

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 position of Nstein Technologies Inc. ("Nstein" or the "Company") during fiscal year ended December 31, 2006. It also compares results of operations and cash flows for the 12-month period ended December 31, 2006 to those for the previous fiscal year.

The analysis should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 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 leading-edge content management software for the media, publishing and entertainment industries. Its Ntelligent Content Management Suite enables the centralization, enrichment and publication of textual and rich media assets using advanced text mining. Nstein helps publishers significantly increase their content monetization and reduce their operational costs through cross media publishing and multichannel delivery. Nstein is headquartered in Montreal, Canada, with offices in the USA and Europe. More information is available at www.nstein.com.

Strategy

Since its creation, Nstein has been committed to developing and marketing text mining solutions that accelerate and improve multilingual search and content repurposing operations. The Ntelligent Content Management (NCM) Suite is the result of years of experience and interaction with e-publishers, who were the first to recognize the potential impact of the technologies offered by Nstein on their firms' bottom line. The NCM Suite combines Nstein's cutting-edge text mining technology with the content management platform developed by Eurocortex S.A.S. In 2007, Nstein will continue to develop and commercialize this solution, for which the market has been very receptive. The NCM Suite makes it possible for e-publishers to quickly and easily migrate their paper-based content to digital format – something that is vital to their survival. Given that advertising revenues are gradually shifting away from paper and toward online content, publishers are pressed to find effective ways of meeting their readers' expectations 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 the NCM Suite. In addition, Nstein has set up a laboratory designed to deliver its technology on a « Software as a Service » basis and establish the foundations for a new research environment that is more efficient and relevant than existing solutions. Finally, Nstein plans to continue its business development efforts among major research and information access technology players.

Business acquisition

On December 14, 2006, the Company acquired all of the outstanding shares of DG2LT S.A.R.L. and its subsidiary Eurocortex S.A.S. ("Eurocortex"), leader in content management solutions for the publishing, media and entertainment industries. Under the terms of the agreement, the Company issued 1,013,152 common shares and disbursed \$502,698 (€330,000). The shares were subject to a 24-month escrow. A portion of 33.3% of the shares in escrow are to be released four months after the closing date, 33.3% after 12 months and the remaining 33.4% after 24 months.

Key performance indicators

Nstein evaluates the Company's overall 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, in particular the acquisition of clients.

Selected annual information

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

* Definition of EBITDA: Earnings (loss) before financial expenses, income tax, depreciation, amortization 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

Revenues for the fiscal year ended December 31, 2006 were \$10,717,311, representing an increase of 18% compared to revenues of \$9,103,887 for the corresponding period in 2005. Competing in an emerging market, Nstein faces the typical challenges related to a small-cap IT company and continues to experience long sales cycles for its products. The Company derives most of its revenues from the sale of software user licenses, post-sales technical support and specialized services. Given the significant unit price of its software licenses, the Company's results are materially affected when sales shift to a subsequent quarter.

Cost of sales

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 16% in 2006 to \$5,568,827, compared to \$4,818,093 in 2005, as the result of increased revenues.

Selling and administrative expenses

Selling and administrative expenses are mainly composed of salaries, 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 \$6,291,781 in 2006, compared to \$6,004,261 in 2005. This 5% increase results from the investments required to market new solutions such as Ntelligent Content Management.

Research and development expenses

Research and development expenses comprises human resources charges assigned to the various projects. The Company maintained its investment in research and development compared to last year. The expenses amounted to \$2,157,593 in 2006, compared to \$2,235,809 in 2005.

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. The Company also benefits from tax credits for research and development. These tax credits decreased to \$515,017 in 2006, compared to \$818,972 in 2005, resulting from an increase in the estimated tax credits receivable from subsidiaries in 2005.

Amortization of intangible assets

These assets consist of technologies acquired, client relationships, backlog and a non-competitive agreement. Amortization of intangible assets decreased substantially going from \$1,152,049 in 2005 to \$286,906 in 2006. On December 31, 2005, the Company proceeded with an impairment of intangible assets, which explains the reduction in the amortization in 2006.

Exchange gain and loss

The Company recorded a currency exchange gain of \$122,482 in 2006, compared to a loss of \$110,969 in 2005. The volatility of the Canadian dollar against the US dollar resulted in a gain in convertible debentures denominated in US currency.

Financial expenses

Financial expenses amounted to \$1,735,495 in 2006, compared to \$930,110 in 2005. This increase results from interest charges related to the new debt contracted during the last quarter of 2005.

Loss

Nstein recorded a loss of \$4,834,372 or \$0.186 per share for the fiscal year ended December 31, 2006, compared to a loss of \$6,769,125 or \$0.363 per share for the corresponding period last year. This represents a 29% decrease. The main reason for this improvement, other than the increases in revenues and gross margin in 2006, was the impairment of intangible assets in 2005 (\$1,306,444). This also led to a reduction in the amortization of intangible assets in 2006. The interest charges related to the convertible debentures issued in 2005 and the lower tax credits partly reduced the impact of these elements.

Liquidity and financial resources

Cash and cash equivalents

As at December 31, 2006, cash and cash equivalents amounted to \$2,367,125, compared to \$1,928,718 as at December 31, 2005. The Company also has restricted cash in the amount of \$1,859,799, subject to an account control agreement. A moveable hypothec on this bank account has been given as security for the benefit of the convertible debenture holders. This amount will decrease proportionally over time with the balance due to the convertible debenture holders. As at December 31, 2006, the working capital rose to \$3,823,770 compared to \$278,183 as at December 31, 2005.

Cash flows

Operating activities

Operating activities used \$4,772,192 in cash flows in 2006, compared to \$2,835,902 in 2005. This increase can be explained by the investment of \$1,146,457 in the non-cash operating working capital, items which generated cash flows of \$370,511 in 2005. The accounts receivable increased significantly in 2006 due to sales that were concluded at the end of the fourth quarter of 2006. This was offset slightly by an increment in accounts payable.

Financing activities

Financing activities generated cash flows of \$7,615,515 in 2006, compared to cash flow disbursements of \$2,503,611 in 2005. On June 13, 2006, the Company completed a private placement of \$10,000,000 with JLA Ventures, a Canadian venture capital Company, and the Solidarity Fund QFL (the "Fund"). Share issuance expenses amounted to \$722,139 for net proceeds of \$9,277,861. Also, a sum of \$1,300,000 was reimbursed to the Fund upon closing, representing three interim term loans contracted this year. The aggregate payments on the long-term debt increased, as a result of the monthly payments related to the convertible debentures contracted in 2005. A significant portion of these monthly installments was reimbursed in common shares in order to reduce the use of cash flow.

Investing activities

Cash flows used in investing activities were \$2,404,916 for the year ended December 31, 2006, compared to \$490,565 for the same period in 2005. This is mainly due to restricted cash of \$1,859,799 subject to an account control agreement as well as the investment of \$534,230 upon the acquisition of Eurocortex.

The Company's forecast based on rational assumptions 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 for the foreseeable future.

Contractual obligations

<i>(In Canadian dollars)</i>	Instalments payable, by period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	3,196,774	2,121,927	645,064	296,677	133,106
Use of offices	1,830,463	406,385	776,770	647,308	-

The Company's long-term debt decrease significantly to \$3,196,774 in 2006, compared to \$5,053,161 as at December 31, 2005. On October 12, 2005, the Company issued interest-free debentures with a par value of US\$4,375,000 at a discount rate of 20% for a net amount of US\$3,500,000. In conjunction with the \$10,000,000 private placement concluded in June 2006, the convertible debenture holders waived most of the securities and covenants pertaining to the initial agreement. In accordance with this amended agreement, the Company deposited \$1,859,799 (US\$1,595,983) in a separate bank account. A moveable hypothec on this bank account has been granted as security for the convertible debentures. Monthly installments can be executed in cash payments, in common shares (at the lesser of 90% of the weighted average trading price for the five days preceding the payment or the amended conversion price of \$0.85 per share) or a combination of both depending on the predefined terms of the contract, the provisions of which limit the reimbursement in common shares to the lesser of 35% of the value of the shares traded during a given period, 50% of the installment amount or 200,000 common shares. These debentures are also convertible into common shares at the holder's option at the amended rate of \$0.85 per share. During the year, regarding the monthly installments, the Company issued 1,349,712 common shares for a net value of \$693,434 and disbursed an amount of \$2,016,649. In addition, during the year, some holders of convertible debentures convert \$513,831 into 464,318 common shares of the Company.

Lastly, the Company contracted a long-term debt of \$518,503 with National Research Council of Canada ("NRC") in relation to the acquisition of an exclusive utilization license of the software Factor, developed by NRC.

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	March 15, 2007	December 31, 2006	December 31, 2005
	\$	\$	\$
33,694,080 common shares as at March 15, 2007			
33,303,337 common shares as at December 31, 2006			
18,642,229 common shares as at December 31, 2005	40,496,144	40,178,085	29,534,130

Warrants and stock options

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

Number	March 15, 2007	December 31, 2006	December 31, 2005
Warrants	2,188,939	2,188,939	1,935,998
Stock options	2,408,203	2,408,203	1,477,120

On June 13, 2006, the Company concluded a private placement of \$10,000,000 with JLA Ventures, a Canadian Company, and the Fund. An aggregate of 11,764,706 common shares was issued in the transaction at a subscription price of \$0.85 per share. Desjardins Securities was the agent for this transaction and received a \$400,000 commission fee, as well as 352,941 warrants valid for a 5-year period at a strike price of \$0.85 per warrant. On the same date, the Company proceeded with the consolidation of its common shares on the basis of one new common share issued for every 10 previously issued and outstanding common shares. The 2005 comparative figures have been adjusted to reflect the consolidation.

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.

Further information about these items is found in note 7 to the audited financial statements of the Company for the fiscal year ended December 31, 2006.

Fourth quarter of 2006

For the three-month period ended December 31, 2006, the Company's revenues amounted to \$3,888,532, representing an increase of 162% over the \$1,481,773 recorded in the same period in 2005. The cost of sales increased by 54% in the fourth quarter of 2006, reaching \$1,725,699 compared to \$1,122,512 for the same period in 2005. The gross margin jumped 502% from \$359,261 for the three-month period ended December 31, 2005 to \$2,162,833 for the same period in 2006. The rise in the sale of software licenses is the origin of the increase of the gross margin. Direct costs are typically lower for software sales compared to revenues of services. The sum of all other expenses was \$2,801,163 for the fourth quarter of 2006, falling from \$4,257,907 for the same period in 2005. The main explanation for this improvement is the charge of \$1,306,444 recorded in the fourth quarter of 2005 for the impairment of intangible assets. Nstein recorded a loss of \$638,330, or \$0.020 per share, for the three-month period ended December 31, 2006, compared to a loss of \$3,898,646, or \$0.209 per share, for the corresponding period last year, which is an improvement of 84%.

Cash and cash equivalents decreased by \$1,688,500 in the fourth quarter of 2006. The Company used \$954,369 in cash for its operating activities in the fourth quarter. Of this amount, \$389,763 is attributable to the net loss recorded during the quarter, and non-cash operating working capital items accounted for \$564,606, mainly due to the increase in accounts receivables arising from sales that were concluded at the end of the quarter. The acquisition of Eurocortex required an investment of \$534,230.

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, 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)	(0.186)
Fiscal year ended December 31, 2005					
Revenues	2,403,603	2,668,241	2,550,270	1,481,773	9,103,887
EBITDA*	(373,399)	(339,304)	(638,572)	(1,780,745)	(3,132,020)
Loss	(832,016)	(842,403)	(1,196,060)	(3,898,646)	(6,769,125)
Basic and diluted loss per share	(0.045)	(0.045)	(0.064)	(0.209)	(0.363)

* Definition of EBITDA: Earnings (loss) before financial expenses, income tax, depreciation, amortization 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 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 considered probable. Revenues from post-contract customer support elements are recognized ratably over the related support period. Revenues from other related services are recognized as the services are performed.

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. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the allowance for doubtful accounts receivable, refundable tax credits, the useful lives of property, plant and equipment and intangible assets, impairment of long-lived assets, certain accrued liabilities and derivatives evaluation. Actual results could differ from these 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 indicate 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 2005 and 2006.

Stock-based compensation and other stock-based payments

The Company provides for a stock option plan, as described in note 7 of the Company's consolidated financial statements. In accordance with CICA standards outlined in Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", the Company recorded for the year ended December 31, 2006, a compensation charge of \$416,300 (\$250,853 in 2005).

New accounting policies

In January 2005, CICA published four new accounting standards relating to financial instruments: Section 3855, "Financial Instruments – Recognition and Measurement," Section 3865, "Hedges," Section 1530, "Comprehensive Income," and Section 3251, "Equity."

Section 3855 expands on Section 3860, "Financial Instruments – Disclosure and Presentation," by prescribing when to recognize a financial instrument on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses on financial statements.

Section 3865 provides an alternative accounting treatment to the one described in Section 3855 for companies that choose to designate qualifying transactions as hedges for accounting purposes. It expands on Accounting Guideline AcG-13, "Hedging Relationships," and replaces the hedge accounting requirements in Section 1650, "Foreign Currency Translation," by specifying how to apply hedge accounting and what disclosures are necessary when it is applied.

Section 1530, "Comprehensive Income," introduces new requirements for temporarily presenting certain gains and losses outside net income.

Consequently, Section 3250, "Surplus," has been revised and renamed Section 3251, "Equity."

Sections 1530, 3251, 3855 and 3865 apply to fiscal years beginning on or after October 1, 2006. The Company will apply these new rules as of January 1, 2007. After having assessed of these new accounting policies, the Company concludes that they will have no significant impact on its financial statements.

Contingency

The Company, jointly with an educational institution, are facing a lawsuit for an amount of \$885,000. Management believes that the lawsuit is unfounded; accordingly, no provision has been recorded in this respect.

Disclosure 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 Chief Executive Officer and the Chief Financial Officer concluded that disclosure controls and procedures were effective as of December 31, 2006, 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 year ended December 31, 2006.

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 listed here 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.

Recent losses

The Company incurred losses during fiscal 2006 and recent fiscal years. As a result, the Company posted an accumulated deficit of \$32.5 million as at December 31, 2006. 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.

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. These and other events such as delays in development or delivery of new products may affect quarterly results in the future.

Cash position and access to financing sources

Nstein occasionally 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 the 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 if need be, 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.

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.

Nstein products are state of the art and nothing can guarantee that they will be adopted rapidly by its customers. The Company has demonstrated that its products meet the needs of the e-publishing market but does not have enough historical metrics to gauge the exact potential of its solutions for large organizations.

Proprietary technology

Nstein uses, and will continue to use, various measures such as copyrights, trademarks, trade secret laws, confidentiality agreements and other contractual clauses to establish, patent, maintain and protect its intellectual property rights. Unauthorized parties may try to copy some of the Company's products or parts of these products, or seek to obtain proprietary information. With more competitors emerging, there is an increased risk of other firms' trying to produce new products or replacement technologies.

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 first-class 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.

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 development, 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 Nstein's financial position and results of operations was prepared on March 15, 2007. More recent information about the Company is published on the SEDAR Web site at www.sedar.com.



Bruno Martel
Chief Financial Officer