



BURNTSAND

Burntsand Inc.

Q1 2006 Quarterly Report

**For the Quarter
Ended March 31, 2006**

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Dear Fellow Shareholder

The first quarter of 2006 revenue was consistent with the fourth quarter of 2005 revenue. As a business we have stabilized at approximately \$5 million per quarter in revenue. Moving forward we will focus our efforts on improving financial performance through revenue growth.

First Quarter Financial Results (000's)

	Q1	Q4	Q1
	FY2006	FY2005	FY2005
Revenue	\$ 5,135	\$ 5,126	\$ 5,698
EBITDA ⁽¹⁾	\$ (273)	\$ 10	\$ (565)
Net Loss	\$ (385)	\$ (127)	\$ (725)
Cash and equivalents	\$ 4,149	\$ 4,518	\$ 5,417
Working capital	\$ 5,328	\$ 5,587	\$ 6,626

Results for the First Quarter ended March 31, 2006

Total revenue for the first quarter was \$5.1 million compared to \$5.1 million for the fourth quarter of 2005 and \$5.7 million for the first quarter of 2005. The Company's top 10 accounts accounted for approximately 56% of revenue and the US operations contributed 64% of the revenues for the quarter. Two customers accounted for a total of 28% of revenue. During the quarter the Company signed 15 contracts, each worth more than \$100,000.

EBITDA⁽¹⁾ for the first quarter of 2006 was (\$273,000) compared to \$10,000 for the fourth quarter of 2005 and (\$565,000) for the fourth quarter 2005. Net loss for the first quarter of 2006 was (\$385,000) or (\$0.01) per share, compared with a net loss of (\$127,000) or (\$0.00) per share in the fourth quarter of 2005 and (\$725,000) or (\$0.01) per share in the first quarter of 2005.

Financial Position at March 31, 2006

The Company finished the period ended March 31, 2006 with cash and short-term investments of \$4.1 million compared to \$4.5 million at December 31, 2005. The Company has no long term debt.

Highlights

Progress has continued Q1 2006 with the signing to two significant contracts valued at a total of \$2.1 million. In addition, we signed 13 additional contracts, each valued at more than \$100,000. We have expanded our Microsoft Gold Partner status to Canada from the United States. We also updated our website to reflect a crisp description of our new focused company and launched a new logo. Finally, we have begun investing in more sales resources and marketing programs to accelerate the organic growth of the company – all towards the goal of achieving improved financial performance.

The cornerstone of our plan moving forward is based upon our talented group of employees. With them we will focus on key partner relationships, build a strong operational and financial foundation. We also intend to actively pursue the merger/acquisition of small private regional firms to augment our areas of expertise.

Best regards,



Jim Yeates

⁽¹⁾ EBITDA

EBITDA is defined as operating revenues less operating expenses and therefore reflects earnings before interest, taxes, depreciation and amortization, as well as any restructuring charges and impairment for goodwill. Burntsand uses EBITDA, amongst other measures, to assess the operating performance of its on-going businesses. The term EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and therefore may not be comparable to similarly titled measures presented by other companies. EBITDA should not be construed as the equivalent of net cash flows from operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 3, 2006

The Managements' Discussion and Analysis should be read in conjunction with our consolidated financial statements and the accompanying notes for the period ended March 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.

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

Burntsand is a business consulting and technology services company that designs, architects, and implements information technology to deliver business advantage for its Mid-Market clients, including divisions of Global 2000 companies in Canada and the United States. Burntsand is primarily focused on "business to business" relationships and has developed expertise in certain industries including: energy, financial services, government, technology, and life sciences.

Our Business Strategy and Objectives for 2006

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 2005:

- achieve profitability through revenue growth and cost management initiatives;
- focus on profitable technologies on a company wide basis; and
- acquire regional companies to enable critical mass and overall scale of operations.

Quarterly Financial Information

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

	Years ended December 31							
	2004			2005				2006
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Services Revenue	\$ 6,954	\$ 4,437	\$ 5,269	\$ 4,724	\$ 4,234	\$ 4,313	\$ 4,467	\$ 4,456
Total Revenue	\$ 8,660	\$ 5,414	\$ 6,080	\$ 5,698	\$ 5,094	\$ 4,862	\$ 5,126	\$ 5,135
EBITDA ⁽¹⁾	\$ (91)	\$ (1,173)	\$ (726)	\$ (565)	\$ (635)	\$ (155)	\$ 10	\$ (273)
Net loss	\$ 146	\$ (706)	\$ (989)	\$ (725)	\$ (792)	\$ (288)	\$ (127)	\$ (385)
Loss, basic and diluted, per share ⁽²⁾	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.01)

(1) Loss before restructuring charge, 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 restructuring charges, amortization, interest and taxes from its results.

(2) Rounded to the nearest cent.

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. The current industry factors and economic trends that we are faced with are consistent with those disclosed in our 2005 Annual MD&A available on SEDAR at www.sedar.com.

The Company's quarterly results fluctuate based on a number of factors. LMI revenue is project specific and is normally a small number of significant transactions. As such, the timing from quarter to quarter often increases the variability of revenue. The Company is impacted by seasonal influences – normally 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. The Company anticipates this to the extent possible and identifies cost management initiatives in advance of this period to partially offset any revenue decline.

Quarter ended March 31, 2006 (Q1 2006) compared to the quarter ended December 31, 2005 (Q4 2005) and to the quarter ended March 31, 2005 (Q1 2005).

Revenues

Revenues for the three months ended March 31, 2006 were \$5.1 million compared to \$5.1 million for Q4 2005 and \$5.7 million for Q1 2005. The decrease from Q1 2005 was a result of lower LMI revenue (\$0.3 million) and lower service revenue (\$0.3 million). During the current quarter, service revenues were 87% of total revenues compared to 87% for Q4 2005 and 83% for Q1 2005. LMI revenues were 11% of total revenues compared to 10% for Q4 2005 and 15% for Q1 2005. The Company's focus is on profitable services revenue, however, it will continue to earn revenues from LMI since the Company is an integrator in the business of delivering complete solutions to its customers. In the current quarter, 64% of revenue was from offices in the United States compared to 64% for Q4 2005 and 56% for Q1 2005.

The factors which have impacted service revenues in the current quarter were: consistent effective rate of \$1,142 per day, compared to \$1,142 in Q4 2005 and \$1,066 in Q1 2005; slightly lower utilization in Q1 2006 of 70%, compared to 73% in Q4 2005 and 72% in Q1 2005; a decrease in our average headcount to 88 full-time-equivalent (FTE) delivery people, compared to 94 FTE in Q4 2005 and 101 FTE in Q1 2005 and finally, a higher number of billable days in Q1 2006 compared to Q4 2005.

During the quarter, the Company worked on 106 projects (Q4 2005 - 99; Q1 2005 - 138) for 55 customers (Q4 2005 - 55; Q1 2005 - 80), of which 8 were new customers (Q4 2005 - 11; Q1 2005 - 12). Of the 106 projects this quarter, 51 were new projects (Q4 2005 - 56; Q1 2005 - 40). During the quarter, the Company signed 15 new contracts (Q4 2005 - 9; Q1

2005 – 11), each valued at \$100,000 or more. The Company's top 10 customers accounted for 56% of total revenues (Q4 2005 – 57%; Q1 2005 – 55%) and two customers accounted for 28% of total revenues.

LMI revenues are impacted by the number of license sales during the quarter. Total license revenue was \$0.2 million and maintenance revenue was \$0.3 million. In general there are large single sales of licenses, which make up the majority of the license revenues. LMI revenues were consistent with Q4 2005 and decreased by \$0.3 million from Q1 2005. The maintenance revenues consist of numerous small transactions and represent an ongoing maintenance stream rather than single large sales. The Company has started to transition with some of its suppliers from being a primary obligor under the maintenance contracts to being a net revenue relationship, where the Company receives a commission for the sale of maintenance contracts and the support is provided by the manufacturer.

Costs

Cost of services in Q1 2006 was consistent with Q4 2005 and decreased by 13% from Q1 2005. The consistent cost of services was due to lower headcount in Q1 2006 over Q4 2005, offset by an increase in employee benefit costs. This increase in benefit cost occurs in the first and second quarter of each year until certain annual maximums have been reached. The decrease in cost of services from Q1 2005 was due to lower headcount, which occurred in both employee personnel and subcontractors.

Cost of LMI increased by 17% from the previous quarter due to the volume and change in mix of LMI products sold during the quarter. LMI costs are directly variable with revenue. LMI costs range from 50% to 90% of the manufacturer's list price and may fluctuate significantly from quarter to quarter. As a percentage of revenue, costs increased to 86% in Q1 2006 from 75% in Q4 2005 and 82% in Q1 2005.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 34% for Q1 2006 compared to 34% in Q4 2005 and 29% in Q1 2005. The consistent gross profit from Q4 2005 is due to consistent average effective daily rates, a slight decrease in utilization and an increase in the number of billable days in the quarter. The increase in gross profit from Q4 2005 is due to an improvement in the average effective daily rate, offset by a slightly lower utilization. Services profitability and company profitability is significantly impacted by utilization and average effective daily rates.

Gross profit for LMI was 14% in Q1 2006 compared to 25% in Q4 2005 and 18% in Q1 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 LMI products. In general, LMI gross profit has been decreasing for several years and is expected to continue to decline slightly. LMI is not the focus of our overall business, although two locations continue to derive a portion of their local gross profit from this area.

Expenses

Sales and marketing expense increased by 22% in Q1 2006 compared to Q4 2005 and by 1% compared to Q1 2005. The expense increase from Q4 2005 is due to higher sales headcount. A key objective for the Company is to increase sales in 2006 and the sales headcount has been increased to pursue opportunities. As a percentage of revenues, sales and marketing expenses increased to 9% from 7% in Q4 2005 and 8% in Q1 2005.

General and administrative expense increased by 35% in Q1 2006 compared to Q4 2005 and decreased by 4% compared to Q1 2005. The increase from Q4 2005 is related to additional management headcount, additional legal and audit requirements and recruiting fees. The decrease from Q1 2005 is primarily related to fewer administrative people and other small variances year over year. As a percentage of revenues, general and administrative expenses have increased to 15% in Q1 2006 compared to 11% in Q4 2005 and 14% in Q1 2005.

Other expenses consist of the following components:

	Three months ended		
	Mar. 31 2006	Dec. 31 2005	Mar. 31 2005
Rent, parking and office	252,584	255,082	303,003
Business travel & training	205,243	237,037	245,335
Telecommunications, technology and insurance	146,524	170,429	200,077
Foreign exchange expense	(33)	(6,745)	(5,071)
Miscellaneous (including bad debt)	29,195	32,988	92,929
Total Other Expenses	633,513	688,791	836,273

Overall, other expenses have decreased by 8% in Q1 2006 compared to Q4 2005 and by 24% for Q1 2005. The reduction in other expenses from Q4 2005 consists of reduced training costs to amount consistent with the first three quarters of 2005. The reduction in other expenses from Q1 2005 consists of reduced rent in our US locations where we have moved to lower cost premises during 2005 and greater cost control on travel, telecommunications, insurance and other expenses. As a percentage of revenues, other expenses decreased to 12% in Q1 2006, compared to 13% in Q4 2005 and 15% in Q1 2005.

Other

Amortization of capital assets decreased in Q1 2006 compared to Q4 2005. This decrease in amortization is the result of lower net book value of capital assets. The Company has continued to replace computer hardware on a regular basis, purchasing \$54,289 of new assets and amortizing \$129,044 of capital assets in Q1 2006. The Company expects amortization of capital assets to slowly decrease as the net book value of capital assets decreases.

Net interest and investment income was consistent in Q1 2006 compared with Q4 2005 and decreased slightly from Q1 2005. The Company has one capital lease which incurs nominal interest expense. Interest and investment income is impacted by the cash balances invested during the quarter.

Liquidity and Capital Resources

The Company finished the period ended March 31, 2006 with cash and short-term investments of \$4.1 million compared to \$4.5 million at December 31, 2005. The decrease in cash and short-term investments is due to the acquisition of capital assets (\$54,289) and cash used by operations (\$0.3 million).

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

Contractual Obligations	Payments due by Period (calendar year)					
	Total	2006	2007	2008	2009	Beyond
Capital Lease Obligations	\$ 14,641	\$ 4,703	\$ 6,544	\$ 3,394	\$ -	\$ -
Operating Leases ⁽¹⁾	1,928,737	612,822	511,620	417,756	159,619	226,920
Accrued Restructuring Leases	225,148	225,148	-	-	-	-
Total Contractual Obligations	\$ 2,168,526	\$ 842,673	\$ 518,164	\$ 421,150	\$ 159,619	\$ 226,920

⁽¹⁾ Operating leases excluding "Accrued Restructuring Leases"

The Company took a charge for restructuring against income in 2003 for excess facilities. Payments related to excess facilities, net of recoveries from the subtenant, will be made over the remaining lease term, with an estimated cash impact of \$0.2 million in 2006.

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. As well, the

Company does not have a lease line of credit established, but expects that lease funding would be available for new capital assets should it be required.

The Company requires working capital as the Company grows to support the timing differences between receivables and payables. The Company has adequate cash reserves to fund this working capital requirement. As well, the Company does not have a line of credit established, but expects that funding would be available against receivables should it be required.

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. However, in the event that cash flow is insufficient to support such expenditures, the Company has working capital to meet such requirements.

Share Capital

As of April 30, 2006, there are 72,983,885 common shares issued and outstanding and 7,888,325 options outstanding at exercise prices ranging from \$0.07 to \$2.32 with remaining weighted average contractual lives of 3.2 years.

Risk Factors and Risk Management

We believe our strategy of creating value through maintaining and enhancing our leadership in Enterprise Content Management (ECM), Service Management, Portals and custom application development for our customers provides 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 quarter. Revenues of \$10,920 (2005 - \$49,200) were recorded related to services performed for a company (Bridges Transitions Inc.) with a director in common. These transactions were negotiated at arms length, 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.

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 and our annual Management Discussion and Analysis available on SEDAR at www.sedar.com:

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, maintenance on the third-party licenses and the sale of third-party infrastructure products (LMI 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 meet 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 LMI revenues 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 as principal in the purchase and sale of third-party maintenance service arrangements, revenue is recognized at the start of the maintenance period.

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 March 31, 2006, December 31, 2005 and March 31, 2005, our average days-sales-outstanding for accounts receivable was 63 days, 58 days and 69 days, respectively. The increase in days-sales-outstanding is due to the timing of invoicing during the quarter. The Company's accounts receivable greater than 60 days has decreased to represent 1% of total accounts receivable from 15% at December 31, 2005. 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 both March 31, 2006 and December 31, 2005, \$0.2 million was provided for doubtful accounts and unbilled receivables.

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.

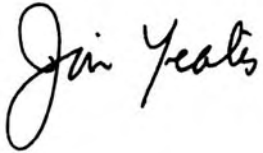
The Company entered Q2 2006 with \$4.4 million (Q1 2006 - \$3.2 million) in services backlog, of which \$3.4 million (Q1 2006 - \$2.5 million) is scheduled to be completed in the second quarter of 2006. The Company defines backlog as both signed contracts for specific projects or time and material contracts (T&M) with purchase orders/statements of work for specific people and periods of time. In addition to contracts for specific projects, the Company has contracts for T&M work which are general contracts, terminable by clients on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize these contracts as backlog. Normally if a client terminates a project, the client remains obligated to pay for services performed and reimbursable expenses incurred by us through the date of termination. The Company entered Q2 2005 with \$0.3 million (Q1 2006 - \$0.3 million) in T&M contracts. The value of these T&M contracts is based on an estimate of scheduled work within the next quarter.

During the quarter the Company announced two significant customer contracts totaling \$2.1 million in February 2006. These contracts are included in the services backlog.

The Company continues to focus on revenue growth, cost containment and the drive for long-term, sustainable profitability.

Notice to Reader

The accompanying unaudited interim consolidated statements of Burntsand Inc. for the period ended March 31, 2006 have been prepared by management and approved by the Audit and Corporate Governance Committee and the Board of Directors of the Corporation. These statements have not been reviewed by Burntsand Inc.'s external auditors.



Jim Yeates
Chairman and Chief Executive Officer



Blair Baxter
Chief Financial Officer

BURNTSAND INC.
Consolidated Balance Sheets

	March 31, 2006	December 31, 2005
	(unaudited)	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,611,785	\$ 2,756,475
Short-term investments	1,536,925	1,761,578
Accounts receivable (Note 2)	3,592,926	3,285,774
Prepaid expenses	770,777	504,421
	8,512,413	8,308,248
Capital assets	1,288,122	1,356,662
Goodwill and other intangibles	170,277	169,548
	\$ 9,970,812	\$ 9,834,458
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,350,239	\$ 1,915,154
Deferred revenue	602,353	488,633
Current portion of accrued restructuring charge	225,148	311,006
Current portion of obligations under capital leases	6,309	6,233
	3,184,049	2,721,026
Long-term portion of obligations under capital leases	8,332	9,938
	3,192,381	2,730,964
SHAREHOLDERS' EQUITY		
Common shares (Note 3)	9,633,687	9,633,687
Contributed surplus	952,310	908,718
Deficit	(1,613,083)	(1,227,824)
Cumulative translation adjustment	(2,194,483)	(2,211,087)
	6,778,431	7,103,494
	\$ 9,970,812	\$ 9,834,458

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Operations

	Three months ended March 31,	
	2006	2005
	(unaudited)	(unaudited)
REVENUE		
Services	\$ 4,456,063	\$ 4,723,603
License, maintenance and network infrastructure	548,151	844,454
Other revenue	130,939	130,396
	5,135,153	5,698,453
COSTS		
Cost of services	2,945,825	3,374,998
Cost of license, maintenance and network infrastructure	472,740	692,884
Cost of other revenue	130,939	106,498
	3,549,504	4,174,380
GROSS PROFIT	1,585,649	1,524,073
EXPENSES		
Sales and marketing	453,316	447,794
General and administrative	771,551	804,510
Other expenses	633,513	836,273
	1,858,380	2,088,577
Loss before restructuring, amortization, interest and income taxes	(272,731)	(564,504)
Amortization of capital assets	(129,044)	(167,110)
Amortization of intangibles	-	(15,538)
Interest and investment income / (expense)	16,516	22,505
NET LOSS FOR THE PERIOD	\$ (385,259)	\$ (724,647)
Loss, basic and diluted, per share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares used to calculate per share amounts, basic and diluted	72,983,885	72,968,390

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Shareholders' Equity

	Common Shares		Contributed Surplus	Accumulated Deficit	Cumulative Translation Adjustment	Total Shareholders' Equity
	Number	Amount				
Balance at December 31, 2004	72,978,228	\$ 117,880,660	\$ 752,872	\$ (107,552,025)	\$ (2,115,157)	\$ 8,966,350
Shares issued on exercise of stock options	5,657	29,699	(29,560)	-	-	139
Stock-based compensation	-	-	164,476	-	-	164,476
Revaluation of share purchase loans	-	-	20,930	(20,930)	-	-
Translation adjustment	-	-	-	-	(95,930)	(95,930)
Reduction of stated capital	-	(108,276,672)	-	108,276,672	-	-
Net loss for the period	-	-	-	(1,931,541)	-	(1,931,541)
Balance at December 31, 2005	72,983,885	\$ 9,633,687	\$ 908,718	\$ (1,227,824)	\$ (2,211,087)	\$ 7,103,494
Stock-based compensation	-	-	43,592	-	-	43,592
Translation adjustment	-	-	-	-	16,604	16,604
Net loss for the period	-	-	-	(385,259)	-	(385,259)
Balance at March 31, 2006	72,983,885	\$ 9,633,687	\$ 952,310	\$ (1,613,083)	\$ (2,194,483)	\$ 6,778,431

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Three months ended March 31,	
	2006	2005
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (385,259)	\$ (724,647)
Items not affecting cash:		
Amortization of capital assets and intangibles	129,044	182,648
Non-cash portion of restructuring charges	-	-
Stock-based compensation	43,592	33,913
	(212,623)	(508,086)
Changes in operating assets and liabilities:		
Accounts receivable	(295,281)	(324,432)
Income taxes receivable	-	-
Prepaid expenses	(265,361)	12,413
Accounts payable and accrued liabilities	430,779	311,877
Deferred revenue	114,665	151,098
Accrued restructuring charge	(86,190)	(156,931)
	(314,011)	(514,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Short term investments	224,653	820,542
Purchase of capital assets, net of related accounts payable	(54,289)	(55,904)
	170,364	764,638
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(1,530)	(4,485)
Issue of common shares	-	-
	(1,530)	(4,485)
NET CASH OUTFLOW	(145,177)	246,092
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	487	19,396
CASH (EXCLUDING SHORT TERM INVESTMENTS), BEGINNING OF PERIOD	2,756,475	2,591,026
CASH (EXCLUDING SHORT TERM INVESTMENTS), END OF PERIOD	\$ 2,611,785	\$ 2,856,514

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

March 31, 2006 and 2005

These interim unaudited Consolidated Financial Statements do not include all note disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements and therefore should be read in conjunction with the audited Consolidated Financial Statements, including the Notes thereto in the Burntsand Inc. 2005 Annual Report.

In the opinion of management, these interim consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the Company's financial position as at March 31, 2006 and the results of operations and cash flows for the three month periods ended March 31, 2006 and 2005.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES:

The interim Consolidated Financial Statements include the accounts of the Company and its subsidiaries (collectively "the Company"). The Notes presented in these interim Consolidated Financial Statements include only significant changes and transactions occurring since the Company's last year end and are not fully inclusive of all matters normally disclosed in the Company's annual audited consolidated financial statements. These consolidated financial statements are prepared using the same accounting principles and application thereof as the financial statements for the year ended December 31, 2005.

2. ACCOUNTS RECEIVABLE

	March 31, 2006	December 31, 2005
Accounts receivable	\$ 3,547,352	\$ 3,190,486
Unbilled receivables	211,453	260,566
Provision for doubtful accounts and unbilled receivables	(165,879)	(165,278)
	<u>\$ 3,592,926</u>	<u>\$ 3,285,774</u>

3. SHARE CAPITAL

As at March 31, 2006, there were 72,983,885 (December 31, 2005 – 72,983,885) common shares issued and outstanding; and 7,992,942 (December 31, 2005 – 8,019,627) options issued and outstanding at exercise prices ranging from \$0.075 to \$2.32 with remaining weighted-average contractual lives of 3.3 years.

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. The Company will cancel any common shares purchased pursuant to the NCIB. Purchases may commence on December 21, 2005 and will terminate on December 20, 2006, or on such earlier date as the Company may complete its purchases. Any purchases will be made on the open market through the facilities of the TSX in accordance with TSX requirements. The price paid for any purchased common shares will be the market price of such shares on the TSX at the time of purchase. No common shares had been purchased under the NCIB as at March 31, 2006.

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

March 31, 2006 and 2005

4. STOCK-BASED COMPENSATION

Stock based compensation is calculated using the fair value of each option granted using the Black Scholes option pricing model on the date of grant and is amortized over the vesting period. In the event an option grant expires unvested, the previously recorded expense is reversed in the period when the unvested option expires. 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.

There have been 102,875 options granted for the three months ended March 31, 2006 (2005 – 1,373,021). The “fair value” of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended March 31,	
	2006	2005
Dividend yield	0%	0%
Risk-free interest rate	4.02%	3.14%
Expected volatility	67%	89%
Expected life	3 years	3 years
Weighted average fair value per option	\$0.063	\$0.084
Weighted average exercise price per option	\$0.135	\$0.145

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

	Three months ended March 31,	
	2006	2005
Cash payments for interest	\$ 1,264	\$ 422
Cash receipts for interest	\$ 19,214	\$ 17,217
Cash payments (refunds) for taxes	\$ 6,465	\$ 9,248

6. RELATED PARTY TRANSACTIONS

Related party transactions for the three-month period ended March 31, 2006 not disclosed elsewhere in these financial statements include:

- (a) revenues of \$10,920 (2004 - \$49,200) earned from a company with a director in common.

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

March 31, 2006 and 2005

7. COMMITMENTS AND CONTINGENCIES

As at March 31, 2006 the Company has provided standby letters of credit for \$75,873 (December 31, 2005 - \$75,548) to a landlord.

8. 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 primary office providing the services. The Company earned revenue from sales to customers in the following geographic locations:

	Three months ended March 31,	
	2006	2005
Canada	\$ 1,850,589	\$ 2,489,837
United States	3,284,564	3,208,616
	<u>\$ 5,135,153</u>	<u>\$ 5,698,453</u>

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

	March 31,	December 31,
	2006	2005
Canada	\$ 762,044	\$ 807,509
United States	696,355	718,701
	<u>\$ 1,458,399</u>	<u>\$ 1,526,210</u>

CORPORATE INFORMATION

Exchange Listing: The common shares of Burntsand Inc. (BRT) are listed on the Toronto Stock Exchange.
Auditors: Deloitte & Touche LLP. Toronto, Ontario
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:
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DIRECTORS

Michael Cardiff⁽¹⁾⁽²⁾

Chief Executive Officer, *Accerlants Inc*

Terry Holland⁽¹⁾⁽²⁾

President and Chief Executive Officer, *Krystal Financial Corporation*

John Kelly⁽¹⁾⁽²⁾

Chairman, *NexInnovations Inc.*

Jim Yeates

Chairman and Chief Executive Officer, *Burntsand Inc.*

⁽¹⁾ Member of the Audit and Corporate Governance Committee

⁽²⁾ Member of the Compensation Committee

CORPORATE MANAGEMENT AND OFFICERS

Blair Baxter

Chief Financial Officer and Chief Operating Officer

Scott Centurino

Vice President, Solutions Infrastructure-USA

Martin Glover

President-USA

Edward Podbelski

Vice President, Consulting Services-USA

John Slater

Vice President, Western Region

Jim Yeates

Chairman and Chief Executive Officer

