



# Fireswirl

Technologies Inc.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2009 and 2008**

**July 31, 2009**

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

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with Fireswirl Technologies Inc. ("Fireswirl" or the "Company") unaudited consolidated financial statements and the accompanying notes for the quarter ended June 30, 2009, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

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

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

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

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

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

Factors which could cause results or events to differ from current expectations include among other things: the impact of government legislation; the impact of competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and perspective major customers; general industry and market conditions, growth rates and currency rate fluctuations. The Company disclaims any intentions or obligations to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed or implied by forward looking statements within this disclosure will occur; or if they do, that any benefits can be derived from them.

Past performance has been considered in drawing conclusions with respect to forward looking statements contained in this MD&A.

## **OVERVIEW**

Fireswirl was founded in 1999 and operated as a software development and project management company specializing in payment platforms for the internet. In 2004, the Company began licensing (in eligible jurisdictions) the “Fireswirl Poker Suite”. Fireswirl in its entirety has never operated a wagering website or processed any forms of wagers over the Internet.

In mid-2006, the Company became a listed company (TSX-Venture; symbol FSW) through a reverse takeover and a \$3.2 million equity financing accompanying its qualifying transaction. The Company embarked on a series of events in fall 2006 to achieve an enhanced business model with greater potential realizing the clients involved and these types of projects require longer sales cycles but will also provide significant leverage to the Company at inauguration.

The company focuses on partnering with wireless carriers to provide value-added services to end-users and markets bundled handsets that are customized with such services. The company has been developing the business cases and negotiating contracts with wireless carriers and technology partners. The first business case has been launched in beta phase with a wireless carrier in China. Visible revenue is expected in the third and fourth quarter of 2009.

### **Overall Performance**

Total revenue for the three and six months ended June 30, 2009 increased by 660% and 1,144% to \$49,849 and \$157,723 respectively compared to \$6,560 and \$12,679 for the same periods a year earlier. The increase was mainly due to the sales revenue generated by the handset trading business in China.

Total operating expenses for the three and six months ended June 30, 2009 decreased by 49% and 53% to \$261,199 and \$532,497 respectively from \$510,507 and \$1,141,681 during the same periods in 2008. The decrease in operating expenses is mainly due to overall staff reduction in North America offset by hiring more staff in China.

Net loss for the three and six months ended June 30, 2009 decreased by 41% and 48% to \$289,793 and \$546,935 respectively compared to net loss of \$488,198 and \$1,047,940 during the same periods of 2008. This net loss translated into a loss per share of \$0.01 and \$0.02 for the three and six months ended June 30, 2008 respectively compared to a loss per share of \$0.02 and \$0.04 for the same periods in 2008.

China being the predominant geographic location for Fireswirl has just over 1.3 billion people and is the world’s largest and most populous country in the world. To this end, the business opportunities in China are enormous. The cell phone penetration ration for China is only about 35% or 480 million people, whereas the cell phone penetration in North America is over 95% wireless subscriber penetration. Moreover, China in particular is not as severely impacted by current economic conditions as North America relatively speaking.

## RESULTS OF OPERATIONS SELECTED QUARTERLY FINANCIAL DATA

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

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
<b>Revenue</b>								
Service and maintenance fees	\$17,890	\$12,168	\$5,459	\$12,781	\$6,083	\$6,119	\$5,884	\$6,084
Handset trading	31,959	95,706	33,716	259,566	477	-	-	-
	49,849	107,874	39,175	272,347	6,560	6,119	5,884	6,084
Cost of goods sold	31,368	95,748	29,133	255,916	499	-	-	-
<b>Gross profit</b>	18,481	13,126	10,042	16,431	6,061	6,119	5,884	6,084
<b>Operating Expenses</b>								
Depreciation & Amortization	6,936	10,671	11,396	13,864	15,106	13,144	19,047	1,910
Sales & Marketing	29,288	24,307	18,838	64,243	96,503	42,237	25,967	77,132
General Administration	94,913	92,097	144,374	146,259	111,187	173,676	180,655	143,071
Salaries & Benefits	128,062	123,078	252,653	215,085	255,124	265,907	307,308	106,112
Stock Based Compensation	2,000	21,146	(16,783)	21,673	32,587	136,212	37,480	38,533
Impairment	-	-	1,353,056	-	-	-	446,700	-
Total Operating Expenses	261,199	271,298	1,805,778	461,124	510,507	631,176	1,017,157	366,758
<b>Operating Loss</b>	(242,717)	(258,172)	(1,795,736)	(444,693)	(504,446)	(625,057)	(1,011,273)	(360,674)
Other Income	7,031	4,182	(16,243)	10,720	21,831	33,420	70,156	52,292
Foreign Exchange	(33,499)	20,226	182,575	12,592	(5,583)	31,894	1,671	(39,386)
Loss from investment	(20,608)	(23,376)	(16,783)	-	-	-	(30,620)	-
<b>Loss Before Taxes</b>	(289,793)	(257,140)	(1,617,034)	(421,380)	(488,198)	(559,743)	(970,066)	(347,205)
Income Tax expense)/recovery	-	-	-	-	-	-	-	-
Loss attributed to minority interest	-	-	-	-	-	-	-	(56)
<b>Loss and comprehensive loss</b>	\$(289,793)	\$(257,140)	\$(1,617,034)	\$(421,380)	\$(488,198)	\$(559,743)	\$(970,066)	\$(347,261)
<b>Basic/Diluted loss per share</b>	\$(0.01)	\$(0.01)	\$(0.06)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.04)	\$(0.01)

## QUARTERLY RESULTS

### Comparison of the three and six months ended June 30, 2009 and 2008

#### Revenue

In the three and six months ended June 30, 2009, total revenue increased by 660% and 1,144% to \$49,849 and \$157,723 compared to \$6,560 and \$12,679 in the same periods of 2008.

The Company recognized \$31,959 of revenue from the handset trading in China during the quarter ended June 30, 2009. This re-sale incurred a cost of goods sold of \$31,368 resulting in a net gross profit margin of 1.85%. The purpose of trading these handsets is to maintain the

company's VAT account status in China in preparation for bundling value-added services with handsets.

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Service and Maintenance fees	\$17,890	\$6,083	\$30,058	\$12,202
Handset trading	\$31,959	\$477	\$127,665	\$447

The service and maintenance fees consist of consulting service and maintenance work provided to customers in the U.K and the U.S. Betfair, a customer located in the U.K provides fixed monthly revenue of 1,000 GBP under a service and maintenance agreement.

### **Cost of Sales**

Cost of sales is the cost of purchasing the mobile handsets for re-sale to iMobile under the current business arrangement.

### **Operating Expenses**

Total operating expenses decreased by 49% and 53% to \$261,199 and \$532,497 for the three and six months ended June 30, 2009 compared to \$510,507 and \$1,141,681 for the same periods of 2008. The decrease in total operating expenses is mainly attributable to the expense reduction efforts and the continuous relocation of cost centre from Canada to China in 2008 and 2009.

### **Depreciation and Amortization**

Depreciation and amortization costs for the three and six months ended June 30, 2009 decreased by 54% and 38% to \$6,936 and \$17,607 respectively compared to \$15,106 and \$28,250 for the same periods of 2008.

The decrease in depreciation and amortization expenses is due to lower net book values of capital assets employed as at June 30, 2009 due to the sale of capital assets and asset impairment during the prior fiscal year.

### **Sales and Marketing**

Sales and marketing expenses decreased by 70% and 61% to \$29,288 and \$53,595 for the three and six months ended June 30, 2009 compared to \$96,503 and \$138,739 during the same periods of 2008.

### **General and Administrative**

General and administrative expenses decreased by 15% and 34% to \$94,913 and \$187,010 for the three and six months ended June 30, 2009 compared to \$111,187 and \$284,862 during the same periods of 2008.

### **Salaries and Benefits**

Salaries and benefits expenses decreased by 50% and 52% to \$128,062 and \$251,140 for the three and six months ended June 30, 2009 compared to \$255,124 and \$521,031 during the same periods of 2008. The decrease in salary expenditures is due to overall staff reduction in North America offset by hiring more staff in China.

### **Stock Based Compensation**

Stock based compensation expense decreased by 94% and 86% to \$2,000 and \$23,146 for the three and six months ended June 30, 2009 compared to \$32,587 and \$168,799 during the same periods of 2008. The decrease is attributable to the lower fair values of new options due to the lower market price of the existing share capital, a decrease in number of options granted, and the fact that the options granted in previous years are mostly vested in previous years.

### **Other incomes and Losses**

Other incomes and losses decreased by 68% and 80 % to \$7,031 and \$11,213 for the three and six months ended June 30, 2009 compared to \$21,831 and \$55,250 during the same periods of 2008. Other incomes and losses for the six months ended June 30, 2009 was solely from interest income of \$11,213 while other incomes and losses during the same period in 2008 consisted of \$59,655 of interest income and \$4,405 of loss from sales of capital assets.

### **Foreign Exchange Loss**

The Company recognized foreign exchange loss of \$33,499 and \$13,273 for the three and six months ended June 30, 2009 respectively compared to loss of \$5,583 and gain of \$26,311 during the same periods of 2008. The foreign currency losses reflect the strengthening of Canadian dollar against Chinese Renminbi and Hong Kong dollar. The Company does not utilize any hedges or forward contract arrangements.

### **Provision for Income Taxes**

The Company reported no tax liability or recovery for the three and six months ended June 30, 2009 and for the same period of 2008. The Company follows the asset and liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets from the benefit of losses available to be carried forward to future years for tax purposes are recognized only if it is more likely than not that they can be realized.

### **Loss from Investment**

Tysen recorded \$98,133 and \$209,448 of net loss during the three and six months ended June 30, 2009. The 21% ownership in Tysen resulted in \$20,608 and \$43,985 of investment loss during the corresponding periods. The Investment in Tysen balance has been decreased by the same amount of \$43,985 during the six months ended June 30, 2009 by application of the equity method.

### **Loss and Comprehensive Loss**

Loss and comprehensive losses decreased by 41% and 48 % to \$289,793 and \$546,934 for the three and six months ended June 30, 2009 compared to net losses of \$488,198 and \$1,047,941 during the same periods of 2008.

Diluted loss per share decreased by 50% to \$0.01 and \$0.02 for the three and six months ended June 30, 2009 compared to a diluted loss of \$0.02 and \$0.04 during the same periods of 2008.

## **CASH FLOW STATEMENT**

### **Operating Activities**

Cash used by operating activities for the three and six months ended June 30, 2009 decreased by 66% and 59% to \$168,201 and \$415,945 compared to \$499,290 and \$1,026,359 for the same periods in 2008.

### **Investing Activities**

Cash used by investing activities for the three and six months ended June 30, 2009 increased by 311% and 882% to \$97,416 and \$480,275 compared to \$23,709 and \$48,887 during the same periods of 2008. The company's investing activities for the six months ended June 30, 2009 consisted mainly of short term loan provided to I-Mobile and investment in Tysen while the investing activities in the prior year consisted mainly of deferral of software development costs.

### **Financing Activities**

Cash flow by financing activities was nil for the three and six months ended June 30, 2009 while the Company received \$21,750 from the exercise of option for the three and six months ended June 30, 2008. There was no issuance of shares for cash from exercise of options and warrants during the periods.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had no long term debt, \$1,330,323 in cash and short term investments and working capital (defined as current assets less current liabilities) of \$1,733,927 as at June 30, 2009 compared to \$2,226,544 of cash and short term investments and working capital of \$2,202,225 as at December 31, 2008.

The Company has adequate cash and short term investments to meet the Company's planned growth and development activities. The Company does not see any material fluctuation in its liquidity or working capital position and based on the present level of revenue and expenses does not foresee any significant changes to its working capital requirements. However, the recent dramatic decline in the global economic environment results in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments are summarized in "Contractual Obligations" section.

The Company did not have commitments for capital expenditures as at June 30, 2009. The Company's capital resources consisted of common share issuances.

## **Contractual Obligations**

The Company's future minimum annual payments under operating leases are the following:

2009	\$49,856
2010	\$64,579
2011	\$30,924

In February 2008, the former premises of the Company were subleased for \$83,748 per year (base rent), which offsets rental expenses.

## **Related Party Transactions**

Salaries and benefit expenses for the three and six months ended June 30, 2009 included \$65,525 and \$134,735 of salary paid to management or officers respectively. General administration expenses for the three and six months ended June 30, 2009 included \$2,000 and \$4,000 of director fees respectively and \$15,000 and \$30,000 of consulting fees respectively paid to a director of the Company in the normal course of business.

## **CRITICAL ACCOUNTING POLICIES**

Critical accounting policies and methods used in preparation of the Company's financial statements are described in Note 2 of consolidated financial statements of the Company for the year ended December 31, 2008. The Company has not affected any changes to its significant accounting policies during the three and six months ended June 30, 2009 except as follows:

### **Financial Instruments, Comprehensive Income and Hedges**

On January 1, 2007 the Company adopted the new CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" Section 1530, "Comprehensive Income", and Section 3865, "Hedges" on a prospective basis.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristic based definition of a derivative financial instrument, provides criteria to be used when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished.

Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise presents comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements.

Section 3865 provides an alternative Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guidelines 13, "Hedging Relationships", and on hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosure it requires.

The Company determined that it had no embedded derivatives that were required to be separated from the host contract, and that it had no "other comprehensive income or loss" transactions during 2007. The adoptions of these new sections had no impact on net (loss) income.

The following new accounting standards will be adopted January 1, 2008: Financial Instruments – Disclosures, Financial Instruments – Presentation and Capital Disclosures. These standards will require the Company to provide additional disclosures relating to its financial instruments, including hedging instruments, and about its equity.

It is not anticipated that the adoption of these new accounting standards will impact the amounts in the Company financial statements as they primarily related to disclosure.

## **CRITICAL ACCOUNTING ESTIMATES**

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

### **Allowance for Doubtful Accounts**

The Company charges service and maintenance fees based on the amount of work provided. The Company's management exercises judgment in making collectibility 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 collectibility

### **Deferred Development Costs**

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

### **Intangible Assets**

The Company estimates future cash flows attributable to intangible assets for purposes of the evaluation of potential impairment based on its expectations of future market conditions. These estimates require the use of forward-looking assumptions based on past experience as well as future expectation arising from the Company's strategic and financial planning activities. Changes to these assumptions and future market conditions could result in changes to the impairment and recoverability assumption for these assets.

### **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:

- Foreign currency exchange risk
- 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 partners' performance;
- Uncertainty regarding future profitability;

- Uncertainty regarding the pricing, reporting and collection of accounts;
- Risks associated with sales in foreign countries and their government policy and regulations therein
- 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.

### **Proposed Transactions**

There is no proposed asset or business acquisition or disposition transactions pending as at June 30, 2009.

### **Off Balance Sheet Arrangement**

As at June 30, 2009 the Company has not entered into any off balance sheet arrangements.

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

The Company's financial instruments consists of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, income taxes recovery and capital lease obligations. The fair values of these financial instruments approximate their carrying values, except as noted below. It is management's opinion that the Company is not exposed to significant interest risks. The Company's short term investments consist of investments in low risk bank certificates. A substantial portion of the Company's revenue is earned in foreign currencies and is exposed to currency fluctuations. The Company does not use financial derivatives or "other financial instruments".

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

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended June 30, 2009 and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of Fireswirl Technologies Inc. annual filing in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other 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 operation there is a lack of segregation of duties to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit

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

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

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

The Company has 25,302,612 common shares outstanding at July 31, 2009. If all of the Company's options were exercised, the Company would have 26,482,612 common shares outstanding.