



# Fireswirl

Technologies Inc.

**Management Discussion and Analysis of the Financial Condition and Results of Operations  
For the three and six months ended June 30, 2008 and 2007**

**August 27, 2008**

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with Fireswirl Technologies Inc.'s ("Fireswirl" or the "Company") unaudited consolidated financial statements and related notes for the quarter ended June 30, 2008 and audited consolidated financial statements and the accompanying notes for the year ended December 31, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles ("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).

## **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.

## **FIRESWIRL OVERVIEW**

Fireswirl was founded in 1999 and as a software development and project management company specializing in payment platforms for the internet. In 2004, the Company developed and began licensing (in eligible jurisdictions) the “Fireswirl Poker Suite.” Fireswirl 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. A subsequent equity financing of \$4.5 million was completed in February 2007.

The Company embarked on a series of events in fall 2006 to achieve an enhanced business model with greater potential. In mid 2007, the Company opened an office in China to form relationships within the telecommunication sector. During 2007, the Company developed an infrastructure (legal, banking, financing, import/export, permits, VAT accounts, etc.) for trading mobile devices in China. Fireswirl’s primary business efforts in China remain in mobile handsets and providing value added services for deployment with the Telco’s.

On July 3, 2008 an agreement was completed with iMobile who operate the largest online community of mobile phone users in China with over 8 million members and receiving approximately 1.2 million daily individual visits, providing consumer’s access to professional reviews and comprehensive information about mobile handset and telecom products. Fireswirl’s relationship with iMobile encompasses; trading in mobile handsets and marketing products and services to iMobile’s substantial database.

On August 26, 2008, a three year licensing agreement was executed with Intelimax Media Inc. (IMI) for Fireswirl’s gaming and entertainment software. The license granted to IMI entitles Fireswirl to 10% of IMI’s gross revenues for the first 18 months, and 20% for the remainder of the term. The license to IMI converts to a sale of the licensed software upon the earlier of: a) Fireswirl receiving \$1,100,000 from IMI or b) IMI completing a public listing and issuing Fireswirl 1,500,000 common shares at a deemed value of \$375,000 and the balance of \$725,000 due to Fireswirl through the revenue sharing agreement. Upon the completion of the sale to IMI, Fireswirl remains with a perpetual, world wide, royalty free license of the subject software. There are no assurances that IMI will complete the underlying sale.

Attributes to Fireswirl of the strategic relationship with IMI include 1) revenue sharing without associated expenses 2) payroll reduction of 6 technical staff in Canada 3) ongoing accessibility to our gaming and entertainment software 4) future business referrals to IMI (a partner with the technical expertise and aligned marketing strategies). IMI is focusing on revenue potential from Internet media, sales, advertising, publishing, and search engine applications. 5) reduction in future marketing expenses of “ChipsNChat”

The events subsequent to Q2 2008 are significant to increasing our revenues, reducing expenses, and future business opportunities. The Company is sufficiently funded for its current projects and is considering additional projects.

## SUMMARY OF FINANCIAL RESULTS

### 1. COMPARATIVE QUARTERLY OPERATING RESULTS

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

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
<b>Revenue</b>	\$6,560	\$6,119	\$5,884	\$6,084	\$6,414	\$22,000	\$66,659	\$128,260
<b>Expenses</b>								
Cost of Goods Sold	499	-	-	-	-	-	-	-
Depreciation & Amortization	15,106	13,144	19,047	1,910	1,453	1,475	(7,287)	12,365
Sales & Marketing	96,503	42,237	25,967	77,132	52,536	51,341	27,276	31,981
General Administration	151,430	187,090	180,655	143,071	155,445	105,655	335,360	53,193
Salaries & Benefits	255,124	265,907	307,308	106,112	88,572	100,776	60,066	133,136
Stock Based Compensation	32,587	136,212	37,480	38,533	75,107	161,807	74,361	111,678
Bad and Doubtful Debts	-	-	-	-	-	-	20,160	116,684
Impairment of Development costs	-	-	446,700	-	-	-	-	-
<b>Total Expenses</b>	<b>551,249</b>	<b>644,590</b>	<b>1,017,157</b>	<b>366,758</b>	<b>373,113</b>	<b>421,054</b>	<b>509,936</b>	<b>459,037</b>
<b>Operating Income (Loss)</b>	<b>(544,689)</b>	<b>(638,471)</b>	<b>(1,011,273)</b>	<b>(360,674)</b>	<b>(366,699)</b>	<b>(399,054)</b>	<b>(443,277)</b>	<b>(330,777)</b>
Other Income	62,074	46,834	70,156	52,292	60,292	34,249	32,058	24,031
Loss from investment	-	-	(30,620)	-	-	-	-	-
Foreign Exchange	(5,583)	31,894	1,671	(39,386)	(38,920)	5,213	6,211	829
<b>Income (Loss) Before Taxes</b>	<b>(488,198)</b>	<b>(559,743)</b>	<b>(970,066)</b>	<b>(347,205)</b>	<b>(345,327)</b>	<b>(359,592)</b>	<b>(405,008)</b>	<b>(305,917)</b>
Income Tax expense)/recovery	-	-	-	-	-	-	(69,954)	69,189
Loss attributed to minority interest	-	-	-	(56)	56	-	-	-
<b>Net Loss</b>	<b>\$(488,198)</b>	<b>\$(559,743)</b>	<b>\$(970,066)</b>	<b>\$(347,261)</b>	<b>\$(345,271)</b>	<b>\$(359,592)</b>	<b>\$(474,962)</b>	<b>\$(236,728)</b>
<b>Basic/Diluted loss per share</b>	<b>\$(0.02)</b>	<b>\$(0.02)</b>	<b>\$(0.04)</b>	<b>\$(0.01)</b>	<b>\$(0.01)</b>	<b>\$(0.03)</b>	<b>\$(0.02)</b>	<b>\$(0.01)</b>

## **2. QUARTERLY RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2007**

### **Revenue**

During the three and six months ended June 30, 2008, the Company reported revenue of \$6,560 and \$12,679 respectively, compared to \$6,414 and \$28,414 in the same periods of 2007. During Fiscal 2007 the company attempted to develop products and markets reacting to changes affecting their prior business model. As of June 30, 2008 revenue had yet to materialize from new projects. Revenues commenced in Q3 2008 from trading handsets in China with iMobile.

### **Expenses**

During the three and six months ended June 30, 2008, total expenses increased to \$551,249 and \$1,195,839 respectively, compared to \$373,113 and \$794,167 for the same periods of 2007. The expense for the three and six months ended June 30, 2007 excluded \$336,567 and \$582,023 respectively, of capitalized development costs which would otherwise have increased total expense to \$709,680 and \$1,376,190 for the same periods. Development costs were not capitalized in 2008 as the projects are at implementation stage.

### **Depreciation and Amortization**

Depreciation and amortization expenses increased to \$15,106 and \$28,250 for the three and six months ended June 30, 2008 compared to \$1,453 and \$2,928 for the same periods of 2007 reflecting a higher net book value of capital assets in 2008. Commencing Q4 2007, the Company began amortizing Bet Exchange software development costs over a 3 year period equal to the anticipated life of the developed software. The Company is deferring software development costs to future periods when all criteria for the deferral are met and commences amortization when the software generates revenue.

### **Sales and Marketing**

Sales and marketing expenses increased to \$96,503 and \$138,740 for the three and six months ended June 30, 2008 compared to \$52,536 and \$103,877 for the same periods of 2007. In Q2 2008 the largest portion of this expense was the cost related to marketing ChipsNChat, a social networking and entertainment website. Sales and marketing expense is expected to reduce in Q3 2008 as future marketing cost of ChipsNChat now is paid by IMI.

### **General and Administrative**

General and administrative expenses decreased to \$151,430 and increased to \$338,520 for the three and six months ended June 30, 2008 compared to \$155,445 and \$261,100 for

the same periods of 2007. The largest items in amounts and changes within general and administrative cost were professional fees and premise costs. Professional fees decreased to \$58,212 and \$110,017 for the three and six months ended June 30, 2008 compared to \$124,114 and \$202,806 for the same periods of 2007. Reflecting additional facilities in China and the cost of previous premises, rental expense increased to \$65,577 and \$124,986 for the three and six months ended June 30, 2008 compared to \$11,385 and \$22,135 for the same periods in 2007. Rental expenditure amount of \$21,465 (for the three months ended June 30, 2007) and \$43,565 (for the six months ended June 30, 2007) were capitalized as development costs which otherwise would have increased rental expense to \$32,850 and \$65,700 for the same periods of 2007.

The premises cost of \$36,505 (for the three months ended June 30, 2008) and \$48,674 (for the six months ended June 30, 2008) for the Company's previous premises is included in the rental expense. This expense has offsetting rental revenue of \$40,244 and \$53,658 for the same periods via sub-leasing. (see Other Incomes and Losses)

### **Salaries and Benefits**

Human resources remained the Company's single largest expenditure. The Company recognized salaries and benefits expenses of \$255,124 and \$521,031 for the three and six months ended June 30, 2008 compared to \$88,572 and \$189,348 for the same periods of 2007. Salary amount of \$250,429 (for the three months ended June 30, 2007) and \$457,610 (for the six months ended June 30, 2007) were capitalized as development costs which otherwise would have increased salaries and benefits to \$339,001 and \$646,958 for the same periods of 2007. In August 2008, the company made further reductions to its technical team in Vancouver relating to its arrangements with IMI resulting in an estimated savings of \$400,000 per year.

### **Stock Based Compensation**

Stock based compensation expense decreased to \$32,587 and \$168,799 for the three and six months ended June 30, 2008 compared to \$75,107 and \$236,914 for the same period of 2007. The fair value of stock based compensation granted to employees, directors and consultants is expensed throughout the vesting period. Most of the options granted in previous years are now vested, which lead to the decrease in the compensation expenses. Other reasons for the decrease are due to fewer options being granted and forfeited options of departed employees and consultants. The vesting periods of the Company's outstanding stock options are equal to or less than 1 year from the grant date.

### **Other Incomes and Losses**

Other income totaled \$62,074 and \$108,908 for the three and six months ended June 30, 2008 compared to \$60,292 and \$94,541 for the same period of 2007. Other income consists of interest income, rental income, and miscellaneous revenue. Rental income is from the sub-lease of the Company's previous office which generates an accretive amount of \$21,904 per year.

## **Foreign Exchange Gain/Loss**

The Company recognized foreign exchange loss of \$5,583 and gain of \$26,311 for the three and six months ended June 30, 2008 compared to foreign exchange loss of \$38,920 and loss of \$33,707 for the same periods of 2007. The foreign currency loss reflects foreign denominated amounts translated into Canadian dollar at lower foreign exchange rates at June 30, 2008 compare to March 31, 2008. The majority of the Company's foreign holding is in HK dollar, US dollar and Chinese Renminbi. The Company does not utilize hedge or forward contracts.

## **3. LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2008, the Company had working capital of \$3,192,614, cash and short term investments of \$3,194,715, and no debt.

As at June 30, 2008, current assets excluding cash and cash equivalent consisted of accounts receivable of \$6,083, accrued interest receivable of \$4,463, miscellaneous receivable of \$626.45, GST and VAT recoverable of \$57,746, inventory of \$42,414 and prepaid and deposits of \$66,127.

Current liability as at June 30, 2008 consisted of accounts payable and accrued expenses of \$140,752 and payroll remittance and vacation payable of \$17,293 and \$21,514 of customer deposit. Accounts payable includes an amount of \$89,047 owing to a vendor for the 3G Gaming Video Platform which had an initial cost of \$298,258. The amount owing will be paid when the contractual terms of this purchase are met.

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 the Company does not foresee any significant changes to its working capital requirements.

Due to increasing business activities in China, in June 2008, the Company elected to increase the paid-up capital of the Company's wholly owned foreign enterprises (WOFE) Fireswirl Technologies (Shenzhen) Company Limited up to maximum RMB ¥8 million. As of June 30, 2008, the WOFE held HK\$3,000,713 and RMB ¥393,806. The capital held in the WOFE can be freely used in China for business activities however if these funds were required in Canada, there may be lengthy timing issues relating to procedures required to repatriate the funds to Canada.

## **Operating Activities**

Cash used by operations for the three and six months ended June 30, 2008 was \$499,291 and \$1,026,359 compared to \$451,577 and \$586,075 for the same periods of 2007.

### **Investing activities**

Cash used by investing activities for the three and six months ended June 30, 2008 was \$23,709 and \$48,887 compared \$364,627 and \$665,422 for the same periods of 2007. The main investing activities in 2008 were acquisition of capital assets and payments related to trademark while the main investing activities in 2007 were the capitalization of software development and the purchase of equipment.

### **Financing Activities**

Cash provided by financing activities for the three and six months ended June 30, 2008 was \$21,750 and \$21,750 compared to \$90,237 and \$4,701,816 for the same periods of 2007. The cash inflow during the Q2 2007 is mainly due to the completion of a private placement of \$4,500,000 in the period.

## **4. CONTRACTUAL OBLIGATIONS**

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

2008 (from July)	\$51,007
2009	\$94,623
2010	\$61,848
2011	\$32,724

In February 2008, the former premises of the Company were subleased for \$83,748 per year (base rent), which is accretive \$21,904 per year until the maturity of the lease in June 2011. New facilities are \$32,775 per year (base rent) until January 2010.

## **5. RELATED PARTY TRANSACTIONS**

During the three months and six months ended June 30, 2008, the Company had the following expenditures:

- Salaries of \$114,550 and \$211,500 to its management compared to \$123,000 and \$237,231 in the same periods in 2007.
- Administrative fees of \$3,000 and \$6,000 to the independent directors of the Company compared to nil in 2007.

## **6. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

Our significant accounting policies are set out in Note 3 and Note 4 of the audited consolidated financial statement of the Company for the year ended December 31, 2007. The adoption of these new accounting standards did not impact the amounts in the Company's financial statements.

## **7. 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 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;
- Risks associated with sales in foreign countries and their government policies 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 other foreign countries;
- Our ability to attract and retain key personnel.

## **8. PROPOSED TRANSACTIONS**

There were no proposed asset, business acquisition or disposition transactions pending as at June 30, 2008.

## **9. OFF BALANCE SHEET ARRANGEMENTS**

As at June 30, 2008 the Company had not entered into any off balance sheet arrangements.

## **10. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consists of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, income tax recovery and capital lease obligations. The fair values of these financial instruments approximate their carrying values. The Company's short term investments consist primarily of investments in low risk bank certificates. Therefore, the Company is not exposed to significant interest risks. Company is exposed to currency fluctuations since a substantial portion of the Company's holding cash is in foreign currencies and most of the Company's revenue is earned in foreign currencies. The Company does not engage in currency hedging.

## **11. OUTSTANDING SHARES**

The Company has 25,302,612 common shares outstanding as at August 27, 2008. If all of the Company's options and warrants were exercised, the Company would have 29,062,612 common shares outstanding. If exercised, the cash proceeds would be \$724,800 from the options (1,510,000 options at weighted average exercise price of

\$0.48) and \$2,812,500 from the warrants (2,250,000 warrants at \$1.25) for a total of \$3,537,300.

## **OTHER MD&A REQUIREMENTS**

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the financial statements and MD&A as at June 30, 2008 and based on this evaluation, management has concluded these disclosure controls and procedures 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 GAAP, 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 reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's 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.