



# BURNTSAND

**Burntsand Inc.**

**Financial Statements  
For the Quarter  
Ended March 31, 2008**

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## Notice to Reader

The accompanying unaudited interim consolidated statements of Burntsand Inc. for the period ended March 31, 2008 have been prepared by management and approved by the Audit and Corporate Governance Committee and the Board of Directors of the Corporation. These statements have not been reviewed by Burntsand Inc.'s external auditors.

*(signed) Martin L. Glover*

Martin L. Glover  
Chief Executive Officer

*(signed) Stephen Massel*

Stephen Massel  
Chief Financial Officer

**BURNTSAND INC.**  
**Consolidated Balance Sheets**

	<b>March 31, 2008</b>	December 31, 2007
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 3,404,973	\$ 3,643,932
Accounts receivable	3,892,273	3,781,308
Prepaid expenses	560,641	192,530
	<b>7,857,887</b>	7,617,770
Capital assets	<b>1,102,890</b>	1,172,430
Goodwill	149,649	144,517
	<b>\$ 9,110,426</b>	\$ 8,934,717
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 2,054,467	\$ 2,068,648
Deferred revenue	945,116	706,250
Current portion of obligations under capital leases	124,385	127,298
	<b>3,123,968</b>	2,902,196
Long-term portion of deferred revenue	-	59,820
Long-term portion of obligations under capital leases	73,696	101,173
	<b>3,197,664</b>	3,063,189
<b>SHAREHOLDERS' EQUITY</b>		
Common shares	9,602,855	9,602,855
Contributed surplus	1,213,232	1,159,680
Deficit	(2,208,968)	(2,022,371)
Accumulated other comprehensive loss	(2,694,357)	(2,868,636)
	<b>5,912,762</b>	5,871,528
	<b>\$ 9,110,426</b>	\$ 8,934,717

See accompanying Notes to the Consolidated Financial Statements

**BURNTSAND INC.**  
**Consolidated Statements of Operations**

	Three months ended March 31,	
	<b>2008</b>	2007
	(unaudited)	(unaudited)
<b>REVENUE</b>		
Services	\$ 5,032,930	\$ 6,571,665
License and maintenance	129,311	839,899
Other revenue	176,580	237,670
	<b>5,338,821</b>	7,649,234
<b>COSTS</b>		
Cost of services	3,619,602	4,495,859
Cost of license and maintenance	116,754	756,406
Cost of other revenue	159,847	222,044
	<b>3,896,203</b>	5,474,309
<b>GROSS PROFIT</b>	<b>1,442,618</b>	2,174,925
<b>EXPENSES</b>		
Sales and marketing	391,625	482,550
General and administrative	637,020	858,302
Other expenses	508,514	714,197
	<b>1,537,159</b>	2,055,049
Earning (loss) before amortization, interest and income taxes	<b>(94,541)</b>	119,876
Amortization of capital assets	<b>(86,250)</b>	(112,544)
Interest and investment income	<b>26,792</b>	28,597
Interest expense and financing costs	<b>(7,401)</b>	(6,975)
Income Taxes	<b>(25,197)</b>	(26,940)
<b>NET INCOME/(LOSS) FOR THE PERIOD</b>	<b>\$ (186,597)</b>	\$ 2,014
Loss, basic and diluted, per share	<b>\$ (0.00)</b>	\$ 0.00
Weighted average number of common shares used to calculate per share amounts, basic and diluted		
	<b>72,593,554</b>	72,504,270

See accompanying Notes to the Consolidated Financial Statements

**BURNTSAND INC.**  
**Consolidated Statement of Deficit**

	Three months ended March 31,	
	<u>2008</u>	<u>2007</u>
	(unaudited)	(unaudited)
DEFICIT, BEGINNING OF PERIOD	(2,022,371)	(2,028,375)
Net income (loss) for the period	(186,597)	2,014
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (2,208,968)</b>	<b>\$ (2,026,361)</b>

**BURNTSAND INC.**  
**Consolidated Statement of Comprehensive Income**

	Three months ended March 31,	
	<u>2008</u>	<u>2007</u>
	(unaudited)	(unaudited)
NET INCOME / (LOSS) FOR THE PERIOD	(186,597)	2,014
Other comprehensive income, net of tax		
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	174,279	(42,029)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>174,279</b>	<b>(42,029)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ (12,318)</b>	<b>\$ (40,015)</b>

See accompanying Notes to the Consolidated Financial Statements

**BURNTSAND INC.**  
**Consolidated Statements of Cash Flows**

	Three months ended March 31,	
	2008	2007
	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	(186,597)	2,014
Items not affecting cash:		
Amortization of capital assets and intangibles	86,250	112,544
Amortization of assets used in outsourcing contract	44,260	44,260
Stock-based compensation	53,552	37,036
	<u>(2,535)</u>	195,854
Changes in operating assets and liabilities:		
Accounts receivable	(27,977)	(1,591,192)
Prepaid expenses	(362,172)	39,117
Accounts payable and accrued liabilities	(41,729)	273,276
Deferred revenue	172,353	(452,877)
	<u>(262,060)</u>	(1,535,822)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Short term investments	-	1,456,239
Purchase of capital assets, net of related accounts payable	(55,336)	(88,566)
	<u>(55,336)</u>	1,367,673
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(31,869)	(26,516)
Issue of common shares	-	1,563
	<u>(31,869)</u>	(24,953)
<b>NET CASH OUTFLOW</b>	<b>(349,265)</b>	<b>(193,102)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE</b>		
<b>CHANGES ON CASH</b>	<b>110,306</b>	<b>(3,459)</b>
<b>CASH (EXCLUDING SHORT TERM INVESTMENTS), BEGINNING OF PERIOD</b>	<b>3,643,932</b>	<b>1,168,324</b>
<b>CASH (EXCLUDING SHORT TERM INVESTMENTS), END OF PERIOD</b>	<b>3,404,973</b>	<b>971,763</b>

See accompanying Notes to the Consolidated Financial Statements

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# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

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These interim unaudited Consolidated Financial Statements do not include all note disclosures required by Canadian generally accepted accounting principles (“GAAP”) for annual financial statements and therefore should be read in conjunction with the audited Consolidated Financial Statements, including the Notes thereto in the Burntsand Inc. 2007 Annual Report.

In the opinion of management, these interim consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the Company’s financial position as at March 31, 2008 and the results of operations and cash flows for the three month periods ended March 31, 2008 and 2007.

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES:

The interim Consolidated Financial Statements include the accounts of the Company and its subsidiaries (collectively “the Company”). The Notes presented in these interim Consolidated Financial Statements include only significant changes and transactions occurring since the Company’s last year end and are not fully inclusive of all matters normally disclosed in the Company’s annual audited consolidated financial statements. These consolidated financial statements are prepared using the same accounting principles and application thereof as the financial statements for the year ended December 31, 2007.

### 2. CHANGES IN ACCOUNTING POLICIES

#### Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: *Capital Disclosures* (Section 1535), *Financial Instruments – Disclosures* (Section 3862) and *Financial Instruments - Presentation* (Section 3863). These new standards became effective for the Company on January 1, 2008.

#### Capital Disclosures

CICA Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 9 to these interim financial statements.

#### Financial Instruments

CICA Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 10 and note 11 to these interim financial statements.

# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

### 3. ACCOUNTS RECEIVABLES

	March 31, 2008	December 31, 2007
Accounts receivable	\$ 3,330,873	\$ 3,450,335
Unbilled receivables	651,456	454,132
Provision for doubtful accounts and unbilled receivables	(90,056)	(123,159)
	<u>\$ 3,892,273</u>	<u>\$ 3,781,308</u>

### 4. SHARE CAPITAL

As at March 31, 2008, there were 72,593,554 (December 31, 2007 – 72,593,554) common shares issued and outstanding; and 9,012,827 (December 31, 2007 – 9,602,855) options issued and outstanding at exercise prices ranging from \$0.070 to \$0.365 with remaining weighted-average contractual lives of 2.95 years.

On May 24, 2007, the Company announced it had filed a NCIB under which it may purchase up to 5,744,165 of its common shares during the period May 30, 2007 to May 29, 2008. All purchases will be made on the open market through the facilities of the TSX in accordance with TSX requirements. The prices paid for any purchased common shares will be the market price of such on the TSX requirements. During the period ended March 31, 2008 the Company has not purchased any common shares.

### 5. STOCK-BASED COMPENSATION

Stock based compensation is calculated using the fair value of each option granted using the Black Scholes option pricing model on the date of grant and is amortized over the vesting period. In the event an option grant expires unvested, the previously recorded expense is reversed in the period when the unvested option expires. In each quarter the stock based compensation expense consists of the amortization of previous grants, plus the amortization of new grants, less the recovery of previously recorded expense for unvested options that expired in the quarter.

There have been 4,177 options granted for the three months ended March 31, 2008 (2007 – 15,750). The “fair value” of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended March 31,	
	2008	2007
Dividend yield	0%	0%
Risk-free interest rate	3.23%	4.00%
Expected volatility	83%	80%
Expected life	3 years	3 years
Weighted average fair value per option	\$0.074	\$0.157
Weighted average exercise price per option	\$0.135	\$0.290

# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

For the quarter ended March 31, 2008, an expense of \$53,552 (2007 – \$37,036) has been recorded for stock based compensation, allocated as follows:

	Three months ended March 31,	
	2008	2007
Cost of services	\$ 8,957	\$ 11,876
Sales and marketing expense	2,966	696
General and administrative expense	41,629	24,464
Total stock based compensation	\$ 53,552	\$ 37,036

### 6. SUPPLEMENTAL CASH FLOW AND NON-CASH INVESTING AND FINANCING DISCLOSURE

	Three months ended March 31,	
	2008	2007
Cash payments for interest	\$ 7,401	\$ 6,975
Cash receipts for interest	\$ 29,444	\$ 50,430
Cash payments (refunds) for taxes	\$ 21,408	\$ 1,173
Purchase of capital assets under capital leases	\$ 29,236	\$ 26,724

### 7. RELATED PARTY TRANSACTIONS

There were no related party transactions for the three-month period ended March 31, 2008 or March 31, 2007.

### 8. LINE OF CREDIT, COMMITMENTS AND CONTINGENCIES

(a) *Line of credit*

The Company has a line of credit with Silicon Valley Bank to provide the Company up to \$2,566,250 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$5,132,500 (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. There have been no borrowings in the period ended March 31, 2008.

(b) *Letters of Credit*

As at March 31, 2008 the Company has provided a stand-by letter of credit of \$81,131 (December 31, 2007 - \$78,349) to a landlord.

# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

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### 9. 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 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, and to provide an adequate return to shareholders.

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 Silicon Valley Bank (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. At March 31, 2008 the Company is in compliance with this covenant.

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 three months ended March 31, 2008 compared to the year ended December 31, 2007.

### 10. FINANCIAL INSTRUMENTS

Under CICA Section 3862 *Financial Instruments – Disclosures*, the Company is required to provide disclosures regarding its financial instruments. Financial instruments are either measured at amortized cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Held for trading financial assets and liabilities and available-for-sale financial assets are measured on the balance sheet at fair value.

The following table provides the carrying value of each category of financial assets and liabilities and the related balance sheet item:

	March 31, 2008	December 31, 2007
<b>Financial assets:</b>		
Held for trading financial assets:		
Cash and cash equivalents	\$ 3,404,973	\$ 3,643,932
Loans and receivables		
Receivables	3,892,273	3,781,308
	<b>\$ 7,297,246</b>	<b>\$ 7,425,240</b>
<b>Financial liabilities:</b>		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 2,054,467	\$ 2,068,648
Capital lease obligation	198,081	228,471
	<b>\$ 2,252,548</b>	<b>\$ 2,297,119</b>

# **BURNTSAND INC.**

## **Notes to the Consolidated Financial Statements (unaudited)**

**March 31, 2008 and 2007**

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### **11. FINANCIAL RISK MANAGEMENT**

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls and sound business practices. The Company does not purchase any derivative financial instruments.

Risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

#### **Foreign Exchange Risk**

The Company operates primarily in Canada and the United States. The functional currency of the parent company is CDN dollars and the reporting currency is CDN dollars. All operations in the United States operate with the U.S. dollar as the functional currency. Approximately two-thirds of the Company's business is conducted in U.S. dollars. Consequently, the Company records foreign currency differences on its U.S. operations as part of Comprehensive Other Income.

A 10% weakening in the Canadian dollar against the United States dollar as at March 31, 2008 would have increased other comprehensive income by approximately \$502,000 (a 10% strengthening would have had the equal but opposite effect). This analysis assumes that all other variables remain constant.

#### **Interest Rate Risk**

The Company has cash balances, capital leases and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade (short-term deposit certificates) issued by U.S. banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

#### **Credit Risk**

Credit risk arises from cash held with banks, as well as credit exposure to customers, including outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counter-party credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counter-parties, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, and performs credit reviews.

The Company's exposure to individual customers is limited and the ten largest customers as at March 31, 2008, on aggregate, accounted for 42% of the Company's total accounts receivable balance.

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within 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 are credited against in the statement of operations.

# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

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The following table outlines the details of the aging of the Company's receivables and related allowance for doubtful accounts:

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Current	\$ 1,842,136	\$ 1,801,720
Unbilled receivables	600,091	378,553
Other miscellaneous receivables	28,360	111,436
	<b>\$ 2,470,587</b>	<b>\$ 2,291,709</b>
Past due		
1-60 days	\$ 1,269,864	\$ 1,446,191
Greater than 60 days	190,513	90,988
Less: allowances	(38,421)	(47,580)
	<b>\$ 1,421,956</b>	<b>\$ 1,489,599</b>
<b>Total accounts receivable, net</b>	<b>\$ 3,892,543</b>	<b>\$ 3,781,308</b>

The movement in the allowance for doubtful accounts for the three month period ended March 31, 2008 is as follows:

	<b>Continuity</b>
Allowance for doubtful accounts	
Balance, Beginning of period	\$ (47,580)
Reduce provision	9,159
Balance, End of period	<b>\$ (38,421)</b>

Historically trade credit losses have been minimal.

### Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2008, the Company had a cash balance of \$3,404,973 (December 31, 2007 - \$3,643,932), to settle accounts payable and liabilities of \$2,054,467 (December 31, 2007 - \$2,068,648).

## 12. SEGMENTED INFORMATION

The Company operates in one business segment – business solutions that deliver enhanced productivity. Revenues are allocated to countries based on location of the primary office providing the services. The Company earned revenue from sales to customers in the following geographic locations:

# BURNTSAND INC.

## Notes to the Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

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	Three months ended March 31,	
	2008	2007
Canada	\$ 1,915,634	\$ 2,829,864
United States	3,423,187	4,819,370
	<u>\$ 5,338,821</u>	<u>\$ 7,649,234</u>

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

	March 31, 2008	December 31, 2007
Canada	\$ 717,474	\$ 803,298
United States	535,065	513,649
	<u>\$ 1,252,539</u>	<u>\$ 1,316,947</u>

In the three months ended March 31, 2008, one customer accounted for 15% of revenue (2007 – two customers accounted for 30%) and 15% of total accounts receivable as at March 31, 2008 (2007-34%).