



BURNTSAND

Burntsand Inc.

Quarterly Report

**For the Quarter
Ended June 30th, 2007**

August 9th, 2007

Dear Fellow Shareholder:

The activities in the second quarter of 2007 represented a continuation of the work we are doing in building a stable and sustainable business at Burntsand. Our growing backlog, new contracts and projects per customer demonstrates this progress. The second quarter results include \$250,000 of one time costs incurred to reduce future expenses and improve regional performance. With these one time costs behind us our commitment is to focus on those parts of our business that are growing and profitable to improve financial performance.

These changes and focus are a reflection of my commitment, as well as the commitment of the management team, to continually assess the market and anticipate where the opportunities will be moving forward. This commitment is fundamental to the vision that Burntsand will lead in every aspect of the business: market understanding, market position, sales effectiveness, delivery quality and operational excellence, in order to build and sustain long term shareholder value.

Our Q2 EBITDA loss of \$443,000 includes one time charges from a combination of severance and real estate costs due to changes required to ensure our cost structure is in line with the profitable parts of our business. These changes have positioned us well for improved performance.

In addition, we had a very active quarter from a marketing perspective as many of our key annual marketing events that have historically occurred throughout the year took place this quarter. In Q2, we supported five key events while continuing our targeted co-marketing process with our partners. The five key events supported each of our key business segments across North America while driving substantial incremental sales opportunities for the rest of the year. The value of these marketing programs is reflected in the growth of both backlog for the next quarter and total backlog we have reported over the last 14 quarters.

The highlights for the quarter include:

- Our opening backlog for Q3 2007 was \$8.5 million compared to \$5.8 million opening backlog in Q3 2006. This is the seventh consecutive quarter of increasing backlog.
- We signed 14 contracts which were valued over \$100,000 compared to 13 new contracts in Q2 2006. Two of the contracts in Q2 2007 were valued at \$750,000 and \$1,300,000
- We worked on 152 projects for 74 customers in Q2 2007 compared to 124 projects for 65 customers in Q2 2006 – an increase in three metrics of number of projects; number of customers and number of projects per customer.

In closing, I would like to recognize the contribution of Tim Duffy as CEO to the progress we have made and look forward to his contribution going forward as a Director. I am pleased to have been given the opportunity to lead the phenomenal team at Burntsand and look forward to building success for our employees, clients, partners and shareholders.

Martin Glover
Chief Executive Officer

Jim Yeates
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 9, 2007

The Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements and the accompanying notes for the period ended June 30, 2007. Additional information relating to Burntsand Inc. ("Burntsand"), including our Annual Information Form, is available on SEDAR at www.sedar.com.

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

Forward Looking Information

Certain information in this Management's Discussion and Analysis and in other public announcements contains forward-looking information. Such statements include, but are not limited to, statements which indicate the results, events or activities that Burntsand expects or anticipates will or may occur in the future, including statements which give guidance as to future revenues or other financial results of Burntsand and statements regarding the growth of business or operations, competitive strengths and strategic initiatives and plans. Such forward-looking statements can generally be identified by words such as "outlook", "guidance", "estimate", "forecast", "objective", "anticipate", "intend", "likely", "will", "may", "should", "could", "expect", "believe", and similar expressions and statements relating to matters that are not historical facts.

The forward-looking statements in these documents are based upon the reasonable beliefs of Burntsand and its management as of the date the information; however, forward-looking statements involve risks and uncertainties and are based upon factors that may change and assumptions that may prove, with the passage of time, to be incorrect. Accordingly, undue reliance should not be placed upon such statements. If factors materially change or assumptions are materially incorrect, the actual results, performance or achievements of Burntsand may be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements.

Important factors that could cause actual results, events or activities to differ materially from the forward-looking statements contained in this press release include: general economic business conditions; loss of key employees; integration of acquisitions; stock market volatility; supply and demand for services offered by Burntsand; changes in laws and regulations; Burntsand's ability to compete successfully, protect its intellectual property rights, and adapt to technological advances and changing industry standards and other factors. Important assumptions that were used in making the forward-looking statements include: effective daily rates, estimated utilization, estimated new bookings and realization on contracts

All statements made in these documents that contain forward-looking information are made as of the date of this document. Burntsand disclaims any intention and undertakes no obligation to update or revise any forward-looking statements to reflect new information, future events or otherwise.

Overview of Our Business

Summary

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

Burntsand delivers business advantage for its mid-market clients (clients with revenues between \$200 million and \$1 billion), including divisions of the top 2000 companies as ranked by revenue ("Global 2000 companies") in Canada and the United States. Burntsand is primarily focused on "business to business" relationships and has developed expertise in specific industries: life sciences, healthcare, financial services, government and energy.

Our Business Strategy and Objectives for 2007

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

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

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

Key Events in the Quarter

During the second quarter of 2007, there have been a number of highlights:

- Our opening backlog for Q3 2007 was \$8.5 million compared to \$5.8 million opening backlog in Q3 2006. This is the seventh consecutive quarter of increasing backlog.
- We signed 14 contracts which were valued over \$100,000 compared to 13 new contracts in Q2 2006 – two of the Q2 2007 contracts valued at \$750,000 and \$1,300,000.
- We worked on 152 projects for 74 customers in Q2 2006 compared to 124 projects for 65 customers in Q2 2006 – an increase in three metrics of number of projects; number of customers and number of projects per customer.
- We incurred marketing expenses of \$200,000 to increase our sales pipeline and identify additional opportunities. We presented at EMCWorld in Orlando as a Diamond Sponsor; including three presentations of solutions by our most senior technical people to potential clients and we presented at the SMF Conference in Calgary as a Gold sponsor
- We incurred \$250,000 in one time charges related to management changes and reducing future office leases through relocation and lease terminations.

Quarterly Financial Information

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

Years ended December 31

	2005		2006				2007	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Services revenue	\$ 4,313	\$ 4,467	\$ 4,456	\$ 4,790	\$ 5,688	\$ 5,391	\$ 6,572	\$ 5,621
Total revenue	\$ 4,862	\$ 5,126	\$ 5,135	\$ 5,462	\$ 7,187	\$ 5,854	\$ 7,649	\$ 6,506
EBITDA ⁽¹⁾	\$ (155)	\$ 10	\$ (273)	\$ (131)	\$ 150	\$ (90)	\$ 120	\$ (443)
Net income (loss)	\$ (288)	\$ (127)	\$ (385)	\$ (225)	\$ 68	\$ (259)	\$ 2	\$ (609)
Earnings (loss), basic and diluted, per share ⁽²⁾	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.01)

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

(2) Rounded to the nearest cent.

Results of Operations

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

in their cycles is a key driver of our performance. The current industry factors and economic trends that we are faced with are consistent with those disclosed in our 2006 Annual MD&A available on SEDAR at www.sedar.com.

The Company's quarterly results fluctuate based on a number of factors. License and maintenance ("LMI") revenue is project specific and is normally a small number of large transactions. As such, the timing from quarter to quarter often increases the variability of revenue.

Quarter ended June 30, 2007 (Q2 2007) compared to the quarter ended June 30, 2006 (Q2 2006).

Revenues

Revenues for the three months ended June 30, 2007 were \$6.5 million compared to \$5.5 million for Q2 2006. The increase from Q2 2006 was a result of higher service revenue (\$0.8 million), LMI revenue (\$0.1 million) and other revenue (\$0.1 million). During the current quarter, service revenues were 86% of total revenues compared to 88% for Q2 2006. LMI revenues were 10% of total revenues in Q2 2007 compared to 9% in Q2 2006. The Company's focus is on profitable services revenue, however, it will continue to earn revenues from LMI since the Company is an integrator in the business of delivering complete solutions to its customers. In the current quarter, 65% of revenue was from offices in the United States compared to 60% for Q2 2006.

The factors which have impacted service revenues in the current quarter were: significantly higher utilization in Q2 2007 of 78% compared to 75% in Q2 2006, a change in our average headcount to 119 full-time-equivalent (FTE) delivery people, compared to 94 FTE in Q2 2006; and offset by a lower effective rate by 6% compared to Q2 2006. Our average effective rate was impacted by lower foreign exchange translation on our US operations and a project overrun during the quarter. Excluding these factors the average effective rate increased by 5% compared to Q2 2006.

During the quarter, the Company worked on 152 projects (Q2 2006 – 124) for 74 customers (Q2 2006 – 65), of which 8 were new customers (Q2 2006 – 11). Of the 152 projects this quarter, 69 were new projects (Q2 2006 – 50) started this quarter. During the quarter, the Company signed 14 new contracts (Q2 2006 – 13), each valued at \$100,000 or more. The Company's top 10 customers accounted for 63% of total revenues (Q2 2006 – 56%) and included two customers which accounted for 29% of total revenues (Q2 2006 – 25%).

LMI revenues are impacted by the number of license sales during the quarter. Total license revenue was \$0.5 million and maintenance revenue was \$0.1 million. In general these are large single sales of licenses, which make up the majority of the license revenues. The large annual renewals of maintenance are typically at a low gross margin. LMI revenues increased in Q2 2007 by \$0.1 million from Q2 2006. The maintenance revenues consist of both new maintenance contracts on new licenses and renewal of maintenance contracts on previously sold licenses.

Costs

Cost of services in Q2 2007 increased by \$0.7 million from Q2 2006. The increase in cost of services was due to higher headcount in Q2 2007 over Q2 2006 – required to support the increase in revenue. As a percentage of services revenues, cost of services increased to 69% in Q2 2007, compared with 66% in Q2 2006.

Cost of LMI increased by \$0.2 million from Q2 2006 due to the volume and change in mix of LMI products sold during the quarter. LMI costs are directly variable with revenue. LMI costs range from 50% to 95% of the manufacturer's list price and may fluctuate significantly from quarter to quarter. As a percentage of revenue, costs increased to 93% in Q2 2007 from 79% in Q2 2006.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 31% for Q2 2007 compared to 34% in Q2 2006. The reduced gross profit from Q2 2006 is due to the lower effective rates, offset by the increase in utilization. Services profitability and company profitability is significantly impacted by utilization, average effective daily rates and headcount.

Gross profit for LMI was 7% in Q2 2007 compared to 21% in Q2 2006. Both specific opportunities and the mix of licenses and maintenance products impact gross profit in this area. The supplier and the type of the product determine the cost, and therefore gross profit, of LMI products. LMI is not the focus of our core business, although two locations continue to derive a portion of their local gross profit from this area.

Expenses

Sales and marketing expense increased by 26% in Q2 2007 compared to Q2 2006. The sales and marketing expense increase is due to additional marketing programs in Q2 2007 from Q2 2006. In Q2 2007 Burntsand was a Diamond (top) level sponsor at EMC World, the EMC Users conference as well as participating in four smaller events. In previous years

the EMC Users conference has been held in the third or fourth quarter of the year. A key objective for the Company is to increase revenue in 2007 and the marketing efforts have been increased to identify and pursue more opportunities. As a percentage of revenues, sales and marketing expenses were 9.0% compared to 8.5% in Q2 2006. The Company will continue to maintain its focus on growing revenues through additional sales efforts and marketing programs but the majority of our marketing expenses have been incurred for the current year.

General and administrative expense increased by 32% in Q2 2007 compared to Q2 2006. Of the increase from Q2 2006 \$150,000 is related to one time costs associated with changes in the management team. Excluding these one time costs, general and administrative expense increased by 10%. Recruiting expenses and professional fees were all relatively constant. As a percentage of revenues, general and administrative expenses have increased to 13.8% in Q2 2007 from 12.5% in Q2 2006.

Other expenses consist of the following components:

	Three months ended	
	June 30, 2007	June 30, 2006
Rent, parking and office	\$ 237,467	\$ 251,140
Business travel & training	236,303	245,882
Telecommunications, technology and insurance	155,535	146,417
Foreign exchange expense	18,279	33,060
Miscellaneous expense	124,840	30,446
Total Other Expenses	\$ 772,424	\$ 706,945

Overall, other expenses increased by 9.3% in Q2 2007 compared to Q2 2006. The increase in other expenses from Q2 2006 is a combination of a number of minor fluctuations and \$100,000 in one time costs included in miscellaneous expense for relocating two offices to more cost effective space and terminating a long term lease in another location where there was significant excess space. This termination payment will result in \$650,000 in savings over the next four years. One of the strategies being implemented in 2007 is to leverage our senior consultants over a larger geographic area – resulting in a corresponding increase in travel costs. As a percentage of revenues, other expenses decreased to 11.9% in Q2 2007, compared to 12.9% in Q2 2006. Excluding one time charges other expenses decreased to 10.3% in Q2 2007. Generally, other expenses are relatively fixed in nature and do not vary substantially with incremental revenue changes.

Other

Amortization of capital assets increased slightly in Q2 2007 compared to Q2 2006. The Company has continued to replace computer hardware on a regular basis, purchasing \$30,236 of new assets and amortizing \$122,299 of capital assets in Q2 2007. The Company expects amortization of capital assets to slowly decrease as the net book value of capital assets decreases.

Interest and investment income was lower in Q2 2007 compared with Q2 2006 due to lower investment balances.

Interest expense and financing costs have increased due to interest expense on capital leases signed in the latter part of 2006 and financing costs on a newly established Line of Credit. Included in financing costs for the current quarter are the set up fees for this Line of Credit. (See Liquidity and Capital Resources).

Six months ended June 30, 2007 (YTD 2007) compared to 6 months ended June 30, 2006 (YTD 2006)

Revenues

Revenues for the six months ended June 30, 2007 were \$14.2 million compared to \$10.6 million for YTD 2006. The increase from YTD 2006 was a result of higher service revenue (\$2.9 million), LMI revenue (\$0.4 million) and other revenue (\$0.2 million). During the current period, service revenues were 86% of total revenues compared to 87% for YTD 2006. LMI revenues were 10% of total revenues in both YTD 2007 and YTD 2006. The Company's focus is on profitable services revenue, however, it will continue to earn revenues from LMI since the Company is an integrator in the business of delivering complete solutions to its customers. In the current period, 64% of revenue was from offices in the United States compared to 62% for YTD 2006.

The factors which have impacted service revenues in the current quarter were: higher utilization in YTD 2007 of 79%, compared to 73% in YTD 2006 and a change in our average headcount to 122 full-time-equivalent (FTE) delivery people compared to 94 FTE in YTD 2006; offset by a lower effective rate by 6% compared to YTD 2006. Our YTD effective rate has been impacted by the effective rate of foreign exchange translation on our US operations and a project overrun in Q2 2007. Adjusting for these items, our average effective daily rate has decreased by 1%.

LMI revenues are impacted by the number of license sales during the period. Total license revenue was \$1.0 million and maintenance revenue was \$0.5 million. In general these are large single sales of licenses make up the majority of the license revenues. The maintenance revenues consist of both new maintenance contracts on new licenses and renewal of maintenance contracts on previously sold licenses. Both the annual renewals of maintenance and large single sales of licenses are typically at a low gross margin. LMI revenues increased in YTD 2007 by \$0.4 million from YTD 2006.

Costs

Cost of services in YTD 2007 increased by \$2.2 million from YTD 2006. The increase in cost of services was due to higher headcount in YTD 2007 over YTD 2006 – as a result of higher service revenue. As a percentage of services revenues, cost of services increased to 69% in YTD 2007, compared with 66% in Q2 2006.

Cost of LMI increased by \$0.5 million from YTD 2006 due to the volume and change in mix of LMI products sold during the quarter. LMI costs are directly variable with revenue. LMI costs range from 50% to 95% of the manufacturer’s list price and may fluctuate significantly from quarter to quarter. As a percentage of revenue, costs increased to 91% in YTD 2007 from 83% in YTD 2006.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 31% for YTD 2007 compared to 34% in YTD 2006. The reduced gross profit from YTD 2006 is due to the lower effective rates, slightly offset by the increase in utilization. Services profitability and company profitability is significantly impacted by utilization, average effective daily rates and headcount.

Gross profit for LMI was 9% in YTD 2007 compared to 17% in YTD 2006. Both specific opportunities and the mix of licenses and maintenance products impact gross profit in this area. The supplier and the type of the product determine the cost, and therefore gross profit, of LMI products. LMI is not the focus of our core business, although two locations continue to derive a portion of their local gross profit from this area.

Expenses

Sales and marketing expense increased by 16% in YTD 2007 compared to YTD 2006. The expense increase from YTD 2006 is due to both higher sales commissions on higher revenue and higher marketing programs in Q2 2007. In Q2 2007 Burnsand was a Diamond (top) level sponsor at EMC World, the EMC Users conference. In previous years this event has been held in Q3 or Q4. A key objective for the Company is to increase revenue in 2007 and the sales and marketing efforts have been increased to pursue more opportunities. As a percentage of revenues, sales and marketing expenses were 7.5% compared to 8.6% in YTD 2006. The Company will continue to maintain its focus on growing revenues through additional sales efforts and marketing programs.

General and administrative expense increased by 21% in YTD 2007 compared to YTD 2006. The increase from YTD 2006 is related to a number of one time charges incurred in Q2 2007 and various other minor fluctuations. As a percentage of revenues, general and administrative expenses have decreased to 12.4% in YTD 2007 from 13.7% in Q2 2006. Excluding one time costs, general and administrative expenses were 11.3% of revenues.

Other expenses consist of the following components:

	Six months ended	
	June 30, 2007	June 30, 2006
Rent, parking and office	\$ 498,236	\$ 503,724
Business travel & training	509,193	451,125
Telecommunications, technology and insurance	308,700	292,941
Foreign exchange expense	22,902	33,027
Miscellaneous (including bad debt)	147,590	59,641
Total Other Expenses	\$ 1,486,621	\$ 1,340,458

Overall, other expenses increased by 11% in YTD 2007 compared to YTD 2006. The increase in other expenses from YTD 2006 consists primarily of certain one time costs incurred in Q2 2007 to relocate two offices to more cost effective space and a termination payment on excess space in another location. One of the strategies being implemented in 2007 is to leverage our senior consultants over a larger geographic area – and a corresponding increase in travel costs. As a

percentage of revenues, other expenses decreased to 10.5% in YTD 2007, compared to 12.6% in YTD 2006. Generally, other expenses are relatively fixed in nature and do not vary substantially with incremental revenue changes.

Other

Amortization of capital assets decreased slightly in YTD 2007 compared to YTD 2006. This decrease in amortization is the result of lower net book value of capital assets. The Company has continued to replace computer hardware on a regular basis, purchasing \$118,802 of new assets and amortizing \$234,843 of capital assets in YTD 2007. The Company expects amortization of capital assets to slowly decrease as the net book value of capital assets continues to decrease.

Net interest and investment income was consistent between YTD 2007 and YTD 2006. Interest expense and financing costs in YTD 2007 have increased over YTD 2006 due to interest on capital leases signed in Q4 2006 and the financing costs on a newly established Line of Credit. Included in Q2 2007 financing costs were the set up fees associated with the Line of Credit.

Liquidity and Capital Resources

The Company finished the period ended June 30, 2007 with cash and short-term investments of \$2.4 million compared to \$3.9 million at December 31, 2006. The decrease of \$1.5 million in cash and short-term investments is due to the financing of receivables (\$1.1 million), the acquisition of capital assets (\$0.1 million), and the decrease in deferred revenue (\$0.3 million), cash used in operations, excluding working capital changes (\$0.2 million); offset by financing obtained through accounts payable and accrued liabilities (\$0.2 million), and other smaller items which in aggregate offset each other.

During Q2 2007 the Company has converted all of its short term investments into cash and now invests any excess cash on a daily basis to increase its earnings on higher overnight investment balances at approximately the same interest rate. This is not expected to impact investment income; however all excess funds will be reported as cash rather than as short term investments.

At June 30, 2007, the Company's short-term obligations include accounts payable and accrued liabilities, deferred revenue, and capital leases. The following table identifies the Contractual Obligations of the Company at June 30, 2007:

Contractual Obligations	Payments due by Period					
	Total	2007	2008	2009	2010	Beyond
Capital Lease Obligations	\$ 294,736	\$ 62,815	\$ 129,493	\$ 97,501	\$ 4,927	\$ -
Operating Leases	2,038,516	295,791	457,211	359,795	366,150	559,569
Total Contractual Obligations	\$ 2,333,252	\$ 358,606	\$ 586,704	\$ 457,296	\$ 371,077	\$ 559,569

On December 19, 2005, the Company announced it had filed a normal course issuer bid ("NCIB"), under which it may purchase up to 5,800,907 of its common shares during the period December 21, 2005 to December 20, 2006. All purchases were made on the open market through the facilities of the TSX in accordance with TSX requirements. The price paid for the purchased common shares was the market price of such shares on the TSX at the time of purchase. During the quarter ended June 30, 2006, the company purchased and cancelled 481,000 common shares at a total cost of \$44,785.

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 shares on the TSX at the time of purchase. During the quarter ended June 30, 2006, the company did not purchase any common shares.

The Company has no material outstanding commitments for capital expenditures. In general, the Company does not require significant capital assets as the Company grows. There is an ongoing requirement to upgrade existing capital assets, but the Company expects to fund this through operational cash flow. The Company has leased some fixed asset additions in 2006 to maximize the available cash to fund growth and to recapture the residual value of the capital assets at the end of the lease (normally three years).

The Company requires working capital as the Company grows to support the timing differences between receivables and payables. The Company believes it has adequate cash reserves to fund this working capital requirement, however in the

event that cash reserves were not sufficient, the Company has established a Line of Credit. The Company has a Line of Credit with Silicon Valley Bank to provide the Company with credit of up to \$5,327,000 (US \$5,000,000). The Company may draw this limit in three tranches of US\$2,500,000; US\$1,250,000; and US\$1,250,000. The line of credit provides for borrowings based on 80% of eligible accounts receivable, subject to certain calculations as defined in the agreement. Borrowings under this line of credit bear interest at prime plus 1% to prime plus 2%, depending on certain covenants. Borrowings are secured by essentially all assets of the Company

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

Share Capital

As of July 31, 2007, there are 72,510,219 common shares issued and outstanding and 9,337,356 options outstanding at exercise prices ranging from \$0.07 to \$0.57 with remaining weighted average contractual lives of 2.7 years.

Risk Factors and Risk Management

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

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

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

Related Party Transactions

The Company has no related party transaction during the quarter ended June 30, 2007 and June 30, 2006. For the six month period ended June 30, 2007, revenues of nil (2006-10,920) were recorded related to services performed for a company (Bridges Transitions Inc.) with a director in common. These transactions were negotiated at arms length, valued at fair market value for the services performed and were in the ordinary course of business. The Company has no ongoing commitments under these agreements and Bridges Transitions Inc. is no longer a related party.

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 in our 2006 Annual Report available on SEDAR at www.sedar.com. The following, Revenue

Recognition and Allowance for Doubtful accounts is our most critical accounting estimate and should be read in conjunction with our Consolidated Financial Statements:

Revenue Recognition and Allowance for Doubtful Accounts

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

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

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

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

We recognize revenue only in those situations where collection from the client is reasonably assured. Our normal payment terms are 30 days from invoice date. For the periods ended June 30, 2007 and December 31, 2006, our average days-sales-outstanding for accounts receivable was 70 days and 66 days, respectively. Our project managers and finance personnel continuously monitor timely payments from our clients and assess any collection issues. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and percentage of our accounts receivable by aging category. In determining these estimates, we look at historical write-offs of our receivables and review each client's account to identify any specific customer collection issue. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a materially adverse effect on our business, financial condition and results of operations. As of June 30, 2007 and December 31, 2006, \$0.1 million was provided for doubtful accounts and unbilled receivables.

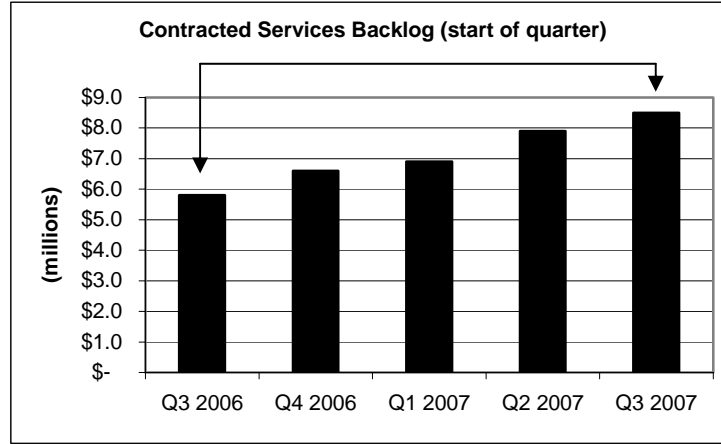
Outlook

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

The Company entered Q3 2007 with \$8.5 million (Q3 2006 - \$5.8 million) in services backlog, of which \$4.2 million (Q3 2006 - \$3.5 million) is scheduled to be completed in the third quarter of 2007. The Company defines backlog as both signed contracts for specific projects or time and material contracts (T&M) with purchase orders/statements of work for specific people and periods of time. In addition to contracts for specific projects, the Company has contracts for T&M

work which are general contracts, terminable by clients on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize these contracts as backlog. Normally if a client terminates a project, the client remains obligated to pay for services performed and reimbursable expenses incurred by us through the date of termination.

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



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

Notice to Reader

The accompanying unaudited interim consolidated statements of Burntsand Inc. for the period ended June 30, 2007 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
President and Chief Executive Officer

(signed) Blair Baxter

Blair R. Baxter, CA
Chief Financial Officer

BURNTSAND INC.
Consolidated Balance Sheets

	June 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,401,800	\$ 1,168,324
Short-term investments	-	2,734,121
Accounts receivable	5,062,239	4,272,488
Prepaid expenses	288,970	483,736
	7,753,009	8,658,669
Capital assets	1,386,877	1,585,936
Goodwill and other intangibles	155,319	169,898
	\$ 9,295,205	\$ 10,414,503
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,686,295	\$ 2,454,187
Deferred revenue	821,123	1,067,246
Current portion of obligations under capital leases	123,549	121,871
	3,630,967	3,643,304
Long-term portion of deferred revenue	-	105,839
Long-term portion of obligations under capital leases	171,187	236,578
	3,802,154	3,985,721
SHAREHOLDERS' EQUITY		
Common shares	9,591,165	9,588,902
Contributed surplus	1,104,076	1,052,745
Deficit	(2,635,708)	(2,028,375)
Accumulated other comprehensive loss	(2,566,482)	(2,184,490)
	5,493,051	6,428,782
	\$ 9,295,205	\$ 10,414,503

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE				
Services	\$ 5,621,109	\$ 4,790,352	\$ 12,192,774	\$ 9,246,415
License and maintenance	621,839	485,395	1,461,738	1,033,546
Other revenue	262,582	185,876	500,252	316,815
	6,505,530	5,461,623	14,154,764	10,596,776
COSTS				
Cost of services	3,865,357	3,172,691	8,361,216	6,118,516
Cost of license and maintenance	580,097	381,234	1,336,503	853,974
Cost of other revenue	246,280	185,876	468,324	316,815
	4,691,734	3,739,801	10,166,043	7,289,305
GROSS PROFIT	1,813,796	1,721,822	3,988,721	3,307,471
EXPENSES				
Sales and marketing	583,171	462,808	1,065,721	916,124
General and administrative	900,864	682,665	1,759,166	1,454,216
Other expenses	772,424	706,945	1,486,621	1,340,458
	2,256,459	1,852,418	4,311,508	3,710,798
Earning (loss) before amortization, interest and income taxes	(442,663)	(130,596)	(322,787)	(403,327)
Amortization of capital assets	(122,299)	(119,103)	(234,843)	(248,147)
Interest and investment income	12,170	24,869	40,767	42,649
Interest expense and financing costs	(46,395)	(179)	(53,370)	(1,443)
Income Taxes	(10,160)	-	(37,100)	-
NET INCOME/(LOSS) FOR THE PERIOD	\$ (609,347)	\$ (225,009)	(607,333)	(610,268)
Loss, basic and diluted, per share	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares used to calculate per share amounts, basic and diluted	72,510,219	72,897,863	72,507,261	72,940,636

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statement of Deficit

	Three months ended June 30,		Six months ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
DEFICIT, BEGINNING OF PERIOD	(2,026,361)	(1,613,083)	(2,028,375)	(1,227,824)
Net income (loss) for the period	(609,347)	(225,009)	(607,333)	(610,268)
DEFICIT, END OF PERIOD	\$ (2,635,708)	\$ (1,838,092)	\$ (2,635,708)	\$ (1,838,092)

BURNTSAND INC.
Consolidated Statement of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INCOME FOR THE PERIOD	(609,347)	(225,009)	(607,333)	(610,268)
Other comprehensive income, net of tax				
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(339,963)	(163,959)	(381,992)	(147,355)
OTHER COMPREHENSIVE INCOME	(339,963)	(163,959)	(381,992)	(147,355)
COMPREHENSIVE INCOME	\$ (949,310)	\$ (388,968)	\$ (989,325)	\$ (757,623)

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Three months ended June 30,		Six months ended June 30.	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(609,347)	(225,009)	(607,333)	(610,268)
Items not affecting cash:				
Amortization of capital assets and intangibles	122,299	119,103	234,843	248,147
Amortization of assets used in outsourcing contract	44,260	-	88,520	-
Stock-based compensation	14,995	40,604	52,031	84,196
	(427,793)	(65,302)	(231,939)	(277,925)
Changes in operating assets and liabilities:				
Accounts receivable	475,535	(170,367)	(1,115,657)	(465,648)
Prepaid expenses	137,939	254,255	177,056	(11,106)
Accounts payable and accrued liabilities	26,199	(54,584)	299,475	376,195
Deferred revenue	112,696	(152,939)	(340,181)	(38,274)
Accrued restructuring charge	-	(91,581)	-	(177,771)
	324,576	(280,518)	(1,211,246)	(594,529)
CASH FLOWS FROM INVESTING ACTIVITIES				
Short term investments	1,240,319	250,057	2,696,558	474,710
Purchase of capital assets, net of related accounts payable	(30,236)	(45,009)	(118,802)	(99,298)
	1,210,083	205,048	2,577,756	375,412
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on capital lease obligations	(30,751)	(1,549)	(57,267)	(3,079)
Issue of common shares	-	(44,785)	1,563	(44,785)
	(30,751)	(46,334)	(55,704)	(47,864)
NET CASH OUTFLOW	1,503,908	(121,804)	1,310,806	(266,981)
EFFECT OF FOREIGN EXCHANGE RATE				
CHANGES ON CASH	(73,871)	(75,789)	(77,330)	(75,302)
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), BEGINNING OF PERIOD	971,763	2,611,785	1,168,324	2,756,475
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), END OF PERIOD	2,401,800	2,414,192	2,401,800	2,414,192

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2007 and 2006

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. 2006 Annual Report.

In the opinion of management, these interim consolidated financial statements contain all of the adjustments of a normal and recurring nature necessary to present fairly the Company’s financial position as at June 30, 2007 and the results of operations and cash flows for the three and six month periods ended June 30, 2007 and 2006.

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, 2006 except as follows;

Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation. The changes are applied prospectively with no restatement in prior year comparatives

The adoption of the new standards requires classifying all financial assets and liabilities into categories that have differently defined accounting treatments as follows;

(i) Financial assets held for trading

Short-term investments are classified as “financial assets held for trading”. On January 1, 2007, the short-term investments were re-measured at fair value as required under the adoption of the new standards.

(ii) Loans and receivables

Accounts receivable are classified as “loans and receivables”. Accounts receivables are measured at cost, which approximates fair value, due to their short-term nature.

(iii) Other financial liabilities

Accounts payable and accrued liabilities are classified as “other financial liabilities”. They are measured at cost, which approximates fair value, due to their short-term nature.

The new standards also introduce a new measurement of results called comprehensive income, which is composed of the Company’s net earnings and other comprehensive income. The other comprehensive income consists solely of the translation of self-sustaining operations.

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2007 and 2006

2. ACCOUNTS RECEIVABLE

	June 30, 2007	December 31, 2006
Accounts receivable	\$ 4,840,274	\$ 4,290,996
Unbilled receivables	358,192	123,106
Provision for doubtful accounts and unbilled receivables	(136,227)	(141,614)
	<u>\$ 5,062,239</u>	<u>\$ 4,272,488</u>

3. SHARE CAPITAL

As at June 30, 2007, there were 72,510,219 (December 31, 2006 – 72,502,885) common shares issued and outstanding; and 9,455,658 (December 31, 2006 – 10,354,174) options issued and outstanding at exercise prices ranging from \$0.07 to \$0.57 with remaining weighted-average contractual lives of 2.7 years.

On December 19, 2005, the Company announced it had filed a normal course issuer bid ("NCIB"), under which it may purchase up to 5,800,907 of its common shares during the period December 21, 2005 to December 20, 2006. All purchases were made on the open market through the facilities of the TSX in accordance with TSX requirements. The price paid for the purchased common shares was the market price of such shares on the TSX at the time of purchase. During the quarter ended June 30, 2006, the company purchased and cancelled 481,000 common shares at a total cost of \$44,785.

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 shares on the TSX at the time of purchase. During the quarter ended June 30, 2006, the company did not purchase any common shares.

4. STOCK-BASED COMPENSATION

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

There have been 550,000 options granted for the three months ended June 30, 2007 and 565,750 options granted for the six month period ended June 30, 2007 (2006 – 77,650 and 180,525 respectively). There have been 1,337,261 options cancelled or expired for the three months ended June 30, 2007 (2006-196,465). 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:

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2007 and 2006

	Three months ended June 30,	
	2007	2006
Dividend yield	0%	0%
Risk-free interest rate	4.43%	4.37%
Expected volatility	80%	60%
Expected life	3 years	3 years
Weighted average fair value per option	\$0.122	\$0.063
Weighted average exercise price per option	\$0.225	\$0.085

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 quarter ended June 30, 2007, an expense of \$14,995 (2006 – \$40,604) has been recorded for stock based compensation, allocated as follows:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Cost of services	\$ 9,657	\$ 12,828	\$ 21,533	\$ 26,586
Sales and marketing expense	\$ 543	\$ 567	\$ 1,239	\$ 1,168
General and administrative expense	\$ 4,795	\$ 27,209	\$ 29,259	\$ 56,442

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Cash payments for interest and financing costs	\$ 46,395	\$ 179	\$ 53,370	\$ 1,443
Cash receipts for interest	\$ 35,002	\$ 31,709	\$ 85,432	\$ 50,923
Cash payments (refunds) for taxes	\$ 1,572	\$ (281)	\$ 2,745	\$ 6,184

6. RELATED PARTY TRANSACTIONS

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues earned from a company with a director in common	\$ -	\$ -	\$ -	\$ 10,920

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2007 and 2006

7. 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 with a two year line of credit of \$2,913,500 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$5,827,000 (US \$5,000,000), subject to certain covenants as defined in the agreement. The line of credit 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 June 30, 2007.

(b) *Letters of Credit*

As at June 30, 2007 the Company has no outstanding standby letters of credit (December 31, 2006 - \$75,704) to a landlord.

8. SEGMENTED INFORMATION

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Canada	\$ 2,252,334	\$ 2,169,321	\$ 5,082,198	\$ 4,019,910
United States	4,253,196	3,292,302	9,072,566	6,576,866
	\$ 6,505,530	\$ 5,461,623	\$ 14,154,764	\$ 10,596,776

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

	June 30,	December 31,
	2007	2006
Canada	\$ 964,267	\$ 1,134,104
United States	577,929	621,730
	\$ 1,542,196	\$ 1,755,834

CORPORATE INFORMATION

Exchange Listing: The common shares of Burntsand Inc. (BRT) are listed on the Toronto Stock Exchange.
Auditors: Deloitte & Touche LLP. Toronto, Ontario
Registered Office: Borden Ladner Gervais, Vancouver, British Columbia
Registrar and Transfer Agent: Computershare Trust Company of Canada, Vancouver, British Columbia
Investor Relations: For further information about Burntsand or additional copies of this report, please contact:
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185 The West Mall, Suite 600
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This quarterly report is also on the Internet at www.burntsand.com and on SEDAR at www.sedar.com

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DIRECTORS

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

⁽¹⁾ Member of the Audit and Corporate Governance Committee

⁽²⁾ Member of the Compensation Committee

CORPORATE MANAGEMENT AND OFFICERS

Martin Glover	President and Chief Executive Officer
Blair Baxter	Chief Financial Officer
Edward Podbelski	Vice President, Consulting Services-USA

