

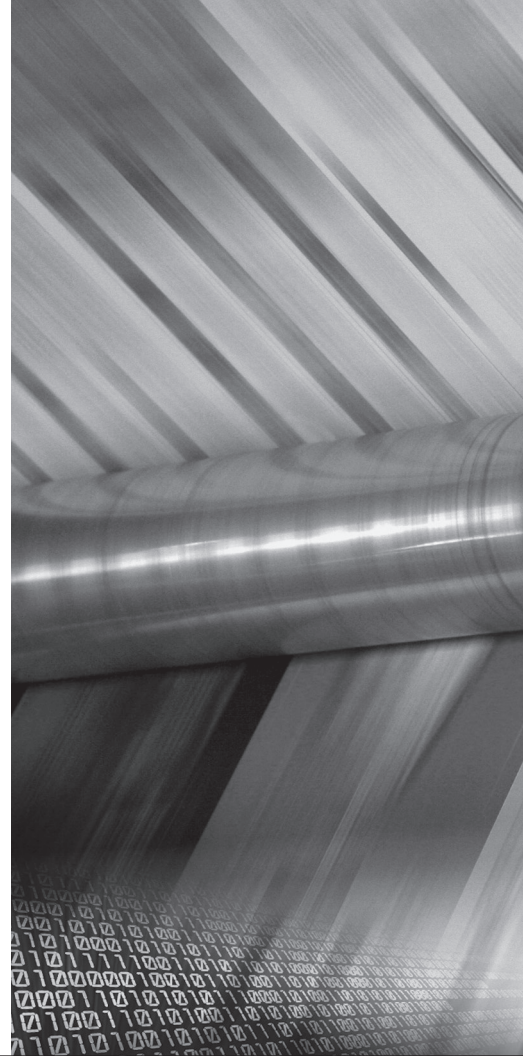


Powering Digital Publishing

Quarterly Report

2nd quarter ending June 30, 2009

2009



Message from the President and Chief Executive Officer

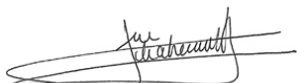


Highlights of the second quarter of 2009

Despite the difficult economic situation, Nstein revenues for the second quarter of 2009 totalled \$6.2 million, a 3% increase compared to \$6 million last year. Profitability is clearly improved, with a positive EBITDA (Earnings before financial charges, income tax, depreciation, amortization, exchange loss and restructuring charges) of \$335,182, compared to a negative EBITDA of \$1,176,642 a year ago. The net loss amounted to \$258,841 or \$0.005 per share, compared to a net loss of \$1,551,727 or \$0.03 per share for the same period the previous year.

These results demonstrate the positive impact of the cost-cutting measures introduced by the company over the last twelve months. Given uncertain economic environment, we adjusted our cost structure to take account of severely slowing growth. This level of revenues meets our expectations and again confirms the appeal of Nstein solutions to content publishers seeking avant-garde tools to drive their digital strategy. Our current and potential clients continue to be affected by the sharp decline in their advertising revenues during this recessionary period, but based on a number of signs of improvement, we approach the second half of the year with cautious optimism.

At June 30, 2009, the company had cash of \$6 million, working capital of \$7.6 million and long-term debt of \$0.4 million. The financial situation of the company is sound and we will be in a good position to profit from the anticipated recovery. We have a solid team and acknowledged products, as demonstrated by the recent inclusion of our WCM product in the “magic quadrant” of the influential Gartner firm and the prize for “trend-setting product of the year” awarded by the prestigious journal “KM World” for version 4.0 of our DAM product. Such recognition, as well as increasingly numerous referrals by our current clients, are valuable tools in completing new sales.



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, 2009. It also compares results of operations and cash flows for the three- and six-month periods ended June 30, 2009, 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, 2008, and related notes presented in the Company's annual report. Nstein's financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Company reports its results in Canadian dollars. Unless otherwise indicated, all amounts in this analysis are in Canadian dollars.

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

Overview

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

Strategy

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

The Company is actively pursuing the development and commercialization of these solutions, to which the market is very receptive. These solutions allow publishers to migrate rapidly their publications from paper to Web, which is crucial to ensure their success. Since the amounts allocated to the Web by advertisers are constantly increasing at the expense of the amounts allocated to print publications, publishers must offer their content to their readers quickly via websites equipped with the latest features. The Company also pursues its research activities in order to refine its technology even further and identify other promising markets for its digital publishing 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.

Selected financial information

	Three months ending June 30		Six months ending June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues	6,188,031	6,008,624	11,573,363	12,037,855
EBITDA*	335,182	(1,176,642)	(417,788)	(1,643,668)
Loss	(258,841)	(1,551,727)	(1,495,216)	(2,443,617)
Basic and diluted loss per share	(0.005)	(0.030)	(0.029)	(0.050)

* 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.

The improvement in EBITDA* in the second quarter of 2009 is due to the cost-cutting measures introduced in 2009. Restructuring charges totalling \$174,446 were incurred during the second quarter from the elimination of certain positions within the Company.

Operating results

Revenues

The Company derives most of its revenues from the sale of software user licenses, post-sales technical support and specialized services. For the three month period ended June 30, 2009, the Company recorded revenues of \$6,188,031, representing an increase of 3% compared to revenues of \$6,008,624 realized in the corresponding previous period. Revenues for the six months ended on June 30, 2009 totalled \$11,573,363, compared to \$12,037,855 a year earlier, or a decline of 4%. Given the high unit price of its software licenses, the Company's results are materially affected when sales shift to a subsequent quarter

Cost of sales, net of tax credits

The cost of sales comprises human resources assigned to the various projects (employees and external consultants), as well as third-party software charges. The cost of sales, net of tax credits, fell by 7% to \$2,659,015 or 43% of revenues for the quarter ended on June 30, 2009, compared to \$2,861,739, equivalent to 48% of revenues, for the corresponding period ended on June 30, 2008. The cost of sales generally varies according to the composition of revenues, since direct costs are lower for revenues from the sale of software user licenses compared to revenues from the provision of services. For the first six months of 2009, the cost of sales was \$5,482,415 or 47% of revenues, higher than the \$5,386,153 or 45% of revenues recorded a year ago.

Due to its eligibility for the Cité Multimédia Montréal Program, the Company is entitled to a 40% refundable tax credit on eligible salaries up to an annual maximum of \$15,000 per employee. These tax credits, applied against decreasing the cost of sales, amounted to \$211,876 for the second quarter of 2009 compared to \$70,620 in 2008 and \$295,241 for the first six months of 2009 compared to \$145,620 in 2008. The increase in tax credits for the quarter is due to an upward adjustment of tax credit receivables for the year 2008. This program expires in December 2010. However, the Government of Québec announced the introduction of a new information technology tax credit, which could allow the Company to continue to benefit from equivalent assistance.

Selling and administrative expenses

Selling and administrative expenses are mainly composed of employee compensation costs, commissions for sales personnel, travel expenses, office premises charges, professional fees and costs related to the management of a publicly held corporation. Selling and administrative expenses amounted to \$2,614,923 or 42% of revenues for the second quarter of 2009, compared to \$3,357,316 or 56% of revenues for the corresponding period ended June 30, 2008. The expense reduction results mainly from cost-cutting measures introduced in 2009. For the first six months of 2009, selling and administrative expenses amounted to \$5,251,091, which is less than the \$6,384,989 recorded a year ago and represented 45% of revenues for the first six months of 2009, compared to 53% for the same period in 2008.

Research and development expenses, net of tax credits

Research and development expenses mainly comprise the cost of human resources assigned to the various projects of research and development. Research and development expenses, net of tax credits, amounted to \$573,529 or 9% of revenues for the second quarter of 2009, compared to \$966,211 or 16% of revenues for the corresponding quarter of 2008. The reduction in expenses is due to the reduction of staff assigned to research and development activities. For the first half of 2009, research and development expenses, net of tax credits, amounted to \$1,252,263 equivalent to 11% of revenues, compared to \$1,910,381 in 2008, representing 16% of revenues. Nstein is actively pursuing the refinement of its cutting-edge content management solutions for the media and e-publishing industry.

The Company also benefits from scientific research and experimental development tax credits. These tax credits, presented in reduction of research and development expenses, amounted to \$232,433 for the second quarter of 2009, compared to \$299,507 in 2008 and \$353,758 for the first half of 2009, against \$515,304 in 2008. This reduction is due to the lower research and development expenses in 2009.

Amortization of intangible assets

Intangible assets consist of acquired technologies, backlog, client relationships, software licenses and non-competition agreements. The amortization of intangible assets fell to \$199,414 in the second quarter of 2009, compared to \$248,279 in the second quarter of 2008. Amortization of intangible assets for the six months ended June 30, 2009 totaled \$410,764 compared to \$427,016 a year ago.

Exchange gain and loss

The company recorded an exchange loss of \$191,016 in the second quarter of 2009 compared to a loss of \$83,826 in the second quarter of 2008 and a loss of \$89,198 for the first half of 2009 compared to a gain of \$80,294 in 2008. The appreciation of the Canadian dollar in the second quarter of 2009 resulted in a loss on assets denominated in American dollars, Euros and pounds sterling.

Financial expenses

The Company incurred financial expenses of \$9,781 in the second quarter of 2009, compared to \$10,761 for the same quarter in 2008. For the first half of 2009, the Company recorded expenses of \$39,988 compared to revenues of \$54,738 in 2008. This difference is mainly due to the reduced interest income attributable to the lower cash position and the reduction of interest rates on investments.

Restructuring fees

During the second quarter of 2009, the Company incurred a charge of \$174,446 for non-recurring restructuring fees (no charge in the second quarter of 2008). These fees were incurred as severance pay due to the elimination of nine positions because of the economic situation. During the first half of 2009, the Company incurred restructuring fees totalling \$478,826 compared to \$419,156 in 2008.

Loss

Nstein recorded a loss of \$258,841 or \$0.005 per share for the three-month period ended June 30, 2009, compared to a loss of \$1,551,727 or \$0.030 per share for the corresponding previous period. For the six month-period ended June 30, 2009, the Company recorded a loss of \$1,495,216, or \$0.029 per share, compared to \$2,443,617, or \$0.050 per share, for the same period last year. The lower loss is mainly due to cost reduction measures implemented in 2009.

The Company will continue to rigorously manage its costs and closely track its activities in each region, adapting and realigning the organization as necessary in order to maintain an optimal financial situation in the context of current economic conditions.

Selected quarterly financial information

	Second Quarter \$	First Quarter \$	Fourth Quarter \$	Third Quarter \$
Quarter ending on	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Revenues	6,188,031	5,385,332	8,073,965	5,600,516
EBITDA*	335,182	(752,970)	813,915	(818,202)
Earnings (loss)	(258,841)	(1,236,375)	1,350,304	(1,056,073)
Basic and diluted earnings (loss) per share	(0,005)	(0,024)	0,026	(0,021)

	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Revenues	6,008,624	6,029,231	6,268,163	4,092,092
EBITDA*	(1,176,642)	(467,026)	555,970	(84,025)
Earnings (loss)	(1,551,727)	(891,890)	109,713	(291,195)
Basic and diluted earnings (loss) per share	(0,030)	(0,019)	0,003	(0,008)

* 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, 2009, cash and cash equivalents amounted to \$5,993,704, compared to \$7,405,217 as at December 31, 2008.

Cash flows

Operating activities

Cash flows allocated to operating activities totalled \$478,556 for the second quarter of 2009, compared to \$261,180 in 2008. The variation is largely attributable to non-cash elements of working capital since the Company collected substantial accounts receivable in 2008, thereby partly offsetting a higher loss. For the six months ended June 30, 2009, operating activities used \$1,042,590 in cash flow compared to an increase in cash flow of \$505,396 for the same period in 2008.

Financing activities

Financing activities used cash flows of \$56,324 in the second quarter of 2009, compared to \$1,136,777 for the same quarter in 2008. The payment of a portion of the balance of purchase price of Picdar is the main reason for the outflow in 2008. For the first six months of 2009, the cash flows allocated to financing activities totalled \$146,484 compared to \$1,760,393 in 2008, the Company having repaid a bank loan of \$452,742 during the period.

Investing activities

Cash flows used in investing activities amounted to \$150,308 for the second quarter of 2009, compared to \$380,022 for the same period in 2008. For the six months ended June 30, 2009, the Company used \$222,439 for its investing activities compared to \$2,751,272 for the same period in 2008. This difference is mainly due to the use of cash dedicated to the acquisition of Picdar in 2008.

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

Contractual obligations

	Total	Installments payable, by period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	659,750	300,555	273,894	85,301	-
Use of offices	2,624,745	1,069,308	1,266,479	151,920	137,038
Royalties on utilization of software licenses	300,000	187,500	112,500	-	-

Shareholders' equity

On August 13, 2009, the Company had 52,122,260 common shares, 3,284,333 stock options and 5,403,218 warrants outstanding.

Business combination

On February 13, 2008, the Company acquired all of the outstanding shares of Picdar, a digital asset and image management solutions provider in the United Kingdom (the "Transaction") for a purchase price equivalent to the sum of (i) the value of the Company established between \$6,617,700 and \$9,275,810 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,472,255 (£2,280,832).

The surplus working capital and an amount of \$6,617,700 (£3,375,000) were paid upon closing of the Transaction. The balance of the value of the company, up to \$2,658,110 (£1,355,625), is payable in three annual instalments beginning March 31, 2008 based on the achievement of the target future revenues and EBITDA*. Each instalment is composed of a 75% portion in cash and cash equivalents and 25% in newly issued shares of the Company at a unit price set according to the weighted average price of the Company's last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. In July 2008, the company settled the first annual installment of the value of the company through the issuance of 191,144 common shares with a carrying value of \$121,580 and a cash payment of \$533,210 (£265,781). No annual instalments were paid in 2009 since the objectives were not reached.

Outlook

Due to the current economic situation, advertisers have greatly reduced their spending thus negatively affecting the publishing industry. We anticipate that these unfavourable conditions will continue to represent challenges in 2009. The management's priorities during this period of economic uncertainty are obviously the protection of liquid assets, EBITDA* and human capital. However, if market conditions continue to worsen, the Company will be ready to apply additional measures to protect its liquid assets. The Company however believes that it does not have to make adjustments to its sale price structure.

Significant accounting policies

Use of estimates

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

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis, or more frequently if events or circumstances occur, indicating that it is more likely than not that it might be impaired. The recoverability of goodwill is established at the reporting unit level on the basis of a two-step impairment test. First, the net carrying value of a reporting unit is compared to its fair value, which is established based on available discounted cash flows. If the net carrying value of a reporting unit exceeds its fair value, the second step of the test must be performed. For this step, the amount of any goodwill impairment loss is the excess of the carrying value of goodwill over its fair value. This amount is charged to earnings in the period in which it is incurred. For purposes of this impairment test, the fair value of goodwill is estimated in the same way as goodwill is determined in business acquisitions, meaning that it represents the excess of a reporting unit's fair value over the estimated fair value of its net identifiable assets. The Company comprises a single reporting unit. The Company has elected to perform its annual impairment test in December of each year.

Revenue recognition, work in process and deferred revenues

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

Changes in accounting policies

On January 1, 2009, the Company adopted the new accounting standards of Section 3064 "Goodwill and Intangible Assets," which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets after their initial recognition. The new section replaces Section 3062 "Goodwill and Other Intangibles" and Section 3450 "Research and Development." Various modifications have been made to other sections of the CICA Handbook for the sake of consistency.

The company has applied these new accounting standards prospectively and does not anticipate any impact on its consolidated financial statements.

Future Accounting Changes

In January 2009, the CICA issued sections 1582 "Business Combinations," 1601 "Consolidated Financial Statements," and 1602 "Non-Controlling Interests."

Section 1582 will be converged with IFRS 3, "Business Combinations." Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements," concerning non-controlling interests. Finally, Section 1601 will carry forward the requirements of Section 1600 "Consolidated Financial Statements," other than those affecting non-controlling interests.

Section 1582 applies to operations where the purchaser obtains control of one or more businesses. The term "business" is more broadly defined in the current standard. Most assets acquired and liabilities assumed, including contingent liabilities considered "improbable," will be measured at their fair value. Acquisition costs must be expensed.

Pursuant to Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. The calculation of net earnings does not show any deduction for non-controlling interests. Instead, net earnings will be allocated between controlling and non-controlling interests.

The new standards will come into force in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Harmonization of Canadian and international standards

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP, publicly accountable enterprises, will be converged with the International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board ("IASB"). The Company will have to present its interim and annual financial statements for fiscal 2011 according to IFRS.

The Company has established a changeover plan for conversion to these new standards according to the timetable set for these new rules. The implementation plan includes three main phases, i.e. initial assessment of impacts and definition of their scope, analysis of the repercussions and design, implementation and review.

In its preliminary comparative analysis of IFRS and Canadian GAAP, the Company detected some differences. At this time, the impacts on the financial position and future operating results cannot be established or estimated in a reasonable way. In 2009, the Company will continue its review of standards applicable to her and assess these impacts.

Contingency

In January 2008, a subsidiary of the Company was given notice of a lawsuit, alleging the existence of a verbal license agreement and seeking to force it to provide software or alternatively pay US\$500,000 in damages. Management denies the existence of such an agreement and believes this suit to be without merit. Accordingly, no provision has been recorded for this purpose.

Controls and procedures

Nstein is a venture issuer and accordingly not required to certify the design and effectiveness of its controls. Nstein's management attributes great importance to the quality of its internal controls and makes sure that the controls in place adequately protect the Company's assets and ensure the production of complete and quality financial information.

Risks and uncertainties

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, 2008. 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 13, 2009. Additional information on the Company can be found on the SEDAR Web site at www.sedar.com.



Bruno Martel

Chef de la direction financière

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

NSTEIN TECHNOLOGIES INC.

Consolidated Balance Sheets[†]	As at June 30	As at December 31
	2009	2008
	\$	\$
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	5,993,704	7,405,217
Term deposits	164,600	214,600
Accounts receivable	6,408,194	6,864,825
Refundable tax credits	1,633,477	984,478
Income taxes receivable	-	335,656
Work in progress	856,604	680,639
Prepaid expenses	206,057	207,389
	15,262,636	16,692,804
Property, plant and equipment	645,201	736,506
Intangible assets	2,972,814	3,364,257
Goodwill (note 4)	10,496,905	10,496,905
	29,377,556	31,290,472
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,695,092	4,442,361
Deferred revenues	3,475,146	3,236,640
Future income tax liabilities	150,315	150,315
Current portion of long-term debt (note 5)	300,555	330,503
	7,621,108	8,159,819
Long-term debt (note 5)	359,195	520,799
Future income tax liabilities	499,308	571,071
	8,479,611	9,251,689
Shareholders' Equity		
Share capital	54,152,340	54,028,128
Other equity components	2,684,514	2,695,998
Contributed surplus	2,047,367	1,805,717
Deficit	(37,986,276)	(36,491,060)
	20,897,945	22,038,783
	29,377,556	31,290,472
Contingency (note 12)		

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

NSTEIN TECHNOLOGIES INC.**Consolidated Statements of Shareholders' Equity[†]****As at June 30
(unaudited)**

	Share capital		Other equity components	Contributed surplus	Deficit	Shareholders' equity
	Common shares					
	Number	\$	\$	\$	\$	\$
Balance as at December 31, 2007	41,125,536	52,652,275	2,823,558	1,223,997	(34,341,674)	22,358,156
Shares issued upon the exercise of stock options	126,667	87,292	(35,002)	-	-	52,290
Shares issued under the employee stock purchase plan	73,103	69,591	-	-	-	69,591
Shares issued upon the exercise of special warrants, net of issue expenses	8,000,000	(156,173)	-	-	-	(156,173)
Issuance of shares related to business combination (note 4)	1,835,480	1,157,901	-	-	-	1,157,901
Reversal of stock options granted as compensation following employee departure	-	-	(196,323)	196,323	-	-
Stock-based compensation costs	-	-	266,157	-	-	266,157
Net loss and comprehensive loss for the period	-	-	-	-	(2,443,617)	(2,443,617)
Balance as at June 30, 2008	51,160,786	53,810,886	2,858,390	1,420,320	(36,785,291)	21,304,305
Balance as at December 31, 2008	51,566,057	54,028,128	2,695,998	1,805,717	(36,491,060)	22,038,783
Shares issued under the employee stock purchase plan	407,837	124,212	-	-	-	124,212
Reversal of stock options granted as compensation following employee departure	-	-	(241,650)	241,650	-	-
Stock-based compensation costs	-	-	230,166	-	-	230,166
Net loss and comprehensive loss for the period	-	-	-	-	(1,495,216)	(1,495,216)
Balance as at June 30, 2009	51,973,894	54,152,340	2,684,514	2,047,367	(37,986,276)	20,897,945

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

NSTEIN TECHNOLOGIES INC.

Consolidated Statements of Earnings and Deficit [†]	Three months ending June 30		Six months ending June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues (note 11)	6,188,031	6,008,624	11,573,363	12,037,855
Cost of sales, net of tax credits (note 8)	2,659,015	2,861,739	5,482,415	5,386,153
	3,529,016	3,146,885	6,090,948	6,651,702
Expenses				
Selling and administrative	2,614,923	3,357,316	5,251,091	6,384,989
Research and development, net of tax credits (note 8)	573,529	966,211	1,252,263	1,910,381
Depreciation of property, plant and equipment	53,547	69,797	130,411	145,176
Amortization of intangible assets	199,414	248,279	410,764	427,016
Loss on disposal of property, plant and equipment	5,382	-	5,382	-
Exchange (gain) loss	191,016	83,826	89,198	(80,294)
Financial (revenues) expenses (note 10a)	9,781	10,761	39,988	(54,738)
Restructuring fees (note 9)	174,446	-	478,826	419,156
	3,822,038	4,736,190	7,657,923	9,151,686
Loss before income tax	293,022	1,589,305	1,566,975	2,499,984
Recovery of income tax				
Future income tax	(34,181)	(37,578)	(71,759)	(56,367)
	(34,181)	(37,578)	(71,759)	(56,367)
Net loss and comprehensive loss for the period	258,841	1,551,727	1,495,216	2,443,617
Deficit - Beginning of period	37,727,435	35,233,564	36,491,060	34,341,674
Deficit - End of period	37,986,276	36,785,291	37,986,276	36,785,291
Basic and diluted net loss per share	0.005	0.030	0.029	0.050
Basic and diluted weighted average number of shares outstanding	51,837,875	51,053,643	51,802,721	48,797,518

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

NSTEIN TECHNOLOGIES INC.

Consolidated Statements of Cash Flows [†]	Three months ending June 30		Six months ending June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities				
Net loss for the period	(258,841)	(1,551,727)	(1,495,216)	(2,443,617)
Items not affecting cash and cash equivalents				
Interest capitalized on long-term debt	3,400	6,351	7,162	14,621
Unrealized exchange loss (gain)	661	(396)	766	69,904
Depreciation of property, plant and equipment	53,547	69,797	130,411	145,176
Amortization of intangible assets	199,414	248,279	410,764	427,016
Loss on disposal of property, plant and equipment	5,382	-	5,382	-
Stock-based compensation costs	124,001	119,172	230,166	266,157
Compensation costs related to the deferred share unit plan for directors	(12,609)	44,750	(106,469)	75,500
Costs related to the employee stock purchase plan	33,127	17,124	62,106	34,796
Future income tax	(34,181)	(37,578)	(71,759)	(56,367)
	113,901	(1,084,228)	(826,687)	(1,466,814)
Change in non-cash operating working capital items				
Accounts receivable	(72,454)	2,337,292	456,631	1,717,441
Refundable tax credits	(444,309)	(368,710)	(648,999)	257,961
Income tax receivable	342,102	-	335,656	-
Work in progress	(213,540)	(107,378)	(175,965)	(563,778)
Prepaid expenses	37,593	(91,291)	1,332	(118,091)
Accounts payable and accrued liabilities	(247,016)	(395,151)	(423,064)	(184,070)
Deferred revenues	5,167	(551,714)	238,506	862,747
	(592,457)	823,048	(215,903)	1,972,210
	(478,556)	(261,180)	(1,042,590)	505,396
Cash flows from financing activities				
Variation in bank loans	-	-	-	(452,742)
Payments on long-term debt	(89,451)	(35,371)	(208,590)	(188,966)
Payment on Balance of purchase price of a subsidiary (note 4)	-	(1,080,591)	-	(1,080,591)
Issuance of common shares, net of issue expenses	33,127	(20,815)	62,106	(38,094)
	(56,324)	(1,136,777)	(146,484)	(1,760,393)
Cash flows from investing activities				
Variation in term deposits	-	-	50,000	20,786
Business acquisitions, net of cash and cash equivalents	(116,228)	(287,335)	(217,740)	(2,648,694)
Additions to property, plant and equipment	(45,107)	(66,728)	(58,156)	(95,138)
Additions to intangible assets	(13,100)	(25,959)	(20,670)	(28,226)
Proceeds from the sale of property, plant and equipment	24,127	-	24,127	-
	(150,308)	(380,022)	(222,439)	(2,751,272)
Decrease in cash and cash equivalents	(685,188)	(1,777,979)	(1,411,513)	(4,006,269)
Cash and cash equivalents – Beginning of period	6,678,892	9,502,565	7,405,217	11,730,855
Cash and cash equivalents – End of period	5,993,704	7,724,586	5,993,704	7,724,586
Additional information (note 10b and c)				

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

Notes to Consolidated Financial Statements

Note 1 - Statutes and nature of activities

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

Note 2 – Interim financial information

The financial information as at June 30, 2009 and for the three-month and six-month periods ended June 30, 2009 and 2008 is unaudited. However, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual consolidated financial statements, except for the new accounting standards as disclosed in note 3. All disclosures required for annual financial statements have not been included in these financial statements. These interim consolidated financial statements should therefore be read in conjunction with the Company's most recent consolidated financial statements.

Note 3 - Summary of significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, Nstein Technologies Corp., Nstein Technologies France S.A.S.U., Alis Technologies inc., Cabinet Conseil Valsar inc. and Picdar Group Ltd.

Foreign currency

Foreign currency transactions

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

Foreign subsidiaries

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

Revenue recognition, work in process and deferred revenues

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

Changes in accounting policies

On January 1, 2009, the Company adopted the new accounting standards of Section 3064 "Goodwill and Intangible Assets," which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets after their initial recognition. The new section replaces Section 3062 "Goodwill and Other Intangibles" and Section 3450 "Research and Development." Various modifications have been made to other sections of the CICA Handbook for the sake of consistency.

The company has applied these new accounting standards prospectively and does not anticipate any impact on its consolidated financial statements.

Future Accounting Changes

In January 2009, the CICA issued sections 1582 "Business Combinations," 1601 "Consolidated Financial Statements," and 1602 "Non-Controlling Interests."

Section 1582 will be converged with IFRS 3, "Business Combinations." Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements," concerning non-controlling interests. Finally, Section 1601 will carry forwards the requirements of Section 1600 "Consolidated Financial Statements," other than those affecting non-controlling interests.

Section 1582 applies to operations where the purchaser obtains control of one or more businesses. The term "business" is more broadly defined in the current standard. Most assets acquired and liabilities assumed, including contingent liabilities considered "improbable," will be measured at their fair value. Acquisition costs must be expensed.

Pursuant to Section 1602, any none controlling interest will be recognized as a separates component of shareholders' equity. The calculation of net earnings does not show any deduction for non-controlling interests. Instead, net earnings will be allocated between controlling and non-controlling interests.

The new standards will come into force in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Note 4 – Business combination

On February 13, 2008, the Company acquired all of the outstanding shares of Picdar Group Ltd (“Picdar”), a digital asset and image management solutions provider in the United Kingdom (the “Transaction”) for a purchase price equivalent to the sum of (i) the value of the company established between \$6,617,700 and \$9,275,810 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,472,255 (£2,280,832).

The surplus working capital and an amount of \$6,617,700 (£3,375,000) were paid upon closing of the Transaction and the balance of the value of the company, up to \$2,658,110 (£1,355,625), is payable in three annual instalments beginning March 31, 2008 based on the achievement of the target future revenues and EBITDA. Each instalment is composed of a 75% portion in cash and cash equivalents and 25% in newly issued shares of the Company at a unit price set according to the weighted average price of the Company’s last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. In July 2008, the company settled the first annual instalment of the value of the company through the issuance of 191,144 common shares with a carrying value of \$121,580 and a cash payment of \$533,210 (£265,781). No annual instalments were paid in 2009 since the objectives were not reached.

The following table summarizes the purchase price allocation, established with the help of independent experts, including business combination-related costs based on the estimated fair value of the net assets acquired at the date of the acquisition.

	\$
Cash and cash equivalents	6,128,584
Other current assets	1,215,463
Property, plant and equipment	165,780
Intangible assets	
Core technology	2,254,920
Backlog	32,353
Customer relationships	656,868
Non-compete agreements	101,962
Total assets acquired	10,555,930
Current liabilities	2,425,712
Future income tax liabilities	852,909
Long-term debt	24,500
Total liabilities assumed	3,303,121
Net identifiable assets acquired	7,252,809
Goodwill	4,855,331
Purchase price	12,108,140
Settled as follows:	
Common shares issued	1,157,901
Cash amount	8,392,988
Balance of purchase price	1,695,137
Business combination-related costs	862,114
	12,108,140

Note 5 – Long-term debt

	June 30, 2009	December 31, 2008
	\$	\$
	(unaudited)	
Term loans		
- Discounted at 10%, payable in monthly instalments of \$8,929, maturing in May 2013. A moveable hypothec on all present and future assets, both tangible and intangible, of a subsidiary, has been given as security	339,192	374,531

- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in quarterly instalments of \$47,500 from October 2007, maturing in July 2009	47,500	91,210
- Discounted at 8%, with the NRC, payable in four annual instalments of \$78,338, starting on January 1, 2007, maturing in January 2010	74,798	149,764
- 10%, for which a letter of credit in the amount of \$164,600 has been issued, payable in monthly instalments of \$1,538 including principal and interest, maturing in August 2011. A moveable hypothec on a deposit certificate in the amount of \$164,600 has been given as security for the letter of credit*	35,811	43,035
- 4%, payable in monthly instalments of \$640 (€392) including principal and interest, maturing in June 2011. A moveable hypothec on a vehicle with a net carrying value of \$15,194 has been given as security	14,742	19,004
- 5%, payable in monthly instalments of \$857 (€448) including principal and interest, maturing in November 2010. A moveable hypothec on a vehicle with a net carrying value of \$18,233 has been given as security	21,203	23,559
Obligations under capital leases		
- Discounted at 7.75%, payable in total monthly instalments of \$6,447 including principal and interest, maturing between August 2010 and January 2012	126,504	150,199
	659,750	851,302
Less: Current portion	300,555	330,503
	359,195	520,799

* The letter of credit also aims to guarantee the obligations of the company under a lease.

Note 6 – 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 7 – Other equity components

The following table presents the other equity components:

	As at June 30 2009	As at December 31 2008
	\$	\$
	(unaudited)	
Stock option-based compensation	1,195,285	1,206,769
Warrants	1,489,229	1,489,229
	2,684,514	2,695,998

Stock-based compensation plans

Stock option plan

During the three months ended June 30 2009, the Company has not granted any stock options.

Warrants

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

	As at June 30 2009 \$ (unaudited)	As at December 31 2008 \$
354,000 warrants at \$1.00, maturing on November 7, 2009	168,955	168,955
1,764,705 warrants at \$1.50, maturing on September 27, 2010	404,181	404,181
1,764,707 warrants at \$2.00, maturing on September 27, 2010	332,396	332,396
1,166,865 warrants at \$1.80, maturing on October 12, 2010	383,538	383,538
352,941 warrants at \$0.85, maturing on June 12, 2011	200,159	200,159
	1,489,229	1,489,229

Note 8 – 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. These tax credits, applied against the cost of sales, amounted to \$211,876 for the second quarter of 2009 compared to \$70,620 in 2008 and \$295,241 for the first six months of 2009 compared to \$145,620 in 2008.

The Company also benefits from scientific research and experimental development tax credits. These tax credits, presented in reduction of research and development expenses, amounted to \$232,433 for the second quarter of 2009, compared to \$299,507 in 2008 and \$353,758 for the first half of 2009, against \$515,304 in 2008.

Note 9 – Restructuring fees

During the second quarter of 2009, the Company incurred a charge of \$174,446 for non-recurring restructuring fees (no charge in the second quarter of 2008). These fees were incurred as severance pay due to the elimination of nine positions because of the economic situation. During the first half of 2009, the Company incurred restructuring fees totalling \$478,826 compared to \$419,156 in 2008. These fees were paid.

Note 10 – Additional information

Statement of earnings

a) Financial expenses

	Three months ending June 30		Six months ending June 30	
	2009 \$ (unaudited)	2008 \$ (unaudited)	2009 \$ (unaudited)	2008 \$ (unaudited)
Interest on long-term debt	16,492	23,854	36,382	49,343
Interest and bank charges	4,511	9,958	31,130	16,084
Interest income	(11,222)	(23,051)	(27,524)	(120,165)
Total	9,781	10,761	39,988	(54,738)

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	
	2009	2008	2009	2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Stock options granted as compensation transferred to the contributed surplus	208,232	42,569	241,650	196,323
Stock options exercised as compensation transferred to share capital	-	29,675	-	35,002
Business combination-related costs included in accounts payable and accrued liabilities	-	-	-	658,528
Issue expenses included in accounts payable and accrued liabilities	-	-	-	102,434
Assets under a capital lease	-	61,659	9,110	94,859

c) Additional information

	Three months ending June 30		Six months ending June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest paid	16,492	21,782	34,279	33,302
Interest cashed	(2,773)	(9,034)	(38,122)	(76,474)

Note 11 – 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Canada	1,983,930	2,701,106	3,991,320	4,993,344
United States	1,660,524	1,616,068	3,061,075	3,575,762
Europe	2,543,577	1,691,450	4,520,968	3,468,749
Total	6,188,031	6,008,624	11,573,363	12,037,855

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

Note 12 - Contingency

In January 2008, a subsidiary of the Company was given notice of a lawsuit, alleging the existence of a verbal license agreement and seeking to force it to provide software or alternatively pay US\$500,000 in damages. Management denies the existence of such an agreement and believes this suit to be without merit. Accordingly, no provision has been recorded for this purpose.



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