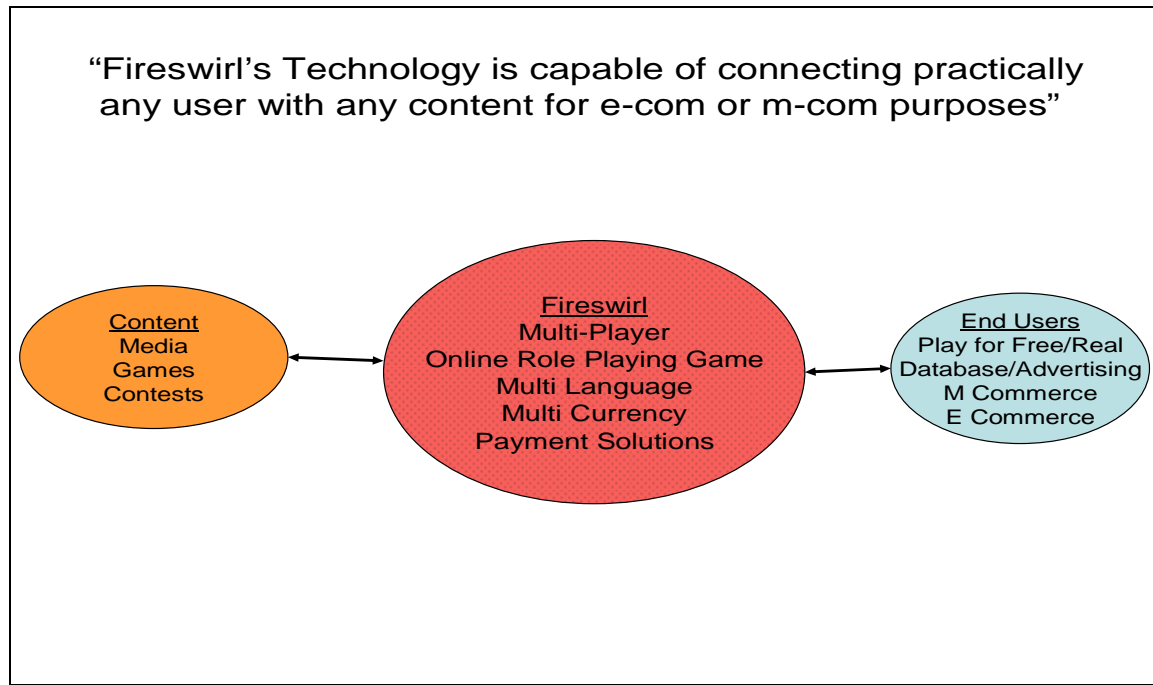
The "base case" involves a combination of reducing our expenses and increasing revenues. Firstly, it was determined the company's most predictable and near term revenues would come from 1) activation of our 3G platforms with HT 2) converting our gaming suite to "flash" for deployment within high traffic social websites. Secondly, to achieve a 20-30% expense reduction in Q1 2008 over Q4 2007 after non-recurring items. The company is undertaking expense reductions that will not impair our "base case" or "intellectual core of our technology including our technical staff." Our expense reductions also include "arbitrage" of lower staff costs available to us through our Shenzhen office in China.

Lastly, in addition to our "base case", the company has a number of incremental and complimentary projects that are in early and advanced stages of deployment. These concentric projects involve partnering programs, perpetual license, and software licensing. These projects require minimum integration or development of our current product offerings and can be substantially accomplished with current staffing levels. The company has a talented, diverse and creative technical team driving new product development. The company has compiled significant market feedback which is being integrated into these projects and products.

In summary, the company undertook a series of events in fall 2006 to achieve an enhanced business model with greater potential. The company has developed proprietary content and technology that is targeted for global deployment. These types of projects require longer sales cycles but will also provide significant leverage to the company at inauguration. The company has a healthy working capital position and anticipate our

“base case” will take us to break even or better in fiscal 2008, with substantial upside from additional pending projects that are at early and advanced stages of development.

## BUSINESS MODEL



The company is focused on creating transactional based revenue through mobile payment and electronic commerce platforms through combinations of software development, software consulting, software systems setup, software licensing and software bundling. The company is also considering distribution of smartphone units in Asia with a view of opening additional distribution channels for integration and bundling opportunities for our content and payment platforms. The company’s technology has broad applications for content providers or OEM’s requiring multiple payment interfaces, multi-currency and multi-language capabilities, and can be adapted to industries requiring high volume or micro-payment solutions involving a wide base of users. The company’s key products and services are more fully described as follows:

- **Electronic Gaming** – In fall 2006, the company aligned its products and target markets to governments and their licensed agents in jurisdictions or countries where online gaming is legal, or for deployment within allowable entertainment or skilled based venues. Our suite includes poker, slots, and tables. Our Flash version casino suite is expected to be ready for deployment in Q1 2008.
- **3G Interactive Video Platform** – In June 2007, the company acquired a 3<sup>rd</sup> Generation (“3G”) Interactive Video Platform for deployment with Hutchison Telecom (HT). The company will receive revenue from network minutes usage in Macau. Additionally, as a developer of 3G content, the company will receive

additional revenue from HT for content distributed over other HT networks, for example Hong Kong.

- **Hardware and Bundling** – The company is in negotiations to become a smartphone distributor in Asia and possible bundling applications for the company's technologies or products.

## SUMMARY OF FINANCIAL RESULTS

### Key Financial Events

- On February 2, 2007 the company completed a \$4.5 million private placement for net proceeds of \$4,109,839. Stock options and warrants were exercised for an additional amount of \$605,977 for the nine months ended September 30, 2007, total securities issued were 5,093,112 increasing the outstanding shares to 25,160,112 and 30,818,500 on a fully diluted basis.
- As of September 30 the company had cash of \$4.8 million with working capital of \$5.0 million. Management believes working capital is adequate for present projects with a healthy contingency, and the ability to readily consider additional projects or to accelerate present projects.
- Human resources remained the company's single largest expenditure. Total expenditure for the three and nine months ended September 30, 2007 were \$340,891 and \$1,015,563 compared to \$133,136 and \$438,360 for the same period of 2006. Included in the expenditures were \$314,314 and \$771,924 for the three and nine months ended September 30, 2007 of capitalized software development cost compared to \$237,340 for the three months ended September 30, 2006 being the first quarter the company had capitalized software development costs.
- The company reported a loss of \$347,261 and \$1,052,124 for the three and nine months period ended September 30, 2007 compared to losses of \$236,728 and \$380,829 for the same period of 2006.
- Fully diluted loss per share was (\$0.01) and (\$0.04) for the three and nine months ended September 30, 2007 compared to diluted losses of (\$0.01) and (\$0.02) for the same period of 2006.
- In Q4 2007 the company is undertaking cost reductions expected to reduce operating expenses by 20-30% in Q1 2008 after consideration of non-recurring items.

## Comparative Quarterly Operating Results

The following table sets out selected unaudited financial information of the company on a consolidated basis for the last eight quarters.

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
<b>Revenue</b>	\$6,084	\$6,414	\$22,000	\$66,659	\$128,260	\$236,133	\$210,344	356,385
<b>Expenses</b>								
Depreciation & Amortization	\$1,910	\$1,453	\$1,475	(\$ 7,287)	\$12,365	\$12,548	\$2,990	3,469
Sales & Marketing	\$77,132	\$52,536	\$51,341	\$27,276	\$31,981	\$29,190	\$19,008	\$18,222
General Administration	\$143,071	\$155,445	\$105,655	\$335,360	\$53,193	\$92,088	\$41,132	\$51,908
Salaries & Benefits	\$106,112	\$88,572	\$100,776	\$60,066	\$133,136	\$166,104	\$139,120	\$156,861
Stock based compensation	\$38,533	\$75,107	\$161,807	\$74,361	\$111,678	\$92,172		-
Bad and doubtful debts		-		\$20,160	\$116,684	-		-
<b>Total Expenses</b>	<b>\$366,758</b>	<b>\$373,113</b>	<b>\$421,054</b>	<b>\$509,936</b>	<b>\$459,037</b>	<b>\$392,102</b>	<b>\$202,250</b>	<b>\$230,460</b>
<b>Operating Income (Loss)</b>	<b>(\$360,674)</b>	<b>(\$366,699)</b>	<b>(\$399,054)</b>	<b>(\$443,277)</b>	<b>(\$330,777)</b>	<b>(\$155,969)</b>	<b>\$8,094</b>	<b>\$125,925</b>
Development costs								(49,622)
Interest Income	\$52,855	\$60,292	\$34,249	\$32,058	\$24,031	\$15,054		1,520
Foreign Exchange (Recovery)	(\$39,386)	(\$38,920)	\$5,213	\$6,211	0\$829	(\$7,131)	(\$3,018)	10,666
<b>Income (Loss) Before Taxes</b>	<b>(\$347,205)</b>	<b>(345,327)</b>	<b>(359,592)</b>	<b>(\$405,008)</b>	<b>(\$305,917)</b>	<b>(\$148,046)</b>	<b>\$5,076</b>	<b>88,489</b>
Income Tax (expense)/recovery	-	-	-	(\$69,954)	\$69,189	\$9,554	(\$10,685)	(31,305)
Loss attributed to minority interest	(56)	56	-	-	-	-	-	-
<b>Net Income (Loss)</b>	<b>(\$347,261)</b>	<b>(\$345,271)</b>	<b>(\$359,592)</b>	<b>(\$474,962)</b>	<b>(\$236,728)</b>	<b>(\$138,492)</b>	<b>(\$5,609)</b>	<b>57,184</b>
<b>Basic/Diluted (loss)/earnings per share</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>-</b>	<b>----</b>

## QUARTERLY RESULTS

### Revenue

For the three and nine months ended September 30, 2007 the company reported revenue of \$6,084 and \$34,498 compared to \$128,260 and \$574,737 for the same period of 2006, a decrease of 95.2% and 94.0%. The reduction in revenue is attributable to initiatives undertaken in Q4 2006 to develop new products and markets that have yet to realize revenues.

### Operating Expenses

Total operating expenses decreased by 20.1% and increased by 10.2% to \$366,758 and \$1,160,925 for the three months and six months ended September 30, 2007 compared to \$459,037 and \$1,053,389 for the same period of 2006. The overall increase in operating expenses is reflective of the company's growth in personnel, infrastructure and change in business focus. The company incurred non comparative expenses in the area of bad debts,

increased professional and regulatory filings fees required by the stock exchange and a general increase in costs in managing a larger office and administering a public company.

The company capitalized \$317,198 and \$899,221 for the three and nine months ended September 30, 2007 of development costs related to new software platforms: SMILES lottery, Poker/Casino suite, and SMS translator. In the first six months of 2006 wage related to the development of software were expensed as incurred.

In Q4 2007 the company is undertaking cost reductions expected to reduce operating expenses by 20-30% in Q1 2008 after consideration of non-recurring items.

### **Amortization**

Amortization and depreciation expenses net of software development costs decreased by 84.5% and 82.7% to \$1,910 and \$4,838 for the three and nine months ended September 30, 2007 compared to \$12,365 and \$27,903 for the same period of 2006 when expenses related to the development of software were expensed as incurred. The company is deferring software development costs to future periods when all criteria for deferral are met.

### **Sales and Marketing**

For the three and nine months ended September 30, 2007, sales and marketing expenses increased by 141.1% and 125.7% to \$77,132 and \$181,009 from \$31,981 and \$80,179 for the same period of 2006. The increase is attributable to our company's increased investment in growing our business and increased travel to meet with prospective new clients and partners.

### **General and Administrative**

General and administrative expenses increased by 168.9% and 116.8% to \$143,071 and \$404,171 for the three and six months ended June 30, 2007 compared to \$53,193 and \$186,413 for the same period of 2006. The most significant factor attributable to the increase is due to professional fees, increased legal fees, regulatory fees related to the filing and listing requirements of the TSX exchange, and incorporation of foreign subsidiaries. These comparable types of expenditures were not required by the company in 2006.

### **Salaries and Benefits**

Salaries and benefits expenses net of software development costs decreased by 20.2% and 32.5% to \$106,112 and \$295,460 for the three and nine months ended September 30, 2007 compared to \$133,136 and \$438,360 for the same period of 2006 when costs relating to the development of software were expensed as incurred. The company is deferring software development costs to future periods when all criteria for deferral are met.

## **Stock Based Compensation**

The company recorded \$38,533 and \$275,447 of stock based compensation for the three and nine months ended September 30, 2007 compared to \$111,678 and \$203,850 for the same period of 2006. There is no comparative expense for Q1 of 2006. Stock based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of options by using the Black-Scholes option pricing model to calculate the stock options expenses.

## **Software Development Costs**

Software Development costs of \$317,198 and \$899,221 for the three and nine months ended September 30, 2007 were capitalized and deferred to future periods compared to \$237,340 for three months only of 2006. Prior to Q3 of 2006 the company did not capitalize software development costs. They were expensed as incurred. The company capitalized development costs in relation to re-branding of the new software platform of the poker/casino suite, SMILES mobile lottery, the SMS translator and BetX free play. As the software development projects are still in progress, no amortization of the cost was charged to expenses for the period.

## **OTHER INCOME (EXPENSES)**

### **Interest Income**

The company reported interest income of \$52,855 and \$147,396 for the three and nine months ended September 30, 2007 compared to \$24,031 and \$39,085 for the same period of 2006. Interest income increased reflecting additional cash on deposit associated with a new financing of \$4,109,839, and \$605,977 of cash received from the exercise of 138,112 options and 455,000 warrants in the nine months period ended September 30, 2007. All proceeds were invested in short term cash certificates.

### **Foreign Exchange Loss**

The company recognized foreign exchange losses of \$39,386 and \$73,093 for the three and nine months ended September 30, 2007 compared to a foreign exchange gain of \$829 and a loss of \$9,320 for the same period of 2006. The foreign currency losses experienced in the third quarter of 2007 reflect losses in the value of cash balances of foreign denominated amounts as the Canadian dollar strengthened against foreign currencies. As of September 30, 2007 the company had USD \$445,772 representing 9.2% of our cash positions. The company does not utilize hedges or forward contract to mitigate foreign currency risks.

## **Provision for Income Taxes**

The company has reported net losses of \$347,261 and \$1,052,124 for the three and nine months ended September 30, 2007 and it has not reported any income tax recovery for the period compared to income tax recovery of \$69,189 and \$68,058 for the same period of 2006. The company follows the asset and liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets from the benefit of losses available to be carried forward to future years for tax purposes are recognized only if it is more likely than not that they can be realized.

## **Net Income (Loss)**

The company reported net losses of \$347,261 and \$1,052,124 for the three and nine months ended September 30, 2007 compared to net losses of \$236,728 and \$380,829 for the same period of 2006. The main reason for the decline of net income is a reduction of net revenue and at the same time an increase of expenses, some which are non comparable to prior periods such as bad debts expenses, an increase in general and administration expenses and growth of our marketing and travel expenses to support our business and growth.

Diluted loss per share was (\$0.01) and (\$0.04) for the three and nine months ended September 30, 2007 compared to diluted losses of (0.01) and (0.02) for the comparative period of 2006.

## **EBITDA**

The company reported EBITDA (defined as net income before interest, taxes, depreciation and amortization) of (\$345,346) and (\$1,047,286) for the three and nine months ended September 30, 2007 compared to (\$293,552) and (\$420,984) for the same period of 2006. The decrease in EBITDA is mainly due to decreased revenue and a corresponding increase in comparative and non comparative expenses such as stock based compensation, marketing expenses and administrative expenses to set up and nurture business contacts in China.

## **Liquidity and Capital Resources**

The company continues to maintain a strong balance sheet. As of September 30, 2007 the company had no debt, \$4,848,519 in cash, short term investments and working capital (defined as current assets less current liabilities) of \$5,046,872. The company has cash and short term investments on hand to meet the company's planned growth and development activities. The increase in the company's cash position is mainly due to the share subscription completed in Q2 2006 (net of offering costs) of \$2,832,156 and a secondary non brokered private placement financing completed in Q1 2007 (net of offering costs) \$4,109,839.

Prepays include advanced funds of \$30,629 to West SMS, a poker membership site in China. The site is operative but not profitable and the company will determine the extent of impairment of this receivable in fiscal 2007.

The company's investing activities in the nine months ended September 30, 2007 consisted mainly of the purchase of property and equipment \$59,671, acquisition of IP \$43,586, and deferred development costs \$899,222.

### **Contractual Obligations**

The company's future minimum payments under operating and capital leases are the following:

2007	\$15,462
2008	\$61,848
2009	\$61,848
2010	\$61,848
2011	\$32,724

One of the company's subsidiaries has a remaining lease obligation of \$4,696 for premises in Shenzhen which expire on April 2008.

The company has a contract with a professional firm to provide investor relations services. The contract will expire on November 23, 2007, with a remaining obligation of \$7,500.

### **Related Party Transactions**

For the three and nine months ended September 30, 2007 the company incurred and paid salaries and benefits to directors and shareholders of the company in the amounts of \$67,500 and \$178,615 as compared to \$24,000 and \$104,000 for the same period of 2006. General Administration expenses include \$32,500 paid to a company related by virtue of a director who is also an officer of the company. Related party transactions are in the normal course of operations and occur on terms and conditions that are similar to those transactions with unrelated parties.

### **CRITICAL ACCOUNTING POLICIES**

Critical accounting policies and methods used in preparation of the company's financial statements are described in note 2 of consolidated financial statements of the company for the year ended December 31, 2006. The company has not affected any changes to its significant accounting policies during the two years ended December 31, 2006 except as follows:

## **Stock Based Compensation**

Effective January 1, 2006 the company adopted the Canadian standard of accounting for stock based compensation and other stock based payments. The recommendations require equity instruments awarded to employees and non employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. In addition the standards require that equity instruments issued to non employees be recorded at their fair value at the date they are earned.

## **Risks and Uncertainties**

Important risks factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

- Uncertainty as to the degree of new and continuing market acceptance of our products;
- Our products could contain defects that lead to costs, damage of reputation or litigation;
- Our dependence on customer performance;
- Uncertainty regarding future profitability;
- Uncertainty regarding the pricing, reporting and collection of accounts;
- Risks associated with sales in foreign countries and their government policy and regulations;
- Our ability to diligently ensure that our customers operate in accordance with the terms of our license agreements that require observation of the laws of Canada and foreign countries;
- Our ability to attract and retain key personnel.

## **Off Balance Sheet Arrangement**

As at the date of this MD&A, the company has not entered into any off balance sheet arrangements.

## **Business Transactions**

There is no proposed asset or business acquisition or disposition transactions pending as of September 30, 2007.

## **Financial Instruments and Other Instruments**

The company's financial instruments consists of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, income taxes recovery and capital lease obligations. The fair values of these financial instruments approximate their

carrying values, except as noted below. It is management's opinion that the company is not exposed to significant interest risks. The company's short term investments consist of investments in low risk bank certificates. A substantial portion of the company's revenue is earned in foreign currencies and is exposed to currency fluctuations. The company does not use financial derivatives or "other financial instruments".

### **Other MD&A Requirements**

The company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended September 30, 2007 and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of Fireswirl Technologies Inc. annual filing in compliance with Multilateral Instrument 52-109 "Certification of disclosure in Issuers" annual and Interim Filings. Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

Given the size of the company, the evaluation of the design of internal controls over financial reporting for the company resulted in the identification of the following weaknesses:

Management is aware that due to its relatively small scale of operation there is a lack of segregation of duties to a limited number of employees dealing with accounting and financial matters. However management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation of duties are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The company requires outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of similar size.

There have been no significant changes to the company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonable likely to affect, the company's internal control over financial reporting. The company internal control systems continue to evolve as the company grows. We believe these systems are sufficient to execute the business plan and provide meaningful information upon which to manage the business. Management believes the disclosure, controls and procedures currently in place are effective.