

***FIRESWIRL TECHNOLOGIES INC.***  
***(Formerly Redstone Capital Corp.)***  
***FINANCIAL STATEMENTS***  
***For the Year Ended December 31, 2006***

***FIRESWIRL TECHNOLOGIES INC.***  
***FINANCIAL STATEMENTS***  
***For the Year Ended December 31, 2006 and 2005***

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**Cinnamon Jang Willoughby & Company**

Chartered Accountants

*A Partnership of Incorporated Professionals*

## **AUDITORS' REPORT**

To the Shareholders of **Fireswirl Technologies Inc. (formerly Redstone Capital Corp.):**

We have audited the consolidated balance sheets of Fireswirl Technologies Inc. (formerly Redstone Capital Corp.) as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*“Cinnamon Jang Willoughby & Company”*

Chartered Accountants

Burnaby, Canada  
March 9, 2007

**FIRESWIRL TECHNOLOGIES INC.**  
**Consolidated Balance Sheets**  
**As at December 31, 2006 and 2005**

	2006	2005
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	2,108,850	112,366
Accounts receivable	72,729	189,570
Recoverable R&D tax credits	-	52,778
Deposits and prepayments	61,942	9,797
Due from related parties - Note 11	-	700
	2,243,521	365,211
Equipment - Note 7	61,303	41,309
Deferred Development Costs - Note 8	437,244	-
	2,742,068	406,520
<b>LIABILITIES</b>		
Current liabilities		
Bank indebtedness	-	544
Accounts payable and accrued liabilities	132,054	63,664
Due to related parties - Note 11	-	80,000
	132,054	144,208
<b>SHAREHOLDERS' EQUITY</b>		
Share capital - Note 3	1,510,800	36,666
Contributed surplus - Note 3	1,729,359	-
Retained earnings (deficits)	(630,145)	225,646
Commitments (Note 14)		
Subsequent Events (Note 16)		
	2,610,014	262,312
	2,742,068	406,520

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

On behalf of the Board:

**"Tony Lau"**

Tony Lau  
Director

**"Andrew Mah"**

Andrew Mah  
Director

***FIRESWIRL TECHNOLOGIES INC.***  
***Consolidated Statements of Retained Earnings***  
***As at December 31, 2006 and 2005***

	2006	2005
	\$	\$
Balance, beginning of the year	225,646	110,823
Net income (loss) for the year	(855,791)	114,823
Balance, end of the year	(630,145)	225,646

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

**FIRESWIRL TECHNOLOGIES INC.**  
**Consolidated Statements of Operations**  
**For the year ended December 31, 2006 and 2005**

	2006	2005
	\$	\$
Revenue	641,396	1,004,627
Operating Expenses		
Amortization	20,616	13,870
Sales and marketing	107,455	71,473
Bad debts	136,844	-
General administration	521,773	156,509
Salaries and benefits	776,637	525,551
	1,563,325	767,403
Income (Loss) before other items	(921,929)	237,224
Other items:		
Development costs - Note 8	-	(99,132)
Other incomes - Note 10	68,034	5,134
Income (loss) before income taxes	(853,895)	143,226
Income tax expense - Note 9	1,896	28,403
Net income (loss) for the year	(855,791)	114,823
Basic/Diluted loss per share - Note 5	(0.05)	0.01
Weighted average number of shares outstanding	17,298,345	12,300,000

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

**FIRESWIRL TECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**  
**For the year ended December 31, 2006 and 2005**

	2006	2005
	\$	\$
Operating Activities		
Net (loss)/income for the year	(855,791)	114,823
Changes to income not affecting cash:		
Amortization	41,453	13,870
Stock based compensation	278,211	-
Bad debts expense	136,844	-
Changes in non-cash working capital balances related to operations:		
Accounts receivable	( 20,003)	(129,634)
Income taxes receivable	-	2,079
Recoverable R&D tax credits	52,778	123,316
Deposits and prepayments	(52,145)	(1,350)
Accounts payable and accrued liabilities	68,390	(4,426)
	(350,263)	118,678
Investing Activity		
Deferred development costs	(437,244)	-
Acquisition of equipment	(61,447)	(12,448)
	(498,691)	(12,448)
Financing Activities		
Bank indebtedness	(544)	(3,802)
Due from related parties	700	9,938
Due to related parties	(80,000)	-
Shares issued on acquisition of subsidiaries	74,656	-
Shares issued for cash	2,811,401	-
Shares issued for options exercised	39,225	-
	2,845,438	6,136
Increase/(Decrease) in cash during the year	1,996,484	112,366
Cash, beginning of the year	112,366	-
Cash, end of the year	2,108,850	111,219
Supplementary cash flow information:	2006	2005
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 year ended December 31, 2006 and 2005**

**Note 1 Nature of Operations**

The Company business is focused on creating transactional based revenue through combinations of software development, software consulting, software systems setup and software licensing.

- a) The Company, as Redstone Capital Corp., acquired 100% of the issue and outstanding capital stock of Fireswirl Systems Inc. on May 1, 2006 by paying \$300,000 cash and issuing 12,300,000 common shares.
- b) On September 1, 2006 Fireswirl Systems Inc. amalgamated with its subsidiary Fireswirl Technologies Inc. with Fireswirl Systems Inc. being the surviving entity.
- c) Redstone Capital Corp. changed its name to Fireswirl Technologies Inc. on August 18, 2006.
- d) On December 13, 2006 the company sold its interest in Swirl Marketing Limited in an arms length transaction for nominal consideration and continuance of a monthly licensing fee of \$8,200.

**Note 2 Significant Accounting Policies**

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using judgment. Actual results may vary from these estimates.

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) Basis of consolidation

The Company, as Redstone Capital Corp., acquired 100% of the issued and outstanding capital stock of Fireswirl Systems Inc. on May 1, 2006 by paying \$300,000 cash and issuing 12,300,000 common shares. Legally, the Company is the parent of Fireswirl Systems Inc. However, control of the combined companies passed to the former shareholders of Fireswirl Systems Inc. as a result of the transaction. This type of share exchange is referred to as a "reverse takeover". These consolidated financial statements follow the requirements of Reverse Takeover Accounting in EIC-10 and CICA 1580.16. The consolidated financial statements, although issued under the name of Fireswirl Technologies Inc., are a continuation of Fireswirl Systems Inc.

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

<u>Name</u>	<u>Place of incorporation</u>
Fireswirl Systems Inc.	Province of British Columbia, Canada
Swirl Marketing Inc.	Province of British Columbia, Canada
Fireswirl Asia Ltd.	Hong Kong
FTI Europe Ltd.	British Virgin Islands

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

***FIRESWIRL TECHNOLOGIES INC.***  
***Notes to the Consolidated Financial Statements***  
***For the year ended December 31, 2006 and 2005***

**Note 2 Significant Accounting Policies (continued)**

b) Equipment

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

Computer equipment	30%
Computer software	30%
Furniture and equipment	20%

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

Equipment 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. No write downs have been necessary to date.

c) Impairment of Long Lived Assets

Long-lived assets are tested for impairment whenever the circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets are not recoverable, the long lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or group of assets. If the carrying amount is not recoverable from future expected cash flows, any loss is measured as to the amount by which the asset's carrying value exceeds fair value. The ability to recover is assessed relative to non-discounted cash flows from the direct use and disposition of the asset or group of assets.

d) Cash and cash equivalents

Cash consists of cash, funds in bank accounts, and short term deposits integral to the company's cash management.

e) Financial instruments

The financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities.

f) Fair Values

Fair value estimates are made at a specific point in time, based upon relevant market information, if any, and information about the financial instruments. These estimates are subjective in nature, and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Unless otherwise noted, cash, accounts receivable, accounts payable, and accrued liabilities, are stated at amounts that approximate their fair value due to the relatively short-term maturity or capacity of prompt liquidation of the instruments.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 2 Significant Accounting Policies (continued)**

g) Translation of foreign currencies

The current rate method of translation has been adopted with regard to its foreign investments whereby assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the period.

h) Foreign Exchange Risk

A significant portion of the sales and purchases are in foreign currencies. This may cause a significant fluctuation in income from changes in the exchange rates during the year as transactions are not hedged through derivatives.

i) Measurement of Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include providing for amortization of equipment, product development costs and intangible assets, the valuation of stock based compensation and warrants issued, and the net recoverable value of product development costs. Actual results could differ from those estimates.

j) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, Variable Interest Entities ("AcG-15"), which became applicable to the Company on January 1, 2005. Variable interest entities include entities in which the equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by other parties.

Management assessed the Company's operations and relationships in light of AcG-15 and concluded that there are no variable interest entities in respect of which the Company is the primary beneficiary.

k) Software Development

Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. Under The Canadian Institute of Chartered Accountants' Handbook Section 3450, Research and Development Costs, the Company capitalizes certain computer software development costs incurred subsequent to establishing technological feasibility; and will be amortizing the capitalized software development costs using the straight-line method over the estimated useful life of the software once the software is available for general release.

l) 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. Future income tax assets arise from recognizing the benefit from income tax losses carried forward. The extent to which the benefit of the tax loss carried forward is recognized is limited to the amount that is more likely than not to be realized. A valuation allowance is provided.

***FIRESWIRL TECHNOLOGIES INC.***  
***Notes to the Consolidated Financial Statements***  
***For the year ended December 31, 2006 and 2005***

**Note 2 Significant Accounting Policies (continued)**

m) Revenue recognition

The Company generates its revenue from system setup/customization fees, service and licensing fees and software development fees.

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

The service and licensing fees are recognized as the service is performed in accordance with each individual contract and an invoice has been rendered, and when there are no significant obligations remaining and the sales price is fixed and determinable and collectibility is reasonably assured.

n) 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.

o) Product development Costs

Product development costs are expensed as incurred or deferred where it is expected, beyond any reasonable doubt, that sufficient future benefits will be derived so as to recover those deferred costs. These costs are amortized once commercial production has commenced over the period which the related benefits are expected to be realized. To date no amortization has taken on development costs.

p) 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.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 3 Share Capital and Contributed Surplus**

	Number of Shares	Stated Amount	Contributed surplus
Authorized:			
Unlimited common shares, without par value			
Unlimited preferred shares, issuable in series			
Common shares issued:			
Capital stock of the Company	3,120,000	\$0	\$0
Stated capital of Fireswirl Systems Inc.		36,666	
Shares issued on acquisition - note (a)	12,300,000	74,656	
Shares issued for Finder's fee - note (a)	500,000		
Shares issued on private placement - note (b)	4,000,000	3,200,000	
Fair value of stock option warrants - note (b)		(1,160,000)	1,160,000
Share issue costs		(388,599)	
Agents warrants granted capitalized as issue costs		(296,232)	296,232
Fair value of employees options granted			259,567
Fair value of agent options granted	-	-	17,609
Share issued on options exercised	147,000	44,309	(5,084)
Agent options vested on exercise of warrants		-	1,035
	<u>20,067,000</u>	<u>\$1,510,800</u>	<u>\$1,729,359</u>

- a) On May 1, 2006 the Company purchased all the issued and outstanding securities of Fireswirl Systems Inc. for consideration comprised of an aggregate 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.

Fair value of the shares issued is arrived at as follows:

Net assets acquired:	
Cash	\$ 545,273
Deferred acquisition costs	10,600
Accounts payable and accrued liabilities	<u>(15,563)</u>
	<u>\$ 540,310</u>
Purchase consideration:	
Cash	\$ 300,000
Costs incidental to acquisition	165,654
12,300,000 common shares issued	<u>74,656</u>
	<u>\$ 540,310</u>

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 3 Share Capital and Contributed Surplus (continued)**

- b) Concurrent with the acquisition noted above the Company completed private placement ("Offering") of 4,000,000 subscription receipts ("Subscription Receipt") at a price of \$0.80 per Subscription Receipt 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 ("Unit") upon completion of the Acquisition. Each Unit consists of one Redstone common share (a "Share") and half of one Redstone share purchase warrant (the "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 (24) months following completion of the Offering. The Offering was closed on May 18, 2006.

Compensation warrants were issued in connection with the above placement - Note 7(a). Additionally a cash commission of 7% of the gross proceeds was paid to the agents.

- c) 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 6th, 12th, 18th, 24th, 30th and 36th 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 6th, 12th, 18th, 24th, 30th and 36th months following the initial release.

**Note 4 Share Purchase Warrants**

The Company issued 2,000,000 share purchase warrants during its private placement on May 18, 2006. Each warrant entitles the holders to acquire one common share of the Company at an exercise price of \$1.10. The warrants expire on May 17, 2008.

**Note 5 Earning (Loss) per Share**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (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.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 6 Share Purchase Options**

The Company has adopted a stock option plan whereby 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

	Options Granted	Vested	Exercised	Balance at Sep 30, 2006	Option prices	Expiry
Directors options - 2005	150,000	150,000	(100,000)	50,000	\$0.25	Dec 12, 2010
Agents warrants - 2005	100,000	100,000	(42,500)	57,500	\$0.25	May 18, 2008
Agents warrants - 2006 - note (a)	400,000	400,000	(4,500)	395,500	\$0.80	May 17, 2008
Agents warrants - 2006W – note(a)	200,000	2,250		2,250	\$1.10	May 17, 2008
Employees options - 2006(1) - note (b)	361,500	180,750		180,750	\$0.80	May 24, 2011
Employees options - 2006(2) - note (c)	438,000	219,000		219,000	\$0.80	Aug 25, 2011
IR agent options - 2006 (d)	300,000	75,000		75,000	\$0.80	Dec 23, 2007
	1,949,500	1,127,000	(147,000)	980,000		

- a) The Company issued compensation warrants on May 18, 2006 allowing the agents and members of the selling group so formed in connection with the private placement, to purchase up to 400,000 Units at an exercise price of \$0.80 per Unit for a period of twenty-four (24) months following completion of the Offering. If the warrants are exercised, the agents will have the right to further exercise, on a two for one basis, to purchase common shares at option price of \$1.10 within the same 24 months period. Fair value of warrants issued \$296,232 was charged to Share Capital as part of share issue costs.
- b) The Company granted options to employees on May 24, 2006 to acquire 361,500 shares at an exercise price of \$0.80 per share under its stock option plan (Employee options - 2006(1)). 50% of the options became vested on the grant date, while the vesting date of the remainder is set to May 24, 2007. The options expire on May 24, 2011.
- c) On August 25, 2006 the Company granted options to employees to acquire 438,000 shares at an exercise price of \$0.80 per share under its stock option plan. 50% of the options became vested on the grant date, while the vesting date of the remainder is set to August 25, 2007. The options expire on August 25, 2011.
- d) The Company contracted with a professional firm to provide investor relation services on November 24, 2006. As part of the compensation package, the company granted 300,000 options exercisable at \$0.80 per share. Of the options granted, 25% became vested upon signing the contract, and the remainders 25% thereof on each of the 3, 6 and 9 month anniversaries. These options will expire 30 days after the termination date.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 6 Share Purchase Options (continued)**

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

Risk-free interest rate	2.78 - 3.43%
Dividend yield	-
Volatility	125%
Expected life	1 years to 5 years

The weighted average grant date fair value of options was \$0.42

**Note 7 Equipment**

	----- 2006 -----			----- 2005 -----		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	\$ 60,073	\$ 40,691	\$ 19,382	\$ 43,586	\$ 25,142	\$ 18,444
Computer software	86,581	63,488	23,093	57,794	41,832	15,962
Furniture and fixtures	29,327	10,499	18,828	13,154	6,251	6,903
	<u>\$175,981</u>	<u>\$114,678</u>	<u>\$ 61,303</u>	<u>\$114,534</u>	<u>\$ 73,225</u>	<u>\$ 41,309</u>

**Note 8 Other Assets**

Development costs comprise of labor costs of personnel directly engaged in research and development activities, and a reasonable allocation of overhead. As the development projects are still in progress, no amortization of the costs was charged to expenses for the year.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 9 Income Taxes**

At December 31, 2006 the Company and its subsidiaries have \$535,485 non-capital loss carryforwards for 10 years (2005: \$Nil).

Temporary differences and carryforwards that give rise to future income tax assets and liabilities as at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets:		
Equipment	\$ 8,743	\$ -
Tax loss carryforwards	188,062	-
	196,805	-
Less: valuation allowance	(196,805)	-
Net future income tax	\$ -	\$ -

Total income tax recovery (expense) varies from the amounts that would be computed by applying the statutory income tax rate to income before income taxes for the following reasons:

	2006	2005
Statutory income tax rate	35.12%	17.62%
Income tax recovery (expense) on income (loss) before income taxes	\$299,888	\$ (25,208)
Increase (decrease) in income taxes from:		
Amortization	(7,240)	(2,444)
Capital cost allowance	7,526	2,771
Cumm. eligible capital deduction	12	-
Stock based compensation	(106,821)	-
Change in future income tax asset	-	(327)
Non-deductible R&D costs	(18,495)	(3,696)
Other non-taxable (taxable) amounts	20,039	501
	194,909	(28,403)
Valuation allowance	(196,805)	-
Income tax recovery (expense)	\$ (1,896)	\$ (28,403)

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 10 Other Incomes (Expenses)**

Other incomes (expenses) include:

	2006	2005
Foreign exchange	\$ (3,109)	\$ 3,603
Interest income	71,143	1,531
	<u>\$ 68,034</u>	<u>\$ 5,134</u>

**Note 11 Related Party Transactions**

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

	2006	2005
Revenue:		
Consulting fees	\$ -	\$ -
Expenses:		
Salaries and benefits	\$230,183	\$ 58,000
General administration	50,339	-
	<u>\$280,522</u>	<u>\$ 58,000</u>
Other item:		
Research and development costs	\$142,825	\$ 12,000

Related party transactions are in the normal course of operations and occur on terms and conditions that are similar to those of transactions with unrelated parties. The salaries and benefits and consulting fees are measured at the exchange amount agreed between the various parties. Office expenses were paid to a company related by virtue of a director who is also an officer of that company for office facilities and administrative services rendered.

The amount due to and from related parties of, respectively, \$Nil (2005: \$80,000) and \$Nil (2005: \$700) consists of amounts due to/from a shareholder of the Company or director of the Company with respect to advances. These amounts are non-interest bearing and were all settled before the end of the year.

**Note 12 Financial Instruments**

Credit risk

The Company grants credit to its customers in the normal course of business. Credit evaluation is performed on 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 evaluation is also performed on new customers.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 12 Financial Instruments (continued)**

Currency risk

The majority of the Company's operations are carried out in Canada. The Company bills its revenue primarily in US dollars and pays its expenditures in Canadian dollars. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company.

The following balances include amounts denominated in US dollars:

	2006	2005
Cash	\$ 253,459	\$ 38,107
Accounts receivable	17,000	109,500
Accounts payable and accrued liabilities	-	46,556

**Note 13 Segmented Information**

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

	2006	2005
Belize	\$ -	\$ 40,003
United States of America	-	128,615
Canada	-	14,953
Costa Rica	56,000	-
British Virgin Islands	191,850	94,960
Hong Kong	98,550	86,000
Island of Man	28,000	132,440
United Kingdom	21,000	58,430
Panama	83,996	121,476
Barbados	162,000	327,750
	<u>\$641,396</u>	<u>\$1,004,627</u>

The Company has no capital assets located outside Canada.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2006 and 2005**

**Note 14 Commitments**

- a) The Company has leased its premises under an arrangement which expires on June 30, 2011. The future annual minimum payments for the operating lease are \$61,848.
- b) The Company has contracted with a professional firm to provide investor relations services. The one year contract will expire on November 23, 2007 and it includes compensation for professional of \$53,833 and the fair value of stock options of \$56,748.

**Note 15 Comparative Amounts**

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

**Note 16 Subsequent Events**

- a) Acquisition of Intellectual Property

The Company, on February 14, 2007, completed the acquisition of certain intellectual property (IP) from Living Stone Consultants Limited("LSCL") and a 51% interest in M-Lingo Limited. The IP enables real time translation between multiple languages on and between virtually any types of mobile phone. M-Lingo is a joint venture with MHL Consulting Ltd.for MHL Consulting to market the IP to its extensive network of mobile carriers in Hong Kong, Taiwan and China.

The purchase price consideration to LSCL consisted of 1) 50% of the first US \$8 million of net income generated by Fireswirl Mobile Solutions derived from the IP and 15% of net income thereafter; 2) US \$22,500 in cash; and 3) options granted in the name of the sole shareholder of LSCL to purchase 100,000 common shares of Fireswirl Technologies at an exercise price equal to the closing market price on the date of closing.

- b) Non brokered private placement of \$4.5 million financing

On February 22, 2007 the company closed 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 will entitle the holder to purchase one common share for \$1.25 for a period of two years from the date of closing. The warrants also 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.

- c) Exercise of warrant certificates

As of March 15, 2006 the Company has received from subscribers orders to convert 237,800 warrants into shares at a price of \$1.10 each representing \$261,580.