



BURNTSAND

ANNUAL REPORT 2008

LETTER FROM THE CHAIRMAN

Dear Fellow Shareholder:

We are pleased to report for 2008 cash flow from operating activities of \$726,000, an increase in working capital of 35% to \$6.4 million and an increase in shareholders' equity of 26% to \$7.3 million. This strong financial position, our best in years, provides us with resources that are adequate to fund the current level of operations and when appropriate to invest in future growth, either organically or from acquisitions.

Our focus has and continues to be on providing strategic, technology architecture and custom development services for a growing market for Integrated Information Management (IIM) solutions in our Collaboration, Enterprise Content Management, and Service Management practices. Our solutions help our clients run their business more efficiently. Our partners in these practices, Microsoft, EMC and BMC, continue to be technology industry leaders which combined with the exceptional team of people at Burtsand provides us with a strong competitive position. We continue to focus on the life sciences, biotechnology and health care, markets with business process focused solutions that our clients need.

As we look forward, 2009 will be a challenging year for the North American economy and we do not expect that Burtsand will be immune from these challenges. We do see a softening in our backlog and clients delaying projects until they see more certainty in their own businesses. 2009 will be a focus on cash generation/conservation for Burtsand so as to ensure that we have the continuing strong financial base.

The Board, Management and the entire Burtsand team are focused on meeting these challenges head on so that when the economy recovers we will be stronger than ever to take advantage of the opportunities a growing economy and market will present.

As always, we invite your comments and encourage you to follow the progress of your Company on our website at www.burtsand.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Yeates". The signature is written in a cursive style with a large initial "J" and a distinct "Yeates" following.

Jim Yeates
Chairman

LETTER FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Dear Fellow Shareholder:

2008 was another successful year at Burnsand. Thanks to our valued customers, partners, and employees we continued to make progress in a number of key areas including the following 2008 highlights that I am proud to report to you:

Financial

- Adjusted EBITDA of \$428,000 on service revenue of \$22.3 million and cash flow from operating activities of \$726,000
- Gross profit percentage on services of 32.1%
- Net income, excluding a translation loss of \$314,900, of \$98,000 up from \$6,000 in 2007.
- Successive 2008 quarter-over-quarter increase in service revenue and Adjusted EBITDA
- Working capital of \$6.4 million increased 36% and shareholders' equity of \$7.3 million increased 25% over 2007

Customer

- 36 new customers and 58 new contracts valued at \$100,000 or more
- Significant customer contracts including: \$610,000 Service Management Solution for a leading technology company; \$850,000 Enterprise Content Management application development work for a leading biotechnology company; \$500,000 US Enterprise Content Management strategic plan for a large global provider of software and services; and \$439,000 Microsoft Exchange Support services for a major health care client in Canada
- Backlog increased to \$7.5 million compared to \$7.3 million in 2007

Partner

- Microsoft Gold Partner status for the 7th year in a row
- Microsoft Gold Certified Partner Excellence Program
- Microsoft Business Solution of the Year award winner
- EMC Elite-level sponsorship at EMC's annual user conference, EMC World

While I am pleased to report these highlights, I am also delighted to report that we made significant progress during the current fiscal year in strengthening the competencies and specializations of our delivery teams which positions us well for greater success in the years ahead. For example, in our Microsoft practice, we now have 6 competencies with 7 additional specializations in our Canadian business and 5 competencies with 7 additional specializations in our US business. Further, our Microsoft Office SharePoint Server (MOSS) teams in Canada and the US are the strongest that they have ever been. In 2008, we also invested in sales and marketing programs to expand our reach geographically and focus in key market segments, including life sciences, biotechnology and health care.

We continue to focus on Integrated Information Management (IIM) solutions in our Collaboration, Enterprise Content Management, and Service Management practices. These solutions allow companies to efficiently manage documents and other information assets they create or process and we deliver these solutions utilizing a unique delivery methodology that optimizes the time to value in achieving these gains. Our partners in these practices, Microsoft, EMC and BMC, continue to be technology industry leaders and invest significant resources in enhancing their application platforms and in sales and marketing applications to support new license sales.

Our success at Burnsand is driven by an exceptional team of people that create an unmatched customer experience and I would like to thank them personally for all their dedication, support, commitment and team work.

While I am encouraged by the quarter over quarter improvement in our 2008 operating results, we have set our 2009 goals based upon the slowdown in the North America economy. We have already taken measures in early 2009 to align our cost structure in order to maintain or competitive position in the market place and we will continue to closely manage our business. Our overall business strategy is to deliver sustainable growth in key metrics and have set the following objectives for 2009:

- create more business process focused solutions with an industry focus to improve services gross profit; and
- continue to focus on productivity to improve services gross profit and increase net income.

I invite your comments and encourage you to follow the progress of your Company

Sincerely,



Martin L. Glover
President and Chief Executive Officer
mgllover@burntsand.com

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, 2008. Additional information relating to Burntsand Inc. ("Burntsand" or "Company"), 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 Annual Information
- Results of Operations
- Quarterly Financial Information
- Liquidity and Capital Resources
- Off Balance Sheet Arrangements
- Share Capital
- Risk Factors and Risk Management
- Related Party Transactions
- Critical Accounting Estimates
- Reconciliation of Non-GAAP Measures
- Changes to GAAP and Accounting Policies
- Disclosure and Internal Controls over Financial Reporting
- Outlook

Forward Looking Information

Certain information in this Management's Discussion & Analysis 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 (see "Risk Factors and Risk Management" below).

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

The Company's business is providing IT consulting services to our clients. These consulting services are targeted at Fortune 2000 companies or divisions of Fortune 2000 companies with complex information processing and information management requirements in three areas or practices - Enterprise Content Management, Collaboration, and Service Management – all of which can be classified under the industry term Integrated Information Management. The Company's practices all deliver similar services to our clients – strategic design, technology architecture services and custom application development. These services are all aligned around our strategic partners. Finally, the Company is focused on clients in a small number of industries to provide the greatest possible industry knowledge.

Practices

Enterprise Content Management – Information or content traditionally takes the form of structured data (such as customer data, employee information, health records, insurance records, etc), unstructured data (such as documents

and drawings), and semi-structured data (such as forms and records). A solution based on Enterprise Content Management provides a client with an application to better manage and process this information across the entire enterprise and is normally integrated with an existing application or set of records in another information system. The Company's strategic partner in this practice is EMC/Documentum.

Collaboration – The ability to work as teams on business processes and improve productivity is the fundamental advantage of collaboration. The Collaboration practice uses a suite of Microsoft technologies. The Company's services in the collaboration practice include developing advanced portal solutions and custom application development. Additionally, the Company is a leading provider of user interface design for portals and applications, ensuring a high rate of system adoption and user satisfaction. Our strategic partner in this practice is Microsoft – the Company is a Microsoft Gold Partner in both Canada (6 competencies with 7 additional specializations) and the US (5 competencies with 7 additional specializations).

Service Management – are solutions to enable an organization to respond proactively and efficiently to the technology demands of its business units, providing superior IT and infrastructure support. Service Management is a relatively universal business process that takes on specific names like Business Service Management, Facilities Management, Logistics Management, and Technology Infrastructure Management. Our strategic partner in this practice is BMC/Remedy.

Services

All our practices provide a broad spectrum of consulting services – from both a business and technology expertise standpoint. One of the compelling reasons that clients select the Company is the knowledge and expertise our people provide in the following areas:

Our strategic services – Often referred to as Roadmaps our services begin with a thorough understanding of a client's business strategy and its critical success factors and objectives; which are then mapped against an assessment of its current state of both technology and culture; then developed into a future vision and finally a high level plan to achieve the client's business strategy. Once the strategy has been set, additional services are available to assist the client in achieving their objectives.

Our technology architecture services – The architecture or design is one of the most critical steps prior to starting work on a custom development project – inadequate architecture and design almost always leads to unsuccessful implementations. Our architects are some of the best in the business – most with 10 or more years experience.

Our custom development services – The most visible part of our business is the custom development we do for clients where we strive for the best time to value for our clients combined with the best client experience. Building robust, custom applications which are often integrated with such as back office applications of Oracle, SAP and other custom applications bring the highest value possible to our clients. These custom applications are built on our strategic partner technologies from Microsoft, EMC/Documentum and BMC/Remedy.

Our other services – Creating a strategic direction, architecting the best solution and developing the applications are only the first steps to deliver value to our customers – implementing the solution, change management, training and knowledge transfer are often the most critical part of the clients needs. Our teams provide these services as part of our consulting services.

Clients

By providing these services to our clients, we help them to unify and integrate their information to increase their productivity and realize near-term business benefits and long-term competitive gains. The Company's clients are mid-market companies (revenues between \$100 million and \$1 billion).

The Company is primarily focused on "business to business" relationships and has developed expertise in specific industries: life sciences, healthcare, financial services, government and energy. In order to improve our gross margins and profitability, our strategy is to focus more on business process owners within these industries who require our consulting services as part of a solution to business problems, while continuing to provide best in class strategy, technology architecture and custom application development to all our clients on their development projects.

In addition to direct relationships with clients, we provide services to our strategic partners. All of our strategic partners have contracted the Company's consultants to provide services to their clients – perhaps the most ringing endorsement of the quality of our people and services. It is the expertise and professionalism that our consultants provide to clients which create the distinctiveness of our services.

Headquartered in Toronto, the Company operates from locations across North America. The company's shares (TSX: BRT) are traded on the Toronto Stock Exchange.

Our Business Strategy and Objectives for 2009 and beyond

Our overall business strategy is to deliver sustainable growth in key metrics – revenue, gross margin, profitability and ultimately shareholder value by focusing on solutions for business process owners in our practice and industry areas.

Selected Annual Information

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Services revenue	\$ 22,346,733	\$ 22,879,256	\$ 20,325,832	\$ 17,737,484
Total revenue	25,441,820	26,481,012	23,637,739	20,780,445
Gross profit	7,340,624	7,892,040	7,233,914	6,095,570
Adjusted EBITDA ⁽¹⁾	427,837	461,315	(343,767)	(1,343,975)
Net income /(loss)	(216,690)	6,004	(800,551)	(1,931,541)
Loss, basic and diluted, per share ⁽²⁾	(0.00)	0.00	(0.01)	(0.03)
Cash inflow/(outflow) from operating activities	725,531	367,941	(259,859)	(1,223,995)
Total assets	11,327,013	8,934,717	10,414,503	9,834,458
Working capital	6,359,321	4,715,574	5,015,365	5,587,222
Total long-term financial liabilities	4,926	160,993	342,417	9,938
Total shareholders' equity	7,347,402	5,871,528	6,428,782	7,103,494
Cash dividends declared	\$ -	\$ -	\$ -	\$ -

⁽¹⁾ The Company reports Adjusted EBITDA because it is a key measure used by management to evaluate performance of business units and the Company. Adjusted 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. Adjusted EBITDA represents earnings before interest, realized currency translation loss, taxes, depreciation and amortization. (See "Reconciliation of Non-GAAP Measures" below)

⁽²⁾ Rounded to the nearest cent.

Highlights

For the year ended December 31, 2008 the net loss was (\$0.2) million and Adjusted EBITDA was \$0.4 million on service revenue of \$22.3 million. This compares to a net profit of nil and Adjusted EBITDA of \$0.5 million on service revenue of \$22.9 million for the year ended December 31, 2007. The net loss in 2008 is primarily due to a realized currency translation loss of \$0.3M in the fourth quarter on the repayment of an intercompany loan by a wholly-owned self-sustaining foreign subsidiary of the Company. There was no impact on consolidated cash, working capital, total assets or shareholders' equity as a result of this intercompany transaction. As at December 31, 2008, the Company reported working capital of \$6.4 million, an increase of \$1.7 million over the working capital of \$4.7 million as at December 31, 2007.

For the last four years, service revenue has grown at a compounded annual growth rate of 8%, gross profit on service revenue have been in the 32.0% to 36.0% range, Adjusted EBITDA has increased from a loss of (\$1.3) million in 2005 to \$0.4 million in 2008, and cash flow from operations has increased from cash flow used in operations of (\$1.2) million to cash flow provided from operations of \$0.7 million. For 2009, the Company anticipates that there will be limited growth in service revenue due to the current economic conditions. In this regard the Company will focus on:

- creating more business process focused solutions with an industry focus to improve services gross profit; and
- productivity improvements in order to improve services gross profit and increase net income

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 our consolidated revenues and expenses are affected by currency exchange-rate fluctuations.

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 87.8% (2007- 86.4%) of overall revenues. Revenue from the sale of third-party software products and from the sale of maintenance on the third-party products represents 8.0% (2007- 9.9%) of revenues overall, but only 1.5% (2007-2.9%) 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 at cost 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 services consists of all compensation of consultants, including benefits, and sub-contractor fees. Cost of services includes all management personnel related to the consultants. 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 consultant's time spent on project work. 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 and the compensation, including benefits, of business development personnel. General and administrative expense is the cost, including benefits, of non-client-facing personnel, 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, 2008 compared to Year ended December 31, 2007

Impact of Foreign Exchange

The weighted average exchange rates used for consolidation ("consolidation foreign exchange rate") of our US operations were \$1.081CDN and \$1.075CDN in 2008 and 2007, respectively for each US dollar. Our US operations represent 67.1% (2007- 64.4%) of our revenues and 56.4% (2007-59.0%) of our costs and expenses. If the 2008 foreign exchange rate had held constant with the 2007 rates, 2008 Adjusted EBITDA would have decreased by \$16,300.

The following comparisons include the impact of foreign exchange.

Revenues

Revenues for 2008 were \$25.4 million compared to \$26.5 million for the previous year, a decrease of 3.9%. During 2008, service revenues were 87.8% of total revenues, an increase from 86.4% of total 2007 revenues. License and maintenance revenues were 8.0% of total 2008 revenues compared to 9.9% in the previous year. The Company's focus is on profitable service revenue, however, it will continue to earn revenues from the sale of licenses and maintenance as we are an integrator in the business of delivering complete solutions to our customers. In 2008, 67.1% of total revenues (2007 – 64.4%) and 72.8% of services revenue (2007 – 71.6%) were from offices in the United States.

Service revenue-

Service revenues for 2008 were \$22.3 million compared to \$22.9 million for 2007, a decrease of \$0.6 million or 2.3%. During 2008, the Company worked on 253 projects (2007 – 305) for 98 customers (2007 – 112), of which 36 were new customers (2007 – 40). Of the 253 projects in 2008, 197 were new projects (2007 – 233) which included 58 new contracts (2007 – 67) valued at \$100,000 more. In response to this lower level of activity, we reduced our average head count of full-time-equivalent service delivery personnel (“FTE”) to 108.6 FTE in 2008 from 117.0 FTE in 2007. The Company’s top 10 customers accounted for 55.4% of 2008 service revenues (2007 – 60.7%) and included one customer that accounted for 10.3% of 2008 service revenue (2007- two customers - 30.6%). During 2008, our average service revenue per customer increased 11.6% to approximately \$228,000 (2007 – \$204,000). The increase in revenue per customer is a result of increased sales and marketing efforts targeted at business process solutions offerings which by their nature are larger.

License and maintenance revenue-

During 2008, the Company’s license and maintenance revenues decreased by 22.6% which continued a trend over the past several years. Of the Company’s three strategic partners, EMC, Microsoft and BMC, we only sell products from BMC.

Costs

Costs for 2008 were \$18.1 million compared to \$18.6 million for the previous year, a decrease of 2.6%.

Cost of services for 2008 were \$15.2 million compared to \$15.3 million for 2007, a decrease of \$0.1 million or 0.7%. The decrease is due to lower average full-time-equivalent service delivery personnel in 2008 which reduced the cost of service by approximately \$1.1 million. Partially offsetting this was an increase in the cost of service of \$1.0 million resulting from an enhancement of our delivery teams to meet the current market needs and to increase the competencies and specializations of our delivery teams. As a percentage of services revenue, cost of service was 67.9% (2007 – 66.8%)

Cost of license and maintenance decreased in 2008 due to the mix of products sold and fewer transactions. As a percentage of license and maintenance revenue the costs increased to 94.6% (2007- 91.2%).

Gross Profit

Gross profits for 2008 were \$7.3 million compared to \$7.9 million for the previous year.

Gross profit for services was 32.1% for 2008 compared to 33.2% in 2007. The decrease is primarily due to the higher cost of service resulting from the changes in the delivery teams as described above. This increase in cost did not result in an immediate increase in service revenue at our normal gross profit percentages. Utilization for 2008 was 80.6% (2007- 80.2%).

Gross profit for license and maintenance products was 5.4% in 2008 and 8.8% in 2007. In general, license and maintenance gross profit, both as a percentage and dollars, has been decreasing for several years and this trend is expected to continue.

Expenses

Sales and marketing expenses increased by 16.2% in 2008. This change is due to higher direct sales personnel and marketing headcount and an increase in marketing programs in order to stimulate the growth of orders and revenue. As a percentage of revenues, sales and marketing expenses increased to 8.2% from 6.8% in 2007. The Company expects its level of sales and marketing expenses in 2009 to be consistent with the 2008 expenses.

General and administrative expenses decreased by 17.9% in 2008. The change in general and administrative expenses reflects a decrease in recruiting fees and severance costs. As a percentage of revenues, general and administrative expenses decreased to 9.8% from 11.5% in 2007. General and administrative expenses do not vary significantly with changes in revenue and the Company expects that 2009 expenses will be consistent with the 2008 expenses.

Other expenses consist of the following main components:

	2008	2007
Rent, parking and office	\$ 800,160	\$ 893,234
Business travel & training	732,562	894,419
Telecommunications, technology and insurance	562,019	593,902
Foreign exchange expense	84,720	40,747
Miscellaneous (including bad debt)	148,922	169,992
	\$ 2,328,383	\$ 2,592,294

Overall, other expenses have decreased by 10.2% for 2008. This decrease is a result of ongoing cost management in all areas of discretionary spending. In 2007, the Company relocated all of its Canadian offices and the majority of its US offices to lower cost facilities which has resulted in a reduction in rent, parking and office expense in 2008. The foreign exchange expense included in other expenses is a result of the impact of changes in the foreign exchange rate on the US short-term intercompany loans between the Company and its wholly-owned self-sustaining foreign subsidiary. As a percentage of total revenues, other expenses decreased to 9.2% in 2008 (2007 – 9.8%) due to the relatively fixed nature of these costs. Miscellaneous expense in 2008 includes consulting fees related to strategic matters. Other expenses do not vary significantly with changes in revenue and the Company expects that 2009 expenses will be consistent with the 2008 expenses.

In 2008, the Company realized a currency translation loss of \$314,900 (2007 – nil) on the repayment of a portion of a long-term intercompany loan by one of its wholly-owned self-sustaining foreign subsidiary. This realized currency translation loss was included in the 2008 statement of operations and was offset by a corresponding increase in other comprehensive income in the statement of other comprehensive income (loss) in 2008. There was no impact from this repayment of a portion of the long-term intercompany loan on the Company's consolidated cash, working capital, total assets or shareholders' equity. There are no plans in 2009 to repay any portion of the outstanding long-term intercompany loans.

Other

Amortization of capital assets decreased in 2008 compared to 2007. This decrease in amortization is the result of the lower average net book value of capital assets during the year. During 2008, the Company acquired additional capital assets for \$0.1 million (2007 - \$0.3 million) through direct purchases. The Company has a program of replacing computer hardware and software on a regular basis.

Interest and investment income decreased slightly in 2008 compared to 2007 primarily due to the general reduction in interest rates available during the year on overnight investments. During the year ended December 31, 2008, the Company did not hold any investments in asset-backed commercial paper.

Interest expense and financing costs decreased due to a reduction in the obligations under capital leases in 2008 and in 2007 the Company incurred financing costs on the establishment of the Line of Credit with the Silicon Valley Bank to provide the Company with an operating line \$3,045,000 (US\$2,500,000). During 2008 and 2007 there were no borrowings under the Line of Credit. During 2009, we expect to incur interest expense and financing costs in connection with the the Line of Credit standby charges and a March 2009 renewal fee and interest expense on the capital leases.

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 total value of the future income tax assets at the end of 2008. During 2008 the value of the future income tax asset increased primarily due to the favorable foreign exchange rate on our US tax assets. The Company has \$19.1 million (2007 - \$18.1 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. However, due to the timing of the tax losses, approximately \$15,300,000 of tax losses in Canada will expire at the end of 2009. These tax losses have a related future income tax asset value of \$4.8 million and are included in the December 31, 2008 future income tax asset value of \$19.1 million noted above. Finally, the Company earned some revenue in a region where there are no existing tax losses to offset the taxes payable and also generated taxable income in the US where the Company's wholly-owned foreign subsidiaries are subject to alternative minimum tax and therefore the Company recorded a small tax expense in 2007 and 2008.

Quarterly Financial Information

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

Years ended December 31

	2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Services Revenue	\$ 6,572	\$5,621	\$5,372	\$ 5,314	\$ 5,033	\$ 5,127	\$ 5,577	\$ 6,610
Total Revenue	7,649	6,506	6,690	5,636	5,339	5,830	6,676	7,597
Adjusted EBITDA ⁽¹⁾	120	(443)	391	393	(95)	(184)	305	401
Net income (loss)	\$ 2	\$ (609)	\$ 277	\$ 336	\$ (187)	\$ (265)	\$ 217	\$ 18
Income (Loss), basic and diluted, per share ⁽²⁾	\$ 0.00	\$(0.01)	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ 0.00

⁽¹⁾ The Company reports Adjusted EBITDA because it is a key measure used by management to evaluate performance of business units and the Company. Adjusted 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. Adjusted EBITDA represents earnings before interest, realized currency translation loss, taxes, depreciation and amortization.

⁽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 – in the first quarter clients are often determining their financial budgets, which in some cases delays the start of new projects; in the summer months of the third quarter there are sometimes client delays due to vacations 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. 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 changes in short term demand and specific skill sets.

During 2008, the Company continued to improve its quarterly performance with both Q3 and Q4 2008 achieving positive Adjusted EBITDA.

Quarter ended December 31, 2008 (Q4 2008) compared to the quarter ended December 31, 2007 (Q4 2007).

Impact of Foreign Exchange

The consolidation foreign exchange rates for consolidating our US operations were \$1.211CDN and \$0.981CDN for each US dollar in the quarters ended December 31, 2008 and 2007, respectively. Our Q4 2008 US operations represent 72.8% (Q4 2007- 69.3%) of our revenues and 58.3% (Q4 2007-62.0%) of our costs and expenses. If the Q4 2008 foreign exchange rate had held constant with the Q4 2007 rates, Q4 2008 revenue and Adjusted EBITDA would have decreased by \$1.0 million and \$193,400, respectively.

The following comparisons include the impact of foreign exchange.

Revenues

Revenues for 2008 were \$7.6 million compared to \$5.6 million for the previous year, an increase of 34.8%. During Q4 2008, service revenues were 87.0% of total revenues, a decrease from 94.3% of total Q4 2007 revenues. License and maintenance revenues were 8.0% of total Q4 2008 revenues compared to 2.1% in Q4 2007. The Company's focus is on profitable service revenue, however, it will continue to earn revenues from the sale of licenses and maintenance as we are an integrator in the business of delivering complete solutions to our customers.

Service revenue-

Service revenues for Q4 2008 were \$6.6 million compared to \$5.3 million for Q4 2007, an increase of \$1.3 million or 24.4%. During Q4 2008, the Company worked on 149 projects (Q4 2007 – 147) for 73 customers (Q4 2007 – 74), of which 10 were new customers (Q4 2007 – 8). Of the 149 projects in Q4 2008, 46 were new projects (Q4 2007 – 47) which included 15 new contracts (Q4 2007 –25) valued at \$100,000 more. During Q4 2008, our average service revenue per customer increased 22.7% to approximately \$89,300 (Q4 2007 – \$72,800) primarily due to the favourable foreign exchange rates.

License and maintenance revenue-

During Q4 2008, the Company's license and maintenance revenues increased to \$0.6 million from \$0.1 million in Q4 2007. This was primarily due to two transactions late in Q4 2008.

Costs

Costs for Q4 2008 were \$5.3 million compared to \$3.7 million for Q4 2007, an increase of 41.7%.

Cost of services for Q4 2008 were \$4.4 million compared to \$3.4 million for Q4 2007, an increase of \$0.9 million or 26.4%. The increase is primarily due to the impact of the pay increases in Q4 2008, increase in employee benefit costs, an enhancement of our delivery teams to meet the current market needs and to increase the competencies and specializations of our delivery teams and the unfavorable impact on US costs of the Q4 2008 foreign exchange rate. Partially offsetting this was a decrease in the cost of service of \$0.1 million resulting a reduction in our FTE in Q4 2008 compared to Q4 2007. As a percentage of services revenue, cost of service was 65.8% (2007 – 64.8%).

Cost of license and maintenance increased in Q4 2008 due to the mix of products sold and additional transactions. As a percentage of license and maintenance revenue, costs increased to 92.8% in Q4 2008 (Q4 2007-79.0%) on higher revenues.

Gross Profit

Gross profits for Q4 2008 were \$2.3 million compared to \$1.9 million for Q4 2007, an increase of 21.3%.

Gross profit for services was 34.2% for Q4 2008 compared to 35.2% in Q4 2007. Utilization for Q4 2008 was 85.0% (2007- 81.1%). Gross profit for license and maintenance products was 7.2% in Q4 2008 and 21.0% in Q4 2007. In general, license and maintenance gross profit, both as a percentage and dollars, has been decreasing for several years and this trend is expected to continue.

Expenses

Sales and marketing expense increased by 60.5% in Q4 2008 compared to Q4 2007. The expense increase from Q4 2007 is primarily due to a significant increase in sales and marketing headcount and the unfavorable impact on US sales expenses from the Q4 2008 foreign exchange rate. As a percentage of revenues, sales and marketing expenses were 8.2% in Q4 2008, an increase from 6.8% in Q4 2007.

General and administrative expense increased by 4.1% in Q4 2008 compared to Q4 2007 primarily due to the foreign exchange rates in Q4 2008. As a percentage of revenues, general and administrative expenses have decreased to 8.5% in Q4 2008 from 11.0% in Q4 2007.

Other expenses consist of the following components:

	Three months ended	
	December 31, 2008	December 31, 2007
Rent, parking and office	\$ 230,091	\$ 181,864
Business travel & training	183,228	203,889
Telecommunications, technology and insurance	154,056	133,860
Foreign exchange expense	51,397	6,294
Miscellaneous (including bad debt)	32,519	(14,713)
	\$ 651,291	\$ 511,194

Overall, other expenses have increased by 27.4% in Q4 2008 compared to Q4 2007. Much of the increases in other expenses from Q4 2007 are foreign exchange related. Rent, parking and office expense also increased due to rent increases at two of our short term rental facilities. Business travel & training decreased due to cost containment initiatives. The foreign exchange expense included in other expenses is a result of the impact of changes in the foreign exchange rate in Q4 2008 on the US short-term intercompany loans between the Company and its wholly-owned self-sustaining foreign subsidiary. Miscellaneous expense in Q4 2007 includes fees to an outside consultant. As a percentage of revenues, other expenses decreased to 8.6% in Q4 2008 from 9.1% in Q4 2007.

In Q4 2008, the Company realized a currency translation loss of \$314,900 (Q4 2007 – nil) on the repayment of a portion of a long-term intercompany loan by one of our wholly-owned self-sustaining foreign subsidiaries. This realized currency translation loss was included in the Q4 2008 statement of operations and was offset by a corresponding increase in other comprehensive income in the statement of other comprehensive income (loss) in Q4 2008. There was no impact from this repayment of a portion of the long-term intercompany loan on the Company's

consolidated cash, working capital, total assets or shareholders' equity. There are no plans in 2009 to repay any portion of the outstanding long-term intercompany loans.

Other

Amortization of capital assets decreased slightly in Q4 2008 compared to Q4 2007. This decrease in amortization is consistent with lower net book values from the comparable quarter.

Interest expense and financing costs decreased in Q4 2008 compared to Q4 2007. Our expenses in Q4 2007 included set-up costs on our Line of Credit and Q4 2008 interest on obligations under capital leases has been reduced as a result of a reduction in the obligation during 2008.

Interest and investment income decreased slightly in Q4 2008 compared to Q4 2007 primarily due to the general reduction in interest rates during the comparable periods available on overnight investments. During Q4 2008 the Company did not hold any investments in asset-backed commercial paper.

Interest expense and financing costs decreased due to a reduction in the obligations under capital leases in Q4 2008.

Liquidity and Capital Resources

The Company finished the year ended December 31, 2008 with cash and short-term investments of \$4.9 million compared to \$3.6 million as at December 31, 2007. The increase in cash and short-term investments of \$1.3 million is due to cash flow from operations of \$0.7 million (2007 - \$0.4 million), the favorable impact of foreign exchange rates on cash balances of \$0.7 million (2007 - (\$0.2 million)) offset by cash used in investing activities of \$0.1 million (2007 - \$0.2 million) and cash used in financing activities of \$0.1 million (2007- \$0.1 million).

During the three months ended December 31, 2008, cash and short term investments increased to \$4.9 million from \$4.7 million at September 30, 2008. The increase in cash and short-term investments is due to the favorable impact of foreign exchange rates on cash balances of \$0.5 million offset by cash used in operating activities of \$0.3 million.

The Company maintains a strong liquidity and working capital position and has access to other financial resources, including the availability of additional capital under the Line of Credit, to meet its obligations as they come due. The Company aims to maintain a current ratio, defined as current assets over current liabilities, of at least 2.0 to 1.0. As at December 31, 2008, the Company's current ratio was 2.6 to 1.0 (2007 - 2.6 to 1.0). The Company has a line of credit with Silicon Valley Bank to provide the Company with a Line of Credit of \$3,045,000 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$6,090,000 (US \$5,000,000), subject to certain covenants as defined in the agreement. 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. During 2008 there were no borrowings under the Line of Credit. The Line of Credit expires in March 2009. The Company is currently negotiating with Silicon Valley Bank the terms and conditions for the Line of Credit for the period April 2009 to March 31, 2010.

The Company has no material outstanding commitments for capital expenditures. In general, the Company does not incur significant 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.

The following tables details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at December 31, 2008:

	2009	2010	2011	2012	2013	Total
Accounts payable and accrued liabilities	\$ 2,825,040	\$ -	\$ -	\$ -	\$ -	\$ 2,825,040
Obligations under capital leases	103,963	4,951				108,914
Foreign exchange forward contracts	3,279					3,279
Operating lease commitments	539,263	405,733	407,203	198,874	1,214	1,552,287
	\$ 3,471,545	\$ 410,684	\$ 407,203	\$ 198,874	\$ 1,214	\$ 4,489,520

The Company has also entered into a forward exchange contract to receive \$968,100 Canadian dollars in 2009 in exchange for US\$800,000. The US\$800,000 forward exchange contract is to be settled with US\$200,000 on each of the following dates in 2009: March 31, June 30, September 30 and December 31. The Company anticipates that these US dollar amounts will be generated from operations by its US business. The value of the foreign exchange forward contracts is measured based upon the difference between the contracted rate and the current forward price obtained from the counterparty. As at December 31, 2008, the average contracted foreign exchange rate on the outstanding forward contracts was approximately \$1.2101 to receive Canadian dollars in exchange for US\$800,000 during the year ended December 31, 2009. The average forward rate used in determining the fair value of the forward exchange contracts as at December 31, 2008 was approximately \$1.2142 Canadian dollars for each US dollar. As at December 31, 2008, the fair market value of the net foreign exchange forward contract was a net liability in the amount of \$3,279.

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 described above. 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 cash requirements for internal growth with cash flow from operations, working capital on hand and/or the Line of Credit.

Off-Balance Sheet Arrangements

The Company does not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space. None of the operating leases described above has, or potentially may have, a material current or future effect on our financial condition (including any possible changes in our financial condition), revenue, expenses, results of operations, liquidity, capital expenditures or capital resources. In accordance with GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

Share Capital

As at February 28, 2009, there are 72,660,220 common shares issued and outstanding and 7,160,079 options outstanding at exercise prices ranging from \$0.07 to \$0.27 with remaining weighted average contractual lives of 2.44 years.

Risk Factors and Risk Management

We believe our strategy of creating value through maintaining and enhancing our leadership in three areas: Enterprise Content Management (ECM); Collaboration; 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 Business
- Competition
- Relative size of the Company compared to larger competitors
- International Operations
- Reliance on Customers; Capital Spending
- Reliance on Third-Party Vendors (Partnerships)
- Limited Intellectual Property Protection
- Failure to Meet Performance Criteria
- Share Price Volatility
- Foreign Exchange Exposure
- Fixed Prices and Fixed Timetables
- Financial Performance
- General Economic Conditions

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 had no related party transactions during 2008 or 2007. In 2001, the Company, entered into an agreement with an officer whereby the Company loaned the officer \$1,000,000 for the purpose of purchasing common shares of the Company. The loan 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. 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. The repayment date of the loan is January 9, 2011.

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 based upon 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 regularly 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. In 2007 and 2008 we had one contract which incurred a loss and a provision has been made for all estimated costs to complete the project. 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 sale of third-party software licenses and maintenance, 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 maintenance sales can impact reported revenue significantly, although due to the low gross profit on these sales it is a less significant impact on net income. Where the Company acts solely as an agent in a license or maintenance sale, net revenue is recorded.

Where the Company acts as principal in the sale of third party support and maintenance services under negotiated supply contracts, exercises pricing control and bears the risk of loss, collection and returns, maintenance revenue is recognized on a gross basis. Where the Company does not act as a principal, revenue is recorded on a net basis. Where the company is the primary obligor, revenue is recognized ratably over the term of the agreement, generally

one year. Where the Company is not the primary obligor, revenue is recognized upon execution of the agreement and the start of the support period.

The Company recognizes revenue only in those situations where collection from the client is reasonably assured. Our normal payment terms are 30 days from invoice date. As at December 31, 2008 and 2007 our days-sales-outstanding for accounts receivable was 63 days and 60 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 at December 31, 2008 and 2007, approximately \$0.1 million was provided as a reserve for doubtful accounts and unbilled receivables.

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 prior years, 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 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, 2008 and determined that there was no impairment of the recorded goodwill.

Reconciliation of Non-GAAP Measures

Adjusted EBITDA

The Company reports Adjusted EBITDA, a non-GAAP measure, because it is a key measure used by management to evaluate the performance of the business. The Company believes that EBITDA is a measure commonly reported and widely used by investors as an indicator of a Company's operating performance and ability to incur and service debt. It is also used as a valuation metric. The Company believes that EBITDA assists investors in comparing performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. Adjusted EBITDA is EBITDA, excluding realized currency translation losses which can vary significantly depending on exchange rate fluctuations, which are beyond the control of the Company.

Adjusted EBITDA is not a calculation based on GAAP and should not be considered to be an alternative to net income/(loss) in measuring the Company's performance, or used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, all capital expenditures, and other sources and uses of cash, which are disclosed in the consolidated financial statements.

While Adjusted EBITDA has been disclosed to permit a more complete comparative analysis of the Company's performance investors should be cautioned that Adjusted EBITDA as reported by the Company may not be comparable in all instances to Adjusted EBITDA reported by other companies. The following is a reconciliation of EBITDA with net income (loss) as reported in the consolidated financial for the three months and years ended December 31, 2008 and 2007:

	Three months ended		Years ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Net income/(loss)	\$ 18,120	\$ 336,111	\$ (216,690)	\$ 6,004
Amortization of capital assets	79,242	91,790	328,339	432,126
Interest and other investment income	(17,831)	(45,800)	(72,308)	(94,633)
Interest expense and financing costs	6,417	11,085	34,633	80,718
Income taxes	289	-	38,963	37,100
Standardized EBITDA	86,237	393,186	112,937	461,315
Realized currency translation loss	314,900	-	314,900	-
Adjusted EBITDA	\$ 401,137	\$ 393,186	\$ 427,837	\$ 461,315

Changes to Canadian GAAP and Accounting Policies

The Consolidated Financial Statements of the Company are prepared in accordance with Canadian 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, 2008 and 2007.

Adopted January 1, 2007

The Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections on January 1, 2007: Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865 Hedges.

Comprehensive income, Section 1530 establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income, which is comprised of gains and losses that are recognized in comprehensive income but excluded from net earnings. In accordance with the provisions of these new standards, foreign exchange gains and losses on the translation of the financial statements of the Company's self-sustaining foreign operations, previously recorded in a separate section of shareholders' equity, are now presented as accumulated other comprehensive income. The Company's earnings per share presented on the consolidated statements of operations is based upon its net income (loss) and not comprehensive income (loss).

Financial instruments-Recognition and Measurement, Section 3855, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair-value or cost-based measures under different circumstances. The following is a summary of the accounting model the Company elected to apply to each of its significant categories of financial instruments:

Financial Instrument	Designation	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Obligations under capital leases	Other liabilities	Amortized cost
Foreign exchange forward contracts	Held for trading	Fair value

Financial Instruments – Disclosure and Presentation, Section 3861, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed about them.

Hedges, Section 3865, describes how and when hedge accounting can be used. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset. Hedge accounting makes sure that all gains, losses, revenue and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. While the Company has used derivative financial instruments in the management of its foreign currency exposures, the Company does not apply hedge accounting. The Company does not use derivative financial instruments for trading or speculative purposes.

Adopted January 1, 2008

The Company adopted the following new CICA Handbook Sections on January 1, 2008: Section 1400 – General Standards of Financial Statement Presentation, Section 1535 - Capital Disclosures, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation.

General Standards of Financial Statement Presentation, Section 1400, was amended and now requires companies to assess and disclose an entity's ability to continue as a going concern.

Capital Disclosures, Section 1535, requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements and includes qualitative disclosures and quantitative data on capital as at December 31, 2008.

Financial Instruments – Disclosures, Section 3862 and Financial Instruments –Presentation, Section 3863 replaced Section 3861, Financial Instruments – Disclosure and Presentation revising and enhancing the disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

Adoption in Future as noted

The Company will adopt the following new CICA Handbook Sections on the dates noted.

Goodwill and Intangibles, Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, establishes standards for the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to its initial recognition. The section applies to interim and annual financial statements issued on or after January 1, 2009. Section 3064 is not expected to have a significant impact on the financial statements.

Business Combinations, Section 1582 replaces Section 1581 Business Combinations and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Company beginning on or after January 1, 2011. Section 1582 is not expected to have a significant impact on the financial statements.

International Financial Reporting Standards (“IFRS”) will be required for publically traded companies for interim and annual financial statements effective fiscal years beginning on January 1, 2011 with comparative for 2010 also reported under IFRS and will replace Canadian GAAP. The objective of this move to IFRS is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

The Company commenced its IFRS conversion project in 2008. The project consists of three phases: scoping and diagnostic; evaluation and design; and implementation and review. The Company is in the scoping and diagnostic phase which involves a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment is providing insight as to the most significant areas of difference to the Company and includes stock based compensation, capital assets and goodwill, as well as the more extensive presentation and disclosure requirements under IFRS.

The next phase is the evaluation and design phase of the project where each area identified from the scoping and diagnostic phase will be analyzed, commencing with the highest priority areas. This phase involves the identification of changes required to existing accounting policies, information systems and business processes, and will include an

analysis of policy alternatives allowed under IFRSs and the development of draft IFRS-compliant financial statements. The Company's target is to complete the evaluation and design phase by the end of the third quarter of 2009.

The final phase is the implementation and review phase and includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Company's finance and other staff, as necessary. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding IFRS in business processes, elimination of any unnecessary data collection processes and Audit and Corporate Governance Committee (the "Audit Committee") and Board of Director approval of IFRS financial statements.

The Company continues to monitor standard development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS. The transition to IFRS is significant change that will affect the Company's reported financial position and results of operations. As the Company is still in the evaluation and design phase and has not yet selected its accounting policy choices and IFRS 1 exemptions, the Company is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information as of February 27, 2009 and thus, are subject to change for new facts and circumstances.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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"), have 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 of December 31, 2008.

The Company's Management under the supervision of, and with the participation of the Company's CEO and CFO, have designed and implemented internal controls over financial reporting ("ICFR"), as defined under Multilateral Instrument 52 – 109 of the Canadian Securities Administrators. The Company's Management used the COSO Internal Control over Financial Reporting-Guidelines for Smaller Public Companies (2006) as its framework. The process used involved four steps as follows: establishment of a foundation-which involved assessing the tone at the top, the organization structure and baseline of current internal controls; design and execution-which involved prioritizing risk, identifying controls and evaluation of control effectiveness; access and report-which involved summarizing and reporting on the finding; and conclusion on controls supported by documented evidence. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements 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 CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in the Company's controls over financial reporting during the fourth quarter and year ended December 31, 2008, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting. Based upon their evaluation of these controls as of December 31, 2008, the CEO and CFO have concluded that these controls are operating effectively.

Outlook

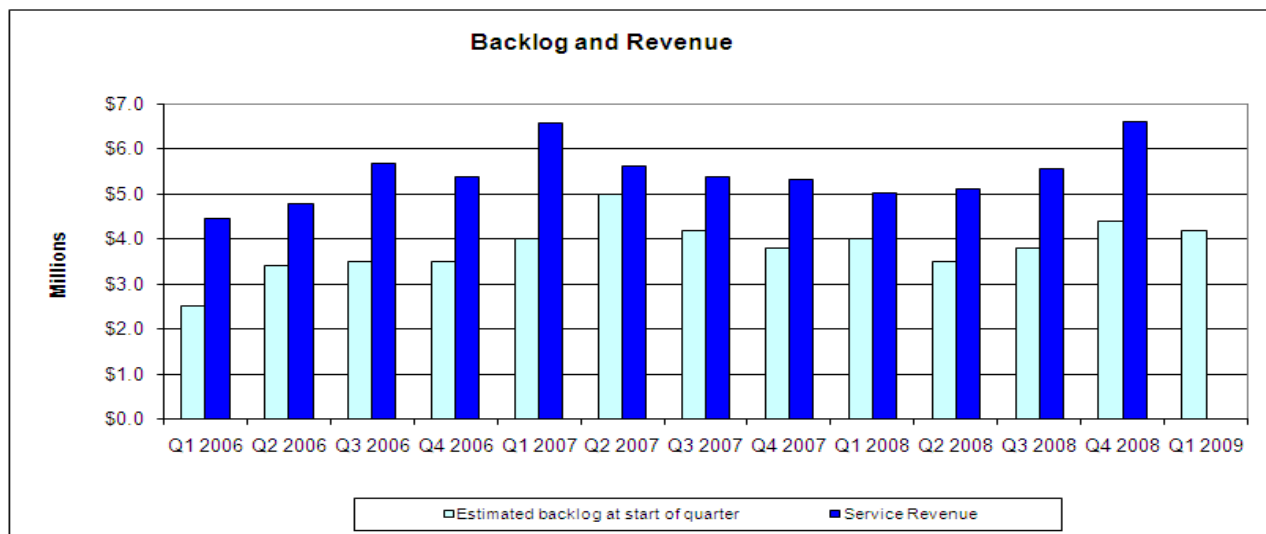
Similar to many companies in this industry sector and of similar size, the Company does not provide guidance on revenue or earnings for future periods. However, there is some information which is historically based that investors may want to consider about the Company.

Backlog

The Company entered the 2009 year with \$7.5 million (2008 - \$7.3 million) in services backlog, of which \$4.2 million (2008 - \$4.0 million) is scheduled to be completed in the first quarter of 2009. 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.

Backlog vs. Services Revenue

The following graph shows the historical backlog scheduled to be delivered during a quarter compared with the actual revenue recognized in the quarter. This relationship is not consistent as it is influenced by factors such as opportunities that are being pursued by our account executives, the availability or bench of consultants available to start a new project, the client's internal timing and budget constraints, the seasonality of client decision making and other factors.



Other considerations

The Company's clients are Global 2000 companies which are impacted by general economic factors, however, a number of these are in the life sciences, biotechnology and healthcare industries, which we believe are slightly less impacted by the current macroeconomic events. In the latter half of Q4 2008 and early in Q1 2009 we did however note a slight reduction in our pipeline opportunities, an apparent delay in decisions by prospective clients for new work, and a few existing customers delaying the start date for projects. In response to this, the Company initiated a number of measures to align our cost structure in order to maintain our competitive position in the market place. These measures included reductions in pay for all levels of management and certain employees, the deferral of pay increases until 2010, and constraints in spending in all areas except for sales and marketing related activities. The Company will continue to closely manage our workforce, including the use of subcontractors, to match our costs as closely as possible to our revenue opportunities. Utilization, which is the metric of our effectiveness, has been improving over the past several years and is close to its optimum level. We manage our workforce through a combination of employees and subcontractors. Our objective is to have between 15% and 25% of our workforce as subcontractors to increase our flexibility to meet changes in short term demand.

Strategic Objectives for 2009

Our overall business strategy is to deliver sustainable growth in key metrics and achieve Best-in-Class results.

In order to achieve this strategy, the following objectives have been set for 2009:

- create more business process focused solutions with an industry focus to improve services gross profit; and
- continue to focus on productivity to improve services gross profit and increase net income.

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 consolidated financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. The consolidated 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 consolidated 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 and Corporate Governance Committee ("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 consolidated financial statements have been examined by the shareholders' auditors, Deloitte & Touche LLP, Chartered Accountants, and their report follows.

(signed) Martin L. Glover

President and Chief Executive Officer
February 27, 2009

(signed) Stephen W. Massel

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, 2008 and 2007, and the consolidated statements of operations, deficit, comprehensive income (loss) 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 27, 2009

BURNTSAND INC.
Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 4,876,377	\$ 3,643,932
Accounts receivable (Note 12 (a))	5,216,377	3,781,308
Prepaid expenses	241,252	192,530
	10,334,006	7,617,770
Capital assets (Note 3)	815,441	1,172,430
Goodwill (Note 4)	177,566	144,517
	\$ 11,327,013	\$ 8,934,717
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,828,319	\$ 2,068,648
Deferred revenue	1,046,277	706,250
Current portion of obligations under capital leases (Note 5)	100,089	127,298
	3,974,685	2,902,196
Long-term portion of deferred revenue	-	59,820
Long-term portion of obligations under capital leases (Note 5)	4,926	101,173
	3,979,611	3,063,189
SHAREHOLDERS' EQUITY		
Common shares (Note 6)	9,611,454	9,602,855
Contributed surplus (Note 7)	1,325,017	1,159,680
Deficit	(2,239,061)	(2,022,371)
Accumulated other comprehensive loss (Note 8)	(1,350,008)	(2,868,636)
	(3,589,069)	(4,891,007)
	7,347,402	5,871,528
	\$ 11,327,013	\$ 8,934,717

Commitments and Contingencies (Note 5)
Guarantees (Note 15)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board

(signed) James R. Yeates

James R. Yeates
Chairman & Director

(signed) Terry M. Holland

Terry M. Holland
Director

BURNTSAND INC.
Consolidated Statements of Operations

	Year ended December 31,	
	2008	2007
REVENUE		
Services	\$ 22,346,733	\$ 22,879,256
License and maintenance	2,038,519	2,632,169
Other revenue	1,056,568	969,587
	25,441,820	26,481,012
COSTS		
Cost of services	15,179,924	15,286,160
Cost of license and maintenance	1,928,816	2,401,605
Cost of other revenue	992,456	901,207
	18,101,196	18,588,972
GROSS PROFIT	7,340,624	7,892,040
EXPENSES		
Sales and marketing	2,087,805	1,796,669
General and administrative	2,496,599	3,041,762
Other expenses	2,328,383	2,592,294
	6,912,787	7,430,725
Earning before the undernoted	427,837	461,315
Realized currency translation loss (Note 8)	(314,900)	-
Amortization of capital assets	(328,339)	(432,126)
Interest and investment income	72,308	94,633
Interest expense and financing costs	(34,633)	(80,718)
Income (loss) before income taxes	(177,727)	43,104
Income tax expense (Note 9)	(38,963)	(37,100)
NET INCOME/(LOSS)	\$ (216,690)	\$ 6,004
Net income (loss) basic and diluted, per share	\$ (0.00)	\$ 0.00
Weighted average number of common shares used to calculate per share amounts, basic and diluted		
	72,631,805	72,523,977

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Deficit

	Year ended December 31,	
	2008	2007
DEFICIT, BEGINNING OF YEAR	\$ (2,022,371)	\$ (2,028,375)
Net income/(loss)	(216,690)	6,004
DEFICIT, END OF YEAR	\$ (2,239,061)	\$ (2,022,371)

BURNTSAND INC.
Consolidated Statements of Comprehensive Income (Loss)

	Year ended December 31,	
	2008	2007
NET INCOME / (LOSS)	\$ (216,690)	\$ 6,004
Other comprehensive income, net of tax		
Realized currency translation loss (reclassified to net loss) (Note 8) (net of tax -\$nil)	314,900	
Unrealized foreign exchange gains (losses) on translating financial statements of self-sustaining foreign operations (net of tax-\$nil)	1,203,728	(684,146)
OTHER COMPREHENSIVE INCOME	1,518,628	(684,146)
COMPREHENSIVE INCOME (LOSS)	\$ 1,301,938	\$ (678,142)

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ (216,690)	\$ 6,004
Items not affecting cash:		
Amortization of capital assets	328,339	432,126
Amortization of assets used in outsourcing contract	177,010	177,040
Realized currency translation loss (Note 8)	314,900	-
Stock-based compensation (Note 6)	168,937	111,675
	772,496	726,845
Changes in operating assets and liabilities:		
Accounts receivable	(821,416)	(49,726)
Prepaid expenses	(2,519)	264,338
Accounts payable and accrued liabilities	565,427	(197,552)
Deferred revenue	211,543	(375,964)
	725,531	367,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Short term investments	-	2,696,558
Purchase of capital assets, net of related accounts payable	(116,645)	(272,238)
	(116,645)	2,424,320
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(127,892)	(119,357)
Issue of common shares	5,000	9,213
	(122,892)	(110,144)
NET CASH INFLOW	485,994	2,682,117
EFFECT OF FOREIGN EXCHANGE RATE		
CHANGES ON CASH	746,451	(206,509)
CASH AND CASH EQUIVALENTS (EXCLUDING SHORT		
TERM INVESTMENTS), BEGINNING OF YEAR	3,643,932	1,168,324
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,876,377	\$ 3,643,932

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

1. NATURE OF OPERATIONS

Burntsand Inc. (“Burntsand” or “the Company”) is a consulting company focusing on business solutions that deliver enhanced productivity. The Company believes that the going concern assumption is appropriate for these financial statements based upon the Company’s strong cash, working capital and liquidity position and its demonstrated ability to generate cash flow from operations. If this assumption were not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

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, all 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 resulting translation adjustment is included in the determination of other comprehensive income (loss) and is accumulated in shareholders’ equity on the consolidated balance sheet under the caption “Accumulated other comprehensive loss”. 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 exchange gains and losses which 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 \$84,720 during 2008 (2007 – \$40,747) which was recorded in other expenses.

(c) *Use of estimates*

The preparation of financial statements in conformity with 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 of \$585,185 (2007 - \$940,838), and investment in securities of highly rated financial institutions with initial terms to maturity of three months or less of \$4,291,192 (2007 - \$2,703,094) and are presented at fair value.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(e) *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

(f) Goodwill

The Company follows 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.

(g) *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 provides 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:

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.

Third party products – license and maintenance

Revenue from the sale of third-party software licenses is recognized upon delivery of the software, provided that a license agreement has been executed, all contractual obligations have been satisfied, the fee is fixed or 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

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

revenue and cost of licenses are recognized on the gross basis. When the Company does not act as principal, revenue is recorded on a net basis.

Where the Company acts as a principal in the sale of third party support and maintenance services under negotiated supply contracts, exercises pricing control and bears the risk of loss, collection and returns, maintenance revenue is recognized on a gross basis. Where the Company does not act as a principal, revenue is recorded on a net basis. Where the Company is the primary obligor, revenue is recognized rateably over the term of the agreement, generally one year. Where the Company is not the primary obligor, revenue is recognized upon execution of the agreement and the start of the support period.

(h) *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.

(i) *Stock-based compensation plans*

The Company has a stock-based compensation plan, which is described in Note 6 (c).

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.

(j) *Net income (loss) per share*

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted net income (loss) 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 anti-dilutive.

(k) *Changes in accounting policies-January 1, 2007*

The Company adopted the following new Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections on January 1, 2007: Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865 Hedges.

Comprehensive income, Section 1530 establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income, which is comprised of gains and losses that are recognized in comprehensive income but excluded from net earnings. In accordance with the provisions of these new standards, foreign exchange gains and losses on the translation of the financial statements of the Company’s self-sustaining foreign operations, previously recorded in a separate section of shareholders’ equity, are now presented as accumulated other comprehensive income. The

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Company's earnings per share presented on the consolidated statements of operations is based upon its net income (loss) and not comprehensive income (loss) (Note 8).

Financial instruments-Recognition and Measurement, Section 3855, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair-value or cost-based measures under different circumstances. The following is a summary of the accounting model the Company elected to apply to each of its significant categories of financial instruments:

Financial Instrument	Designation	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Obligations under capital leases	Other liabilities	Amortized cost
Foreign exchange forward contracts	Held for trading	Fair value

Financial Instruments – Disclosure and Presentation, Section 3861, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed about them.

Hedges, Section 3865, describes how and when hedge accounting can be used. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset. Hedge accounting makes sure that all gains, losses, revenue and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period. While the Company has used derivative financial instruments in the management of its foreign currency exposures, the Company does not apply hedge accounting. The Company does not use derivative financial instruments for trading or speculative purposes.

(1) *Changes in accounting policies-January 1, 2008*

The Company adopted the following new CICA Handbook Sections on January 1, 2008: Section 1400 – General Standards of Financial Statement Presentation, Section 1535 - Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments - Presentation.

General Standards of Financial Statement Presentation, Section 1400, was amended and now requires companies to assess and disclose an entity's ability to continue as a going concern (Note 1).

Capital Disclosures, Section 1535, requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements and includes qualitative disclosures and quantitative data on capital as at year end (Note 13).

Financial Instruments – Disclosures, Section 3862 and Financial Instruments –Presentation, Section 3863 replaced Section 3861, Financial Instruments – Disclosure and Presentation revising and enhancing the disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

extent of risks associated with both recognized and unrecognized financial instruments and how those risks are managed (Notes 11 and 12).

(m) *Changes in accounting policies not yet adopted*

Goodwill and Intangibles, Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, establishes standards for the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to its initial recognition. The section applies to interim and annual financial statements issued on or after January 1, 2009. Section 3064 is not expected to have a significant impact on the financial statements.

Business Combinations, Section 1582 replaces Section 1581 Business Combinations and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Company beginning on or after January 1, 2011. Section 1582 is not expected to have a significant impact on the financial statements.

International Financial Reporting Standards (“IFRS”) will be required for publically traded companies for interim and annual financial statements effective fiscal years beginning on January 1, 2011 with comparatives for 2010 also reported under IFRS and will replace Canadian GAAP. The objective of this move to IFRS is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

The Company commenced its IFRS conversion project in 2008. The project consists of three phases: scoping and diagnostic; evaluation and design; and implementation and review. The Company is in the scoping and diagnostic phase which involves a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment is providing insight as to the most significant areas of difference to the Company and includes stock based compensation, capital assets and goodwill, as well as the more extensive presentation and disclosure requirements under IFRS.

The next phase is the evaluation and design phase of the project where each area identified from the scoping and diagnostic phase will be analyzed, commencing with the highest priority areas. This phase involves the identification of changes required to existing accounting policies, information systems and business processes, and will include an analysis of policy alternatives allowed under IFRS and the development of draft IFRS-compliant financial statements. The Company’s target is to complete the evaluation and design phase by the end of the third quarter of 2009.

The final phase is the implementation and review phase and includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Company’s finance and other staff, as necessary. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding IFRS in business processes, elimination of any unnecessary data collection processes and Audit and Corporate Governance Committee (the “Audit Committee”) and Board of Directors’ approval of IFRS financial statements.

The Company continues to monitor standards development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Accounting Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company’s adoption of IFRS. The transition to IFRS is a significant change that will affect the Company’s reported

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

financial position and results of operations. As the Company is still in the evaluation and design phase and has not yet selected its accounting policy choices and IFRS 1 exemptions, the Company is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information as of February 27, 2009 and thus, are subject to change for new facts and circumstances.

3. CAPITAL ASSETS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 246,540	\$ 220,044	\$ 26,496	\$ 268,992	\$ 228,200	\$ 40,792
Computer hardware and peripherals	1,916,024	1,508,616	407,408	1,603,708	1,090,646	513,062
Software	1,394,805	1,243,151	151,654	1,302,617	1,106,154	196,463
Furniture and fixtures	434,772	382,787	51,985	381,465	315,545	65,920
Leasehold Improvements	76,795	24,300	52,495	63,370	9,619	53,751
Equipment used for outsourcing	531,119	405,716	125,403	531,119	228,677	302,442
Total capital assets	\$ 4,600,055	\$ 3,784,614	\$ 815,441	\$ 4,151,271	\$ 2,978,841	\$ 1,172,430

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, 2008 totalled \$80,027 (2007 – \$206,574) net of accumulated amortization of \$288,840 (2007 - \$198,821).

4. GOODWILL

	2008	2007
Goodwill	\$ 177,566	\$ 144,517

On August 1, 2008 the Company performed the annual impairment test and determined there was no impairment of the recorded goodwill. Goodwill was recorded on an acquisition in the United States in 2003 and is held in US dollars by our wholly owned, self-sustaining US subsidiary. The amount of goodwill on our consolidated financial statements varies with the changes in the exchange rate between the United States and Canadian dollar.

5. LINE OF CREDIT, CAPITAL AND OPERATING LEASES AND CONTINGENCIES

(a) Line of credit

The Company has a line of credit with Silicon Valley Bank to provide the Company with a Line of Credit of \$3,045,000 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$6,090,000 (US \$5,000,000), subject to certain covenants as defined in the agreement. 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. During 2008 there were no borrowings under the Line of Credit.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(b) *Issued and outstanding*

Share capital consists of common shares as follows:

	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of year	72,593,554	\$ 9,602,855	72,502,885	\$ 9,588,902
Shares issued on exercise of options	66,666	8,599	90,669	13,953
Balance, end of year	72,660,220	\$ 9,611,454	72,593,554	\$ 9,602,855

(c) *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 Stock Option Plan for the years ended December 31, 2008 and 2007:

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	9,864,831	\$ 0.16	10,354,174	\$ 0.18
Granted	577,250	\$ 0.13	2,516,833	\$ 0.17
Exercised	(66,666)	\$ 0.08	(90,669)	\$ 0.10
Expired	(2,185,940)	\$ 0.22	(1,401,676)	\$ 0.39
Cancelled	(871,166)	\$ 0.13	(1,513,831)	\$ 0.12
Options outstanding, end of year	7,318,309	\$ 0.14	9,864,831	\$ 0.16
Options exercisable, end of year	4,783,098	\$ 0.14	4,572,204	\$ 0.19

The aggregate grant-date fair value of all options granted during the year was \$42,783 or \$0.07 per option granted (2007 – \$235,478 or \$0.09 per option granted).

BURNTSAND INC.
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

As at December 31, 2008 the Company has an additional 3,580,724 options available to be granted under the Stock Option Plan.

The following table summarizes information about stock options outstanding at December 31, 2008:

Ranges of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.07-\$0.09	1,526,283	1.96	\$ 0.08	1,507,650	\$ 0.08
\$0.10-\$0.19	4,420,966	3.11	\$ 0.14	2,224,388	\$ 0.13
\$0.20-\$0.29	1,371,060	1.51	\$ 0.23	1,051,060	\$ 0.23
\$0.07-\$0.29	7,318,309	2.57	\$ 0.14	4,783,098	\$ 0.14

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.

	2008	2007
Dividend yield	0%	0%
Expected volatility	73%	72%
Risk free interest rate	3.66%	4.11%
Expected life (years)	3	3
Weighted-average exercise price	\$ 0.13	\$ 0.17

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, 2008, an expense of \$168,937 (2007 – \$111,675) has been recorded for stock based compensation, allocated as follows:

	2008	2007
Cost of services	\$ 32,830	\$ 35,101
Sales and marketing expense	12,098	3,269
General and administrative expense	124,009	73,305
Total stock-based compensation	\$ 168,937	\$ 111,675

7. CONTRIBUTED SURPLUS

	2008	2007
Balance, beginning of year	\$ 1,159,680	\$ 1,052,745
Exercise of stock options	(3,600)	(4,740)
Stock based compensation	168,937	111,675
Balance, end of year	\$ 1,325,017	\$ 1,159,680

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ (2,868,636)	\$ -
Change in accounting policy		(2,184,490)
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	1,203,728	(684,146)
Realized currency translation loss (reclassified to net loss)	314,900	-
Balance, end of year	\$ (1,350,008)	\$ (2,868,636)

The balance in accumulated other comprehensive loss consists primarily of the unrealized foreign exchange loss on long-term intercompany loans made by the Company to one of its self-sustaining foreign operations. The unrealized foreign exchange becomes realized as the long-term intercompany loan is repaid. In 2008, the Company realized a currency translation loss of \$314,900 (2007 – nil) on the repayment of a portion of the long-term intercompany loan. This realized currency translation loss was included in the 2008 statement of operations and was offset by a corresponding increase in other comprehensive income in the statement of other comprehensive income (loss) in 2008. There was no impact from this repayment of a portion of the long-term intercompany loan on the Company's consolidated cash, working capital, total assets or shareholders' equity.

9. INCOME TAXES

Due to income earned in a tax region subject to withholding taxes and alternative minimum tax, income tax expense is \$38,963 (2007 – \$37,100).

The reconciliation of income taxes computed at the Canadian statutory tax rate to the Company's effective income tax rate for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Combined basic federal and provincial rates	32.1%	34.6%
Income tax expense based on statutory income tax rate	\$ (57,050)	\$ 2,077
Increase in income taxes resulting from:		
Non-deductible expenses	127,340	66,646
Income in a region subject to withholding taxes and alternative minimum tax	38,963	37,100
Decrease in valuation allowance and other items	(70,290)	(68,723)
Income tax expense	\$ 38,963	\$ 37,100

The change in the valuation allowance and other items consists of changes in the expected tax rate, the impact of foreign exchange on US tax assets, the utilization of US tax losses and the creation of additional Canadian tax losses.

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, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Tax loss carryforwards	\$ 15,780,307	\$ 15,264,406
Book and tax base differences on assets and liabilities	3,287,523	2,871,817
Total future income tax assets	19,067,830	18,136,223
Valuation allowance for future income tax assets	(19,067,830)	(18,136,223)
Future income tax assets	\$ -	\$ -

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

The Company has non-capital loss carry forwards in Canada and the U.S. of approximately \$38,300,000 (2007 - \$38,000,000) and \$10,700,000 (2007 - 9,500,000) respectively, available to reduce future years' income for tax purposes. The tax loss carry forwards expire in 2009 to 2028 in Canada and 2022 to 2026 in the U.S.

10. SUPPLEMENTAL CASH FLOW AND NON-CASH INVESTING AND FINANCING DISCLOSURES

	2008	2007
Cash payments for interest	\$ (34,633)	\$ (80,718)
Cash receipts for interest	\$ 77,609	\$ 130,304
Cash payments for taxes	\$ 34,890	\$ 4,138
Purchase of capital assets in accounts payable	\$ -	\$ 36,779

11. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases and foreign exchange forward contracts.

(a) *Financial Instruments classification and carrying amount*

The following table sets out the classification and carrying amount of the Company's financial assets and liabilities as at December 31, 2008 and 2007:

2008	Held-for-trading	Loans and receivables	Other liabilities	Total carrying amount
Asset (liability)				
Cash and cash equivalents	\$ 4,876,377	\$ -	\$ -	\$ 4,876,377
Accounts receivable		5,216,377		5,216,377
Accounts payable and accrued liabilities			(2,825,040)	(2,825,040)
Obligations under capital leases			(105,015)	(105,015)
Foreign exchange forward contracts	(3,279)			(3,279)
	\$ 4,873,098	\$ 5,216,377	\$ (2,930,055)	\$ 7,159,420
<hr/>				
2007	Held-for-trading	Loans and receivables	Other liabilities	Total carrying amount
Asset (liability)				
Cash and cash equivalents	\$ 3,643,932	\$ -	\$ -	\$ 3,643,932
Accounts receivable		3,781,308		3,781,308
Accounts payable and accrued liabilities			(2,068,648)	(2,068,648)
Obligations under capital leases			(228,471)	(228,471)
	\$ 3,643,932	\$ 3,781,308	\$ (2,297,119)	\$ 5,128,121

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

- i. Foreign exchange forward contracts liability was included in accounts payable and accrued liabilities as at December 31, 2008. The fair value of the foreign exchange forward contracts in 2008 of \$3,279 has been included in the determination of net loss for the year ended December 31, 2008.
- ii. Includes current and long-term portion of obligations under capital lease. The Company incurred interest expense on its capital leases which was recorded in interest expense and financing costs (Note 5 (b)).

(b) *Financial Instruments carrying value and fair market value*

The following table sets out carrying value and fair market value of the Company's financial assets and liabilities as at December 31, 2008 and 2007:

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Asset (liability)				
Cash and cash equivalents	(i) \$ 4,876,377	\$ 4,876,377	\$ 3,643,932	\$ 3,643,932
Accounts receivable	(i) 5,216,377	5,216,377	3,781,308	3,781,308
Accounts payable and accrued liabilities	(i) (2,825,040)	(2,825,040)	(2,068,648)	(2,068,648)
Obligations under capital leases	(ii) (105,015)	(105,015)	(228,471)	(228,471)
Foreign exchange forward contracts	(iii) (3,279)	(3,279)	-	-
	\$ 7,159,420	\$ 7,159,420	\$ 5,128,121	\$ 5,128,121

- i. The fair value of these instruments approximates their carrying amount due to the short-term nature. Cash and cash equivalents and accounts receivable have been pledged as collateral for amounts borrowed under the line of credit (Note 5 (a)).
- ii. The fair value of the Company's fixed-rate capital lease obligations is determined by discounting the future contracted cash flows under the current lease at discount rates obtained from the lessor, which represent borrowing rates presently available to the Company for leases with similar terms and remaining maturities. As at December 31, 2008, the rate used in determining the fair value was 9.0% (2007 – 9.0%).
- iii. The fair value of the foreign exchange forward contracts is measured based upon the difference between the contracted rate and the current forward price obtained from the counterparty which can be corroborated in the marketplace. As at December 31, 2008, the average contracted foreign exchange rate on the outstanding forward contracts was approximately \$1.2101 to receive Canadian dollars in exchange for US\$800,000 during the year ended December 31, 2009. The average forward rate used in determining the fair value of the forward exchange contracts as at December 31, 2008 was approximately \$1.2142 Canadian dollars for each US dollar.

12. FINANCIAL RISK MANAGEMENT

The Company has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Audit Committee which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

through a combination of insurance, a system of internal and disclosure controls, sound business practices and derivative financial instruments.

The Company's financial instruments and the nature of the risks which they may be subject to are set out in the following table.

	Risks			
		Credit	Market	
			Liquidity	Foreign Exchange
Cash and cash equivalents	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
Accounts payable and accrued liabilities		Yes	Yes	
Obligations under capital leases		Yes	Yes	
Foreign exchange forward contracts	Yes	Yes	Yes	

(a) Credit Risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash and cash equivalents-

Cash and cash equivalents consist of bank balances and short-term investments with terms of less than three month or less. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are investment in debt instruments of highly rated financial institutions. As at December 31, 2008, the Company had cash and cash equivalents consisting of cash on hand and deposits with banks of \$585,185 (2007 -\$940,838) and investment in securities with financial institutions with terms to maturity of less than three months of \$4,291,192 (2007 - \$2,703,094). During the year ended December 31, 2008, the Company did not hold any investments in asset-backed commercial paper. As at December 31, 2008, the Company does not expect any counterparties to fail to meet their obligations.

Accounts receivable-

Accounts receivable consists primarily of trade accounts receivable from billings of services, license and maintenance revenue and other revenue. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including monitoring counterparty' creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits.

The carrying amount of accounts receivable are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of operations in other expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of operations. The Company's exposure to individual customers is limited with the ten largest customers as

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

at December 31, 2008, on aggregate, accounting for 54% of the Company's total accounts receivable balance (2007- 54%). Historically trade credit losses have been minimal.

The following table outlines the details of the aging of the Company's receivables and related allowance for doubtful accounts as at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current	\$ 3,416,941	\$ 1,801,720
Unbilled receivables, net	235,367	378,553
Other miscellaneous receivables	5,980	111,436
	<u>3,658,288</u>	<u>2,291,709</u>
Past due		
1-60 days	1,296,703	1,446,191
Greater than 60 days	300,037	90,988
Less: allowance for doubtful accounts	<u>(38,651)</u>	<u>(47,580)</u>
	<u>1,558,089</u>	<u>1,489,599</u>
Total accounts receivable, net	<u>\$ 5,216,377</u>	<u>\$ 3,781,308</u>
Allowance for doubtful accounts		
Balance, beginning of year	\$ (47,580)	\$ (66,738)
Reduction in provision for doubtful accounts	14,343	15,000
Effect of foreign currency exchange rate changes	(5,414)	4,158
Balance, end of year	<u>\$ (38,651)</u>	<u>\$ (47,580)</u>

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains a strong liquidity and working capital position and has access to other financial resources, including the availability of additional capital under the Company's line of credit, to meet its obligations as they come due. The Company aims to maintain a current ratio, defined as current assets over current liabilities, of at least 2.0 to 1.0. As at December 31, 2008, the Company's current ratio was 2.6 to 1.0 (2007 - 2.6 to 1.0)

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at December 31, 2008:

	2009	2010	2011	2012	2013	Total
Accounts payable and accrued liabilities	\$ 2,825,040	\$ -	\$ -	\$ -	\$ -	\$ 2,825,040
Obligations under capital leases	103,963	4,951				108,914
Foreign exchange forward contracts	3,279					3,279
Operating lease commitments	539,263	405,733	407,203	198,874	1,214	1,552,287
	<u>\$ 3,471,545</u>	<u>\$ 410,684</u>	<u>\$ 407,203</u>	<u>\$ 198,874</u>	<u>\$ 1,214</u>	<u>\$ 4,489,520</u>

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operation.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

Foreign exchange-

The Company operates in Canada and the United States.

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2008, the parent company's US-dollar net monetary liabilities totalled approximately US\$207,000, accordingly any change in the US dollar exchange rate as at December 31, 2008 would have resulted in an exchange gain or loss which would have been included in the determination of net income.

The parent company has also entered into a forward exchange contract to receive \$968,100 Canadian dollars in 2009 in exchange for US\$800,000, accordingly any change in the US dollar exchange rate as at December 31, 2008 would have resulted in an exchange gain or loss which would have been included in the statement of operations. The US\$800,000 forward exchange contract is to be settled with US\$200,000 on each of the following dates in 2009: March 31, June 30, September 30 and December 31.

All operations in the United States are self-sustaining and operate with the U.S. dollar as the functional currency and accordingly all 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 Company records foreign currency differences on its United States subsidiaries as part of other comprehensive income. As at December 31, 2008, the Company's United States subsidiaries US-dollar net assets totalled approximately US\$4,051,000, accordingly any change in the US dollar exchange rate as at December 31, 2008 would have been included in other comprehensive income.

A 10% weakening in the Canadian dollar against the United States dollar as at December 31, 2008 would have increased other comprehensive income by approximately \$493,000 and decreased net income by \$123,000 (a 10% strengthening would have had the equal but opposite effect). This analysis assumes that all other variables remain constant.

Interest rate-

The Company has cash and cash equivalent balances which are exposed to interest rate fluctuations. As at December 31, 2008, cash and cash equivalents totalled \$4,876,377 (2007-\$3,643,932). An increase of 100 basis points in the market interest rate would have had increased net income by approximately \$38,400 (a 100 basis point decrease would have had the equal but opposite effect) for the year ended December 31, 2008.

13. CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity and the amount of borrowings under the terms of its credit facilities with Silicon Valley Bank ("SVB") as capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

The Company is not subject to any statutory capital requirements and has no commitments, other than options, to sell or otherwise issue common shares. Under the terms of its credit facilities with SVB, the Company is required to maintain a minimum liquidity (unrestricted cash at SVB plus accounts receivable availability) of greater than US\$1,500,000. In addition, the Company is required to maintain minimum earnings before taxes, depreciation and amortization ("EBTDA") for the three month period ending December 31, 2008 and each calendar quarter thereafter of an EBTDA loss of less than (\$200,000). As at December 31, 2008 the Company was in compliance with these covenants.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2008 compared to the year ended December 31, 2007.

14. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include a share purchase loan of \$1,000,000 that was issued to an officer in 2001 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. 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.

15. GUARANTEES

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the Accounting Guideline-14 ("Disclosure of Guarantees") 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 5(c)). Historically the Company has not made any payments under such letters of credit.

BURNTSAND INC.

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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.

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>2008</u>	<u>2007</u>
Canada	\$ 8,358,977	\$ 9,416,257
United States	17,082,843	17,064,755
	<u>\$ 25,441,820</u>	<u>\$ 26,481,012</u>

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

	<u>2008</u>	<u>2007</u>
Canada	\$ 471,610	\$ 803,298
United States	521,397	513,649
	<u>\$ 993,007</u>	<u>\$ 1,316,947</u>

In 2008, no customers accounted more than 10% of revenues. In 2007, two customers accounted for 26% of revenues and 16% of accounts receivable at December 31, 2007.

