



BURNTSAND

Burntsand Inc.

**Financial Statements
For the Quarter
Ended June 30, 2008**

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Notice to Reader

The accompanying unaudited interim consolidated statements of Burntsand Inc. for the period ended June 30, 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.

/s/ Martin L. Glover

Martin L. Glover
Chief Executive Officer

/s/ Stephen W. Massel

Stephen W. Massel
Chief Financial Officer

BURNTSAND INC.
Consolidated Balance Sheets

	June 30, 2008	December 31, 2007
	(unaudited)	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,995,335	\$ 3,643,932
Accounts receivable	3,923,603	3,781,308
Prepaid expenses	265,014	192,530
	7,183,952	7,617,770
Capital assets	996,104	1,172,430
Goodwill	148,657	144,517
	\$ 8,328,713	\$ 8,934,717
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,847,223	\$ 2,068,648
Deferred revenue	669,443	706,250
Current portion of obligations under capital leases	115,987	127,298
	2,632,653	2,902,196
Long-term portion of deferred revenue	-	59,820
Long-term portion of obligations under capital leases	49,238	101,173
	2,681,891	3,063,189
SHAREHOLDERS' EQUITY		
Common shares	9,611,454	9,602,855
Contributed surplus	1,237,505	1,159,680
Deficit	(2,474,002)	(2,022,371)
Accumulated other comprehensive loss	(2,728,135)	(2,868,636)
	5,646,822	5,871,528
	\$ 8,328,713	\$ 8,934,717

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE				
Services	\$ 5,126,548	\$ 5,621,109	\$ 10,159,478	\$ 12,192,774
License and maintenance	457,625	621,839	586,936	1,461,738
Other revenue	245,970	262,582	422,550	500,252
	5,830,143	6,505,530	11,168,964	14,154,764
COSTS				
Cost of services	3,557,279	3,865,357	7,176,881	8,361,216
Cost of license and maintenance	435,720	580,097	552,474	1,336,503
Cost of other revenue	230,344	246,280	390,191	468,324
	4,223,343	4,691,734	8,119,546	10,166,043
GROSS PROFIT	1,606,800	1,813,796	3,049,418	3,988,721
EXPENSES				
Sales and marketing	578,353	583,171	969,978	1,065,721
General and administrative	613,068	900,864	1,250,088	1,759,166
Other expenses	599,342	772,424	1,107,856	1,486,621
	1,790,763	2,256,459	3,327,922	4,311,508
Loss before amortization, interest and income taxes	(183,963)	(442,663)	(278,504)	(322,787)
Amortization of capital assets	(84,293)	(122,299)	(170,543)	(234,843)
Interest and investment income	13,777	12,170	40,569	40,767
Interest expense and financing costs	(10,555)	(46,395)	(17,956)	(53,370)
Income Taxes	-	(10,160)	(25,197)	(37,100)
NET LOSS FOR THE PERIOD	\$ (265,034)	\$ (609,347)	(451,631)	(607,333)
Loss, basic and diluted, per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares used to calculate per share amounts,				
basic and diluted	72,612,601	72,510,219	72,603,078	72,507,261

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statement of Deficit

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
DEFICIT, BEGINNING OF PERIOD	(2,208,968)	(2,026,361)	(2,022,371)	(2,028,375)
Net income (loss) for the period	(265,034)	(609,347)	(451,631)	(607,333)
			-	-
DEFICIT, END OF PERIOD	\$ (2,474,002)	\$ (2,635,708)	(2,474,002)	(2,635,708)

BURNTSAND INC.
Consolidated Statement of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET LOSS FOR THE PERIOD	(265,034)	(609,347)	(451,631)	(607,333)
Other comprehensive income, net of tax				
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(33,778)	(339,963)	140,501	(381,992)
OTHER COMPREHENSIVE INCOME (LOSS)	(33,778)	(339,963)	140,501	(381,992)
COMPREHENSIVE INCOME (LOSS)	\$ (298,812)	\$ (949,310)	(311,130)	(989,325)

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,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(265,034)	(609,347)	(451,631)	(607,333)
Items not affecting cash:				
Amortization of capital assets and intangibles	84,293	122,299	170,543	234,843
Amortization of assets used in outsourcing contract	44,260	44,260	88,520	88,520
Stock-based compensation	27,873	14,995	81,425	52,031
	(108,608)	(427,793)	(111,143)	(231,939)
Changes in operating assets and liabilities:				
Accounts receivable	(45,640)	475,535	(73,617)	(1,115,657)
Prepaid expenses	293,016	137,939	(69,156)	177,056
Accounts payable and accrued liabilities	(182,619)	26,199	(224,348)	299,475
Deferred revenue	(274,210)	112,696	(101,857)	(340,181)
	(318,061)	324,576	(580,121)	(1,211,246)
CASH FLOWS FROM INVESTING ACTIVITIES				
Short term investments	-	1,240,319	-	2,696,558
Purchase of capital assets, net of related accounts payable	(49,764)	(30,236)	(105,100)	(118,802)
	(49,764)	1,210,083	(105,100)	2,577,756
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on capital lease obligations	(30,810)	(30,751)	(62,679)	(57,267)
Issue of common shares	5,000	-	5,000	1,563
	(25,810)	(30,751)	(57,679)	(55,704)
NET CASH INFLOW (OUTFLOW)	(393,635)	1,503,908	(742,900)	1,310,806
EFFECT OF FOREIGN EXCHANGE RATE				
CHANGES ON CASH	(16,003)	(73,871)	94,303	(77,330)
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), BEGINNING OF PERIOD	3,404,973	971,763	3,643,932	1,168,324
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), END OF PERIOD	2,995,335	2,401,800	2,995,335	2,401,800

See accompanying Notes to the Consolidated Financial Statements

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BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2008 and 2007

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 June 30, 2008 and the results of operations and cash flows for the three and six month periods ended June 30, 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)

June 30, 2008 and 2007

3. ACCOUNTS RECEIVABLES

	June 30, 2008	December 31, 2007
Accounts receivable	\$ 3,548,180	\$ 3,450,335
Unbilled receivables	445,112	454,132
Provision for doubtful accounts and unbilled receivables	(69,689)	(123,159)
	<u>\$ 3,923,603</u>	<u>\$ 3,781,308</u>

4. SHARE CAPITAL

As at June 30, 2008, there were 72,660,220 (December 31, 2007 – 72,593,554) common shares issued and outstanding; and 7,905,744 (December 31, 2007 – 9,864,831) options issued and outstanding at exercise prices ranging from \$0.070 to \$0.365 with remaining weighted-average contractual lives of 2.92 years.

On May 24, 2007, the Company announced it had filed a Normal-Course Issuer Bid under which it may purchase up to 5,744,165 of its common shares during the period May 30, 2007 to May 29, 2008. During the period January 1, 2008 to May 29, 2008 the Company did not purchase any common shares. The Company will not renew the Normal-Course Issuer Bid beyond May 29, 2008.

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 521,000 options granted for the three months ended June 30, 2008 (2007 – 550,000). 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 June 30,	
	2008	2007
Dividend yield	0.00%	0%
Risk-free interest rate	3.21%	4.00%
Expected volatility	87%	80%
Expected life	3 years	3 years
Weighted average fair value per option	\$0.074	\$0.157
Weighted average exercise price per option	\$0.130	\$0.290

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2008 and 2007

For the quarter ended June 30, 2008, an expense of \$27,873 (2007 – \$14,995) has been recorded for stock based compensation, allocated as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
Cost of services	\$ 9,002	\$ 9,657	\$ 17,959	\$ 21,533
Sales and marketing expense	3,091	543	6,057	1,239
General and administrative expense	15,780	4,795	57,409	29,259
Total stock based compensation	\$ 27,873	\$ 14,995	\$ 81,425	\$ 52,031

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

	Three months ended		Six months ended	
	June 30		June 30	
	2008	2007	2008	2007
Cash payments for interest and financing fees	\$ 10,555	\$ 46,395	\$ 17,956	\$ 53,370
Cash receipts for interest	\$ 16,703	\$ 35,002	\$ 46,147	\$ 85,432
Cash payments for taxes	\$ 2,147	\$ 1,572	\$ 23,555	\$ 2,745
Purchase of capital assets in accounts payable	\$ 10,552	\$ 19,412	\$ 10,552	\$ 19,412

7. RELATED PARTY TRANSACTIONS

There were no related party transactions for the three or six month periods ended June 30, 2008 or June 30, 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 \$2,549,250 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$5,098,500 (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 three and six month periods ended June 30, 2008.

(b) *Letters of Credit*

As at June 30, 2008 the Company has provided a stand-by letter of credit of \$80,593 (December 31, 2007 - \$78,349) to a landlord.

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2008 and 2007

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 June 30, 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 six months ended June 30, 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:

	June 30, 2008	December 31, 2007
Financial assets:		
Held for trading financial assets:		
Cash and cash equivalents	\$ 2,995,335	\$ 3,643,932
Loans and receivables		
Receivables	\$ 3,923,603	3,781,308
	\$ 6,918,938	\$ 7,425,240
Financial liabilities:		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 1,847,223	\$ 2,068,648
Capital lease obligation	165,225	228,471
	\$ 2,012,448	\$ 2,297,119

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2008 and 2007

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 June 30, 2008 would have increased other comprehensive income by approximately \$555,000 (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 June 30, 2008, on aggregate, accounted for 52% 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)

June 30, 2008 and 2007

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

	June 30, 2008	December 31, 2007
Current	\$ 2,745,872	\$ 1,801,720
Unbilled receivables, net	403,681	378,553
Other miscellaneous receivables	6,838	111,436
	<u>\$ 3,156,391</u>	<u>\$ 2,291,709</u>
Past due 30 days		
1-60 days	\$ 498,262	\$ 1,446,191
Greater than 60 days	297,208	90,988
Less: allowances	<u>(28,258)</u>	<u>(47,580)</u>
	<u>\$ 767,212</u>	<u>\$ 1,489,599</u>
Total accounts receivable, net	<u>\$ 3,923,603</u>	<u>\$ 3,781,308</u>

The movement in the allowance for doubtful accounts for the three and six month periods ended June 30, 2008 and June 30, 2008 balance of the provision for unbilled receivables is as follows:

	Three months ended June 30, 2008	Six months ended June 30, 2008
Allowance for doubtful accounts		
Balance, Beginning of period	\$ (38,421)	\$ (47,580)
Reduce provision	10,163	19,322
Balance, End of period	<u>\$ (28,258)</u>	<u>\$ (28,258)</u>
Provision for unbilled receivables	<u>(41,431)</u>	<u>(41,431)</u>
Total	<u>\$ (69,689)</u>	<u>\$ (69,689)</u>

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 June 30, 2008, the Company had a cash balance of \$2,995,335 (December 31, 2007 - \$3,643,932), to settle accounts payable and liabilities of \$1,847,223 (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)

June 30, 2008 and 2007

	Three months ended June 30		Six months ended June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Canada	\$ 2,008,381	\$ 2,252,334	\$ 3,924,015	\$ 5,082,198
United States	3,821,762	4,253,196	7,244,949	9,072,566
	<u>\$ 5,830,143</u>	<u>\$ 6,505,530</u>	<u>\$ 11,168,964</u>	<u>\$ 14,154,764</u>

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

	June 30,	December 31,
	<u>2008</u>	<u>2007</u>
Canada	\$ 641,374	\$ 803,298
United States	503,387	513,649
	<u>\$ 1,144,761</u>	<u>\$ 1,316,947</u>

In the three months ended June 30, 2008, one customer accounted for 13% of revenue (2007 – two customers accounted for 29%) and 13% of total accounts receivable as at June 30, 2008 (2007 - 27%).