

Consolidated Financial Statements of

FIRESWIRL TECHNOLOGIES INC.

The Years ended December 31, 2011 and 2010

(Audited)

To the Shareholders of Fireswirl Technologies Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of Fireswirl Technologies Inc.'s external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board of Directors, Audit Committee and management to discuss their audit findings.

April 24, 2012

"Tony Lau"
CEO

"Ji Yoon"
CFO



INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Fireswirl Technologies Inc.:**

We have audited the accompanying consolidated financial statements of Fireswirl Technologies Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fireswirl Technologies Inc. and its subsidiaries as at December 31, 2011, December 31, 2010, and January 1, 2010, and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Fireswirl Technologies Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Fireswirl Technologies Inc. to continue as a going concern.

MNP LLP

MNP LLP

Chartered Accountants

24 April 2012
Vancouver, BC



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FIRESWIRL TECHNOLOGIES INC.

Consolidated Statements of Financial Position as at December 31, 2011
(Expressed in Canadian Dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents		\$ 75,677	\$ 783,699	\$ 1,467,401
Restricted cash	4	1,696,800	362,160	308,000
Amounts receivable	5	1,141,874	1,637,794	1,044,408
GST/VAT recoverable		24,528	31,334	54,422
Deposits and prepayments		1,698,814	624,086	706,651
Inventory	6	2,874,465	2,132,097	1,047,472
		7,512,158	5,571,170	4,628,354
Capital assets				
Trademark	7	308,311	291,752	193,307
Goodwill	8	19,176	19,176	18,964
		306,926	306,926	306,926
TOTAL ASSETS		\$ 8,146,571	\$ 6,189,024	\$ 5,147,551
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	10	937,731	655,607	838,233
Taxes payable		37	-	179,653
Loan from shareholders	15	997,545	387,409	517,545
Short term loan	11	4,552,714	3,300,937	1,199,756
Current portion of long term loan	12	18,659	45,570	37,741
Total Current Liabilities		6,506,686	4,389,523	2,772,928
Long Term Loan	12	-	17,424	64,315
TOTAL LIABILITIES		6,506,686	4,406,947	2,837,243
SHAREHOLDERS' EQUITY				
Common shares	13	6,695,007	5,955,265	5,610,417
Share-based payments reserve - warrants	13	2,752,081	2,606,979	2,606,979
Share-based payments reserve - options	13	738,948	731,474	724,419
Accumulated Other Comprehensive Income/(Loss)	1	223,382	42,279	-
Accumulated Deficit	1	(9,160,633)	(8,067,976)	(7,133,999)
Total equity attributable to equity holders of company		1,248,785	1,268,021	1,807,816
Non-controlling interest	9	391,100	514,056	502,492
TOTAL EQUITY		1,639,885	1,782,077	2,310,308
Total Liabilities and Shareholders' Equity		\$ 8,146,571	\$ 6,189,024	\$ 5,147,551

See accompanying notes to the consolidated financial statements.

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 18)

On behalf of the Board:

"Tony Lau"

"Ji Yoon"

Tony Lau
CEO

Ji Yoon
Interim CFO

FIRESWIRL TECHNOLOGIES INC.

Consolidated Statement of Comprehensive Income for the year ended December 31, 2011
(Expressed in Canadian Dollars)

	Note	December 31, 2011	December 31, 2010
Operating revenues			
Sales revenue		19,262,678	19,545,105
Advertising revenue		-	158,073
Service revenue		775,599	573,904
	3	20,038,277	20,277,082
Other operating revenue		-	(410)
Total operating revenue		20,038,277	20,276,672
Operating expenses			
Purchases		16,981,543	17,229,632
Delivery charges		692,639	395,322
Other related expense		563,471	450,321
Foreign Exchange (gain)/loss		-	86,497
Depreciation and amortization	7	161,430	77,844
Sales and marketing		148,642	239,445
General administration		820,698	991,032
Salaries and benefits		1,633,509	1,518,222
Share-based compensation		103,135	7,054
Loss on disposal of fixed assets		6,729	-
Bad debt expense		-	1,492
Total operating expense		21,111,796	20,996,861
Operating income/(loss)		(1,073,519)	(720,190)
Finance income		11,502	7,573
Finance costs	11,12	(240,716)	(115,366)
Income/(Loss) before income tax		(1,302,733)	(827,982)
Income tax recovery (expenses)		(13,504)	(94,431)
Net income/(loss)		(1,316,237)	(922,413)
Other comprehensive income/(loss)			
Foreign exchange currency adjustment		281,726	42,279
Net comprehensive income/(loss)		(1,034,511)	(880,134)
Net income/(loss) attributable to:			
Common shares		(1,092,658)	(933,977)
Non-controlling interest	9	(223,579)	11,564
		(1,316,237)	(922,413)
Comprehensive income/(loss) attributable to:			
Common shares		(911,555)	(891,698)
Non-controlling interest	9	(122,956)	11,564
		(1,034,511)	(880,134)
Net income/(loss) per common share			
Basic	13	(0.03)	(0.03)
Diluted	13	(0.03)	(0.03)
Comprehensive income/(loss) per common share			
Basic	13	(0.02)	(0.03)
Diluted	13	(0.02)	(0.03)

See accompanying notes to the consolidated financial statements.

FIRESWIRL TECHNOLOGIES INC.
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Number of shares	Share capital	Contributed Surplus - Warrants	Contributed Surplus - Options	Other Comprehensive Income	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance, January 1, 2010	31,361,285	\$ 5,610,417	\$ 2,606,979	\$ 724,419	\$ -	\$ (7,133,999)	\$ 1,807,816	\$ 502,492	\$ 2,310,309
Net Income/(Loss) for the period						(933,977)	(933,977)	11,565	(922,412)
Compensation expense related to Stock Options				7,054			7,054		7,054
Issuance of shares	7,000,000	350,000					350,000		350,000
Share issuance costs		(5,152)					(5,152)		(5,152)
Foreign currency translation difference					42,279		42,279		42,279
Balance at December 31, 2010	38,361,285	5,955,265	2,606,979	731,474	42,279	(8,067,976)	1,268,021	514,057	1,782,077
Net Income/(Loss) for the period						(1,092,658)	(1,092,658)	(223,579)	(1,316,237)
Compensation expense related to Stock Options				103,135			103,135		103,135
Option exercised	180,000	23,200		(7,201)			16,000		16,000
Option expired		88,460		(88,460)			-		-
Issuance of shares	6,100,000	650,953	145,102				796,055		796,055
Share issuance costs		(22,871)					(22,871)		(22,871)
Foreign currency translation difference					181,103		181,103	100,623	281,726
Balance at December 31, 2011	44,641,285	6,695,007	2,752,081	738,948	223,382	(9,160,633)	1,248,785	391,100	1,639,885

See accompanying notes to the consolidated financial statements.

FIRESWIRL TECHNOLOGIES INC.

Consolidated Statements of Cash Flows for the year ended December 31, 2011 (Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010
OPERATING ACTIVITIES		
Net income/(loss) for the period	\$ (1,316,237)	\$ (922,413)
Non cash items:		
Depreciation and amortization	161,430	77,844
Share-based compensation	103,135	7,054
Loss on fixed assets disposal	6,729	-
Bad Debt write offs	-	1,492
Changes in non-cash working capital items:		
Amounts receivable	502,726	(570,298)
Deposits and prepayments	(1,074,729)	82,565
Inventory	(742,368)	(1,084,625)
Accounts payable and accrued liabilities	282,124	(182,626)
Loan from shareholders	610,137	(130,136)
Income taxes payable	37	(179,653)
	<u>(1,467,016)</u>	<u>(2,900,797)</u>
INVESTING ACTIVITIES		
Deferred development costs and other asset	-	(212)
Acquisition of capital assets	(94,911)	(169,669)
Proceeds from sales of capital assets	1,800	-
	<u>(93,111)</u>	<u>(169,880)</u>
FINANCING ACTIVITIES		
Proceeds/(Repayment) of short term loan	1,251,776	2,101,181
Repayment of long-term loan	(44,335)	(39,062)
Shares issued for cash	773,185	344,848
Shares issued for options exercised	16,000	-
	<u>1,996,626</u>	<u>2,406,967</u>
Decrease in cash during the period	436,499	(663,710)
Effect of foreign exchange	190,120	34,167
Cash and cash equivalents, beginning of period	1,145,859	1,775,401
Cash and cash equivalents, end of period	<u>\$ 1,772,478</u>	<u>\$ 1,145,858</u>
Supplemental disclosure with respect to cash flows		
Cash paid for:		
Interest	\$ 327,547	115,366
Income taxes	<u>\$ 13,467</u>	<u>94,430</u>

See accompanying notes to the consolidated financial statements.

FIRESWIRL TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011 and 2010

Note 1- Nature and Continuance of Operations

Fireswirl Technologies Inc. (“the Company”) was founded in 1999 and became publicly listed in 2006. The address of the Company’s registered office is Suite 2823, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia. The Company focuses on conducting e-commerce, including operating official online stores for international brands in China and reselling branded products on these online stores and technology development and deployment.

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 year ended December 31, 2011 and 2010, the Company experienced operating losses and negative operating cash flows which were primarily funded by private placement proceeds and borrowing of short term loans.

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 or continue raising funds in the future.

	December 31, 2011	December 31, 2010	January 1, 2010
Deficit	\$ (9,261,257)	\$ (8,067,976)	\$ (7,133,999)
Working Capital	1,005,472	1,181,647	1,855,426

Note 2 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening International Financial Reporting Standards (“IFRS”) consolidated statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated. 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) Statement of Compliance

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiaries prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company adopted IFRS in accordance with IFRS 1, First time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of January 1, 2010, as required; and

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- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Company's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 23 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on changes in equity, loss and total comprehensive loss along with reconciliations of the statement of financial position as at December 31, 2010 and January 1, 2010, and the statement of loss and statement of total comprehensive loss for the year ended December 31, 2010.

The consolidated financial statements were authorized for issue by the Board of Directors on April 24, 2012.

b) Basis of Presentation

The consolidated financial statements have been prepared mainly under the historical cost convention. Other measurement bases used are described in the applicable notes. The Company's financial year corresponds to the calendar year. The consolidated financial statements are prepared in Canadian dollars.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- acquisition cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the income statement;
- contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the income statement when the contingent consideration is a financial liability. Contingent consideration is not re-measured when it is an equity instrument; and
- upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the income statement.

Associates are those entities where the Company has the ability to exercise significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of an entity. Joint ventures are those entities over whose activities the Company has joint control, established by

FIRESWIRL TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2011 and 2010

contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are generally recognized initially at cost. The consolidated financial statements include the Company's share of income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

At each balance sheet date, the investment in associates is assessed for indicators of impairment.

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

Name	Place of incorporation	Ownership
Fireswirl Systems Inc.	Province of British Columbia, Canada	100%
Fireswirl Asia Ltd.	Hong Kong, China	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	Beijing, China	50%
Tysen Xieli Technology Co. Ltd.	Beijing, China	21%

In 2009, Tsyen Xieli Technology is an investment over which the Company is able to exercise significant influence and is accounted for by the equity method. This investment has been written down at the end of 2009.

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

c) 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.

d) Capital assets

Capital assets are recorded at cost and are depreciated annually on straight-line basis. Depreciation is charged using the following assumptions:

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Computer hardware	3 year straight-line
Furniture and fixtures	5 year straight-line
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.

e) Comprehensive income

This section establishes standards for reporting and presentation of comprehensive income, which is comprised of net earnings or loss and other 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.

f) Foreign currency translation

The Company uses the Canadian dollar as its presentation currency.

Revenue and expense transactions that are denominated in foreign currencies and entered into directly by the Company are translated into Canadian dollars at the exchange rates prevailing at the time of the transactions. Amounts receivable and payable in foreign currencies are stated in Canadian dollars at the rates of exchange prevailing at the balance sheet dates, and the resulting foreign exchange gains and losses are recognized in the net income (loss) for the year.

For consolidation purposes, the assets and liabilities of subsidiary entities whose functional currencies differ from that of the Company are translated at the exchange rate prevailing at the balance sheet date. Income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences, including exchange differences arising from the translation of borrowings and other financial instruments are recognized directly in accumulated other comprehensive income (loss).

Should a foreign operation be sold, the cumulative exchange differences recognized in accumulated other comprehensive income (loss) since January 1, 2010 would be recognized in the income statement as part of the profit or loss on sale.

g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

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- (i) the initial recognition of assets or liabilities in transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit to be realized.

h) 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 and customization fees are recognized at the time when service is delivered, following agreement of fees and contractual arrangements and when collection of amounts due is considered to be reasonably assured.

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

Licensing fees are recognized ratably over the period of the licensing term, once the service is delivered, following agreement of fees and contractual arrangements and when the collection of amounts due is considered to be reasonably assured. Cash received in excess of the revenue recognized is deferred.

i) Inventory

Inventories are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis. Inventory consists of finished goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand which would impair the value of inventory on hand.

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j) Use of estimates

The preparation of financial statements in conformity with IFRS 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.

k) Share-based compensation plans

The Company offers stock-based compensation to key employees and non-executive directors as described below. The Company accounts for the performance of the stock option plan, which calls for settlement by the issuance of equity instruments, using the fair value method. Under the fair value method, compensation cost attributed to the options to employees is measured at fair value at the grant date and amortized over the vesting period. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting period.

Compensation cost is recognized so that each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting. Share-based payment expense relating to cash-settled awards, including share appreciation rights is accrued at the fair value of the liability. Until the liability is settled, the Company re-measures the fair value at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

l) Impairment

(i) Financial assets

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually.

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The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. Cash-generating units to which goodwill has been allocated reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of the cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized.

m) 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.

n) Goodwill

Goodwill is recognized as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquired, less the fair value of the net identifiable assets acquired and liabilities assumed, as of the acquisition date. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Goodwill acquired through a business combination is allocated to each cash-generating unit ("CGU"), or a group of CGUs, that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

o) 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 efforts to collect are unsuccessful. During the three month period ended December 31, 2011, the Company recorded an allowance for doubtful accounts of \$Nil (2010 - \$Nil).

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p) Provisions

Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

q) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purposes for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit and loss:
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations within other gains and losses in the period in which they arise.

Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- (ii) Loans and receivables:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables are comprised of trade and other receivables, contract work-in-progress, and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (iii) Financial liabilities at amortized cost:
Financial liabilities at amortized cost include trade payables and accrued liabilities, deferred revenue, and debt. Financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value.

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Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

- (iv) Share capital:
Share capital is classified as equity. Incremental costs directly attributable to the issue of shares and share options are recognized as a deduction from equity. When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from equity. When treasury shares are subsequently reissued, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

r) Trade and other receivables

Trade and other receivables are stated at their amortized cost less impairment losses. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Receivables with a short-term duration are not discounted.

s) Earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, the dilution is calculated based upon the number of common shares issued should "in the money" options, if any, be exercised. When the effects of outstanding stock based compensation arrangements would be anti-dilutive, diluted loss per share is not calculated.

t) Government assistance

Government grants are recognized at fair value when there is reasonable assurance that the grant will be received and all the conditions attached to it will be complied with.

When the grant relates to an asset it is recognized in deferred income and credited to other income on a systematic basis over the useful life of the asset.

When the grant relates to income it is deducted in reporting the related expense on a systematic basis over the periods in which the related costs for which the grant is intended to compensate are incurred.

u) Future accounting pronouncements

The following five new Standards were issued by the IASB in May 2011, and are effective for annual periods beginning on or after January 1, 2013. Early application is permitted if all five Standards are adopted at the same time.

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Consolidated Financial Statements - IFRS 10 Consolidated Financial Statements ("IFRS 10") will replace existing guidance on consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. The portion of IAS 27 that deals with separate financial statements will remain. IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both "power" and "variable returns" for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances.

Joint Arrangements - IFRS 11 Joint Arrangements ("IFRS 11") will replace IAS 31 Interests in Joint ventures, and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures.

Disclosure of Interests in Other Entities - IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity.

Separate Financial Statements - IAS 27 Separate Financial Statements ("IAS 27") has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27 Consolidated and Separate Financial Statements that is replaced by IFRS 10.

Investments in Associates and Joint Ventures - IAS 28 Investments in Associates and Joint ventures ("IAS 28") has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of IAS 28 Investments in Associates does not include joint ventures.

IFRS 13 Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011, and is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The IASB has issued an amendment to IFRS 7, Financial Instruments: Disclosures ("IFRS 7"), requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of its 2012 financial year. The Company does not expect the implementation to have a significant impact on the Company's disclosures.

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The IASB has issued a new standard, IFRS 9, Financial Instruments ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position and disclosures.

The IASB has issued an amendment to IAS 1, Presentation of Financial Statements ("IAS 1"), which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after July 1, 2012 and requires full retrospective application. The Company does not expect IAS 1 to have a material impact on the financial statements.

Note 3 – Revenue

The Company generated revenue from merchandise resale, advertising and service and maintenance fees during the year ended December 31, 2011.

During the year ended December 31, 2011, the Company recognized \$19,262,678 of revenue from the merchandise sales in China (same period in 2010: \$19,545,105). Within this amount, \$19,262,678 (same period in 2010: \$19,488,360) was generated by Beijing Xingchang Xinda Technology Development Co., Ltd. ("XCXD"), a subsidiary in China.

XCXD did not have advertising revenue during the year ended December 31, 2011 (same period in 2010: \$158,073). Advertising fee is charged to advertiser who posts advertisement on websites and online stores operated by the Company in China or those who use the Company's advertising service.

The Company recorded \$775,599 (same period in 2010: \$573,904) of revenue from service and maintenance fees during the year ended December 31, 2011. Within this amount, \$659,724 (same period in 2010: \$385,314) was made by XCXD. This revenue is mainly generated from software development and maintenance services.

Note 4 – Restricted Cash

The Company's subsidiary Beijing Xingchang Xinda Technology Development Co., Ltd ("XCXD") is required to maintain a deposit of RMB 2,000,000 (equivalent to \$323,200 as of December 31, 2011 and RMB2,400,000 equivalent to \$362,160 as of December 31, 2010) with its financial institution for its short term loan account. The restricted cash earns interest at the prime rate (3.10% for savings in 2011 and 2010) and is redeemable when the loan is paid off.

The company has pledged cash, RMB8.5M (equivalent to \$1,373,600 as of December 31, 2011), as security deposit pledge (another RMB1.5M to follow in January, 2012) for two counter-guarantee contracts. The first counter-guarantee contract incorporates two already-signed

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contracts as the basis: (1) standard bank RMB10M loan contract between XCXD and China Construction Bank - "Main Contract", and (2) standard guarantor appointment contract between XCXD and China Fortune Investment Guarantee Company (CFIG) to appoint CFIG as XCXD's guarantor - "Guarantor Appointment Contract". The second counter-guarantee contract incorporates two already-signed contracts as the basis: (1) standard bank RMB10M loan contract between XCXD and Communication Bank - "Main Contract", and (2) standard guarantor appointment contract between XCXD and China Fortune Investment Guarantee Company (CFIG) to appoint CFIG as XCXD's guarantor - "Guarantor Appointment Contract".

In summary, XCXD will provide a counter-guarantee to CFIG for CFIG being the guarantor of the bank loans in order to ensure the fulfillment of the two Main Contracts (RMB20M loans) and the Guarantor Appointment Contracts. XCXD will pledge the collateral (RMB5M to each contract) to CFIG, as a counter-guarantee for the responsibility and obligation for XCXD to fulfill the contracts.

Note 5 – Amounts Receivable

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable	\$ 1,140,612	\$ 1,634,684	\$ 1,039,137
Interest receivable		0	1,026
Miscellaneous receivable	1,262	3,110	4,245
Total amounts receivable	\$ 1,141,874	\$ 1,637,794	\$ 1,044,408

Note 6 – Inventory

	December 31, 2011	December 31, 2010	January 1, 2010
Finished Goods	\$ 2,874,465	\$ 2,132,097	\$ 1,047,472

For the year ended December 31, 2011, inventory recognized as an expense in cost of sales amounted to \$16,981,543 (2010 - \$17,229,632). There were no write downs of inventory included in the above amounts. As of December 21, 2011, the company anticipates the net inventory will be realized within one year.

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Note 7 - Capital Assets

	Furniture & Fixtures	Computers & Office Equipment	Leasehold Improvement	Total
<i>Asset Costs</i>				
Balance Jan 1, 2010	\$ 22,986	\$ 152,073	\$ 89,614	\$ 264,673
Foreign Exchange	(114)	(3,061)	(1,322)	(4,497)
Additions	-	112,776	80,233	193,008
Balance Dec 31, 2010	22,872	261,788	168,525	453,185
Foreign Exchange	394	18,435	10,251	29,080
Additions	-	217,850	-	217,850
Disposals	(17,323)	(151,852)	-	(169,175)
Balance Dec 31, 2011	\$ 5,943	\$ 346,220	\$ 178,776	\$ 530,940
<i>Accumulated Depreciation</i>				
Balance Jan 1, 2010	\$ 7,955	\$ 36,580	\$ 26,831	\$ 71,366
Foreign Exchange	-	(653)	(78)	(731)
Amortization of the period	3,147	67,732	19,919	90,798
Balance Dec 31, 2010	11,102	103,659	46,672	161,433
Foreign Exchange	145	7,341	1,611	9,097
Amortization of the period	2,556	146,679	43,562	192,798
Disposals	(10,436)	(130,263)	-	(140,699)
Balance Dec 31, 2011	\$ 3,367	\$ 127,417	\$ 91,845	\$ 222,629
<i>Carrying Amounts</i>				
At January 1, 2010	\$ 15,031	\$ 115,493	\$ 62,783	\$ 193,307
At December 31, 2010	\$ 11,770	\$ 158,128	\$ 121,853	\$ 291,752
At December 31, 2011	\$ 2,576	\$ 218,804	\$ 86,931	\$ 308,311

During the year ended December 31, 2011, the Company recorded depreciation of \$161,430 (same period in 2010 - \$77,844). In January, 2011, XCXD has used \$148,500 to acquire new servers, computers and data storage equipment to update and increase capacity to deal with potential increase in trade volume. XCXD has written off \$28,570 of its computer equipment purchased in 2007 with a disposal value of \$1,450. On June 30, 2011, Fireswirl Systems Inc office lease ended and the company has written off \$17,323 of its office furniture and equipment with a disposal value of \$7,080 offset by a cash proceed of \$1,800. In August, 2011, XCXD has sold computer equipments to one of its business partner at net book value of \$62,847.

Note 8 – Goodwill

	2011
Balance, January 1, 2008	\$ -
Acquisition of XCXD on October 1, 2009	306,926
Balance, December 31, 2009 and 2010	\$ 306,926
Change in 2011	\$ -
Balance, December 31, 2011	\$ 306,926

The Company tests goodwill annually for impairment, or more frequently if certain indicators arise that indicate they are impaired. The recoverable amount in most cases is estimated based on the value in use determined as the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset. The estimation process is

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complex and different assumptions may result in material differences. In particular, if different estimates of the projected future cash flows or different selection of an appropriate discount rate were made, these changes could materially alter the present value of the cash flows and as a consequence materially different amounts could be reported in the financial statements.

In 2011, the Company performed an impairment test, based on value in use, of its goodwill. The Company concluded that no impairment existed in the goodwill associated with the CGU.

The value in use has been estimated using the forecast prepared by management for the next four years. The key assumptions for the estimate are those regarding revenue growth, gross margin and the level of working capital required to support the business. These estimates are based on past experience and management's expectations of future changes in the market. The discount rate is based on the Company's pretax weighted average cost of capital of approximately 7.86% to reflect a market participant's view of the CGU.

Note 9 – Net Income attributable to non-controlling Interest (NCI)

Balance – September 30, 2009	\$ -
Acquisitions on October 1, 2009 (Note 11)	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 - 2010	11,564
Balance – December 31, 2010	\$ 514,056
Net loss attributable to non-controlling interest - 2011	(122,956)
Balance – December 31, 2011	\$ 391,100

The Company's foreign subsidiary XCXD realized net loss of \$245,912 for the year ended December 31, 2011 (same periods in 2010 –net income of \$23,128). Based on the Company's ownership of 50%, the remaining 50% of non controlling interest of net loss \$122,956 (2010: net gain \$11,564) for year ended December 31, 2011 was added back to (2010 deducted from) the net income.

Note 10 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2011 consisted of accounts payable and accrued expenses, wages and vacation payable, payroll remittances and customer deposits.

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued expenses	\$ 845,096	\$ 638,500	\$ 787,069
Wages and vacation payable	86,565	7,166	33,400
Payroll remittances	303	1,453	752
Sales Tax Payable	5,767	3,351	-
Customer deposits		5,137	17,012
Total accounts payable and accrued liabilities	\$ 937,731	\$ 655,607	\$ 838,233

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Note 11 - Short Term Loan

Continuity		2011		2010
Balance, January 1	\$	3,300,937	\$	1,199,756
Foreign exchange	\$	234,063		
Short term loans received		3,280,114		2,683,656
Repayment of principals		(2,262,400)		(582,475)
Balance, December 31	\$	4,552,714	\$	3,300,937

Outstanding balance at:		2011		2010
a) Short term loan received on May 27, 2009	\$	1,320,714	\$	1,188,337
b) Short term loan received on September 16, 2010		-		603,600
c) Short term loan received on October 9, 2010		-		1,509,000
d) Short term loan received on February 18, 2011		1,616,000		
e) Short term loan received on November 17, 2011		1,616,000		
	\$	4,552,714	\$	3,300,937

As at December 31, 2011, the Company had total short term loans outstanding of RMB28,172,735 (equivalent to \$4,552,714). As of December 31, 2010, the Company had total short term loans of RMB 21,875,000 (equivalent to \$3,300,937). The outstanding short term loans were comprised of the following facilities:

a) On May 27, 2009, RMB 5,000,000 (equivalent to \$770,000 as of December 31, 2009) was received from Standard Chartered Bank. The loan bears variable interest at prime plus 1.25% per annum. This loan is revolving every six months. During the year ended December 31, 2010, the Company made a repayment of RMB1,000,000 (equivalent to \$152,219) in June 2010. On September 22, 2010, the agreement has been renewed to September 21, 2015 and extended the loan limit to RMB10,000,000 (equivalent to \$1,539,000 as of December 31, 2010) with 90 day revolving credit and it bears variable interest rate at prime plus 1.25% per annum. The outstanding loan balance is RMB 8,172,735 (equivalent to \$1,320,714) as of December 31, 2011 (December 31, 2010 – RMB 7,875,000 equivalent to \$ 1,188,338).

b) On September 16, 2010, RMB 4,000,000 (equivalent to \$615,600 as of December 31, 2010) was received from Bank of Beijing. The loan has a term of one year and bears variable interest at prime rate times 1.3 per annum. Quarterly interest payment applies and the principal amount is due at the end of the loan period on September 16, 2011. As of December 31, 2011, this loan has been fully repaid.

c) On October 9, 2010, RMB10,000,000 (equivalent to \$1,509,000 as of December 31, 2010) was received from Bank of Communications. The loan has a term of one year and bears variable interest at prime rate times 1.2 per annum. Monthly interest payment applies and the principal amount is due on October 8, 2011. As of December 31, 2011, this loan has been fully repaid.

d) On February 18, 2011, RMB10,000,000 (equivalent to \$1,616,000 as of December 31, 2011) was received from the China Construction Bank. The loan has a term of one year and bears fixed interest at 6.06% per annum. Monthly interest payment applies and the principal amount is due on February 17, 2012. As of December 31, 2011, the outstanding loan balance is RMB10,000,000 (equivalent to \$1,628,000 as of December 31, 2011).

e) On November 17, 2011, RMB10,000,000 was received from the Bank of Communications. The loan has a term of one year and bears fixed interest at prime rate times 1.3 per annum. Quarterly interest payment applies and the principal amount of RMB1M is due on November 1, 2012 and the remaining principal amount of RMB9M is due on November 16, 2012. As of

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December 31, 2011, the outstanding loan balance is RMB10,000,000 (equivalent to \$1,616,000 as of December 31, 2011).

The prime rate for short term loans in China was 5.31% in 2009. In 2010, the People's Bank of China announced an increase of 0.25% in its benchmark interest rate twice, on October 20, 2010 and December 26, 2010, which resulted in a prime rate of 5.81%. The benchmark interest rate has been raised three times, each time at 0.25%, on February 8, 2011, April 6, 2011 and July 6, 2011. As of December 31, 2011, the benchmark interest rate is at 6.56%.

During the year ended December 31, 2011, the Company recorded total interest expense on short term loan of \$318,487 (same period in 2010 - \$115,366) offset by a government subsidy received in May \$22,350 (RMB150,000) and December, 2011 \$64,480 (RMB400,000) for interest expensed in 2010.

Note 12 - Long Term Loan

As at December 31, 2011, the Company had the following long-term loan outstanding:

RMB 800,000 (equivalent to \$129,280 as of December 31, 2011) 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 \$4,600 per month starting from May 27, 2009 to April 27, 2012. The carrying value of the loan is approximately RMB115,465 (equivalent to \$18,659) as of December 31, 2011 (December 31, 2010 – RMB 417,455 equivalent to \$62,994). This amount is due within one year and classified as a current liability as of December 31, 2011 (December 31, 2010 – RMB 301,990 equivalent to \$45,570). There is no remaining loan balance to record as long term loan as of December 31, 2011 (December 31, 2010 – RMB115,465 equivalent to \$17,424).

During the year ended December 31, 2011, \$9,060 (same periods in 2010 - \$17,711) of interest paid on the long-term loan was recognized in expenses.

Note 13 - Share Capital

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

	Number of Shares	Share Capital	Reserves	
			Warrants	Options
Balance, December 31, 2008	25,302,612	\$ 5,186,310	\$ 2,606,979	\$ 689,803
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
Balance, December 31, 2009	31,361,285	\$ 5,610,417	\$ 2,606,979	\$ 724,419
Fair value of options granted on November 10, 2009				7,055
Shares issued by private placement on June 17, 2010	7,000,000	350,000		
-Issuance cost		(5,152)		
Balance, December 31, 2010	38,361,285	\$ 5,955,265	\$ 2,606,979	\$ 731,474
Shares issued by private placement on April 28, 2011	6,100,000	650,953	145,102	
-Issuance cost		(22,871)		
Fair value of options granted on August 29, 2011				34,229
Fair value of options granted on December 7, 2011				68,906
Options exercised	180,000	23,200		(7,200)
Options expired		88,460		(88,460)
Balance, December 31, 2011	44,641,285	\$ 6,695,007	\$ 2,752,081	\$ 738,948

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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 for total gross proceeds of \$350,000. 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 legal fees of \$5,152 as share issuance costs.

On April 28, 2011, the Company completed another private placement for 6,100,000 common shares at a price of \$0.13 per share for total gross proceeds of \$793,000. Each Unit consisted of one common share (a "Share") and one-half of a share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of \$0.19 for a period of one year from the date of issue. 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 legal fees of \$7,041 and a cash commission \$12,740, equal to 7% of the gross proceeds derived from the sale of units placed by each of Mackie Research Capital Corporation ("Mackie") and Raymond James Ltd. In addition, the Company issued to Mackie the number of compensation warrants representing 5% of the number of units placed by Mackie. These are all under share issuance costs.

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.

	2011		2010	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding, beginning of year	1,590,000	0.26	1,590,000	0.26
Issued	1,400,000	0.15		
Exercised	(180,000)	0.09		
Expired	(531,000)	0.33	-	-
Outstanding, December 31	2,279,000	0.19	1,590,000	0.26
Exercisable, December 31	1,579,000	0.21	1,590,000	0.25

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.

On August 29, 2011, the Company granted 400,000 new options at an exercise price of \$0.15 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 \$0.13.

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On December 7, 2011, the Company granted 1,000,000 new options at an exercise price of \$0.15 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 \$0.13.

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

There were 1,400,000 options being granted, 531,000 options expired and 180,000 options were being exercised at the average share price of \$0.22 during the year ended December 31, 2011.

Exercise Price (\$)	Options Outstanding		Options Exercisable	
	Number of options	Weighted average remaining life (Years)	Number of options	Weighted average remaining life (Years)
0.05	180,000	2.86	180,000	2.86
0.15	1,400,000	4.86	700,000	4.86
0.30	699,000	1.37	699,000	1.37
	2,279,000	3.63	1,579,000	3.09

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% - 150%
Expected life	1 year to 5 years

Warrants

	2011		2010	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding, beginning of year	-	-	-	-
Issued	3,100,000	0.19	-	-
Outstanding, December 31	3,100,000	0.19	-	0.00
Exercisable, December 31	3,100,000	0.19	-	0.00

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Exercise Price (\$)	Warrants Outstanding		Warrants Exercisable	
	Number of warrants	Weighted average remaining life (Years)	Number of warrants	Weighted average remaining life (Years)
0.19	3,100,000	0.33	3,100,000	0.33
	3,100,000	0.33	3,100,000	0.33

Pursuant to the term of the private placement took place on April 28, 2011, the Company issued 3,100,000 share purchase warrants with an exercise price of \$0.19 exercisable for a period of one year from the date of issue. Within the warrants issued, 50,000 warrants were issued to Mackie Research as part of the finder's fee.

Note 14 – Income Taxes

The components of the Company's net income tax expense which has been recorded in the consolidated financial statements are as follows:

	2011	2010
Income (loss) before income taxes	\$ (1,302,733)	\$ (827,982)
Canadian statutory income tax rate	26.5%	28.5%
Computed "expected" income tax expense	(345,224)	(235,975)
Differences resulting from:		
Impact of lower statutory rates on foreign subsidiaries	37,394	42,558
Permanent differences	16,384	26,454
Deferred tax assets not previously recognized	304,951	261,394
Provision for (recovery of) income taxes	\$ 13,504	\$ 94,430

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-capital loss carryforwards (Canada)	\$ 1,187,372	\$ 1,069,269	\$ 925,656
Non-capital loss carryforwards (China)	226,398	142,602	21,989
Unamortized share issuance costs (Canada)	5,347	1,030	13,200
Tax value of intangible assets in excess of book value (Canada)	283,525	283,525	292,872
Tax value of intangible assets in excess of book value (China)	127,260	127,260	127,260
Tax value of capital assets in excess of book value (Canada)	30,381	38,384	21,337
Other (China)	106,739	-	-
Total gross deferred tax assets	1,967,022	1,662,070	1,402,314
Deferred tax assets not recognized	(1,967,022)	(1,662,070)	(1,402,314)

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Net deferred tax assets	\$	\$	\$	-
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As at December 31, 2011, the Company has non-capital loss carry forwards for income tax purposes of approximately \$5,873,854 (2010 - \$4,951,719) available to reduce taxable income of future years. These losses expire as follows:

2014	\$	1,400
2015		47,933
2026		897,677
2027		803,560
2028		1,543,463
2029		482,193
2030		720,099
2031		649,357
Indefinite		728,173
Total	\$	5,873,854

The combined non-capital losses from the Company's Hong Kong subsidiaries, Fireswirl Mobile Solutions Ltd. And Fireswirl Asia Ltd. Available for carryforward was \$728,173, that can be carried forward indefinitely.

Note 15 - Related Party Transactions

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

	For the year ended			
	December 31, 2011		December 31, 2010	
Short-term employee benefits				
- Salaries and severance	\$	184,668	\$	269,417
- Professional fees		67,500		62,500
- Director fees		12,400		8,800
	\$	264,568	\$	340,717
Share-based payments		22,249		6,022
	\$	286,817	\$	346,739

Short-term employee benefits correspond to the amounts paid during the year and share-based payments correspond to the amounts recorded as expenses. During the year ended December 31, 2011, the Company paid \$184,668 (same period in 2010: \$269,417) in salaries to its management. Also, the Company paid \$67,500 (same period in 2010: \$62,500) in professional fees to one of its officers and paid \$12,400 (same period in 2010: \$8,800) as director fees.

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	\$ 24,205	\$ 17,180	\$ 33,206
Due to Shareholders of Fireswirl Technologies Inc.	282,954	73,924	-
Due to Shareholders of XCXD	714,591	313,485	517,445
	\$ 1,021,750	\$ 404,589	\$ 550,651

As of December 31, 2011, the accounts payable balance included \$24,205 (December 31, 2010: \$17,180) incurred from regular operational expenses outstanding to officers of the company. As of December 31, 2011, the Company also had \$282,954 (December 31, 2010: \$73,924) due to a shareholder of Fireswirl Technologies Inc. and \$714,591 (December 31, 2010: \$313,485) due to a shareholder of XCXD.

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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 16 - Segmented Information

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

	For the year ended	
	December 31, 2011	December 31, 2010
China	\$ 19,937,805	\$ 20,116,732
United Kingdom	31,739	112,563
USA	68,733	47,787
	\$ 20,038,277	\$ 20,277,082

No customer accounted for greater than 10% of the Company's sale during the year ended December 31, 2011 and December 31, 2010.

The Company's long-term assets are located in Canada and China at December 31, 2011 as follows:

	China	Canada	Total
Capital Assets	\$ 303,832	\$ 4,479	\$ 308,311
Goodwill	306,926		306,926
Trademark	19,176		19,176
Total	\$ 629,934	\$ 4,479	\$ 634,413

Company's long-term assets are located in Canada and China at December 31, 2010 as follows:

	China	Canada	Total
Capital Assets	\$ 281,792	\$ 9,960	\$ 291,752
Goodwill	306,926		306,926
Trademark	19,176		19,176
Total	\$ 607,894	\$ 9,960	\$ 617,854

Note 17 - 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 December 31, 2011. As at December 31, 2011, there is one individual balances over 10% of the total AR Balance which accounted for \$717,688 (equivalent to RMB4,441,140) while as at December 31, 2010, \$1,165,746 (RMB7,725,287) due from three individual customer balance over 10% of the total AR Balance was included in the balance of accounts receivable.

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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.

	December 31, 2011	December 31, 2010	January 1, 2010
US dollars:			
- Cash and cash equivalents	\$339 (US\$333)	\$64(US\$64)	\$17,230(US\$16,447)
- Accounts receivable	\$16,517 (US\$16,269)		\$13,071(US\$12,477)
Hong Kong Dollars			
- Cash and cash equivalents	\$1,736 (HK\$13,266)	\$5,726(HK\$44,657)	\$13,573(HK\$100,540)
- Accounts receivable	\$2,618 (HK\$20,000)		
China Yuan Renminbi			
- Cash and cash equivalents	\$68,441 (¥ 423,521)	\$776,670(¥ 5,146,918)	\$901,755(¥ 5,855,550)
- Restricted cash	\$1,696,800 (¥ 10,500,000)	\$362,160(¥ 2,400,000)	\$308,000(¥ 2,000,000)
United Kingdom Pounds			
- Accounts receivable	\$3,950 (£2,500)		

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 December 31, 2011, are summarized in Canadian dollar equivalents in the following table. The local currency amounts have been converted to Canadian dollar equivalents using the year end exchange rates.

	Chinese RMB in CAD	US dollar in CAD	HK dollar in CAD
Cash	\$ 68,441	\$ 339	\$ 1,736
Restricted cash	1,696,800	-	-
Accounts Receivable	1,117,527	16,517	2,618
Other financial assets	1,639,014	-	56,357
Accounts payable and accrued liabilities	(776,402)	-	(89,056)
Other financial liabilities	(4,571,373)	-	-
Shareholder loans	(714,591)	-	(262,928)
Net financial assets	\$ (1,540,584)	\$ 16,856	\$ (291,273)

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 in CAD	US dollar in CAD	HK dollar in CAD
Net income	\$ (15,406)	\$ 169	\$ (2,913)
Comprehensive income	\$ (15,406)	\$ 169	\$ (2,913)

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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 company classifies the fair value of the financial instruments according to the following hierarchy based on the observable inputs used to value the instrument:

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, HST recoverable, deposits and prepayments, 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, short term loans and loans due to shareholders is approximately equal to their carrying values due to their short-term maturity.

The fair value of long-term loan approximates its amortized costs using the effective interest method.

The following table is a classification of fair value measurements recognized using a fair value hierarchy that reflects the significance of the inputs used in making the measurements as at December 31, 2011:

Assets	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 75,677	\$ -	\$ -	\$ 75,677
Restricted Cash	1,696,800	-	-	1,696,800
Total Financial Assets	\$ 1,772,477	\$ -	\$ -	\$ 1,772,477

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. Interest rate fluctuations on the current level of borrowings will have significant impact on company's financial position.

Interest risk sensitivity analysis

Management has completed a sensitivity analysis to estimate the impact on net loss for the period which a change in interest rates during the nine month period ended December 31, 2011 would have had.

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This sensitivity analysis includes the following assumption:

- Changes in foreign exchange rate do not cause a change in interest rates.

The impact on net loss of a +/- 5% change in the interest rate is +/- \$5,998 (same period 2010 - +/- \$6,484).

The above results arise primarily as a result of the Company bearing variable interest rates based on the prime rate for the short term loans and long term loan.

Limitations of sensitivity analysis

The analysis above demonstrates the effect of a change in interest rates in isolation. There is a correlation between a change in interest rates and foreign exchange rate, which if considered could cause the results above to vary.

Additionally, the Company's financial position may vary at the time that a change in either of interest risk or foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

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.

As at December 31, 2011, the Company has accounts payable and accrued liabilities of \$937,731 due within 12 months (December 31, 2010 - \$655,607). As at December 31, 2011 the Company has short term loans of \$4,552,714 (December 31, 2010 - \$3,300,937), see note 11. As at December 31, 2011, the Company is holding cash and cash equivalents of \$75,677 (December 31, 2010 -\$783,699).

The Company reported a comprehensive loss attributable to common shares of \$911,555 for the year ended December 31, 2011 compared to a comprehensive loss attributable to common shares of \$891,698 for the same period of 2010, representing an increase in loss of 2.2%.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. To the extent the Company is unable to cover its ongoing cash requirements through operations; the Company expects to raise additional equity financing to cover any shortfall. There can be no assurance that such financing and profitability will occur in the amounts and with terms expected. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying value and classification of assets and liabilities should the Company be unable to continue as a going concern.

In the event that cash flow from operations, if any, together with the proceeds of any future financings, are insufficient to meet the Company's current operating expenses, the Company will be required to re-evaluate its planned expenditures and allocate its total resources in such a manner as the Board of Directors and management deems to be in the Company's best interest. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, access to financing, and improving financial performance, management assesses the Company's overall liquidity risk to be low.

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Note 18 - Commitments and Contingencies

- (a) The Company's lease obligations with its previous premises under an arrangement expired on June 30, 2011. The Company has signed a new short term lease on July 15, 2011 which will expire on April 29, 2012. The future minimum payment under the operating lease is \$11,628.
- (b) A foreign subsidiary Fireswirl Technologies (Shenzhen) Company Ltd. has a lease obligation of \$1,773 (RMB10,969) per month until the lease expires on September 12, 2012.
- (c) A foreign subsidiary XCXD has a lease obligation of \$11,016 (RMB68,166) per month until the lease expires on December 1, 2013.
- (d) A foreign subsidiary XCXD has signed a one year lease for a warehouse in Beijing (prepaid rent of \$81,400, equivalent to RMB500,000 as at December 31, 2011) on July 12, 2011 with a 61 days rent free period and the lease will expire on September 13, 2012.

Note 19 - 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:

	December 31, 2011	December 31, 2010	January 1, 2010
Shareholder Equity	\$ 1,248,785	\$ 1,268,021	\$ 1,807,816

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.

Note 20 – Supplemental Disclosure with Respect to Cash Flows

	December 31, 2011	December 31, 2010
Cash paid during the year for interest	\$327,547	\$115,366
Cash paid during the year for income taxes	\$13,467	\$94,430

During the year ended December 31, 2011, Income taxes of \$13,504 were incurred from XCXD's operations in China (same period in 2010 - \$94,430).

There were no significant non-cash transactions during the year ended December 31, 2011 and 2010.

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Note 21 - Subsequent Event

The company has an option to purchase the remaining 50% rights and interests of XCXD during 2011 expiring on December 31, 2011. As of this date, the company chose not to exercise the option.

Note 22 – Comparative Figures

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

Note 23 – Transition to IFRS

IFRS 1, First-time Adoption of International Financial Reporting Standards, sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities charged to retained earnings unless certain exemptions are applied. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The first date at which the Company has applied IFRS is January 1, 2010 (the "Transition Date"). IFRS 1 provides certain optional exemptions for the first time IFRS adopters.

(a) IFRS optional exemptions:

(i) Business combinations:

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. The Company has elected to apply the requirements of IFRS 3 prospectively from the Transition Date.

(ii) Borrowing costs:

IFRS 1 permits an entity to elect to use the prospective transitional provisions in IAS 23, Borrowing Costs, for prospective application, with an effective date being the later of January 1, 2009 or the IFRS transition date. The Company has elected prospective application as of the Transition Date. Management does not expect this election to have a material impact on the Company.

(iii) Share-based payments:

IFRS 2, Share-based Payments ("IFRS 2"), encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application to equity instruments granted after November 7, 2002, that has not vested by the Transition Date. The Company has elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

(iv) Currency Translation Differences:

In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the Transition Date. In the absence of this transitional provision, retrospective application of IFRS would require

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the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21"), from the date a subsidiary was formed or acquired.

- (v) Fair value or revaluation as deemed cost:
Under IFRS 1, an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at: (a) its fair value and fair value becomes deemed cost for subsequent amortization; or (b) a previous GAAP revaluation before the date of transition to IFRS as deemed cost. The Company has elected to use the Canadian GAAP carrying value as deemed cost on transition to IFRS.

- (b) IFRS mandatory exceptions

Estimates – In accordance with the requirements of IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised on transition to IFRS except where necessary to reflect any differences in accounting policies.

Reconciliation of Canadian GAAP to IFRS:
Restated financial statements:

As stated in note 2(a), these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's Transition Date).

In preparing the opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

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Reconciliation of consolidated statement of financial position and equity as of January 1, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		\$ 1,467,401	\$ -	\$ -	\$ 1,467,401
Restricted cash		308,000			308,000
Amounts receivable		1,044,408			1,044,408
GST/VAT recoverable		54,422			54,422
Deposits and prepayments		706,651			706,651
Inventory		1,047,472			1,047,472
Total Current Assets		4,628,354	-	-	4,628,354
Capital assets					
Trademark		193,307			193,307
Goodwill		18,964			18,964
		306,926			306,926
TOTAL ASSETS		\$ 5,147,552	\$ -	\$ -	\$ 5,147,552
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities		838,233			838,233
Taxes payable		179,653			179,653
Loan from shareholders		517,545			517,545
Short term loan		1,199,756			1,199,756
Current portion of long term loan		37,741			37,741
Total Current Liabilities		2,772,928	-	-	2,772,928
Long Term Loan		64,315			64,315
Non-controlling interest	e	502,492		(502,492)	0
TOTAL LIABILITIES		3,339,735	-	(502,492)	2,837,243
SHAREHOLDERS' EQUITY					
Common shares		5,610,417			5,610,417
Contributed surplus - warrants	c	2,606,979		(2,606,979)	0
Contributed surplus - options	c	724,419		(724,419)	0
Share-based payments reserve - warrants	c			2,606,979	2,606,979
Share-based payments reserve - options	c			724,419	724,419
Accumulated Other Comprehensive Income/(Loss)	a			0	0
Accumulated Deficit	a	(7,133,999)		0	(7,133,999)
Total equity attributable to equity holders of company		1,807,817	-	0	1,807,817
Non-controlling interest	e			502,492	502,492
TOTAL EQUITY		1,807,817	-	502,492	2,310,309
TOTAL LIABILITIES AND EQUITY		\$ 5,147,552	\$ -	\$ -	\$ 5,147,552

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Reconciliation of consolidated statement of financial position and equity as of December 31, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		\$ 783,699	\$ -	\$ -	\$ 783,699
Restricted cash		362,160			362,160
Amounts receivable		1,637,794			1,637,794
GST/VAT recoverable		31,334			31,334
Deposits and prepayments		624,086			624,086
Inventory		2,132,097			2,132,097
Total Current Assets		5,571,170	-	-	5,571,170
Capital assets					
Trademark		291,752			291,752
Goodwill		19,176			19,176
		306,926			306,926
TOTAL ASSETS		\$ 6,189,024	\$ -	\$ -	\$ 6,189,024
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities		655,607			655,607
Taxes payable		-			0
Loan from shareholders		387,409			387,409
Short term loan		3,300,937			3,300,937
Current portion of long term loan		45,570			45,570
Total Current Liabilities		4,389,523	-	-	4,389,523
Long Term Loan		17,424			17,424
Non-controlling interest	e	514,056		(514,056)	0
TOTAL LIABILITIES		4,921,003	-	(514,056)	4,406,947
SHAREHOLDERS' EQUITY					
Common shares		5,955,265			5,955,265
Contributed surplus - warrants	c	2,606,979		(2,606,979)	0
Contributed surplus - options	c	731,474		(731,474)	0
Share-based payments reserve - warrants	c			2,606,979	2,606,979
Share-based payments reserve - options	c			731,474	731,474
Accumulated Other Comprehensive Income/(Loss)	a		42,279	0	42,279
Accumulated Deficit	a	(8,025,697)	(42,279)		(8,067,976)
Total equity attributable to equity holders of company		1,268,021	-	0	1,268,021
Non-controlling interest	e			514,056	514,056
TOTAL EQUITY		1,268,021	-	514,056	1,782,077
TOTAL LIABILITIES AND EQUITY		\$ 6,189,024	\$ -	\$ -	\$ 6,189,024

FIRESWIRL TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2011 and 2010

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010

	Note	Canadian GAAP	Effects of Transition to IFRS Adjustments	Effects of Transition to IFRS Reclassifications	IFRS
Operating revenues					
Sales Revenue		19,545,105	-	-	19,545,105
Service Revenue		158,073	-	-	158,073
Advertising Revenue		573,904	-	-	573,904
		<u>20,277,082</u>	-	-	<u>20,277,082</u>
Other operating income		-	-	(410)	(410)
		<u>20,277,082</u>	-	<u>(410)</u>	<u>20,276,672</u>
Cost of good sold	b	18,075,276	-	(18,075,276)	-
Gross profit		<u>2,201,806</u>	-	<u>18,074,866</u>	<u>20,276,672</u>
Operating expenses					
Change in inventory	b	-	-	17,229,632	17,229,632
Delivery charges	b	-	-	395,322	395,322
Other related expense	b	-	-	450,322	450,322
Foreign exchange (gain) loss		-	-	86,497	86,497
Amortization		77,844	-	-	77,844
Sales and marketing		239,445	-	-	239,445
General administration		991,032	-	-	991,032
Salaries and benefits		1,518,222	-	-	1,518,222
Stock based compensation		7,054	-	-	7,054
Bad Debt Expense	b	-	-	1,492	1,492
Total Operating Expense		<u>2,833,597</u>	-	<u>18,163,266</u>	<u>20,996,862</u>
Other items:					
Interest (expenses)		(115,366)	-	115,366	-
Other incomes and (losses)		5,671	-	(5,671)	(0)
Foreign exchange gain (loss)	a	(44,218)	(42,279)	86,497	-
Finance income		-	-	7,574	7,574
Finance costs		-	-	(115,366)	(115,366)
Income/(Loss) before Income Tax		<u>(785,704)</u>	<u>(42,279)</u>	<u>0</u>	<u>(827,983)</u>
Income tax recovery (expenses)		(94,430)	-	-	(94,430)
Net income		<u>(880,134)</u>	<u>(42,279)</u>	<u>0</u>	<u>(922,413)</u>
Other comprehensive income					
Foreign exchange currency adjustment	a	-	42,279	-	42,279
Share of loss of equity investment		-	-	-	-
Comprehensive income		<u>(880,134)</u>	-	<u>0</u>	<u>(880,134)</u>
Net income attributable to:					
Common shares		(891,698)	(42,279)	0	(933,977)
Non-controlling interest		11,564	-	-	11,564
		<u>(880,134)</u>	<u>(42,279)</u>	<u>0</u>	<u>(922,413)</u>
Total Comprehensive Income Attributable to:					
Common shares		(891,698)	-	(0)	(891,698)
Non-controlling interest		11,564	-	-	11,564
		<u>(880,134)</u>	-	<u>(0)</u>	<u>(880,134)</u>

FIRESWIRL TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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Notes to reconciliations

The following narrative explains the significant differences between Canadian GAAP and IFRS policies adopted on transition by the Company:

(a) Foreign currency translation adjustment:

Opening currency translation adjustment ("CTA") balance:
Retrospective application of IFRS would require the Company to determine cumulative translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company has chosen to apply this exemption and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the Transition Date, January 1, 2010.

(b) Expenses by nature:

Previously, Canadian GAAP did not provide the same level of specificity of expense analysis. IFRS-IASB requires that expenses be presented using either a nature approach or a function approach; the Company has selected the nature approach.

(c) Reclassification of contributed surplus:

The company grants stock options to certain directors and certain employees of the Company as an element of compensation. In accordance with Canadian GAAP, the grant date fair value of such options is recognized as compensation expense over the related service period with a corresponding increase in contributed surplus.

In accordance with IFRS, contributed surplus does not arise as a result of the granting of stock options. Accordingly, contributed surplus related to stock options has been reclassified to "Share-based payments reserve" which is a separate component of equity. The reclassification of this balance had no impact on net equity as at transition to IFRS.

(d) Adjustments to statement of cash flows:

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

(e) Non-controlling interest:

Under IFRS, non-controlling interest in the consolidated balance sheet is classified as equity and is presented separately from equity attributable to equity holders of the Company.

(f) Share-based payment transactions:

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.