

# **FIRESWIRL TECHNOLOGIES INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS, FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005**

**As at November 23, 2006**

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for the nine-month period ending September 30, 2006, should be read in conjunction with Fireswirl Systems Inc. Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2005, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

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

### **NAME CHANGE**

Pursuant to a resolution passed by shareholders July 31, 2006, Redstone Capital Corp. changed its name to Fireswirl Technologies Inc., with no changes or consolidation of capital. Effective August 21, 2006, the common shares of Fireswirl Technologies Inc. commenced trading on the TSX Venture Exchange under symbol "FSW".

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

This MD&A contains 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 performance, achievements or other future events constitute forward looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "could", "expect", "intend", "believe", "potential" or similar words, have been used to identify these forward looking statements.

Forward looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results to differ materially from the results discussed or implied in the forward looking statements. These factors should be considered carefully and readers should not place undue reliance on the 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 and growth rates; currency rate fluctuations; and the impact of consolidations in the on-line gaming industry. Fireswirl 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 by 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 Fireswirl's business operations without regard to how these activities were financed or how they were taxed. Fireswirl'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**

The company is in the business of software development, software consulting, software systems setup and software licensing. Fireswirl based software products and games are designed for deployment in gaming, entertainment and promotional applications with user access available through the internet or mobile data. The company's technology includes multiple payment interfaces, as well as multi-currency and multi-language capabilities for applications within electronic and mobile commerce. The technology has broad appeal to any industry seeking a high volume micro-payment solution involving a wide base of users. Neither Fireswirl, nor any of its subsidiaries, operates or conducts gambling activities over the internet or by any other means.

The landscape of the internet gaming industry underwent dramatic changes in 2006, from increased competition (particularly in the poker sector) to new regulatory issues, such as the United States' prohibition on credit card companies and financial institutions processing transactions with internet gaming operations. The financial impact of these changes on Fireswirl was minimal; however, it required the company to re-focus its product line and target markets to ensure a more visible and sustainable business model for the future.

Management is of the opinion that in the future, the online gaming industry will be dominated and regulated by the governments of the world who will become the operators or licensors of the online gaming industry. In response, Fireswirl product line is expanding from mainly an online poker software solution to a broader suite of gaming software products including slots, video poker, blackjack, roulette, craps, etc. Fireswirl's products are capable of multi-currency, multi-language, individual play and tournament

modes. Fireswirl's target market includes governments and operators who have obtained a license from a government for online gaming within their jurisdictions. In September 2006, the company filed a provisional patent for SMILES (Secure Mobile Integrated Lottery Enterprise System), a software solution that allows users to access their lottery accounts or (using a pre-paid card) to acquire a lottery ticket over their cell phones. Independent research suggests that mobile gaming will account for more than 10 percent of all lottery tickets sales in the coming years.

A new CEO with 30 years of diversified experience in banking, corporate finance and casino gaming was recruited to re-brand Fireswirl's products and redefine the company's target markets.

In Q3 2006, the company discontinued some projects that management deemed were no longer viable. This resulted in the company taking a one-time charge and write-off of accounts receivable in the amount of \$116,684. Revenue in Q3 2006 was lower than the previous quarter reflecting new products under development. Fireswirl remains committed to the online gaming sector with new gaming products in development. The company will also pursue non-gaming applications that are compatible with the company's technology.

Fireswirl has a strong balance sheet following completion in Q2 2006 of a \$3.2 million equity issue that netted the company \$2,811,401. At September 30, 2006, the company had cash and short-term investments of \$2,426,835, working capital of \$2,494,026 and no long-term liabilities. This strong cash and working capital position will enable the company to re-brand its products and pursue future growth without the need for immediate future financing.

Fireswirl's internal control systems continue to evolve as the company grows. We believe these systems are sufficient to execute our business plan and provide meaningful information upon which to manage our business. Management believes the disclosure controls and procedures currently in place are effective.

As of September 30, 2006, the three-month weighted average number of common shares outstanding was 20,045,000, representing a basic/diluted loss of (\$0.01) per share for the three months ended September 30, 2006. The basic/diluted loss per share was (\$0.02) for the nine months ended on the date when the weighted average number of common shares was 16,362,555.

During the remainder of 2006 and Q1 2007, the company will continue to invest its working capital in the areas of its business specifically related to product development, marketing and customer support. Increased expenditures in these areas will continue later into 2007 in order to sustain these activities and build for long-term growth.

Company revenues are normally of a contractual and recurring nature and are determined by either a per transaction charge, a percentage of revenues or a monthly maintenance fee. The company's contractual agreements with licensees can include provisions for

graphics, web design, software implementation services, software licensing fees and the provision of software upgrades.

Expenses are classified into seven categories, namely:

1. Amortization – is based on the useful life of our assets and includes the amortization of the acquisition costs incurred by the subsidiary on merger.
2. Sales and Marketing - consists of promotion and travel expenses associated with the company's sales, marketing and business development activities.
3. General and Administrative - consists of all office operating expenses including professional fees relating to our public company listing.
4. Salaries and Benefits - consists of all wages paid to Fireswirl personnel and consultants. In Q3 2006, \$237,340 of our software developer wages and a reasonable portion of overhead were allocated to the design and development of new products and capitalized.
5. Stock Based Compensation - consists of the estimated fair value of options granted to employees and directors.
6. Foreign Exchange - the company operates internationally with 100% of its revenue derived from non-Canadian licensees. Under the terms of the licensee agreements, the majority of company revenue is derived in US dollars. Consequently, the company is exposed to currency fluctuations that result in gains or losses reported in this expense category.
7. Bad Debts - in Q3 2006, the company recorded bad debts of \$116,684, reflecting uncollectible accounts receivable.

QUARTERLY RESULTS FOR THE THREE AND NINE MONTHS ENDED  
 SEPTEMBER 30, 2006 COMPARED TO THE THREE AND NINE MONTHS ENDED  
 SEPTEMBER 30, 2005.

**Fireswirl Technologies Inc. - Consolidated Statements of Operations**

<b>Period Ending</b>	<b><u>9/30/2006</u></b>	<b><u>6/30/2006</u></b>	<b><u>3/31/2006</u></b>	<b><u>Total (a)</u></b>	<b><u>9/30/2005</u></b>	<b><u>6/30/2005</u></b>	<b><u>3/31/2005</u></b>	<b><u>Total (b)</u></b>
<b>Operating Revenue</b>	<b>\$128,260</b>	<b>\$236,133</b>	<b>\$210,344</b>	<b>\$574,737</b>	<b>\$229,410</b>	<b>\$133,125</b>	<b>\$285,707</b>	<b>\$648,242</b>
<b><u>Expenses</u></b>								
Depreciation & Amortization	\$12,365	\$12,548	\$2,990	\$27,903	\$3,467	\$3,467	\$3,467	\$10,401
Sales & Marketing	\$31,981	\$29,190	\$19,008	\$80,179	\$20,261	\$20,051	\$12,939	\$53,251
General Administration	\$53,193	\$92,088	\$41,132	\$186,413	\$27,402	\$43,932	\$33,267	\$104,601
Salaries & Benefits	\$133,136	\$166,104	\$139,120	\$438,360	\$129,504	\$127,041	\$112,145	\$368,690
Stock Based Compensation	\$111,678	\$92,172	-	\$203,850	-	-	-	-
Foreign Exchange	(\$829)	\$7,131	\$3,018	\$9,320	\$10,065	(\$2,897)	(\$105)	\$7,063
Bad and doubtful debts	\$116,684	-	-	\$116,684	-	-	-	-
<b>Total Expenses</b>	<b>\$458,208</b>	<b>\$399,233</b>	<b>\$205,268</b>	<b>\$1,062,709</b>	<b>\$190,699</b>	<b>\$191,594</b>	<b>(\$161,713)</b>	<b>\$544,006</b>
<b>Operating Income (Loss)</b>	<b>(\$329,948)</b>	<b>(\$163,100)</b>	<b>\$5,076</b>	<b>(\$487,972)</b>	<b>\$38,711</b>	<b>(\$58,469)</b>	<b>\$123,994</b>	<b>\$104,236</b>
Development costs	(\$237,340)	-	-	(\$237,340)	(\$16,344)	(\$17,706)	(\$15,460)	(\$49,510)
Capitalization of development costs	\$237,340			\$237,340				
Interest Income	\$24,031	\$15,054	-	\$39,085	-	\$4	\$7	\$11
Income (Loss) Before Taxes	(\$305,917)	(\$148,046)	\$5,076	(\$448,887)	\$22,367	(\$76,171)	\$108,541	\$54,737
Income Tax expense/(recovery)	\$69,189	\$9,554	(\$10,685)	\$68,058	\$420	\$26,104	(\$23,622)	\$2,902
<b>Net Income (Loss)</b>	<b>(\$236,728)</b>	<b>(\$138,492)</b>	<b>(\$5,609)</b>	<b>(\$380,829)</b>	<b>\$22,787</b>	<b>(\$50,067)</b>	<b>\$84,919</b>	<b>\$57,639</b>
<b>Basic/Diluted (loss)/earnings per share</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>---</b>	<b>(0.02)</b>	<b>----</b>	<b>----</b>	<b>0.01</b>	<b>---</b>

Comments:

- (a) cumulative results for the 9 months period ending September 30, 2006
- (b) cumulative results for the 9 months period ending September 30, 2005

## **REVENUE**

Fireswirl revenue decreased to \$128,260 and \$574,737 for the three and nine months ended September 30, 2006 compared to \$229,410 and \$648,242 for the three and six months ended September 30, 2005 a decrease of 44% and 11.3% respectively. Interest and other income increased to \$24,031 and \$39,085 due to the injection of capital from the “Qualifying Transaction” to which there is no comparative item for the same period of 2005.

## **OPERATING EXPENSES**

Total operating expenses increased to \$458,208 and \$1,062,709 for the three and nine months ended September 30, 2006 compared to \$190,699 and \$544,006 for the three and nine months ended September 30, 2005 an increase of 140.3% and 95.3% respectively. The increase in operating expenses is reflective of the company’s growth in personnel, infrastructure and change in business focus. In comparing the nine months ended September 30 2006 to September 30, 2005 the most notable increase in expense occurred in staff compensation and the one time account receivable write off.

The increase staff compensation was incurred for continued development of new casino software, the hiring of our new CEO and improvement of our quality assurance and testing. In addition the Company incurred non comparative expenses in the area of stock based compensation, a one time expense for doubtful account after it discontinued business with some licensees, amortization of intangible assets and professional and filing fees as required by the TSX. Increases in general and administrative costs resulting from the company’s office relocation and associated moving expenses all contributed to the increased operating expenses.

In Q3 2006 the company capitalized \$237,340 of software development costs related to the new software platform, suite of casino games, and SMILES.

### **Salaries and benefits**

Consists of all wages paid to staff, technical consultants and management. Salaries and benefits increased to \$133,136 and \$438,360 for the three and nine months ended September 30, 2006 compared to \$129,504 and \$368,690 for the three and nine months ended September 30, 2005 an increase of 2.8% and 18.9% respectively. The increased expenditure is attributable to the hiring of more skilled programmers as opposed to testers. The expenditure was necessary to hire and upgrade the skill level of our technical staff and strengthen our management team.

### **Sales and Marketing**

Sales and marketing expenses increased to \$31,981 and \$80,179 for the three and nine months ended September 30, 2006 compared to \$20,261 and \$53,251 for the three and nine months ended September 30, 2005 an increase of 57.8% and 50.5% respectively The

increase is attributable to our company increased investment in growing our business and increased travel to support current licensees and meet with prospective new clients.

### **General and Administrative**

General and administrative expenses consist of facilities costs, communications, office supplies, financial charges, insurance, investor relations, professional fees, filing and listings fees etc. General and administrative expenditures increased to \$53,193 and \$186,413 for the three and nine months ended September 30, 2006 compared to \$27,402 and \$104,601 for the three and nine months ended September 30, 2005 an increase of 94.1% and 78.2% respectively.

The most significant factor attributable to the increase in G&A was professional fees that increased to \$27,003 and \$93,728 respectively for the three and nine months ended September 30, 2006 compared to \$5,762 and \$36,962 for the three and nine months ended September 30, 2005 an increase of 368.6% and 153.5% respectively. The increased expenditure is due to filing and listing requirements of the TSX exchange, these expenditures were not required in 2005.

### **Depreciation and Amortization**

Depreciation and amortization are based on the estimated useful life of the assets and include an increase in intangible assets acquired with the completion of the Qualifying Transaction. Depreciation and amortization expenses increased to \$12,365 and \$27,903 for the three and nine months ended September 30, 2006 compared to \$3,467 and \$10,401 for the three and nine months ended September 30, 2005 an increase of 256.6% and 168.2% respectively. This increased depreciation expenses are due to the increased net book values of property and equipment as of September 30, 2006 compared to September 2005. Significant computer and hardware additions were required to equip workstations, additions to servers as well as office furniture to accommodate the company's growth. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow.

### **Stock based compensation**

Consist of the fair value of options and warrants granted to directors and employees during the period. The company recorded \$111,678 and \$203,850 of stock based compensation expenses for the three month and nine month ended September 30, 2006. There is no comparative expense for the same period of 2005. Stock based compensations were recognized when stock options to employees and directors became vested. The company has adopted the Black-Scholes option pricing model to calculate the stock options expenses. No similar expenses were incurred in 2005.

## **Foreign Exchange**

The company operates internationally with its revenue mainly generated from non Canadian sources. Under the Company's licensing agreements, the majority of the Company's revenue is foreign currency stated in US dollars. Consequently the Company is exposed to currency fluctuations, which result in foreign currency gains or losses that are reported in this expense/revenue category. At this time, the company does not utilize hedges or forward contracts to mitigate foreign currency fluctuations. The company incurred a gain of \$829 and a loss of \$9,320 for the three and nine months ended September 30, 2006 compared to foreign currency losses of \$10,065 and \$7,063 for the comparative periods of 2005.

## **Bad Debts and Doubtful debts**

The company recorded \$116,684 of bad debts in Q3 2006 reflecting uncollectible accounts receivable associated with the companies refocus on its products and target markets. There are no comparable expenses for the same period of 2005.

## **Software Development Costs**

The company capitalized development costs in relation to re-branding of the new software platform and casino suite and the mobile software products. The amount of the deferred software development cost is \$237,340 for Q3 2006. As the software development project is still in progress, no amortization of the cost was charged to expenses for the period.

## **Provision for Income Tax**

The company reported income tax recovery of \$69,189 and \$68,058 for the three and nine months ended September 30, 2006 compared to a tax expenses of \$420 and \$2,902 for the comparative period of 2005. The tax recovery is mainly attributable to operating losses reported by the company during the quarter and is recognized as Future income tax assets in the balance sheet on the basis that such assets were more likely than not to be realized.

## **EBITDA**

The company reported EBITDA (defined as net income less interest, plus taxes, depreciation and amortization) loss of (\$317,583) and (\$460,069) for three and nine months ended September 30, 2006, compared to profit of \$25,834 and \$65,127 for the comparative period of 2005. The decrease in EBITDA is mainly due to decrease in revenue while there were non-recurring expenses in stock based compensation and bad debt write off.

## **Liquidity and Capital Resources**

The increase in the company's cash position is primarily attributable to the share subscription (net of offering costs) of \$2,811,401 and completion of the "Qualifying Transaction" completed in Q2 2006. As of September 30, 2006, the company has a clean and strong balance sheet as summarized in the Consolidated Statements of Cash Flow. Working capital as of September 30, 2006 was \$2,494,026.

The company's investing activities in the third quarter of 2006 consisted of staggered Bank and T-Bill investments with 30 day or less maturities.

## **Contractual Obligations**

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

2006	\$15,462
2007	\$61,848
2008	\$61,848
2009	\$61,848
2010	\$61,848
2011	\$32,724

## **Related Party Transactions**

Related party transactions pertain to salaries and benefits expenses of \$24,000 and \$104,000 for the three and six months ended September 30, 2006 compared to \$12,300 and \$36,900 for the comparative period of 2005 paid to directors and shareholders of the company. General Administration expenses include \$7,815 paid in the first six months of 2006 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.

## **Accounting Policies and Estimates**

Fireswirl's internal control systems continue to evolve as the Company grows. We believe these systems are adequate to execute our business plan and to provide meaningful results upon which to manage our business.

Critical accounting policies and methods used in the preparation of the Company's financial statements are described in note to the consolidated financial statements of Company's financial statements for the year ended December 31, 2005.

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported

amounts of revenue and expenses during the reporting period. Areas of significant estimates include the amortization for property and equipment, amortization of intangible assets, revenue recognition, provision for doubtful accounts, the realization of future tax assets, deferred set-up fee expenses and stock based compensation. Actual results could differ from management's best estimates and underlying assumptions as additional information becomes available in the future.

The significant accounting policies that the company believes are most critical to aid in fully understanding and evaluating its reported financial results include the following:

### **Proposed Transactions**

There is no proposed asset or business acquisition or disposition transactions pending as at the date of this MD&A.

### **Off Balance Sheet Arrangement**

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

### **Financial Instruments and Other Instruments**

The Company does not use financial derivative or "other financial instrument".

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

The Company has 20,067,000 common shares outstanding on October 31, 2006. If all of the Company's warrants and options were exercised, the Company would have 23,569,500 shares outstanding.

The Company's 2005 Annual Information Form is available on [www.sedar.com](http://www.sedar.com)

## **RISKS AND UNCERTAINTIES**

The Company and its subsidiaries operate in a rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond our control and which could have a material effect on our business, revenue, operating results and financial conditions. Risk and uncertainties could include government regulation, E-commerce law, competition, currency fluctuations, dependence on key personnel, intellectual property protection.