



quarterly report 2007 }  
2nd quarter ending June 30, 2007 }



# Message from the President and Chief Executive Officer

In the past few quarters, Nstein has been seeing a shift toward significant growth. The positive results of the second quarter of 2007 are further evidence of this trend. Compared to the results of Q2 2006, Nstein's revenues jumped 104%, from \$1.96 million to \$4.0 million. This can be directly attributed to the success of the Ntelligent Content Management (NCM) Suite among top press and media industry players.

## NCM Suite: The major driver of our market share

Nstein has focused intense effort on the marketing of its NCM Suite and as a result has inked a number of lucrative deals with leading media organizations in Canada, the U.S. and Europe. The signing of new clients such as Canoe.ca, La Dépêche du Midi, La Provence and other prominent U.S. and European publishers confirms just how much of a contribution Nstein solutions can make to the execution of corporate Web strategies of press and media organizations.

Nstein is focusing its efforts on rapidly growing its market share in the press and media industry. Accordingly, it has developed a unique product that responds to the specific needs of the market. In addition, its expert sales force and development and integration teams are uniquely capable of guiding businesses in optimizing their e-publishing practices.

## Text mining as a springboard to new business opportunities

Nstein's text mining technologies continue to be an essential component of its content management solutions and represent a significant competitive advantage. The implementation of the NCM Suite and its text mining tools at La Dépêche du Midi, Canoë and other important clients has been a key factor in its growing popularity. Nstein's solutions have a real impact on the online revenues of the organizations that use them. By integrating the NCM platform into their information portals, clients can provide their users with greatly enriched content and thus substantially increase their number of page views.

Nstein is also continuing its research and development work geared toward the application of text mining technologies in a B2C environment. The initial results have been very promising and confirm the tremendous potential of this technology to analyze massive volumes of user-generated content from blogs, forums and other public sources. The recent arrival of Louis Mousseau, Vice-President, Corporate Development, on the Nstein team will also make it possible to develop strategic partnerships and further diversify the company's offering.

## Changes to the Board of Directors

Consistent with the principles of good corporate governance, the chair of the Board of Directors and the CEO of Nstein are now two separate positions. Pierre Donaldson, from JLA Ventures, has therefore been appointed to the position of chair.

## Outlook for continued strong revenue growth

Nstein is at a critical point in its history – and the future looks brighter than ever. The demand for Nstein products continues to be stronger and stronger, and revenues are on a steady upswing. The company is approaching the break-even point and expenditures and investments are stable. The financial context is therefore favourable and particularly conducive to Nstein's growth.

I can assure you that Nstein is working hard to fuel this growth in order to meet, and even exceed, the expectations of its shareholders.



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- and six-month periods ended June 30, 2007. It also compares results of operations and cash flows for the three- and six-month periods ended June 30, 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 in a B2C environment and establish the foundations for a new research environment that is more efficient and relevant than existing solutions.

## 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

(In Canadian dollars)	Three months ending June 30		Six months ending June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	4,007,729	1,961,173	7,811,603	4,014,565
EBITDA*	(144,315)	(1,140,003)	(338,840)	(1,947,541)
Loss	(1,010,003)	(1,679,409)	(1,648,599)	(3,152,287)
Basic and diluted loss per share	(0.028)	(0.079)	(0.047)	(0.158)

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

## Operating results

### Revenues

For the three-month period ended June 30, 2007, the Company recorded revenues of \$4,007,729, representing an increase of 104% over the revenues of \$1,961,173 for the corresponding period last year. This can be attributed to the increase in revenues from software licenses in the second quarter of 2007 and higher specialized services revenues. 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. For the six months ended June 30, 2007, revenues increased 95% to \$7,811,603 from the \$4,014,565 recorded for the same period last year.

### 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 30% in second quarter 2007, reaching \$1,759,767, compared to \$1,353,299 for the corresponding period ended June 30, 2006. Cost of sales varies depending on the sales mix; direct costs are typically lower for software sales than for services. For the six months ended June 30, 2007, cost of sales amounted to \$3,615,115, up from \$2,523,178 for the same period last year.

### 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 \$1,789,186 for the quarter ended June 30, 2007, compared to \$1,358,160 for the corresponding period last year. This 33% increase results from the hiring of new employees to market more rapidly our solutions.

### 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 \$708,091 in second quarter 2007, compared to \$544,717 for the corresponding quarter in 2006. The Company maintained its investment in research and development in the first half of the year. The expenses amounted to \$1,170,784 in 2007, compared to \$1,101,786 in 2006. The Company will pursue its research activities to further refine its technologies for its leading-edge content management software for the media, publishing and entertainment industries.

### 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 second quarter 2007, compared to \$155,000 in 2006 and at \$210,600 in first half of 2007, compared to \$263,833 in 2006.

## Restructuring fees

During the second quarter of 2007, Nstein incurred an expense of \$488,241 for non-recurring restructuring fees. This was mainly attributable to the severance and other payroll benefits paid to former corporate executives and a founder. Most of these amounts were paid out during the quarter. These fees include an expense of \$55,289 related to the value of these individual's stock purchase plan.

## Amortization of intangible assets

Intangible assets consist of technologies acquired, client relationships, backlog, software licenses and non-competitive agreements. Amortization of intangible assets increased from \$101,677 for the second quarter of 2006 to \$110,276 for the second quarter of 2007. Amortization of intangible assets for the six months ended June 30, 2007 totaled \$220,870 compared to \$148,697 in 2006, an increase of 49%. Due to the acquisition of Eurocortex S.A.S. in 2006, the Company recorded intangible assets of \$496,000. This explains the increase in the amortization of intangible assets in the first semester of 2007, compared to the same period last year.

## Exchange gain and loss

The Company recorded a currency exchange loss of \$51,701 in second quarter 2007, compared to a gain of \$135,407 for the same quarter in 2006. The volatility of the Canadian dollar against the American dollar generated a significant gain on the convertible debentures denominated in US currency during the second quarter 2006. The switch is due to the major reduction in the Company's reduction of this convertible debt compared to last year.

## Financial expenses

Financial expenses amounted to \$166,594 for the second quarter 2007, compared to \$536,583 for the same quarter in 2006. For the first half of 2007, financial expenses amounted to \$464,556, down from \$1,105,888 for the same period last year. 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 \$1,010,003, or \$0.028 per share, for the three-month period ended June 30, 2007, compared to a loss of \$1,679,409, or \$0.079 per share, for the corresponding period last year. For the first six months of 2007, the Company recorded a loss of \$1,648,599, or \$0.079 per share, compared to \$3,152,287, or \$0.158 per share, for the same 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 and restructuring fees in 2007.

## Selected quarterly financial information

<i>(In Canadian dollars)</i>	Third Quarter \$	Fourth Quarter \$	First Quarter \$	Second Quarter \$
Quarter ending on	Sep 30, 2006	Dec 31, 2006	Mar 31, 2007	Jun 30, 2007
Revenues	2,814,214	3,888,532	3,803,874	4,007,729
EBITDA*	(535,526)	(302,804)	(194,525)	(144,315)
Loss	(1,043,755)	(638,330)	(638,596)	(1,010,003)
Basic and diluted loss per share	(0.033)	(0.020)	(0.019)	(0.028)
Quarter ending on	Sep 30, 2005	Dec 31, 2005	Mar 31, 2006	Jun 30, 2006
Revenues	2,550,270	1,481,773	2,053,392	1,961,173
EBITDA*	(638,572)	(1,780,745)	(807,538)	(1,140,003)
Loss	(1,196,060)	(3,898,646)	(1,472,878)	(1,679,409)
Basic and diluted loss per share	(0.064)	(0.209)	(0.079)	(0.079)

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

## Liquidity and financial resources

### Cash and cash equivalents

As at June 30, 2007, cash and cash equivalents amounted to \$3,580,065, compared to \$2,367,125 as at December 31, 2006. The Company also had restricted cash in the amount of \$401,904 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. The reimbursement of the convertible debenture will be completed by August 31, 2007.

### Cash flows

#### Operating activities

Operating activities used \$1,201,934 in cash flows in second quarter 2007, compared to \$1,189,540 for the same period last year. Even though the net loss is lower for the quarter, the Company significantly reduced its accounts payable during the quarter, disbursing a total of \$409,767. For the six months ended June 30, 2007, the Company used \$1,841,848 for its operating activities compared to \$2,687,838 in 2006. The difference is primarily attributable to the smaller net loss.

#### Financing activities

Financing activities generated cash flows of \$1,952,064 in the second quarter 2007, compared to \$8,521,070 for the same quarter in 2006 when the Company completed a private placement of \$10,000,000. During the quarter ended June 30, 2007, the Company concluded a private placement of \$1,900,000 with a group of investors including members of the Board of Directors and the Company's management team. In addition, a \$473,280 bank loan was contracted in order to finance a portion of the refundable tax credits.

The aggregate payments on the long-term debt stood at \$411,711 during the quarter, for which a significant portion of these monthly installments was reimbursed in common shares in order to reduce the use of cash flow. During the same period in 2006, the Company reimbursed a \$1,300,000 interim term loan contracted with Solidarity Fund QFL. For the six months ended June 30, 2007, financing activities generated cash flows of \$1,666,578 compared to \$8,618,237 for the same period in 2006.

#### Investing activities

Cash flows generated by investing activities stood at \$700,832 for the three-month period ended June 30, 2007, compared to \$2,201,548 for the same period in 2006. This is mainly due to restricted cash subject to an account control agreement, which decreased by \$737,234 during the second quarter of 2007. The original deposit of \$2,150,927 was made during the second quarter of 2006. For the six months ended June 30, 2007, investing activities generated cash flows of \$1,388,210 compared to \$2,219,279 for the same period in 2006.

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>	<b>Installments payable, by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>Over 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt	1,818,178	907,546	562,424	215,101	133,107
Use of offices	1,636,271	406,385	776,770	453,116	-

On May 7, 2007, the Company concluded a private placement of \$1,900,000 with a group of investors including members of the Board of Directors and the Company's management team. The Company issued 2,923,074 common shares at a price of \$0.65 per share. Shares issued are subject to a 4-month hold period.

## Shareholders' equity

As at August 9, 2007, there were 37,453,893 common shares, 2,827,203 stock options and 2,188,939 warrants outstanding.

## Significant accounting policies

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### 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.

## 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 June 30, 2007, and, more specifically, that the design of such controls and procedures provides reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the quarterly and annual filings are being prepared. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. No changes that materially affected or are reasonably likely to materially affect internal control over financial reporting were disclosed by others within the Company's entities or identified by management during the period ended June 30, 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. 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. Other risks and uncertainties currently unknown to the Company or regarded as negligible could also impact its business operations.

This analysis of the Company's financial position and results of operations was prepared as of August 9, 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.

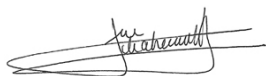
> [www.nstein.com](http://www.nstein.com)

**NSTEIN TECHNOLOGIES INC.**


<b>Consolidated Balance Sheets<sup>†</sup></b>	<b>As at June 30 2007 \$ (unaudited)</b>	<b>As at December 31 2006 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,580,065	2,367,125
Short-term restricted cash	401,904	1,859,799
Term deposits	173,620	191,121
Accounts receivable	4,201,715	4,189,878
Refundable tax credits	932,209	780,267
Work in progress	734,695	578,105
Prepaid expenses	251,194	185,535
Current portion of balance receivable on the sale of software licenses	-	176,598
	<b>10,275,402</b>	<b>10,328,428</b>
<b>Property, plant and equipment</b>	<b>432,005</b>	<b>455,902</b>
<b>Intangible assets</b>	<b>1,353,185</b>	<b>1,554,998</b>
<b>Deferred financing expenses</b>	<b>5,692</b>	<b>67,074</b>
<b>Goodwill</b>	<b>5,641,574</b>	<b>5,641,574</b>
	<b>17,707,858</b>	<b>18,047,976</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans	473,280	-
Accounts payable and accrued liabilities	3,216,598	3,726,835
Deferred revenues	594,886	655,896
Current portion of long-term debt (note 3)	907,546	2,121,927
	<b>5,192,310</b>	<b>6,504,658</b>
<b>Long-term debt (note 3)</b>	<b>910,632</b>	<b>1,074,847</b>
	<b>6,102,942</b>	<b>7,579,505</b>
<b>Shareholders' Equity</b>		
<b>Share capital (note 4)</b>	<b>42,795,138</b>	<b>40,178,085</b>
<b>Other equity components (note 5)</b>	<b>2,284,087</b>	<b>2,269,836</b>
<b>Contributed surplus</b>	<b>685,883</b>	<b>532,143</b>
<b>Deficit</b>	<b>(34,160,192)</b>	<b>(32,511,593)</b>
	<b>11,604,916</b>	<b>10,468,471</b>
	<b>17,707,858</b>	<b>18,047,976</b>
<b>Contingency (note 9)</b>		

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

Approved by the Board of Directors,



Luc Filiatreault, Director



A. Michel Lavigne, Director

**NSTEIN TECHNOLOGIES INC.**

<b>Consolidated Statements of Earnings and Deficit<sup>†</sup></b>	<b>Three months ending June 30</b>		<b>Six months ending June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenues (note 8)</b>	<b>4,007,729</b>	<b>1,961,173</b>	<b>7,811,603</b>	<b>4,014,565</b>
<b>Cost of sales</b>	<b>1,759,767</b>	<b>1,353,299</b>	<b>3,615,115</b>	<b>2,523,178</b>
	<b>2,247,962</b>	<b>607,874</b>	<b>4,196,488</b>	<b>1,491,387</b>
<b>Expenses</b>				
Selling and administrative	1,789,186	1,358,160	3,575,144	2,600,975
Research and development	708,091	544,717	1,170,784	1,101,786
Research and development tax credits and other credits	(105,000)	(155,000)	(210,600)	(263,833)
Depreciation of property, plant and equipment	48,876	36,553	92,026	72,143
Amortization of intangible assets	110,276	101,677	220,870	148,697
Exchange loss (gain)	51,701	(135,407)	44,066	(121,982)
Financial expenses (note 7a)	166,594	536,583	464,556	1,105,888
Restructuring fees (note 6)	488,241	-	488,241	-
	<b>3,257,965</b>	<b>2,287,283</b>	<b>5,845,087</b>	<b>4,643,674</b>
<b>Net loss for the period</b>	<b>1,010,003</b>	<b>1,679,409</b>	<b>1,648,599</b>	<b>3,152,287</b>
<b>Deficit - Beginning of period</b>	<b>33,150,189</b>	<b>29,150,099</b>	<b>32,511,593</b>	<b>27,677,221</b>
<b>Deficit - End of period</b>	<b>34,160,192</b>	<b>30,829,508</b>	<b>34,160,192</b>	<b>30,829,508</b>
<b>Basic and diluted net loss per share</b>	<b>0.028</b>	<b>0.079</b>	<b>0.047</b>	<b>0.158</b>
<b>Basic and diluted weighted average number of shares outstanding</b>	<b>35,862,431</b>	<b>21,171,621</b>	<b>34,708,782</b>	<b>19,941,909</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 June 30</b>		<b>Six months ending June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Cash flows from operating activities</b>				
Net loss for the period	(1,010,003)	(1,679,409)	(1,648,599)	(3,152,287)
Items not affecting cash and cash equivalents				
Interest capitalized on long-term debt	16,192	17,491	29,453	181,203
Unrealized exchange loss (gain)	(3,942)	(112,732)	(3,883)	(99,532)
Depreciation of property, plant and equipment	48,876	36,553	92,026	72,143
Amortization of intangible assets	110,276	101,677	220,870	148,697
Amortization of deferred financing expenses	22,999	72,242	61,382	156,018
Stock-based compensation costs	129,395	95,055	167,990	174,538
Costs related to the employee stock purchase plan	9,302	-	19,589	-
	<b>(676,905)</b>	<b>(1,469,123)</b>	<b>(1,061,172)</b>	<b>(2,519,220)</b>
Change in non-cash operating working capital items				
Accounts receivable	(181,041)	246,894	(11,837)	(148,409)
Refundable tax credits	(95,339)	35,455	(151,942)	(110,444)
Work in progress	129,200	28,567	(156,590)	(95,702)
Prepaid expenses	25,428	(41,551)	(65,659)	(65,060)
Balance receivable on the sale of software licenses	-	184,160	176,598	180,166
Accounts payable and accrued liabilities	(409,767)	(112,327)	(510,236)	58,951
Deferred revenues	6,490	(61,615)	(61,010)	11,880
	<b>(525,029)</b>	<b>279,583</b>	<b>(780,676)</b>	<b>(168,618)</b>
	<b>(1,201,934)</b>	<b>(1,189,540)</b>	<b>(1,841,848)</b>	<b>(2,687,838)</b>
<b>Cash flows from financing activities</b>				
Variation in bank loans	473,280	-	473,280	(98,952)
Long-term debt	-	900,000	-	1,300,000
Payments on long-term debt	(411,171)	(1,564,578)	(706,945)	(1,768,459)
Deferred financing expenses	-	(92,213)	-	(92,213)
Issuance of common shares, net of issue expenses	1,889,955	9,277,861	1,900,243	9,277,861
	<b>1,952,064</b>	<b>8,521,070</b>	<b>1,666,578</b>	<b>8,618,237</b>
<b>Cash flows from investing activities</b>				
Variation in term deposits	23,495	-	17,501	-
Variation in short-term restricted cash	737,234	(2,150,927)	1,457,895	(2,150,927)
Additions to property, plant and equipment	(47,692)	(48,311)	(69,006)	(62,486)
Additions to intangible assets	(13,083)	(2,310)	(19,058)	(5,866)
Proceeds from the sale of property, plant and equipment	878	-	878	-
	<b>700,832</b>	<b>(2,201,548)</b>	<b>1,388,210</b>	<b>(2,219,279)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,450,962</b>	<b>5,129,982</b>	<b>1,212,940</b>	<b>3,711,120</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>2,129,103</b>	<b>509,856</b>	<b>2,367,125</b>	<b>1,928,718</b>
<b>Cash and cash equivalents – End of period</b>	<b>3,580,065</b>	<b>5,639,838</b>	<b>3,580,065</b>	<b>5,639,838</b>
<b>Additional information (note 7b 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.

### Foreign currency

#### Foreign currency transactions

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

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

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### Foreign subsidiaries

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

### 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.

### Comparative figures

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

## Note 3 - Long-term debt

	June 30, 2007 \$ (Unaudited)	December 31, 2006 \$
Term loans		
- Secured convertible debentures, non-interest bearing, issued at discount, payable in 19 monthly installments of \$237,717 (US\$223,125) from February 2006 to September 2006, \$220,738 (US\$207,188) from October 2006 to July 2007 and a final installment of \$145,542 (US\$136,608) in August 2007*	383,785	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	27,033	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	286,449	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	347,760	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	470,460	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	62,668	68,586
- 4% car loan, payable in monthly installments of \$1,158 (€803) including principal and interest, maturing in June 2011. A moveable hypothec on two cars has been given as security	51,281	61,036
- Discounted at 7%, balance of purchase price of a subsidiary, payable in three annual installments of \$192,000, maturing in September 2007	188,742	181,357
	1,818,178	3,196,774
Less: Current portion	907,546	2,064,542
	910,632	1,074,847

\* During the second quarter, regarding the monthly installments in capital and interest on this debt, the Company issued 427,020 common shares for a net value of \$290,014 and disbursed an amount of \$381,629.

## 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 June 30, 2007, and the year ended December 31, 2006:

	For the six months ending		For the year ending	
	June 30, 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	53,163	39,179	69,220	29,312
Business combination	-	-	1,013,152	329,676
Shares issued for cash, net of issue expenses	2,923,074	1,880,653	11,764,706	9,077,702
Shares issued for long-term debt repayment, and conversion	952,559	697,221	1,814,030	1,207,265
<b>Outstanding – End of period</b>	<b>37,232,133</b>	<b>42,795,138</b>	<b>33,303,337</b>	<b>40,178,085</b>

## Stock option plan

During the three-month period ended June 30, 2007, the Company granted 925,000 stock options to its employees. The fair value of the options granted during this period is \$413,899 and has been established using the Black-Scholes options pricing model with the following weighted average assumptions:

Risk-free interest rate	4.23%
Expected volatility	80%
Dividend yield	nil
Expected life	60 months

## Note 5 - Other equity components

The following table presents the other equity components:

	As at June 30 2007 \$ (unaudited)	As at December 31 2006 \$
Conversion option on a long-term debt	23,458	154,421
Stock option related to a business combination	108,589	108,589
Stock option-based compensation	1,057,004	911,790
Warrants	1,095,036	1,095,036
	<b>2,284,087</b>	<b>2,269,836</b>

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

## Note 6 – Restructuring fees

During the second quarter of 2007, Nstein incurred an expense of \$488,241 for non-recurring restructuring fees. This was mainly attributable to the severance and other payroll benefits paid to former corporate executives and a founder. Most of these amounts were paid out during the quarter. These fees include a \$55,289 expenses related to the value of these individual's stock purchase plan.

## Note 7 - Additional information

### Statement of earnings

#### a) Financial expenses

	Three months ending June 30		Six months ending June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Amortization of deferred financing expenses	22,999	72,242	61,382	156,018
Interest on long-term debt	155,623	452,301	403,626	921,908
Interest and bank charges	(2,282)	16,210	36,865	43,051
Interest income	(9,746)	(4,170)	(37,317)	(15,089)
Total	166,594	536,583	464,556	1,105,888

### Statement of cash flows

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

	Three months ending June 30		Six months ending June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Warrants issued	-	200,159	-	200,159
Convertible debentures converted into common shares	290,014	481,000	697,221	757,764
Transfer of the matured portion of options to the contributed surplus	-	-	130,963	-
Stock options granted as compensation transferred to the contributed surplus	-	-	22,776	-

#### c) Additional information

	Three months ending June 30		Six months ending June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest paid	139,776	414,344	348,506	705,853
Interest cashed	(17,918)	(7,686)	(54,543)	(13,939)

## Note 8 - 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 June 30		Six months ending June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Canada	2,997,163	1,475,906	5,529,969	2,862,943
United States	312,518	292,113	899,639	430,140
Europe	698,048	193,154	1,381,995	721,482
Total	4,007,729	1,961,173	7,811,603	4,014,565

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

## Note 9 - 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.





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