



Quarterly Report
for our shareholders

3rd QUARTER ENDING SEPTEMBER 30, 2005





Message from the Chairman and Chief Executive Officer

This third quarter marked the achievement of some significant milestones for the Company, such as contracts signed with new customers, the integration of Nstein's technology into IBM's open-framework unstructured information management architecture, and the closing of a financing that will support the execution of our business plan.

The Company posted revenues of \$2.6 millions for the third quarter, representing growth of 124% over last year's revenues of \$1.1 million reported for the same period. Contracts with new customers mainly contributed to these results.

For example, Nstein announced the signature of a contract with Getty Images, the world's leading creator and distributor of imagery. Nstein's solutions will automate caption indexing, thereby enabling customers to instantly access editorial images, illustrations and films across multiple languages as they are added to the Getty Images collection. Another highlight was the signature of a contract with the Cyberpresse news portal, a subsidiary of Gesca Ltée, Canada's largest French-language news group. Nstein will deploy its e-publishing solution to help this new customer enhance its content and test the addition of contextual advertising functions. We also signed a contract with Cognos, an Nstein partner and world leader in Business Intelligence (BI) and corporate performance management (CPM). As part of the deal, Nstein will integrate its Ntelligent Enterprise Search solution into Cognos' intranet to measurably improve the relevance and speed by which Cognos' Knowledge Workers can locate the information they are looking for.

During this quarter, we also announced the integration of our software solutions into IBM's new Unstructured Information Management Architecture (UIMA). IBM is looking to Nstein for text analytics and advanced search applications that enable the generation of corporate intelligence solutions such as Public Image Monitoring, which is part our overall core business applications.

Nstein also recently announced the closing of a \$4.1 million financing with US investors. This private placement will support the execution of the Company's business plan, which includes the accelerated marketing of its solutions.

Finally, Nstein is pleased to announce that, for the first time, it has been included on Software Magazine's prestigious Software 500 list. This well-known US publication has been putting together the list of the world's foremost software providers for the past 23 years.

Outlook

The Company's sustained growth and profitability remain our primary objectives. All our commercial and corporate activities are focused on the achievement of these goals. They guide our ongoing market development efforts with reputed customers and the realization of promising partnerships in the area of unstructured multilingual information management. Finally, we remain committed to realizing these goals while maintaining sound business practices.

Mario Girard
Chairman 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 position of Nstein Technologies Inc. ("Nstein" or the "Company") during the three- and nine-month periods ended September 30, 2005. It also compares results of operations and cash flows for the three- and nine-month periods ended September 30, 2005 with those for the same periods the previous fiscal year.

The analysis should be read in conjunction with the audited consolidated financial statements as at December 31, 2004 and notes thereto presented in the Company's annual report for the fiscal year ended December 31, 2004. 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

Founded in 2000, Nstein Technologies develops and markets leading-edge software solutions for the analysis of massive amounts of unstructured data in virtually all languages. Nstein's linguistic-based platform collects, organizes, analyzes, cross examines, shares and translates data from any source, in real time. Nstein's solutions transform reactive decision-making into a proactive and even predictive process, and solve mission-critical problems. Nstein has developed tailored solutions for clients in the homeland security & intelligence and e-publishing markets, as well as for large enterprises and government organizations.

The Company is headquartered in Montreal (Quebec, Canada), with offices in the United States and Europe. Nstein is listed on the TSX Venture Exchange under the symbol EIN.

Key financial data

(In Canadian dollars)	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenues	2,550,270	1,140,962	7,622,114	2,593,505
EBITDA*	(638,572)	(664,013)	(1,351,275)	(1,888,748)
Loss	(1,196,060)	(786,233)	(2,870,479)	(2,159,239)
Basic and diluted loss per share	(0.006)	(0.005)	(0.015)	(0.015)

* Definition of EBITDA: Earnings (loss) before financial expenses, income taxes on earnings, depreciation and amortization. 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 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.

Results of operations

Revenues

The Company realized revenues of \$2,550,270 for the third quarter ended September 30, 2005, an increase of 124% compared with revenues of \$1,140,962 for the same period the previous fiscal year. The Company derives most of its revenues from the sale of software user licenses, post-sales technical support, and specialized services. The companies acquired in 2004 contributed favourably to revenue growth. The largest sales were mainly in the e-publishing, health and homeland security sectors.

For the nine months ended September 30, 2005, revenues rose 194% to \$7,622,114 from \$2,593,505 for the same period last year.

Cost of revenues

The cost of revenues includes the cost of human resources assigned to the various projects (employees and external consultants), as well as the cost of third-party software. The cost of revenues increased in the third quarter of 2005 to \$1,360,984, compared to \$413,491 in 2004. For the nine months ended September 30, 2005, cost of revenues amounted to \$3,695,582, up from \$749,934 for the same period last year. This increase was partly due to growth in revenues, but was mainly a result of the higher proportion of revenues from the sale of services, for which direct costs are higher than for revenues from software license sales.

Consolidated expenses

Consolidated expenses stood at \$2,385,346 in the third quarter of 2005, compared to \$1,513,704 in 2004. For the first nine months of the year, consolidated expenses were \$6,797,011 in comparison to \$4,002,810 for the same period last year. This increase results mainly from selling and administrative expenses, as well as amortization of intangible assets.

Selling and administrative expenses

Selling and administrative expenses are mainly composed of salaries, commissions for sales personnel, travel expenses, costs related to office premises, professional fees, and administration costs of a publicly-held corporation. Selling and administrative expenses amounted to \$1,390,088 in the third quarter of 2005, compared to \$941,624 in 2004. Expenses for the first nine months increased to \$4,182,068 in 2005 from \$2,527,231 in 2004. The larger workforce needed to sustain growth and investments required to develop new markets were the principal reasons for this increase.

Research and development expenses

Research and development expenses are mainly composed of the cost of human resources assigned to the various projects. Research and development expenses amounted to \$602,770 for the third quarter of 2005, compared to \$575,492 in 2004. For the nine months ended September 30, 2005, research and development expenses increased slightly to \$1,595,012 from \$1,581,769 for the same period last year. Investment in research and development is a priority at Nstein. The Company plans to continue to develop its products during the current fiscal year.

Tax credits

Because it is eligible 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 research and development tax credits. In the third quarter of 2005, tax credits rose to \$165,000 from \$125,000 in 2004.

Tax credits for the nine months ended September 30, 2005, increased to \$495,989 from \$395,030 in 2004. The change results from the expansion of the workforce as well as an increase in the estimated income tax credits receivable from subsidiaries.

Amortization of intangible assets

Amortization of intangible assets increased substantially, from \$6,441 in the third quarter of 2004 to \$334,730 in the third quarter of 2005. This results from the acquisitions realized in the third quarter of 2004, and includes amortization of intangible assets identified at the time of the transactions. These assets consist of technologies acquired, client relationships, backlog and a non-compete agreement.

This is also reflected in the results for the nine months ended September 30, 2005, where amortization charges increased to \$1,005,031, from \$13,525 for the same period in 2004.

Financial expenses

Financial expenses amounted to \$188,189 for the third quarter of 2005, compared to \$82,029 in 2004. This increase is partly due to a \$37,939 increase in interest charges on the long-term debt, a consequence of additional debts from prior-year acquisitions and new debts contracted in 2005. A currency loss of \$70,817 was also recorded in the third quarter due to the significant rise of the Canadian dollar. This compares to a currency loss of \$20,135 for the same period in 2004. For the nine months ended September 30, 2005, financial expenses totalled \$412,243, compared to \$154,036 for the same period in 2004.

Loss

Nstein recorded a loss of \$1,196,060 or \$0.006 per share for the third quarter ended September 30, 2005, compared to \$786,233 or \$0.005 per share for the same quarter the previous fiscal year. This higher loss is primarily associated with the amortization of intangible assets described earlier. Also, the higher revenues were accompanied by a personnel increase related to the acquisitions in the third quarter of 2004, as well as heightened new-product development and marketing efforts.

For the first nine months ended September 30, 2005, the Company recorded a loss of \$2,870,479 or \$0.015 per share, compared to a loss of \$2,159,239 or \$0.015 per share for the same period in 2004.

Selected quarterly financial data

(In Canadian dollars)

	Fourth Quarter \$	First Quarter \$	Second Quarter \$	Third Quarter \$
Quarter Ending on	Dec 31, 2004	Mar 31, 2005	Jun 30, 2005	Sep 30, 2005
Revenues	2,254,635	2,403,603	2,668,241	2,550,270
EBITDA*	(461,226)	(373,399)	(339,304)	(638,572)
Loss	(1,036,239)	(832,016)	(842,403)	(1,196,060)
Basic and diluted loss per share	(0.004)	(0.004)	(0.005)	(0.006)

	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004
Revenues	753,796	761,977	690,566	1,140,962
EBITDA*	(434,217)	(557,556)	(667,179)	(664,013)
Loss	(499,734)	(620,994)	(752,011)	(786,233)
Basic and diluted loss per share	(0.004)	(0.005)	(0.006)	(0.005)

* Definition of EBITDA: Earnings (loss) before financial expenses, income taxes on earnings, depreciation and amortization. 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 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

On September 30, 2005, cash and cash equivalents amounted to \$956,112, compared to \$2,751,574 on December 31, 2004.

Cash flow

Operating activities

Operating activities used \$523,852 in cash flow during the third quarter of 2005, compared to \$1,146,069 last year. Cash flow used in operating activities before changes in non-cash working capital items amounted to \$725,504 in the third quarter, from \$712,499 for the same period in 2004. Non-cash operating working capital items generated cash flow of \$201,652 in the third quarter 2005, in comparison to a usage of \$433,570 for the same period in 2004. The difference is due to an increase in cashed tax credits.

For the nine months ended September 30, 2005, the Company used \$2,121,974 in its operating activities, from \$2,565,444 in 2004.

Financing activities

Financing activities used cash flow of \$422,731 in the third quarter 2005, compared to \$102,954 in 2004. The difference was primarily attributable to a \$264,704 decrease in the bank loans borrowed to finance the refundable tax credits. The instalments on debt increased from \$90,812 in 2004 to \$158,027 in 2005 due to the debts financed in 2005 and new instalments beginning in January 2005 on the debts financed in 2004.

For the first nine months of 2005, financing activities generated cash flow of \$505,768, compared to a use of \$88,316 for the same period in 2004.

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.

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**NSTEIN TECHNOLOGIES INC.**

Consolidated Balance Sheets[†]	As at September 30	As at December 31
	2005	2004
	\$	\$
	(unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	956,112	2,751,574
Term deposits	164,600	164,600
Accounts receivable		
Trade	2,154,592	2,367,897
Work in progress	980,478	52,107
Commodity taxes recoverable and others	200,695	155,986
Refundable tax credits	703,021	1,145,985
Prepaid expenses	161,155	189,341
Current portion of balances receivable on sales of software licenses (note 4)	178,281	-
	5,498,934	6,827,490
Balances receivable on sales of software licences (note 4)	163,488	-
Property, plant and equipment	369,271	414,576
Intangible assets	2,197,525	3,194,217
Deferred financing expenses	194,899	113,047
Goodwill	5,166,876	5,166,876
	13,590,993	15,716,206
Liabilities		
Current liabilities		
Bank loan	378,000	-
Accounts payable and accrued liabilities	2,695,180	2,821,769
Deferred revenues	330,502	350,594
Current portion of long-term debt	910,057	665,104
	4,313,739	3,837,467
Long-term debt	2,223,880	2,258,895
	6,537,619	6,096,362
Shareholders' Equity		
Share capital	29,534,132	29,532,130
Other equity components (note 3)	1,297,817	995,810
Deficit	(23,778,575)	(20,908,096)
	7,053,374	9,619,844
	13,590,993	15,716,206

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

Approved by the Board of Directors,


Mario Girard
 Director


Marc Dutil
 Director

NSTEIN TECHNOLOGIES INC.

Consolidated Statements of Earnings and Deficit [†]	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues (note 6)	2,550,270	1,140,962	7,622,114	2,593,505
Cost of Revenues	1,360,984	413,491	3,695,582	749,934
	1,189,286	727,471	3,926,532	1,843,571
Expenses				
Selling and administrative	1,390,088	941,624	4,182,068	2,527,231
Research and development	602,770	575,492	1,595,012	1,581,769
Research and development tax credits	(165,000)	(125,000)	(495,989)	(395,030)
Depreciation of property, plant and equipment	34,569	33,750	101,930	102,930
Amortization of intangible assets	334,730	6,441	1,005,031	13,525
Loss (gain) on disposal of property, plant and equipment	-	(632)	(3,284)	18,349
Financial expenses (note 5)	188,189	82,029	412,243	154,036
	2,385,346	1,513,704	6,797,011	4,002,810
Loss for the period	1,196,060	786,233	2,870,479	2,159,239
Deficit - Beginning of the period	(22,582,515)	(19,085,623)	(20,908,096)	(17,513,995)
Adjustment resulting from a change in accounting policy (note 2)	-	-	-	(198,624)
Restated deficit - Beginning of the period	(22,582,515)	(19,085,623)	(20,908,096)	(17,712,619)
Deficit - End of the period	(23,778,575)	(19,871,858)	(23,778,575)	(19,871,858)
Basic and diluted loss per share	0.006	0.005	0.015	0.015
Basic and diluted weighted average number of shares outstanding	186,422,292	153,780,629	186,417,292	140,454,209

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

NSTEIN TECHNOLOGIES INC.

Consolidated statements of cash flows [†]	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities				
Loss for the year	(1,196,060)	(786,233)	(2,870,479)	(2,159,239)
Items not affecting cash and cash equivalents				
Excess of long-term financed licences sales and interest thereon over cash receipts	13,448	-	(341,769)	-
Capitalized interests on long-term debt	30,471	-	84,172	-
Depreciation of property, plant and equipment	34,569	33,750	101,930	102,930
Amortization of intangible assets	334,730	6,441	1,005,031	13,525
Amortization of deferred financing expenses	8,271	8,271	24,813	22,305
Stock-based compensation	49,067	25,904	195,344	54,160
Loss (gain) on disposal of property, plant and equipment	-	(632)	(3,284)	18,349
	(725,504)	(712,499)	(1,804,242)	(1,947,970)
Change in non-cash operating working capital items				
Accounts receivable				
Trade	61,139	432,017	213,305	292,870
Work in progress	(417,141)	-	(928,371)	-
Commodity taxes recoverable and others	(100,652)	(2,083)	(44,709)	27,798
Refundable tax credits	402,059	(85,277)	442,964	(232,548)
Prepaid expenses	26,119	66,782	28,186	54,589
Accounts payable and accrued liabilities	305,897	(692,695)	(9,015)	(566,153)
Deferred revenues	(75,769)	(152,314)	(20,092)	(194,031)
	201,652	(433,570)	(317,732)	(617,474)
	(523,852)	(1,146,069)	(2,121,974)	(2,565,444)
Cash flows from financing activities				
Bank loan contracted	(264,704)	-	378,000	-
Long-term debt contracted	-	-	525,000	300,000
Payments on long-term debt	(158,027)	(90,812)	(399,234)	(160,011)
Issuance of common shares, net of share issue expenses	-	(12,142)	2,002	(228,305)
	(422,731)	(102,954)	505,768	(88,316)
Cash flows from investing activities				
Acquisition of companies, net of cash and cash equivalents	-	2,623,387	(117,569)	2,886,024
Additions to property, plant and equipment	(13,301)	(17,980)	(60,976)	(58,202)
Acquisition of intangible assets	(3,852)	-	(8,340)	-
Proceeds from the sale of property, plant and equipment	-	22,256	7,629	28,229
	(17,153)	2,627,663	(179,257)	2,856,051
Decrease in cash and cash equivalents	(963,736)	1,378,640	(1,795,462)	202,291
Cash and cash equivalents – Beginning of period	1,919,848	1,931,335	2,751,574	3,107,684
Cash and cash equivalents – End of period	956,112	3,309,975	956,112	3,309,975
Additional information (note 5)				

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

Notes to Financial Statements

1. Summary of significant accounting policies

The financial information as at September 30, 2005 and for the periods ended September 30, 2004 and 2005 is unaudited. However, management considers that all the required adjustments have been made to present the results for these periods fairly. Any such adjustments were of a normal recurring nature. Interim results are not necessarily indicative of the expected results for the year.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods as in the preparation of the Company's most recent annual financial statements. However, these financial statements do not include all the disclosures required for annual financial statements. These interim financial statements should therefore be read in conjunction with the Company's most recent annual financial statements.

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 persuasive evidence of an arrangement exists, 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 over the related support period. Revenues from other related services are recognized as the services are performed.

Amounts recognized as revenue in excess of billings are classified as work in progress using the percentage-of-completion method. Using this method, the revenues and profits are recognized proportionally to the percentage of completion.

2. Accounting for stock-based compensation plans

In accordance with new CICA standards outlined in Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", the Company adopted the recommendations retroactively on January 1, 2004, without restating prior years' results. A compensation charge must be included in the financial statements for all forms of stock-based compensation granted to directors, officers and employees, including stock options, based on the fair value method. Consequently, the deficit and other components of shareholders' equity at December 31, 2003 increased by \$198,624.

During the three-month period ended September 30, 2005, the Company granted its employees and service suppliers 750,000 stock options. The fair value of these stock options amounts to \$81,625. The compensation charge for the period ended September 30, 2005 was \$49,067, including amortization based on the graded vesting method for grants made since January 1, 2002.

The fair value of options granted during the three-month period ended September 30, 2005 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

Three months ended September 30, 2005	
Risk-free interest rate	3.38%
Expected volatility	80%
Dividend yield	nil
Weighted average expected life	48 months

3. Other Equity Components

This item consists of the value assigned to warrants issued to the *Fonds de solidarité des travailleurs du Québec* (F.T.Q.) in November 2003 pursuant to a private placement, as well as the value assigned to warrants issued to *La Financière du Québec* at the same time pursuant to a bank financing. The value assigned to such warrants using the Black-Scholes pricing model is \$457,174. The value assigned to warrants issued pursuant to the acquisition of KMtechnologies, using the same model, was also included under this item for an amount of \$92,245.

With regard to the Valsar Consulting Group Inc. acquisition, the Company gave the sellers the option of taking the \$576,000 representing the balance of the selling price payable over three years in cash or in shares priced at \$0.26 each. A value of \$266,779 was assigned to this option using the Black-Scholes pricing model, and was recorded under other equity components.

The remaining \$481,619 included under this item represents the counterpart of the charge for stock options granted to directors, officers, employees and service suppliers shown in the Company's financial statements.

4. Balances receivable on sales of software licences

The Company will be receiving an amount of \$341,769 in two equal payments of \$178,281 ending March 31, 2007. The long-term portion of \$163,488 is composed of an interest-free payment of \$178,281 capitalized at a rate of 6%.

The annual receipts in capital over the coming fiscal years are \$178,281 in 2006 and \$163,488 in 2007.

5. Additional information

Statement of earnings

a) Financial expenses

<i>(In Canadian dollars)</i>	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Amortization of deferred financing expenses	8,271	8,271	24,813	22,305
Interest on long-term debt	73,029	35,090	184,216	82,147
Interest and bank charges	41,789	25,460	112,347	59,393
Interest income	(5,717)	(6,927)	(27,803)	(29,959)
Exchange loss (gain)	70,817	20,135	118,670	20,150
Total	188,189	82,029	412,243	154,036

Statement of cash flows

b) Additional information

(In Canadian dollars)	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest paid	29,480	33,404	91,898	80,773
Interest cashed	(15,909)	(6,162)	(56,922)	(33,705)

6. Segmented information

The Company is organized 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. The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies.

Revenues by geographic region are as follows:

(In Canadian dollars)	Three months ending September 30		Nine months ending September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
United States	783,517	257,164	2,222,305	1,207,798
Canada	1,400,036	704,812	3,986,521	1,138,959
Europe	366,717	178,986	1,413,288	246,748
Total	2,550,270	1,140,962	7,622,114	2,593,505

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

7. Contingencies

The Company, in conjunction with an institution, faces a lawsuit for an amount of \$885,000. Management believes that the lawsuit is unfounded; accordingly no accrual has been recorded in this respect.

8. Subsequent event

On October 12, 2005, the Company announced the closing of a \$4.1 million private placement of senior secured convertible notes with a limited number of American institutional investors. The secured notes are convertible into common shares at a rate of \$0.14 per share. This conversion rate is subject to adjustment under certain circumstances; however, the Company may under no circumstances issue more than 35,450,775 common shares pursuant to the conversion of the notes. The secured convertible notes are repayable monthly over a maximum of two years, either in cash or in common shares, or in a combination of cash and common shares. The nominal value of the secured convertible notes is \$5.1 million. The notes are issued at a 20% discount and carry a coupon of 0%. Their amortization begins four months after closing of the financing, and repayment will take place over a 20-month period. Under certain circumstances, holders could force conversion of the secured notes into common shares. The convertible notes are secured by almost all of the assets of the Company and its subsidiaries. As additional consideration, Nstein issued warrants to the holders of the secured convertible notes to purchase up to 11,668,650 common shares at a price of \$0.18 per share for a five-year term. The exercise price of the warrants and the number of shares that may be purchased pursuant to the exercise of warrants are subject to adjustment under circumstances similar to those related to the conversion price of the secured convertible notes. However, the number of common shares issuable pursuant to the exercise of warrants may not

exceed 35,450,775. As part of the transaction, warrants for the purchase of 2,041,900 common shares of the Company at \$0.18 per share were issued to Kaufman Bros. L.P., who acted as agent on the financing. These warrants are valid for a two-year period. The proceeds of the financing will be used to repay the \$1.3 million commercialization loan from the Bank of Montreal and for general corporate purposes.



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