

**Consolidated Financial Statements of**

***FIRESWIRL TECHNOLOGIES INC.***

**Six months ended June 30, 2010 and 2009**

**(Unaudited)**

## **NOTICE TO SHAREHOLDERS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# **FIRESWIRL TECHNOLOGIES INC.**

## **Interim Consolidated Balance Sheets (unaudited)**

	June 30 2010	December 31 2009
<b>ASSETS</b>	(unaudited)	(audited)
Current assets		
Cash and cash equivalents	\$ 818,507	\$ 1,467,401
Restricted cash- Note 7	312,800	308,000
Amounts receivable - Note 8	829,687	1,044,408
GST/VAT recoverable	14,365	54,422
Deposits and prepayments	731,800	706,651
Inventory	1,880,825	1,047,472
	4,587,984	4,628,354
Capital assets - Note 9	186,764	193,307
Trademark	19,176	18,964
Goodwill - Note 11	306,926	306,926
<b>Total Assets</b>	<b>\$ 5,100,850</b>	<b>\$ 5,147,551</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities - Note 13	280,947	838,233
Taxes payable	63,049	179,653
Loan from shareholders	1,227,551	517,545
Short term loan - Note 14	1,063,520	1,199,756
Current portion of long term loan - Note 15	42,562	37,741
	2,677,629	2,772,928
Long Term Loan - Note 15	42,902	64,315
	2,720,531	2,837,243
<b>NON CONTROLLING INTEREST</b> - Note 10,11,12	601,683	502,492
<b>SHAREHOLDERS' EQUITY</b>		
Common shares - Note 18	5,951,765	5,610,417
Contributed surplus - Warrants - Note 18	2,606,979	2,606,979
Contributed surplus - Options - Note 18	728,519	724,419
	9,287,263	8,941,815
Deficit	(7,508,627)	(7,133,999)
	1,778,636	1,807,816
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 5,100,850</b>	<b>\$ 5,147,551</b>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 22)

Subsequent events (Note 25)

**FIRESWIRL TECHNOLOGIES INC.**  
**Interim Consolidated Statements of Operations (unaudited)**

	Three months ended		Six months ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
<b>Revenue</b>				
Merchandise resale and trading	\$ 4,527,041	\$ 31,959	\$ 8,576,105	\$ 127,665
Advertising	50,266	-	111,438	-
Service and maintenance fees	201,077	17,890	260,664	30,058
	4,778,384	49,849	8,948,207	157,723
Cost of goods sold	4,195,594	31,368	7,974,476	126,116
Gross profit	582,790	18,481	973,731	31,607
<b>Operating expenses</b>				
Amortization	13,689	6,936	38,711	17,607
Sales and marketing	62,759	29,288	105,942	53,595
General administration	176,048	94,913	372,534	187,010
Salaries and benefits	352,251	128,062	639,279	251,140
Stock based compensation	2,050	2,000	4,100	23,146
	606,797	261,199	1,160,566	532,497
Loss before other items	(\$24,007)	(\$242,717)	(\$186,835)	(\$500,890)
Other items:				
Interest expenses	(21,402)	-	(32,138)	-
Other incomes and losses- Notes 16	200	7,031	414	11,213
Foreign exchange gain (loss)	(12,708)	(33,499)	1,749	(13,273)
Share of loss of equity investment	-	(20,608)	-	(43,985)
Loss before income taxes	(57,917)	(289,793)	(216,810)	(546,935)
Income tax recovery (expenses)	(33,453)	-	(58,627)	-
Loss and comprehensive loss before NCI	(91,370)	(289,793)	(275,437)	(546,935)
Profit attributable to NCI - Note 12	(62,597)	-	(99,191)	-
<b>Loss and comprehensive loss for the period</b>	<b>(153,967)</b>	<b>(289,793)</b>	<b>(374,628)</b>	<b>(546,935)</b>
Basic/Diluted loss per share - Note 17	\$0.00	(\$0.01)	(\$0.01)	(\$0.02)
Weighted average number of shares outstanding	32,361,285	25,302,612	31,864,047	25,302,612

The accompanying notes are an integral part of these financial statements.

# FIRESWIRL TECHNOLOGIES INC.

## Interim Consolidated Statements of Cash Flows (unaudited)

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (153,967)	\$ (289,793)	\$ (374,628)	\$ (546,935)
Non cash items:				
Amortization and depreciation	13,689	6,936	38,711	17,607
Stock based compensation	2,050	2,000	4,100	23,146
Loss from investment	-	-	-	-
Non-controlling interest	62,597	-	99,191	-
Changes in non-cash working capital items:				
Amounts receivable	376,991	20,602	254,778	80,853
Deposits and prepayments	486,639	10,931	(25,149)	1,796
Inventory	(381,111)	31,368	(833,353)	115,315
Accounts payable and accrued liabilities	(366,222)	49,756	(488,809)	(107,727)
Taxes payable	(7,554)	-	(116,604)	-
	33,112	(168,201)	(1,441,763)	(415,945)
<b>INVESTING ACTIVITIES</b>				
Deferred development costs and other asset	(212)	(2,500)	(212)	(2,500)
Investment in Tysen	-	(68,320)	-	(274,206)
Acquisition of capital assets	(19,394)	(556)	(36,281)	(3,922)
Proceeds from sales of capital assets	-	-	-	420
Loan receivable	-	(208,478)	-	(391,042)
Repayment of loan receivable	-	182,438	-	190,975
	(19,606)	(97,416)	(36,493)	(480,275)
<b>FINANCING ACTIVITIES</b>				
Loan from shareholders	206,181	-	710,006	-
Proceeds from short term loan	(156,400)	-	(156,400)	-
Repayment of long-term loans	(8,981)	-	(17,602)	-
Shares issued for cash	341,348	-	341,348	-
Shares issued for options exercised	-	-	-	-
	382,148	-	877,352	-
Decrease in cash during the period	395,655	(265,617)	(600,904)	(896,221)
Effect of foreign exchange	(4,449)	-	(43,191)	-
Cash and cash equivalents, beginning of the period	740,101	1,595,940	1,775,401	2,226,544
Cash and cash equivalents, end of the period	\$ 1,131,307	\$ 1,330,323	\$ 1,131,307	\$ 1,330,323
<b>Supplemental disclosure with respect to cash flows</b>				
Cash paid for:				
Interest	\$ (21,402)	-	\$ (32,138)	-
Income taxes	\$ (33,453)	\$ -	\$ (58,627)	\$ -

The accompanying notes are an integral part of these financial statements.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the six months ended June 30, 2010 and 2009**

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**Note 1- Nature and Continuance of Operations**

Fireswirl Technologies Inc.'s ("the Company") focuses on conducting e-commerce, including operating official online stores for international mobile handset brands in China and reselling handsets on these online stores, and providing value added services for deployment with the Telco's mainly in China.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

Several adverse conditions cast doubt on the validity of this assumption. During the six months ended June 30, 2010 and 2009, the Company experienced operating losses and negative operating cash flows which were primarily funded by the issuance of share capital.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing, and to commence profitable operations in the future. There is no assurance the Company will be able to achieve profitable operations. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

	June 30 2010 \$	December 31 2009 \$	June 30 2009 \$
Deficit	(7,508,627)	(7,133,999)	(6,285,621)
Working capital	1,910,355	1,855,426	1,733,927

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**Note 2 - Basis of Presentation**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current period.

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

<b>Name</b>	<b>Place of incorporation</b>	<b>Ownership</b>
Fireswirl Systems Inc.	Province of British Columbia, Canada	100%
Fireswirl Asia Ltd.	Hong Kong, China	100%
FTI Europe Ltd.	British Virgin Islands	100%
Fireswirl Mobile Solutions Ltd.	Hong Kong, China	100%
M- Lingo Limited	British Virgin Island	51%
SMS Translators Limited	British Virgin Island	51%
Fireswirl Technologies (Shenzhen) Co.Ltd.	Shenzhen, China	100%
Fireswirl Technologies (Beijing) Co. Ltd.	Beijing, China	100%
Beijing Xingchang Xinda Technology Development Co., Ltd	China	50%

All significant inter-company transactions and balances have been eliminated upon consolidation.

**Note 3 - Significant Accounting Policies**

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**a) Cash and cash equivalents**

Cash consists of cash, funds in bank accounts, and marketable securities such as guaranteed investment certificates. Interest income earned on these marketable securities is recorded on an accrual basis.

Cash is held in Canadian dollars, US dollars, Hong Kong dollars, and Chinese RMB which is not freely convertible into other currencies. Under China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through a government bank authorized to conduct foreign exchange business if the purpose of such exchange fulfills the relevant requirements.

**FIRESWIRL TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**b) Capital assets**

Capital assets are recorded at cost. Amortization is charged on the declining balance basis using the following annual rates:

Computer hardware	20%
Furniture and fixtures	20%
Leasehold improvements	Straight-line over the term of the lease

Capital assets are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable.

**c) Comprehensive income**

Effective January 1, 2007, the Company adopted the new accounting standard issued by the CICA under Section 1530 for reporting comprehensive income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities, which are not included in net income (loss) until realized. The adoption of Section 1530 had no impact on the opening equity or balance sheet of the Company.

**d) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities and revenue and expenses arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Foreign exchange gains or losses arising from the translation are included in net income.

Integrated subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities of subsidiaries are translated into Canadian dollars at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at average exchange rates prevailing during the period. Unrealized foreign exchange gains or losses arising from the translation are included in the income statement.

**e) Income taxes**

The asset and liability method is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance against future tax assets to the extent that the Company does not consider them to be more than likely not of being realized.



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**f) Revenue recognition**

The Company generates its revenue from online merchandize resale, online advertising, system setup fees, customization fees, service and licensing fees.

Revenue from the sale of online merchandize is recognized in our accounts when title and risk passes to the buyer, collection is reasonably assured and the price is reasonably determinable.

System setup fees, customization fees and software development consulting fees are recognized based on the percentage of completion method or as agreed upon milestones are reached and when there are no significant obligations remaining and the sale price is fixed and determinable and collectability is reasonably assured.

Advertising, service and licensing fees are recognized when the service is performed, there are no significant obligations remaining, the sales price is determinable and collectability is reasonably assured.

**g) Inventory**

In 2007, the CICA issued Handbook Section 3031, "Inventories". CICA 3031 aligns Canadian GAAP with International Financial Reporting Standards (IFRS) and establishes the principles for measurement, recognition and disclosure of inventories.

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Inventory consists of finished goods.

**h) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for amortization are based on the estimated lives of property, plant and equipment. Stock-based compensation is based upon expected volatility and option life estimates. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. Valuation of the accounts receivable are based on assumptions regarding collectability. Valuation of goodwill is based on assumptions regarding recoverability of the recorded amount. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

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**i) Stock-based compensation**

The company has adopted CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" and applies the fair value method to all grants of stock options. All options granted, accounted for as a capital transaction at the time of the grant, are reflected as stock options in shareholders' equity. The fair value of options granted is estimated at the date of the grant using a Black-Scholes option pricing model incorporating assumptions regarding risk-free rates, dividend yield, volatility of return and a weighted average expected life of options. The estimated fair market value is recorded over the options' vesting period. Any consideration paid on the exercise of stock options is credited to share capital.

**j) Long-lived assets**

The Company reviewed long-lived assets for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

**k) Transaction Costs**

Transaction costs, other than in respect of financial assets held for trading which are expensed as incurred, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.

**l) Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on fair values. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the business is compared to its fair value. When the fair value of the business exceeds its carrying amount, goodwill of the business is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the business exceeds its fair value, in which case the implied fair value of the business' goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill in a business combination as described above. Using the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess of the carrying amount over the fair value of goodwill. No impairment of goodwill was recognized during the six months ended June 30, 2010 (2009 - \$Nil).

**m) Allowance for doubtful accounts**

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience. If events indicate that specific receivable balances may be impaired, further consideration is given to those balances and the allowance is adjusted accordingly. Accounts are written off when the Company's

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efforts to collect are unsuccessful. During the six months ended June 30, 2010, the Company recorded an allowance for doubtful accounts of \$Nil (2009 - \$Nil).

**n) Equity accounted investments**

Investments in companies over which the Company has or is deemed to have significant influence, but does not control, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter, to reflect the Company's pro-rata share of income or loss of the equity accounted investment and any dividends received from the investment. The Company's share of net income and losses of such investments is included in the consolidated statements of operations.

**Note 4 - Changes in Accounting Policies**

**a) Financial instruments**

In 2005, The CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”), Section 1530, Comprehensive Income (“Section 1530”), Section 3251, Equity (“Section 3251”), and Section 3865, Hedges (“Section 3865”). The new standards are effective for the Company's interim and annual financial statement commencing January 1, 2007. Section 1530 establishes standard for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. The adoption of these new standards had no impact on opening deficit as of January 1, 2007.

Under Section 3855, financial instruments must be classified into one of these five categories: i) held-for- trading; ii) loans and receivables; iii) held-to-maturity; iv) available for sale; or v) other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

- Upon adoption of the new standards, the Company has designated its cash and cash equivalents as held-for-trading which are measured at fair value with changes recorded in the consolidated statement of earnings and deficit as interest income.
- Accounts receivables, loan receivable, and deposits and prepayments are classified as loans and receivables, which are measured at amortized cost and consistent to the Company's accounting policy prior to the adoption of Section 3855.
- Accounts payable and accrued liabilities, loan from shareholders, short term loan, and long term loan have been classified as other liabilities, which are measured at amortized cost.
- The Company had no assets designated as held-to maturity or available for sale as at June 30, 2010.

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- The Company had no elements of other comprehensive income (loss) during the six months ended June 30, 2010 and 2009.

On January 1, 2008 the Company adopted CICA Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation.

CICA Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. CICA Section 3862 and CICA Section 3863 enhance disclosures to enable users to evaluate the significance of financial instruments, the nature and extent of risks arising from financial instruments and how an entity manages such risk. This includes new requirements to quantify certain risk exposures and provide sensitivity analysis for some risks.

The new standards result in additional disclosures in the notes to the consolidated financial statements, but did not have an impact on the financial position or results of operations of the Company.

**b) Goodwill and intangible assets and financial statement concepts**

In February 2008, the Accounting Standards Board issued Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets" and amended Section 1000, "Financial Statement Concepts" clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard was effective for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the future impact of this standard on its consolidated financial statements.

**c) Credit risk and the fair value of financial assets and liabilities**

In January 2009, the CICA approved EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is continually evaluating its counterparties and their credit risks; the accounting treatments provided in EIC-173 have been applied in the preparation of these consolidated financial statements. The adoption of this standard did not have an impact on the valuation of financial assets and liabilities.

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**Note 5 - Future Accounting Changes**

**a) Consolidated financial statements**

In January 2009, the CICA issued new Handbook Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on December 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

**b) Business combinations**

In January 2009, the CICA issued new Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after October 1, 2011. Earlier application is permitted.

**c) International financial reporting standards**

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be complete by December 31, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

**d) Multiple deliverable arrangements**

In December 2009, the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements", which provides guidance for determining whether an arrangement involving multiple deliverables contains one or more units of accounting. The accounting treatments provided in EIC-175 are effective for the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. The Company does not believe that this guidance will have an impact on its consolidated financial statements.

**Note 6 – Revenue and Cost of Sales**

**Revenue**

The Company generated revenue from merchandize resale, advertising and service and maintenance fees during the six months ended June 30, 2010.

During the six months ended June 30, 2010, the Company recognized \$8,576,105 of revenue from the merchandize sales in China (same period in 2009: \$127,665). Within this amount,

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\$8,519,360 (same period in 2009: nil) was made by Beijing Xingchang Xinda Technology Development Co., Ltd. ("XCXD"), a subsidiary in China.

XCXD also recognised \$111,438 (same period in 2009: nil) of revenue from advertising during the six months ended June 30, 2010. 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 recorded \$260,664 (same period in 2009: \$30,058) of revenue from service and maintenance fees during the six months ended June 30, 2010. Within this amount, \$164,241 (same period in 2009: nil) was made by XCXD.

**Cost of sales**

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

**Note 7– Restricted Cash**

Our subsidiary Beijing Xingchang Xinda Technology Development Co., Ltd ("XCXD") is required to maintain a deposit of RMB 2,000,000 (equivalent to \$312,800 as of June 30, 2010) with its financial institution for its short term loan account. The restricted cash earns interest at the prime rate (1.71% for savings in 2009 and 2010) and is redeemable when the loan is paid off.

**Note 8 – Amounts Receivable**

	June 30, 2010		December 31, 2009	
Accounts receivable	\$	826,696	\$	1,039,136
Interest receivable		998		1,026
Miscellaneous receivable		1,993		4,246
Total amounts receivable	\$	829,687	\$	1,044,408

**Note 9- Capital Assets**

	June 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer Hardware	\$ 192,169	\$ 71,122	\$ 121,047	\$ 152,073	\$ 36,580	\$ 115,493
Fixtures	22,986	12,150	10,836	22,986	7,955	15,031
Leasehold Improvement	89,631	34,750	54,881	89,631	26,848	62,783
	\$ 304,786	\$ 118,022	\$ 186,764	\$ 264,690	\$ 71,383	\$ 193,307

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**Note 10 - Business Combination**

On October 1, 2009, the Company completed the acquisition, through its wholly owned subsidiary Fireswirl Technologies (Shenzhen) Co., Ltd. ("Fireswirl Shenzhen"), of a 50% interest in Beijing Xingchang Xinda Technology Development Co., Ltd. ("XCXD") in consideration for 6,058,673 common shares of the Company (the "Transaction"). The results of XCXD's operations have been included in the consolidated financial statements since that date.

Pursuant to the terms of the Transaction, the Company acquired 50% of all rights and interests of XCXD, including 50% of any before tax profit, in consideration for up to 6,058,673 common shares of the Company. The Company also has the option to acquire the remaining 50% rights and interests of XCXD in 2011 at a price determined in accordance with an agreed multiple of XCXD's pretax profit in 2010, subject to TSX Venture Exchange approval. Fireswirl Shenzhen has the right to exercise, at all meetings of shareholders, 51% of all voting rights attached to the issued and outstanding XCXD shares held by the XCXD shareholders.

The acquisition was accounted for using the acquisition method of accounting for business combinations using management's best estimates of fair values at the date of acquisition as follows:

Consideration	
Common shares issued	\$ 493,445
Allocation of purchase price	
Cash	322,747
Accounts receivable	1,133,305
Inventory	1,224,011
Capital assets	174,679
Goodwill	306,926
Accounts payable and accrued liabilities	(1,336,849)
Other short term liabilities	(1,028,936)
Long-term debt	(115,919)
Non-controlling interest	(186,519)
	\$ 493,445

Acquisition costs of \$69,338 were included in the purchase price.

**Note 11 - Goodwill**

Balance – beginning of 2009	\$ -
Acquisitions of XCXD on October 1, 2009 (Note 10)	306,926
Balance – June 30, 2010	\$ 306,926

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**Note 12 – Profit attributable to NCI (Non-controlling Interest)**

Balance – June 30, 2009	\$	-
Acquisitions on October 1, 2009 (Note 10)		186,519
Net income attributable to non-controlling interest - Q4 2009		315,973
Balance – December 31, 2009		502,492
Net income attributable to non-controlling interest - Q1 2010		36,594
Net income attributable to non-controlling interest - Q2 2010		62,597
Balance – June 30, 2010	\$	601,683

The Company's foreign subsidiary, XCXD realized the net profit of \$125,194 and \$198,382 respectively during the three and six months ended June 30, 2010. Based on the Company's ownership of 50%, the remaining 50% of non controlling interest of \$62,597 (same period of 2009: nil) and \$99,191 (same period of 2009: nil) for the three and six months ended June 30, 2010 respectively were subtracted from the consolidated Comprehensive loss before NCI in the consolidated Income statements.

**Note 13 - Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2010 consisted of accounts payable and accrued expenses, wages and vacation payable, payroll remittances and customer deposits.

	June 30, 2010	December 31, 2009
Accounts payable and accrued expenses	\$ 237,978	\$ 787,070
Wages and vacation payable	29,648	33,400
Payroll remittances	1,793	751
Customer deposits	11,528	17,012
Total accounts payable and accrued liabilities	\$ 280,947	\$ 838,233

**Note 14 - Short Term Loan**

As at June 30, 2010, the Company had the following short term loans outstanding:

a) RMB 5,000,000 was received from Standard Chartered Bank on May 27, 2009. The loan bears variable interest at prime plus 1.25% per annum. This loan is revolving every six months. The Company made a repayment of RMB1,000,000 in June 2010 leaving a balance of RMB 4,000,000 (equivalent to \$625,600 as of June 30, 2010) as of June 30, 2010.

b) RMB 2,800,000 (equivalent to \$437,920 as of June 30, 2010) was received from Beijing Bank on June 28, 2009. The loan bears variable interest at prime times 1.3 per annum. This loan matures on July 20, 2010.

The prime rate for short term loans in China is 5.31% in 2009 and 2010.



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**Note 15 - Long Term Loan**

As at June 30, 2010, the Company had the following long-term loan outstanding:

RMB 800,000 (equivalent to CDN \$125,120 as of June 30, 2010) was received from Standard Chartered Bank in China on April 27, 2009. The loan bears interest at 21% and repayable in 36 monthly installments at approximately CDN \$4,600 per month starting from May 27, 2009. The fair value of the loans are approximately RMB546,447 (equivalent to CDN \$85,464) as of June 30, 2010. Within this amount, RMB272,136 (equivalent to \$42,562) is due within 1 year and classified as a current liability. The remaining RMB274,311 (equivalent to CDN \$42,902) is recorded as Long term loan as of June 30, 2010.

During the six months ended June 30, 2010, \$9,786 (same period in 2009 - \$Nil) of interest paid on the long-term loan was recognized in expenses.

**Note 16 - Other Income and Loss**

Other income and loss consists of interest income and other miscellaneous income/loss.

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Interest income	\$ 200	\$ 7,031	\$ 854	\$ 11,213
Miscellaneous	-	-	(440)	-
Total	\$ 200	\$ 7,031	\$ 414	\$ 11,213

**Note 17 - Loss per Share**

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value. However, under CICA Handbook Section 3500.33, when an enterprise has a loss before discontinued operations and extraordinary items or a loss before discontinued operations and extraordinary items available to common shareholders, including potential common shares in the computation of the diluted per share amount of that loss is always anti-dilutive.

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**Note 18 - Share Capital and Contributed Surplus**

The authorized share capital of the Company is an unlimited number of common shares without par value.

	Number of Shares	Share Capital	Contributed Surplus	
			Warrants	Options
Balance, January 1, 2008	25,205,112	\$ 5,088,335	\$ 2,606,979	\$ 584,838
Re-pricing stock options granted in 2006				1,632
Re-pricing stock options granted in 2007				9,870
Fair value of options granted in 2007 and vested in 2008				17,906
Fair value of options granted in 2008				144,282
Stock options exercised in 2008	97,500	97,975		(68,725)
<b>Balance, December 31, 2008</b>	<b>25,302,612</b>	<b>5,186,310</b>	<b>2,606,979</b>	<b>689,803</b>
Shares issued to XCXD on October 1, 2009	6,058,673	424,107		
Fair value of options granted in 2008 and vested in 2009				17,270
Fair value of options granted on January 2, 2009				8,000
Fair value of options granted on November 10, 2009				9,346
<b>Balance, December 31, 2009</b>	<b>31,361,285</b>	<b>5,610,417</b>	<b>2,606,979</b>	<b>724,419</b>
Fair value of options granted on November 10, 2009				4,100
Shares issued by private placement on June 17, 2010	7,000,000	350,000		
-Issuance cost		(8,652)		
<b>Balance, June 30, 2010</b>	<b>38,361,285</b>	<b>\$ 5,951,765</b>	<b>\$ 2,606,979</b>	<b>\$ 728,519</b>

On May 1, 2006, the Company purchased all the issued and outstanding securities of Fireswirl Systems Inc. for consideration comprised of 12,300,000 common shares at a deemed price of \$0.80 per share and \$300,000 in cash. A finder's fee of 500,000 common shares was paid in connection with the acquisition.

Concurrent with the acquisition noted above, the Company completed a private placement of 4,000,000 subscription receipts at a price of \$0.80 and for gross proceeds of \$3,200,000. Each subscription receipt was exchanged without any further action on the part of the holder thereof and for no additional consideration for one Redstone unit upon completion of the acquisition. Each unit consists of one Redstone common share and half of one Redstone share purchase warrants. Each whole Warrant will entitle the holder to acquire one Share at an exercise price of \$1.10 per Share for a period of twenty-four months following completion of the offering. The Offering was closed on May 18, 2006.

Compensation warrants were issued in connection with the above placement. Additionally a cash commission of 7% of the gross proceeds was paid to the agents.

On February 22, 2007, the Company completed a non brokered private placement financing of 4.5 million units at \$1.00 per unit. Each unit consists of one common share and one half of a share purchase warrant. Each full warrant entitles the holder to purchase one common share for \$1.25 for a period of 2 years from the date of closing. The warrants also include a forced conversion clause that will come into effect if the price of the underlying shares exceeds \$1.50 for a period of 30 consecutive trading days.

On October 1, 2009, the Company issued 6,058,673 common shares in the acquisition of XCXD as consideration of the assets and liabilities transferred. (Note 10)

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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.

**Stock option plan**

The Company has established three stock option plans under which stock options to purchase common shares may be granted to directors, officers and employees of the Company and to any other person or Company permitted by the applicable regulatory authorities to purchase unissued common shares. The aggregate number of Shares issuable upon the exercise of all options granted under the plan shall not exceed 10% of the common shares of the corporation.

	2010		2009	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding, beginning of year	1,590,000	0.33	1,580,000	0.51
Granted	-	-	200,000	0.12
Forfeited	-	-	(600,000)	0.55
Outstanding, June 30	1,590,000	0.33	1,180,000	0.42
Exercisable, June 30	1,385,000	0.37	930,000	0.49

During the fiscal year 2009, the Company granted 610,000 options with an exercise price ranging from \$0.05 to \$0.12 of which 450,000 were granted to officers, 60,000 were granted to employees and 100,000 were granted to directors. On the date such options are granted, 50% of the options vested and 50% will vest a year later. These options are exercisable over 5 years.

Amount forfeited is due to the cancellation of consulting services with consultants and the termination of employment during the vesting period or in the case options vested, options were out of the money.

On January 2, 2009, the Company granted 200,000 new options at an exercise price of \$0.12 to one of its officers. These granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years. The grant date fair value of options was \$0.04.

On November 10, 2009, the Company granted 410,000 new options at an exercise price of \$0.05 to its employees, officers and directors. Granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years. The grant date fair value of options was \$0.04.

There were no options granted, forfeited or exercised during the six months ended June 30, 2010.

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Exercise Price (\$)	Options Outstanding		Options Exercisable	
	Number of options	Weighted average remaining life (Years)	Number of options	Weighted average remaining life (Years)
0.05	410,000	4.36	205,000	4.36
0.12	300,000	3.49	300,000	3.49
0.30	705,000	2.58	705,000	2.58
0.80	175,000	0.97	175,000	0.97
	1,590,000	3.03	1,385,000	2.84

**Warrants**

Pursuant to the term of a non brokered private placement on February 22, 2007, the Company issued 2,250,000 share purchase warrants with an exercise price of \$1.25 exercisable over two years. The warrants included a forced conversion clause that will come into effect if the price of the underlying shares exceeds \$1.50 for a period of 30 consecutive trading days.

There were no warrants issued or exercised during the six months ended June 30, 2010. There were no outstanding warrants as of June 30, 2010 as 2,250,000 of warrants expired on February 22, 2009.

**Assumptions**

The fair value of the options and warrants has been estimated by using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.30 - 3.85%
Dividend yield	-
Volatility	80% - 145%
Expected life	1 year to 5 years

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**Note 19 - Related Party Transactions**

The Company had the following transactions with directors and officers of the Company:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Expenditures:				
- Salaries and severance	\$ 67,208	\$ 65,525	\$ 129,662	\$ 134,735
- Professional fees	15,750	15,000	31,000	30,000
- Director fees	2,200	2,000	4,400	4,000
	\$ 85,158	\$ 82,525	\$ 165,062	\$ 168,735

During the six months ended June 30, 2010, the Company paid \$129,662 (same period in 2009: \$134,735) in salaries to its management. Also, the Company paid \$31,000 (same period in 2009: \$30,000) in professional fees to one of its officers and paid \$4,400 (same period in 2009: \$4,000) as director fees.

	June 30, 2010	December 31, 2009	June 30, 2009
Accounts payable	\$ 20,576	\$ 33,206	\$ -
Due to Shareholders of XCXD	1,227,551	517,445	-
	\$ 1,248,127	\$ 550,651	\$ -

As of June 30, 2010, the accounts payable balance included \$20,576 (June 30, 2009: \$nil) incurred from regular operational expenses outstanding to an officer of the company. As of June 30, 2010, the Company also had \$1,227,551 (June 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.

**Note 20 - Segmented Information**

The Company's sales revenues are allocated to geographic segments as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
China	\$ 4,682,351	\$ 31,959	\$ 8,851,783	\$ 127,712
United Kingdom	76,548	8,957	76,548	14,362
USA	19,485	8,933	19,876	15,649
	\$ 4,778,384	\$ 49,849	\$ 8,948,207	\$ 157,723

No customers accounted for greater than 10% of the Company's sale during the six months ended June 30, 2010 while one customer in China accounted for \$127,712 or 81% of sales made during the six months ended June 30, 2009.

The Company's long-term assets are located in Canada and China at June 30, 2010 as follows:

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	June 30, 2010	December 31, 2009	June 30, 2009
Canada	\$ 6,611	\$ 11,328	\$ 17,924
China	180,153	181,979	6,819
Total	\$ 186,764	\$ 193,307	\$ 24,743

**Note 21 - Credit Risk and Financial Instruments**

**Credit risk**

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The business also depends on new customers using the product and there is additional risk when credit is granted to new and unproven customers. Credit evaluations are also performed on new customers.

There were no overdue accounts receivables outstanding as of June 30, 2010.

As at June 30, 2010, an amount of Cdn\$187,680 (RMB1,200,000) due from one customer was included in the balance of accounts receivable ( June 30, 2009 - \$nil).

**Currency risk**

Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

	June 30, 2010	December 31, 2009	June 30, 2009
US dollars:			
- Cash and cash equivalents	\$ 17,880	\$ 17,230	\$ 19,237
- Accounts receivable	19,485	13,071	
Hong Kong Dollars			
- Cash and cash equivalents	55,073	13,573	138,865
UK Pound			
- Accounts receivable	-	-	5,738
China Yuan Renminbi			
- Cash and cash equivalents	330,936	901,755	\$ 243,790
- Restricted cash	\$ 312,800	\$ 308,000	-

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**Foreign currency sensitivity analysis**

The Company is mainly exposed to fluctuations in the Chinese RMB, US dollar and HK dollar. The major currency exposures, as of June 30, 2010, are summarized in Canadian dollar equivalents in the following table. The local currency amounts have been converted to Canadian dollar equivalents using the period end exchange rates.

	Chinese RMB	US dollar	HK dollar
Cash	\$ 330,936	\$ 17,880	\$ 55,073
Restricted cash	312,800	-	-
Short term investment and marketable securities available on sale	-	-	-
Accounts Receivable	807,567	19,485	-
Other financial assets	702,575	-	24,920
Accounts payable and accrued liabilities	(26,220)	-	(38,917)
Other financial liabilities	(1,220,699)	-	(48,058)
Shareholder loans	(1,227,551)	-	-
Net financial assets	\$ (320,593)	\$ 37,365	\$ (6,982)

The following table details the Company's sensitivity, with regards to the above net asset position, to a 1% strengthening of the Chinese RMB, US dollar and HK dollar, against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates. For a 1% weakening against the Canadian dollar, there would be an equal and opposite impact on net income and comprehensive income.

	Chinese RMB	US dollars	HK dollars
Net income	\$ (3,206)	\$ 374	\$ (70)
Comprehensive income	\$ (3,206)	\$ 374	\$ (70)

# **FIRESWIRL TECHNOLOGIES INC.**

## **Notes to the Consolidated Financial Statements**

### **For the six months ended June 30, 2010 and 2009**

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#### **Fair Value**

Fair value is the amount at which a financial instrument could be exchanged between willing parties based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The fair value hierarchy established by CICA Handbook Section 3862 – Financial Instruments – Disclosures (“Section 3862”) establishes three levels to classify the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e., quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company’s financial instruments include cash, accounts receivable, deposits and prepayments, loan receivable, accounts payable and accrued liabilities, short term loans, loans from shareholders, and long-term loans.

The fair value of accounts receivable, deposits and prepayments, loan receivable, accounts payable and accrued liabilities, and short term loans is approximately equal to their carrying values due to their short-term maturity.

The fair value of long-term loan approximates its fair value as the interest rate approximates the current market rate for similar instruments.

The fair value of loan from shareholders could not be determined as there are no fixed terms of repayment.

#### **Interest Risk**

The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income.

#### **Liquidity Risk**

The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company’s growth is financed through a combination of the cash flows from operations and the issuance of equity. One of management’s primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows.



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As at June 30, 2010 the Company has accounts payable and accrued liabilities of \$280,236 due within 12 months. As at June 30, 2010 the Company is holding cash and cash equivalents of \$818,507. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

**Note 22 - Commitments and Contingencies**

- (a) The Company has lease obligations with its previous premises under an arrangement which expires on June 30, 2011. The future annual minimum payments under operating leases is \$61,848.
- (b) A foreign subsidiary Fireswirl Technologies (Shenzhen) Company Ltd. has a lease obligation of \$1,091 per month until the lease expires on August 31, 2010.
- (c) A foreign subsidiary Fireswirl Asia Ltd. has a lease obligation of \$1,001 per month until the lease expires on August 24, 2010.
- (d) A foreign subsidiary XCXD has a lease obligation of \$12,192 per month until the lease expires on December 1, 2013

**Note 23- Capital Management**

The Company has defined its capital as capital stock, contributed surplus and retained earnings.

The following table summarizes certain information with respect to the Company's capital structure at the end of each period:

	June 30, 2010	December 31, 2009	June 30, 2009
Shareholders' equity	\$1,778,636	\$1,807,816	\$2,220,617

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to maintain appropriate cash reserves on hand to support continued operations and shareholder returns, maintain capital structure while keeping capital costs at a minimum, and to invest cash on hand in highly liquid, highly rated financial instruments.

The company is not exposed to externally imposed capital restrictions, and the Company's objectives and strategies described above have not changed since last year. These objectives and strategies are reviewed on a continuous basis.

The Company normally finances its property and equipment purchases with cash.

**FIRESWIRL TECHNOLOGIES INC.**  
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**Note 24 – Supplemental Disclosure with Respect to Cash Flows**

	Three months months Ended		Six months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Cash paid during the period for interest	\$21,402	\$ -	\$32,138	\$ -
Cash paid during the period for income taxes	\$33,453	\$ -	\$58,627	\$ -

During the six months ended June 30, 2010, Income taxes of \$58,627 were incurred from XCXD's operations in China.

There were no significant non-cash transactions during the six months ended June 30, 2010 and 2009.

**Note 25- Subsequent Event**

There were no material subsequent events during the period from June 30, 2010 to the date of this report.

**Note 26 – Comparative Figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.