



# **Fireswirl**

## **Technologies Inc.**

**Management Discussion and Analysis of  
Financial Condition and Results of Operations**

**For the years ended December 31, 2013 and 2012**

**(Amended)**

**April 29, 2014**

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

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with Fireswirl Technologies Inc. ("Fireswirl" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Reference to 2013 or fiscal 2013 means the twelve months ended December 31, 2013. Likewise, reference to 2012 or fiscal 2012 refers to the twelve months ended December 31, 2012.

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

**Special Note Regarding Forward Looking Statements**

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

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

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

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

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

## OVERVIEW

Fireswirl Technologies Inc. (TSX Venture: FSW; "the Company") was founded in 1999 and operated as a software development and project management company specializing in payment platforms and online gaming software for the internet. In 2006, the Company became a publically listed company through a reverse takeover and a \$3.2 million equity financing accompanying its qualifying transaction.

In 2007, the Company has formed its first wholly owned subsidiary in China to explore the rapidly emerging market. The Company has since increased its business presence in the country gradually.

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

## CORPORATE SUMMARY

Fireswirl specializes in the branded online store outsourcing market in China. Fireswirl, together with its subsidiary XCXD is currently the operator of the branded official online store in combination with the Tmall Flagship Store for Toys "R" Us, Hugo Boss, Bowers and Wilkins, Casio, LEGO and many other international brands in China. In order to gain access to more international brand clients and leverage from its business network, the Company also signed a partnership agreement with eBay Enterprise (formerly GSI Commerce) to expand its footprint in China. eBay Enterprise is a world leader in e-commerce solutions, serving over 1,000 retailers and brands globally and is a wholly owned subsidiary of eBay Inc.

Fireswirl is continuing to execute on its long-term plan to becoming the largest e-commerce service platform in China for international brands, providing the technology and fulfillment know-how for these brands to break into the country's rapid growing e-commerce market.

China, being the predominant geographic location for Fireswirl, has over 1.3 billion people in population and is the fastest growing major economy in the world. To this end, the business opportunities in China are considered by management to be significant. The e-commerce market in China continues to expand at a rapid rate.

Fireswirl's core business is to operate the "official online store" in China of its international brand partners that it has contractual agreements with, thus it is not in direct competition with most other online retailers who do not represent any particular brand and sell products from a variety of brand names. The Company generates its revenues mainly from reselling branded products on the respective official branded online stores it operates. As the Company's business model evolves, it also generates revenue from sales-based service fee and other service fees for operating some of these official branded online stores without being the product reseller. Regardless of being a reseller or a service provider, management views this as a major competitive advantage over other online retailers in China. As China e-commerce is becoming a priority for many international brands, the partnerships between these brands and Fireswirl is an important part of the company's sustainable growth strategy.

Fireswirl also operates the Tmall Flagship Store for a number of international brands. Tmall is an online marketplace where many domestic and local brands sell their products under its own branded flagship store within the marketplace. Tmall is the most popular online shopping destination in china, and it is also the world's largest e-commerce operation in terms of transacted merchandise value. XCXD is an official Taobao Partner licensed to help international brands launch and operate their stores within Tmall.

For each new brand that launches a branded online store, it is typical for the new store to take anywhere between nine to twelve months to gain market acceptance before it shows meaningful growth in sales.

To that end, the branded stores launched before the end of last fiscal year have been contributing to the significant revenue growth in this fiscal year. Fireswirl believes that the new branded stores in the current pipeline shall support the mid to long-term growth of the Company.

To achieve profitability and high growth, the Company is focused in two directions:

- (I) Achieve economies-of-scale by increasing the number of brand partners it signs up to grow overall recurring revenues. All branded official online stores the Company operates are running on the same technology platform, and will leverage off the Company's existing resources including data infrastructure, warehouse management and administrative support structure. Economies of scale are achieved as the cost per transaction can be substantially reduced as high transaction volume is obtained.
- (II) Nurture key brands for rapid online sales growth to increase the company's long-term sales-based revenue. Many brand clients have experienced rapid e-commerce growth in North America and other markets, and it is to the mutual benefit for Fireswirl and these brands to repeat such success in China. The company believes key clients such as this will be successful in China as well and generate comparable revenue growth to their US online stores in the long term. Fireswirl strives to nurture the stores of these key brands to achieve significant revenue growth in the future.

## **SIGNIFICANT EVENTS FOR 2013**

### **Financial Events**

- Total revenue increased to \$45,702,635 for the year ended December 31, 2013 compared to \$27,551,357 for the year ended December 31, 2012, representing an increase of 65.9%. The increase was due to increase in both merchandise and service revenue, which in turn was due to the Company's new focus in technology development and workflow adjustment for the expansion into new product categories for tackling a bigger e-commerce market.
- Total expenses increased to \$46,031,407 for the year ended December 31, 2013 from \$27,803,202 for the year ended December 31, 2012, representing an increase of 65.6%. The increase was mainly due to the corresponding increase in purchases with increase in revenue and increase in Salaries and benefits.
- Salaries and benefits remained the Company's single largest expenditure, \$2,767,586 for the twelve months ended December 31, 2013 compared to \$1,859,094 for the same period of 2012, representing an increase of 48.9%. The increase in salary expenditure is due to increase in headcounts in our Beijing operation as the company is expanding into other consumer sectors.
- As of December 31, 2013, the Company had cash and cash equivalents of \$364,988 and restricted cash \$817,399 compared to \$594,921 and \$319,400 respectively at December 31, 2012, representing a decrease of 38.6% and an increase of 155.9% respectively. As of December 31, 2013, the Company had working capital of \$1,011,257 compared to \$752,558 at December 31, 2012, representing an increase of 34.4%.
- The Company reported a comprehensive loss attributable to common shares is \$441,824 for the year ended December 31, 2013 compared to a loss of \$851,963 for the same period of 2012, representing a decrease in loss of 48.14%.
- Fully diluted loss per share was \$0.01 for the year ended December 31, 2013 compared to fully diluted losses of \$0.02 for the same period of 2012.

### **Strategic Partner Highlights**

- GSI Commerce, a leading provider of omnichannel commerce and interactive solutions, and, Fireswirl jointly announce the extension of their partnership in China to include the VendorNet Commerce Suite.

**SELECTED ANNUAL FINANCIAL DATA**  
**Comparison of the years ended December 31, 2013, 2012 and 2011**

	2013	2012	2011
Total revenues	45,702,766	27,551,357	20,038,277
Loss before discontinued operations and extraordinary items	(533,368)	(657,400)	(1,302,733)
Income (loss) from discontinued operation or extraordinary items	-	-	-
Net loss before income tax	(533,368)	(657,400)	(1,302,733)
Income tax expense	(32,285)	(36,702)	(13,504)
Net loss before other comprehensive income	(565,653)	(694,102)	(1,316,237)
Other comprehensive income/(loss)	171,239	(187,829)	281,726
Comprehensive loss for the year	(394,414)	(881,931)	(1,034,511)
Non controlling interest (income)/loss	(47,410)	29,968	122,956
Comprehensive loss attributable to common shares	(441,824)	(851,964)	(911,555)
Basic/diluted net loss per share	(0.01)	(0.02)	(0.03)
Total assets	9,173,241	6,653,112	8,146,571
Total long-term financial liabilities	-	-	-
Cash dividends declared per share	-	-	-

## RESULTS OF OPERATIONS

For the years ended December 31, 2013 and 2012

### REVENUE

Revenues for the year ended December 31, 2013 increase to \$45,702,635 compared to \$27,551,357 for the prior year representing an increase of 65.9%. The increase was due to increase in both merchandise and service revenue.

The breakdown of the Company's revenues by category for the twelve months ended December 31, 2013 and 2012 are as follow:

	Twelve months ended	
	31-Dec-13	31-Dec-12
Merchandise resale and trading	\$ 41,331,875	\$ 25,558,045
Service and software fees	4,370,760	1,993,312
<b>Total Revenue</b>	<b>45,702,635</b>	<b>27,551,357</b>
Purchases	38,994,503	23,294,786
Technical service fee	2,253,768	538,876
Delivery charges	550,309	446,600
Other related expense	264,976	288,560
<b>Total Cost of Goods Sold</b>	<b>42,063,556</b>	<b>24,568,822</b>
<b>Gross profit</b>	<b>\$ 3,639,079</b>	<b>\$ 2,982,535</b>

In 2013, the Company recognized \$41,331,875 compares to \$25,558,045 in 2012, an increase of 61.7% from merchandise resale and trading in China. These sales incurred a cost of goods sold of \$42,063,556 in 2013 and \$24,568,822 in 2012 respectively, resulting in the gross profit margin of 8.0% in 2013 compare to 10.8% in 2012.

The Company recognised \$4,370,760 of revenue from service and maintenance fees in 2013 compared to \$1,993,312 in 2012, an increase of 119.3%. E-Commerce and software development consulting and system maintenance services were conducted for various clients from China and the US.

### OPERATING EXPENSES

Total operating expenses increased to \$46,031,406 for the year ended December 31, 2013 compared to \$27,803,202 for the same period of 2012, representing a increase of 65.6%.

#### Cost of Goods Sold

Previously, cost of goods sold was presented as a separate line item under GAAP which includes the cost of purchasing the merchandise, sales tax, delivery, technical service and advertising expenses related to the sales. As we have chosen to present expense using the nature approach under IFRS, cost of goods sold is presented as change in inventory, delivery charges and other related expenses under operating expenses according to their nature.

The overall cost of goods sold has increased to \$42,063,556 for the year ended December 31, 2013 compared to \$24,568,822 for the same period of 2012, representing an increase of 71.2%. The increase is mainly due to the increase in purchases to \$38,994,503 in 2013 compares to \$23,294,786 in 2012 (an increase of 67.4%) and technical service fees to \$2,253,768 in 2013 compares to \$538,876 in 2012 (an increase of 318.2%) due to increase in setup and ongoing fees for customer e-commerce platforms.

### Foreign Exchange gain or loss

The Company has a foreign exchange gain of \$6,072 for the year ended December 31, 2013 compared to \$4,466 for the same period of 2012. Throughout fiscal 2013 and 2012 the Company did not utilize hedges or forward contracts.

### Amortization

Amortization expenses increased to \$162,978 for the year ended December 31, 2013 from \$154,895 for the same period of 2012, representing an increase of 5.2%. During the year ended December 31, 2013, XCXD represented \$154,265 (same period in 2012: \$148,985) or 94.7% (same period in 2012: 94.2%) of the amortization expenses.

### Sales and Marketing

Sales and marketing expenses decreased to \$119,323 for the year ended December 31, 2013 compared to \$172,616 for the same period of 2012, representing a decrease of 30.9% due to decrease in travel expenses. During the year ended December 31, 2013 XCXD represented \$46,168 (same period in 2012: \$73,621) or 38.7% (same period in 2012: 42.7%) of the sales and marketing expenses.

### General and Administrative

General and Administrative expenses decreased to \$905,606 for the year ended December 31, 2013 from \$964,039 for the same period of 2012 (see detailed breakdown), representing a decrease of 6.1%. The decrease is mainly due to decrease in professional fees on investor relations and consultation of future possible company structure and part of the professional fees has been payout through payroll. During the year ended December 31, 2013 XCXD represented \$603,910 (same period in 2012: \$503,832) or 66.7% (same period in 2012: 52.7%) of the general and administrative expenses.

	2013	2012
Bank charges	\$ 121,733	\$ 101,399
Insurance	21,287	18,162
Office and miscellaneous expense	97,965	92,486
Professional fees	158,884	314,327
Listing and filing	15,167	14,180
Rent, utilities, and maintenance	455,138	391,601
Telephone	35,432	31,884
	<u>\$ 905,606</u>	<u>\$ 964,039</u>

### Salaries and Benefits

Salaries and benefits costs are the Company's single largest expenditure aside from the purchase of inventory. Salaries and benefits expenses increased to \$2,767,586 for the year ended December 31, 2013 from \$1,859,094 for the same period of 2012, representing an increase of 48.9%. The increase in salary expenditure is due to an increase in salary and headcounts for diversifying into other consumer sectors other than cell phones. During the year ended December 31, 2013 XCXD represented \$2,112,675 (same period in 2012: \$1,351,684) or 76.3% (same period in 2012: 72.7%) of salaries and benefits.



## **Stock Based Compensation**

Stock based compensation expenses decreased to \$Nil for the year ended December 31, 2013 from \$76,885 for the same period of 2012. The decrease is due to ending of the amortization of expense for the options granted on August 29, 2011 and December 7, 2011 where the Company granted 400,000 and 1,000,000 stock options to its employees, officers and directors respectively, both at an exercise price of \$0.15. Granted options vested 50% immediately and 50% to be vested in one year. The options are exercisable over 5 years. The grant fair value of both options grant was \$0.13.

## **Loss on Disposal of Assets**

The Company has \$452 loss on disposal of asset for the year ended December 31, 2013 compared to the \$2,385 for the same period of 2012, a decrease of 81.1%.

## **Finance Income**

The Company recorded \$12,488 of interest income for the year ended December 31, 2013 (same period in 2012: \$10,807). This interest income is mainly earned by the XCXD RMB2M restricted cash held as deposit for the year ended December 31, 2013 and 2012.

## **Finance Expense**

The Company recorded \$217,215 of interest expense for the year ended December 31, 2013 (same period in 2012: \$416,362). This interest expense was incurred by the short term loans drawn down by XCXD for the year December 31, 2013 and 2012. For the year 2013, this amount has been offset by \$134,000 (RMB800,000), a government subsidy for business on interest expense, received in January and December, 2013.

## **Provision for Income Taxes**

The Company has not made any provisions for future tax benefits which arise from loss carry-forward and future deductions of deferred development costs. The valuation of tax assets is based on the amount of tax benefits available combined with the determination as to when the tax benefits will be realized and the tax rate in effect at that time.

The Company's foreign subsidiaries in China recognized the income tax expenses of \$32,285 in 2013 (\$36,702 in 2012).

## **Comprehensive Loss**

The Company reported net comprehensive loss attributable to the common shares is \$441,824 for the year ended December 31, 2013 compared to \$851,963 for the same period of 2012, representing a decrease in loss of 48.1%. This is due to the foreign exchange currency adjustment gain and government subsidy on interest expense.

Diluted loss per share was \$0.01 for the year ended December 31, 2013 compared to a diluted loss of \$0.02 in the same period of 2012.

## **Non Controlling Interest**

The Company's foreign subsidiary XCXD realized a net comprehensive loss of \$94,820 for the year ended December 31, 2013 compared to net comprehensive income of \$59,936 in 2012. Based on the Company's ownership of 50%, the remaining 50% of non controlling interest of \$47,410 (net comprehensive loss \$29,968 in 2012) was added to/deducted from the consolidated Comprehensive gain/(loss) before NCI.

## **CASH FLOW STATEMENT FOR THE YEAR**

### **Operating activities**

Cash flow used by operating activities was \$1,638,790 for the year ended December 31, 2013 compared to \$293,487 used for the year ended December 31, 2012, representing an increase of 458.4% in operating cash outflow. This is mainly due to increase in prepayments and deposits and inventory.

### **Investing activities**

Cash outflow by investing activities was \$60,131 for the year ended December 31, 2013 compared to \$81,298 for the year ended December 31, 2012, represented by a decrease of 26%. The Company's investing activities in 2013 and 2012 consisted of primarily the leasehold improvement of the Shanghai Office and purchase of capital assets by XCXD.

### **Financing activities**

Cash inflow by financing activities was \$1,488,652 for the year ended December 31, 2013 compared cash inflow of \$1,089,009 for the same period of 2012, representing an increase of 36.7%. During 2013, the company has increased its short term loan drawdown and restricted cash whereas in 2012 the Company focused on repaying short term loans and decrease in restricted cash. On August 27, 2013, the Company completed a private placement for 4,500,000 common shares at a price of \$0.13 per share for total gross proceeds of \$585,000. Each Unit consisted of one common share (a "Share"). All shares issued with respect to the private placement are subject to a hold period that expires four months and a day from the closing.

## SELECTED QUARTERLY FINANCIAL DATA

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

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
<b>Operating revenues</b>								
Sales Revenue	10,723,830	13,294,351	8,489,168	8,824,527	10,993,101	5,815,967	5,452,645	3,296,332
Service Revenue	1,217,548	1,323,288	1,068,656	761,267	820,464	603,806	377,533	191,509
	11,941,378	14,617,639	9,557,824	9,585,794	11,813,565	6,419,773	5,830,178	3,487,841
Other operating income			131					
<b>Total operating income</b>	<b>11,941,378</b>	<b>14,617,639</b>	<b>9,557,955</b>	<b>9,585,794</b>	<b>11,813,565</b>	<b>6,419,773</b>	<b>5,830,178</b>	<b>3,487,841</b>
<b>Operating expenses</b>								
Purchases	9,886,366	12,833,831	8,127,740	8,146,566	10,553,200	5,344,922	4,817,550	2,579,114
Delivery charges	146,754	146,037	136,827	120,691	101,598	90,557	90,073	164,372
Other related expense	968,897	581,594	492,168	476,084	349,119	188,402	162,001	127,915
Foreign exchange (gain)/loss	876	580	(5,387)	10,004	1,701	1,493	475	797
Amortization	43,459	41,413	39,177	38,929	36,254	38,149	40,333	40,159
Sales and marketing	40,187	13,537	26,375	39,225	37,658	53,582	47,637	33,740
General administration	266,594	240,700	184,965	213,347	274,501	227,696	247,592	214,250
Salaries and benefits	723,334	783,573	662,672	598,007	486,488	464,901	463,042	444,663
Share-based payment expense	-	-	-	-	11,807	20,324	22,377	22,377
Impairment	452	-	-	-	-	-	-	2,385
Bad Debt Expense	-	-	5,833	-	-	-	-	-
<b>Total Operating Expense</b>	<b>12,076,919</b>	<b>14,641,265</b>	<b>9,670,370</b>	<b>9,642,853</b>	<b>11,852,325</b>	<b>6,430,026</b>	<b>5,891,080</b>	<b>3,629,771</b>
<b>Operating Income/(Loss)</b>	<b>(135,541)</b>	<b>(23,626)</b>	<b>(112,415)</b>	<b>(57,059)</b>	<b>(38,760)</b>	<b>(10,253)</b>	<b>(60,902)</b>	<b>(141,931)</b>
Finance income	3,013	2,940	3,703	2,832	2,550	2,642	2,897	2,718
Finance costs	(19,794)	(106,768)	(73,494)	(17,158)	(87,627)	(129,851)	(113,582)	(85,301)
<b>Income/(loss) before income tax</b>	<b>(152,322)</b>	<b>(127,454)</b>	<b>(182,206)</b>	<b>(71,385)</b>	<b>(123,837)</b>	<b>(137,462)</b>	<b>(171,587)</b>	<b>(224,514)</b>
Income tax recovery (expenses)	(11,254)	(9,190)	(9,078)	(2,762)	(14,367)	(7,021)	(15,313)	-
<b>Net income/(loss)</b>	<b>(163,576)</b>	<b>(136,644)</b>	<b>(191,284)</b>	<b>(74,147)</b>	<b>(138,205)</b>	<b>(144,483)</b>	<b>(186,900)</b>	<b>(224,514)</b>
Other comprehensive income/(loss)								
Foreign exchange currency adjustment	89,099	(38,536)	81,146	39,530	36,437	(35,894)	9,047	(197,419)
<b>Comprehensive income/(loss)</b>	<b>(74,477)</b>	<b>(175,180)</b>	<b>(110,138)</b>	<b>(34,617)</b>	<b>(101,768)</b>	<b>(180,377)</b>	<b>(177,853)</b>	<b>(421,932)</b>
Net income/(loss) attribute to:								
Common shares	(128,964)	(155,258)	(222,590)	(75,378)	(146,395)	(157,965)	(218,273)	(227,764)
Non-controlling interest	(34,612)	18,614	31,306	1,231	8,191	13,482	31,373	3,250
	(163,576)	(136,644)	(191,284)	(74,147)	(138,205)	(144,483)	(186,900)	(224,514)
Comprehensive income/(loss) attributable to:								
Common shares	(56,194)	(186,464)	(156,667)	(42,498)	(116,180)	(191,228)	(206,979)	(337,576)
Non-controlling interest	(18,283)	11,284	46,529	7,881	14,412	10,851	29,125	(84,357)
	(74,477)	(175,180)	(110,138)	(34,617)	(101,768)	(180,377)	(177,853)	(421,932)
<b>Basic/Diluted income/(loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

## **QUARTERLY RESULTS**

### **Comparison of the three months ended December 31, 2013 and three months ended December 31, 2012**

#### **Revenue**

The Company reported gross operating revenues of \$11,941,378 for the three months ended December 31, 2013 compared to \$11,813,565 for the same period in 2012, representing an increase of 1.1%.

#### **Operating Expenses**

Total operating expenses increased to \$12,076,919 for the three months ended December 31, 2013 compared to \$11,852,325 for the same period of 2012, representing an increase of 1.9% due to increase in technical service expense and salaries and benefits.

#### **Foreign Exchange gain or loss**

The Company had a foreign exchange loss of \$876 for the three months ended December 31, 2013 compared to foreign exchange loss of \$1,701 for the same period of 2012. Throughout fiscal year 2013 and 2012, the Company did not utilize hedges or forward contracts.

#### **Depreciation and Amortization**

The Company reported depreciation and amortization expenses of \$43,459 for the three months ended December 31, 2013 compared to \$36,254 for the same period of 2012, representing an increase of 19.9% mainly due to increase in leasehold improvement.

#### **Sales and Marketing**

Sales and marketing expenses increased to \$40,187 for the three months ended December 31, 2013 compared to \$37,658 for the same period of 2012, representing an increase of 6.7%.

#### **General and Administrative**

General and administrative expenses decreased to \$266,594 for the three months ended December 31, 2013 compared to \$274,501 for the same period of 2012 representing a decrease of 2.9%.

#### **Salaries and Benefits**

Salaries and benefits expenses increased to \$723,334 for the three months ended December 31, 2013 compared to \$486,488 for the same period of 2012, representing an increase of 48.7%.

#### **Stock Based Compensation**

The Company has \$Nil of stock based compensation expense for the three months ended December 31, 2013 compared to \$11,807 for the same period of 2012. The decrease is due to amortization has finished for option granted on August 29 and December 7, 2011 where the Company granted 1,400,000 stock options at an exercise price of \$0.15 to its employees, officers and directors and vested in one year.

#### **Finance Income**

The Company recorded \$3,013 of interest income for the three month ended December 31, 2013 (same period in 2012: \$2,550). This interest income for the three month ended December 31, 2013 and 2012 is mainly earned by the XCXD \$351,400 (\$319,400 in 2012) restricted cash held as deposit.

## **Finance Expense**

The Company recorded \$19,794 of interest expense for the three month ended December 31, 2013 (same period in 2012: \$87,627). This interest expense was incurred by the short term loans drawn down by XCXD for the year ended December 31, 2013 and 2012. The 2013 amount has been offset by \$61,285 (RMB350,000) by a government subsidy for business on interest expense received in December, 2013.

## **Provision for Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets from the benefit of losses available to be carried forward to future years for tax purposes are recognized only if it is more likely than not that they can be realized.

The Company's foreign subsidiaries in China has recognized \$11,254 (RMB64,273) income tax expenses for the three month ended December 31, 2013 and \$14,367 (RMB90,475) for the same period in 2012.

## **Non Controlling Interest**

The Company's foreign subsidiary realized net comprehensive gain of \$36,566 during the three month ended December 31, 2013 while for the same period in 2012, the subsidiary realized net comprehensive loss of \$28,824. Based on the Company's ownership of 50%, the remaining 50% of non controlling interest of \$18,283 net gain (net comprehensive loss \$14,412 in 2012) was deducted from (added to) the consolidated Comprehensive loss before NCI.

## **Comprehensive Loss**

The Company reported a comprehensive loss attributable to common shares of \$56,194 for the three month ended December 31, 2013 compared to net comprehensive loss of \$116,180 for the same period of 2012, representing a decrease in loss of 51.6%. This is mainly due to an increase in foreign exchange currency adjustment and government subsidy on finance cost.

Basic/diluted loss per share was \$0.00 for the three month ended December 31, 2013 compared to a basic/diluted loss of \$0.00 in the same period of 2012.

## **CASH FLOW STATEMENT DURING Q4**

### **Operating Activities**

Cash outflow by operating activities was \$592,502 for the three months ended December 31, 2013 compared to cash inflow by operation of \$297,741 for the same period of 2012, representing an increase of 299% of cash outflow mainly due to repaying shareholder loan and increase in accounts receivables and inventory.

### **Investing activities**

Cash outflow from investing activities was \$9,742 for the three months ended December 31, 2013 compared to cash outflow from investing activities \$38,364 for the same period of 2012. The company's investing activities in the fourth quarter of 2012 consisted mainly of acquiring of Windows software in XCXD.

### **Financing Activities**

Cash inflow from financing activities was \$462,299 for the three months ended December 31, 2013 compared to cash outflow by financing activities was \$1,591,296 for the same period of 2012. The company's financing activities in the fourth quarter of 2013 was draw down of short term loan and for the same period in 2012 consisted mainly payoff one of the short term loans drawn down in 2011.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company has \$nil of long term debt, \$5,610,160 in short term loan, \$364,988 in cash and short term investments and working capital (defined as current assets less current liabilities) of \$1,011,257. Recent dramatic change in the global economic environment has resulted in increased uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments are summarized in “Contractual Obligations” section of this MD&A. To the extent the Company is unable to cover its ongoing cash requirements through operation, 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 condensed consolidated interim 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.

The Company does not have commitments for capital expenditures as of December 31, 2013. The Company’s capital resources consist of common share issuances.

### Contractual Obligations

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

2014	\$474,348
2015	\$394,643
2016	\$347,081
2017	\$288,147
2018	\$269,992
2019	\$ 55,638

### Related Party Transactions

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. During the year, the Company paid \$253,154 in salaries to its management. The Company has paid \$16,000 as director fees. As of December 31, 2013, the accounts payable balance includes \$53,519 that is incurred from regular operational expenses outstanding to officers of the company and the Company also had a balance of \$688,002 due to shareholders of Fireswirl Technologies Inc. and \$32,697 due to a shareholder of XCXD.

## CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Company has adopted the following new and revised standards, along with any consequential amendments:

### *IAS 1 Presentation of Financial Statements*

The amendments to IAS 1 introduced a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Company’s financial results.

### *IAS 16 Property, Plant and Equipment*

The amendment to IAS 16, clarified the classification of servicing equipment and spare parts. As a result, some items previously classified as property, plant and equipment have been reclassified as inventory

and vice versa. The adoption of this standard had no impact on the Company's financial statements because it has no servicing equipment and spare parts.

#### *IAS 32 Financial Instruments Presentations and IFRS 7 Financial Instruments: Disclosure*

The amendment to IAS 32 clarified the offsetting criteria for financial assets and liabilities. The related amendment to IFRS 7 introduced disclosure on financial assets that were offset in accordance with IAS 32 and master netting or similar arrangements. The revised IAS 32 had no impact on the Company's offsetting of financial assets and liabilities. The revised IFRS 7 had no impact on the Company's financial results.

#### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidation – Special Purpose Entities. IFRS 10 includes consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. The Company determined that it follows the principles for the presentation and preparation of consolidated financial statements as outlined in IFRS 10 and that it considers all relevant facts and circumstances when assessing control of a consolidated entity, details of which are outlined in note 2b in the consolidated financial statements. The application of IFRS 10 has no impact on the consolidated investments held by the Company.

#### *IFRS 11 Joint Arrangements*

IFRS 11 revised the classification and accounting of joint arrangements i.e. arrangements over which one or more parties have joint control. The adoption of this standard had no impact on the Company's financial statements because it has no interests in joint arrangements.

#### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 requires disclosures with respect to interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the adoption of IFRS 12 has resulted in additional disclosures in the Company's consolidated financial statements. Refer to note 9.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 improves consistency and reduces complexity of fair value measurements by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. In accordance with the transitional provisions, IFRS 13 has been applied prospectively from January 1, 2013. The adoption of IFRS 13 did not have an impact on the measurement of the Company's assets and liabilities.

### **Standards issued but not yet effective**

The Company has not yet applied the following new standards, interpretations or amendments to standards that have been issued as at December 31, 2013 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations and intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the financial statements to be material, unless otherwise stated.

#### *IFRS 2 Share-based payment*

The amendments to IFRS 2, issued in December 2013 clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

### *IFRS 3 Business combinations*

The amendments to IFRS 3, issued in December 2013, clarify the accounting for contingent consideration in a business combination. At each reporting period, an entity measures contingent consideration classified as an asset or a financial liability at fair value, with changes in fair value recognized in profit or loss. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014.

### *IFRS 7 Financial instruments: disclosures and IAS 32 Financial instruments: presentation*

Financial assets and financial liabilities may be offset, with the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and when there is either an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014.

### *IFRS 8 Operating segments*

The amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

### *IFRS 9 Financial instruments*

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires the classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" is now recognized in other comprehensive income instead of in profit or loss. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. The mandatory effective date of January 1, 2015 has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

### *IAS 16 Property, plant and equipment and IAS 38 Intangible assets*

The amendments to IAS 16 and IAS 38, issued in December 2013, clarify how an entity calculates the gross carrying amount and accumulated depreciation when a revaluation is performed. The amendments are effective for annual periods beginning on or after July 1, 2014.

### *IAS 24 Related party disclosures*

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

### *IAS 36 Impairment of assets*

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and



- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The amendments will only affect disclosure and are effective for annual periods beginning on or after January 1, 2014.

### **Critical accounting estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

#### *Critical estimates in applying accounting policies*

##### *Sales allowances and returns*

Sales allowances for customer promotions, discounts and returns are recorded as a reduction of revenue when the related revenue is recognized. Revenue from product sales is recognized upon passing of title to the customer, generally at the time of shipment. Revenue from product sales, less related sales allowances, is reflected as net sales in the consolidated income statements. The Company routinely commits to promotional sales allowance programs with customers. These allowances primarily relate to fixed programs, which the customer earns based on purchases of the Company's products during the year. Discounts and allowances are recorded as a reduction of related revenue at the time of sale. While many of the allowances are based on fixed amounts, certain of the allowances, such as the returns allowance, are based on market data, historical trends and information from customers, and are therefore subject to estimation.

For its allowance programs that are not fixed, such as returns, the Company estimates these amounts using a combination of historical experience and current market conditions. These estimates are reviewed periodically against actual results and any adjustments are recorded at that time as an increase or decrease to net sales. During 2013, there have been no material adjustments to the Company's estimates made in prior years.

##### *Allowance for doubtful accounts*

The Company's allowance for doubtful accounts is based on management's assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging, customer disputes and the collectability of specific customer accounts. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than the Company's historical experience, estimates of the recoverability of amounts due could be overstated, which could have an adverse impact on operating results. The allowance for doubtful accounts is also affected by the time at which uncollectible accounts receivable balances are actually written off.

Major customers' accounts are monitored on an ongoing basis; more in depth reviews are performed based on changes in customer's financial condition and/or the level of credit being extended. When a significant event occurs, such as a bankruptcy filing by a specific customer, and on a quarterly basis, the allowance is reviewed for adequacy and the balance or accrual rate is adjusted to reflect current risk prospects.

#### *Reserve for inventory obsolescence*

The Company's values inventory at the lower of cost or net realizable value. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its net realizable value. Failure to accurately predict and respond to consumer demand could result in the Company under producing popular items or overproducing less popular items. Furthermore, significant changes in demand for the Company's products would impact management's estimates in establishing its inventory provision.

Management estimates are monitored on a quarterly basis and a further adjustment to reduce inventory to its net realizable value is recorded, as an increase to cost of sales, when deemed necessary under the lower of cost or net realizable value.

#### *Depreciation*

The amounts recorded for depreciation are based on estimates including economic life of the asset and residual values of the asset at the end of its economic life. The actual lives of the assets and residual values are assessed annually taking into account factors such as technological innovation and maintenance programs.

#### *Share-based compensation*

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan whereby notional shares are granted to employees, board of directors and key consultants. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant.

#### *Critical judgments in applying accounting policies*

The following are the critical judgments that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

#### *Income taxes*

The Company is subject to income taxes in Canada and in China. Management has estimated the income tax provision and deferred tax balances in accordance with its interpretation of the various income tax laws and regulations, and has estimated the recoverability of deferred tax balances. It is possible, due to complexity inherent in estimating income taxes that the tax provision and deferred tax balances could change.

#### *Key assumptions used in discounted cash flow projections*

Key assumptions used in the calculation of impairment tests and valuation of goodwill are forecast growth rates for revenue, estimated margins, discount rates, and other assumptions.

### *Going concern*

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## **RISKS AND UNCERTAINTIES**

Important risks factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

- Foreign currency exchange risk
- Uncertainty as to the degree of new and continuing market acceptance of our products;
- Our products could contain defects that lead to costs, damage of reputation or litigation;
- Our dependence on brand partners' performance;
- Uncertainty regarding future profitability;
- Uncertainty regarding the pricing, reporting and collection of accounts;
- Risks associated with sales in foreign countries and their government policy and regulations therein
- Our ability to attract and retain key personnel.

### **Subsequent Events**

On January 6, 2014, the Company announced that it has closed its previously announced non-brokered private placement for 3,400,000 units (each, a "Unit") at a price of \$0.20 per Unit. Each Unit consisted of one common share (a "Share") and one-half of one non-transferable common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to purchase one Share at a price of \$0.25 for a period of one year from the date of issue. The Company raised aggregate gross proceeds of \$680,000 from the sale of the Units.

In connection with the Private Placement, the Company paid a 7% cash commission to certain finders, including Mackie Research Capital Corporation, Raymond James Ltd., and Canaccord Genuity Corp., based on the gross proceeds derived from the sale of Units to investors introduced by each finder. All securities issued with respect to the Private Placement are subject to a statutory four month hold period expiring on May 7, 2014.

The Company intends to use the net proceeds of the Private Placement for working capital and operating expenses.

### **Off Balance Sheet Arrangement**

As at December 31, 2013 the Company has not entered into any off balance sheet arrangements.

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

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

The Company evaluated the effectiveness and design of its disclosure controls and procedures for the period ended December 31, 2013 and based on this evaluation (which included testing of the key controls by examining evidence demonstrating their existence on a test basis) have determined these controls to be effective.

The Corporation's financial reporting procedures and practices have enabled the certification of Fireswirl Technologies Inc. annual filing in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

Given the size of the Company, the evaluation of the design of internal controls over financial reporting for the Company resulted in the identification of the following weaknesses:

Management is aware that due to its relatively small scale of operation there is a lack of segregation of duties to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation of duties are not significant enough to justify the expense associated with adding employees to segregate duties.

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

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

The Company has 50,071,285 common shares and 1,550,000 options outstanding and exercisable at December 31, 2013. If all of the Company's exercisable options were exercised, the Company would have 51,621,285 common shares outstanding.