



BURNTSAND

ANNUAL REPORT 2006

Dear Fellow Shareholder

The admirable progress your company made in 2006 is thanks to the dedicated employees who stuck with the Burtsand business plan; the trusting clients who continued to work with Burtsand and to the world class partners who collaborated with us to our mutual benefit. Going forward, these three groups will be the cornerstones of our success in 2007.

In 2006, Burtsand grew revenues over 2005 by 14%, a faster rate than what the industry was experiencing. Although EBITDA and Net Loss still showed a loss, it showed an improvement of over \$1,000,000 from 2005.

Some of our significant achievements in 2006 were;

- Maintained a strong balance sheet with no bank debt.
- Service Revenue grew each quarter over the previous quarter, with a slight dip in Q4.
- We signed 55 contracts worth over \$100,000. Seven of these were valued over \$500,000 and 3 were valued over \$1,000,000.
- From a client retention perspective, 13 out of our top 15 clients have been doing business with us for more than 3 years – evidence of the great work our delivery team performs.
- Our top 10 clients represented 51% of revenue.
- Burtsand was selected as EMC Software Group's top worldwide *Select Services Partner* for 2006.
- We achieved our goal of being a Microsoft Gold Partner across North America.

This progress has continued into 2007. Already in early Q1/2007, we have announced four contracts worth between \$475,000 and \$960,000 for a total of \$2.7 million. As well, we entered the year with \$6.9 million in backlog – double the starting position of 2006.

Because we have continued to show progress, we designed our 2007 business plan on the principle of leveraging strategies at which we already excel. We are going to remain focused on the following;

- We will pursue clients in five key industries;
 - Energy;
 - Financial Services;
 - Government;
 - Health Sciences and
 - Life Sciences
- We will deliver solutions in four areas across all regions;
 - Enterprise Content Management
 - Enterprise Operations and Service Management
 - Collaboration
 - Customer Relationship Management
- We will commit to three partners to help us achieve this plan;
 - BMC/Remedy
 - EMC/Documentum
 - Microsoft

Overall, we anticipate another year of improved performance. Our strong backlog going into 2007 is a strong indicator that the plans and the directions are the right ones.

Finally, our vision remains for Burntsand to be the best place for

- an employee to reach their career aspirations
- a client to source IT-based business solutions
- a partner to invest in a go-to-market strategy
- a shareholder to realize growth from their investment

We feel very strongly that everything and everyone is in place for us to achieve our 2007 objectives. As always, we invite your comments and encourage you to follow the progress of your company on our website www.burntsand.com.



Tim Duffy
President and CEO



Jim Yeates
Chairman

MANAGEMENT REPORT

The accompanying consolidated financial statements of Burntsand Inc. and all information in the annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. The financial statements include some amounts that are based on best estimates and judgements. Financial information used in the annual report is consistent with that in the financial statements.

In support of its responsibility, management maintains a system of internal controls to provide reasonable assurance that financial records are reliable and provide a proper basis for the preparation of financial statements, and the assets are properly accounted for and safeguarded. The internal controls process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without the presence of management.

These financial statements have been examined by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants, and their report follows.



Tim Duffy
President and Chief Executive Officer
February 23, 2007



Blair Baxter
Chief Financial Officer

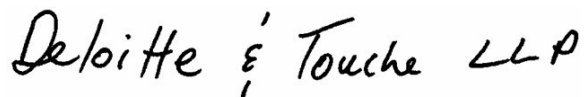
AUDITORS' REPORT

To the Shareholders of Burntsand Inc.

We have audited the consolidated balance sheets of Burntsand Inc. as at December 31, 2006 and 2005, and the consolidated statements of operations and deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario
February 23, 2007

BURNTSAND INC.
Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
CURRENT		
Cash	\$ 1,168,324	\$ 2,756,475
Short-term investments	2,734,121	1,761,578
Accounts receivable (Note 3)	4,272,488	3,285,774
Prepaid expenses	483,736	504,421
	8,658,669	8,308,248
Capital assets (Note 4)	1,585,936	1,356,662
Goodwill and other intangibles (Note 5)	169,898	169,548
	\$ 10,414,503	\$ 9,834,458
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,454,187	\$ 1,915,154
Deferred revenue	1,067,246	488,633
Accrued restructuring charge	-	311,006
Current portion of obligations under capital leases (Note 6)	121,871	6,233
	3,643,304	2,721,026
Long-term portion of deferred revenue	105,839	-
Long-term portion of obligations under capital leases (Note 6)	236,578	9,938
	3,985,721	2,730,964
SHAREHOLDERS' EQUITY		
Common shares (Note 7)	9,588,902	9,633,687
Contributed surplus (Note 8)	1,052,745	908,718
Deficit	(2,028,375)	(1,227,824)
Cumulative translation adjustment (Note 9)	(2,184,490)	(2,211,087)
	6,428,782	7,103,494
	\$ 10,414,503	\$ 9,834,458

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board



James R. Yeates
Chairman & Director



Terry M. Holland
Director

BURNTSAND INC.
Consolidated Statements of Operations and Deficit

	Year ended December 31,	
	2006	2005
REVENUE		
Services	\$ 20,325,832	\$ 17,737,484
License and maintenance	2,547,010	2,565,244
Other revenue	764,897	477,717
	23,637,739	20,780,445
COSTS		
Cost of services	13,534,334	12,175,928
Cost of license and maintenance	2,155,949	2,062,785
Cost of other revenue	713,542	446,162
	16,403,825	14,684,875
GROSS PROFIT	7,233,914	6,095,570
EXPENSES		
Sales and marketing	1,907,094	1,614,063
General and administrative	3,100,491	2,784,689
Other expenses	2,570,096	3,040,793
	7,577,681	7,439,545
Loss before amortization, interest and income taxes	(343,767)	(1,343,975)
Amortization of capital assets	(472,772)	(630,307)
Amortization of intangibles	-	(40,920)
Interest and investment income	104,302	84,832
Interest expense and financing costs	(88,314)	(1,171)
LOSS BEFORE INCOME TAXES	(800,551)	(1,931,541)
Income taxes (Note 11)	-	-
NET LOSS FOR THE YEAR	(800,551)	(1,931,541)
DEFICIT, BEGINNING OF YEAR	(1,227,824)	(107,552,025)
Revaluation of share purchase loans (Note 13)	-	(20,930)
Reduction of stated capital (Note 7)	-	108,276,672
DEFICIT, END OF YEAR	\$ (2,028,375)	\$ (1,227,824)
Loss, basic and diluted, per share	\$ (0.01)	\$ (0.03)
Weighted average number of common shares used to calculate per share amounts, basic and diluted	72,719,962	72,980,801

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (800,551)	\$ (1,931,541)
Items not affecting cash:		
Amortization of capital assets and intangibles	472,772	671,227
Amortization of assets used in outsourcing contract	51,637	-
Stock-based compensation (Note 7)	144,027	164,476
	(132,115)	(1,095,838)
Changes in operating assets and liabilities:		
Accounts receivable	(955,165)	709,410
Prepaid expenses	19,053	208,575
Accounts payable and accrued liabilities	428,707	(158,529)
Deferred revenue	682,733	(399,371)
Accrued restructuring charge	(303,072)	(488,242)
	(259,859)	(1,223,995)
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments	(924,452)	1,619,673
Purchase of capital assets, net of related accounts payable	(317,495)	(175,840)
	(1,241,947)	1,443,833
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(22,216)	(12,030)
Issue of common shares	-	139
Purchase of shares under Normal Course Issuer Bid (Note 7)	(44,785)	-
	(67,001)	(11,891)
NET CASH (OUTFLOW) / INFLOW	(1,568,807)	207,947
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(19,344)	(42,498)
CASH (EXCLUDING SHORT-TERM INVESTMENTS), BEGINNING OF YEAR	2,756,475	2,591,026
CASH (EXCLUDING SHORT-TERM INVESTMENTS), END OF YEAR	\$ 1,168,324	\$ 2,756,475

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

1. NATURE OF OPERATIONS

Burntsand Inc. (“Burntsand” or “the Company”) is a consulting company focusing on business solutions that deliver enhanced productivity.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and reflect the following significant accounting policies:

(a) *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

(b) *Foreign currency translation*

The Company undertakes transactions in both Canadian and US dollars and as a result, is exposed to fluctuations in foreign exchange rates upon consolidation.

The Company’s US operations are considered to be self-sustaining, therefore the Company uses the current-rate method for foreign-currency translation. As a result, the assets and liabilities of the self-sustaining foreign subsidiaries are translated at the month-end rate of exchange, while revenues and expenses are translated at the average rate each month. The translation adjustment is included in shareholders’ equity on the consolidated balance sheet under the caption “Cumulative translation adjustment”.

The Company’s Canadian operations use the Canadian dollar as its functional currency and exchange gains and losses resulting from transactions denominated in foreign currencies are included in operations. The fluctuation of these currencies has resulted in and will continue to result in exchange gains and losses, which will impact operations. All gains and losses arising from the translation of monetary items are recognized in the statement of operations as they arise. The Company incurred a foreign exchange loss of \$24,960 during the year (2005 – \$25,319) which was recorded in other expenses.

(c) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, estimates to complete, allowance for doubtful accounts, amortization, determination of net recoverable value of assets, determination of fair value on acquisitions and related recorded goodwill asset, future income taxes and contingencies. Actual results could differ from these estimates

(d) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and deposits with banks, and investment in securities with initial terms to maturity of three months or less.

(e) *Short-term investments*

Short-term investments consist of investment grade securities which are capable of prompt liquidation and are carried at the lower of cost plus accrued interest and quoted market value (market value: 2006 - \$2,734,698; 2005 - \$1,761,578).

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(f) *Capital assets*

Capital assets are recorded at cost. The carrying value of capital assets is reviewed periodically for any permanent impairment in value. Amortization is charged to operations over the estimated useful lives of the assets as follows:

Office equipment	3% per month declining balance
Computer hardware and peripherals	3% per month declining balance
Software	3% per month declining balance
Furniture and fixtures	3% per month declining balance
Leasehold improvements	over the lesser of the lease term and the useful life, generally 5 years
Equipment used for outsourcing	over the contract term

(g) *Goodwill*

The Company has adopted CICA Handbook Section 3062 “*Goodwill and Other Intangible Assets*”, which does not allow the amortization of goodwill and intangible assets with indefinite lives, but requires an annual test for impairment of the unamortized carrying values. The Company has chosen August 1st as the date for this annual impairment test.

(h) *Other intangibles*

Other intangibles include the value ascribed to the unvested stock options issued on business acquisitions and other intangibles related to business acquisitions. Other intangibles are generally amortized on a straight-line basis over the vesting period of the related options, five years, or the estimated useful life of the intangible asset.

(i) *Revenue recognition*

The Company applies the accounting recommendations of Emerging Issues Committee (“EIC”) EIC-141 “*Revenue Recognition*”, EIC-142, “*Revenue Arrangements with Multiple Deliverables*” and EIC-143, “*Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*”. EIC-141 summarizes the principles set as interpretive guidance on the application of CICA Handbook section 3400, “*Revenue*”. Specifically this EIC presents the criteria to be met for revenue recognition to be considered achieved. EIC-142 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities for a given customer. Finally, EIC-143 considers the issue of how revenue and costs from separately priced extended warranty or product maintenance contracts should be recognized.

The Company’s revenues are derived primarily from the following sources:

(i) *Services*

Revenue relating to services can be on a time and materials basis or a fixed fee basis. Revenue is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is reasonably assured. For fixed fee contracts, revenue is recognized based on a percentage of completion, generally representing time spent relative to total estimated time. For contracts that are on a time and materials basis, revenue is recognized as the services are performed. Provisions for estimated losses on contracts, if any, are recorded when identifiable. The differences between revenue recognized and billings on individual contracts are reported as either unbilled receivables or deferred revenue.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(ii) Third party products – license and maintenance

Revenue from the sale of third-party software licenses are recognized upon delivery of the software, provided that a license agreement has been executed, all contractual obligations have been satisfied, the vendor's fee is fixed and determinable and collection of the receivable is probable. Where the Company acts as a principal in the purchase and sale of licenses under negotiated arrangements with third parties, exercises pricing control and bears the risk of loss, collection and return, license revenue and cost of licenses are recognized on the gross basis.

Revenue from the sale of third-party maintenance under annual negotiated supply contracts, exercises pricing control and bears the risk of loss, collection and returns and where the Company provides the ongoing support to the client, revenue on a gross basis related to agreements for support and maintenance is recognized rateably over the term of the agreement, generally one year. Where a third party provides the ongoing support and not the Company, revenue is recognized upon execution of the agreement for support and maintenance and is recorded on a gross basis. Where the Company does not control the purchase and sale of third-party maintenance services, does not exercise pricing control or bear the risk of loss, collection and returns and the third party provides the ongoing support, revenue is recorded on a net basis upon receipt of confirmation from the third-party.

(j) *Income taxes*

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

(k) *Stock-based compensation plans*

The Company has a stock-based compensation plan, which is described in Note 7(b).

The Company uses the fair-value based method to account for all stock-based payments to employees and non-employees granted after January 1, 2002 by measuring the compensation cost of the stock-based payments using the Black-Scholes option-pricing model. The fair value of the stock-based compensation is recorded as a charge to net earnings based on the vesting period with a credit to contributed surplus.

(l) *Loss per share*

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period using the "treasury stock" method. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants and are excluded from the computation if their effect is antidilutive.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

3. ACCOUNTS RECEIVABLE

	2006	2005
Accounts receivable	\$ 4,290,996	\$ 3,190,486
Unbilled receivables	123,106	260,566
Provision for doubtful accounts and unbilled receivables	(141,614)	(165,278)
	<u>\$ 4,272,488</u>	<u>\$ 3,285,774</u>

4. CAPITAL ASSETS

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 597,093	\$ 530,453	\$ 66,640	\$ 596,558	\$ 498,113	\$ 98,445
Computer hardware and peripherals	2,790,270	2,129,518	660,752	2,602,999	1,952,312	650,687
Software	1,377,813	1,096,361	281,452	1,376,049	971,532	404,517
Furniture and fixtures	777,293	719,929	57,364	914,842	799,026	115,816
Leasehold improvements	184,580	144,334	40,246	184,580	97,383	87,197
Equipment used for outsourcing	531,118	51,636	479,482	-	-	-
Total capital assets	<u>\$ 6,258,167</u>	<u>\$ 4,672,231</u>	<u>\$ 1,585,936</u>	<u>\$ 5,675,028</u>	<u>\$ 4,318,366</u>	<u>\$ 1,356,662</u>

The Company has acquired equipment for use in an outsourcing contract. These assets are being amortized over the life of the outsourcing contract. Revenue related to these assets is included in "Other revenue" and the amortization of the total expected cost of these assets is included in "Cost of other revenue".

The net book value of assets under capital lease at December 31, 2006 totalled \$352,470 (2005 - \$30,062) net of accumulated amortization of \$66,847 (2005 - \$24,595).

5. GOODWILL AND OTHER INTANGIBLES

	2006	2005
Goodwill	\$ 169,898	\$ 169,548
Other intangibles	-	258,226
Accumulated amortization	-	(258,226)
	-	-
	<u>\$ 169,898</u>	<u>\$ 169,548</u>

On August 1, 2006 the Company performed the annual impairment test as described in Note 2(g) and determined there was no impairment of the recorded goodwill.

6. LINE OF CREDIT, COMMITMENTS AND CONTINGENCIES

(a) Line of credit

On December 29, 2006 the Company received a commitment letter with Silicon Valley Bank to provide the Company with a two year line of credit of \$2,913,500 (US \$2,500,000), subject to completion of legal documentation. The legal documentation is expected to be completed in March 2007. This limit may be increased by the Company to a maximum of \$5,827,000 (US \$5,000,000), subject to certain covenants as defined in the agreement. The line of credit will provide for borrowings based on 80% of eligible accounts receivable, subject to certain

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

calculations as defined in the agreement. Borrowings under this line of credit will bear interest at prime plus 1% to prime plus 2%, depending on certain covenants. Borrowings will be secured by essentially all assets of the Company.

(b) *Capital and operating leases and long-term debt*

Minimum future payments under capital leases (secured by certain office and computer equipment) and non-cancellable operating leases for certain office equipment and office space are as follows:

Fiscal Year ending December 31,	Operating Leases	Capital Lease	
	2006	2006	2005
2006	\$ -	\$ -	\$ 6,912
2007	693,172	144,600	6,912
2008	602,553	146,096	3,456
2009	351,368	103,034	-
2010	334,852	4,951	-
2011 and beyond	479,780	-	-
Total minimum lease payments	<u>\$ 2,461,725</u>	<u>398,681</u>	17,280
Less: amounts representing imputed interest at approximately 9% (2005 - 5%) per annum		<u>(40,232)</u>	(1,109)
Present value of net future minimum lease payments		<u>358,449</u>	16,171
Less: current portion		<u>(121,871)</u>	(6,233)
Obligations under capital leases, net of current portion		<u>\$ 236,578</u>	\$ 9,938

During the year ended December 31, 2006, the Company incurred interest expense on capital lease obligations of \$5,314 (2005 - \$1,088).

(c) *Letters of credit*

As at December 31, 2006, the Company has provided stand-by letters of credit for \$75,704 (2005 - \$75,548) to certain landlords.

7. SHARE CAPITAL

On June 14th, 2005, at the Annual and Special Meeting of Shareholders, the shareholders approved a special resolution pursuant to subsection 38(1) of the *Canada Business Corporations Act* authorizing the Corporation to reduce the stated capital account for its common shares by an amount equal to the accumulated deficit of the Corporation as appearing on the Corporation's balance sheet as at March 31, 2005. On March 31, 2005, the stated capital of the common shares was \$117,880,660 and the accumulated deficit was \$108,276,672.

On December 19, 2005, the Company announced it had filed a normal course issuer bid ("NCIB"), under which it may purchase up to 5,800,907 of its common shares. All purchases were made on the open market through the facilities of the TSX in accordance with TSX requirements. The price paid for the purchased common shares was the market price of such shares on the TSX at the time of purchase. During the year ended December 31, 2006, the Company purchased and cancelled 481,000 common shares at a total cost of \$44,785. The NCIB terminated on December 20, 2006 and has not been renewed.

(a) *Authorized*

Unlimited number of voting common shares.

BURNTSAND INC.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

Unlimited number of preferred shares, issuable in series, with rights and privileges to be determined upon issue.

Share capital consists of the following:

	Common Shares	
	Number	Amount
Balance at December 31, 2004	72,978,228	\$ 117,880,660
Shares issued on exercise of stock options	5,657	29,699
Reduction of stated capital	-	(108,276,672)
Balance at December 31, 2005	72,983,885	\$ 9,633,687
Purchase of shares under Normal Course Issuer Bid	(481,000)	(44,785)
Balance at December 31, 2006	72,502,885	\$ 9,588,902

(b) *Stock-based compensation plan*

On November 14, 1997 the Company adopted a stock option plan (the "Stock Option Plan"). The Stock Option Plan provides that the Board of Directors of the Company may grant options to purchase common shares to directors, officers and service providers (the "optionees") of the Company and its subsidiaries on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan. The exercise price of options granted under the Stock Option Plan will be the closing market price of the common shares of the Company on the Toronto Stock Exchange on the last trading day prior to the date of grant of such options.

On June 16th, 2006, at the Annual and Special Meeting of Shareholders, the shareholders approved a special resolution pursuant to subsection 38(1) of the *Canada Business Corporations Act* authorizing the Corporation to amend the stock option plan to a fixed percentage "Evergreen" re-loading plan. The Common Shares reserved for issuance and available for future grants under the "rolling plan", thereafter, will fluctuate to reflect 15% of the issued and outstanding Common Shares at the time of any specific grant and the effect is that the pool of Common Shares reserved for issuance will automatically, without any further action by the Board of Directors or the Shareholders, be replenished upon the exercise or cancellation of stock options.

The following table summarizes the activity in the Plan for the years ended December 31, 2006 and 2005:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	8,019,627	\$ 0.24	5,119,913	\$ 0.43
Granted	3,335,975	\$ 0.12	4,218,122	\$ 0.11
Exercised	-	\$ -	(5,657)	\$ 0.03
Cancelled	(1,001,428)	\$ 0.41	(1,312,751)	\$ 0.57
Options outstanding, end of year	10,354,174	\$ 0.18	8,019,627	\$ 0.24
Options exercisable, end of year	4,195,493	\$ 0.27	2,895,181	\$ 0.41

The Company has an additional 521,258 options available to be granted under the Stock Option Plan.

BURNTSAND INC.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

The following table summarizes information about stock options outstanding at December 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2006	Weighted Average Exercise Price
\$0.07 - 0.09	2,019,573	3.96	\$0.08	376,835	\$0.08
\$0.10 - 0.19	4,462,104	4.12	\$0.12	537,410	\$0.14
\$0.20 - 0.29	2,991,933	2.06	\$0.24	2,401,110	\$0.25
\$0.30 - 0.38	785,324	0.74	\$0.30	784,898	\$0.30
\$0.57 - 2.32	95,240	0.16	\$2.24	95,240	\$2.24
\$0.07 - 2.32	10,354,174	3.20	\$0.18	4,195,493	\$0.27

The Company used the fair value based method of accounting for awards in each quarter using the Black-Scholes option pricing model. The following table outlines the average of the underlying assumptions that the Company used to determine the compensation cost for the Company's stock-based employee compensation plans.

	2006	2005
Dividend yield	0%	0%
Expected volatility	70%	70%
Risk free interest rate	4.09%	3.18%
Expected life (years)	3	3
Weighted-average exercise price	\$ 0.12	\$ 0.11

In each quarter the stock based compensation expense consists of the amortization of previous grants, plus the amortization of new grants, less the recovery of previously recorded expense for unvested options that expired in the quarter. For the year ended December 31, 2006, an expense of \$144,027 (2005 – \$164,476) has been recorded for stock based compensation, allocated as follows:

	2006	2005
Cost of Services	\$ 42,091	\$ 58,847
Sales and marketing expense	2,195	(3,564)
General and administrative expense	99,741	109,193
Total stock based compensation	\$ 144,027	\$ 164,476

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

8. CONTRIBUTED SURPLUS

The Company's contributed surplus is comprised of the following:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 908,718	\$ 752,872
Exercise of stock options	-	(29,560)
Revaluation of share purchase loans	-	20,930
Stock based compensation	144,027	164,476
Balance, end of year	<u>\$ 1,052,745</u>	<u>\$ 908,718</u>

9. CUMULATIVE TRANSLATION ADJUSTMENT

Cumulative translation adjustments are detailed as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ (2,211,087)	\$ (2,115,157)
Effect of foreign currency exchange rate changes on translation of net assets of self sustaining foreign operations	26,597	(95,930)
Balance, end of year	<u>\$ (2,184,490)</u>	<u>\$ (2,211,087)</u>

10. RESTRUCTURING CHARGES

The Company has incurred restructuring charges during the period 2001 to 2004. These charges were recorded in connection with the Company's decision to reduce its workforce and close certain locations.

During 2006, the Company paid a total of \$311,006 (2005 - \$496,299) of previously accrued restructuring charges. There was no restructuring expense or recovery during the year and there is no balance outstanding as of December 31, 2006.

11. INCOME TAXES

Due to current year losses, valuation allowance and tax loss carry forwards; there is no income tax expense for the years ended December 31, 2006 and 2005.

The reconciliation of income taxes computed at the Canadian statutory tax rate to the Corporation's effective income tax rate for the years ended December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Combined basic federal and provincial rates	34.9%	35.0%
Income tax recovery based on statutory income tax rate	\$ (279,392)	\$ (676,039)
Increase in income taxes resulting from:		
Non-deductible expenses	81,021	147,532
Increase in valuation allowance and other items	198,371	528,507
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

Future income taxes result principally from temporary differences in the recognition of loss carry forwards and expense items for financial and income tax reporting purposes. Significant components of the Company's future tax assets as of December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Tax loss carryforwards	\$ 16,274,964	\$ 16,043,024
Book and tax base differences on assets and liabilities	3,975,822	5,161,048
Share issue costs	-	84,786
Total future income tax assets	<u>20,250,786</u>	21,288,858
Valuation allowance for future income tax assets	<u>(20,250,786)</u>	<u>(21,288,858)</u>
Future income tax assets	\$ -	\$ -

The Company has non-capital loss carry forwards in Canada and the U.S. of approximately \$35,700,000 (2005 - \$32,000,000) and \$12,000,000 (2005 - 11,500,000) respectively, available to reduce future years' income for tax purposes. The tax loss carry forwards expire in 2009 to 2026 in Canada and 2022 to 2026 in the U.S.

12. SUPPLEMENTAL CASH FLOW AND NON-CASH INVESTING AND FINANCING DISCLOSURE

	<u>2006</u>	<u>2005</u>
Cash payments for interest	\$ (88,314)	\$ (1,171)
Cash receipts for interest	\$ 69,779	\$ 97,934
Cash payments for taxes	\$ (5,392)	\$ (4,214)
Purchase of capital assets under capital leases	\$ 364,659	\$ -
Purchase of capital assets in accounts payable	\$ 78,126	\$ -

13. RELATED PARTY TRANSACTIONS

Related party transactions for the year ended December 31, 2006 not disclosed elsewhere in these financial statements include:

- (a) revenues of \$10,920 (2005 - \$99,825) earned from a company with a director in common;
- (b) in 2001, a share purchase loan of \$1,000,000 was issued to an officer for the purpose of purchasing common shares of the Company. The advance is non-interest bearing and is secured solely by 232,558 common shares of the Company. As a result, the loan was recorded in shareholders' equity as a reduction of contributed surplus.

The Company assesses the value of the security associated with the share purchase loan on a regular basis and when there is a long term impairment of the value of the security adjusts the carrying value of the loan against Deficit. Based on the assessment of the security in prior years, the valuation of the outstanding loan was decreased to a carrying value of \$16,279 as of December 31, 2005 (the approximate realizable value as of December 31, 2005). There has been no amendment to the repayment amount of the share purchase loan; however recourse is limited to the security held by the Company.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

14. GUARANTEES

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the AcG-14 definition of an indemnification and guarantees to counterparties in transactions such as: the sale of services or products; the purchase of products; and the acquisition of assets or businesses.

In the context of business acquisitions or the purchase of assets, the Company may from time to time agree to compensate the seller for breaches of representations and warranties made about the Company pursuant to an acquisition agreement. These representations and warranties typically relate to the corporate existence, authorization and litigation as it relates to the purchase, and expire on the completion or closing of the transaction. Historically, there have been no claims under such indemnification agreements.

In the normal course of business, the Company provides indemnification agreements to clients during the sale of services and products. These indemnification agreements require the Company to compensate the client for costs incurred as a result of litigation claims or damages for intellectual property right infringement and other similar items that may be suffered by the client as a consequence of the agreement. Historically, there have been no claims under such indemnification agreements.

The Company has entered into irrevocable letters of credit with some of its landlords. Under these letters of credit, the Company guarantees the payment of its obligations under the lease (Note 6(c)). Historically the company has not made any payments under such letters of credit.

The Company entered into indemnification agreements as provided in the Company's Bylaws with current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period.

The nature of these agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. No amount has been accrued on the balance sheet with respect to these agreements.

15. FINANCIAL INSTRUMENTS

(a) *Fair value*

The carrying value of short-term investments, accounts receivable, accounts payable and accrued liabilities and accrued restructuring approximates fair value at December 31, 2006 and 2005 due to the short-term maturities of these instruments. The carrying value of the obligations under capital leases also approximates fair value at December 31, 2006 and 2005.

(b) *Foreign exchange risk*

The Company undertakes transactions denominated in US dollars and as such is exposed to price risk due to fluctuations in foreign exchange rates. The Company does not use derivative instruments to reduce exposure to foreign exchange risk.

(c) *Credit risk*

The Company currently derives revenue from a large number of contracts with a diverse group of customers. The customers are dispersed within North America both geographically and by

BURNTSAND INC.

Notes to the Consolidated Financial Statements

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industry focus. The Company monitors credit granting and has established collection guidelines; however, it is susceptible to increased credit risk due to the current economic climate.

16. SEGMENTED INFORMATION

The Company operates in one business segment - business solutions that deliver enhanced productivity. Revenues are allocated to countries based on location of the office responsible for performing the services for the customer. The Company earned revenue from sales in the following geographic locations:

	<u>2006</u>	<u>2005</u>
Canada	\$ 9,231,146	\$ 8,771,266
United States	14,406,593	12,009,179
	<u>\$ 23,637,739</u>	<u>\$ 20,780,445</u>

Long-lived assets (capital assets and goodwill) are located as follows:

	<u>2006</u>	<u>2005</u>
Canada	\$ 1,134,104	\$ 807,509
United States	621,730	718,701
	<u>\$ 1,755,834</u>	<u>\$ 1,526,210</u>

In 2006, two customers accounted for 25% of revenue (2005 – one customer accounted for 17%) and 19% of accounts receivable (2005 – 7%) at December 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and the accompanying notes for the year ended December 31, 2006. Additional information relating to Burntsand Inc. ("Burntsand"), including our Annual Information Form, is available on SEDAR at www.sedar.com.

The consolidated financial statements of Burntsand have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Consolidated Financial Statements and Management's Discussion and Analysis have been reviewed by the Burntsand Audit Committee and approved by the Burntsand Board of Directors. All amounts are in Canadian dollars unless otherwise specified.

Management's discussion and analysis is comprised of the following.

- Forward Looking Information
- Overview of Our Business
- Selected Financial Information
- Results of Operations
- Quarterly Financial Information
- Liquidity and Capital Resources
- Share Capital
- Risk Factors and Risk Management
- Related Party Transactions
- Critical Accounting Estimates
- Controls and Procedures
- Outlook

Forward Looking Information

Certain information in the Letter to Our Shareholders, this MD&A and in other public announcements by the Company is forward-looking and is subject to important risks and uncertainties. Forward information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives.

Factors which could cause actual results to differ materially from current expectations include, among other things, the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the business in which the Company participates; changes in IT spending; general economic conditions and normal business uncertainty; fluctuations in foreign currency exchange rates; and changes in the laws, rules and regulations applicable to the Company.

While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events. For information on these and other factors, see the reports filed by the Company with Canadian securities regulators. The Company intends the forward-looking information to speak only as of the time first made and does not undertake to update or revise it whether as a result of new information, future events or otherwise.

Overview of Our Business

Summary

With a unique focus on helping clients unify information to increase agility, Burntsand is a North American leader in the delivery of systems integration consulting services. Burntsand partners with leading enterprises to achieve their Integrated Information Management goals through the delivery of Enterprise Content Management, Collaboration, Enterprise Operations & Service Management, and Customer Relationship Management solutions. Burntsand's optimized time to value approach makes the firm different: it gives customers an edge, helping them realize near-term business benefits and long-term competitive gains. The company's distinguished partner status with EMC, Microsoft and BMC reflects its business maturity and sustained technology depth. Headquartered in Toronto, Burntsand operates from locations across North America. The company's shares (TSX: BRT) are traded on the Toronto Stock Exchange.

Burntsand delivers business advantage for its mid-market clients (clients with revenues between \$100 million and \$500 million), including divisions of the top 2000 companies as ranked by revenue ("Global 2000 companies") in Canada and the United States. Burntsand is primarily focused on "business to business" relationships and has developed expertise in specific industries: life sciences, healthcare, financial services, government and energy.

Our Business Strategy and Objectives for 2007

Our overall business strategy is to first and foremost drive our business to profitability and then grow our business while maintaining operating profitability through appropriate investments in personnel and strategic acquisitions.

In order to achieve this strategy, the following objectives have been set as of the end of 2006:

- Achieve profitability through revenue growth and cost management initiatives;
- Focus on profitable, select technologies on a company wide basis; and
- Acquire regional companies to enable critical mass and overall scale of operations.

Selected Financial Information

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Services revenues	\$ 20,325,832	\$ 17,737,484	\$ 23,542,439
Total revenues	\$ 23,637,739	\$ 20,780,445	\$ 29,324,497
EBITDA (1)	\$ (343,767)	\$ (1,343,975)	\$ (2,026,848)
Net loss	\$ (800,551)	\$ (1,931,541)	\$ (1,860,680)
Loss, basic and diluted, per share (2)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Total assets	\$ 10,414,503	\$ 9,834,458	\$ 12,778,305
Total long term financial liabilities	\$ 342,417	\$ 9,938	\$ 329,153
Total equity	\$ 6,428,782	\$ 7,103,494	\$ 8,966,350
Cash dividends declared	\$ -	\$ -	\$ -

(1) Loss before restructuring charge/recovery, amortization, interest, and income taxes. EBITDA is a non-GAAP measure, has no standardized meaning under GAAP and is therefore unlikely to be comparable to similar measures for other issuers. The Company provides EBITDA to separate the effect of amortization, interest and taxes from its results.

(2) Rounded to the nearest cent.

Highlights

Services revenue, which had been decreasing for several years, has increased due to a narrower focus on more profitable service areas. Third party license and maintenance revenues have remained constant between 2005 and 2006, although the profitability of this type of revenue has decreased, consistent with expectations. Total revenues and service revenue have increased primarily as a result of increased service revenues in the United States.

EBITDA has improved in 2006 by approximately \$1 million as a result of increased revenue and gross margin. EBITDA improved in 2005 by \$0.7 million as a result of reduced expenses through cost management initiatives. Our ongoing objectives are to continue to increase revenue while maintaining cost management initiatives.

The improvement in net loss in 2006 was the accumulation of a trend of improvements throughout late 2005 and continuing into 2006 (see Quarterly Financial Information). The net loss in 2005 was consistent with the prior year, but in fact reflected an improvement over 2004 due to two one-time positive items (a recovery of restructuring expense (\$0.8 million) and a recovery of income taxes (\$0.3 million)) recorded in 2004.

Results of Operations

Our results of operations are affected by the economic conditions, levels of business activity and rates of change in the industries we serve. Our business is also driven, in part, by the pace of technological change and the type and amount of technology spending by our clients. The ability to identify and capitalize on these market and technological changes early in their cycles is a key driver of our performance.

Revenues are driven by the ability of our sales force and other senior executives to secure contracts for new engagements and to deliver solutions and services that add value to our clients. Our ability to add value to clients and therefore drive revenues depends in part on our ability to deliver market-leading service offerings and to deploy skilled teams of professionals quickly. As a North American company, our revenues are earned and expenses are incurred in both US and Canadian currencies and are affected by currency exchange-rate fluctuations.

Global economic and political conditions are continuing to cause companies to be cautious about increasing their use of consulting services, but, we are beginning to see increased activity in evaluating outside consulting services. Growth of our consulting business continues to be a critical part of our strategy.

Projects for the design and implementation of solutions result in combinations of revenues from two primary categories: services and resale of third party products. Services revenues include revenues from business consulting and technology services and represents 86% of overall revenues. Revenue from the sale of third-party software products and from the sale of maintenance on the third-party products represents 11% of revenues overall, but only 5% of gross margin. The third-party products are related to the services we provide to enable business solutions. A third category, other revenue, represents disbursements for travel and other expenses that are charged to the customer, as well as other miscellaneous income.

The primary categories of costs and expenses are the cost of services, cost of third-party products, sales and marketing expenses, general and administrative expenses and other expenses. Cost of service consists of the cost of consultants/delivery personnel, employee compensation, sub-contractor fees and related personnel costs. Cost of services as a percentage of revenues is driven by the prices we obtain for our solutions and services, the chargeability or utilization of our consultants and the recovery rate of our project work. Chargeability or utilization represents the percentage of consultants' time spent on project work. The recovery rate represents the percentage of our consultant's time spent on project work that is billable to the client. Cost of third-party products is determined by the terms of our agreements with our partners. The terms of our agreements provide for differing costs depending on the supplier, the type of support services we offer and the nature of the product being sold. Sales and Marketing expense is the cost of marketing programs, the cost of business development personnel and related payroll costs. General and Administrative expense is the cost of non-client-facing personnel and related payroll costs, legal and accounting fees, and recruiting expenses. Other expenses are all other expenses such as training, facilities, travel, communications, information systems, and insurance.

Year ended December 31, 2006 compared to Year ended December 31, 2005

Revenues

Revenues for 2006 were \$23.6 million compared to \$20.8 million for the previous year, an increase of 14%. During 2006, service revenues were 86% of total revenues compared to 85% for the previous year. Third-party product revenues were 11% of total revenues compared to 12% for the previous year. The Company's focus is on profitable services revenue, however, it will continue to earn revenues from third-party products since the Company is an integrator in the business of delivering complete solutions to its customers. In 2006, 61% of revenues were from offices in the United States compared to 58% for the previous year.

During the year, the Company worked on 269 projects (2005 – 246) for 110 customers (2005 –120), of which 41 were new customers (2005 – 42). Of the 269 projects in 2006, 199 were new projects for customers (2004 – 154). In addition, the Company signed 55 new contracts (2005 – 50), each valued at \$100,000 or more during the year.

During 2006 the Company's third-party product revenues decreased by 1%, however gross profit has decreased to 15% from 20%, which is explained below.

Costs

Cost of services increased by 11% in 2006. The expense increase is due to higher personnel headcount and higher costs per person. This increase of 11% is less than the increase in revenue of 15% and represents improved productivity. Average headcount was 100 people during 2006, compared to 97 people during 2005. As a percentage of revenues, cost of services decreased to 67% from 69% in the previous year. This is the third consecutive year of improved productivity.

Cost of third-party products increased in 2006 due to the mix of products sold. Third-party product costs are generally directly variable with revenue. As a percentage of revenue, costs increased to 85%, compared to 80% in the previous year.

Gross Profit

Gross profit for services was 33% for 2006 compared to 31% in 2005. This increase is due to higher personnel utilization and consistent daily rates. Utilization for 2006 was 78% compared to 72% for the prior year. Average effective daily rates were unchanged from 2005.

Gross profit for third-party products was 15% in 2006 and 20% in 2005. Both specific opportunities and the mix of licenses, maintenance and network infrastructure products impact gross profit in this area. Third-party products costs vary by the supplier; the type of product; and range from 50% to 90% of the manufacturer's list price. Third-party

products costs are directly variable with revenue. Therefore, the mix of licenses, maintenance and network infrastructure products from various suppliers significantly impact the cost and gross profit of third-party products. In general, third-party product gross profit has been decreasing for several years and is expected to continue to decline.

Expenses

Sales and marketing expenses increased by 18% in 2006. The expense increase is due to slightly higher direct sales personnel headcount, higher commissions associated with higher revenues and an increase in marketing programs. The Company increased marketing programs by approximately 16%. As a percentage of revenues, sales and marketing expenses were consistent at 8% in each year.

General and administrative expenses increased by 11% in 2006. The increase in general and administrative expenses reflects an increase in management costs and recruiting fees, including related legal expenses. During the year the Company recruited a new CEO and various other positions to support specific skill sets. As a percentage of revenues, general and administrative expenses were consistent at 13%.

Other expenses consist of the following main components:

	<u>2006</u>	<u>2005</u>
Rent, parking and office	\$ 1,025,309	\$ 1,101,531
Business travel & training	901,798	896,447
Telecommunications, technology and insurance	571,928	786,185
Foreign exchange expense	24,960	25,319
Miscellaneous (including bad debt)	46,101	231,311
Total Other Expenses	<u>\$ 2,570,096</u>	<u>\$ 3,040,793</u>

Overall, other expenses have decreased by 15% for 2006. This decrease has been achieved through ongoing cost management in all areas of discretionary spending and reduced insurance premiums. As a percentage of revenues, other expenses decreased to 11% in 2006 from 15% in 2005 due to the relatively fixed nature of these costs.

Other

Amortization of capital assets decreased in 2006 compared to 2005. This decrease in amortization is the result of the lower average carrying value of capital assets during the year. During 2006 the Company acquired additional capital assets for \$0.2 million (2005 - \$0.2 million) – partially through a capital lease, a sale and leaseback of equipment purchased early in 2006 and partially through direct purchases. In addition, the Company acquired equipment used for outsourcing for \$0.5 million (2005 – Nil) partially through a capital lease and partially through direct purchases. The Company has a program of replacing computer hardware and software on a regular basis. The Company will require additional furniture (approximately \$75,000) in one US location in 2007, but otherwise has adequate furniture and fixtures for its current and anticipated requirements.

Interest and investment income increased in 2006 compared to 2005. This increase is due to minimizing cash on hand in favor of investments and higher interest rates realized on US investments. Interest expense and financing costs increased primarily due to three factors: (1) in December the Company has entered into a commitment letter with Silicon Valley Bank to provide a Line of Credit of up to \$5,827,000 (\$5,000,000 USD. This Line of Credit is to be used to fund working capital requirements as the Company pursues its growth agenda. These financing costs of approximately \$60,000 have been expensed in December 2006; (2) the company financed some assets used in the outsourcing contract to improve the cash flow from the contract; and (3) the Company financed some internal capital assets to provide additional funds to finance growth.

Future income tax assets and liabilities are assessed annually. As a result of this assessment, the Company considered the benefit of such tax assets and recorded a valuation allowance that covers the value of the total future income tax assets at the end of 2006. The Company has \$20.2 million (2005 - \$21.3 million) in tax assets which have been fully reserved by the valuation allowance. The valuation of future tax assets for accounting purposes does not prevent the future deduction of any loss carry-forwards or other tax deductions underlying these assets.

Quarterly Financial Information

Two Year Summary By Quarter (unaudited, in thousands except per share amounts)

Years ended December 31

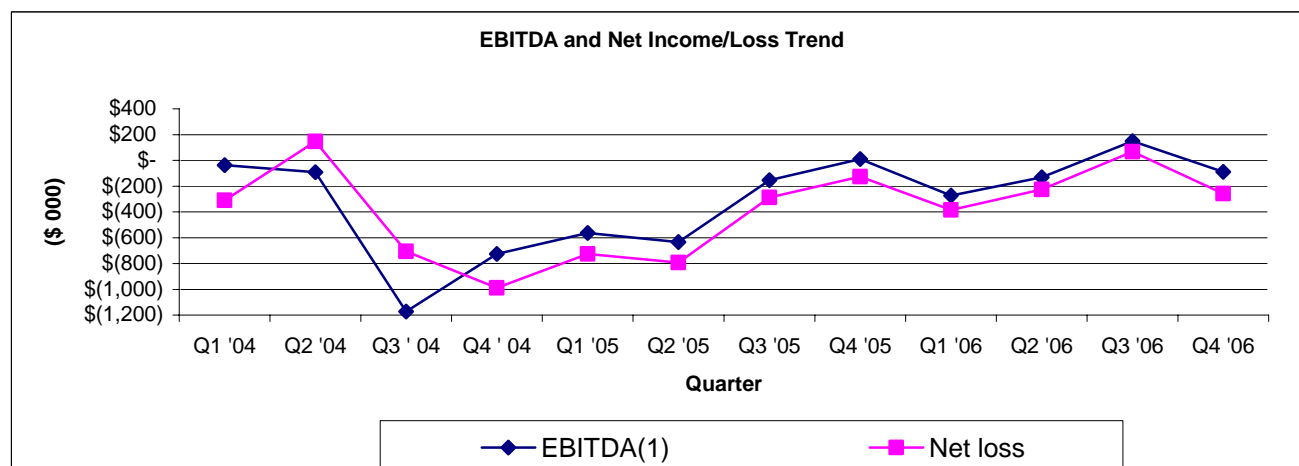
	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Services Revenue	\$ 4,724	\$ 4,234	\$ 4,313	\$ 4,467	\$ 4,456	\$ 4,790	\$ 5,688	\$ 5,391
Total Revenue	\$ 5,698	\$ 5,094	\$ 4,862	\$ 5,126	\$ 5,135	\$ 5,462	\$ 7,187	\$ 5,854
EBITDA ⁽¹⁾	\$ (565)	\$ (635)	\$ (155)	\$ 10	\$ (273)	\$ (131)	\$ 150	\$ (90)
Net loss	\$ (725)	\$ (792)	\$ (288)	\$ (127)	\$ (385)	\$ (225)	\$ 68	\$ (259)
Loss, basic and diluted, per share ⁽²⁾	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ 0.00	\$ (0.00)

(1) Loss before restructuring amortization, interest / financing charges, and income taxes. EBITDA is a non-GAAP measure, has no standardized meaning under GAAP and is therefore unlikely to be comparable to similar measures for other issuers. The Company provides EBITDA to separate the effect of amortization, interest /financing charges and taxes from its results. Amounts rounded to the nearest thousand dollars in each quarter.

(2) Rounded to the nearest cent.

The Company's quarterly results fluctuate based on a number of factors. Third-party product revenue is project specific and is normally a small number of large transactions. As such, the timing from quarter to quarter often increases the variability of revenue. The Company is only slightly impacted by seasonal influences – historically in the summer months of the third quarter there are client delays which impact projects from starting, completed work being accepted, and signing of new work and during the fourth quarter when there are a disproportionate number of statutory holidays and vacation taken. The Company anticipates this to the extent possible and identifies cost management initiatives in advance of this period to partially offset any revenue decline. The Company manages its subcontractor workforce between 15% and 25% of billable consultants to increase its flexibility to meet short term demand and specific skill sets.

The Company has been experiencing a consistent shortfall in EBITDA during the past several years. During 2006 the Company continued to improve its quarterly performance; EBITDA ranged from positive EBITDA of \$150,000 and EBITDA losses of \$0.4 million. While the quarterly trend has been positive, the annual results have been a more measurable improvement – EBITDA losses of (\$0.3 million); (\$1.3 million) and (\$2.0 million) in each of 2006; 2005; and 2004 respectively. The following graph of the last 12 quarters of EBITDA and Net Income/Loss demonstrates the performance.



Quarter ended December 31, 2006 (Q4 2006) compared to the quarter ended December 31, 2005 (Q4 2005).

Revenues

Revenues for the three months ended December 31, 2006 were \$5.9 million compared to \$5.1 million for Q4 2005, an increase of 14%. During the current quarter, service revenues were 92% of total revenues compared to 87% for Q4 2005. Third-party product revenues were 4% of total revenues for Q4 2006 compared to 10% for Q4 2005. The Company's focus is on profitable services revenue, however, it will continue to earn revenues from third-party products since the Company is an integrator in the business of delivering complete solutions to its customers. In the current quarter, 65% of revenues were from offices in the United States compared to 64% for Q4 2005.

During the quarter, the Company worked on 132 projects (Q4 2005 – 99) for 72 customers (Q4 2005 – 55) of which 10 were new customers (Q4 2005 – 11). Of the 132 projects this quarter, 51 were new projects for customers (Q4 2005 – 56). Finally, the Company signed 12 new contracts (Q4 2005 – 9), each valued at \$100,000 or more during the quarter.

The factors which have impacted service revenues in the current quarter compared to Q4 2005 were: a decrease in our effective rate per day by 11%; improved utilization in Q4 2006 of 78%, compared to 73% in Q4 2005; and an increase in our average headcount to 113 full-time-equivalent (FTE) delivery people, compared to 94 FTE in Q4 2005.

Third-party product revenues are impacted by the number of license sales during the quarter and are not core to our overall business profitability.

Costs

Cost of services in Q4 2006 increased by 29% from Q4 2005. The expense increase from Q4 2005 is due to higher personnel headcount and cost per person. The expense increase in Q4 2006 from Q4 2005 was also due to increased Q4 revenues. As a percentage of service revenues, cost of services increased to 71% in Q4 2006 from 66% in Q4 2005.

Cost of third-party products decreased by 57% from the comparable quarter due to the volume of third-party products sold during the quarter and the discounts from suppliers. Third-party product costs are directly variable with revenue. As a percentage of revenue, costs decreased to 67% in Q4 2006 from 75% in Q4 2005, albeit on lower revenues.

Gross Profit

Gross profit for services was 29% for Q4 2006 compared to 34% in Q4 2005. The decrease in gross profit is due to an 11% decrease in effective daily rates; offset by improved personnel utilization at 78% in Q4 2005 compared to 73% in Q4 2005. Services profitability and company profitability is significantly impacted by utilization and average effective daily rates.

Gross profit for third-party products was 33% in Q4 2006 compared to 25% in Q4 2005. Both specific opportunities and the mix of licenses, maintenance and network infrastructure products impact gross profit in this area. The supplier and the type of the product determine the cost, and therefore gross profit, of third-party products. In general, third-party product gross margin has been decreasing for several years and is expected to continue to decline slightly.

Expenses

Sales and marketing expense increased by 20% in Q4 2006 compared to Q4 2005. The expense increase from Q4 2005 is primarily due to increased sales headcount, increased commissions on higher revenue and offset by lower marketing programs in the quarter. As a percentage of revenues, sales and marketing expenses were 8% in Q4 2006 and increased from 7% in Q4 2005. In order to stimulate growth, the Company expects to incur increased sales and marketing expenses in 2007.

General and administrative expense increased by 40% in Q4 2006 compared to Q4 2005 due to increased management costs and increased recruiting costs. As a percentage of revenues, general and administrative expenses have increased to 14% in Q4 2006 from 11% in Q4 2005.

Other expenses consist of the following components:

	Three months ended	
	Dec. 31, 2006	Dec. 31, 2005
	(unaudited)	(unaudited)
Rent, parking and office	254,518	255,082
Business travel & training	229,424	237,037
Telecommunications, technology and insurance	141,276	170,429
Foreign exchange expense	(9,240)	(6,745)
Miscellaneous (including bad debt)	(84,207)	32,988
Total Other Expenses	531,771	688,791

Overall, other expenses have decreased by 23% in Q4 2006 compared to Q4 2005. The changes in other expenses from Q4 2005 are as a result of reduced telecommunication and insurance costs and the one-time recovery of amounts previously provided for expense estimates no longer required. As a percentage of revenues, other expenses decreased to 9% in Q4 2006, compared to 13% in Q4 2005.

Other

Amortization of capital assets decreased slightly in Q4 2006 compared to Q4 2005. This decrease in amortization is consistent with lower new book values from the previous quarter. The Company has continued to replace computer hardware on a regular basis, acquiring \$65,000 of new assets and amortizing \$111,000 of capital assets in Q4 2006.

Interest and investment income increased in Q4 2006 compared with Q4 2005 due to better returns on investments and higher investment balances. Higher interest expense and financing costs increased in the quarter dues to setup costs on our line of credit and interest expense on our capital leases during the quarter.

Liquidity and Capital Resources

The Company finished the year ended December 31, 2006 with cash and short-term investments of \$3.9 million compared to \$4.5 million at December 31, 2005. The decrease in cash and short-term investments is primarily due to the acquisition of capital assets (\$0.3 million), and the payment of restructuring obligations (\$0.3 million), plus other items which net to zero..

During the three months ended December 31, 2006, cash and short term investments decreased from \$4.2 million at September 30, 2006 primarily due to the cash used by operations for working capital (\$0.4 million), offset by other miscellaneous items.

At December 31, 2006, the Company's short-term obligations include accounts payable and accrued liabilities, deferred revenue and capital leases. The following table identifies the Contractual Obligations of the Company at December 31, 2006:

	Payments due by Period					
	Total	2007	2008	2009	2010	Beyond
Capital Lease Obligations	\$ 358,449	\$ 121,871	\$ 132,454	\$ 99,197	\$ 4,927	\$ -
Operating Leases	2,461,725	693,172	602,553	351,368	334,852	479,780
Total Contractual Obligations	\$ 2,820,174	\$ 815,043	\$ 735,007	\$ 450,565	\$ 339,779	\$ 479,780

The Company has taken charges for restructuring against income in various years prior to 2005 for excess facilities. Payments related to excess facilities, net of recoveries from subtenants, resulted in a cash impact of \$0.3 million in 2006. These payments in 2006 completed the payment of all restructuring costs which have been incurred in prior years.

The Company has no material outstanding commitments for capital expenditures. In general, the Company does not incur significant capital requirements for capital equipment as the Company grows. There is an ongoing requirement to upgrade existing capital assets, but the Company expects to fund this through operational cash flow. The Company has

leased some fixed asset additions in 2006 to maximize the available cash to fund growth and to recapture the residual value of the capital assets at the end of the lease (normally three years).

The Company requires working capital as the Company grows to support the timing differences between receivables and payables. The Company believes it has adequate cash reserves to fund this working capital requirement, however in the event that cash reserves were not sufficient, the Company has established a Line of Credit. On December 29, 2006 the Company received a commitment letter with Silicon Valley Bank to provide the Company with a two year line of credit of up to \$5,827,000 (US \$5,000,000), subject to completion of legal documentation. The Company may draw this limit in three tranches of US\$2,500,000; US\$1,250,000; and US\$1,250,000. The line of credit provides for borrowings based on 80% of eligible accounts receivable, subject to certain calculations as defined in the agreement. Borrowings under this line of credit bear interest at prime plus 1% to prime plus 2%, depending on certain covenants. Borrowings are secured by essentially all assets of the Company

To date, the Company has financed its operations, including operating losses, almost entirely through the issuance of share capital. The Company currently has cash reserves and expects to finance any budgetary requirements for internal growth with cash flow from operations, working capital on hand and/or the Line of Credit.

Share Capital

As of February 28, 2007, there are 72,502,885 common shares issued and outstanding and 10,246,380 options outstanding at exercise prices ranging from \$0.07 to \$1.33 with remaining weighted average contractual lives of 3.1 years.

Risk Factors and Risk Management

We believe our strategy of creating value through maintaining and enhancing our leadership in four areas: Enterprise Content Management (ECM); Collaboration; Customer Relationship Management (CRM); and Enterprise Operations and Service Management, for our clients provide us with a strategic advantage. However, as with any business, we are subject to risks that require prudent risk management. We believe the following risks are among the most important in order to understand the issues that face our business and our approach to risk management.

- Lengthy Sales and Implementation Cycles
- Market for Services; Market Acceptance
- Rapid Technological Change; New Products
- Management of Restructuring and Growth; Dependence on Key Personnel
- Integration of Newly Acquired Businesses
- Competition
- International Operations
- Reliance on Customers; Capital Spending
- Reliance on Third-Party Vendors (Partnerships)
- Limited Intellectual Property Protection
- Failure to Meet Performance Criteria

Additional information on these risks is available in our Annual Information Form filed on SEDAR at www.sedar.com.

Related Party Transactions

The Company has one related party transaction during the current year.

- During the year the Company performed services for a company (Bridges Transitions Inc.) with a director in common. These transactions were negotiated, valued at fair market value for the services performed and were in the ordinary course of business. The Company has no ongoing commitments under these agreements, The Company recorded revenue of \$10,920 (2005 – \$99,825) during the year.

In addition to the above transaction the Company has an outstanding related party balance from a transaction in 2001.

- In 2001, a share purchase loan of \$1,000,000 was issued to an officer for the purpose of purchasing common shares of the Company. The advance is non-interest bearing and is secured solely by 232,558 common shares of the Company. The Company assesses the value of the security associated with the share purchase loan on a regular basis and when there is a long term impairment of the value of the security adjusts the carrying value against Accumulated Deficit. Based on the assessment of the security as of December 31, 2005, the valuation of the outstanding loans was decreased by \$20,930 in 2005 to a carrying value of \$16,279 as of December 31, 2005 (the approximate realizable value as of December 31, 2005). Based on the assessment of the security as of December 31, 2006, the valuation of the outstanding loans was maintained at \$16,279 as of December 31, 2006. There has been no amendment to the repayment amount of the share purchase loan; however recourse is limited to the security held by the Company.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are constantly monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

A summary of those accounting policies that we believe are most critical to fully understanding and evaluating our financial results is set forth below. This summary should be read in conjunction with our Consolidated Financial Statements:

Revenue Recognition and Allowance for Doubtful Accounts

The Company derives its revenue from three principal sources—professional services (service revenue), the sale of third-party licenses and maintenance on the third-party licenses (license and maintenance revenue) and reimbursed expenses under professional service contracts (other revenue).

We recognize all of our revenue under written service contracts with our clients. Revenues from time and materials service contracts are recognized as the services are provided. Revenues from fixed-price engagements are recognized using the percentage of completion method based on the ratio of time spent relative to total estimated time. The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. Finance department personnel confer regularly with project managers to discuss the status of the projects. For fixed-price engagements, the finance department is updated on the estimated time and required resources to complete the project. These estimates are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated profitability or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated.

Where the Company acts as principal in the purchase and sale of third-party software licenses and network infrastructure, under negotiated contracts with vendors, exercising pricing control, and bearing the risk of loss, collection and return, revenue and costs are recorded on the gross basis. The timing of revenue recognized from such license and network infrastructure sales can impact reported results significantly. In addition, the reporting of revenues on the gross basis will impact total revenues and costs of revenues significantly. Where the Company acts as an agent in a license, maintenance or network infrastructure sale, net revenue is recorded.

Maintenance and support service revenues are classified in third-party product revenue for financial reporting purposes. Where the Company is the primary obligor under a maintenance arrangement, revenue is recognized ratably over the term of the arrangement, generally one year. Where the Company acts solely as principal in the purchase and sale of third-party maintenance service arrangements, revenue is recognized upon the start of the maintenance period. Where the company receives a commission on the sale of third party products, the Company recognizes the net amount when the transaction is completed.

We recognize revenue only in those situations where collection from the client is reasonably assured. Our normal payment terms are 30 days from invoice date. For the periods ended December 31, 2006 and 2005, our average days-sales-outstanding for accounts receivable was 66 days and 62 days, respectively. Our project managers and finance personnel continuously monitor timely payments from our clients and assess any collection issues. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and percentage of our accounts receivable by aging category. In determining these estimates, we look at historical write-offs of our receivables and review each client's account to identify any specific customer collection issue. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a materially adverse effect on our business, financial condition and results of operations. As of December 31, 2006 and 2005, \$0.1 million and \$0.2 million, respectively, were provided for doubtful accounts and unbilled receivables.

Restructuring and Other Related Charges

The Company has completed a number of restructurings in the past several years. These restructuring plans required that we make estimates as to the nature, timing and amount of the exit costs that we specifically identified. There are no restructuring charges outstanding as of December 31, 2006.

Accounting for Income Taxes

We record income taxes using the asset and liability method. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and operating loss and tax credit carry-forwards. Canadian GAAP requires the establishment of a valuation allowance to reflect the likelihood of realization of future tax assets. Significant management judgment is required in determining our provision for income taxes, our future tax assets and liabilities and any valuation allowance recorded against our net future tax assets. We evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the future income tax assets will not be realized. As a result of the operating losses in 2005 and 2006, and uncertainty as to the extent and timing of profitability in future periods, we have recorded a valuation allowance against the full amount of our future tax assets.

In the event that we are able to determine the realization of our future tax assets in the future, an adjustment to the future tax assets would increase net income in the period such determination was made. The amount of the future tax asset considered realizable is based on significant estimates, and it is possible that changes in these estimates in the near term could materially affect our financial condition and results of operations. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, future expansion into areas with varying country, provincial, and state income tax rates, deductibility of certain costs and expenses by jurisdiction and as a result of acquisitions.

Goodwill

In the past, the Company has grown through acquisition. On January 1, 2002 the Company adopted the CICA standard under which goodwill is no longer amortized but tested for impairment on an annual basis and the excess carrying value over the fair value of goodwill is charged to operations. The standards require both a transitional assessment of impairment and a periodic reassessment, at least annually, unless events and circumstances require a more frequent assessment. The assessment requires management to make estimates of its expected demand for services and operating expense levels.

The Company performed an assessment of all outstanding goodwill as of August 1, 2006 and determined that there was no impairment of the recorded goodwill.

Changes to Canadian GAAP and Accounting Policies

The Consolidated Financial Statements of the Company are prepared in accordance with GAAP. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results in the Company's Consolidated Financial Statements and the notes thereto for the years ended December 31, 2006 and 2005. The Company has not changed the critical accounting policies from those found in the 2005 Annual MD&A and Consolidated Financial Statements and the notes thereto for the years ended December 31, 2005 and 2004.

The CICA issued the following three new sections related to financial instruments that are effective for the Company starting January 1, 2007:

Section 1530, “Comprehensive Income”. This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. This Section requires an entity to recognize certain unrealized gains and losses in “other comprehensive income”, an account included in shareholder’s equity, until such gains and losses are realized and then recognized in net income, and requires the introduction of a statement of comprehensive income.

Section 3855, “Financial Instruments – Recognition and Measurement”. This Section provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The initial adoption of this new section will result in the Company (i) measuring financial assets classified as loans and receivables, and held to maturity, if any, at their amortized cost; (ii) measuring financial assets and financial liabilities classified as held for trading, if any, at fair value with the related gains and losses on measurement recognized in net income; (iii) measuring financial assets classified as available-for-sale at fair value, with the related gains and losses on measurement recognized in “other comprehensive income”, a new account introduced with the application of Section 1530 discussed above; (iv) recognizing all derivative financial instruments at fair value on its consolidated balance sheet, with the gains and losses on instruments designated as cash flow hedges recognized in other comprehensive income, except for the ineffective portion of the hedges which will be recognized in net income. The impact of the adoption of this new section on the consolidated financial statements is not expected to be material.

Section 3865, “Hedges”. The recommendations expand the guidelines outlines in Accounting Guideline 13 (“AcG 13”), *Hedging Relationships*. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as those related to the hedged item. The impact of the adoption of this new section on the consolidated financial statements is not expected to be material.

Controls and Procedures

Disclosure Controls and Procedures

The Company’s Management under the supervision of, and with the participation of the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under Multilateral Instrument 52 – 109 of the Canadian Securities Administrators.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company’s Management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls can only provide reasonable assurance over the effectiveness of the controls. The disclosure controls are not expected to prevent and detect all misstatements due to error or fraud.

Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company’s disclosure controls and procedures are effective as at December 31, 2006.

Internal Controls over Financial Reporting

The Company’s Management under the supervision of, and with the participation of the Company’s CEO and CFO, has designed and implemented internal controls over financial reporting, as defined under Multilateral Instrument 52 – 109 of the Canadian Securities Administrators.

The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the annual and interim financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

The design of internal controls over financial reporting was evaluated as defined in Multilateral Instrument 52 – 109. Based on the results of this evaluation, the President and Chief Executive Officer and the Chief Financial Officer attest

the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with Canadian GAAP.

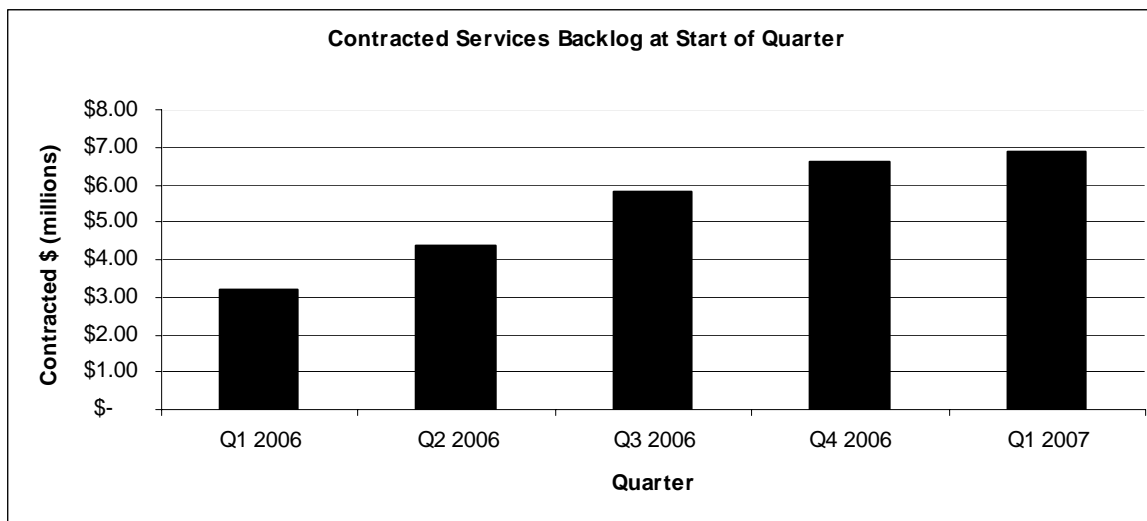
There have been no changes in the Company's internal controls over financial reporting during the fourth quarter ended December 31, 2006, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outlook

The Company's history is one of expansion of its core business through the addition of new practice areas and geographical territories. This expansion has been accomplished in part by the acquisition of companies and in part by internal organic growth.

The Company entered the 2007 year with \$6.9 million (2006 - \$3.2 million) in services backlog, of which \$5.2 million (2006 - \$2.5 million) is scheduled to be completed in the first quarter of 2007. The Company defines backlog as both signed contracts for specific projects or time and material contracts (T&M) with purchase orders/statements of work for specific people and periods of time. In addition to the backlog at December 31, 2006, the Company has announced four significant contract wins totaling \$2.7 million since January 1, 2007.

The Company has been focused on increasing revenue and this has been reflected in a higher backlog at the start of each of the last five quarters. The following graph highlights this trend.



Notwithstanding the \$0.3 million EBITDA loss in 2006, the Company has made significant progress in 2006. The Company continues to focus on revenue growth, cost containment and the drive for long-term, sustainable profitability.

CORPORATE INFORMATION

Exchange Listing:	The common shares of Burntsand Inc. (BRT) are listed on the Toronto Stock Exchange.
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Registered Office:	Borden Ladner Gervais, Vancouver, British Columbia
Registrar and Transfer Agent:	Computershare Trust Company of Canada, Vancouver, British Columbia
Investor Relations:	For further information about Burntsand or additional copies of this report, please contact: Burntsand Inc. 300 The East Mall, Suite 201 Toronto, Ontario, Canada, M9B 6B7 Attention: Investor Relations Email: InvestorRelations@burntsand.com

This quarterly report is also on the Internet at www.burntsand.com and on SEDAR at www.sedar.com

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DIRECTORS

Michael Cardiff ⁽¹⁾⁽²⁾	Chief Executive Officer, <i>Accerlents Inc</i>
Tim Duffy	President and Chief Executive Officer, <i>Burntsand Inc.</i>
Terry Holland ⁽¹⁾⁽²⁾	President and Chief Executive Officer, <i>Krystal Financial Corp</i>
John Kelly ⁽¹⁾⁽²⁾	Chairman, <i>NexInnovations Inc.</i>
Jim Yeates	Chairman, <i>Burntsand Inc.</i>

⁽¹⁾ Member of the Audit and Corporate Governance Committee

⁽²⁾ Member of the Compensation Committee

CORPORATE MANAGEMENT AND OFFICERS

Tim Duffy	President and Chief Executive Officer
Martin Glover	Chief Operating Officer
Blair Baxter	Chief Financial Officer
Edward Podbelski	Vice President, Consulting - USA
John Slater	Vice President, BC

