BURNTSAND

Burntsand Inc.

Q2 2006 Quarterly Report

For the Quarter Ended June 30, 2006

Contents

Dear Fellow Shareholder

The second quarter of 2006 revenue was an improvement from the first quarter by almost 8%. This is the first step in our 2006 Objectives of increasing revenues. In the third and fourth quarter we will continue to work on revenue growth and on improving our financial performance.

Second Quarter Financial Results (000's)

	Three months ended			Six months ended	
	Jun-30-06	**Mar-31-06**	**Jun-30-05**	**Jun-30-06**	**Jun-30-05**
Revenue	$ 5,462	$ 5,135	$ 5,094	$ 10,597	$ 10,793
EBITDA [1]	$ (131)	$ (273)	$ (635)	$ (403)	$ (1,199)
Net Loss	$ (225)	$ (385)	$ (792)	$ (610)	$ (1,516)
Cash and equivalents	$ 3,701	$ 4,149	$ 5,015	$ 3,701	$ 5,015
Working capital	$ 5,038	$ 5,328	$ 5,982	$ 5,038	$ 5,982

Highlights

The second quarter results include a number of events and announcements for the company. These include:

- Management changes as follows:
    - Tim Duffy is joining the Company as President and Chief Executive Officer effective August 8, 2006;
    - Marty Glover is expanding his role in the Company to that of Chief Operating Officer;
    - Blair Baxter will focus on his role of Chief Financial Officer; and
    - I will retain my role as Chairman of the Company.
- Announced signing contracts for consulting services totaling $800,000 (CDN) with a major global financial services institution based in the United States. These contracts are in addition to the $1,000,000 in contracts previously signed with this client and announced on February 20, 2006; and

On August 4th, 2006 we also announced signing contracts for consulting and outsourcing services totaling $2,400,000 with a major client in Canada. These services, consisting of custom integration, infrastructure and ongoing support of their portal over three years, are an extension of a similar contract valued at $1,100,000 signed in 2003. In extending the contract, the client has enhanced the functionality and deployment of the portal in a remote access environment.

The Company's top 10 accounts accounted for approximately 56% of revenue and the US operations contributed 60% of the revenues for the quarter. During the quarter the Company provided services on 50 new projects for new or existing customers and signed 13 contracts each worth more than $100,000.

The Company continues to have a strong balance sheet, with cash and short-term investments of $3.7 million and working capital of $5.0 million. The Company has no long term debt.

The cornerstone of our plan moving forward is based upon our talented group of employees – the most recent demonstration of this talent is the contract awards on August 4th, 2006. With our base of employees and an expanded leadership team to drive revenue, operations and growth, we are positioned for success.

Best regards,

Jim Yeates
Chairman and CEO

[1] 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
August 2, 2006

The Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and the accompanying notes for the period ended June 30, 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 looking 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	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Services Revenue	$ 4,437	$ 5,269	$ 4,724	$ 4,234	$ 4,313	$ 4,467	$ 4,456	$ 4,790
Total Revenue	$ 5,414	$ 6,080	$ 5,698	$ 5,094	$ 4,862	$ 5,126	$ 5,135	$ 5,462
EBITDA(1)	$ (1,173)	$ (726)	$ (565)	$ (635)	$ (155)	$ 10	$ (273)	$ (131)
Net loss	$ (706)	$ (989)	$ (725)	$ (792)	$ (288)	$ (127)	$ (385)	$ (225)
Loss, basic and diluted, per share(2)	($0.01)	($0.01)	($0.01)	($0.01)	($0.00)	($0.00)	($0.01)	($0.00)

(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. License, maintenance and infrastructure ("LMI") 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 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 June 30, 2006 (Q2 2006) compared to the quarter ended March 31, 2006 (Q1 2006) and to the quarter ended June 30, 2005 (Q2 2005).

Revenues

Revenues for the three months ended June 30, 2006 were $5.5 million compared to $5.1 million for Q1 2006 and $5.1 million for Q2 2005. The increase from Q2 2005 was a result of higher service revenue ($0.6 million) and higher other revenue ($0.1 million), offset by lower LMI revenue ($0.3 million). During the current quarter, service revenues were 88% of total revenues compared to 87% for Q1 2006 and 83% for Q2 2005. LMI revenues were 9% of total revenues compared to 11% for Q1 2006 and 15% for Q2 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, 60% of revenue was from offices in the United States compared to 64% for Q1 2006 and 51% for Q2 2005.

The factors which have impacted service revenues in the current quarter were: a lower effective rate by 8% compared to Q1 2006, but higher by 3% compared to Q2 2005; higher utilization in Q2 2006 of 75%, compared to 70% in Q1 2006 and 73% in Q2 2005; and a change in our average headcount to 94 full–time–equivalent (FTE) delivery people, compared to 88 FTE in Q1 2006 and 96 FTE in Q2 2005.

During the quarter, the Company worked on 124 projects (Q1 2006 - 106; Q2 2005 – 119) for 65 customers (Q1 2006 – 55; Q2 2005 – 77), of which 11 were new customers (Q1 2006 – 8; Q2 2005 – 13). Of the 124 projects this quarter, 50 were new projects (Q1 2006 – 51; Q2 2005 – 50) started this quarter. During the quarter, the Company signed 13 new contracts (Q1 2006 – 8; Q2 2005 – 13), each valued at $100,000 or more. The Company's top 10 customers accounted for 56% of total revenues (Q1 2006 – 56%; Q2 2005 – 56%) and included two customers which accounted for 25% of total revenues.

LMI revenues are impacted by the number of license sales during the quarter. Total license revenue was $0.4 million and maintenance revenue was $0.1 million. In general there are large single sales of licenses, which make up the majority of the license revenues. LMI revenues decreased by $0.1 million from Q1 2006 and decreased by $0.3 million from Q2 2005. The maintenance revenues consist of both new maintenance contracts on new licenses and renewal of maintenance contracts on previously sold licenses.

Costs

Cost of services in Q2 2006 increased by $0.2 million from Q1 2006 and $0.2 million from Q2 2005. The increase in cost of services was due to higher headcount in Q2 2006 over Q1 2006. The increase in cost of services from Q2 2005 was due to higher subcontractor costs per FTE contractor and additional subcontractors in Q2 2006 compared to Q2 2005. As a percentage of services revenues, cost of services was consistent at 66% with Q1 2006 and improved from 69% in Q2 2005.

Cost of LMI increased by 19% 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 decreased to 79% in Q2 2006 from 86% in Q1 2006 and 87% in Q2 2005.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 34% for Q2 2006 compared to 34% in Q1 2006 and 31% in Q2 2005. The consistent gross profit from Q1 2006 is due to the offsetting effects of a lower average effective daily rate and an increase in utilization. The increase in gross profit from Q2 2005 is due to an improvement in the average effective daily rate and the improvement in utilization. Services profitability and company profitability is significantly impacted by utilization and average effective daily rates.

Gross profit for LMI was 21% in Q2 2006 compared to 14% in Q1 2006 and 13% in Q2 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. 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 2% in Q2 2006 compared to Q1 2006 and was consistent with Q2 2005. The expense increase from Q1 2006 is due to higher sales commissions, offset by lower sales headcount (one FTE who was been assigned to recruiting and is included in general and administrative expense). A key objective for the Company is to increase sales in 2006 and the sales efforts has been increased to pursue opportunities. As a percentage of revenues, sales and marketing expenses decreased to 8% from 9% in Q1 2006 and 9% in Q2 2005. The Company will be participating at the annual Momentum conference (world-wide conference for Documentum users) in September 2006 and will incur additional sales, marketing and travel expenses in the third quarter.

General and administrative expense decreased by 12% in Q2 2006 compared to Q1 2006 and decreased by 15% compared to Q2 2005. The decrease from Q1 2006 is related to lower compensation expense for management and lower recruiting fees, but includes one additional recruiting resource. The decrease from Q2 2005 is primarily related to lower administrative headcount. As a percentage of revenues, general and administrative expenses have decreased to 12% in Q2 2006 compared to 15% in Q1 2006 and 16% in Q2 2005. In July 2006 the Company announced it has hired a full-time CEO, effective August 8th, 2006, and will incur increased expenses for compensation and one-time recruiting fees.

Other expenses consist of the following components:

	Three months ended		
	June 30, 2006	March 31, 2006	June 30, 2005
Rent, parking and office	$ 251,140	$ 252,584	$ 276,662
Business travel & training	245,882	205,243	236,037
Telecommunications, technology and insurance	146,417	146,524	223,832
Foreign exchange expense	33,060	(33)	4,139
Miscellaneous (including bad debt)	30,446	29,195	23,528
Total Other Expenses	$ 706,945	$ 633,513	$ 764,198

Overall, other expenses have increased by 12% in Q2 2006 compared to Q1 2006 and decreased by 7% from Q2 2005. The increase in other expenses from Q1 2006 consists of increased travel costs and foreign exchange expense. The reduction in other expenses from Q2 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 increased to 13% in Q2 2006, compared to 12% in Q1 2006 and decreased from 15% in Q2 2005.

Other

Amortization of capital assets decreased in Q2 2006 compared to Q1 2006 and Q2 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 $45,009 of new assets and amortizing $119,103 of capital assets in Q2 2006. The Company expects amortization of capital assets to slowly decrease as the net book value of capital assets continues to decrease.

Net interest and investment income was higher in Q2 2006 compared with Q1 2006 and Q2 2005 due to better rates of return on short-term investments held in the United States. 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.

Six months ended June 30, 2006 (YTD 2006) compared to the six months ended June 30, 2005 (YTD 2005).

Revenues

Revenues for the six months ended June 30, 2006 were $10.6 million compared $10.8 million for YTD 2005. The decrease from YTD 2005 was a result of lower LMI revenue ($0.6 million) and higher service revenue ($0.3 million). During the current period, service revenues were 87% of total revenues compared to 83% for YTD 2005. LMI revenues were 10% of total revenues compared to 15% for YTD 2005. In the current period, 62% of revenue was from offices in the United States compared to 54% for YTD 2005.

The factors which have impacted service revenues in the current period were: increased effective rate by 5% compared to YTD 2005; higher utilization in YTD 2006 of 73%, compared to 72% in YTD 2005; offset by a decrease in our average headcount to 94 full–time–equivalent (FTE) delivery people, compared to 100 FTE in YTD 2005.

LMI revenues are impacted by the number of license sales during the period. Total license revenue was $0.6 million (YTD 2005 - $0.8 million) and maintenance revenue was $0.4 million (YTD 2005 - $0.8 million). LMI revenues have been decreasing for several years as the Company has focused on fewer, but more strategic suppliers.

Costs

Cost of services in YTD 2006 decreased by 3% from YTD 2005. The lower cost of services was due to lower headcount in YTD 2006 over YTD 2005, offset by an increase in employee compensation, subcontractor compensation and benefit costs.

Cost of LMI decreased by 36% 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 period to period. As a percentage of revenue, costs decreased to 83% in YTD 2006 from 84% in YTD 2005.

Gross Profit
Gross profit for services, as a percentage of services revenue, was 34% for YTD 2006 compared to 30% in YTD 2005. The improved gross profit from YTD 2006 is due to improved average effective daily rates and the slight increase in utilization. The combination of higher service revenue on lower delivery costs has improved gross margin both as a percentage and in absolute terms in YTD 2006. Services profitability and company profitability is significantly impacted by utilization and average effective daily rates.

Gross profit for LMI was 17% in YTD 2006 compared to 16% in YTD 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. 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 were consistent in YTD 2006 compared to YTD 2005. The consistent overall expense from YTD 2005 is the result of lower sales headcount, higher productivity measured by higher sale commissions and a consistent investment in sales and marketing programs. A key objective for the Company is to increase sales in 2006 and marketing efforts have been increased to create more opportunities. As a percentage of revenues, sales and marketing expenses increased to 9% from 8% in YTD 2005.

General and administrative expense decreased by 9% in YTD 2006 compared to YTD 2005. The decrease from YTD 2005 is related to reductions in administrative personnel, improved cost control on external reporting; offset by higher recruiting costs. As a percentage of revenues, general and administrative expenses have decreased to 14% in YTD 2006 compared to 15% in YTD 2005.

Other expenses consist of the following components:

	Six months ended	
	June 30, 2006	June 30, 2005
Rent, parking and office	$ 503,724	$ 579,665
Business travel & training	451,125	481,372
Telecommunications, technology and insurance	292,941	423,909
Foreign exchange expense	33,027	9,210
Miscellaneous (including bad debt)	59,641	106,315
Total Other Expenses	$ 1,340,458	$ 1,600,471

Overall, other expenses have decreased by 16% in YTD 2006 compared to YTD 2005. The reduction in other expenses from YTD 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, offset by increased foreign exchange expense. As a percentage of revenues, other expenses decreased to 13% in YTD 2006 compared to 15% in YTD 2005.

Other
Amortization of capital assets decreased in YTD 2006 compared to YTD 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 $99,298 of new assets and amortizing $248,147 of capital assets in YTD 2006. The Company expects amortization of capital assets to slowly decrease as the net book value of capital assets continues to decrease.

Net interest and investment income was consistent in YTD 2006 compared with YTD 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 period.

Liquidity and Capital Resources

The Company finished the period ended June 30, 2006 with cash and short-term investments of $3.7 million compared to $4.1 million at March 31, 2006. The decrease of $446,000 in cash and short-term investments is due to the acquisition of capital assets ($45,000), purchase and cancellation of shares under the Normal Course Issuer Bid ($45,000), the impact of foreign exchange consolidation rates on cash balances ($76,000), payment of previously accrued restructuring charges ($92,000) and cash used by operations ($188,000), including working capital changes.

At June 30, 2006, the Company's short-term obligations include accounts payable and accrued liabilities, deferred revenue, current portion of restructuring charges and capital leases. The following table identifies the Contractual Obligations of the Company at June 30, 2006:

	Payments due by Period (calendar year)					
Contractual Obligations	**Total**	**2006**	**2007**	**2008**	**2009**	**Beyond**
Capital Lease Obligations	$ 13,092	$ 3,154	$ 6,544	$ 3,394	$ -	$ -
Operating Leases [(1)]	1,775,685	426,923	553,771	417,756	159,619	217,616
Accrued Restructuring Leases	124,085	124,085	-	-	-	-
Total Contractual Obligations	**$ 1,912,862**	**$ 554,162**	**$ 560,315**	**$ 421,150**	**$ 159,619**	**$ 217,616**

(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 $0.1 million ending in November 2006.

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. During the quarter ended June 30, 2006, the Company purchased and cancelled 481,000 common shares at a total cost of $44,785.

The Company has no material outstanding commitments for capital expenditures. In general, the Company does not incur significant capital requirements for equipment as the Company grows its employee base. 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, entirely through the issuance of share capital. The Company currently has cash reserves and expects to finance any 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.

<u>Share Capital</u>

As of July 31st, 2006, there are 72,502,885 common shares issued and outstanding and 7,634,314 options outstanding at exercise prices ranging from $0.07 to $2.32 with remaining weighted average contractual lives of 3 years.

At the Annual and Special Meeting of Shareholders on June 16th, 2006, the shareholders approved the Share Consolidation Resolution. The Share Consolidation Resolution is designed to authorize the Board of Directors, if and when it deems appropriate but no later than June 1, 2007, to consolidate the then outstanding Common Shares into one (1) new Common Share for ten (10) outstanding Common Shares. The Board has not yet authorized the consolidation.

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, and Portals / Integration / 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 no (2005 – $13,560) related party transaction during the current quarter. For the six month period ended June 30, 2006, revenues of $10,920 (2005 - $62,760) 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 communicate 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. Where the Company acts as an agent in a license, maintenance or network infrastructure sale, the net amount received by the Company is recorded.

Third-party 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 and costs are recognized ratably over the term of the arrangement, generally one year. Where the Company is not the primary obligor in the sale of third-party maintenance and support arrangements, revenue and costs are 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 June 30, 2006, March 31, 2006 and June 30, 2005, our average days-sales-outstanding for accounts receivable was 61 days, 63 days and 59 days, respectively. The fluctuations in days-sales-outstanding is primarily due to the timing of invoicing during each quarter. 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 June 30, 2006 and March 31, 2006, \$0.1 million and \$0.2 million, respectively, was provided for doubtful accounts and unbilled receivables.

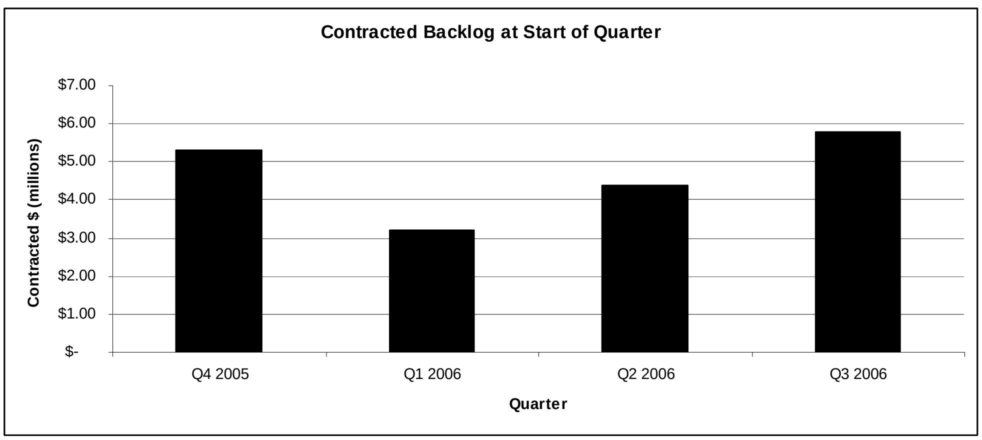
Outlook

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 Q3 2006 with $5.8 million (Q2 2006 - $4.4 million) in services backlog, of which $3.5 million (Q2 2006 - $3.1 million) is scheduled to be completed in the third 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 Q3 2006 with $0.4 million (Q2 2006 - $0.3 million) in T&M contracts. The value of these T&M contracts is based upon an estimate of scheduled work within the next quarter.

During the quarter the Company announced significant customer contracts totaling $0.8 million in June 2006. This work was in addition to the $1.0 million in contracts for the same client announced in February 2006. These contracts are included in the services backlog.

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 four quarters. The following graph highlights this trend.



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 June 30, 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

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 2,414,192**	$ 2,756,475
Short-term investments	**1,286,868**	1,761,578
Accounts receivable (Note 2)	**3,660,120**	3,285,774
Prepaid expenses	**508,407**	504,421
	7,869,587	8,308,248
Capital assets	**1,190,847**	1,356,662
Goodwill and other intangibles	**162,725**	169,548
	$ 9,223,159	$ 9,834,458
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 2,251,581**	$ 1,915,154
Deferred revenue	**449,119**	488,633
Current portion of accrued restructuring charge	**124,085**	311,006
Current portion of obligations under capital leases	**6,387**	6,233
	2,831,172	2,721,026
Long-term portion of obligations under capital leases	**6,705**	9,938
	2,837,877	2,730,964
SHAREHOLDERS' EQUITY		
Common shares (Note 3)	**9,588,902**	9,633,687
Contributed surplus	**992,914**	908,718
Deficit	**(1,838,092)**	(1,227,824)
Cumulative translation adjustment	**(2,358,442)**	(2,211,087)
	6,385,282	7,103,494
	$ 9,223,159	$ 9,834,458

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE				
Services	**$ 4,790,352**	$ 4,233,883	**$ 9,246,415**	$ 8,957,486
License, maintenance and network infrastructure	**485,395**	746,653	**1,033,546**	1,591,107
Other revenue	**185,876**	113,582	**316,815**	243,978
	5,461,623	5,094,118	**10,596,776**	10,792,571
COSTS				
Cost of services	**3,172,691**	2,938,656	**6,118,516**	6,313,654
Cost of license, maintenance and network infrastructure	**381,234**	649,397	**853,974**	1,342,281
Cost of other revenue	**185,876**	110,859	**316,815**	217,357
	3,739,801	3,698,912	**7,289,305**	7,873,292
GROSS PROFIT	**1,721,822**	1,395,206	**3,307,471**	2,919,279
EXPENSES				
Sales and marketing	**462,808**	465,673	**916,124**	913,467
General and administrative	**682,665**	799,901	**1,454,216**	1,604,411
Other expenses	**706,945**	764,198	**1,340,458**	1,600,471
	1,852,418	2,029,772	**3,710,798**	4,118,349
Loss before restructuring, amortization, interest and income taxes	**(130,596)**	(634,566)	**(403,327)**	(1,199,070)
Amortization of capital assets	**(119,103)**	(159,745)	**(248,147)**	(326,855)
Amortization of intangibles	**-**	(13,468)	**-**	(29,006)
Interest and investment income (net of expense)	**24,690**	16,175	**41,206**	38,680
NET LOSS FOR THE PERIOD	**$ (225,009)**	$ (791,604)	**$ (610,268)**	$(1,516,251)
Loss, basic and diluted, per share	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.02)
Weighted average number of common shares used to calculate per share amounts, basic and diluted	**72,897,863**	72,978,228	**72,940,636**	72,978,228

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Shareholders' Equity

	Common Shares		Contributed	Accumulated	Cumulative Translation	Total Shareholders'
	Number	Amount	Surplus	Deficit	Adjustment	Equity
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	-	-	84,196	-	-	84,196
Purchase of shares under Normal Course Issuer Bid	(481,000)	(44,785)				(44,785)
Translation adjustment	-	-	-	-	(147,355)	(147,355)
Net loss for the period	-	-	-	(610,268)	-	(610,268)
Balance at June 30, 2006 (unaudited)	72,502,885	$ 9,588,902	$ 992,914	$ (1,838,092)	$ (2,358,442)	$ 6,385,282

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	**(225,009)**	$ (791,604)	**$ (610,268)**	$ (1,516,251)
Items not affecting cash:				
Amortization of capital assets and intangibles	**119,103**	173,213	**248,147**	355,861
Stock-based compensation	**40,604**	48,165	**84,196**	82,078
	(65,302)	(570,226)	**(277,925)**	(1,078,312)
Changes in operating assets and liabilities:				
Accounts receivable	**(170,367)**	856,840	**(465,648)**	532,408
Prepaid expenses	**254,255**	141,474	**(11,106)**	153,887
Accounts payable and accrued liabilities	**(54,584)**	(384,102)	**376,195**	(72,225)
Deferred revenue	**(152,939)**	(275,929)	**(38,274)**	(124,831)
Accrued restructuring charge	**(91,581)**	(157,649)	**(177,771)**	(314,580)
	(280,518)	(389,592)	**(594,529)**	(903,653)
CASH FLOWS FROM INVESTING ACTIVITIES				
Short term investments	**250,057**	(377,969)	**474,710**	442,573
Purchase of capital assets, net of related accounts payable	**(45,009)**	(36,813)	**(99,298)**	(92,717)
	205,048	(414,782)	**375,412**	349,856
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on capital lease obligations	**(1,549)**	(4,541)	**(3,079)**	(9,026)
Purchase of shares under Normal Course Issuer Bid	**(44,785)**	-	**(44,785)**	-
	(46,334)	(4,541)	**(47,864)**	(9,026)
NET CASH OUTFLOW	**(121,804)**	(808,915)	**(266,981)**	(562,823)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	**(75,789)**	28,775	**(75,302)**	48,171
CASH (EXCLUDING SHORT TERM INVESTMENTS), BEGINNING OF PERIOD	**2,611,785**	2,856,514	**2,756,475**	2,591,026
CASH (EXCLUDING SHORT TERM INVESTMENTS), END OF PERIOD	**2,414,192**	$ 2,076,374	**$ 2,414,192**	$ 2,076,374

See accompanying Notes to the Consolidated Financial Statements

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 Company's 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 June 30, 2006 and the results of operations and cash flows for the three and six month periods ended June 30, 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

	June 30, 2006	December 31, 2005
Accounts receivable	$ 3,759,280	$ 3,190,486
Unbilled receivables	39,235	260,566
Provision for doubtful accounts and unbilled receivables	(138,395)	(165,278)
	$ 3,660,120	$ 3,285,774

3. SHARE CAPITAL

As at June 30, 2006, there were 72,502,885 (December 31, 2005 –72,983,885) common shares issued and outstanding; and 7,874,127 (December 31, 2005 – 8,019,627) options issued and outstanding at exercise prices ranging from $0.07 to $2.32 with remaining weighted-average contractual lives of 3.0 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. During the quarter ended June 30, 2006, the Company purchased and cancelled 481,000 common shares at a total cost of $44,785.

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 77,650 options granted for the three month period and 180,525 options granted for the six month period ended June 30, 2006 (2005 – 582,410 and 1,955,431 respectively). The "fair value" of each option granted was estimated on the date of the grant with the following assumptions:

	Three months ended June 30	
	2006	2005
Dividend yield	0%	0%
Risk-free interest rate	4.37%	2.92%
Expected volatility	66%	76%
Expected life	3 years	3 years
Weighted average fair value per option	$0.063	$0.066
Weighted average exercise price per option	$0.085	$0.130

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

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash payments for interest	$ 179	$ 291	$ 1,443	$ 713
Cash receipts for interest	$ 31,709	$ 21,815	$ 50,923	$ 39,032
Cash payments (refunds) for taxes	$ (281)	$ -	$ 6,184	$ 9,248

6. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues earned from a company with a director in common	$ -	$ 13,560	$ 10,920	$ 62,760

7. COMMITMENTS AND CONTINGENCIES

As at June 30, 2006 the Company has provided standby letters of credit for $72,508 (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 June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Canada	$ 2,169,321	$ 2,473,987	$ 4,019,910	$ 4,963,824
United States	3,292,302	2,620,131	6,576,866	5,828,747
	$ 5,461,623	$ 5,094,118	$ 10,596,776	$ 10,792,571

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

	June 30, 2006	December 31, 2005
Canada	$ 714,407	$ 807,509
United States	639,165	718,701
	$ 1,353,572	$ 1,526,210

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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: 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, *Accerlents Inc*
Tim Duffy	President and Chief Executive Officer (August 8, 2006), *Burntsand Inc.*
Terry Holland(1)(2)	President and Chief Executive Officer, *Krystal Financial Corporation*
John Kelly(1)(2)	Chairman, *NexInnovations Inc.*
Jim Yeates	Chairman, *Burntsand Inc.*

(1) Member if 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 Services-USA
John Slater	Vice President, BC

BURNTSAND