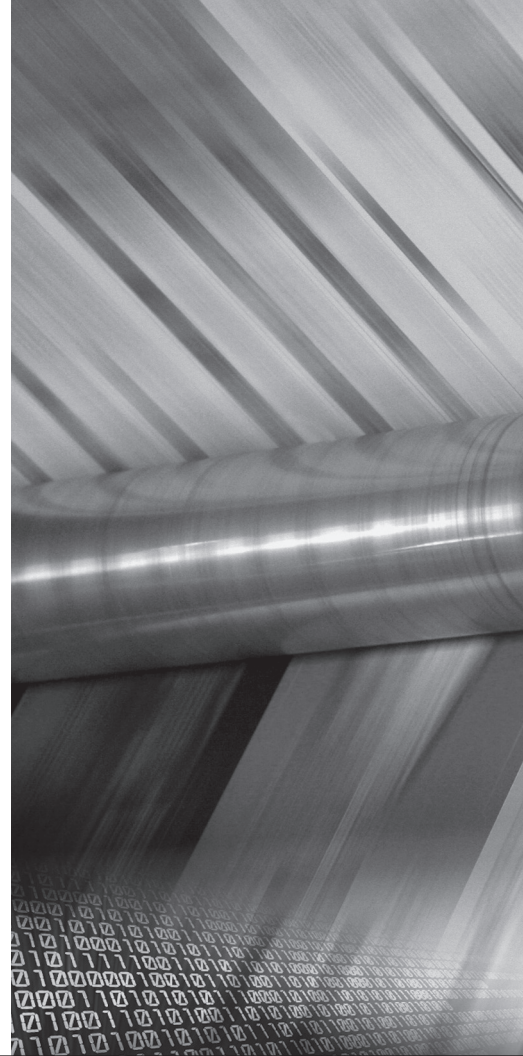




Powering Online Publishing



Annual Report

2007

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Isabelle, Professional Services Team



Michael, Sales Team

About Nstein Technologies

Nstein Technologies (TSX-V: EIN) develops and markets multilingual solutions that power online publishing for the most prestigious newspapers, magazines, and content-driven organizations. Nstein's solutions generate new revenue opportunities and reduce operational costs by enabling the centralization, management and automated indexing of digital assets. Nstein partners with clients to design a complete online strategy for success using publishing industry best practices for the implementation of its Web Content Management, Digital Asset Management and Text Mining Engine products.

www.nstein.com



Francine, Administration Team



Chantal, Alex, Micaël, Louis and Agostino, R&D Team

Message from the President and Chief Executive Officer



I am happy to report on Nstein's strong performance in 2007 and provide shareholders with a closer look at a year that saw a number of key factors converge in our favour, both within our Company and in the market in which we specialize. Now, more than ever, top press and media organizations are turning to Nstein's online publishing solutions to fully leverage their content and create new online revenue streams. What's more, the Company's solid financial position at the end of 2007 has enabled us to take advantage of exciting new growth opportunities and pursue our worldwide expansion.

Increase in sales

The positive results of the fourth quarter and the fiscal year confirm the market's interest in Nstein's solutions and speak to the high value press and media organizations place on our products. The widespread appeal of our solutions in the e-publishing industry is becoming more and more apparent. This enabled us to virtually double our sales in 2007 and had a positive impact on our profitability in the fourth quarter. The exceptional results in recent months are also attributable to the fact that Q4 is traditionally our strongest quarter.

In addition, we are proud to have added 27 new projects and clients from the press and media sector to our increasingly prestigious portfolio in 2007. In the fourth quarter alone, we signed agreements with several internationally renowned corporations, including Readers' Digest, Libération and Groupe Express-Roularta.

Financial stability

During the fourth quarter, Nstein finalized a private financing deal for \$8 million. This, in addition to two other private placements concluded earlier in the year, brought our total financing to \$12.9 million and considerably increased our working capital, which stood at \$15.8 million at year-end.

Also during the quarter, we hired additional resources for our professional services team in order to ensure optimal service for our growing client base. We also expanded our sales team to step up our market development efforts in North America, the United Kingdom and France.

Recent developments

Nstein recently acquired Picdar, a leading provider of picture and digital asset management solutions in the United Kingdom. The arrival of Picdar within the Nstein group gives us access to an unbeatable portfolio of prominent media clients in the U.K. and increases our market share in Europe. The Picdar team will contribute to our firm's success both in Europe and around the world.

We made significant strides forward in 2007 and successfully consolidated a number of elements essential to our prosperity, namely an ever-expanding client roster, technology solutions that cater to the core needs of the e-publishing industry and financial stability. Our foundations are stronger than ever and we will continue to build on them to make Nstein the global leader in online publishing solutions.

On behalf of the Board of the Directors, I would like to thank all of our employees, clients, shareholders and partners for their ongoing support.

A handwritten signature in black ink, which appears to read "Luc Filiatreault". The signature is written in a cursive style and is positioned above a horizontal line.

Luc Filiatreault
President and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

This analysis provides the reader with a summary of changes in the financial situation of Nstein Technologies Inc. ("Nstein" or "the Company") during fiscal year ended December 31, 2007. It also compares results of operations and cash flows for the 12-month period ended December 31, 2007 to those for the previous fiscal year.

The analysis should be read in conjunction with the audited consolidated financial statements as at December 31, 2007, and related notes presented in the Company's annual report. Nstein's financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Company reports its results in Canadian dollars. Unless otherwise indicated, all amounts in this analysis are in Canadian dollars.

Some statements in this analysis are forward-looking statements and reflect the Company's present assumptions regarding future events. Forward-looking statements involve risks and uncertainties that could cause actual results to differ from current expectations.

Overview

Nstein Technologies (TSX-V: EIN) develops and markets multilingual solutions that power online publishing for the most prestigious newspapers, magazines, and content-driven organizations. Nstein's solutions generate new revenue opportunities and reduce operational costs by enabling the centralization, management and automated indexing of digital assets. Nstein partners with clients to design a complete online strategy for success using publishing industry best practices for the implementation of its Web Content Management, Digital Asset Management and Text Mining Engine products. www.nstein.com

Strategy

Since its founding, the Company has been committed to developing and marketing text mining solutions that accelerate and improve multilingual search and content repurposing operations. Its online publishing solutions are the result of many years of experience with digital content publishers, who were the first to recognize the impact of the technologies offered by Nstein on their firms' profitability.

In 2008, the Company intends to continue to develop and commercialize these solutions, for which the market has been very receptive. These solutions allow publishers to migrate their publications from paper to the Web, which is crucial to ensure their success. Since the amounts allocated to the Web by advertisers are constantly increasing at the expense of the amounts allocated to print publications, publishers must offer their content to their readers quickly via websites equipped with the latest features.

The Company will also pursue its research activities to further refine its technologies and identify other promising markets for its online publishing solutions. In particular, Nstein has set up a laboratory designed to favour development of new cutting-edge applications.

Key performance indicators

Nstein evaluates its company-wide performance using key financial indicators, particularly revenues, EBITDA* and net loss. These items are described in the appropriate sections below. Management also monitors performance using certain indicators related to operations.

Selected annual information

<i>(In Canadian dollars)</i>	2007	2006	2005	2004	2003
	\$	\$	\$	\$	\$
Revenues	18,171,858	10,717,311	9,103,887	4,848,140	1,775,332
EBITDA*	133,105	(2,785,873)	(3,132,020)	(2,349,974)	(2,183,044)
Loss	(1,830,081)	(4,834,372)	(6,769,125)	(3,195,477)	(2,395,744)
Basic and diluted loss per share	(0.049)	(0.186)	(0.363)	(0.210)	(0.200)
Total Assets	29,094,254	18,047,976	12,083,369	15,716,206	5,425,449
Long-Term Liabilities	759,832	1,074,847	2,988,619	2,258,895	749,883

* Definition of EBITDA: Earnings (loss) before financial expenses, exchange loss, income tax, depreciation, amortization, restructuring fees and impairment of intangible assets. EBITDA is presented as an additional measurement of earnings to help readers determine the Company's capacity to generate liquidity from its activities and defray its financial expenses. It is also an indicator that is widely used for evaluation purposes. Because this term has no standardized meaning under Canadian generally accepted accounting principles, it may not be comparable to similar measurements used by other companies.

Operating results

Revenues

For the year ended December 31, 2007, the Company recorded revenues of \$18,171,858, representing an increase of 70% compared to revenues of \$10,717,311 realized in the previous period. This rise in revenue is mainly due to the increase in the number of sales of online content management solutions (software licenses and implementation services) in 2007. The Company derives most of its revenues from the sale of software user licenses, post-sales technical support and specialized services. Given the high unit price of its software licenses, the Company's results are materially affected when sales shift to a subsequent quarter.

Cost of sales, net of tax credits

The cost of sales comprises human resources assigned to the various projects (employees and external consultants), as well as third-party software charges. Cost of sales rose 38% in 2007 to \$7,561,455, compared to \$5,474,801 in 2006, as the result of increased revenues. The cost of sales generally varies according to the composition of revenues, since direct costs are lower for revenues from the sale of software user licenses compared to revenues from the provision of services.

Due to its eligibility for the Cité Multimédia Montréal Program, the Company is entitled to a 40% refundable tax credit on eligible salaries up to an annual maximum of \$15,000 per employee. These tax credits, applied against the cost of sales, amounted to \$202,476 in 2007 compared to \$94,026 in 2006. This increase in tax credits is related to the growth of staff levels assigned to delivery of our solutions.

Upon tabling the budget on March 13, 2008, the Government of Québec announced the introduction of a new information technology tax credit, which could allow the Company to continue to benefit from assistance comparable to the Cité Multimédia Montréal Program, which expires in August 2009 for the Company.

Selling and administrative expenses

Selling and administrative expenses are mainly composed of employee compensation costs, commissions for sales personnel, travel expenses, office premises charges, professional fees and costs related to the management of a publicly held corporation. Selling and administrative expenses amounted to \$8,233,356 in 2007, compared to \$6,291,781 in 2006. This 31% increase mainly results from the hiring of employees to accelerate commercialization of our solutions.

Research and development expenses, net of tax credits

Research and development expenses mainly comprise the cost of human resources assigned to the various projects. Research and development expenses, net of tax credits, amounted to \$2,248,335 in 2007 compared to \$1,736,602 in 2006. This increase in costs is attributable to the hiring of employees to accelerate introduction of new features within the Company's solutions. In 2008, Nstein intends to pursue the refinement of its cutting-edge content management solutions for the media and e-publishing industry.

The Company also benefits from Scientific Research and Experimental Development Tax Credits. These tax credits, presented in reduction of research and development expenses, amounted to \$619,935 in 2007 compared to \$420,991 in 2006.

Amortization of intangible assets

Intangible assets consist of technologies acquired, client acquisition costs, client relationships, software licenses and non-competition agreements. Amortization of intangible assets increased 54% from \$286,906 in 2006 to \$442,229 in 2007. Following the acquisition of Eurocortex S.A.S. in the fourth quarter of 2006, the Company recorded intangible assets of \$496,000, which explains the increase in the amortization of intangible assets expense in 2007 compared to the previous year.

Exchange gain and loss

The Company recorded a foreign exchange loss of \$149,118 in 2007, compared to a gain of \$122,482 in 2006. The rise of the Canadian dollar in 2007 resulted in a loss on accounts receivable denominated in US dollars and Euros. In 2006, the rise of the Canadian dollar had resulted in an exchange gain on convertible debentures denominated in US currency. The debentures were repaid in full in 2007, thus reducing the impact related to the exchange rate of this item on the Company's results.

Financial expenses

Financial expenses amounted to \$519,045 in 2007, compared to \$1,735,495 in 2006. Most of this decrease results from interest charges and amortization of expenses related to the convertible debenture debt contracted in 2005, whose last payment was made on August 31, 2007.

Restructuring fees

In 2007, the Company incurred an expense of \$661,505 for non-recurring restructuring fees. These fees are mainly composed of severance benefits paid to former officers and a founder.

Loss

Nstein recorded a loss of \$1,830,081 or \$0.049 per share for the fiscal year ended December 31, 2007, compared to a loss of \$4,834,372 or \$0.186 per share for the corresponding previous fiscal year. This represents a 62% decrease. Sales growth is the main reason for this decrease in the loss, combined with a substantial decrease in interest charges related to the convertible debentures issued in 2005. However, this variation was partly mitigated by the increase in selling and administrative expenses in 2007 and by restructuring fees.

Liquidity and financial resources

Cash and cash equivalents

As at December 31, 2007, cash and cash equivalents amounted to \$11,730,855, compared to \$2,367,125 as at December 31, 2006. Since the Company made the last payments on its convertible debenture debt on August 31, 2007, it is no longer bound to retain a restricted cash amount.

Cash flows

Operating activities

Operating activities used \$3,906,218 in cash flows in 2007, compared to \$4,745,897 in 2006. This improvement largely can be explained by the decrease in the net loss, which is partly mitigated by non-cash operating working capital items in 2007. Accounts receivable increased significantly in 2007 due to sales that were concluded at the end of the fiscal year. Since the credits for 2006 were only cashed in January 2008, the refundable tax credits thus increased significantly.

Financing activities

Financing activities generated cash flows of \$11,781,937 in 2007, compared to \$7,589,220 in 2006. The Company completed three private placements in 2007, on May 7, September 27 and November 30 for gross amounts of \$1,900,000, \$3,000,000 and \$8,000,000 respectively. Total issuance expenses of \$784,184 related to these placements were incurred, including the commission of \$354,000 related to the November 30 financing and the value of the warrants issued as commission upon the same private placement, namely \$168,955. In 2006, the Company had completed a private placement of \$10,000,000. The payments on the debt amounted to \$1,188,991 in 2007, a reduction from \$2,635,837 in 2006. The payments on the convertible debentures issued in 2005 decreased in 2007, since the last monthly payment related to this debt was made in August 2007. At the beginning of 2007, the Company contracted a bank loan of \$563,280 to finance its tax credits receivable.

Investing activities

Cash flows used in investing activities were \$1,488,011 for the year ended December 31, 2007, compared to \$2,404,916 for the same period in 2006. This variance is mainly due to restricted cash of \$1,859,799 subject to an account control agreement which decreased in 2007 following the repayment in full of the convertible debentures and the investment of \$534,230 upon the acquisition of Eurocortex S.A.S in 2006.

Based on rational assumptions, the Company's forecast provides confidence that its current financial resources, combined with cash flows from operations, will be sufficient to allow it to attain its objectives and preserve its financial autonomy in the foreseeable future.

Contractual obligations

(In Canadian dollars)

	Installments payable, by period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	1,055,829	295,997	522,727	202,133	34,972
Use of offices	2,679,457	647,017	1,312,058	522,653	197,729
Software licenses royalties	262,500	262,500	-	-	-

Shareholders' equity

Share capital

Authorized share capital is as follows:

- Unlimited number of common shares, without par value, voting and participating
- Unlimited number of preferred shares, without par value, non-voting and non-participating

Issued and fully paid	Common shares	Common shares
	Number	Amount
		\$
As at March 18, 2008	51,013,854	54,361,295
As at December 31, 2007	41,125,536	52,652,275
As at December 31, 2006	33,303,337	40,178,085

Warrants and stock options

Each warrant and each stock option allow the holder to acquire one common share in the share capital.

Number	March 18, 2008	December 31, 2007	December 31, 2006
Warrants	5,603,218	5,603,218	2,188,939
Stock options	1,569,078	1,519,078	2,408,203
Special warrants	-	8,000,000	-

On May 7, 2007, the Company concluded a private placement of \$1,900,000 with a group of investors including members of the Board of Directors and the Company's management team. The Company issued 2,923,074 common shares at a price of \$0.65 per share. Share issuance expenses in the amount of \$19,346 were applied against share capital.

On September 27, 2007, the Company issued 3,529,412 units at a price of \$0.85 each, for gross proceeds of \$3,000,000, as part of a private placement with an institutional investor and a group of 27 employees of the Company, along with other investors. Each unit consists of one common share, one-half of one A-tranche share purchase warrant and one-half of one B-tranche share purchase warrant. One whole A-tranche share purchase warrant entitles its holder to purchase one additional common share of Nstein's share capital at a price of \$1.50. One whole B-tranche share purchase warrant entitles its holder to purchase one additional common share of Nstein's share capital at a price of \$2.00. These share purchase warrants are valid for three (3) years from the date of issue. The \$3,000,000 in gross proceeds was divided up between common shares and warrants based on their relative fair values. Accordingly, \$2,258,846 was allocated to common shares and \$741,154 to warrants. Unit issuance expenses totalled respectively \$13,950 and \$4,577 applied against the share capital and other equity components. Shares issued are subject to a four-month (4) hold period.

On November 30, 2007, the Company concluded a firm underwriting private placement of 8,000,000 special warrants of the Company at a price of \$1.00 per special warrant, for a gross total amount of \$8,000,000 (the "Offering"). The Offering was made through an underwriting syndicate led by Desjardins Securities Inc. and including TD Securities Inc. and Jennings Capital Inc. collectively (the "Underwriters"). Certain Company insiders subscribed for the placement. Each special warrant entitles the holder thereof to receive one common share of the Company upon exercising the special warrants. The special warrants are exercisable by the holder in whole or in part at any time after the closing of the Offering, being November 30, 2007 (the "Closing"), without any additional consideration, and the special warrants will be deemed to be exercised on the earlier of: (a) four (4) months and one day after the Closing and (b) the day which is three business days after a receipt is issued by the Canadian securities regulatory authorities for a final prospectus qualifying the common shares to be issued upon the exercise of the special warrants. The Company obtained such receipt on February 7, 2008. The Underwriters received as compensation at Closing a commission of \$354,000 and 354,000 warrants, each of these warrants entitling its holder to acquire one common share at the price of \$1.00 for a period of two (2) years after Closing. Issue expenses of \$577,356 (including the Underwriters' commission expense) and the fair value of the warrants granted to the Underwriters, being \$168,955, were applied against equity.

Fourth quarter of 2007

For the three-month period ended December 31, 2007, the Company's revenues amounted to \$6,268,163, representing an increase of 61% over the revenues of \$3,888,532 realized in the corresponding period of the previous year. Over the past few years, the Company has observed that several customers seem to acquire Nstein solutions in the fourth quarter, which contributed this year to the strong fourth-quarter increase in sales compared to the previous three quarters of 2007.

The cost of sales increased by 30 % in the fourth quarter of 2007, reaching \$2,214,356 compared to \$1,699,010 for the corresponding period in 2006, as the result of the increase in the sale of licenses. The sum of all other expenses, including non-recurring restructuring fees

of \$173,264, amounted to \$3,944,095 for the fourth quarter of 2007, a 39% increase compared to \$2,827,852 in 2006. The Company proceeded to hire several employees in 2007 to intensify commercialization and development of its products.

Nstein recorded net earnings of \$109,713 or \$0.003 per share for the three-month period ended December 31, 2007, compared to a loss of \$638,330 or \$0.020 per share for the corresponding previous period. This represented an improvement of 117% attributable to the increase in sales.

The Company's cash flow increased by \$5,493,009 during the fourth quarter of 2007 compared to a decrease of \$1,688,500 for the same period last year. This variation is mainly due to \$8,000,000 in financing completed on November 30, 2007, partly offset by the negative variation of non-cash working capital items in the amount of \$2,682,423. This variation is caused by the increase in accounts receivable, a direct consequence of the rise in sales at the end of the year.

The following quarterly information has been presented on the same basis as the audited consolidated financial statements. The following stated amounts present fairly the unaudited quarterly results, which should be read in conjunction with our audited consolidated financial statements and the notes thereto.

Selected quarterly financial information

<i>(In Canadian dollars)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
	\$	\$	\$	\$	\$
Fiscal year ended December 31, 2007					
Revenues	3,803,874	4,007,729	4,092,092	6,268,163	18,171,858
EBITDA*	(194,525)	(144,315)	(84,025)	555,970	133,105
Loss	(638,596)	(1,010,003)	(291,195)	109,713	(1,830,081)
Basic and diluted loss per share	(0.019)	(0.028)	(0.008)	0.003	(0.049)
Fiscal year ended December 31, 2006					
Revenues	2,053,392	1,961,173	2,814,214	3,888,532	10,717,311
EBITDA*	(807,538)	(1,140,003)	(535,526)	(302,804)	(2,785,871)
Loss	(1,472,878)	(1,679,409)	(1,043,755)	(638,330)	(4,834,372)
Basic and diluted loss per share	(0.079)	(0.079)	(0.033)	(0.020)	(0.211)

* Definition of EBITDA: Earnings (loss) before financial expenses, exchange loss, income tax, depreciation, amortization, restructuring fees and impairment of intangible assets. EBITDA is presented as an additional measurement of earnings to help readers determine the Company's capacity to generate liquidity from its activities and defray its financial expenses. It is also an indicator that is widely used for evaluation purposes. Because this term has no standardized meaning under Canadian generally accepted accounting principles, it may not be comparable to similar measurements used by other companies.

Significant accounting policies

Revenue recognition

The Company recognizes revenues from the sale of software licenses and related post-contract customer support and other related services in accordance with Emerging Issues Committee Abstracts EIC-141 to 143 on revenue recognition. Fees from arrangements involving licenses, post-contract customer support and other related services are allocated to the various elements based on company-specific objective evidence of fair value of each of the elements. Revenues from software licenses are recognized when there is persuasive evidence of a valid arrangement, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable and collection is reasonably assured. Revenues from post-contract customer support elements are recognized rateably over the related support period. Revenues from other related services are recognized as the services are performed according to the percentage-of-completion method. When a loss on a contract is sufficiently foreseeable, the loss is recognized as an expense for the year. Moreover, the amounts received for services not yet rendered are recognized as revenues posted to the balance sheet.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. These estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses. Significant estimates include the allowance for doubtful accounts receivable, the degree of progress of work in process, recoverable tax credits, the useful lives of property, plant and equipment and intangible assets, impairment of long-lived assets, certain accrued liabilities and measurement of financial instruments. Actual results may differ from those estimates.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis, or more frequently if events or circumstances occur, indicating that it is more likely than not that it might be impaired. The recoverability of goodwill is established at the reporting unit level on the basis of a two-step impairment test. First, the net carrying value of a reporting unit is compared to its fair value, which is established on the basis of its market value. If the net carrying value of a reporting unit exceeds its fair value, the second step of the test must be performed. For this step, the amount of any goodwill impairment loss is the excess of the carrying value of goodwill over its fair value. This amount is charged to earnings in the period in which it is incurred. For purposes of this impairment test, the fair value of goodwill is estimated in the same way as during business acquisitions, meaning that it represents the excess of a reporting unit's fair value over the estimated fair value of its net identifiable assets. The Company comprises a single reporting unit. The Company has chosen to perform its annual impairment test in December of each year and noted no impairment loss for fiscal years 2007 and 2006.

Stock-based compensation and other stock-based payments

The Company provides for a stock option plan, as described in note 8 of the Company's consolidated financial statements. Since January 1, 2004, the Company recognizes compensation expenses for every form of stock-based compensation granted to employees by means of a method based on fair value. The stock-based compensation expenses are amortized to expense over the vesting periods. For the year ended December 31, 2007, the Company recognized a compensation expense of \$348,050 (\$416,300 in 2006).

Changes in accounting policies

Effective January 1, 2007, the Company adopted the new accounting standards of Section 1506, "Accounting Changes", Section 1530, "Comprehensive Income", Section 3251, "Equity", and Section 3855, "Financial Instruments – Recognition and Measurement", as well as Section 3861, "Financial Instruments – Disclosure and Presentation," of the Canadian Institute of Chartered Accountants (CICA) Handbook. The main changes in the new accounting standards are as follows:

Accounting changes and comprehensive income

Section 1506 establishes the criteria for changing accounting policies, and the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors. Section 1530 introduces comprehensive income, which includes net income and the other components of comprehensive income. Comprehensive income is the change in a company's net assets during a period which results from transactions, events and circumstances from sources other than the company's shareholders. Consequently, Section 3250, "Surplus", has been revised as Section 3251, "Equity".

Financial assets and liabilities

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under these new standards, all financial instruments are now classified as one of the following: held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. Subsequent measurement is dependent upon the classification. Transaction fees related to held-for-trading financial instruments are reflected in earnings in the period in which they are incurred. For the other financial instruments,

the Company has elected to capitalize transaction costs upon initial recognition and to present them with the related financial instruments. They are then amortized using the effective interest method.

Held-for-trading financial assets and liabilities are recognized at fair value, and gains and losses are recognized in net income. Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value or at cost if there are no published price quotations in an active market, and gains and losses are recognized in comprehensive income. Following the adoption of these new standards, the Company has classified its cash and cash equivalents and short-term restricted cash as held-for-trading financial assets. Term deposits, accounts receivable and work in progress are classified as loans and receivables. Bank loans, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

The adoption of these new sections had no material effect on the consolidated financial statements of the Company.

Future accounting changes

The CICA published the following new sections that will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007:

- a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- b) Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".
- c) Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

The Company has not yet completed the assessment of the effect of these new standards on its consolidated financial statements, which will apply in the fiscal year beginning on January 1, 2008.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Related-party transactions

During the year, the Company recognized an expense of \$261,871 as administration expenses for compensation of the deferred share unit plan for directors. This transaction was measured at the exchange value corresponding to the monetary consideration agreed to by the parties.

Contingency

The Company and an educational institution are jointly facing a lawsuit for \$885,000. In addition, a US\$500,000 lawsuit was recently served on the Company. Management believes that these lawsuits are unfounded; accordingly, no provision has been recorded in this respect.

Subsequent events

On February 7, 2008, the Company obtained confirmation from the Autorité des marchés financiers du Québec that a receipt had been issued for the Company's final simplified prospectus by the British Columbia, Alberta, Ontario and Quebec authorities. Consequently, the special warrants issued by the Company on November 30, 2007 were deemed to be exercised on February 13, 2008, three business days after obtaining the aforementioned receipt. On the same day, the Company thus proceeded to issue 8,000,000 common shares to the special warrant holders. (Note 8f)

On February 13, 2008, the Company acquired all of the outstanding shares of Picdar Group Ltd ("Picdar"), a digital asset and image management solutions provider in the United Kingdom (the "Transaction") for a purchase price equivalent to the sum of (i) the business value of the company established between \$6,595,000 and \$9,245,000 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,545,000 (£2,325,500). An amount of \$6,595,000 (£3,375,000) was paid upon closing of the transaction and the balance of the value of the company, up to \$2,650,000 (£1,355,625), is payable in annual instalments beginning March 31, 2008 based on the achievement of the target future revenues and EBITDA. Each instalment is composed of a 75% portion in cash and cash equivalents and 25% in newly issued shares of the Company at a unit price fixed according to the weighted average price of the Company's last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. The surplus working capital is payable in cash and cash equivalents, a first instalment of \$3,409,000 (£1,744,105) having been paid upon closing of the transaction and the balance being payable upon receipt of the closing financial statements. On February 13, 2008, the Company proceeded to issue 1,835,480 common shares in initial payment of the purchase price. The issued shares are subject to escrow conditions and will be released quarterly over a period of twenty-four (24) months.

Controls and procedures

In accordance with Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that disclosure controls and procedures were effective as of September 30, 2007, and, more specifically, that the design of such controls and procedures provides reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the quarterly and annual filings are being prepared. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. No changes that materially affected or are reasonably likely to materially affect internal control over financial reporting were disclosed by others within the Company's entities or identified by management during the period ended December 31, 2007.

Risks and uncertainties

Nstein's area of activity is subject to a variety of risk factors and uncertainties. The Company's business, financial position and results of operations may suffer the adverse effects of the risk factors and uncertainties described below. The risk factors and uncertainties are not the only ones that may affect the Company. Other risks and uncertainties currently unknown to the Company or regarded as negligible could also impact its business operations.

Length of sales cycle

The Company's current sales cycle is long, and approval of contracts by clients is often delayed for various reasons. This is beyond the control of Nstein and can have a material adverse impact on the level of revenue of the Company.

Potential fluctuations in quarterly results

The Company's quarterly operating results may fluctuate according to the time frame and size of certain orders; the number, date and scope of new product announcements made by the Company or its competitors; the Company's ability to develop, present and commercialize improved versions of its products on a regular basis; the competitiveness of products and prices; and economic factors in general. The publishing industry, the primary market for Nstein's products, is undergoing a major transformation and capital spending could be affected. These and other events such as delays in development or delivery of new products may affect quarterly results in the future.

Operating losses in recent years

The Company incurred losses during fiscal 2007 and recent fiscal years. As a result, the Company posted an accumulated deficit of \$34,341,674 as at December 31, 2007. There is no assurance that the Company will be in a position to maintain or improve its profitability or cash position through its operating activities on a quarterly or annual basis in the future.

Cash position and access to financing sources

From time to time, Nstein turns to the financial markets to finance its activities. The Company's future needs with respect to capital depend on a number of factors, especially expenses related to research and development required to consolidate or improve the competitive advantage of its technology, and the expenditures required to pursue commercialization of its products and services. However, there is no guarantee that additional financing will be available, or that it will be available on acceptable terms. Any factor affecting the Company's capacity to access financial markets, such as sharply fluctuating interest rates, changes in the economic climate, or investor perception of the Company's financial position or growth prospects could adversely affect its financial position and results of operations.

Reliance on key personnel

The Company relies heavily on its officers and its key employees. The loss of their services would have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of the Company will continue in the employ of the Company or that they will not found their own companies in order to compete with the Company or accept positions with competitors. However, the Company has entered into employment contracts with all of its employees which employment contracts include non-competition, non-solicitation and confidentiality covenants.

Even though all the employees of the Company have entered into a confidentiality agreement, there is no guarantee that these agreements will not be breached, that the Company will have adequate remedies in the event they are breached or that the trade secrets and knowledge that form part of the intellectual property of the Company will not become known by other means or discovered independently by third parties.

Recruitment and retention of qualified employees, partners, advisors and consultants will be vital for the successful and efficient management of the growth of the Company. There is fierce competition for such qualified employees in the area in which the Company operates and there can be no assurance that the Company will be able to attract and retain such employees.

Competition

Nstein's area of activity is relatively new and includes an increasing number of competitors. New players, new partnerships and new technology solutions are constantly entering the market. In order to maintain its competitive advantage, the Company will continue to invest heavily in research and development and will have to retain key personnel.

Protection of the proprietary technology

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve its intellectual property rights. Even though the Company has filed patent applications and holds patents in Europe and the United States, those are related to early versions of the technologies used by the Company. Other technologies and applications actually developed and used by the Company are protected by a combination of copyrights, trade secrets and contractual provisions. The Company may file, if deemed necessary, additional patent applications. Despite these precautions, it may be possible for third parties to obtain and use the intellectual property of the Company without its authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada and the United States. To protect its intellectual property, the Company may become involved in litigation, which could result in substantial expenses, divert the attention of the management, cause significant delays and materially disrupt the conduct of the business of the Company. With more competitors emerging, there is an increased risk of other firms trying to produce new products or replacement technologies.

Dependence on certain licensed intellectual property

The Company licenses certain technologies used in its products from third parties. The termination of any of these licences, or the failure of the licensors to maintain or update their products adequately, could delay the ability of the Company to ship solutions while the Company seeks to implement alternative technology offered by other sources that may require significant unplanned investments. In addition, alternative technology may not be available, and even if it is available it may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licences relating to one or more of the solutions of the Company or relating to current or future technologies to enhance the product offerings of the Company. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Use of open source software

The Company uses certain open source software in the development of certain of its software products, which is not maintained or supported by the original developers thereof. This open source software was developed originally by third parties over whom the Company has no control. The Company has no assurances that embedded open source software components do not infringe on the intellectual property rights of others and the Company could be exposed to infringement claims and liability in connection with the use of such open source software. The Company conducted no independent investigation to determine whether the sources of that software have the rights necessary to permit the Company to use this software free of claims of infringement by third parties. If claims of infringement against the Company by third parties were successful, the Company could be required to replace certain components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with the ability of the Company to support its customers and/or require the Company to pay licensing fees. Certain open source software licences provide that any software that makes use of or incorporates components distributed under that licence will itself become subject to the same general distribution rights and other terms of that licence.

Infringement of intellectual property rights

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, the commercial success of the Company depends, in part, upon the Company not infringing upon the intellectual property rights of others. A number of competitors of the Company and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used in the solutions of the Company. Some of these patents may grant very broad protection to the owners of the patents. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in the target markets of the Company, the overlap in functionality of these products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that the Company routinely provides to its clients and partners. Litigation may be necessary to determine

the scope, enforceability and validity of third party proprietary rights or to establish the proprietary rights of the Company. Some of the competitors of the Company have, or are affiliated with companies having, substantially greater resources than Nstein and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than Nstein. Regardless of their merit, any such claims could be time consuming to evaluate and defend; result in costly litigation; cause product shipment delays or stoppages; divert management's attention and focus away from the business; subject the Company to significant liabilities and equitable remedies, including injunctions; require the Company to enter into costly royalty or licensing agreements; and require the Company to modify or stop using infringing technology. The Company may be prohibited from developing or commercializing certain technologies and products unless the Company obtains a licence from a third party. There can be no assurance that the Company will be able to obtain any such licence on commercially favourable terms, or at all. If the Company does not obtain such a licence, the Company could be required to cease the sale of certain of its solutions.

Possible product liability

In view of their complexity, Nstein products may contain undetected errors or give rise to compatibility issues, especially when they are first introduced or when new versions are launched. Nothing guarantees that errors will not be found in new products after commercial delivery has begun. The Company operates a stringent quality assurance program, with rigorous testing to minimize errors. Nstein has general liability insurance covering professional errors and omissions.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits and accounts receivable. Cash and cash equivalents as well as term deposits are held with reputable financial institutions.

Consequently, management considers the risk of nonfulfilment related to these instruments to be minimal.

There is no particular concentration of credit risk. The Company does not normally require collateral or other security from customers for trade accounts receivable; however, credit is extended only after evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when balances are deemed to be uncollectible.

Currency risk

The Company is exposed to currency risks as a result of its sales to foreign countries and the related trade accounts receivable. Most of these sales are denominated in US dollars and Euros. The risks are partially hedged by purchases and operating expenses denominated in US dollars and Euros.

Growth Management

As a result of the rapid growth of the field in which the Company operates, there will be significant pressure on management, operations and technical resources. The Company anticipates that its operating and personnel costs will increase in the future. In order to manage its growth, the Company will have to increase the number of its technical and operational employees and manage its employees, while efficiently maintaining a large number of relationships with third parties. There is no guarantee that the Company will be able to manage the growth of its business. The Company's inability to implement coherent management systems, add economical resources or adequately manage its expansion will have a significant and unforeseeable impact on its operations and operating results.

Acquisitions

The Company intends to continue to acquire businesses and assets. There is no assurance that the Company will be able to complete acquisitions, or that it will succeed in integrating the newly acquired businesses and assets into its operations. The failure to do so and to retain key personnel of acquired businesses could have a material adverse effect on the operating results of the Company. The acquisitions may require, in addition to the cash generated by the operations of the Company, other sources of financing. It is impossible to guarantee the availability of additional financial resources or that they will be available under acceptable conditions. Failure to obtain such financing could render future acquisitions difficult or impossible.

Possible negative tax consequences

Nstein derives major benefits from government programs supporting research and development in Canada, particularly tax credits for scientific research and experimental developments, and government funding. If changes in legislation or government policies respecting these programs result in their being cancelled or adversely modified, or if the Company is no longer in a position to participate in them, its operating costs would increase substantially.

This analysis of the Company's financial position and results of operations was prepared as of March 18, 2008. Additional information on the Company can be found on the SEDAR Web site at www.sedar.com.



Bruno Martel
Chief Financial Officer

Management's Report

Nstein's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this Annual Report.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Nstein's policy is to maintain a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and that our assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its financial reporting responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these responsibilities primarily through its Audit Committee.

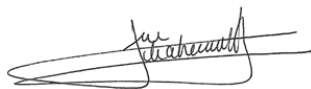
The Audit Committee is appointed by the Board and is composed of outside directors. The Committee meets periodically with Management and external auditors to review accounting, auditing and internal control procedures.

These consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The consolidated financial statements have been audited on behalf of shareholders by PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., the external auditors, in accordance with generally accepted auditing standards. The external auditors have full and free access to the Audit Committee.



Bruno Martel
Chief Financial Officer



Luc Filiatreault
President and Chief Executive Officer

Montreal, Quebec, Canada
March 18, 2008

Auditors' Report

To the Shareholders of Nstein Technologies Inc.

We have audited the consolidated balance sheets of **Nstein Technologies Inc.** as at December 31, 2007 and 2006 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada

March 18, 2008

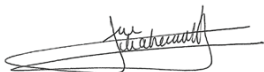
CONSOLIDATED BALANCE SHEETS[†]

AS AT DECEMBER 31, 2007 AND 2006

	2007	2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	11,730,855	2,367,125
Short-term restricted cash	-	1,859,799
Term deposits (note 7)	185,386	191,121
Accounts receivable	7,081,392	4,189,878
Refundable tax credits	1,540,023	780,267
Work in progress	875,350	578,105
Prepaid expenses	330,150	185,535
Current portion of balance receivable on the sale of software licenses	-	176,598
	21,743,156	10,328,428
Property, plant and equipment (note 4)	538,336	455,902
Intangible assets (note 5)	1,171,188	1,554,998
Deferred financing expenses	-	67,074
Goodwill (note 3)	5,641,574	5,641,574
	29,094,254	18,047,976
Liabilities		
Current liabilities		
Bank loans (note 6)	563,280	-
Accounts payable and accrued liabilities (note 18)	4,012,304	3,726,835
Deferred revenues	1,104,685	655,896
Current portion of long-term debt (note 7)	295,997	2,121,927
	5,976,266	6,504,658
Long-term debt (note 7)	759,832	1,074,847
	6,736,098	7,579,505
Shareholders' Equity		
Share capital (note 8)	52,652,275	40,178,085
Other equity components (note 9)	2,823,558	2,269,836
Contributed surplus (note 10)	1,223,997	532,143
Deficit	(34,341,674)	(32,511,593)
	22,358,156	10,468,471
	29,094,254	18,047,976
Commitments (note 11)		
Contingency (note 19)		
Subsequent events (note 20)		

[†] The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors,



Luc Filiatreault, Director



A. Michel Lavigne, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT[†]
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
	\$	\$
Revenues (note 17)	18,171,858	10,717,311
Cost of sales, net of tax credits (note 12)	7,561,455	5,474,801
	10,610,403	5,242,510
Expenses		
Selling and administrative	8,233,356	6,291,781
Research and development, net of tax credits (note 12)	2,248,335	1,736,602
Depreciation of property, plant and equipment	191,289	148,580
Amortization of intangible assets	442,229	286,906
Gain on disposal of property, plant and equipment	(4,393)	-
Exchange loss (gain)	149,118	(122,482)
Financial expenses (note 14a)	519,045	1,735,495
Restructuring fees (note 13)	661,505	-
	12,440,484	10,076,882
Net loss and comprehensive loss for the year	1,830,081	4,834,372
Deficit - Beginning of year	32,511,593	27,677,221
Deficit - End of year	34,341,674	32,511,593
Basic and diluted net loss per share (note 2)	0.049	0.186
Basic and diluted weighted average number of shares outstanding	37,043,429	25,949,784

[†] The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS[†]

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
	\$	\$
Cash flows from operating activities		
Net loss for the year	(1,830,081)	(4,834,372)
Items not affecting cash and cash equivalents		
Interest capitalized on long-term debt	53,865	116,042
Unrealized exchange gain	(73,406)	(50,273)
Depreciation of property, plant and equipment	191,289	148,580
Amortization of intangible assets	442,229	286,906
Amortization of deferred financing expenses	67,074	276,426
Stock-based compensation costs	348,050	416,300
Compensation costs related to the deferred share unit plan for directors	261,871	117,338
Costs related to the employee stock purchase plan	45,437	14,656
Gain on disposal of property, plant and equipment	(4,393)	-
	(498,065)	(3,508,397)
Change in non-cash operating working capital items		
Accounts receivable	(2,891,514)	(2,091,810)
Refundable tax credits	(759,756)	194,230
Work in progress	(297,245)	(109,891)
Prepaid expenses	(144,615)	(57,539)
Balance receivable on the sale of software licenses	176,598	1,729
Accounts payable and accrued liabilities	59,590	499,322
Deferred revenues	448,789	326,459
	(3,408,153)	(1,237,500)
	(3,906,218)	(4,745,897)
Cash flows from financing activities		
Variation in bank loans	563,280	(248,952)
Due to directors	-	(26,295)
Long-term debt	-	1,300,000
Payments on long-term debt	(1,188,991)	(2,635,837)
Variation in deferred financing expenses	-	(92,213)
Issuance of warrants, net of issue expenses	736,577	-
Issuance of common shares, net of issue expenses	11,671,071	9,292,517
	11,781,937	7,589,220
Cash flows from investing activities		
Variation in term deposits	5,735	(337)
Variation in short-term restricted cash	1,859,799	(1,859,799)
Variation in balance receivable on the sale of software licenses	-	165,996
Business acquisitions, net of cash and cash equivalents	(48,390)	(534,230)
Additions to property, plant and equipment	(238,936)	(156,228)
Additions to intangible assets	(117,459)	(20,318)
Proceeds from the sale of property, plant and equipment	27,262	-
	1,488,011	(2,404,916)
Increase in cash and cash equivalents	9,363,730	438,407
Cash and cash equivalents – Beginning of year	2,367,125	1,928,718
Cash and cash equivalents – End of year	11,730,855	2,367,125
Additional information (note 14b and c)		

[†] The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 - Statutes and nature of activities

The Company, incorporated in January 2000 under Part 1A of the *Québec Companies Act*, develops and markets multilingual online publishing solutions dedicated to players in the media industry, such as newspapers, magazines and digital content providers. Nstein solutions generate new revenue sources and reduce operating costs by allowing mutualization, management and automated indexing of digital content. Nstein collaborates closely with its customers to implement winning strategies based on publishing industry best practices, which allow rapid implementation of its *Web Content Management*, *Digital Asset Management* and *Text Mining Engine* products.

Note 2 - Summary of significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, Nstein R&D Inc., Nstein Technologies Corp., Nstein Technologies Europe S.A., KMTechnologies Inc., Alis Technologies Inc., Cabinet Conseil Valsar Inc., and DG2LT S.A.R.L. with its subsidiary Eurocortex S.A.S ("Eurocortex").

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. These estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses. Significant estimates include the allowance for doubtful accounts receivable, the degree of progress of work in process, recoverable tax credits, the useful lives of property, plant and equipment and intangible assets, impairment of long-lived assets, certain accrued liabilities and measurement of financial instruments. Actual results may differ from those estimates.

Foreign currency

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the monthly average rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of earnings.

Foreign subsidiaries

Foreign subsidiaries are considered to be integrated foreign operations. As a result, the foreign subsidiaries' accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the monthly average rate for the year. Gains and losses arising from such remeasurement are reflected in the statements of earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks as well as all highly liquid short-term investments.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated over their useful lives using the declining balance method calculated monthly at the rates mentioned in note 4, except for leasehold improvements, which are depreciated using the straight-line method over a period of five years.

Intangible assets

Intangible assets are recorded at cost and are amortized on a declining balance or straight-line basis using the rates and periods mentioned in note 5.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis, or more frequently if events or circumstances occur, indicating that it is more likely than not that it might be impaired. The recoverability of goodwill is established at the reporting unit level on the basis of a two-step impairment test. First, the net carrying value of a reporting unit is compared to its fair value, which is established on the basis of its market value. If the net carrying value of a reporting unit exceeds its fair value, the second step of the test must be performed. For this step, the amount of any goodwill impairment loss is the excess of the carrying value of goodwill over its fair value. This amount is charged to earnings in the period in which it is incurred. For purposes of this impairment test, the fair value of goodwill is estimated in the same way as goodwill is determined in business acquisitions, meaning that it represents the excess of a reporting unit's fair value over the estimated fair value of its net identifiable assets. The Company comprises a single reporting unit. The Company has elected to perform its annual impairment test in December of each year and noted no impairment loss for fiscal years 2007 and 2006.

Deferred financing expenses

Deferred financing expenses, which relate to the contracted debts and the granting of warrants, were amortized over the term of the related financing.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of an asset or a group of assets is greater than the undiscounted future cash flows expected to be provided by the asset or group of assets. The amount of impairment loss is the excess of the carrying value over fair value. The fair value of those assets is determined based on discounted future cash flows. During fiscal 2007 and 2006, no impairment was recognized.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities, using enacted or substantively enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax credits

As a result of its eligibility for the Cité Multimédia Montréal program, the Company is entitled to a refundable tax credit of 40% on qualified salaries up to an annual maximum of \$15,000 per employee. Research and development tax credits and other tax credits are accounted for using the cost reduction method. Under this method, tax credits related to eligible expenditures are accounted for as a reduction of the related expenditures in the year in which the expenditures are incurred, provided their realization is reasonably assured. These tax credits could be subjected to a review and a possible adjustment by the Canadian federal and Quebec provincial tax authorities.

Revenue recognition, work in process and deferred revenues

The Company recognizes revenues from the sale of software licenses and related post-contract customer support and other related services in accordance with Emerging Issues Committee Abstracts EIC-141 to 143 on revenue recognition. Fees from arrangements involving licenses, post-contract customer support and other related services are allocated to the various elements based on company-specific objective evidence of the fair value of each of the elements. Revenues from software licenses are recognized when there is persuasive evidence of a valid arrangement, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable and collection is reasonably assured. Revenues from post-contract customer support elements are recognized rateably during the related support period. Revenues from other related services are recognized as the services are performed using the percentage-of-completion method and all foreseeable losses are included in earnings, when it is determined that such losses are estimated to be likely to occur. Furthermore, amounts received for services not yet rendered are accounted for as deferred revenues in the balance sheet.

Research and development expenses

Research costs are expensed as incurred. Product development costs are deferred if the product or process and its market or usefulness are clearly defined, the product or process has reached technological feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. Technological feasibility is attained when the software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has historically been relatively short with immaterial development costs incurred during this period. Accordingly, the Company has not capitalized any development costs.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year. Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the "if-converted" method for convertible debentures and using the treasury stock method for stock options and warrants, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Company at the average market value of the participating shares during the year. For the years ended December 31, 2007 and 2006, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options, warrants and convertible debentures was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding.

Share issue expenses

Share issue expenses have been applied against the proceeds from the issuance of share capital.

Stock-based compensation and other stock-based payments

The Company provides for a stock option plan, as described in note 8. Since January 1, 2004, the Company accounts for all forms of employee stock-based compensation using the fair value-based method. Stock-based compensation costs are amortized to expense over the vesting periods.

Changes in accounting policies

Effective January 1, 2007, the Company adopted the new accounting standards of Section 1506, "Accounting Changes", Section 1530, "Comprehensive Income", Section 3251, "Equity", and Section 3855, "Financial Instruments – Recognition and Measurement", as well as Section 3861, "Financial Instruments – Disclosure and Presentation," of the Canadian Institute of Chartered Accountants (CICA) Handbook. The main changes in the new accounting standards are as follows:

Accounting changes and comprehensive income

Section 1506 establishes the criteria for changing accounting policies, and the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors. Section 1530 introduces comprehensive income, which includes net income and the other components of comprehensive income. Comprehensive income is the change in a company's net assets during a period which results from transactions, events and circumstances from sources other than the company's shareholders. Consequently, Section 3250, "Surplus", has been revised as Section 3251, "Equity".

Financial assets and liabilities

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under these new standards, all financial instruments are now classified as one of the following: held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. Subsequent measurement is dependent upon the classification. Transaction fees related to held-for-trading financial instruments are reflected in earnings in the period in which they are incurred. For the other financial instruments, the Company has elected to capitalize transaction costs upon initial recognition and to present them with the related financial instruments. They are then amortized using the effective interest method.

Held-for-trading financial assets and liabilities are recognized at fair value, and gains and losses are recognized in net income. Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value or at cost if there are no published price quotations in an active market, and gains and losses are recognized in comprehensive income. Following the adoption of these new standards, the Company has classified its cash and cash equivalents and short-term restricted cash as held-for-trading financial assets. Term deposits, accounts receivable and work in progress are classified as loans and receivables. Bank loans, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

The adoption of these new sections had no material effect on the consolidated financial statements of the Company.

Future accounting changes

The CICA published the following new sections that will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007:

- a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- b) Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".
- c) Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

The Company has not yet completed the assessment of the effect of these new standards on its consolidated financial statements, which will apply in the fiscal year beginning on January 1, 2008.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Note 3 – Business combination

On December 14, 2006, the Company acquired all of the outstanding shares of Eurocortex, a leader in content management solutions for the publishing, media and entertainment industries. Under the agreement, the Company issued 1,013,152 common shares, and made a cash payment of \$502,698 (€330,000). The shares were subject to a 24-month escrow. The shares will be released from escrow at the rate of 33.3% after a four-month period from the closing date, 33.3% after a twelve-month period and the remaining 33.4% after a twenty-four-month period.

This acquisition has been accounted for using the purchase method and the results have been consolidated from the acquisition date. The purchase price has been reduced by an average discount of 35% in order to consider the impact of the escrow on the share value and a blockage discount due to the large number of shares traded at a precise moment in a limited market. The following table summarizes the purchase price allocation, including business combination-related costs based on the estimated fair value of the net assets acquired at the date of the acquisition.

	\$
Cash and cash equivalents	(7,206)
Other current assets	678,097
Property, plant and equipment	77,807
Intangible assets	496,000
Total assets acquired	1,244,698
Current liabilities	766,315
Long-term debt	47,991
Total liabilities assumed	814,306
Net identifiable assets acquired	430,392
Goodwill	474,698
Purchase price	905,090
Settled as follows:	
Common shares issued	329,676
Cash amount	502,698
Business combination-related costs	72,716
	905,090

Note 4 – Property, plant and equipment

	Depreciation rates and period	2007		2006	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
		\$	\$	\$	\$
Office furniture and equipment	20%	263,365	175,931	250,189	156,763
Automotive equipment	20%	36,049	10,386	67,713	7,534
Computer equipment	35%	996,312	718,866	920,050	662,633
Leasehold improvements	5 years	401,804	307,490	290,175	245,295
Assets under a capital lease	35%	57,656	4,177	-	-
		1,755,186	1,216,850	1,528,127	1,072,225
Less: Accumulated depreciation		<u>1,216,850</u>		<u>1,072,225</u>	
Net amount		538,336		455,902	

Note 5 – Intangible assets

	Amortization rates and period	2007		2006	
		Cost	Accumulated amortization	Cost	Accumulated amortization
		\$	\$	\$	\$
Software	50% and 10 years	882,323	321,967	823,904	222,723
Nstein software	50%	1,040,000	1,038,225	1,040,000	1,037,040
Core technology	4 years	886,857	653,556	886,857	505,729
Customer relationships	5 years	1,027,192	695,936	1,027,192	546,463
Non-compete agreements	2 years	317,507	273,007	317,507	228,507
		4,153,879	2,982,691	4,095,460	2,540,462
Less: Accumulated amortization		<u>2,982,691</u>		<u>2,540,462</u>	
Net amount		1,171,188		1,554,998	

Note 6 – Bank loans

During the year, the Company contracted bank loans to finance a portion of its scientific research and experimental development tax credits. These loans, maturing in June 2008, bear interest at prime rate plus 1.50%. A moveable hypothec on the universality of present and future assets has been given as security for these loans.

Note 7 - Long-term debt

	2007	2006
	\$	\$
Term loans		
- Discounted at 10%, payable in monthly instalments of \$8,929, maturing in May 2013. A moveable hypothec on all present and future assets, both tangible and intangible, of the subsidiary, has been given as security	440,083	499,343
- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in two instalments of \$95,000, in October 2006 and January 2007, and in quarterly instalments of \$47,500 from October 2007, maturing in September 2009	265,631	429,169
- Discounted at 8%, with the NRC, payable in four annual instalments of \$78,338, starting on January 1, 2007, maturing in January 2010	216,395	277,974
- 10%, for which a letter of credit in the amount of \$164,600 has been issued, payable in monthly instalments of \$1,538 including principal and interest, maturing in August 2011. A moveable hypothec on a deposit certificate in the amount of \$164,600 has been given as security for the letter of credit	56,446	68,586
- 4%, payable in monthly instalments of \$1,159 (€803) including principal and interest, maturing in September 2011. A moveable hypothec on two cars has been given as security	22,713	61,036
- Discounted at 7%, balance of purchase price of a subsidiary, payable in three annual instalments of \$192,000, maturing in September 2007	-	181,357
- Prime rate plus 2%, payable in monthly principal instalments of \$15,377 plus interest, secured at 80% by Investissement Québec, maturing in August 2007. A moveable hypothec on all present and future assets, both tangible and intangible, of a subsidiary, has been given as security	-	119,295
Obligations under capital leases		
- Discounted at 7.75%, payable in total monthly instalments of \$1,800 including principal and interest, maturing between August and November 2010.	54,561	-
Secured convertible debentures		
- Secured convertible debentures, non-interest bearing, issued at discount, payable in 19 monthly instalments of US\$223,125 from February 2006 to September 2006, US\$207,188 from October 2006 to July 2007 and a final instalment of US\$136,608 in August 2007*	-	1,560,014
	1,055,829	3,196,774
Less: Current portion	295,997	2,121,927
	759,832	1,074,847

* During the year ended December 31, 2007, the Company issued, as a monthly principal and interest instalment on that debt, 1,016,091 common shares with a paid-up capital of \$793,090 and disbursed an amount of \$820,440. Furthermore, during the year, certain holders of convertible debentures converted an amount of \$200,988 into 236,366 common shares of the Company.

The principal instalments due on long-term debt over the next five years are as follows:

	Obligations under capital leases	Other debts
	\$	\$
2008	21,601	277,993
2009	21,601	305,453
2010	17,719	180,716
2011	-	104,001
2012	-	98,132
Subsequent years	-	34,972
	60,921	1,001,267
Less interest	6,359	
	54,562	

Note 8 - Share capital

Authorized:

- Unlimited number of common shares, without par value, voting and participating
- Unlimited number of preferred shares, without par value, non-voting and non-participating

The following table presents the share capital activity of the Company during the years ended December 31, 2007 and 2006:

	2007		2006	
	Number	Amount	Number	Amount
		\$		\$
Balance – Beginning of year (f)	33,303,337	40,178,085	18,642,229	29,534,130
Shares issued upon the exercise of stock options	15,000	9,998	-	-
Shares issued under the employee stock purchase plan (d)	102,256	90,875	69,220	29,312
Business combination (note 3)	-	-	1,013,152	329,676
Shares issued for cash, net of issue expenses (b, c and e)	6,452,486	4,125,550	11,764,706	9,077,702
Special warrants issued, net of issue expenses (a)	-	7,253,689	-	-
Shares issued for long-term debt repayment and conversion (note 7)	1,252,457	994,078	1,814,030	1,207,265
Outstanding – End of year	41,125,536	52,652,275	33,303,337	40,178,085

a) On November 30, 2007, the Company concluded a firm underwriting private placement of 8,000,000 special warrants of the Company at a price of \$1.00 per special warrant, for a gross total amount of \$8,000,000 (the "Offering"). The Offering was made through an underwriting syndicate led by Desjardins Securities Inc. and including TD Securities Inc. and Jennings Capital Inc. collectively (the "Underwriters"). Certain Company insiders subscribed for the placement. Each special warrant entitles the holder thereof to receive one common share of the Company upon exercising the special warrants. The special warrants are exercisable by the holder in whole or in part at any time after the closing of the Offering, being November 30, 2007 (the "Closing"), without any additional consideration, and the special warrants will be deemed to be exercised on the earlier of: (a) four (4) months and one day after the Closing and (b) the day which is three business days after a receipt is issued by the Canadian securities regulatory authorities for a final prospectus qualifying the common shares to be issued upon the exercise of the special warrants. The Company obtained such receipt on February 7, 2008 (Note 19). The Underwriters received as compensation at Closing a commission of \$354,000 and 354,000 warrants, each of these warrants entitling its holder to acquire one common share at the price of \$1.00 for a period of two (2) years after Closing. Issue expenses of \$577,356 (including the Underwriters' commission expense) and the fair value of the warrants granted to the Underwriters, being \$168,955, were applied against equity.

b) On September 27, 2007, the Company issued 3,529,412 units at a price of \$0.85 each, for gross proceeds of \$3,000,000, as part of a private placement with an institutional investor and a group of 27 employees of the Company, along with other investors. Each unit consists of one common share, one-half of one A-tranche share purchase warrant and one-half of one B-tranche share purchase warrant. One whole A-tranche share purchase warrant entitles its holder to purchase one additional common share of the Company's share capital at a price of \$1.50. One whole B-tranche share purchase warrant entitles its holder to purchase one additional common share of the Company's share

capital at a price of \$2.00. These share purchase warrants are valid for three years from the date of issue. The \$3,000,000 in gross proceeds was divided up between common shares and warrants based on their relative fair values. Accordingly, an amount of \$2,258,846 was allocated to common shares and \$741,154 to warrants. Unit issue expenses totalling respectively \$13,950 and \$4,577 were applied against the share capital and other equity components. Shares issued are subject to a four-month hold period.

c) On May 7, 2007, the Company concluded a private placement of \$1,900,000 with a group of investors including members of the Board of Directors and the Company's management team. The Company issued 2,923,074 common shares at a price of \$0.65 per share. Share issue expenses in the amount of \$19,346 were applied against share capital.

d) In August 2006, the Company implemented an employee stock purchase plan. Under the plan, the employee contribution is the lower of \$3,000 annually or 8% of the employee annual compensation. The Company contributes an amount equal to 100% of the employee contribution.

e) On June 13, 2006, the Company concluded a private placement of \$10,000,000 with JLA Ventures, a Canadian venture capital firm, and Solidarity Fund QFL (the "Fund"). In connection with this transaction, the Company issued 11,764,706 common shares at a subscription price of \$0.85 per share. Desjardins Securities ("Desjardins") was the agent for this transaction and received a \$400,000 commission fee, as well as 352,941 warrants valid for a five-year period at an exercise price of \$0.85 per warrant. Share issue expenses totalling \$722,139 (including Desjardins' commission fee) were applied against share capital. The fair value of the warrants granted to Desjardins, set at \$200,159, was also applied against share capital.

f) On the same day, the Company proceeded with the consolidation of its common shares on the basis of one new common share issued for every 10 issued prior to the consolidation. Comparative figures from the beginning of fiscal 2006 have been adjusted to reflect the consolidation.

Stock options

Under the plan

In August 2006, the Company amended the stock option plan for directors, employees and service suppliers of the Company or its subsidiaries. All the options granted under the plan may from now on be exercised within a maximum period of 7 years following the date of grant. The Board of Directors will designate the recipients of options and will determine the number of common shares covered by each of these options, the vesting date, the exercise price, the expiry date, the vesting conditions and the restrictions related to the exercise of these options. The purchase price of these shares may not be lower than their closing price on the day preceding the date of grant. The maximum number of common shares that is issuable under the plan was fixed at 3,143,000 common shares and the maximum number that may be granted to a recipient shall not exceed 5% of all the outstanding common shares.

The following tables present the stock option activity since January 1, 2006 and summarize information about fixed stock options outstanding and exercisable as at December 31:

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding – Beginning of year	2,408,203	1.76	1,477,120	2.87
Granted	1,390,000	0.79	1,140,000	0.42
Exercised	(15,000)	0.40	-	-
Cancelled	(839,917)	2.22	(208,917)	2.35
Outstanding – End of year	2,943,286	1.17	2,408,203	1.76
Exercisable – End of year	1,519,079	1.53	1,006,545	2.94

Exercise price	Options outstanding as at December 31, 2007		Options exercisable as at December 31, 2007	
	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life
	\$0.37	92,083	3.95	54,167
\$0.40	350,000	3.73	212,500	3.73
\$0.44	110,000	3.86	89,583	3.86
\$0.46	75,000	3.65	30,000	3.65
\$0.65	600,000	4.28	150,000	4.28
\$0.69	175,000	4.48	43,750	4.48
\$0.73	150,000	4.34	37,500	4.34
\$0.80	80,000	4.21	26,667	4.21
\$1.00	203,500	3.46	90,167	2.32
\$1.12	250,000	4.76	29,167	4.72
\$1.20	190,000	2.96	120,000	2.96
\$1.40	120,000	0.90	120,000	0.90
\$2.00	133,333	2.38	133,333	2.38
\$2.10	50,000	1.82	37,500	1.82
\$2.15	50,000	2.17	50,000	2.17
\$2.80	201,000	1.92	181,375	1.92
\$3.00	86,090	1.19	86,090	1.19
\$10.00	5,000	2.45	5,000	2.45
\$11.00	20,280	0.45	20,280	0.45
\$29.70	2,000	2.45	2,000	2.45
	2,943,286		1,519,079	

Accounting for stock-based compensation plans

During the year ended December 31, 2007, the Company granted its employees and service suppliers 1,390,000 stock options (1,140,000 in 2006). The fair value of these stock options amounts to \$737,399 (\$313,209 in 2006). Compensation costs for the year ended December 31, 2007 amounted to \$348,050 (\$416,300 in 2006).

The fair value of options granted in each fiscal year has been established using the Black-Scholes options pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.21%	4.06%
Expected volatility	82%	80%
Dividend yield	nil	nil
Expected life	59 months	59 months

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

Warrants

The following table presents the warrant activity during the years ended December 31, 2007 and 2006:

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding – Beginning of year	2,188,939	1.44	1,935,998	1.79
Granted*	3,883,412	1.68	352,941	0.85
Cancelled**	(469,133)	1.40	(100,000)	5.00
Outstanding – End of year	5,603,218	1.63	2,188,939	1.44

* On September 27, 2007, the Company issued 1,764,705 A-tranche warrants and 1,764,707 B-tranche warrants to the investors, allowing acquisition of common shares at the respective prices of \$1.50 and \$2.00 per share during a period of three years. The fair value of the warrants granted was estimated at \$736,577 (net of issue expenses of \$4,577) using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	4.23%
Expected volatility	83.5%
Dividend yield	nil
Expected life	36 months

* On November 30, 2007, the Company issued 354,000 warrants to the investors, allowing acquisition of common shares at the price of \$1.00 per share during a period of two years. The fair value of the warrants granted was estimated at \$168,955 using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	3.73%
Expected volatility	86.0%
Dividend yield	nil
Expected life	24 months

* On June 13, 2006, the Company issued 352,941 warrants to Desjardins, allowing acquisition of common shares at the price of \$0.85 per share during a period of five years. The fair value of the warrants granted was estimated at \$200,159 using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	4.22%
Expected volatility	80.0%
Dividend yield	nil
Expected life	5 years

** In October 2007, 469,133 warrants expired (100,000 in June 2006). The fair value of these warrants in the amount of \$306,794 (\$92,245 in 2006) was transferred to the contributed surplus.

The following table presents the fair value of warrants using the Black-Scholes model:

	2007	2006
	\$	\$
204,190 warrants at \$1.527, maturing on October 12, 2007	-	54,167
264,943 warrants at \$1.30, maturing on October 13, 2007	-	252,627
200,000 warrants at \$1.00, maturing on November 28, 2008	204,545	204,545
354,000 warrants at \$1.00 (none in 2006), maturing on November 7, 2009	168,955	-
1,764,705 warrants at \$1.50 (none in 2006), maturing on September 27, 2010	404,181	-
1,764,707 warrants at \$2.00 (none in 2006), maturing on September 27, 2010	332,396	-
1,166,865 warrants at \$1.80, maturing on October 12, 2010	383,538	383,538
352,941 warrants at \$0.85, maturing on June 12, 2011	200,159	200,159
	1,693,774	1,095,036

Note 9 - Other equity components

The following table presents the other equity components activity during the years ended December 31, 2007 and 2006:

	2007	2006
	\$	\$
Balance - Beginning of year	2,269,836	2,160,640
Expiry of a long-term debt conversion option	(150,412)	(240,068)
Reversal of the long-term debt conversion option upon exercise of the option	(4,009)	(41,997)
Expiry of the stock option related to a business combination	(108,589)	(91,313)
Issuance of warrants	905,532	200,159
Expiry of warrants	(306,794)	(92,245)
Stock-based compensation costs	348,050	416,300
Reversal of stock options granted as compensation following employee departure	(126,059)	(41,640)
Reversal of stock options granted as compensation upon exercise of options	(3,997)	-
Balance - End of year	2,823,558	2,269,836

The following table presents the other equity components as at December 31, 2007 and 2006:

	2007	2006
	\$	\$
Long-term debt conversion option	-	154,421
Stock option related to a business combination	-	108,589
Stock option-based compensation	1,129,784	911,790
Warrants (note 8)	1,693,774	1,095,036
	2,823,558	2,269,836

Note 10 - Contributed surplus

The following table presents the contributed surplus activity during the years ended December 31, 2007 and 2006:

	2007	2006
	\$	\$
Balance - Beginning of year	532,143	66,877
Expiry of a long-term debt conversion option (note 9)	150,412	240,068
Expiry of the stock option related to a business combination (note 9)	108,589	91,313
Expiry of warrants (note 9)	306,794	92,245
Reversal of stock options granted as compensation following employee departure (note 9)	126,059	41,640
Balance - End of year	1,223,997	532,143

The following table presents the contributed surplus components as at December 31, 2007 and 2006:

	2007	2006
	\$	\$
Expiry of a long-term debt conversion option	390,480	240,068
Expiry of the stock option related to a business combination	266,779	158,190
Expiry of warrants	399,039	92,245
Reversal of stock options granted as compensation following employee departure	167,699	41,640
	1,223,997	532,143

Note 11 – Commitments

The Company's aggregate commitments under lease agreements for offices are \$2,679,457. Furthermore, the Company agreed to pay royalties of \$262,500 on revenues of software licenses. The minimum annual instalments to be paid over the next five years are established as follows:

	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Use of offices	647,017	652,966	659,092	462,292	60,361
Royalties on revenues of software licenses	262,500	-	-	-	-

Note 12 – Tax credits

As a result of its eligibility for the Cité Multimédia Montréal program, the Company is entitled to a refundable tax credit of 40% on qualified salaries, up to a maximum of \$15,000 per employee. Those tax credits, which were applied against the cost of sales, amounted to \$202,476 for fiscal 2007 (\$94,026 in 2006).

The Company also benefits from scientific research and experimental development tax credits. These tax credits stood at \$619,935 for fiscal 2007 (\$420,991 in 2006).

Note 13 – Restructuring fees

During the year, the Company incurred an expense of \$661,505 for non-recurring restructuring fees. These fees consist mainly of the severance and other payroll benefits paid to former corporate executives and a founder.

Note 14 - Additional information

Statement of earnings

a) Financial expenses

	2007	2006
	\$	\$
Amortization of deferred financing expenses	67,074	276,426
Interest on long-term debt*	509,542	1,490,579
Interest and bank charges	67,520	52,394
Interest income	(125,091)	(83,904)
Total	519,045	1,735,495

* Including capitalized interest of \$53,865 (\$116,042 in 2006)

Statement of cash flows

b) Items not affecting cash and cash equivalents related to financing and investing activities

	2007	2006
	\$	\$
Warrants issued	168,955	200,159
Convertible debentures converted into common shares	994,078	1,165,268
Business combination-related costs included in accounts payable and accrued liabilities	-	48,390
Intangible assets acquired included in accounts payable and accrued liabilities	-	59,040
Intangible assets acquired financed through the issuance of a long-term debt	-	518,503
Transfer of the matured portion of options to the contributed surplus	259,001	331,381
Transfer of matured warrants to the contributed surplus	306,794	92,245
Converted portion of the long-term debt conversion options transferred to share capital	4,009	41,997
Stock options granted as compensation transferred to the contributed surplus	126,059	41,640
Stock options exercised as compensation transferred to share capital	3,997	-
Issue expenses included in accounts payable and accrued liabilities	71,438	-
Assets under a capital lease	57,656	-

c) Additional information

	2007	2006
	\$	\$
Interest paid	411,085	1,308,539
Interest cashed	(72,332)	(56,390)

Note 15 – Financial instruments

Fair value

Cash and cash equivalents, short-term restricted cash, term deposits, accounts receivable, work in progress, balance receivable on the sale of software licenses, bank loans, accounts payable and accrued liabilities, the amount owed to directors and long-term debt are financial instruments whose fair value approximates their carrying value due to their short-term maturity or current market rates.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits and accounts receivable. Cash and cash equivalents as well as a term deposits are held with high-credit quality financial institutions. Consequently, management considers the concentration of credit risk related to these instruments to be minimal.

There is no particular concentration of credit risk. Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however credit is extended following an evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

Interest rate risk

As at December 31, 2006, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents and short-term restricted cash	Fixed and variable interest rate
Term deposits.....	1.65%
Accounts receivable and work in progress.....	Non-interest bearing
Bank loans.....	As described in note 6
Accounts payable and accrued liabilities.....	Non-interest bearing
Amount owed to directors.....	Non-interest bearing
Long-term debt.....	As described in note 7

Currency risk

The Company is exposed to currency risks as a result of its export sales and the related trade accounts receivable. Substantially all of these sales are denominated in US dollars, Euros and Sterling pounds. These risks are partially hedged by purchases and operating expenses denominated in these foreign currencies.

Note 16 – Future income taxes

The reconciliation of the income tax provision, calculated using the combined Canadian federal and provincial statutory income tax rate, with the income tax provision per the financial statements is as follows:

	2007	2006
	\$	\$
Income tax provision at combined Canadian federal and provincial statutory tax rate (32.02% in 2007 and 32.02% in 2006)	(590,000)	(1,550,000)
Increase (decrease) due to:		
Variation in valuation allowance	(2,660,000)	(2,820,000)
Expiry of tax losses	850,000	2,860,000
Difference between statutory and future income tax rates	2,440,000	1,100,000
Variation in foreign currency deferred losses resulting from the Canadian dollar's appreciation	280,000	(70,000)
Future income tax asset related to share capital components	(170,000)	-
Non-deductible expenses or non-taxable revenues	160,000	200,000
Others	(310,000)	280,000
	-	-

Significant components of the Company's future income tax assets and liabilities are as follows:

	2007	2006
	\$	\$
Future income tax assets		
Property, plant and equipment	1,130,000	1,410,000
Intangible assets	1,030,000	980,000
Research and development	5,410,000	5,600,000
Financing expenses	200,000	130,000
Others	420,000	80,000
Deferred losses	10,820,000	13,520,000
	19,010,000	21,720,000
Valuation allowance	(18,930,000)	(21,590,000)
	80,000	130,000
Future income tax liabilities		
Research and development tax credits	(80,000)	(130,000)
Net future income tax assets	-	-

As at December 31, 2007, the Company had available operating losses in several tax jurisdictions, against which a valuation allowance of \$10,740,000 (\$13,430,000 in 2006) was established. The following table summarizes the year of expiry of these operating losses by tax jurisdiction:

Year of expiry	Canada		United States and Other
	Federal \$	Provincial \$	
2008	11,310,000	9,980,000	-
2009	7,530,000	7,230,000	-
2010	3,850,000	3,580,000	-
2011	4,010,000	3,960,000	-
2014	1,960,000	1,830,000	-
2015	-	-	-
2019	-	-	40,000
2020	-	-	90,000
2021	-	-	120,000
2022	-	-	1,620,000
2023	-	-	680,000
2024	-	-	820,000
2025	-	-	590,000
2026	3,760,000	3,350,000	-
2027	1,430,000	1,430,000	-
Indefinite	-	-	1,780,000
	33,850,000	31,360,000	5,740,000

During the year, losses of \$2,480,913 at the federal level (\$8,508,685 in 2006) and \$4,054,309 at the provincial level (\$8,965,133 in 2006) expired.

In addition, a Company's subsidiary has accumulated capital losses of \$590,000 (\$590,000 in 2006) at the federal and provincial levels, against which a valuation allowance of \$80,000 (\$90,000 in 2006) was established. These losses can be carried forward indefinitely against future capital gains.

In addition to the operating losses, as at December 31, 2007, the Company has accumulated research and development expenses in Canada amounting to \$13,930,000 (\$13,260,000 in 2006) at the federal level and \$27,900,000 (\$25,850,000 in 2006) at the provincial level, against which a valuation allowance of \$5,410,000 (\$5,600,000 in 2006) was established. These expenses can be carried forward indefinitely against future years' taxable income in their respective tax jurisdiction. Also, investment tax credits of \$2,380,000 (\$2,000,000 in 2006) at the federal level can be applied against income taxes of future years expiring between 2008 and 2027.

Finally, the difference between the carrying amounts and tax bases of some assets and liabilities has created a deductible timing difference of \$10,190,000 (\$8,260,000 in 2006) at the federal level and \$10,590,000 (\$8,650,000 in 2006) at the provincial level.

Note 17 - Segment information

The Company's activities are grouped under a single operating segment, namely the sale of software solutions and related post-contract customer support. Substantially all of the Company's property, plant and equipment are located in Canada.

Revenues by geographic region are detailed as follows:

	2007	2006
	\$	\$
Canada	10,704,469	6,666,852
United States	4,066,218	2,014,001
Europe	3,401,171	2,036,458
Total	18,171,858	10,717,311

Revenues are allocated to geographic regions based on the country of residence of the related customers.

Note 18 – Related party transactions

During the year, the Company recognized an expense of \$261,871 as administration expenses for compensation of the deferred share unit plan for directors. This transaction was measured at the exchange value corresponding to the monetary consideration agreed to by the parties. The amount owed to directors in relation to this plan as at December 31, 2007 is \$513,018 (\$251,147 as at December 31, 2006).

Note 19 – Contingency

The Company and an educational institution are jointly facing a lawsuit for \$885,000. In addition, a US\$500,000 lawsuit was recently served on the Company. Management believes that these lawsuits are unfounded; accordingly, no provision has been recorded in this respect.

Note 20 – Subsequent events

On February 7, 2008, the Company obtained confirmation from the Autorité des marchés financiers du Québec that a receipt had been issued for the Company's final simplified prospectus by the British Columbia, Alberta, Ontario and Quebec authorities. Consequently, the special warrants issued by the Company on November 30, 2007 were deemed to be exercised on February 13, 2008, three business days after obtaining the aforementioned receipt. On the same day, the Company thus proceeded to issue 8,000,000 common shares to the special warrant holders. (Note 8f)

On February 13, 2008, the Company acquired all of the outstanding shares of Picdar Group Ltd ("Picdar"), a digital asset and image management solutions provider in the United Kingdom (the "Transaction") for a purchase price equivalent to the sum of (i) the business value of the company established between \$6,595,000 and \$9,245,000 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,545,000 (£2,325,500). An amount of \$6,595,000 (£3,375,000) was paid upon closing of the transaction and the balance of the value of the company, up to \$2,650,000 (£1,355,625), is payable in annual instalments beginning March 31, 2008 based on the achievement of the target future revenues and EBITDA.

Each instalment is composed of a 75% portion in cash and cash equivalents and 25% in newly issued shares of the Company at a unit price fixed according to the weighted average price of the Company's last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. The surplus working capital is payable in cash and cash equivalents, a first instalment of \$3,409,000 (£1,744,105) having been paid upon closing of the transaction and the balance being payable upon receipt of the closing financial statements. On February 13, 2008, the Company proceeded to issue 1,835,480 common shares in initial payment of the purchase price. The issued shares are subject to escrow conditions and will be released quarterly over a period of twenty-four (24) months.

Board of Directors

Rainer Busch

Rainer Busch is the founder and managing partner of Mercury Partners, a Swiss-based private equity investments firm. He was the partner responsible for European private equity investing (buyout) with Fay Richwhite (financial institution). He was a partner with Value Management Group (venture capital). He was a manager with McKinsey & Co. (strategic consulting) in Europe and the U.S. He started his career leading R&D projects and is the author of three patents.

André Courtemanche

André Courtemanche is President and CEO of VIAVAR Capital Inc., an investment firm, since September 2004. In 1988, he founded Steltor Inc., a leader in time management communications technology, of which he was President and CEO until its acquisition by Oracle Corporation (software) in 2002; he was Vice President of Time Management Platforms for Oracle's Server Technology group from 2002 to 2004. André Courtemanche was named Quebec Young Entrepreneur of the Year (1997) by La jeune chambre de commerce du Québec and is the author of numerous published articles on time management communications technology and open standards.

Pierre Donaldson

Pierre Donaldson is a General Partner of JLA Ventures (venture capital) since November 2005. From April 2000 to September 2004, he was President and Chief Executive Officer of Bioscrypt Inc. Prior thereto, he held the position of Executive Vice President of The Descartes Systems Group Inc., a provider of business-to-business Internet logistics solutions from May 1998 to April 2000.

Luc Filiatreault

Luc Filiatreault is President and Chief Executive Officer of Nstein Technologies Inc. since April 23, 2007. Prior thereto, he was Chairman of the Board and CEO of PG Mensys Information Systems (software), acquired by Harris Computer Systems in March of 2007. In 2002, he founded NordTech Aerospace Inc. (aerospace) which he was President until 2005, renamed ExelTech Aerospace Inc. From 2000 to 2002, Luc Filiatreault was President of BellZinc (business portal), a Bell Canada company. In 1987, He co-founded the Informission Group (now Nurun Inc.), where he held several executive positions until the acquisition by Quebecor in 2000. In 2005, he received the prestigious "Top 40 under 40" award presented by Toronto's Globe and Mail. Luc Filiatreault graduated in Engineering Physics from Laval University (Quebec City).

Nancy Goudreau

Nancy Goudreau is Senior Investment Advisor, Information Technologies and Telecommunications at Fonds de solidarité des travailleurs du Québec (F.T.Q.). Nancy Goudreau began her career working for the federal and provincial governments in export assistance. She went on to work in the private sector, developing international trade networks and strategies for IT and telecom firms. She has been part of the technology team at the F.T.Q. since 2001.

A. Michel Lavigne

A. Michel Lavigne is a director of the Caisse de dépôt et placement du Québec. Also, since June 2005, he is a director and a member of the Audit Committee of Quebecor Media (media), Vidéotron Ltée (telecommunications), Sun Media Corporation (media) and TVA Group Inc. (media). He is as well the Chairman of the Board of Primary Energy Recycling Corporation (energy). Until May 2005, he served as President and Chief Executive Officer of Raymond Chabot Grant Thornton (chartered accounts) in Montréal, Quebec, Chairman of the Board of Grant Thornton Canada and was a member of the Board of Governors of Grant Thornton International (chartered accounts). Mr. Lavigne is a Fellow Chartered Accountant of the Ordre des comptables agréés du Québec and a member of the Canadian Institute of Chartered Accountants since 1973.

Michel Lozeau

Michel Lozeau has spent more than 30 years in the field of management and information technologies. He is currently active as a Corporate Director and an Executive Coach. Previously, he held the positions of Senior Vice-President of E-Commerce at the National Bank of Canada (bank), where he was also a member of the Executive Committee (2001-2003), and Group Vice-President at Oracle Consulting (information technology services), a division of Oracle Corporation (software) from 1995 to 2001. Mr. Lozeau has been awarded the designation of ICD.D from the Institute of Corporate Directors in 2005.

Management Team

Senior Management

Luc Filiatreault - President and Chief Executive Officer

Frédéric Brabant - Vice-President, Customer Care

Jean-Paul Chauvet - Vice-President, Sales and Marketing

Jean-François Desaulniers - President, Cabinet Conseil Valsar

Denis Lavallée - Vice-President, Professional Services

Bruno Martel - Chief Financial Officer

Marie-Josée Métivier - Senior Vice-President

Louis Mousseau - Vice-President, Corporate Development

Laurent Proulx - Founder and Chief Innovation Officer

Jean-Michel Texier - Chief Technology Officer

Officers

Stéphanie Benoit, L.L.B. - Legal Counsel and Corporate Secretary

■ **Investor Relations**

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Gregg, Customer Care Team

■ **Renmark Financial Communications Inc.**

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Lamia, Strategic Consulting Team

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Marie-Josée and Rina, Management and Communication Teams

■ **Annual Meeting**

The annual meeting for Nstein Technologies Inc. will be held on May 22, 2008, at 10:30 A.M. (EST) at the Jolliet Room of the Fairmount Queen Elizabeth, located at
900, René-Lévesque Blvd. W.,
Montreal QC H3B 4A5
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Telephone: 1.514.954.2266
Fax: 1.514.954.2258



Thomas, Professional Services Team
Nstein Technologies France

■ **Shareholders and Investors Information**

Stock Exchange Listing: Canadian Venture Exchange (TSX-V), under the "EIN" symbol
Transfer Agents and Registrar: CIBC Mellon Trust Company
Legal Counsel: Ogilvy Renault, LLP
Auditors: PricewaterhouseCoopers LLP



Powering Online Publishing

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