



BURNTSAND

Burntsand Inc.

Quarterly Report

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

October 30th, 2007

Dear Fellow Shareholder:

Q3 of 2007 represented a significant step forward in turning progress into results as we build a stable and sustainable business. Our backlog to be delivered in Q4, new contracts and projects per customer continue to be strong and, most important, we delivered our best quarter of financial results since 2001.

The Q3 results reflect improvement in all areas of our company's operations. Our practice delivery teams delivered increased margin percentages, our expense management delivered more productive support of our overall operations and our sales team continued to build strong pipeline for the future. These results show the impact of our commitment to focus on those parts of our business that are growing and profitable to improve financial performance.

The highlights for the quarter include:

- Our EBITDA of \$0.4 million and Net Income of \$0.3 million; the best quarterly result since Q3 2001 and more than double the comparable quarter in 2006.
- Our opening backlog for Q4 2007 was consistent at \$6.6 million with opening backlog in Q4 2006. We are scheduled to deliver \$3.8 million during Q4 2007 compared to \$3.5 million during Q4 2006. Actual service revenue in Q4 2006 was \$5.4 million.
- We worked on 139 projects for 65 customers in Q3 2007 compared to 127 projects for 78 customers in Q3 2006.

We are making progress as we strive to 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.

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 September 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 of 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.

Key Events in the Quarter

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

- Our EBITDA of \$0.4 million and Net Income of \$0.3 million is our best quarterly result since Q3 2001 and more than double the comparable quarter in 2006.
- Our opening backlog for Q4 2007 was \$6.6 million which is consistent with the opening backlog in Q4 2006. We are scheduled to deliver \$3.8 million of our backlog in Q4 2007 compared to \$3.5 million in Q4 2006. Our actual service revenue in Q4 2006 was \$5.4 million.
- We worked on 139 projects for 65 customers in Q3 2007 compared to 127 projects for 78 customers in Q3 2006 – an increase in both the metrics of number of projects and the number of projects per customer.

Quarterly Financial Information

Two Year Summary By Quarter
(unaudited, in thousands except per share amounts)
Years ended December 31

	2005	2006				2007		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Services revenue	\$ 4,467	\$ 4,456	\$ 4,790	\$ 5,688	\$ 5,391	\$ 6,572	\$ 5,621	\$ 5,372
Total revenue	\$ 5,126	\$ 5,135	\$ 5,462	\$ 7,187	\$ 5,854	\$ 7,649	\$ 6,506	\$ 6,690
EBITDA ⁽¹⁾	\$ 10	\$ (273)	\$ (131)	\$ 150	\$ (90)	\$ 120	\$ (443)	\$ 391
Net income (loss)	\$ (127)	\$ (385)	\$ (225)	\$ 68	\$ (259)	\$ 2	\$ (609)	\$ 277
Earnings (loss), basic and diluted, per share ⁽²⁾	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.00

(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 September 30, 2007 (Q3 2007) compared to the quarter ended September 30, 2006 (Q3 2006).

Revenues

Revenues for the three months ended September 30, 2007 were \$6.7 million compared to \$7.2 million for Q3 2006. The decrease from Q3 2006 was a result of both lower service revenue (\$0.3 million) and lower LMI revenue (\$0.2 million). During the current quarter, service revenues were 80% of total revenues compared to 79% for Q3 2006. LMI revenues were 16% of total revenues in Q3 2007 compared to 17% in Q3 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 quarter, one sale represented 71% of the LMI revenues during the quarter and 61% of revenue was from offices in the United States, this compares to 56% for Q3 2006.

The largest single factor which has impacted our service revenue (and expenses) is the decline in the foreign exchange rate for our US operations. Of the decline in service revenue, 88% of the change is caused by the change in exchange

rates. The other factors which have impacted service revenues in the current quarter were: an increase in our average headcount to 114 full-time-equivalent (FTE) delivery people, compared to 109 FTE in Q3 2006; and offset by slightly lower utilization in Q3 2007 of 81% compared to 84% in Q3 2006 and a lower effective rate by 3% compared to Q3 2006. Our average effective rate was impacted by lower foreign exchange translation on our US operations. Excluding the exchange translation impact, the average effective rate increased by 2% compared to Q3 2006.

During the quarter, the Company worked on 139 projects (Q3 2006 – 127) for 65 customers (Q3 2006 – 78), of which 7 were new customers (Q3 2006 – 12). Of the 139 projects this quarter, 51 were new projects (Q3 2006 – 47) started this quarter. During the quarter, the Company signed 6 new contracts (Q3 2006 – 15), each valued at \$100,000 or more. The Company's top 10 customers accounted for 63% of total revenues (Q3 2006 – 57%) and included 3 customers which accounted for 39% of total revenues (Q3 2006 – 2 customers for 24%).

LMI revenues are impacted by the number of license sales during the quarter. Total license revenue was \$0.2 million and maintenance revenue was \$0.8 million. In general these are large single sales, which make up the majority of the LMI revenues. In Q3 2007, one sale made up 71% of the total LMI revenue. The large annual renewals of maintenance are typically at a low gross margin. LMI revenues decreased in Q3 2007 by \$0.2 million from Q3 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 Q3 2007 decreased by \$0.1 million from Q3 2006. The decrease in cost of services was due to lower average compensation as measured in Canadian dollars in Q3 2007 over Q3 2006 – a portion of this is due to the change in foreign exchange rates between the quarters. As a percentage of services revenues, cost of services increased to 65% in Q3 2007, compared with 63% in Q3 2006.

Cost of LMI decreased by \$0.2 million from Q3 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 92% in Q3 2007 from 90% in Q3 2006 as a result of the single large value sale in the quarter.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 35% for Q3 2007 compared to 37% in Q3 2006. The reduced gross profit from Q3 2006 is due to the lower effective rates and lower utilization. Services profitability and company profitability is significantly impacted by utilization, average effective daily rates and headcount.

Gross profit for LMI was 8% in Q3 2007 compared to 10% in Q3 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 decreased by 37% in Q3 2007 compared to Q3 2006. The sales and marketing expense decrease is due to fewer marketing programs in Q3 2007 compared to Q3 2006. In Q3 2006, we presented at the annual Documentum user conference, Momentum. In 2007 this event was held in Q2 2007 and we incurred the related expenses in that quarter. A key objective for the Company is to increase revenue in 2007 and the marketing efforts earlier in the year have been increased to identify and pursue more opportunities. Our expectation is to increase our marketing efforts again in Q4 2007 to prepare for 2008. As a percentage of revenues, sales and marketing expenses were 5.2% compared to 7.6% in Q3 2006. The Company will continue to maintain its focus on growing revenues through additional sales efforts and marketing programs but the majority of our annual marketing expenses have been incurred for the current year.

General and administrative expense decreased by 22% in Q3 2007 compared to Q3 2006. The decrease from Q3 2006 is related to reductions in the management team in Q2 2007 and reduced recruiting expenses from Q3 2006. Professional fees were relatively constant. As a percentage of revenues, general and administrative expenses have decreased to 9.9% in Q3 2007 from 11.7% in Q3 2006.

Other expenses consist of the following components:

	Three months ended	
	September 30, 2007	September 30, 2006
Rent, parking and office	\$ 213,134	\$ 267,067
Business travel & training	181,337	221,249
Telecommunications, technology and insurance	151,342	137,711
Foreign exchange expense	11,551	1,173
Miscellaneous expense	37,115	70,667
Total Other Expenses	\$ 594,479	\$ 697,867

Overall, other expenses decreased by 15% in Q3 2007 compared to Q3 2006. The decrease in other expenses from Q3 2006 is a combination of a number of changes; we have relocated offices to lower cost facilities, we have reduced travel in part through timing differences of trade shows and related customer events, the impact of foreign exchange differences between the quarters and general cost management initiatives. As a percentage of revenues, other expenses decreased to 8.9% in Q3 2007, compared to 9.7% in Q3 2006. Generally, other expenses are relatively fixed in nature and do not vary substantially with incremental revenue changes.

Other

Amortization of capital assets decreased in Q3 2007 compared to Q3 2006. The Company has continued to replace computer hardware on a regular basis, purchasing \$40,000 of new assets and amortizing \$105,000 of capital assets in Q3 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 Q3 2007 compared with Q3 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 the Line of Credit. (See Liquidity and Capital Resources).

Nine months ended September 30, 2007 (YTD 2007) compared to 9 months ended September 30, 2006 (YTD 2006)

Revenues

Revenues for the nine months ended September 30, 2007 were \$20.8 million compared to \$17.8 million for YTD 2006. The increase from YTD 2006 was a result of higher service revenue (\$2.6 million), LMI revenue (\$0.2 million) and other revenue (\$0.2 million). During the current period, service revenues were 84% of total revenues consistent with YTD 2006. LMI revenues were 12% of total revenues in YTD 2007 compared to 13% in YTD 2006. The Company's focus is on profitable services revenue, however, we 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, 63% of revenue was from offices in the United States compared to 60% for YTD 2006.

The factors which have impacted service revenues in the current quarter were: higher utilization in YTD 2007 of 80%, compared to 77% in YTD 2006 and a change in our average headcount to 119 full-time-equivalent (FTE) delivery people compared to 96 FTE in YTD 2006; offset by a lower effective rate by 5% 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 is unchanged.

LMI revenues are impacted by the number of license sales during the period. Total license revenue was \$1.2 million and maintenance revenue was \$1.3 million. LMI revenues increased in YTD 2007 by \$0.2 million from YTD 2006.

Costs

Cost of services in YTD 2007 increased by \$2.1 million from YTD 2006. The increase in cost of services was as a result of higher revenue which required higher headcount in YTD 2007 over YTD 2006. As a percentage of services revenues, cost of services increased to 67% in YTD 2007, compared with 65% in YTD 2006.

Cost of LMI increased by \$0.3 million from YTD 2006 due to the volume and change in mix of LMI products sold during the quarter. As a percentage of revenue, costs increased to 92% in YTD 2007 from 87% in YTD 2006.

Gross Profit

Gross profit for services, as a percentage of services revenue, was 33% for YTD 2007 compared to 35% 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 8% in YTD 2007 compared to 13% in YTD 2006.

Expenses

Sales and marketing expense decreased by 3% in YTD 2007 compared to YTD 2006. The expense decrease from YTD 2006 is due to lower sales and marketing headcount and fewer marketing programs, offset by higher sales commissions on higher revenue. In both YTD 2007 and YTD 2006 Burtsand was a Diamond (top) level sponsor at EMC World, the EMC (Documentum) Users conference. As a percentage of revenues, sales and marketing expenses were 6.8% compared to 8.2% 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 5% 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 to reduce future expenses and other minor fluctuations. As a percentage of revenues, general and administrative expenses have decreased to 11.6% in YTD 2007 from 12.9% in YTD 2006.

Other expenses consist of the following components:

	Nine months ended	
	September 30, 2007	September 30, 2006
Rent, parking and office	\$ 711,370	\$ 770,791
Business travel & training	690,530	672,374
Telecommunications, technology and insurance	460,042	430,652
Foreign exchange expense	34,453	34,200
Miscellaneous (including bad debt)	184,705	130,308
Total Other Expenses	<u>\$ 2,081,100</u>	<u>\$ 2,038,325</u>

Overall, other expenses increased by 2% in YTD 2007 compared to YTD 2006. The increase in other expenses consists of a number of small items: we have decreased our rent, parking and office expenses by relocating some offices to lower cost facilities; we have had small increases in travel, training and telecommunications consistent with increased revenue, and we have incurred some miscellaneous expenses such as moving and termination payments to reduce our rent costs. As a percentage of revenues, other expenses decreased to 10.0% in YTD 2007, compared to 11.5% 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 \$158,000 of new assets and amortizing \$340,000 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 September 30, 2007 with cash and short-term investments of \$3.1 million compared to \$3.9 million at December 31, 2006. The decrease of \$0.8 million in cash and short-term investments is due to the financing of receivables (\$1.2 million), the acquisition of capital assets (\$0.1 million), and the decrease in deferred revenue (\$0.1 million), offset by cash generated by operations, excluding working capital changes (\$0.2 million); financing obtained through accounts payable and accrued liabilities (\$0.5 million), and other smaller items (\$0.1 million).

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.

On September 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 on September 30, 2007:

Contractual Obligations	Payments due by Period					
	Total	2007	2008	2009	2010	Beyond
Capital Lease Obligations	\$ 259,843	\$ 31,209	\$ 127,402	\$ 96,305	\$ 4,927	\$ -
Operating Leases	1,892,406	144,906	503,361	348,179	354,113	541,847
Total Contractual Obligations	\$ 2,152,249	\$ 176,115	\$ 630,763	\$ 444,484	\$ 359,040	\$ 541,847

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 three and nine month period ended September 30, 2007, the company did not purchase any common shares (2006 – nil and 481,000, respectively).

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 \$4,974,000 (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 October 30, 2007, there are 72,543,554 common shares issued and outstanding and 8,276,073 options outstanding at exercise prices ranging from \$0.07 to \$0.57 with remaining weighted average contractual lives of 2.6 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 had no related party transactions during the quarter ended September 30, 2007 (2006 – nil). For the nine month period ended September 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 September 30, 2007 and December 31, 2006, our average days-sales-outstanding for accounts receivable was consistent at 66 days. 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 September 30, 2007 and December 31, 2006, our provision for doubtful accounts and unbilled receivables was \$172,000 and \$142,000, respectively.

Backlog

The Company entered Q4 2007 with \$6.6 million (Q4 2006 - \$6.6 million) in services backlog, of which \$3.8 million (Q4 2006 - \$3.5 million) is scheduled to be completed in the fourth 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.

Notice to Reader

The accompanying unaudited interim consolidated statements of Burntsand Inc. for the period ended September 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

	September 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,072,215	\$ 1,168,324
Short-term investments	-	2,734,121
Accounts receivable	4,911,887	4,272,488
Prepaid expenses	343,069	483,736
	8,327,171	8,658,669
Capital assets	1,240,376	1,585,936
Goodwill and other intangibles	145,027	169,898
	\$ 9,712,574	\$ 10,414,503
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 2,874,964	\$ 2,454,187
Deferred revenue	832,514	1,067,246
Current portion of obligations under capital leases	126,711	121,871
	3,834,189	3,643,304
Long-term portion of deferred revenue	239,544	105,839
Long-term portion of obligations under capital leases	133,132	236,578
	4,206,865	3,985,721
SHAREHOLDERS' EQUITY		
Common shares	9,597,305	9,588,902
Contributed surplus	1,124,766	1,052,745
Deficit	(2,358,482)	(2,028,375)
Accumulated other comprehensive loss	(2,857,880)	(2,184,490)
	5,505,709	6,428,782
	\$ 9,712,574	\$ 10,414,503

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
REVENUE				
Services	\$ 5,372,103	\$ 5,687,967	\$ 17,564,877	\$ 14,934,382
License and maintenance	1,053,982	1,252,870	2,515,720	2,286,416
Other revenue	263,835	246,354	764,087	563,169
	6,689,920	7,187,191	20,844,684	17,783,967
COSTS				
Cost of services	3,482,554	3,608,473	11,843,770	9,726,989
Cost of license and maintenance	973,084	1,128,654	2,309,587	1,982,628
Cost of other revenue	243,009	210,981	711,333	527,796
	4,698,647	4,948,108	14,864,690	12,237,413
GROSS PROFIT	1,991,273	2,239,083	5,979,994	5,546,554
EXPENSES				
Sales and marketing	345,024	545,224	1,410,745	1,461,348
General and administrative	660,854	846,249	2,420,020	2,300,465
Other expenses	594,479	697,867	2,081,100	2,038,325
	1,600,357	2,089,340	5,911,865	5,800,138
Earning (loss) before amortization, interest and income taxes	390,916	149,743	68,129	(253,584)
Amortization of capital assets	(105,493)	(113,216)	(340,336)	(361,363)
Interest and investment income	8,066	32,107	48,833	74,756
Interest expense and financing costs	(16,263)	(188)	(69,633)	(1,631)
Income Taxes	-	-	(37,100)	-
NET INCOME/(LOSS) FOR THE PERIOD	\$ 277,226	\$ 68,446	\$ (330,107)	\$ (541,822)
Loss, basic and diluted, per share	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.01)
Weighted average number of common shares used to calculate per share amounts, basic and diluted	72,528,046	72,502,885	72,514,266	72,793,116

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statement of Deficit

	Three months ended September 30,		Nine months ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
DEFICIT, BEGINNING OF PERIOD	(2,635,708)	(1,838,092)	(2,028,375)	(1,227,824)
Net income (loss) for the period	277,226	68,446	(330,107)	(541,822)
DEFICIT, END OF PERIOD	\$ (2,358,482)	\$ (1,769,646)	\$ (2,358,482)	\$ (1,769,646)

BURNTSAND INC.
Consolidated Statement of Comprehensive Income

	Three months ended September 30,		Nine months ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INCOME / (LOSS) FOR THE PERIOD	277,226	68,446	(330,107)	(541,822)
Other comprehensive income, net of tax				
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(291,398)	4,140	(673,390)	(143,215)
OTHER COMPREHENSIVE INCOME	(291,398)	4,140	(673,390)	(143,215)
COMPREHENSIVE INCOME	\$ (14,172)	\$ 72,586	\$ (1,003,497)	\$ (685,037)

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.
Consolidated Statements of Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	277,226	68,446	(330,107)	(541,822)
Items not affecting cash:				
Amortization of capital assets and intangibles	105,493	113,216	340,336	361,363
Amortization of assets used in outsourcing contract	44,260	7,732	132,780	7,732
Stock-based compensation	22,930	41,619	74,961	125,815
	449,909	231,013	217,970	(46,912)
Changes in operating assets and liabilities:				
Accounts receivable	(50,292)	(1,703,315)	(1,165,949)	(2,168,963)
Prepaid expenses	(62,041)	107,045	115,015	95,939
Accounts payable and accrued liabilities	245,335	1,290,815	544,810	1,667,010
Deferred revenue	268,275	919,125	(71,906)	880,851
Accrued restructuring charge	-	(83,826)	-	(261,597)
	851,186	760,857	(360,060)	166,328
CASH FLOWS FROM INVESTING ACTIVITIES				
Short term investments	-	(1,716,191)	2,696,558	(1,241,481)
Purchase of capital assets, net of related accounts payable	(18,583)	(325,509)	(137,385)	(424,807)
	(18,583)	(2,041,700)	2,559,173	(1,666,288)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on capital lease obligations	(30,971)	(1,567)	(88,238)	(4,646)
Issue of common shares	3,900	-	5,463	(44,785)
	(27,071)	(1,567)	(82,775)	(49,431)
NET CASH FLOW	805,532	(1,282,410)	2,116,338	(1,549,391)
EFFECT OF FOREIGN EXCHANGE RATE				
CHANGES ON CASH	(135,117)	32,848	(212,447)	(42,454)
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), BEGINNING OF PERIOD	2,401,800	2,414,192	1,168,324	2,756,475
CASH (EXCLUDING SHORT TERM				
INVESTMENTS), END OF PERIOD	3,072,215	1,164,630	3,072,215	1,164,630

See accompanying Notes to the Consolidated Financial Statements

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

September 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 of September 30, 2007 and the results of operations and cash flows for the three and nine month periods ended September 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)

September 30, 2007 and 2006

2. ACCOUNTS RECEIVABLE

	September 30, 2007	December 31, 2006
Accounts receivable	\$ 4,770,939	\$ 4,290,996
Unbilled receivables	\$ 313,371	\$ 123,106
Provision for doubtful accounts and unbilled receivables	\$ (172,423)	\$ (141,614)
	<u>\$ 4,911,887</u>	<u>\$ 4,272,488</u>

3. SHARE CAPITAL

As at September 30, 2007, there were 72,543,554 (December 31, 2006 – 72,502,885) common shares issued and outstanding; and 8,346,019 (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 three and nine months ended September 30, 2007, the company has not purchased 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 no options granted for the three months and 565,750 options granted for the nine month period ended September 30, 2007 (2006 – 2,606,800 and 2,787,325 respectively). There have been 1,076,304 options cancelled or expired for the three months ended September 30, 2007 (2006-400,053). 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)

September 30, 2007 and 2006

	Three months ended September 30	
	2007	2006
Dividend yield	n/a ⁽¹⁾	0%
Risk free interest rate	n/a ⁽¹⁾	4.37%
Expected volatility	n/a ⁽¹⁾	71%
Expected life	n/a ⁽¹⁾	3 years
Weighted average fair value per option	n/a ⁽¹⁾	\$ 0.051
Weighted average exercise price per option	n/a ⁽¹⁾	\$ 0.105

(1) no stock options were issued in the quarter, therefore these amounts are not applicable

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 September 30, 2007, an expense of \$22,930 (2006 – \$41,619) has been recorded for stock based compensation, allocated as follows:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Cost of services	\$ 4,451	\$ 7,779	\$ 25,984	\$ 34,365
Sales and marketing expense	\$ 629	\$ 535	\$ 1,868	\$ 1,703
General and administrative expense	\$ 17,850	\$ 33,305	\$ 47,109	\$ 89,747
	<u>\$ 22,930</u>	<u>\$ 41,619</u>	<u>\$ 74,961</u>	<u>\$ 125,815</u>

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Cash payments for interest and financing costs	\$ 16,263	\$ 188	\$ 69,633	\$ 1,631
Cash receipts for interest	\$ 8,066	\$ 12,939	\$ 93,498	\$ 63,862
Cash payments (refunds) for taxes	\$ 423	\$ 306	\$ 3,168	\$ 6,490

6. RELATED PARTY TRANSACTIONS

BURNTSAND INC.

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2007 and 2006

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Revenue earned from companies with directors in common	\$ -	\$ -	\$ -	\$ 10,920

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 \$2,487,000 (US \$2,500,000). This limit may be increased by the Company to a maximum of \$4,974,000 (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 three and nine month periods ended September 30, 2007.

(b) *Letters of Credit*

As at September 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 September 30		Nine months ended September 30	
	2007	2006	2007	2006
Canada	\$ 2,603,947	\$ 3,158,087	\$ 7,686,145	\$ 7,177,997
United States	\$ 4,085,973	\$ 4,029,104	\$ 13,158,539	\$ 10,605,970
	<u>\$ 6,689,920</u>	<u>\$ 7,187,191</u>	<u>\$ 20,844,684</u>	<u>\$ 17,783,967</u>

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

	September 30,	December 31,
	2007	2006
Canada	\$ 860,298	\$ 1,134,104
United States	\$ 525,105	\$ 621,730
	<u>\$ 1,385,403</u>	<u>\$ 1,755,834</u>

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CORPORATE INFORMATION

Exchange Listing:	The common shares of Burntsand Inc. (BRT) are listed on the Toronto Stock Exchange.
Auditors:	Deloitte & Touche LLP. Toronto, Ontario
Registered Office:	Borden Ladner Gervais, Vancouver, British Columbia
Registrar and Transfer Agent:	Computershare Trust Company of Canada, Vancouver, British Columbia
Investor Relations:	For further information about Burntsand or additional copies of this report, please contact: Burntsand Inc. 185 The West Mall, Suite 600 Toronto, Ontario, Canada, M9C 5L5 Attention: Investor Relations Email: InvestorRelations@burntsand.com

This quarterly report is also on the Internet at www.burntsand.com and on SEDAR at www.sedar.com

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DIRECTORS

Michael Cardiff⁽¹⁾⁽²⁾

Chief Executive Officer, *Accerlents Inc*

Martin Glover

President and Chief Executive Officer, *Burntsand Inc.*

Tim Duffy

Independent Businessman

Terry Holland⁽¹⁾⁽²⁾

President and Chief Executive Officer, *Krystal Financial Corporation*

John Kelly⁽¹⁾⁽²⁾

Principal, Reid Eddison Inc.

Jim Yeates

Chairman, *Burntsand Inc.*

⁽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