



quarterly report 2007 }  
1st quarter ending March 31, 2007 }



# Message from the President and Chief Executive Officer

Although I have not been with Nstein for long, I have quickly come to realize that the Company already possesses many of the qualities necessary to expand its global reach. Nstein has successfully carved out an enviable niche for itself among today's top providers of content management software – especially since the launch of its Ntelligent Content Management (NCM) Suite. Nstein's robust technology and team of experts are invaluable assets that have thus far enabled the Company to sign a number of major deals and will undoubtedly open up many other opportunities in the future.

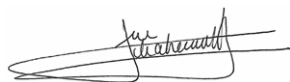
The results achieved in the first three months of 2007 underscore Nstein's efforts in recent quarters to reinforce its positioning in the e-publishing market. The NCM Suite responds to a definite need in the press and media industry to facilitate and accelerate the publication of content on all possible digital channels and to fully leverage these new revenue streams.

In the first quarter of 2007, Nstein consolidated its acquisition of the French company Eurocortex, which it initiated at the end of 2006. This was a strategic move in terms of the evolution of Nstein's content management solutions as well as the expansion of its European client base. As a result, Nstein is stepping up the marketing of its solutions, thereby strengthening its foothold in the e-publishing industry. Furthermore, the Company now owns a very impressive client portfolio. Agence France Presse, Groupe Hachette, Groupe Le Monde, Getty Images, ProQuest and Transcontinental Media are but a few of the prominent corporations that use our solutions daily.

Text mining technologies like Nstein's are gradually becoming a necessity and a standard for processing information from social networking applications (blogs, forums, etc.). The Company is ideally poised to become a leader in a maturing market.

Nstein is determined to continue working toward the execution of its business plan and rapidly grow its market share in the promising e-publishing niche, while maintaining sound business practices. Its team of experienced managers and employees, combined with its proven technology, are keys to achieving these goals.

I am very excited to be leading Nstein through this new stage in the marketing of its solutions, which now includes the NCM Suite, and the front-line positioning of its text mining technology. And I am committed to ensuring that Nstein's shareholders, of whom I am one, achieve maximum value for their investment.



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 the three-month period ended March 31, 2007. It also compares results of operations and cash flows for the three-month period ended March 31, 2007, to those for the same period of the previous fiscal year.

The analysis should be read in conjunction with the audited consolidated financial statements as at 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

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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](http://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, to 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.

## 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, in particular the acquisition of clients.

## Selected financial information

<i>(In Canadian dollars)</i>	Three months ending March 31	
	2007	2006
	\$	\$
Revenues	3,803,874	2,053,392
EBITDA*	(194,525)	(807,538)
Loss	(638,596)	(1,472,878)
Basic and diluted loss per share	(0.019)	(0.079)

\* Definition of EBITDA: Earnings (loss) before financial expenses, exchange loss, 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

For the three-month period ended March 31, 2007, the Company recorded revenues of \$3,803,874, representing an increase of 85% over the revenues of \$2,053,392 for the corresponding period last year. This can be attributed to the increase in revenues from software licenses in the first quarter 2007 and an increase in specialized services, as a result of deals signed in 2006. Competing in an emerging market, Nstein faces the typical challenges of a small-cap IT company and continues to experience long sales cycles for its products. The Company derives most of its revenues from software licenses, post-sales technical support and specialized services. Given the relatively high unit price of its software licenses, the Company's results are materially affected when sales shift to a subsequent quarter.

### Cost of sales

Cost of sales includes human resources assigned to various projects (employees and external consultants), as well as third-party software charges. Cost of sales increased by 59% in first quarter 2007, reaching \$1,855,348, compared to \$1,169,880 for the corresponding period ended March 31, 2006. Cost of sales varies depending on the sales mix; direct costs are typically lower for software sales compared to revenues of services.

### 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 \$1,785,958 for the quarter ended March 31, 2007, compared to \$1,242,814 for the corresponding period last year. This 44% increase results from the investments required to market new solutions such as the NCM Suite.

### Research and development expenses

Research and development expenses are composed mainly of the human resources charges associated with various projects. The cost of research and development amounted to \$462,693 in first quarter 2007, compared to \$557,069 for the corresponding quarter in 2006. Although the workforce remained almost the same size as it was in 2006, a larger proportion of the employees' time was devoted to the on-site implementation of our solutions during the first quarter 2007, slightly reducing the time allocated to research and development projects compared to the same period last year.

### 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 stood at \$105,000 in first quarter 2007, compared to \$108,833 in 2006.

## Amortization of intangible assets

Intangible assets consist of technologies acquired, client relationships, backlog, software licenses and a non-competitive agreements. Amortization of intangible assets increased from \$47,020 for the first quarter of 2006 to \$110,594 for the first quarter of 2007. Due to the acquisition of Eurocortex S.A.S. on December 14, 2006, the Company recorded intangible assets of \$496,000. This explains the increase in the amortization of intangible assets in the first quarter of 2007, compared to the same period last year.

## Financial expenses

Financial expenses amounted to \$297,962 for the first quarter 2007, compared to \$569,305 for the same quarter in 2006. This decrease results mainly from interest charges and the amortization of deferred financing expenses related to the convertible debentures contracted in 2005, which are lower due to the lower balance of this debt.

## Loss

Nstein recorded a loss of \$638,596, or \$0.019 per share, for the three-month period ended March 31, 2007, compared to a loss of \$1,472,878, or \$0.079 per share, for the corresponding period last year. The loss reduction is mainly the result of the increase in revenues combined with the reduction in interest charges related to the convertible debentures issued in 2005 and is partly offset by the increase in selling and administrative expenses in 2007.

## Selected quarterly financial information

<i>(In Canadian dollars)</i>				
	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
	\$	\$	\$	\$
Quarter ending on	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006	Mar 31, 2007
Revenues	1,961,173	2,814,214	3,888,532	3,803,874
EBITDA*	(1,140,003)	(535,526)	(302,804)	(194,525)
Loss	(1,679,409)	(1,043,755)	(638,330)	(638,596)
Basic and diluted loss per share	(0.079)	(0.033)	(0.020)	(0.019)

Quarter ending on	Jun 30, 2005	Sep 30, 2005	Dec 31, 2005	Mar 31, 2006
Revenues	2,668,241	2,550,270	1,481,773	2,053,392
EBITDA*	(339,304)	(638,572)	(1,780,745)	(807,538)
Loss	(842,403)	(1,196,060)	(3,898,646)	(1,472,878)
Basic and diluted loss per share	(0.045)	(0.064)	(0.209)	(0.079)

\* Definition of EBITDA: Earnings (loss) before financial expenses, exchange loss, 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.

## Liquidity and financial resources

### Cash and cash equivalents

As at March 31, 2007, cash and cash equivalents amounted to \$2,129,103, compared to \$2,367,125 as at December 31, 2006. The Company also had restricted cash in the amount of \$1,139,138 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. The monthly installments of the convertible debenture can be paid by the issuance of common shares for up to 50% of the amount, calculated using a formula based on the value of the stocks traded during a pre-established period.

## Cash flows

### Operating activities

Operating activities used \$639,913 in cash flows in first quarter 2007, compared to \$1,498,296 for the same period last year. This decrease is attributable to the positive variation in the net loss for the period and the collection of the balance receivable on the sale of software licenses at the end of the first quarter 2007.

### Financing activities

Financing activities used cash flows of \$285,487 in first quarter 2007, compared to \$97,167 generated for the same quarter in 2006. This variation is explained principally by a \$400,000 loan contracted in 2006.

### Investing activities

Cash flows generated by investing activities stood at \$687,378 for the three-month period ended March 31, 2007, compared to \$17,734 for the same period of 2006. This is mainly due to restricted cash subject to an account control agreement, which decreased by \$720,661 during the first quarter of 2007.

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

(In Canadian dollars)

	Total	Less than 1 year	1 to 3 years	Installments payable, by period	
				4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	2 507 113	1 518 050	581 846	274 112	133 105
Use of offices	1 733 367	406 385	776 770	550 212	-

## Shareholders' equity

As at May 3, 2007, there were 34,022,773 common shares, 2,594,703 stock options and 2,188,939 warrants outstanding.

## Significant accounting policies

### Revenue recognition

The Company recognizes revenues from the sale of software, 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 considered probable. 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.

### 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, 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 may differ from those estimates.

## Changes in accounting policies

On January 1, 2007, the Company adopted the new accounting standards of Section 1530, "Comprehensive Income", 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:

### Comprehensive income

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 for a period which results from transactions, events and circumstances from sources other than the company's shareholders.

### Financial assets and financial liabilities

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this standard, all financial instruments are 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 considered an expense in the period in which they are incurred. Transaction fees for other financial instruments are capitalized upon initial recognition and reported with related financial instruments.

Held-for-trading financial assets and liabilities are measured 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 the new standard, the Company has classified its cash and cash equivalents and short-term restricted cash as held-for-trading financial assets. Term deposits are considered as held-to-maturity. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

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

## Contingency

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

## Subsequent event

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On April 12, 2007, the Company announced its intention to proceed with a private placement of up to \$2-million in which its new President and Chief Executive Officer, Luc Filiatreault, as well as current and candidate directors of the Company would participate. The proposed private placement will be issued at \$0.65 per share, which was the closing price on the day before the announcement of the investment and is subject to the usual closing conditions as well as the approval of regulatory authorities.

## Controls and procedures

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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 March 31, 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 March 31, 2007.

## Risks and uncertainties

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Nstein's sphere 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
- Recent losses
- Potential fluctuations in quarterly results
- Cash position and access to financing sources
- Competition
- Proprietary technology
- Possible product liability
- Credit risk
- Currency risk
- Possible negative tax consequences

Further information concerning these risks and uncertainties can be found in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2006.

This analysis of the Company's financial position and results of operations was prepared as of May 3, 2007. Additional information on the Company can be found on the SEDAR Web site at [www.sedar.com](http://www.sedar.com).



Bruno Martel  
Chief Financial Officer

## Quarterly Report for Our Shareholders

The attached consolidated financial statements have been prepared by the management of Nstein Technologies Inc. and have not been reviewed by an auditor. This quarterly report includes forward-looking statements that are based on certain assumptions and reflect Nstein's current expectations. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Additional factors are discussed in Nstein's materials filed with the securities regulatory authorities in Canada from time to time. Nstein disclaims any intention or obligation to update or revise any forward-looking statements.

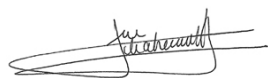
> [www.nstein.com](http://www.nstein.com)

**NSTEIN TECHNOLOGIES INC.**

<b>Consolidated Balance Sheets<sup>†</sup></b>	<b>As at March 31</b>	<b>As at December 31</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,129,103	2,367,125
Short-term restricted cash	1,139,138	1,859,799
Term deposits	197,115	191,121
Accounts receivable	4,020,674	4,189,878
Refundable tax credits	836,870	780,267
Work in progress	863,895	578,105
Prepaid expenses	276,622	185,535
Current portion of balance receivable on the sale of software licenses	-	176,598
	<b>9,463,417</b>	<b>10,328,428</b>
<b>Property, plant and equipment</b>	<b>434,066</b>	<b>455,902</b>
<b>Intangible assets</b>	<b>1,450,379</b>	<b>1,554,998</b>
<b>Deferred financing expenses</b>	<b>28,691</b>	<b>67,074</b>
<b>Goodwill</b>	<b>5,641,574</b>	<b>5,641,574</b>
	<b>17,018,127</b>	<b>18,047,976</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,626,367	3,726,835
Deferred revenues	588,396	655,896
Current portion of long-term debt (note 3)	1,518,050	2,121,927
	<b>5,732,813</b>	<b>6,504,658</b>
<b>Long-term debt (note 3)</b>	<b>989,063</b>	<b>1,074,847</b>
	<b>6,721,876</b>	<b>7,579,505</b>
<b>Shareholders' Equity</b>		
Share capital (note 4)	40,605,866	40,178,085
Other equity components (note 5)	2,220,182	2,269,836
Contributed surplus	620,392	532,143
Deficit	(33,150,189)	(32,511,593)
	<b>10,296,251</b>	<b>10,468,471</b>
	<b>17,018,127</b>	<b>18,047,976</b>
<b>Contingency (note 8)</b>		

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

Approved by the Board of Directors,



Luc Filiatreault, Director



Michel Lavigne, Director

**NSTEIN TECHNOLOGIES INC.**

<b>Consolidated Statements of Earnings and Deficit<sup>†</sup></b>	<b>Three months ending March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenues (note 7)</b>	<b>3,803,874</b>	<b>2,053,392</b>
<b>Cost of sales</b>	<b>1,855,348</b>	<b>1,169,880</b>
	<b>1,948,526</b>	<b>883,512</b>
<b>Expenses</b>		
Selling and administrative	1,785,958	1,242,814
Research and development	462,693	557,069
Research and development tax credits and other credits	(105,600)	(108,833)
Depreciation of property, plant and equipment	43,150	35,590
Amortization of intangible assets	110,594	47,020
Exchange loss (gain)	(7,635)	13,425
Financial expenses (note 6a)	297,962	569,305
	<b>2,587,122</b>	<b>2,356,390</b>
<b>Net loss for the period</b>	<b>638,596</b>	<b>1,472,878</b>
<b>Deficit - Beginning of period</b>	<b>32,511,593</b>	<b>27,677,221</b>
<b>Deficit - End of period</b>	<b>33,150,189</b>	<b>29,150,099</b>
<b>Basic and diluted net loss per share</b>	<b>0.019</b>	<b>0.079</b>
<b>Basic and diluted weighted average number of shares outstanding</b>	<b>33,529,209</b>	<b>18,684,564</b>

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

**NSTEIN TECHNOLOGIES INC.**

<b>Consolidated Statements of Cash Flows<sup>†</sup></b>	<b>Three months ending March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b> <b>(unaudited)</b>	<b>\$</b> <b>(unaudited)</b>
<b>Cash flows from operating activities</b>		
Net loss for the period	(638,596)	(1,472,878)
Items not affecting cash and cash equivalents		
Interest capitalized on long-term debt	13,261	163,712
Unrealized exchange loss	59	13,200
Depreciation of property, plant and equipment	43,150	35,590
Amortization of intangible assets	110,594	47,020
Amortization of deferred financing expenses	38,383	83,776
Stock-based compensation costs	38,595	79,483
Costs related to the employee stock purchase plan	10,287	-
	<b>(384,267)</b>	<b>(1,050,097)</b>
Change in non-cash operating working capital items		
Accounts receivable	169,204	(395,303)
Refundable tax credits	(56,603)	(145,899)
Work in progress	(285,790)	(124,269)
Prepaid expenses	(91,087)	(23,509)
Balance receivable on the sale of software licenses	176,598	(3,994)
Accounts payable and accrued liabilities	(100,468)	171,280
Deferred revenues	(67,500)	73,495
	<b>(255,646)</b>	<b>(448,199)</b>
	<b>(639,913)</b>	<b>(1,498,296)</b>
<b>Cash flows from financing activities</b>		
Variation in bank loans	-	(98,952)
Long-term debt	-	400,000
Payments on long-term debt	(295,774)	(203,881)
Issuance of common shares, net of issue expenses	10,287	-
	<b>(285,487)</b>	<b>97,167</b>
<b>Cash flows from investing activities</b>		
Variation in term deposits	(5,994)	-
Variation in short-term restricted cash	720,661	-
Additions to property, plant and equipment	(21,314)	(14,178)
Additions to intangible assets	(5,975)	(3,556)
	<b>687,378</b>	<b>(17,734)</b>
<b>Net change in cash and cash equivalents</b>	<b>(238,022)</b>	<b>(1,418,863)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>2,367,125</b>	<b>1,928,719</b>
<b>Cash and cash equivalents – End of period</b>	<b>2,129,103</b>	<b>509,856</b>
<b>Additional information (note 6b and c)</b>		

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

# Notes to Consolidated Financial Statements

## Note 1 - Statutes and nature of activities

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This Company, incorporated in January 2000 under Part 1A of the Québec Companies Act, develops and markets leading-edge content management software for the media, publishing and entertainment industries, enabling the centralization, enrichment and publication of textual and rich media assets using advanced text mining and helping publishers significantly increase their content monetization and reduce their operational costs.

## Note 2 - Summary of significant accounting policies

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### 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., KMTTechnologies Inc., Alis Technologies Inc., Cabinet Conseil Valsar Inc. and 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, 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 may differ from those estimates.

### Revenue recognition, work in process and deferred revenues

The Company recognizes revenues from the sale of software licenses 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 considered probable. Revenues from post-contract customer support elements are recognized ratably 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.

### Comparative figures

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

## Note 2 - Summary of significant accounting policies (suite)

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### Changes in accounting policies

On January 1, 2007, the Company adopted the new accounting standards of Section 1530, "Comprehensive Income", 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:

#### Comprehensive income

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#### Financial assets and financial liabilities

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this standard, all financial instruments are 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 considered an expense in the period in which they are incurred. Transaction fees for other financial instruments are capitalized upon initial recognition and reported with related financial instruments.

Held-for-trading financial assets and liabilities are measured 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 the new standard, the Company has classified its cash and cash equivalents and short-term restricted cash as held-for-trading financial assets. Term deposits are considered as held-to-maturity. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

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

## Note 3 - Long-term debt

	March 31, 2007 \$ (Unaudited)	December 31, 2006 \$
<b>Term loans</b>		
- Secured convertible debentures, non-interest bearing, issued at discount, payable in 19 monthly installments of \$257,620 (US\$223,125) from February 2006 to September 2006, \$239,219 (US\$207,188) from October 2006 to July 2007 and a final installment of \$205,045 (US\$177,590) in August 2007*	1,019,045	1,560,014
- Prime rate plus 2%, payable in monthly principal installments 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	73,164	119,295
- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in four annual installments of \$78,338, starting on January 1, 2007, maturing in January 2010	282,427	277,974
- Discounted at 8%, with the NRC, payable in two installments of \$95,000, in October 2006 and January 2007, and in quarterly installments of \$47,500 from October 2007, maturing in September 2009	340,897	429,169
- Discounted at 10%, payable in monthly installments 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	485,083	499,343
- 10%, for which a letter of credit in the amount of \$164,600 has been issued, payable in monthly installments 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	65,664	68,586
- 4% car loan, payable in monthly installments of \$1,239 (€803) including principal and interest, maturing in June 2011. A moveable hypothec on two cars has been given as security	57,396	61,036
- Discounted at 7%, balance of purchase price of a subsidiary, payable in three annual installments of \$192,000, maturing in September 2007	183,437	181,357
	2,507,113	3,196,774
Less: Current portion	1,518,050	2,064,542
	989,063	1,074,847

\* During the first quarter, regarding the monthly installments in capital and interest on this debt, the Company issued 525,539 common shares for a net value of \$407,207 and disbursed an amount of \$362,537.

## Note 4 - 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

## Note 4 - Share capital (suite)

The following table presents the share capital activity of the Company during the three-month period ended March 31, 2007, and the year ended December 31, 2006:

	For the three months ending		For the year ending	
	March 31, 2007		December 31, 2006	
	Number	Amount \$	Number	Amount \$
<b>Balance – Beginning of period</b>	<b>33,303,337</b>	<b>40,178,085</b>	<b>18,642,229</b>	<b>29,534,130</b>
Shares issued under the employee stock purchase plan	26,981	20,574	69,220	29,312
Business combination	-	-	1,013,152	329,676
Shares issued for cash, net of issue expenses	-	-	11,764,706	9,077,702
Shares issued for long-term debt repayment, and conversion	525,539	407,207	1,814,030	1,207,265
<b>Outstanding – End of period</b>	<b>33,855,857</b>	<b>40,605,866</b>	<b>33,303,337</b>	<b>40,178,085</b>

## Stock option plan

During the three-month period ended March 31, 2007, the Company granted 105,000 stock options to its employees. The fair value of the options granted during this period is \$49,059 and has been established using the Black-Scholes options pricing model with the following weighted average assumptions:

Risk-free interest rate	3.99%
Expected volatility	80%
Dividend yield	nil
Expected life	49 months

## Note 5 - Other equity components

The following table presents the other equity components:

	As at March 31 2007 \$ (unaudited)	As at December 31 2006 \$
Conversion option on a long-term debt	88,948	154,421
Stock option related to a business combination	108,589	108,589
Stock option-based compensation	927,609	911,790
Warrants	1,095,036	1,095,036
	2,220,182	2,269,836

Other equity components are detailed in the audited financial statements of December 31, 2006.

## Note 6 - Additional information

### Statement of earnings

#### a) Financial expenses

	Three months ending March 31	
	2007 \$ (unaudited)	2006 \$ (unaudited)
Amortization of deferred financing expenses	38,383	83,776
Interest on long-term debt	248,003	469,608
Interest and bank charges	39,147	26,840
Interest income	(27,571)	(10,919)
<b>Total</b>	<b>297,962</b>	<b>569,305</b>

## Statement of cash flows

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

	Three months ending March 31	
	2007	2006
	\$	\$
	(unaudited)	(unaudited)
Convertible debentures converted into common shares	407,207	276,765
Transfer of the matured portion of options to the contributed surplus	65,473	-
Stock options granted as compensation transferred to the contributed surplus	22,776	-

### c) Additional information

	Three months ending March 31	
	2007	2006
	\$	\$
	(unaudited)	(unaudited)
Interest paid	208,730	10,661
Interest cashed	(36,625)	(6,253)

## Note 7 - 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:

	Three months ending March 31	
	2007	2006
	\$	\$
	(unaudited)	(unaudited)
Canada	2,532,806	1,387,037
United States	587,122	138,027
Europe	683,946	528,328
Total	3,803,874	2,053,392

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

## Note 8 - Contingency

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

## Note 9 - Subsequent event

On April 12, 2007, the Company announced its intention to proceed with a private placement of up to \$2-million in which its new President and Chief Executive Officer, Luc Filiatreault, as well as current and candidate directors of the Company would participate. The proposed private placement will be issued at \$0.65 per share, which was the closing price on the day before the announcement of the investment and is subject to the usual closing conditions as well as the approval of regulatory authorities.





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