

FIRESWIRL TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS, FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005.

As at March 22, 2007

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with Fireswirl Systems Inc. audited Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2006, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Reference to 2006 or fiscal 2006 means the twelve months ended December 31, 2006. Likewise reference to 2005 or fiscal 2005 means the twelve months ended December 31, 2005.

Additional information about the company is available on the SEDAR website (www.sedar.com) under Fireswirl Technologies Inc. (formerly Redstone Capital Corp.) and on the company website 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 currency rate fluctuations. 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 GAAP (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 focused on creating transactional based revenue through combinations 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 internet and mobile commerce. The technology has broad appeal to industries requiring high volume micro-payment solutions 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) and new regulatory issues such as the United States' prohibition on credit card companies and financial institutions processing transactions with internet gaming operations. The short term financial impact of these changes on Fireswirl's revenue was minimal; however 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 believes that online gaming in the future will be dominated and regulated by the governments of the world who will become the operators or licensors of this lucrative industry and looking for ways to regulate its participants.

In 2006/2007 Fireswirl undertook a series of shaping steps to strengthen its financial position, expand its products offerings, and attract key management of which the highlights are noted as follows:

- In May 2006 the Fireswirl completed a reverse takeover, a \$3.2 million financing, and a public listing on the TSX Venture Exchange.
- In August 2006 a CEO with 30 years of diversified experience in banking, corporate finance and casino gaming was recruited to re-brand and re-focus Fireswirl's products and target markets.

- In September 2006 the company filed a patent application 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.
- In October 2006 the company began an expansion of its product line change expanding from mainly an online poker software solution to a broader suite of gaming software products including slots, video poker, blackjack, roulette, craps, etc. The casino suite is now substantially completed and ready for deployment. Fireswirl's products are capable of multi-currency, multi-language, individual play and tournament modes.
- In November 2006 the company entered into an agreement with Urumqi General System Computer Limited ("WestSMS") a reseller of China mobile, to develop and market a Texas Hold'em Poker to their 4 million mobile phone users. The site expected to go live in March 2007 is a play for free site generating revenue through memberships collected via cell phones or internet subscription.
- December 2006 the company concluded the sale of its subsidiary Swirl Marketing Ltd. (SML) in an arms length transaction to AsiaPac Technologies Management Inc. SML previously was the sub-licensor of the Fireswirl Poker Suite to several independent website operators with requirements as licensees to be registered in their operating jurisdiction with blocking on North American players. The sale of SML was consistent with the direction of management to only consider online gaming operators who were either governments or their licensed operators.
- In January 2007 the acquisition of M-Lingo Ltd was completed which included an assignment of their patent for SMS translation and an agreement with MHL Consulting Ltd. to market the technology in Asia.
- In February 2007 the company completed a \$4.5 Million private placement.

As a result of the above, the most notable significant financial impacts were as follows:

Revenue in 2006, particularly in Q3 & Q4 2006 was lower than the previous year reflecting new products under development that would not be completed until Q1 2007.

Human resources remained the company's single largest expenditure. In 2006 wages increased to \$530,269 compared to \$525,551 in 2005, however in 2006 the company deferred wage development costs of \$352,151 compared to \$nil in 2005.

In the second half of 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 \$136,844.

Stock based compensation increased to \$278,211 in 2006 compared to \$nil in 2005. In 2006 the company provided incentives to its officer, directors, and team members. All team members participate in the company's stock option plan following their probationary period.

In Q2 2006 a \$3.2 million equity issue was completed that net of issuing costs provided the company \$2,811,401. At December 31, 2006, the company had cash and short-term investments of \$2,108,850, working capital of \$2,111,467 and no long-term liabilities. In February 2007 the company completed a further equity financing of \$4.5 Million, this cash and working capital position will enable the company to aggressively pursue growth.

As of December 31, 2006, the weighted average number of common shares outstanding was 17,298,345 representing a basic/diluted loss of (\$0.05) per share for the year ended December 31, 2006. The basic/diluted earning per share was \$0.01 for the year ended December 31, 2005.

In 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 to sustain these activities and build for long-term growth.

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.

Revenues

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. The sale of Swirl Marketing Limited included a continuance of a monthly license fee of US\$8,200 per month payable to Fireswirl.

In the first half of 2006 the company revenues were \$446,477 compared to \$194,919 in the second half of 2006, marking the company's embarkment to a more sustainable business model requiring product development that would take several months and limiting gaming involvement to governments or their licensed operators also typically requiring a longer lead time to materialize orders.

In the latter part of Q3 2006 and continuing in Q4 2006, the company began a series of meetings to introduce Fireswirl and its products in Asia, Europe, South America, and North America. Several of these meetings have lead to advanced proposals that the company is actively attempting to finalize.

Expenses are classified into five categories, namely:

1. Amortization – is based on the useful life of our assets.
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 the year 2006, \$437,244 of our software developer wages and a

reasonable portion of overhead were allocated to the design and development of new products and capitalized.

5. Bad and doubtful debts expenses consists of uncollectible accounts receivable.

FINANCIAL REVIEW

Total revenue for the year ended December 31, 2006 decreased 36% to \$641,396 compared to 2005 revenue. Net loss for 2006 was \$855,791 (\$0.05 per basic and fully diluted share) compared to a net income of \$114,823 (\$0.01 per share fully diluted) in the previous year. The company's pretax operating margin (loss) (defined as net income before income taxes as a percentage of total revenues) declined from 14.3% in fiscal 2005 to (-133.10%) in fiscal 2006 largely as a result of higher expenses, certain of which were non recurring and others related to the servicing of the poker software although facing declining revenues.

Total reported expense for software support, sales and marketing and general and administrative increased to 175.8% of revenue in fiscal 2006 from 75% of revenue in fiscal 2005. The major factors affecting the growth in expenses from 2005 to 2006 were:

- a) Increase in sales and marketing related to the Company seeking alternative applications of our products.
- b) Increase in general and administration expenses relate to professional fees and regulatory filing fees of the TSX exchange.

Fireswirl Technologies Inc. ended the year with an improved balance sheet with cash and short term investments of \$2,108,850 compared to \$112,366 in 2005; the working capital ratio (defined as total current assets divided by total current liabilities at the end of 2006 was 17.0 to 1 compared to 2.5 to 1 a year earlier. The principal investing activity during 2006 was capital expenditures \$498,691 and the principal financing activity was the completion of an equity offering of 4,000,000 subscription receipts for gross proceeds of \$3,200,000.

SELECTED ANNUAL FINANCIAL DATA

Comparison of the years ended December 31, 2006, 2005, and 2004:

Consolidated Statement of Operations and Deficits

Year ended December 31	2006	% Revenue	2005	% Revenue	2004	% Revenue
Revenue	641,396		1,004,627		754,511	
Operating expenses						
Amortization	20,616	3.21	13,870	1.38	16,921	2.24
Sales and marketing	107,455	16.75	71,473	7.11	13,444	1.78
General administration	521,773	81.34	156,509	15.58	75,574	10.02
Salaries and benefits	776,637	121.08	525,551	52.31	472,598	62.64
Total Expenses	1,426,481	222.40	767,403	76.39	578,537	76.68
Operating income (loss)	(785,085)	(122.40)	237,224	23.61	175,974	23.32
Development costs	-		(99,132)	-9.87	(164,021)	-21.74
Capitalization of development costs	-					
Bad and doubtful Debts	(136,844)	(21.33)				
Other incomes (expenses)	68,034	10.60	5,134	0.51	4,641	0.62
Income (Loss) before taxes	(853,895)	(133.13)	143,226	14.26	16,594	2.20
Income tax expense (recovery)	(1,896)	(0.29)	(28,403)	-2.83	(20,857)	-2.76
Net income (loss) for the year	(855,791)	(133.42)	114,823	11.43	(4,263)	-0.57
Basic/Diluted loss per share	(0.05)		0.01		-	

December 31, 2006

Consolidated Balance Sheet Data	2006	2005	2004
Cash and short term investments	\$ 2,108,850	112,366	-
Working capital	2,111,467	221,003	92,973
Total assets	2,742,068	406,520	299,925
Total liabilities	132,054	144,208	152,436
Total shareholders equity	2,610,014	262,312	147,489

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

REVENUE

Fireswirl revenue decreased to \$641,396 for the year ended December 31, 2006 compared to \$1,004,627 for the year ended October 31, 2005, a decrease of 36%. License fees were the single largest contributor to revenue. In the second half of the year some of our customers ceased

operations due to increased competition. The company also shifted its business model for products that would take several months to develop and require a longer sales cycle.

OPERATING EXPENSES

Total operating expenses increased to \$1,426,481 in the year ended December 31, 2006 compared to \$767,403 in the year ended December 31, 2005. The increase in operating expenses is reflective of the company's growth in personnel, infrastructure and change in business focus. The major factors affecting the growth in expenses from 2005 to 2006 were increases in amortization expenses, professional fees, staff compensation and the one time write off on account receivables .

The increase in 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 fees and regulatory compliance costs. Increases in general and administrative costs generated from the company's office relocation and associated moving expenses all contributed to the increased operating expenses.

During the fiscal year 2006 the company capitalized software development costs related to the new software platform: Bet-Exchange, Poker/Casino Suite project and SMILES mobile lottery project.

Amortization

Amortization expenses increased to \$20,616 in 2006 from \$13,870 in 2005. The increase in amortization expenses is due to higher net book values of equipment at December 31, 2006 compared to a year earlier. Significant computer and hardware additions were required to equip workstations, additions to servers as well as office furniture.

Sales and Marketing

Sales and marketing expenses increased to \$107,455 in 2006 compared to \$71,473 in 2005. The increase is attributable in part to the short term hiring (three months contract) of a consultant and general increases in costs.

As a percentage of revenue, sales and marketing costs have increased to 16.7% in 2006 compared to 7.1% in 2005 reflecting the factors noted above.

General and Administrative

General and administrative expenses were \$521,773 for the year ended December 31, 2006 compared to \$156,509 in 2005. Contributing to the increase were additional infrastructure costs related to the office move in June 2006, higher professional fees, higher legal fees related to the reverse takeover and Qualifying transaction, sustaining fees associated with filing and listing requirements of the TSX exchange, these expenditures were not required in 2005.

In Q4 2006 the company engaged an investor relations program at \$5,000 per month, plus reimbursement of related expenses, and stock options. The cost of this program in 2006 was \$7,500, excluding stock based compensation.

As a percentage of revenue general and administrative expenses have increased to 76.3% in 2006 compared to 15.5% in 2005 reflecting the factors noted above.

Salaries and benefits

Salaries and benefits costs are the Company's single largest expenditure. In 2006 salaries net of software developments costs that were deferred increased to \$776,637 compared to \$525,551 in 2005. Costs relating to the development of software are expensed as incurred unless they meet the criteria for deferral and amortization under the generally accepted accounting principles. In 2006 the Company deferred costs of \$437,244 compared to \$nil in 2005 when development costs were expensed.

As a percentage of revenue salaries and benefits costs have increased to 121.08% in 2006 compared to 52.3% in 2005 reflecting the factors noted above.

Bad and doubtful debts

The company recorded \$136,844 of bad and doubtful debts expenses in 2006 compared to \$nil in 2005. The internet gaming industry underwent dramatic changes in 2006, some of our customers ceased operations and as a result the accounts receivable were written off.

Stock based compensation

The Company recorded \$278,211 of stock based compensation expense for 2006 compared to \$nil in 2005. Stock based compensation expenses relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of one to five years. No similar expenses were incurred in 2005.

Stock based compensation is charged to salaries and benefits in the amount of \$246,368 and to general and administrative expenses in the amount of \$31,843.

Other incomes (expenses)

The company recorded \$68,034 of other income in 2006 compared to \$5,134 of other income in 2005. Included in other income and expenses are foreign exchange currencies fluctuation and interest income.

Foreign exchange loss

The company incurred a foreign exchange loss of \$3,109 in 2006 compared to a gain of \$3,603 in 2005. The currency loss experienced in 2006 is due to a less favorable foreign currency exchange rates during fiscal 2006. The company does not utilize hedges or forward contracts to mitigate foreign currency risks.

Interest income

The company recorded \$71,143 of interest income in 2006 compared to \$1,531 in 2005. Interest income increased due to an equity issue completed in May 2006 that netted the company \$2,811,401.

Provision for income taxes

Income tax assets relate to the Company's future tax benefits which arise from loss carry-forwards and future deductions of deferred development costs. The valuation of tax assets is based on the amount of tax benefits available combined with the determination as to when the tax benefits will be realized and the tax rate in effect at that time.

Net income (loss)

The company reported a net loss of \$855,791 for the year ended December 31, 2006 compared to a net income of \$114,823 for the year ended December 31, 2005. The principal reason for the decline in net income is a reduction in revenue and an increase of expenses consisting of an increase in the general and administration expenses, a non comparable expense of stock based compensation, growth of our expenses in amortization, general administration and sales and marketing to support our business.

Diluted loss per share was \$0.05 for the year ended December 31, 2006 compared to \$0.01 earnings in 2005. The decrease in the diluted earning per share in the current year reflects, principally the decrease in net income from the previous year.

The Company has 20,067,000 common shares outstanding on December 31, 2006. If all of the Company's warrants and options were exercised, the Company would have 23,869,500 shares outstanding.

CASH FLOW STATEMENT

Operating activities

Cash flow used by operating activities was \$350,263 for the year ended December 31, 2006 compared to \$117,531 generated for the year ended December 31 2005.

Financing activities

Cash from financing activities was \$2,845,438 for the year ended December 31, 2006 compared to \$6,136 for the year ended December 31, 2005. During 2006 the Company's financing activities consisted mainly from the completion of the new equity issue, issuance of shares for cash from the exercise of stock options as well cash used to repay a loan to a related party.

The private placement of the shares completed in 2006 was for general corporate purposes and was not subject to commitments for liabilities or capital expenditures. The Company intends to utilize these funds for operating and general corporate purposes as needed.

Investing activities

The company reported investment activities of \$498,691 for the year ended December 31, 2006 compared to \$12,448 for the year ended December 31, 2005.

The company's investing activities consisted mainly of short term investments, deferral of software development costs and purchase of equipment.

SELECTED QUARTERLY FINANCIAL DATA

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

Fiscal 2006 Quarters

Fireswirl Technologies Inc. - Consolidated Statements of Operations

Period Ending	<u>3/31/2006</u>	<u>6/30/2006</u>	<u>9/30/2006</u>	<u>12/31/2006</u>	<u>Annual</u>
Operating Revenue	\$210,344	\$236,133	\$128,260	\$66,659	\$641,396
<u>Expenses</u>					
Depreciation & Amortization	\$2,990	\$12,548	\$12,365	(\$7,287)	\$20,616
Sales & Marketing	\$19,008	\$29,190	\$31,981	\$27,276	\$107,455
General Administration	\$41,132	\$92,088	\$53,193	\$335,360	\$521,773
Salaries & Benefits	\$139,120	\$258,276	\$244,814	\$134,427	\$776,637
Bad and doubtful debts	-	-	\$116,684	\$20,160	\$136,844
Total Expenses	\$202,250	\$392,102	\$459,037	\$509,936	\$1,563,325
Operating Income (Loss)	\$8,094	(\$155,969)	(\$330,777)	(\$443,277)	(\$921,929)
Interest Income	-	\$15,054	\$24,031	\$32,058	\$71,143
Foreign Exchange (Recovery)	\$3,018	\$7,131	(\$829)	(\$6,211)	(\$3,109)
Income (Loss) Before Taxes	\$5,076	(\$148,046)	(\$305,917)	(\$405,008)	(\$853,895)
Income Tax (expense)/recovery	(\$10,685)	\$9,554	\$69,189	(\$69,954)	(\$1,896)
Net Income (Loss)	(\$5,609)	(\$138,492)	(\$236,728)	(\$474,962)	(\$855,791)
Basic/Diluted (loss)/earnings per share	---	(\$0.01)	(\$0.01)	(\$0.03)	(\$0.05)

Fiscal 2005 Quarters

Fireswirl Technologies Inc. - Consolidated Statements of Operations

Period Ending	<u>3/31/2005</u>	<u>6/30/2005</u>	<u>9/30/2005</u>	<u>12/31/2005</u>	<u>Annual</u>
Operating Revenue	\$285,707	\$133,125	\$229,410	\$356,385	\$1,004,627
<u>Expenses</u>					
Depreciation & Amortization	\$3,467	\$3,467	\$3,467	\$3,469	\$13,870
Sales & Marketing	\$12,939	\$20,051	\$20,261	\$18,222	\$71,473
General Administration	\$33,267	\$43,932	\$27,402	\$51,908	\$156,509
Salaries & Benefits	\$112,145	\$127,041	\$129,504	\$156,861	\$525,551
Total Expenses	(\$161,818)	\$194,491	\$180,634	\$230,460	\$767,403
Operating Income (Loss)	\$123,889	(\$61,366)	\$48,776	\$125,925	\$237,224
Development costs	(\$15,460)	(\$17,706)	(\$16,344)	(\$49,622)	(\$99,132)
Interest Income	\$7	\$4	-	\$1,520	\$1,531
Foreign Exchange (Recovery)	(\$105)	(\$2,897)	\$10,065	(\$10,666)	(\$3,603)
Income (Loss) Before Taxes	\$108,541	(\$76,171)	\$22,367	\$88,489	\$143,226
Income Tax expense/(recovery)	\$23,622	(\$26,104)	(\$420)	\$31,305	\$28,403
Net Income (Loss)	\$84,919	(\$50,067)	\$22,787	\$57,184	\$114,823
Basic/Diluted (loss)/earnings per share	\$0.01	----	----	\$0.01	\$0.01

QUARTERLY RESULTS

Revenue

Fireswirl revenue decreased to \$66,659 for the quarter ended December 31, 2006 compared to \$356,385 for the quarter ended December 31, 2005, a decrease of 81.2%. The changes to the internet gaming industry and the loss of some customers has resulted in the reduced revenue for the quarter.

Operating Expenses

Total operating expenses increased by 121.3% to \$509,936 for the three months ended December 31, 2006 compared to \$230,460 for the same period of 2005.

The increase in operating expenses is reflective of the company's growth in personnel, infrastructure and change in business focus. The company incurred non comparative expenses in the area of stock based compensation, bad debts written off, amortization of intangible assets, professional and regulatory filing fees required by the stock exchange and a general increase in costs in managing a larger office.

In the quarter ended December 31, 2006 the Company capitalized \$199,904 of development costs related to new software platform: suite of casino games and SMILES mobile lottery software platform.

Amortization

The company reported an adjusted amortization expense of negative \$7,287 for the three months ended December 31, 2006 compared to \$3,469 for the same period of 2005. Amortization expense for the third quarter was adjusted to capitalized software development costs. This caused the expense for the quarter to be a negative figure.

Sales and Marketing

Sales and marketing expenses increased by 49.6% to \$27,276 for the three months ended December 31, 2006 compared to \$18,222 for the same period of 2005. The increase is attributable in part to our Company's increased investment in growing our business and increased travel to meet with prospective new clients.

General and Administrative

General and administrative expenses increased by 580% to \$353,360 for the three months ended December 31, 2006 compared to \$51,908 for the same period of 2005. We have reclassified professional fees of \$197,110 from capitalized software development costs to general and administrative expenses in the current quarter. The remainder of the increase is due in part to the additional infrastructure costs related to the office move, increased professional fees, increased legal fees and regulatory fees due to filing and listing requirements of the TSX exchange, these expenditures were not required in 2005.

Salaries and benefits

Salaries and benefits expenses net of deferred software development costs decreased by 14.3% to \$134,427 for the three months ended December 31, 2006 compared to \$156,861 for the same period of 2005 when costs relating to the development of software were expensed as incurred. The company is deferring software development costs to future periods when all criteria for deferral are met.

Stock based compensation

Stock based compensation increased to \$74,361 for the three months ended December 31, 2006. There is no comparative expense for the same period of 2005. Stock based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of the options by using the Black-Scholes option pricing model to calculate the stock options expenses.

Software Development Costs

Software and Development costs of \$189,904 for the quarter ended December 31, 2006 were capitalized and deferred to future periods. There is no comparative capitalization for the same period of 2005. The company capitalized development costs in relation to re-branding of the new software platform of the poker and casino suite, and the mobile software products. As the software development project is still in progress, no amortization of the cost was charged to expenses for the period.

OTHER INCOMES (EXPENSES)

Foreign exchange loss

The company incurred a foreign exchange recovery of \$6,211 for the quarter ended December 31, 2006 compared to a gain of \$10,666 for the same period of 2005. The currency gain experienced in 2006 is due more favorable foreign currency exchange rates during fiscal 2006. The Company does not utilize hedges or forward contracts to mitigate foreign currency risks.

Interest income

Interest income increased to \$32,058 for the quarter ended December 31, 2006 compared to \$1,520 for the same period of 2005. In May 2006 the Company completed a private subscription equity issue that netted \$2,811,401 which has been invested in short term cash certificates.

Bad and doubtful debts

Bad and doubtful debts expenses increased to \$20,160 for the quarter ended December 31, 2006 compared to \$nil for the same period of 2005. The internet gaming industry underwent dramatic changes in 2006, some of our customers ceased operation and as a result accounts receivable were written off.

Provision for income taxes

The company reported income tax expense of \$69,954 for the quarter ended December 31, 2006 compared to \$31,305 tax payable for the same period of 2005. Income tax expense relates to an adjustment of the Company's future tax benefits which were recorded in previous quarters. Upon further consideration, the Company decided that the recovery of future assets should be delayed until such time it is more likely than not that the asset may be recovered.

Net income (loss)

The company reported a net loss of \$474,962 for the quarter ended December 31, 2006 compared to a net income of \$57,184 for the same period of 2005. The principal reason for the decline in net income is a reduction in revenue and an increase of expenses consisting of an increase in the general and administration expenses, a non comparable expense of stock based compensation, and growth of our expenses in amortization and sales and marketing to support our business and growth. Additionally, the Company recorded an adjustment of professional fees in the fourth quarter of \$197,110 which were removed from deferred software development costs.

Diluted loss per share was (\$0.03) for the three months ended December 31, 2006 compared to diluted earnings of \$0.01 in the same period of 2005. The decrease of diluted earning per share in the fourth quarter of 2006 reflects the impact of lower net income.

EBITDA

The company reported EBITDA (defined as net income less interest, plus taxes, depreciation and amortization) loss of \$417,710 for the quarter ended December 31, 2006 compared to income of

\$91,958 for the comparative period of 2005. The decrease in EBITDA is mainly due to decrease in revenue while there were non comparative expenses such as stock based compensation and bad debt writes off in the previous year.

Liquidity and Capital Resources

The Company continues to maintain a strong balance sheet. As of December 31, 2006 the Company had no debt, \$2,108,850 in cash and short term investments and working capital (defined as current assets less current liabilities) of \$2,111,467. The Company has cash and short term investments on hand to meet the Company's planned growth and development activities. The increase in the company's cash position is primarily attributable to the share subscription (net of offering costs) of \$2,811,401 and completion of the "Qualifying Transaction" completed in Q2 2006.

The company's investing activities in the fourth 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:

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 \$230,183 reported for the year ended December 31, 2006 compared to \$58,000 for the same period of 2005 paid to directors and shareholders of the company. General Administration expenses include \$50,339 paid to a company related by virtue of a director who is also an officer of the company. Related party transactions are in the normal course of operations and occur on terms and conditions that are similar to those transactions with unrelated parties.

CRITICAL ACCOUNTING POLICIES

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

Stock based compensation

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

CRITICAL ACCOUNTING ESTIMATES

There are a number of critical estimates underlying the accounting policies the Company applies in preparing its financial statements. The following are those management has determined to be material.

Allowance for Doubtful Accounts

The company charges license fees to licensees based on their license agreement and level of activity. Fireswirl licensees operate in a number of jurisdictions and at various stages of liquidity. As a result of these factors collections cycles will vary between licensees. The Company's management exercises judgment in making collection assumptions on a customer by customer basis in determining whether receivables are collectible and in determining the appropriate

allowance for doubtful accounts based on knowledge of the customer's payment history and expectation of collection.

Deferred Development Costs

The company exercises judgment in the determination of the costs which meet the criteria for deferral and amortization under the Canadian generally accepted accounting principles. These costs are estimated based on employee salaries applicable to development activities believed to meet the criteria and have future value to the Company. The amortization period is estimated based on the period of expected benefit to the Company.

RISKS AND UNCERTAINTIES

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

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

Business Transactions

On December 13, 2006 the company sold the shares of its subsidiary Swirl Marketing Ltd to AsiaPac Technologies Management Inc. for nominal consideration. This sale was consistent with the company's revised business approach in online gaming and the desire to work with governments or their licensed agents. The sale of Swirl Marketing Limited included a continuance of a monthly license fee of US\$8,200 per month payable to Fireswirl.

Subsequent events

- On January 30, 2007 the Company concluded its due diligence and proceeded with the acquisition of certain intellectual property (IP) from Living Stone Consultants Limited 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 Limited who is responsible for the marketing of the IP to its extensive network of mobile carriers in Hong Kong, Taiwan and China.

- On February 22, 2007 the company concluded a non-brokered private placement financing for \$4,500,000 comprised of 4,500,000 units of \$1.00 per unit. Each unit consists of one share, and one half warrant exercisable at a price of \$1.25. The warrants have a forced conversion clause upon the shares exceeding \$1.50 for 30 consecutive days. The company paid finders fees of 7% to eligible participants in the amount of \$313,600. The proceeds of the financing are for unallocated working capital.

Off Balance Sheet Arrangement

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consists of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, income taxes recovery and capital lease obligations. The fair values of these financial instruments approximate their carrying values, except as noted below. It is management's opinion that the company is not exposed to significant interest risks. The company's credit risk lies in its accounts receivable where the balances due reflect a concentration among a relatively small number of accounts. The Company's short term investments consist of investments in low risks bank certificates. A substantial portion of the Company's revenue is earned in foreign currencies and is exposed to currency fluctuations.

The Company does not use financial derivatives or "other financial instruments".

OTHER MD&A REQUIREMENTS

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended December 31, 2006, and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

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

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

- Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However management has concluded that considering the employees involved and the control procedures in place, including

management and Audit Committee oversight, risks associated with such lack of segregation of duties are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

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

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.