

***FIRESWIRL TECHNOLOGIES INC.***  
**Consolidated Financial Statements**  
**Years ended December 31, 2008 and 2007**

***FIRESWIRL TECHNOLOGIES INC.***  
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***Years ended December 31, 2008 and 2007***

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**Cinnamon Jang Willoughby & Company**

Chartered Accountants

*A Partnership of Incorporated Professionals*

## **AUDITORS' REPORT**

To the Shareholders of **Fireswirl Technologies Inc.:**

We have audited the consolidated balance sheets of Fireswirl Technologies Inc. (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Burnaby BC, Canada  
March 15, 2009

# **FIRESWIRL TECHNOLOGIES INC.**

## **Consolidated Balance Sheets**

	December 31 2008	December 31 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,226,544	\$ 4,248,211
Amounts receivable	122,924	5,884
GST/VAT recoverable	75,787	47,792
Deposits and prepayments	75,410	25,971
Loan receivable - Note 6	8,411	-
Inventory	256,868	-
	<u>2,765,945</u>	<u>4,327,858</u>
Capital assets - Note 7	30,945	411,198
Investment in Tysen - Note 8	479,165	-
Deferred development cost and other asset - Note 9	32,070	1,152,795
	<u>3,308,125</u>	<u>5,891,851</u>
<b>Total Assets</b>	<b>\$ 3,308,125</b>	<b>\$ 5,891,851</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities - Note 10	\$ 563,720	\$ 264,032
<b>SHAREHOLDERS' EQUITY</b>		
Common shares - Note 15	5,186,310	5,088,335
Contributed surplus - Warrants - Note 15	2,606,979	2,606,979
Contributed surplus - Options - Note 15	689,803	584,838
	<u>8,483,092</u>	<u>8,280,152</u>
Deficit	(5,738,688)	(2,652,333)
	<u>2,744,404</u>	<u>5,627,819</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,308,125</b>	<b>\$ 5,891,851</b>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 20)

Subsequent events (Note 22)

On behalf of the Board:

**"Tony Lau"**

**"Ji Yoon"**

Tony Lau  
CEO

Ji Yoon  
Interim CFO

# **FIRESWIRL TECHNOLOGIES INC.**

## **Consolidated Statements of Operations**

	Year ended	
	December 31 2008	December 31 2007
<b>Revenue</b>		
Service and maintenance fees	\$ 30,441	\$ 40,382
Handset trading	293,760	-
	324,201	40,382
Cost of goods sold	285,547	
Gross profit	38,654	40,382
<b>Operating Expenses</b>		
Amortization	53,509	23,883
Sales and marketing	221,820	204,976
General administration	713,639	584,826
Salaries and benefits	988,769	604,768
Stock based compensation	173,689	312,928
Impairment - Note 7, 9	1,353,056	446,700
	3,504,483	2,178,081
Loss before other items	(3,465,829)	(2,137,699)
Other items:		
Other incomes and losses - Note 12	187,871	217,553
Foreign exchange gain (loss)	221,478	(71,422)
Share of loss of equity investment - Note 11	(29,873)	(30,620)
	379,476	115,511
<b>Loss and comprehensive loss for the year</b>	<b>\$ (3,086,353)</b>	<b>\$ (2,022,188)</b>
Basic/Diluted earnings (loss) per share - Note 15	\$ (0.12)	\$ (0.08)
Weighted average number of shares outstanding	25,254,402	24,355,555

The accompanying notes are an integral part of these financial statements.

# **FIRESWIRL TECHNOLOGIES INC.**

## **Consolidated Statements of Cash Flows**

	Year ended	
	December 31	December 31
	2008	2007
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(\$3,086,353)	(2,022,188)
Non cash items:		
Amortization	53,509	42,617
Loss on sales of capital assets	41,329	-
Stock based compensation	173,689	312,928
Impairment loss	1,353,056	86,204
Loss from investment	29,873	-
Unrealized foreign exchange gain	(5,041)	-
Changes in non-cash working capital items:		
Amounts receivable	(145,036)	19,053
Deposits and prepayments	(49,439)	35,971
Accounts payable and accrued liabilities	66,508	45,648
Inventory	(256,868)	-
	(1,824,771)	(1,479,767)
<b>INVESTING ACTIVITIES</b>		
Deferred development costs and other asset	(3,088)	(817,361)
Investment in Tysen	(189,528)	-
Acquisition of capital assets	(30,022)	(290,578)
Proceeds from sales of capital assets	4,904	-
Loan receivable	(260,500)	-
Repayment of loan receivable	252,089	-
	(226,145)	(1,107,939)
<b>FINANCING ACTIVITIES</b>		
Shares issued for cash	-	4,109,839
Shares issued for warrants exercised	-	605,228
Shares issued for options exercised	29,250	12,000
	29,250	4,727,067
Increase in cash during the year	(2,021,667)	2,139,361
Cash and cash equivalents, beginning of year	4,248,211	2,108,850
Cash and cash equivalents, end of year	\$ 2,226,545	\$ 4,248,211
Supplementary cash flow information:		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2008 and 2007**

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**Note 1- Nature and Continuance of Operations**

Fireswirl Technologies Inc.'s ("the Company") focuses on trading mobile handsets and providing value added services for deployment with the Telco's mainly in China.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

Several adverse conditions cast doubt on the validity of this assumption. During the years ended December 31, 2008 and 2007, the Company experienced operating losses and negative operating cash flows which were primarily funded by the issuance of share capital.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, and to commence profitable operations in the future. There is no assurance the Company will be able to achieve profitable operations. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

	December 31 2008 \$	December 31 2007 \$
Deficit	(5,738,688)	(2,652,333)
Working capital	2,202,225	4,063,826

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**Note 2 - Basis of Presentation**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current period.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

<b>Name</b>	<b>Place of incorporation</b>	<b>Ownership</b>
Fireswirl Systems Inc.	Province of British Columbia, Canada	100%
Swirl Marketing Inc.	Province of British Columbia, Canada	100%
Fireswirl Asia Ltd.	Hong Kong	100%
FTI Europe Ltd.	British Virgin Islands	100%
Fireswirl Mobile Solutions Ltd.	Hong Kong	100%
M- Lingo Limited	British Virgin Island	51%
SMS Translators Limited	British Virgin Island	51%
Fireswirl Technologies (Shenzhen)	China	100%

Investments over which the Company is able to exercise significant influence are accounted for by the equity method.

<b>Name</b>	<b>Place of incorporation</b>	<b>Ownership</b>
Beijing Tysen Xieli Technology Co. Ltd.	China	21%

All significant inter-company transactions and balances have been eliminated upon consolidation.

**Note 3 - Significant Accounting Policies**

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**a) Cash and cash equivalents**

Cash consists of cash, funds in bank accounts, and marketable securities such as guaranteed investment certificates. Interest income earned on these marketable securities is recorded on an accrual basis.

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**b) Capital assets**

Capital assets are recorded at cost. Amortization is charged on the declining balance basis using the following annual rates:

Computer hardware	30%
Computer software	30%
Furniture and fixtures	20%
Leasehold improvements	Straight-line over the term of the lease

In the year an asset is acquired, additions are amortized at half of the normal rate.

Capital assets are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable.

**c) Comprehensive Income**

Effective January 1, 2007, the Company adopted the new accounting standard issued by the CICA under Section 1530 for reporting comprehensive income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities, which are not included in net income (loss) until realized. The adoption of Section 1530 had no impact on the opening equity or balance sheet of the Company.

**d) Software development cost**

Under CICA Handbook Section 3450, Research and Development Costs, the Company capitalizes computer software development costs incurred subsequent to establishing technological feasibility to the extent that their recovery can reasonably be regarded as assured. Amortization of development costs commences with commercial production or use of the product or process.

**e) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities and revenue and expenses arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Foreign exchange gains or losses arising from the translation are included in net income.

Integrated subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities of subsidiaries are translated into Canadian dollars at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at average exchange rates prevailing during the period. Unrealized foreign exchange gains or losses arising from the translation are included in the income statement.

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**e) Income taxes**

The asset and liability method is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance against future tax assets to the extent that the Company does not consider them to be more than likely not of being realized.

**f) Revenue recognition**

The Company generates its revenue from mobile handset trading, system setup fees, customization fees, service and licensing fees.

The system setup fees, customization fees and software development consulting fees are recognized based on the percentage of completion method or as agreed upon milestones are reached and when there are no significant obligations remaining and the sale price is fixed and determinable and collectability is reasonably assured.

The service and licensing fees are recognized when the service is performed, there are no significant obligations remaining, the sales price is determinable and collectability is reasonably assured.

**g) Inventory**

In 2007, the CICA issued Handbook Section 3031, "Inventories". CICA 3031 aligns Canadian GAAP with International Financial Reporting Standards (IFRS) and establishes the principles for measurement, recognition and disclosure of inventories.

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Inventory consists of merchandise inventories.

**h) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumption that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions the company may undertake in the future, actual result may differ from the estimates.

**i) Stock-based compensation**

The company has adopted CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" and applies the fair value method to all grants of stock options. All options granted, accounted for as a capital transaction at the time of the grant, are reflected as stock options in shareholders' equity. The fair value of options granted is estimated at the date of the grant using a Black-Scholes option pricing model incorporating assumptions regarding risk-free rates, dividend yield, volatility of return and a weighted average expected life of options. The estimated fair market value is recorded over the options' vesting period. Any consideration paid on the exercise of stock options is credited to share capital.

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**j) Long-lived assets**

The Company reviewed long-lived assets for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

**k) Transaction Costs**

Transaction costs, other than in respect of financial assets held for trading which are expensed as incurred, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.

**Note 4 - Changes in Accounting Policies**

**a) Financial instruments**

In 2005, The CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”), Section 1530, Comprehensive Income (“Section 1530”), Section 3251, Equity (“Section 3251”), and Section 3865, Hedges (“Section 3865”). The new standards are effective for the Company’s interim and annual financial statement commencing January 1, 2007. Section 1530 establishes standard for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. The adoption of these new standards had no impact on opening deficit as of January 1, 2007.

Under Section 3855, financial instruments must be classified into one of these five categories: i) held-for- trading; ii) loans and receivables; iii) held-to-maturity; iv) available for sale; or v) other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

- Upon adoption of the new standards, the Company has designated its cash and cash equivalents as held-for-trading which are measured at fair value with changes recorded in the consolidated statement of earnings and deficit as interest income.
- Accounts receivables and loan receivable are classified as loans and receivables, which are measured at amortized cost and consistent to the Company’s accounting policy prior to the adoption of Section 3855.

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- The Company had no held-to maturity, available for sale or loans and receivables during the year ended December 31, 2008.
- The Company had no other comprehensive income/ (loss) transactions during the years ended December 31, 2008 and 2007.

For all periods presented, there is no difference between the Company's comprehensive income or loss for the year. The adoption of these standards had no impact on the Company's loss for the year ended December 31, 2008.

On January 1, 2008 the Company adopted CICA Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation.

CICA Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. CICA Section 3862 and CICA Section 3863 enhance disclosures to enable users to evaluate the significance of financial instruments, the nature and extent of risks arising from financial instruments and how an entity manages such risk. This includes new requirements to quantify certain risk exposures and provide sensitivity analysis for some risks.

The new standards result in additional disclosures in the notes to the consolidated financial statements (see Notes 17 and 18), but did not have an impact on the financial position or results of operations of the Company.

**b) Goodwill and intangible assets and financial statement concepts**

In February 2008, the Accounting Standards Board issued Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets" and amended Section 1000, "Financial Statement Concepts" clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard is effective for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the future impact of this standard on its consolidated financial statements.

**Note 5 - Future Accounting Changes**

**a) Consolidated financial statements**

In January 2009, the CICA issued new Handbook Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on December 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

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**b) Business combinations**

In January 2009, the CICA issued new Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after October 1, 2011. Earlier application is permitted.

**c) International financial reporting standards**

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be complete by December 31, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

**Note 6 - Loan receivable**

The Company provided financing of \$260,500 to I-Mobile, a mobile handset retail company in China for their inventory financing on July 6, 2008. I-Mobile has made loan repayments of \$252,089 in 2008 and the Company realized \$4,076 of interest income from the investment. I-Mobile pays 1% or 2% of the sale price to the Company when handset sales are made using the funds provided by the Company. The repayment of the loan is also made when handset sales occur at the same amount as their cost. The Company negotiated a minimum of an 18% annual return on the funds advanced to I-Mobile.

**Note 7- Capital Assets**

	2008				2007		
	Cost	Accumulated Amortization	Impairment	Net	Cost	Accumulated Amortization	Net
Computer Hardware	\$66,708	\$48,662	\$17,204	\$842	\$265,525	\$52,717	\$212,808
Computer Software	90,779	76,965	13,813	-	232,179	72,123	160,056
Fixtures	42,351	16,659	8,565	17,127	55,185	16,850	38,334
Leasehold Improvement	23,956	10,980	-	12,976	-	-	-
	\$223,794	\$153,266	\$39,582	\$30,945	\$552,889	\$141,691	\$411,198

The Computer Hardware and Computer Software categories in 2007 included \$164,042 of hardware and \$134,216 of software respectively that was purchased for use within the Hutchison Telecommunication network in Macau. The entire \$298,258 capital asset for this 3G Gaming Video Platform had not been amortized in 2007 and 2008 since the company had not started

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generating revenue from this project. The 3G gaming service was launched in February 2008 in Hong Kong and Macau. During 2008 the Company wrote off the entire \$298,258 of computer hardware and computer software related to the 3G gaming service due to the uncertainty of revenue streams with the Hutchison project.

The Company also recognized an impairment charge of \$39,582 for capital assets to adjust the carrying value of the capital assets to their fair values as described in Note 3(j).

**Note 8 - Investment in Tysen**

The Company's wholly owned subsidiary Fireswirl Technologies (Shenzhen) Co. Ltd. ("FSZL") acquired a 21% interest in Beijing Tysen Xieli Technology Co. Ltd ("Tysen") a limited liability company incorporated under the laws of the People's Republic of China on November 1, 2008. The total acquisition cost in Tysen was \$509,038 consisting of \$169,883 cash on signing, \$48,440 for legal fees, \$84,530 as an additional payment for Tysen meeting its first milestone and \$206,185 still owing and included in accounts payable. As part of the acquisition agreement, FSZL was required to make three additional payments upon Tysen meeting certain milestones. The first milestone involved Tysen signing an agreement with China Unicom. This milestone was made, \$84,530 was paid and was included as part of the acquisition cost. Two additional payments are to be made upon Tysen achieving certain sales levels with China Unicom. The two additional payments, when and if paid, would total \$167,261 and because of their contingent nature, have not formed part of the purchase consideration.

From the acquisition of 21% of the shares, FSZL is entitled to nominate two out of the three board members and realize 30% of Tysen's earnings until December 31, 2009. FSZL has an option to acquire a further 30% of Tysen's outstanding shares prior to the end of calendar 2011 based on a multiple of Tysen's after tax earnings.

Tysen is an integrator of a push e-mail ("Pushmail") and mobile messaging software that has entered into a collaboration agreement with China Unicom Shanghai, a provincial branch of China Unicom.

Since the Company can nominate a majority of the board of directors and can exercise significant influence over the strategic operating, investing and financing policies of Tysen, the Company's control over this investment is considered to be significant Influence, according to CICA Handbook Section 3051, and accordingly is accounted for using the Equity Method.

Purchase consideration	\$376,068	
Legal fees	48,440	
Payment for meeting first milestone	84,530	
Acquisition Cost		\$509,038
Book value of Tysen's net assets	137,556	
Fireswirl Shenzhen's ownership	21%	28,887
Purchase discrepancy		480,151
Allocation of purchase discrepancy		-
Goodwill		\$480,151

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Tysen reported a \$142,253 net loss for the period November 1, 2008 to December 31, 2008. The Company's proportionate 21% share of Tysen's losses was \$29,873 and has been recognized in income for the year and as a corresponding reduction of the cost of the investment.

Investment In Tysen	
Acquisition Cost, November 1, 2008	\$509,038
The Company's share of Tysen's loss for the period from acquisition to December 31	(29,873)
Balance, December 31, 2008	\$479,165

**Note 9 - Deferred Development Costs and Other Assets**

Deferred development costs and other assets refers to software development costs and patent application costs. Software development costs consists of labour costs of personnel directly engaged in research and development activities and a reasonable allocation of overhead. The only remaining deferred development costs relate to Bet Exchange. The Company commenced amortization of this software product in 2007. Amortization of the costs related to the development of the Bet Exchange will be conducted on a straight line basis over 3 years at an amount of \$15,606 per year.

Capitalized software development costs are also evaluated for impairment periodically by comparing the capitalized costs of the computer software product to the net realizable value of that product. At December 31, 2008, the Company wrote off \$1,108,206 of capitalized software costs related to the Casino Suite. The write-off of the Casino Suite was as a result of management's decision to discontinue further development and marketing of this product based on uncertainty of future revenues.

	SMILES	Casino Suite	SMS Translator	Bet Exchange	Total
Software Development Cost					
-Balance, beginning of 2007	\$86,204	\$304,221	\$ -	\$46,819	\$ 437,244
-Deferred in 2007	30,018	803,484	310,449	-	1,143,951
-Amortization in 2007	-	-	-	(15,606)	(15,606)
	116,222	1,107,705	310,449	31,213	1,565,589
Patent Application Cost					
Impairment in 2007	6,524	501	13,505	-	20,530
	(122,746)		(323,954)		(446,700)
Total deferred cost, end of 2007	-	1,108,206	-	31,213	1,139,419
Software Development Cost					
-Amortization in 2008	-	-	-	(15,606)	(15,606)
Impairment in 2008		(1,108,206)			(1,108,206)
Total deferred cost, end of 2008	\$ -	\$ -	\$ -	\$15,607	\$15,607

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The Company registered a trademark of its logo in Hong Kong, China, US and Canada in 2007 and 2008. Total cost of this registration was \$16,464.

**Note 10 - Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of December 31, 2008 consisted of \$425,152 (2007: \$141,364) of accounts payable and accrued expenses, \$105,500 (2007: \$97,547) of wages and vacation payable, \$7,888 (2007: \$25,121) of payroll remittances and \$25,180 (2007: nil) of customer deposits.

	December 31 2008 \$	December 31 2007 \$
Accounts payable and accrued expenses	425,152	141,364
Wages and vacation payable	105,500	97,547
Payroll remittances	7,888	25,121
Customer deposits	25,180	-
Total accounts payable and accrued liabilities	563,720	264,032

**Note 11- Share of Loss of Equity Investment**

Tysen recognized a net loss of \$142,253 for the period November 1, 2008 to December 31, 2008. The Company's share of Tysen's loss was \$29,873. The balance of Investment in Tysen amount has been decreased by the corresponding amount.

**Note 12 - Other Incomes and Losses**

Other incomes and losses consist of \$88,859 (2007: \$192,683) of interest income, \$140,145 (2007: nil) of rental income and \$41,133 (2007: nil) of losses from the sales of capital assets. The Company recognized a gain of \$24,870 from customer deposits due to a customer's failure to meet their contractual obligations to the Company in 2007.

	December 31 2008 \$	December 31 2007 \$
Interest income	88,859	192,683
Rental income	140,145	-
Losses from sale of capital assets	(41,133)	24,870
Other incomes and losses	187,871	217,553

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**Note 13 - Income Tax Recovery (Expense)**

The following table reconciles the expected income tax payable (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2008 and 2007.

	December 31 2008 \$	December 31 2007 \$
Net income (loss) before tax	<b>(3,086,353)</b>	(2,022,188)
Income tax rate	<b>31.0 %</b>	34.12 %
Expected income tax expense (recovery) at above rates	<b>(956,707)</b>	(689,971)
Increase (decrease) due to:		
Impact of lower statutory rates on foreign subsidiaries	<b>14,255</b>	54,894
Effect of reduced tax rate	<b>24,518</b>	—
Non-deductible stock-based compensation expense	<b>53,844</b>	106,771
Non-deductible expenses and other permanent differences	<b>1,476</b>	139,415
Valuation allowance	<b>862,615</b>	388,891
Provision for income taxes	<b>-</b>	-

The potential benefit arising from the operating losses has been recognized as a future tax asset. To the extent that these benefits may not be realized, a valuation allowance is provided. Subsequent to the year end the Canadian federal and provincial statutory income tax rate was decreased from 31.00% to 30.00%.

The following tables reflect future income tax assets and liabilities as at December 31, 2008 and 2007:

	December 31 2008 \$	December 31 2007 \$
Future income tax assets:		
Non-capital loss carry forwards	<b>1,227,914</b>	671,271
Unamortized share issuance costs	<b>32,736</b>	68,641
Tax value of intangible assets in excess of book value	<b>347,425</b>	28,242
Tax value of property, plant and equipment in excess of book value	<b>39,784</b>	17,090
Valuation allowance	<b>(1,647,859)</b>	(785,244)
	<b>-</b>	-

The Company has non-capital losses available for carry forward expiring in the following years:

	Canada \$	China \$	Total \$
2012	-	47,180	47,180

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2017	1,400	-	1,400
2018	47,933	-	47,933
2026	897,677	-	897,677
2027	803,560	-	803,560
2028	1,469,860	-	1,469,860
	<u>3,220,430</u>	<u>47,180</u>	<u>3,267,610</u>

The combined non-capital losses from the Company's Hong Kong subsidiaries, Fireswirl Mobile Solutions Ltd. and Fireswirl Asia Ltd. available for carry forward was \$670,355 that can be carried forward indefinitely to future taxation years.

**Note 14 - Loss per Share**

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value. However, under CICA Handbook Section 3500.33, when an enterprise has a loss before discontinued operations and extraordinary items or a loss before discontinued operations and extraordinary items available to common shareholders, including potential common shares in the computation of the diluted per share amount of that loss is always anti-dilutive.

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**Note 15 - Share Capital and Contributed Surplus**

The authorized share capital of the Company is an unlimited number of common shares without par value.

	Number of Shares	Share Capital	Contributed Surplus	
			Warrants	Options
Balance, January 1, 2007	20,067,000	\$1,510,800	\$1,452,183	\$277,176
Private placement - note (c):				
- gross proceeds	4,500,000	4,109,839		
- fair value of 2,250,000 stock option warrants		(1,485,000)	1,485,000	
Warrants exercised in 2007	623,112	934,396	(330,204)	
Stock options exercised in 2007	(6,300)	18,300		(6,300)
Fair value of options granted in 2007				189,963
Fair value of options granted in 2006 and vested in 2007				123,999
Balance, January 1, 2008	25,205,112	5,088,335	2,606,979	584,838
Re-pricing stock options granted in 2006				1,632
Re-pricing stock options granted in 2007				9,870
Fair value of options granted in 2007 and vested in 2008				17,906
Fair value of options granted in 2008				144,282
Stock options exercised in 2008	97500	97,975		(68,725)
	25,302,612	\$5,186,310	\$2,606,979	\$689,803

- (a) On May 1, 2006, the Company purchased all the issued and outstanding securities of Fireswirl Systems Inc. for consideration comprised of 12,300,000 common shares at a deemed price of \$0.80 per share and \$300,000 in cash. A finder's fee of 500,000 common shares was paid in connection with the acquisition.
- (b) Concurrent with the acquisition noted above, the Company completed a private placement of 4,000,000 subscription receipts at a price of \$0.80 and for gross proceeds of \$3,200,000. Each subscription receipt was exchanged without any further action on the part of the holder thereof and for no additional consideration for one Redstone unit upon completion of the acquisition. Each unit consists of one Redstone common share and half of one Redstone share purchase warrants. Each whole Warrant will entitle the holder to acquire one Share at an exercise price of \$1.10 per Share for a period of twenty-four months following completion of the offering. The Offering was closed on May 18, 2006.
- Compensation warrants were issued in connection with the above placement. Additionally a cash commission of 7% of the gross proceeds was paid to the agents.
- (c) On February 22, 2007, the Company completed a non brokered private placement financing of 4.5 million units at \$1.00 per unit. Each unit consists of one common share and one half of a share purchase warrant. Each full warrant entitle the holder to purchase one common share for \$1.25 for a period of 2 years from the date of closing. The warrants also include a forced

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conversion clause that will come into effect if the price of the underlying shares exceeds \$1.50 for a period of 30 consecutive trading days

(d) Shares held in escrow or subject to statutory resale restrictions:

- (i) 1,120,000 common shares issued during the period ended August 31, 2005 are held in escrow pursuant to the requirements of the Exchange to be released as to 10% thereof on the completion of the Corporation's qualifying transaction and as to 15% thereof on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> months following the initial release.
- (ii) 12,800,000 shares issued by the Corporation on May 1, 2006 pursuant to the Acquisition, including the Finder's Fee Shares are held in escrow and released as to 10% thereof on the completion of the Corporation's qualifying transaction and as to 15% thereof on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> months following the initial release.

**Stock option plan**

The Company has established three stock option plans under which stock options to purchase common shares may be granted to directors, officers and employees of the Company and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The aggregate number of Shares issuable upon the exercise of all options granted under the plan shall not exceed 10% of the common shares of the corporation.

	2008		2007	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding, beginning of year	1,296,000	0.85	1,149,500	0.78
Granted	1,140,000	0.28	298,500	1.24
Exercised	(97,500)	0.30	(15,000)	0.80
Forfeited	(758,500)	0.69	(137,000)	1.08
Outstanding, end of year	1,580,000	0.51	1,296,000	0.85
Exercisable, end of year	1,066,250	0.61	1,204,750	0.82

During the fiscal year 2008, the Company granted 1,140,000 options (298,500 in 2007) with an exercise price ranging from \$0.12 to \$0.30 of which 490,000 were granted to employees and 300,000 were granted to consultants and 350,000 were granted to directors. On the date such options are granted, 50% of the options vested and 50% will vest a year later. These options are exercisable over 5 years.

Amount forfeited is due to the cancellation of consulting services with consultants and the termination of employment during the vesting period or in the case options vested, options were out of the money.

On February 19, 2008, the Company granted 840,000 new options at an exercise price of \$0.30 to its employees, officers and directors. Granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years.

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On Dec 15, 2008, the Company granted 100,000 new options at an exercise price of \$0.12 to one of its directors. These granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years. On Dec 29, 2008, the Company granted 200,000 new options at an exercise price of \$0.30 to a consultant. These granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years.

Exercise Price (\$)	Options Outstanding		Options Exercisable	
	Number	Weighted average remaining life (Years)	Number	Weighted average remaining life (Years)
0.12	100,000	5.0	50,000	5.0
0.30	1,005,000	4.2	541,250	4.1
0.80	475,000	2.6	475,000	2.6
	1,580,000	3.8	1,066,250	3.5

**Warrants**

	2008		2007	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding, beginning of year	4,279,888	1.16	2,653,000	1.04
Granted	-	-	2,250,000	1.25
Exercised	-	-	(623,112)	0.97
Expired	(2,029,888)	1.06	-	-
Outstanding, End of year	2,250,000	1.25	4,279,888	1.16
Exercisable, end of year	2,250,000	1.25	4,132,464	1.16

Pursuant to the term of a non brokered private placement on February 22, 2007, the Company issued 2,250,000 share purchase warrants with an exercise price of \$1.25 exercisable over two years. The warrants include a forced conversion clause that will come into effect if the price of the underlying shares exceeds \$1.50 for a period of 30 consecutive trading days.

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Exercise Price (\$)	Warrants Outstanding		Warrants Exercisable	
	Number	Weighted average remaining life (Years)	Number	Weighted average remaining life(Years)
1.25	2,250,000	0.2	2,250,000	0.2

**Assumptions**

The fair value of the options and warrants has been estimated by using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.48 - 3.85%
Dividend yield	-
Volatility	80% - 108%
Expected life	1 year to 5 years

The weighted average fair value of options granted during 2008 was \$0.94.

**Note 16 - Related Party Transactions**

The Company had the following transactions with directors and officers of the Company:

	2008	2007
Expenditures:		
- Salaries and severance	\$ 526,826	\$ 676,485
- Professional fees	2,500	47,663
- Director fees	16,000	
Accounts payable	1,975	2,531
	\$ 547,301	\$ 726,679
Other item:		
Software development costs	\$ -	\$166,481

All of the above transactions were in the normal course of operations and are measured and recorded at the exchange amount of consideration established and agreed to by the related parties. During the year the Company paid \$359,826 in salaries to its management and \$153,000 severance to the Company's former officer. Also, the Company paid \$2,500 in professional fees to one of its directors. As of December 31, 2008, the accounts payable balance includes \$1,975 of regular operational expenses outstanding to an officer of the company.

In 2007, \$166,481 was capitalized as software development cost within the \$676,485 salaries expenditure.

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**Note 17 - Segmented Information**

The Company's sales revenues are allocated to geographic segments as follows:

	2008	2007
China	\$ 293,760	\$ -
United Kingdom	23,319	40,382
Canada	7,122	-
	\$ 324,201	\$ 40,382

One customer in China accounted for \$293,759 or 91% of sales made in the year 2008 while one customer in the United Kingdom accounted for \$40,382 or 100% in 2007.

The Company's capital assets are located in Canada and China as follows:

	2008	2007
Canada	\$25,449	\$108,370
China	5,496	302,828
Total	\$30,945	\$411,198

**Note 18 - Credit Risk and Financial Instrument**

**Credit risk**

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The business also depends on new customers using the product and there is additional risk when credit is granted to new and unproven customers. Credit evaluations are also performed on new customers.

**Currency risk**

The majority of the Company's operations are carried out in Canada but the Company has subsidiaries in foreign countries that pay expenditures in their own currencies. The Company bills its revenue primarily in local currencies of the customers. For these reasons, the Company holds foreign currencies for operating and investment purposes. Changes in the exchange rates may cause a significant fluctuation in income as transactions are not hedged through derivatives. The following balances include amounts denominated in foreign currencies:

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	December 31 2008	December 31 2007
US dollars:		
- Cash and cash equivalents	\$6,127(US\$5,001)	\$372,021(US\$376,616)
- Accounts receivable		-
Hong Kong Dollars		
- Cash and cash equivalents	\$132,434(HK\$837,662)	\$6,584(HK\$51,962)
- Customer deposit	Cdn11,067(HK\$70,000)	
China Yuan Renminbi		
- Cash and cash equivalents	\$639,950( ¥3,565,181)	\$105,129( ¥777,578)
- Receivables	\$9,827( ¥54,744)	
- Prepaid and deposits	\$45,370( ¥252,758)	
United Kingdom Pounds		
- Accounts receivable	\$5,459(£3,000)	\$5,884(£3,000)

Within the amounts listed above, \$120,331(HK\$761,109)and Cdn\$639,950( ¥3,565,181) are held in the Company's wholly owned foreign enterprise (WFOE) Fireswirl Technologies (Shenzhen) Company Limited for the increasing business activities in China. The capital held in the WFOE can be freely used in China for business activities however if these funds were required in Canada, there may be lengthy timing issues relating to procedures required to repatriate the funds to Canada.

**Note 19 - Credit Risk and Financial Instruments**

**Fair Value**

Fair value is the amount at which a financial instrument could be exchanged between willing parties based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The Company's financial instruments include cash, accounts receivable, deposits and prepayments GST/VAT recoverable, loan receivable, and accounts payable and accrued liabilities.

The fair value of accounts receivable, deposits and prepayments, loan receivable, and accounts payable is approximately equal to their carrying values due to their short-term maturity.

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**Interest Risk**

The Company is not exposed to significant interest rate risk. The Company has no interest bearing debt or capital leases. The Company's cash and cash equivalents that are used to finance working capital, which is short-term in nature, are at floating interest rates.

**Liquidity Risk**

The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows.

As at December 31, 2008 the Company has accounts payable of \$563,720, due within 12 months. As at December 31, 2008 the Company is holding cash and cash equivalents of \$2,226,544. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

**Note 20 - Commitments and Contingencies**

- (a) The Company has lease obligations with its previous premises under an arrangement which expires on June 30, 2011. The future annual minimum payments under operating leases is \$61,848.
- (b) The Company has leased its premises under an arrangement which expires on Jan 31, 2010. The future annual minimum payments under this operating lease is \$32,775.
- (c) A foreign subsidiary Fireswirl Technologies (Shenzhen) Company Ltd. has a lease obligation of \$1,272 per month until the lease expires on August 31, 2009.

**Note 21- Capital Management**

The Company has defined its capital as capital stock, contributed surplus and retained earnings.

The following table summarizes certain information with respect to the Company's capital structure at the end of each period:

	December 31, 2008	December 31, 2007
Shareholders' equity	\$2,744,404	\$5,627,819

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to maintain appropriate cash reserves on hand to support continued operations and shareholder returns, maintain capital structure while keeping capital costs at a minimum, and to invest cash on hand in highly liquid, highly rated financial instruments.

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The company is not exposed to externally imposed capital restrictions, and the Company's objectives and strategies described above have not changed since last year. These objectives and strategies are reviewed on a continuous basis.

The Company normally finances its property and equipment purchases with cash.

**Note 22 - Subsequent Events**

On January 2, 2009, the Company granted 200,000 new options at \$0.12 to a member of management of the Company. Granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years. The fair value of the option on the date of the grant was \$0.03 per option.