

Management's Discussion and Analysis of Financial Condition and Results of Operations

This analysis provides the reader with a summary of changes in the financial position of Nstein Technologies Inc. ("Nstein" or "the Company") during fiscal year ended December 31, 2008. It also compares results of operations and cash flows for the 12-month period ended December 31, 2008 to those for 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. During fiscal 2008, the acquisition of Picdar Group Ltd. ("Picdar") in the United Kingdom enabled the Company to integrate new functionalities in its product offering as well as providing access to Picdar's large pool of existing clients, to which components of Nstein solutions can be sold.

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 will continue its research activities in order to refine its technology even further and identify other promising markets for its digital publishing solutions.

Due to the current economic situation advertisers have greatly reduced their spending thus negatively affecting the publishing industry. The strategic objectives during this period of economic uncertainty are 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.

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).

An amount of \$6,617,700 (£3,375,000) was 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. On February 13, 2008, the Company issued 1,835,480 common shares in initial payment of the purchase price. The issued shares are subject to escrow conditions and will be released quarterly over a period of twenty-four (24) months.

The surplus working capital is payable in cash and cash equivalents. A first instalment of \$3,419,841 (£1,744,105) having been paid upon closing of the Transaction and the balance of \$1,052,414 (£536,727) having been paid on receipt of the closing financial statements in April 2008. In July 2008, the company settled the first annual installment of the purchase price through the issuance of 191,144 common shares with a carrying value of \$121,580 and a cash payment of \$533,210 (£265,781).

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

<i>(In Canadian dollars)</i>	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$
Revenues	25,712,336	18,171,858	10,717,311	9,103,887	4,848,140
EBITDA*	(1,647,955)	133,105	(2,785,873)	(3,132,020)	(2,349,974)
Loss	(2,149,386)	(1,830,081)	(4,834,372)	(6,769,125)	(3,195,477)
Basic and diluted loss per share	(0.043)	(0.049)	(0.186)	(0.363)	(0.210)
Total Assets	31,290,472	29,094,254	18,047,976	12,083,369	15,716,206
Long-Term Liabilities	1,091,870	759,832	1,074,847	2,988,619	2,258,895

* Definition of EBITDA: Earnings (loss) before financial expenses, exchange gain (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 decline in EBITDA* in 2008 is due in part to the increased investment at the start of the fiscal year to the sales force necessary to accelerate the growth of the Company's revenues and the development of its markets, in both North America and the United Kingdom and France. Because of the economic slowdown, revenues from software user licenses were less than the Company had anticipated, with some clients delaying their purchase decision. In the context of an uncertain economic environment, the Company made certain adjustments to its cost structure during the second half of the year, terminating its hiring program and reducing certain discretionary expenditures as well as the size of its staff.

Operating results

Revenues

For the year ended December 31, 2008, the Company recorded revenues of \$25,712,336, representing an increase of 41% compared to revenues of \$18,171,858 realized in the corresponding previous period. This increase is attributable in nearly equal parts to revenues from Picdar, acquired in February 2008, and the increase in service revenues associated with the implementation of digital content management solutions. The Company derives most of its revenues from the sale of software user licenses, post-sales technical support and specialized services. 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 rose 42% in 2008 to \$10,718,676 or 42% of revenues for the year 2008, compared to \$7,561,455 or 42% of 2007 revenues. 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.

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 the cost of sales, amounted to \$278,041 for 2008, compared to \$202,476 in 2007. This increase in tax credits is related to the growth of staff levels assigned to delivery of our solutions. In 2008, the Government of Québec announced the introduction of a new information technology tax credit, which could allow the Company to continue to benefit from assistance comparable to the Cité Multimédia Montréal Program, which expires in December 2010.

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 \$13,054,784 or 51% of revenues for 2008, compared to \$8,228,963 or 45% of revenues for the previous year. The increase in costs of 59% results mainly from employee hiring's at the beginning of 2008 in order to accelerate the marketing of our solutions, the increase in staff following the acquisition of Picdar and the increase in the charge associated with bad debts, which amounted to \$1,126,091 compared to \$94,170 in the previous fiscal year.

Research and development expenses, net of tax credits

Research and development expenses mainly comprise the cost of human resources assigned to the various projects. Research and development expenses, net of tax credits, amounted to \$3,586,831 in 2008, compared to \$2,248,335 in 2007. This increase in costs is attributable to the hiring of employees to accelerate introduction of new features within the Company's solutions, as well as increased staffing following the acquisition of Picdar. The Company is actively pursuing the development of its cutting-edge content management solutions for the media and e-publishing industry. It launched the new version 4 of its *Web Content Management* software during the fiscal year.

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 \$901,381 for 2008, compared to \$619,935 in 2007. The increase in tax credits was due to higher staffing and an upward adjustment of amounts receivable in the previous year.

Amortization of intangible assets

Intangible assets consist of acquired technologies, backlog, client relationships, software licenses and non-competition agreements. Amortization of intangible assets increased 102% from \$442,229 in 2007 to \$891,168 in 2008. Following the acquisition of Picdar in February 2008, the Company recorded intangible assets of \$3,046,103, which explains the increase in amortization expenses compared to 2007.

Exchange gain and loss

The Company recorded a foreign exchange gain of \$518,116 in 2008, compared to a loss of \$149,118 in 2007. The depreciation of the Canadian dollar in 2008 resulted in a gain on net assets denominated in US dollars and euros. In 2007, the appreciation of the Canadian dollar against the US dollar and euros had resulted in an exchange loss on net assets.

Financial expenses

The company earned financial revenues of \$126,902 in 2008, compared to costs of \$519,045 in 2007. This improvement stems mostly from interest charges and the amortization of debt-related deferred charges through convertible debentures for which the last payment was made on August 31, 2007.

Restructuring fees

In 2008, the Company incurred an expense of \$419,156 for non-recurring restructuring fees compared to \$661,505 in 2007. These fees are mainly composed of severance benefits paid to former officers and employee.

Loss

Nstein recorded a loss of \$2,149,386 or \$0.043 per share for the fiscal year ended December 31, 2008, compared to a loss of \$1,830,081 or \$0.049 per share for the corresponding previous fiscal year. This represents a 17% increase. This greater loss results from the increase in the Company's expenses, in particular to our marketing efforts in Europe and the United States, the increase in the charge for bad debts and lower revenues than anticipated. However, the increase was partly offset by the decline in financial expenses and the exchange gain recorded during the fiscal year.

The Company will continue to rigorously manage costs throughout fiscal 2009 and will carefully monitor its activities in each region, adapting and realigning the organization as necessary in order to maintain an optimal financial situation in the context of existing economic conditions.

Liquidity and financial resources

Cash and cash equivalents

As at December 31, 2008, cash and cash equivalents amounted to \$7,405,217, compared to \$11,730,855 as at December 31, 2007.

Cash flows

Operating activities

Cash flows from to operating activities totalled \$1,388,809 in 2008, compared to a use of \$3,906,218 in 2007. The improvement is largely due to non-cash operating working capital items, such as the variation in accounts receivable, which had a positive impact of \$1,348,345 on cash flow in 2008 compared to a negative impact of \$2,714,911 in 2007. In 2008, the Company also collected reimbursable income tax credits from prior years.

Financing activities

Cash flows used for financing activities totalled \$2,649,707 in 2008, compared to an increase of cash of \$11,781,937 in 2007. In 2008, the Company allocated \$1,585,624 as an instalment of a portion of the balance of the purchase price of Picdar Group Ltd. in the United Kingdom. In 2008, the Company also reimbursed all bank loans contracted to finance its tax credit receivables. The instalments on the debt amounted to \$405,607 in 2008, down from \$1,188,991 in 2007. The Company had completed three private placements during fiscal 2007, on May 7, September 27 and November 30 for gross amounts of \$1,900,000, \$3,000,000 and \$8,000,000 respectively. Total issue fees of \$784,184 regarding these placements were incurred.

Investing activities

Cash flows used for investing activities totalled \$3,064,740 for the fiscal year ended December 31, 2008, compared to a cash increase of \$1,488,011 in 2007. This difference is mainly due to the use of cash of \$2,790,291 for the acquisition of Picdar in 2008. In 2007, the increase in cash flows was due to the repatriation of \$1,859,799 of restricted cash, after the reimbursement of a debt.

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

Instalments payable, by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	851,302	330,503	387,696	133,103	-
Use of offices	3,129,967	1,044,070	1,779,290	141,890	164,717
Royalties on utilization of a software license	300,000	300,000	-	-	-

Shareholders' equity

Share capital

Authorized share capital is as follows:

- Unlimited number of common shares, without par value, voting and participating
- Unlimited number of preferred shares, without par value, non-voting and non-participating

Issued and fully paid	Common shares	Common shares
	Number	Amount
		\$
As at March 18, 2009	51 788 018	54 086 087
As at December 31, 2008	51 566 057	54 028 128
As at December 31, 2007	41 125 536	52 652 275

Warrants and stock options

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

Number	Warrants	Stock options	Special warrants
As at March 18, 2009	5 403 218	3 642 723	-
As at December 31, 2008	5 403 218	2 760 923	-
As at December 31, 2007	5 603 218	1 519 078	8 000 000

On February 7, 2008, the Company obtained confirmation from the Autorité des marchés financiers du Québec (the Québec securities commission) to the effect that the final simplified prospectus of the Company had been endorsed by the authorities of British Columbia, Alberta, Ontario and Québec. Accordingly, the special warrants issued by the Company on November 30, 2007 were deemed exercised on February 13, 2008, three working days after obtaining the visa mentioned above. The same day, the Company thus issued 8,000,000 common shares to the holders of special warrants.

Fourth quarter of 2008

For the three-month period ended December 31, 2008, the Company's revenues amounted to \$8,073,965, representing an increase of 29% over the revenues of \$6,268,163 realized in the corresponding period of the previous year. Over the past few years, the Company has observed that several customers seem to acquire Nstein solutions in the fourth quarter, which contributed this year to the strong fourth-quarter increase in sales compared to the previous three quarters.

The cost of sales increased by 21 % in the fourth quarter of 2008, reaching \$2,668,590 or 33% of revenues compared to \$2,214,356 or 35% of revenues for the corresponding period in 2007. The total of other expenses amounted to \$4,439,440 for the fourth quarter of 2008, up 13% compared to \$3,944,095 in 2007. This increase in costs results mainly from the charge for bad debts of \$811,752 accounted for in the fourth quarter of 2008.

Nstein posted earnings of \$1,350,304 or \$0.026 per share for the three-month period ended on December 31, 2008, compared to earnings of \$109,713 or \$0.003 per share for the corresponding previous period, attributable to higher sales, an exchange gain of \$435,093 and a \$346,791 income tax recovery.

The Company posted earnings before financial expenses, exchange loss, income tax, depreciation, amortization and restructuring fees (EBITDA) of \$813,915 compared to EBITDA of \$555,970 the previous year, or an increase of 46%.

The Company's cash flow increased by \$1,100,136 during the fourth quarter of 2008 compared to \$5,493,009 for the same period last year. The difference is mainly due to financing of \$8,000,000 made on November 30, 2007.

The following quarterly information has been presented on the same basis as the audited consolidated financial statements. The following stated amounts present fairly the unaudited quarterly results, which should be read in conjunction with our audited consolidated financial statements and the notes thereto.

Selected quarterly financial information

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Total
	\$	\$	\$	\$	\$
Fiscal year ended december 31, 2008					
Revenues	8,073,965	5,600,516	6,008,624	6,029,231	25,712,336
EBITDA*	813,915	(818,202)	(1,176,642)	(467,026)	(1,647,955)
Earnings (loss)	1,350,304	(1,056,073)	(1,551,727)	(891,890)	(2,149,386)
Basic and diluted earnings (loss) per share	0.026	(0.021)	(0.030)	(0.019)	(0.043)
Fiscal year ended december 31, 2007					
Revenues	6,268,163	4,092,092	4,007,729	3,803,874	18,171,858
EBITDA*	555,970	(84,025)	(144,315)	(194,525)	133,105
Earnings (loss)	109,713	(291,195)	(1,010,003)	(638,596)	(1,830,081)
Basic and diluted earnings (loss) per share	0.003	(0.008)	(0.028)	(0.019)	(0.049)

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

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 and noted no impairment loss for fiscal years 2008 and 2007.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of an asset or a group of assets is greater than the undiscounted future cash flows expected to be provided by the asset or group of assets. The amount of impairment loss is the excess of the carrying value over fair value. The fair value of those assets is determined based on discounted future cash flows. During fiscal 2008 and 2007, no impairment was recognized.

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.

Stock-based compensation and other stock-based payments

Stock option plan

As described in note 9, the Company offers a stock option plan for directors, employees and service suppliers to the Company or its subsidiaries. The Company uses the fair value-based method for stock options granted to employees and non-employees. The fair value of stock options is determined using the Black and Scholes options valuation model, and stock-based compensation costs are amortized to expenses over the vesting periods and credited to other equity components.

Employee stock purchase plan

As described in note 9, the Company offers a stock purchase plan to its employees. The contribution the Company makes on behalf of employees is recognized as a compensation charge and a compensatory amount is charged to the share capital. Any consideration paid by employees upon the purchase of shares is also credited to the share capital.

Deferred stock unit plan for directors

As described in note 9, the Company offers a deferred stock unit plan to directors who are not employees. The number of deferred stock units issued is calculated by dividing the applicable amount of the compensation by the weighted average price of the Company's shares during the last five trading days before the issuance date. This amount, as well as subsequent changes in the stock price, are recorded as compensation costs and included in selling and administrative expenses.

Financial instruments

Pursuant to the standards of Section 3855 "Financial Instruments – Recognition and Measurement," all financial instruments must be classified in one of the following categories: held for trading, held to maturity, available for sale, loans and receivables or other financial liabilities. Their measurement in later periods reflects their category.

Transaction costs related to financial instruments held for trading are recognized in the earnings of the period in which they are incurred. For the other financial instruments, the Company has chosen to capitalize the transaction costs upon initial recognition and present them with the related financial instruments. They are then amortized using the effective interest rate method. Financial assets and liabilities held for trading are recognized at fair value, and variations are recorded in net earnings. Financial assets and liabilities held until maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Financial assets available for sale are measured at fair value or at cost if there are not published prices on an active market, and variations are recognized in the comprehensive income.

The Company has classified its cash and cash equivalents and term deposits as held for trading. Receivables and work in progress are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

Changes in accounting policies

Effective January 1, 2008, the Company has adopted the new accounting standards under Section 1400 "General Standards of Financial Statement Presentation," Section 1535 "Capital Disclosures," Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" of the Canadian Institute of Chartered Accountants (CICA) Handbook. The main changes in these new accounting standards are summarized as follows:

General standards of financial statement presentation

The CICA amended Section 1400 of the CICA Handbook, "General Standards of Financial Statement Presentation", to include a requirement whereby management shall make an assessment of an entity's ability to continue as a going concern when preparing financial statements. These changes, including the related disclosure requirements, came into effect on January 1, 2008 and did not impact the Company's financial statements.

Capital disclosures

Section 1535 "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. The section describes the standards for disclosing information about objectives, policies and processes for managing capital of the entity and summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

Financial instruments

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

Future Accounting Changes

Goodwill and intangible assets

In February 2008, the CICA published Section 3064 "Goodwill and Intangible Assets," defining the standards for the recognition, measurement, presentation and disclosure applicable to goodwill and intangible assets following their initial recognition. The new section will replace section 3062 "Goodwill and Other Intangible Assets," and Section 3450 "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for reasons of consistency. The new standards apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

Other 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 is developing 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 numerous 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 Nstein and assess these impacts.

The Company will present its results of fiscal 2010 according to the Canadian GAAP in force. In 2011, it will present the corresponding figures for fiscal 2010 in accordance with IFRS of the IASB then in force. As a result, the Company will prepare an opening balance sheet and maintain two parallel sets of accounts in 2010.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements

Contingency

A subsidiary of the Company has been 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.

Subsequent events

On March 9, 2009, the Company entered into a new banking agreement for \$2.6 M with the Bank of Montreal. This agreement includes an operating line of credit of \$1 M and financing of \$1.6 M for research and development and Cité Multimédia Montréal tax credits. The facilities are guaranteed by the Company's current and future receivables and are subject to the Company maintaining certain financial ratios.

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 area of activity is subject to a variety of risk factors and uncertainties. The Company's business, financial position and results of operations may suffer the adverse effects of the risk factors and uncertainties described below. The risk factors and uncertainties are not the only ones that may affect the Company. Other risks and uncertainties currently unknown to the Company or regarded as negligible could also impact its business operations.

Economic situation

The economic slowdown could cause a reduction in demand for our products. Growth in our client's activities depends on the economic situation and accordingly could have an impact on the Company's operating results. We are not able to predict either the repercussions of the economic situation on our future earnings nor when a noticeable recovery will occur. During this recessionary period, it is possible that current clients and potential clients will reduce or delay their purchases of digital publishing solutions. This situation could also result in defaults on payments or in the collection of receivables, which could result in lower operating earnings. Such circumstances could cause a decline in sales of publishing solutions and affect profitability.

Length of sales cycle

The Company's current sales cycle is long, and approval of contracts by clients is often delayed for various reasons. This is beyond the control of Nstein and can have a material adverse impact on the level of revenue of the Company.

Potential fluctuations in quarterly results

The Company's quarterly operating results may fluctuate according to the time frame and size of certain orders; the number, date and scope of new product announcements made by the Company or its competitors; the Company's ability to develop, present and commercialize improved versions of its products on a regular basis; the competitiveness of products and prices; and economic factors in general. The publishing industry, the primary market for Nstein's products, is undergoing a major transformation and capital spending could be affected. These and other events such as delays in development or delivery of new products may affect quarterly results in the future.

Operating losses in recent years

The Company incurred losses during fiscal 2008 and recent fiscal years. As a result, the Company posted an accumulated deficit of \$36,491,060 as at December 31, 2008. There is no assurance that the Company will be in a position to maintain or improve its profitability or cash position through its operating activities on a quarterly or annual basis in the future.

Cash position and access to financing sources

From time to time, Nstein turns to the financial markets to finance its activities. The Company's future needs with respect to capital depend on a number of factors, especially expenses related to research and development required to consolidate or improve the competitive advantage of its technology, and the expenditures required to pursue commercialization of its products and services. However, there is no guarantee that additional financing will be available, or that it will be available on acceptable terms. Any factor affecting the Company's capacity to access financial markets, such as sharply fluctuating interest rates, changes in the economic climate, or investor perception of the Company's financial position or growth prospects could adversely affect its financial position and results of operations.

Reliance on key personnel

The Company relies heavily on its officers and its key employees. The loss of their services would have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of the Company will continue to work for the Company or that they will not found their own companies in order to compete with the Company or accept positions with competitors. However, the Company has entered into employment contracts with all of its employees which employment contracts include non-competition, non-solicitation and confidentiality covenants.

Even though all the employees of the Company have entered into a confidentiality agreement, there is no guarantee that these agreements will not be breached, that the Company will have adequate remedies in the event they are breached or that the trade secrets and knowledge that form part of the intellectual property of the Company will not become known by other means or discovered independently by third parties. Recruitment and retention of qualified employees, partners, advisors and consultants will be vital for the successful and efficient management of the growth of the Company. There is fierce competition for such qualified employees in the area in which the Company operates and there can be no assurance that the Company will be able to attract and retain such employees.

Competition

Nstein's area of activity is relatively new and includes an increasing number of competitors. New players, new partnerships and new technology solutions are constantly entering the market. In order to maintain its competitive advantage, the Company will continue to invest heavily in research and development and will have to retain key personnel.

Protection of the proprietary technology

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve its intellectual property rights. Even though the Company has filed patent applications and holds patents in Europe and the United States, those are related to early versions of the technologies used by the Company. Other technologies and applications actually developed and used by the Company are protected by a combination of copyrights, trade secrets and contractual provisions. The Company may file, if deemed necessary, additional patent applications. Despite these precautions, it may be possible for third parties to obtain and use the intellectual property of the Company without its authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada and the United States. To protect its intellectual property, the Company may become involved in litigation, which could result in substantial expenses, divert the attention of the management, cause significant delays and materially disrupt the conduct of the business of the Company. With more competitors emerging, there is an increased risk of other firms trying to produce new products or replacement technologies.

Dependence on certain licensed intellectual property

The Company licenses certain technologies used in its products from third parties. The termination of any of these licences, or the failure of the licensors to maintain or update their products adequately, could delay the ability of the Company to ship solutions while the Company seeks to implement alternative technology offered by other sources that may require significant unplanned investments. In addition, alternative technology may not be available, and even if it is available it may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licences relating to one or more of the solutions of the Company or relating to current or future technologies to enhance the product offerings of the Company. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Use of open source software

The Company uses certain open source software in the development of certain of its software products, which is not maintained or supported by the original developers thereof. This open source software was developed originally by third parties over whom the Company has no control. The Company has no assurances that embedded open source software components do not infringe on the intellectual property rights of others and the Company could be exposed to infringement claims and liability in connection with the use of such open source software. The Company conducted no independent investigation to determine whether the sources of that software have the rights necessary to permit the Company to use this software free of claims of infringement by third parties. If claims of infringement against the Company by third parties were successful, the Company could be required to replace certain components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with the ability of the Company to support its customers and/or require the Company to pay licensing fees. Certain open source software licences provide that any software that makes use of or incorporates components distributed under that licence will itself become subject to the same general distribution rights and other terms of that licence.

Infringement of intellectual property rights

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, the commercial success of the Company depends, in part, upon the Company not infringing upon the intellectual property rights of others. A number of competitors of the Company and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used in the solutions of the Company. Some of these patents may grant very broad protection to the owners of the patents. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in the target markets of the Company, the overlap in functionality of these products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that the Company routinely provides to its clients and partners. Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the proprietary rights of the Company. Some of the competitors of the Company have, or are affiliated with companies having, substantially greater resources than Nstein and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than Nstein. Regardless of their merit, any such claims could be time consuming to evaluate and defend; result in costly litigation; cause product shipment delays or stoppages; divert management's attention and focus away from the business; subject the Company to significant liabilities and equitable remedies, including injunctions; require the Company to enter into costly royalty or licensing agreements; and require the Company to modify or stop using infringing technology. The Company may be prohibited from developing or commercializing certain technologies and products unless the Company obtains a licence from a third party. There can be no assurance that the Company will be able to obtain any such licence on commercially favourable terms, or at all. If the Company does not obtain such a licence, the Company could be required to cease the sale of certain of its solutions.

Possible product liability

In view of their complexity, Nstein products may contain undetected errors or give rise to compatibility issues, especially when they are first introduced or when new versions are launched. Nothing guarantees that errors will not be found in new products after commercial delivery

has begun. The Company operates a stringent quality assurance program, with rigorous testing to minimize errors. Nstein has general liability insurance covering professional errors and omissions.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits and accounts receivable. Cash and cash equivalents as well as term deposits are held with reputable financial institutions. Consequently, management considers the risk of nonfulfilment related to these instruments to be minimal. There is no particular concentration of credit risk. The Company does not normally require collateral or other security from customers for trade accounts receivable; however, credit is extended only after evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when balances are deemed to be uncollectible.

Currency risk

The Company is exposed to currency risks as a result of its sales to foreign countries and the related trade accounts receivable. Most of these sales are denominated in US dollars and Euros. The risks are partially hedged by purchases and operating expenses denominated in US dollars and Euros.

Growth Management

As a result of the rapid growth of the field in which the Company operates, there will be significant pressure on management, operations and technical resources. The Company anticipates that its operating and personnel costs will increase in the future. In order to manage its growth, the Company will have to increase the number of its technical and operational employees and manage its employees, while efficiently maintaining a large number of relationships with third parties. There is no guarantee that the Company will be able to manage the growth of its business. The Company's inability to implement coherent management systems, add economical resources or adequately manage its expansion will have a significant and unforeseeable impact on its operations and operating results.

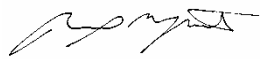
Acquisitions

The Company intends to continue to acquire businesses and assets. There is no assurance that the Company will be able to complete acquisitions, or that it will succeed in integrating the newly acquired businesses and assets into its operations. The failure to do so and to retain key personnel of acquired businesses could have a material adverse effect on the operating results of the Company. The acquisitions may require, in addition to the cash generated by the operations of the Company, other sources of financing. It is impossible to guarantee the availability of additional financial resources or that they will be available under acceptable conditions. Failure to obtain such financing could render future acquisitions difficult or impossible.

Possible negative tax consequences

Nstein derives major benefits from government programs supporting research and development in Canada, particularly tax credits for scientific research and experimental developments, and government funding. If changes in legislation or government policies respecting these programs result in their being cancelled or adversely modified, or if the Company is no longer in a position to participate in them, its operating costs would increase substantially.

This analysis of the Company's financial position and results of operations was prepared as of March 18, 2009. Additional information on the Company can be found on the SEDAR Web site at www.sedar.com.



Bruno Martel
Chief Financial Officer