



# Fireswirl

## Technologies Inc.

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

**For the three and six months ended June 30, 2018**

**August 28, 2018**

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

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Fireswirl Technologies Inc.'s ("Fireswirl" or the "Company") unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2018. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with International Standard 34 Interim Financial Reporting.*

*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 activities, performances, 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", "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 changes, 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 the 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 the 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 publicly listed company through a reverse takeover.

In the past, the Company was focusing on conducting e-commerce outsourcing and fulfillment solution business in China through Xingchang Xinda Technology Development Co., Ltd. (“XCXD”). Because of the recurring losses and the growing challenges relating to control of the strategic direction of XCXD and its continued operations, the Company decided to sell its shares of XCXD to the non-controlling interest shareholders of XCXD. The disposition was completed on May 31, 2017.

On February 3, 2017, the Company entered into a share purchase agreement, pursuant to which the Company agreed to purchase an aggregate of 60% equity interest in AMZON (HK) Limited (“AMZON”) for a total of HK\$7.2 million (approximately \$1.2 million) in three payment dates. The closing date was each of the first, second and third payment date. On March 16, 2017, the Company completed the first payment in the amount of HK\$4.8 million (approximately \$823,560) and acquired 40% of the equity interest in AMZON (the “First Payment Date”). On April 21, 2017, the Company completed the second payment in the amount of HK\$1.2 million (equivalent to \$208,438) and acquired additional 10% of the equity interest in AMZON (the “Second Payment Date”). On May 15, 2017, the Company completed the final payment in the amount of HK\$1.2 million (equivalent to \$210,175) and acquired the final 10% of the equity interest in AMZON. AMZON is a private company incorporated pursuant to the laws of Hong Kong Special Administrative Region of China and is in the business of providing multimedia and interactive marketing solutions, specializing in three dimensional visualizations, computer graphics and digital design.

## SECOND QUARTER HIGHLIGHTS

- For the three months ended June 30, 2018 (“Q2 2018”), total operating revenue was \$nil compared to \$121,338 for the same period in 2017 (“Q2 2017”).

Net loss for the period decreased \$496,488 to \$292,958 in Q2 2018 compared to \$789,446 for the same period in 2017.

- The Company had a total loss attributable to shareholders of the Company of \$266,735 in Q2 2018 compared to a net loss of \$631,808 for the same period in 2017. The decrease of loss is mainly because the reduction of general administrative expenses.

## 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.

	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating revenue	-	130,761	10,234	143,194	121,338	16,018	16,108	16,043
Net loss from continuing operations	(292,958)	(211,288)	(1,156,975)	(330,830)	(789,446)	(350,485)	(155,425)	(318,662)
Discontinued operations, net of tax	-	-	-	-	-	-	1,664,424	22,775
Net (loss) income for the period	(292,958)	(211,288)	(1,156,975)	(330,830)	(789,446)	(350,485)	1,508,999	(295,887)
Net loss from continuing operations attributable to:								
Shareholders of the Company	(266,735)	(208,941)	(1,242,371)	(292,179)	(631,808)	(328,137)	(155,425)	(318,662)
Net loss attribute to:								
Shareholders of the Company	(266,735)	(208,941)	(1,242,371)	(292,179)	(631,808)	(328,137)	(224,205)	(307,275)
Basic and diluted per share of								
Net loss from continuing operations	(0.01)	(0.00)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Net loss for the period	(0.01)	(0.00)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)

## RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

The Company's presentation currency is the Canadian dollar while the Company's operating expenses are predominately incurred in Canadian dollars, Chinese RMB and Hong Kong dollars. Therefore, the Company is subject to the risks of foreign exchange. The Company's operations are not impacted by seasonality considerations. The following table sets forth the selected consolidated financial information for the three and six months ended June 30, 2018 and 2017.

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Total revenues	-	121,338	130,761	137,356
<b>Net loss for the period</b>	<b>(292,958)</b>	<b>(789,446)</b>	<b>(504,246)</b>	<b>(1,139,931)</b>
<b>Net loss attributable to common shareholders of the Company</b>	<b>(266,735)</b>	<b>(631,808)</b>	<b>(475,676)</b>	<b>(959,945)</b>
Basic/diluted per share attributable to shareholders of the Company:				
- net loss for the period	(0.00)	(0.01)	(0.01)	(0.02)

### Consolidated Statements of Financial Position

	June 30 2018	December 2017
	\$	\$
Total assets	198,806	476,979
Total long-term liabilities	-	-

## **QUARTERLY RESULTS**

### **Revenue**

The Company reported total operating revenue of \$nil in Q2 2018 compared to \$121,338 for the same period in 2017. This decline in operating revenue was primarily attributed to the significant reduction in sales during Q2 2018 resulting from lowered demand from VR and AR applications market in Hong Kong.

### **Cost of sales**

Cost of sales is presented as delivery charges and technical service charges and other related expenses under operating expenses according to their nature. The cost of sale incurred was \$6,557 in Q2 2018 compared to \$58,155 for the same period in 2017.

### **Operating Expenses**

Total operating expenses decreased by \$413,674 to \$285,455 in Q2 2018 compared to \$699,129 for the same period in 2017.

Operating expenses consisted of general administration expenses, and sales and market expenses which are explained below.

#### **General Administration**

General administration expenses decreased by \$425,384 to \$255,453 in Q2 2018 compared to \$680,837 for the same period in 2017. The decrease was mainly due to the Company's reduction of operating expenses.

#### **Sales and Marketing**

Sales and marketing expenses increased by \$11,710 to \$30,002 in Q2 2018 compared to \$18,292 for the same period in 2017. This increase was a result of focusing on approaching new clients and developing sales in Hong Kong and mainland China.

### **Net Loss**

The Company reported a net loss of \$292,958 in Q2 2018 compared to a net loss of \$789,446 for the same period in 2017.

## **CASH FLOW STATEMENTS**

### **Operating Activities**

Cash used in operating activities was \$474,649 in Q2 2018 compared to \$624,885 for the same period in 2017.

### **Investing Activities**

Cash used in investing activities was \$3,246 in Q2 2018 compared to \$583,169 for the same period in 2017. The cash outflow in investing activities in Q2 2017 mainly consisted of (i) cash paid net of the cash acquired in connection with the acquisition of Amzon totaling \$998,134 and (ii) acquisition of property and equipment in the amount of \$1,585, offset with the cash received relating to the repayment of the Advances in connection with the disposition of XCXD of \$416,550.

## Financing Activities

Cash from financing activities was \$222,880 in Q2 2018 compared to \$217,156 for the same period in 2017. Cash from financing activities in Q2 2018 mainly consisted of \$300,000 proceeds resulting from the private placements completed in March 2018 offset with repayment of director loan of \$77,120

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2018, the Company had total debt of \$824,233. The Company had \$107,665 in cash and cash equivalents, and working capital (defined as current assets less current liabilities) deficiency of \$659,338. The recent dramatic decline in the global economic environment results in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments are summarized in the “Contractual Obligations” section of this MD&A. 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 within terms expected.

The Company does not have commitments for capital expenditures as of June 30, 2018. The Company’s capital resources consist of common share, contributed surplus, accumulated other comprehensive income and accumulated deficit.

## CONTRACTUAL OBLIGATIONS

The Company entered into a rental agreement for its office in China with future aggregate minimum lease payment of \$4,087 expiring October 2018.

## RELATED PARTY TRANSACTIONS

### a) Due to Related Parties

	March 31 2018	December 31 2017
Due to a director (i)	\$ -	\$ 77,120
Due to a director of AMZON (iii)	153,078	99,416
	153,078	176,536
Amounts due to directors included in accounts payable (ii)	119,723	160,314
Total	\$ 272,801	\$ 336,850

- (i) Amount due to a director as at June 30, 2018 was nil. As at December 31, 2017, amount due to a director of \$77,120 (RMB4,000,000) represented a director loan and the related accrued interest. The loan was unsecured and was paid in full in Q1 2018.
- (ii) Representing the amounts owing to the key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Company’s executive officers and certain members of its Board of Directors. Amounts mainly represent director fee, salary and reimbursements payable.
- (iii) Amount due to a director of AMZON is unsecured, non-interest bearing and has no specific repayment date.

b) Key Management Compensation:

Key management includes directors (executive and non-executive), chief executive officer and chief financial officer of the Company. The compensation paid or payable to key management personnel during the three and six months ended June 30, 2018 and 2017 is as follows:

	For the three months ended		For the three months ended	
	June 30		June 30	
	2018	2017	2018	2017
Salaries and fees				
- Salaries and consulting fees	\$ 75,000	\$ 96,875	\$ 150,000	\$ 291,875
- Director fees	4,000	7,333	8,000	45,333
	79,000	104,208	158,000	337,208
Share-based compensation	2,826	20,005	6,693	26,929
<b>Total</b>	<b>\$ 81,826</b>	<b>\$ 124,213</b>	<b>\$ 164,693</b>	<b>\$ 364,137</b>

Key management personnel were not paid post employment benefits or other long-term benefits in Q2 2018 and 2017.

## CHANGES IN ACCOUNTING POLICIES

a) Financial instrument

Effective January 1, 2018, the Company adopted IFRS 9 – Financial Instrument (“IFRS 9”) using the modified retrospective approach. IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities except for securities as described below. The standard did not have an impact on the carrying amounts of the Company’s financial instruments at the transition date.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The Company designated its equity securities as financial assets at fair value through other comprehensive income (“FVTOCI”), where they will be recorded initially at fair value. Subsequent changes in fair value will be recognized in other comprehensive income only and will not be transferred into earnings (loss) upon disposition. As a result of this change, the net change in fair value of the equity securities, including realized and unrealized gains and losses, if any, is now presented as an item that will not be reclassified subsequently to net earnings (loss) in the consolidated compressive income (loss). Realized gains and losses on securities derecognized prior to January 1, 2018 have not been restated in prior year comparatives.

b) Revenue recognition

Effective January 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 18 – Revenue (“IAS 18”). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Company adopted the standard on January 1, 2018 using the full retrospective approach without applying any practical expedients.

IFRS 15 requires entities to recognize revenue when ‘control’ of goods or services is transferred to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the ‘risks and rewards’ of the goods or services are transferred to the customer. The Company concluded there is

no change in the timing of revenue recognition relating to its service revenue under IFRS 15 compared to the previous standard. As such, no adjustment was required to the Company's financial statements

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

A number of new standards, amendments to standards and interpretations, are not yet effective for the three and six months ended June 30, 2018, and have not been applied in preparing these consolidated financial statements. The following pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that effect the financial statements.

#### a) IFRS 16, Leases (“IFRS 16”)

On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is still in the process of assessing the impact that these standards will have on its consolidated financial statements.

### **OFF BALANCE SHEET ARRANGEMENT**

As at June 30, 2018 and the date of this report the Company has not entered into any off balance sheet arrangements.

### **FINANCIAL INSTRUMENTS**

#### a) 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 other than quoted prices included in Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Prices or valuation techniques which 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 assets include (i) cash and cash equivalents and trade receivables which are classified as amortized cost and (ii) investment which is classified as FVTOCI. The Company's financial liabilities include accounts payable and accrued liabilities and due to related parties which are all classified as financial liabilities at amortized cost. The Company does not hold any financial instruments that are designated at FVTPL.



The fair values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities and due to related parties approximate their carrying values due to the short-term nature of these instruments. The fair value of the investment in EMP is measured based on review of the financial performance of EMP as at June 30, 2018 (level 3 in the fair value hierarchy). As at June 30, 2018, the Company did not have financial liabilities measured at fair value on a recurring basis.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalent, restricted cash, trade receivable and due from a related party.

The Company limits its exposure to credit risk on cash and cash equivalents and restricted cash by depositing only with reputable financial institutions. Credit risk is primarily associated with trade receivables as the Company grants credit to its customers in the normal course of business. Credit risk on trade receivables is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. All trade receivables have been reviewed for indicators of impairment and these consolidated financial statements take into account an allowance for bad debts. Maximum credit risk related to trade receivables amounted to \$16,801 at June 30, 2018 (December 31, 2017 - \$33,039).

Sales from two customers accounted for 94% of the Company's total sales for the six months ended June 30, 2018. There were no overdue trade receivables outstanding as at June 30, 2018 and collection is reasonably assured. As at June 30, 2018, there are two customers' receivable balance exceeding 10% of the total trade receivable balance representing 54% of the total trade receivable balance.

c) 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 is exposed to foreign exchange rate when the Company undertakes transactions and hold assets and liabilities in currencies other than its functional currencies. The Company currently does not use derivative instruments to hedge its exposure to those risks. As at June 30, 2018, the Company is subject to immaterial currency risk as it did not have material assets or liabilities held in currencies other than its functional currencies.

d) Interest risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at June 30, 2018, the Company did not expose significant interest risk.

e) 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.

As at June 30, 2018, the Company had total debt in the amount of \$824,233 due within 12 months and working capital deficiency of \$659,338.

## **OUTSTANDING SHARE CAPITAL**

As at the date of this report, the Company had 53,512,612 common shares, 2,300,000 stock options outstanding and exercisable. If all of the Company's exercisable options were exercised, the Company would have 55,812,612 common shares outstanding.

## **DISCLOSURE CONTROLS AND PROCEDURES**

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the three and six months ended June 30, 2018 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at [www.sedar.com](http://www.sedar.com).

## **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:

### *Execution of the Business Plan*

Although management of the Company has developed a business plan, there can be no assurance that the business plan will succeed in whole or in part. The Company continues to plan to undertake the expansion of its business by way of acquisitions. There can be no assurance that the Company will be able to complete the planned expansion within the expected timeframe or for the estimated costs set out in the Feasibility Study.

### *Future Capital Requirements*

The development of the business of the Company will require substantial additional financing. The Company's future capital requirements will depend upon many factors, including maintenance, plant and product expansion, and expansion of its sales and marketing efforts. Failure to obtain sufficient financing may result in delaying, scaling back, elimination, or indefinite postponement of future programs. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Lending may be obtained from Chinese banks, government organizations, major shareholders or other debt markets; however, there can be no assurance that such loans will be obtained. In addition, there can be no assurance that the Company's business will generate sufficient cash flow from operations in the future to make necessary capital expenditures, in which case the Company may seek additional financing.

### *Competition*

The Company expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and affecting business acquisitions directly or through affiliates. Competitors may introduce technological innovation in the Company's business, resulting in increased competitive pressures. Although the Company's projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of the Company. China can be a fiercely competitive market and any small price differentials between otherwise competitive goods and services can make an enormous difference to the consumer.

### *Foreign Operations*

Currently, the Company's operations are conducted in the PRC and it is anticipated that this will continue to be the case. As such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; government corruption; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in investment policies or shifts in political attitudes in China may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, land use, land claims of local people and water use. Any events resulting in an adverse impact on the Chinese economy will likely have an adverse effect on the Company's profitability and prospects. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's business, financial condition and results of operations.

### *Marketing and Distribution Expertise*

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers of the distinctive characteristics and benefits of The Company's products and services. The Company's long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. The Company will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Company will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

### *Protection of Intellectual Property Rights*

Intellectual property rights in China are still developing and there are uncertainties involved in intellectual property rights protection and the enforcement of such protection. The Company will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated by a damages award.

In addition, please refer to the financial instruments section for the analysis of the financial risks factor.