



# Fireswirl

Technologies Inc.

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

**For the three and nine months ended September 30, 2010 and 2009**

**November 29, 2010**

## **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") interim consolidated financial statements and the accompanying notes for the nine months ended September 30, 2010 and 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 and online gaming software for the internet. In 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.

In 2007, the Company has formed its first wholly owned subsidiary in China to explore the rapidly emerging market. The Company has since increased its business presence in the country gradually. The Company embarked on online merchandize related business in China including trading merchandize such as mobile phones and partnering with wireless carriers to provide value-added services to end users.

On October 1, 2009, the Company successfully completed its acquisition of 50% of all rights and interests of Beijing Xingchang Xinda Technology Development Co., Ltd. ("XCXD"), an e-commerce outsourcing and fulfillment solution provider in China, in consideration for 6,058,673 common shares of the Company. Fireswirl has majority voting rights and majority board control over XCXD according to the agreements related to the transaction. Fireswirl also has an option to purchase the remaining 50% rights and interests of XCXD in 2011.

XCXD is a leader in branded online store market for mobile handsets in China. XCXD has been the sole operator of the official online store for Nokia and Motorola in China. During 2009, it has also become the sole operator of the official online store for Sony-Ericsson, LG and Dopod (known as HTC in other markets) in China.

This acquisition is a major step for Fireswirl in completing its long-term plan to becoming the largest online and mobile service platform in China for international brands, providing the technology and fulfillment know-how for brands to break into the country's rapid growing online and mobile shopping market.

China being the predominant geographic location for Fireswirl has over 1.3 billion people in population and is the fastest growing major economy in the world. To this end, the business opportunities in China are enormous. The e-commerce market in China is expanding at a rapid rate. According to the China Internet Network Information Centre, there were 384 million Internet users in China in 2009, which had grown by 28.9% compared to 2008. The number of Internet shopper has also grown from 74 million in 2008 to 108 million in 2009, representing an increase of 45.9%. E-commerce sales in China had doubled in 2009 compared to 2008, reaching RMB 250 billion (\$36.7 billion Canadian Dollars). As both the number of Internet users and the percentage of people who would make online purchase grow, Fireswirl believes that China will remain as a strong revenue source for the Company in 2010.

## **SUMMARY OF FINANCIAL RESULTS**

### **Key Financial Events**

On June 17, 2010, the Company completed a private placement for 7,000,000 common shares at a price of \$0.05 per Share. All shares issued with respect to the private placement are subject to a hold period that expires four months and a day from the closing. In connection with the private placement, the Company paid \$3,500 as a commission to a brokerage firm and \$5,152 as legal fees.

Total revenue for the three and nine months ended September 30, 2010 increased by 5,038% and 5,376% to \$4,743,827 and \$13,692,034 respectively compared to \$92,328 and \$250,051 for the same periods in 2009. The increase was mainly due to the increase in the scale of operations after the consolidation of XCXD's business.

Total operating expenses for the three and nine months ended September 30, 2010 increased by 164% and 134% to \$775,546 and \$1,936,112 respectively from \$293,540 and \$826,037 during the same periods in 2009. The increase was mainly due to the increase in the scale of operations after the consolidation of XCXD's business.

Loss and comprehensive loss for the three and nine months ended September 30, 2010 decreased by 6% and 23% to \$272,826 and \$647,453 respectively compared to net loss of \$291,445 and \$838,379 during the same periods of 2009. This net loss translated into a loss per share of \$0.01 and \$0.02 for the three and nine months ended September 30, 2010 respectively compared to a loss per share of \$0.01 and \$0.03 for the same periods in 2009.

As at September 30, 2010, the Company had cash and cash equivalents of \$974,499 compared to \$1,467,401 as at December 31, 2009, representing a decrease of 34%. As at September 30, 2010, the Company had working capital of \$1,581,290 compared to \$1,855,426 as at December 31, 2009, representing an decrease of 15%. The Company had long term debt of \$ 30,311 (excluding the current portion of \$44,119) as at September 30, 2010 compared to \$64,315 (excluding the current portion of \$37,741) as at December 31, 2009.

## 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.

	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
<b>Revenue</b>								
Merchandise resale and trading	\$ 4,612,967	\$ 4,527,041	\$ 4,049,064	\$ 4,029,843	\$ 69,033	\$ 31,959	\$ 95,706	\$ 33,716
Advertising	22,767	50,266	61,172	686,967	-	-	-	-
Service and software fees	108,093	201,077	59,587	18,449	23,295	17,890	12,168	5,459
	4,743,827	4,778,384	4,169,823	4,735,259	92,328	49,849	107,874	39,175
Cost of goods sold	4,149,944	4,195,594	3,778,882	3,724,731	67,679	31,929	99,321	29,133
<b>Gross profit</b>	593,883	582,790	390,941	1,010,528	24,649	17,920	8,553	10,042
<b>Operating Expenses</b>								
Amortization	19,611	13,689	25,022	14,586	8,782	6,936	10,671	11,396
Sales & Marketing	51,185	62,759	43,183	55,165	42,507	29,288	24,307	18,838
General Administration	290,143	176,048	196,486	300,757	98,348	94,352	87,524	142,374
Salaries & Benefits	412,557	352,251	287,028	261,271	141,903	128,062	123,078	252,653
Stock Based Compensation	2,050	2,050	2,050	9,471	2,000	2,000	21,146	(16,783)
Impairment	-	-	-	424,094	-	-	-	1,353,056
Total Operating Expenses	775,546	606,797	553,769	1,065,345	293,540	260,638	266,725	1,805,778
<b>Operating Loss</b>	(181,662)	(24,007)	(162,828)	(54,817)	(268,891)	(242,718)	(258,172)	(1,795,736)
Interest expenses	(26,117)	(21,402)	(10,736)	(42,886)	-	-	-	-
Other Income	489	200	214	(10,635)	15,698	7,031	4,182	(18,243)
Foreign Exchange	(4,731)	(12,708)	14,457	(41,227)	(31,508)	(33,499)	20,226	182,575
Loss from investment	-	-	-	(4,344)	(6,743)	(20,608)	(23,376)	(16,783)
<b>Loss Before Taxes</b>	(212,021)	(57,917)	(158,893)	(153,908)	(291,445)	(289,794)	(257,140)	(1,617,034)
Income Tax (expense)/recovery	(35,804)	(33,453)	(25,174)	(87,051)	-	-	-	-
Comprehensive loss before NCI	(247,825)	(91,370)	(184,067)	(240,959)	(291,445)	(289,794)	(257,140)	(1,617,034)
Non Controlling Interest	(25,001)	(62,597)	(36,594)	(315,973)	-	-	-	-
<b>Net Loss</b>	\$ (272,826)	\$ (153,967)	\$ (220,661)	\$ (556,932)	\$ (291,445)	\$ (289,794)	\$ (257,140)	\$ (1,617,034)
<b>Basic/Diluted loss per share</b>	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.06)

## QUARTERLY RESULTS

### Comparison of the three and nine months ended September 30, 2010 and 2009

#### Revenue

In the three and nine months ended September 30, 2010, total revenue increased by 5,038% and 5,376% to \$4,743,827 and \$13,692,034 compared to \$92,328 and \$250,051 in the same periods of 2009. The increase was mainly due to the acquisition of XCXD and consolidation of XCXD's revenue.

The breakdown of the Company's revenues by category for the three and nine months ended September 30, 2010 and 2009 are as follow:

	Three months ended		Nine months ended	
	30-Sep-10	30-Sep-09	30-Sep-10	30-Sep-09
Merchandise resale and trading	\$4,612,967	\$69,033	\$13,189,072	\$196,698
Advertising	22,767	-	134,205	-
Service and software fees	108,093	23,295	368,757	53,353
<b>Total Revenue</b>	4,743,827	92,328	13,692,034	250,051
Cost of goods sold	4,149,944	67,679	12,124,419	193,795
<b>Gross profit</b>	\$593,883	\$24,649	\$1,567,615	\$56,256

During the nine months ended September 30, 2010, the Company recognized \$13,189,072 (same period in 2009: \$196,698) of revenue from the online merchandize sales in China.

The Company recognised \$134,205 of revenue from advertising during the nine months ended September 30, 2010 (same period in 2009: nil). Advertising fee is charge to advertiser who posts advertisement on websites and online stores operated by the Company in China or uses the Company's advertising service.

The Company recognised \$368,757 (same period in 2009: \$53,353) of revenue from service and maintenance fees during the nine months ended September 30, 2010.

### **Cost of Sales**

Cost of sales includes the cost of purchasing the merchandise, sales tax, delivery, technical service and advertising expenses related to the sales.

### **Operating Expenses**

Total operating expenses increased by 164% and 134% to \$775,546 and \$1,936,112 for the three and nine months ended September 30, 2010 compared to \$293,540 and \$826,037 for the same periods of 2009. The increase in total operating expenses is mainly attributable to the acquisition of XCXD and consolidation of XCXD's expenses.

### **Amortization**

Depreciation and amortization costs for the three and nine months ended September 30, 2010 increased by 123% and 121% to \$19,611 and \$58,321 respectively compared to \$8,782 and \$26,389 for the same periods of 2009.

The increase in depreciation and amortization expenses is due to higher net book values of capital assets at September 30, 2010 from acquisition of XCXD and consolidation of their capital assets including leasehold improvement. During the nine months ended September 30, 2010, XCXD represented \$47,700 (same period in 2009: Nil) or 82% of the depreciation and amortization expenses.

### **Sales and Marketing**

Sales and marketing expenses increased by 20% and 73% to \$51,185 and \$157,127 for the three and nine months ended September 30, 2010 compared to \$42,507 and \$90,968 during the same

periods of 2009. During the nine months ended September 30, 2010, XCXD represented \$45,847 (same period in 2009: Nil) or 29% of the sales and marketing expenses.

### **General Administration**

General administration expenses increased by 195% and 128% to \$290,143 and \$662,677 for the three and nine months ended September 30, 2010 compared to \$98,348 and \$290,492 during the same periods of 2009. During the nine months ended September 30, 2010, XCXD represented \$361,281 (same period in 2009: Nil) or 55% of the general administration expenses.

### **Salaries and Benefits**

Salaries and benefits expenses increased by 191% and 168% to \$412,557 and \$1,051,836 for the three and nine months ended September 30, 2010 compared to \$141,903 and \$393,042 during the same periods of 2009. During the nine months ended September 30, 2010, XCXD represented \$595,532 (same period in 2009: Nil) or 57% of the salaries and benefits expenses.

### **Stock Based Compensation**

The Company recorded \$2,050 of stock based compensation expense for the three months ended September 30, 2010 compared to \$2,000 for the same period of 2009 representing a increase of 3%. However, the stock based compensation expense decreased by 76% to \$6,150 for the nine months ended September 30, 2010 compared to \$25,146 during the same period of 2009. The decrease is attributable to the lower fair values of new options granted due to the lower market price of the existing share, decrease in number of options granted, and the fact that the options granted in previous years were mostly vested in previous years.

### **Interest Expenses**

The Company recorded \$26,117 (same period of 2009: Nil) and \$58,255 (same period of 2009: Nil) of interest expenses for the three and nine months ended September 30, 2010. This interest expense was incurred by the loans in XCXD for the quarter ended September 30, 2010.

### **Other incomes and Losses**

Other incomes and losses decreased by 97% and 97% to \$489 and \$903 for the three and nine months ended September 30, 2010 compared to \$15,698 and \$26,911 during the same periods of 2009.

### **Foreign Exchange Loss**

The Company recognized foreign exchange loss of \$4,731 and gain of \$2,982 for the three and nine months ended September 30, 2010 respectively compared to loss of \$31,508 and \$44,781 during the same periods of 2009. 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.

## **Non Controlling Interest**

The Company's foreign subsidiary, XCXD realized the net profit of \$50,001 and \$248,383 respectively during the three and nine months ended September 30, 2010. Based on the Company's ownership of 50%, the remaining 50% of non controlling interest of \$25,001 (same period of 2009: nil) and \$124,192 (same period of 2009: nil) for the three and nine months ended September 30, 2010 respectively were subtracted from the consolidated Comprehensive loss before NCI.

## **Loss and Comprehensive Loss**

Loss and comprehensive losses decreased by 6% and 23% to \$272,826 and \$647,453 for the three and nine months ended September 30, 2010 compared to net losses of \$291,445 and \$838,379 during the same periods of 2009.

Diluted loss per share was \$0.01 and \$0.02 for the three and nine months ended September 30, 2010 respectively compared to a loss per share of \$0.01 and \$0.03 for the same periods in 2009.

## **CASH FLOW STATEMENT**

### **Operating Activities**

Cash used by operating activities for the three and nine months ended September 30, 2010 decreased by 41% and increased by 135% to \$178,829 and \$1,689,068 respectively compared to \$302,159 and \$718,102 during the same periods of 2009.

### **Investing Activities**

Cash used by investing activities for the three and nine months ended September 30, 2010 increased by 113% and decreased by 75% to \$91,958 and \$128,780 respectively compared to \$43,169 and \$523,446 during the same periods of 2009. The company's investing activities in 2010 consisted mainly of acquisition of capital assets while the investing activities in 2009 consisted mainly of investment in Tysen, acquisition of capital assets, loan receivable and repayment of loan receivable.

### **Financing Activities**

Cash inflow by financing activities was \$420,131 and \$1,318,657 for the three and nine months ended September 30, 2010 compared to nil for the same period of 2009. The Company's financing activities in 2010 consisted mainly of loan from shareholders, short term loan and shares issued for cash. There was no issuance of shares for cash from exercise of options and warrants during the periods.



## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has \$30,311 of long term debt (excluding the current portion \$44,119), \$974,499 in cash and working capital (defined as current assets less current liabilities) of \$1,581,291. The Company has adequate cash and short term investments to meet the Company's planned growth and development activities. Contractual commitments are summarized in "Contractual Obligations" section.

The Company did not have commitments for capital expenditures as at September 30, 2010. 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:

2010	\$60,509
2011	\$198,326
2012	\$146,304
2013	\$134,112

### **Related Party Transactions**

During the nine months ended September 30, 2010, the Company paid \$196,406 (same period of 2009: \$194,754) in salaries to its management. Also, the Company paid \$46,750 (same period of 2009: \$45,000) in professional fee to one of its officers and paid \$6,600 (same period in 2009: \$10,500) to directors as director fees.

As of September 30, 2010, the accounts payable balance included \$48,592 (September 30, 2009: 4,610) that is incurred from regular operational expenses outstanding to officers of the company and the Company also had a balance of \$567,636 (September 30, 2009: nil) due to the share holders of XCXD.

All of the above transactions were in the normal course of operations and are measured and recorded at the exchange amount of consideration established and agreed to by the related parties.

## **CRITICAL ACCOUNTING POLICIES**

Critical accounting policies and methods used in preparation of the Company's financial statements are described in Note 3 of consolidated financial statements of the Company for the year ended December 31, 2009. The Company has not affected any changes to its significant accounting policies during the nine months ended September 30, 2010 except as follows:

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

On January 1, 2008 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 2008. The adoptions of these new sections had no impact on net (loss) income.

The following new accounting standards were 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, business acquisition or disposition transactions pending as at September 30, 2010.

### **Off Balance Sheet Arrangement**

As at September 30, 2010 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 September 30, 2010 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 38,361,285 common shares outstanding at September 30, 2010. If all of the Company's options were exercised, the Company would have 39,951,285 common shares outstanding.