

Quarterly Report for our Shareholders

President's message



The second quarter of 2001 has enabled Nstein to make a key breakthrough into the American market. The sale of a user's licence for the Nmedia Server to United Press International (UPI), a press group, is not only an excellent commercial agreement for Nstein, it also lends significant credibility to our technology. The deal with UPI gives us an ideal technological showcase and should provide us with true leverage in our present and future marketing efforts in the United States. UPI, an international press agency founded in 1907, has more than 600 correspondents in 90 offices worldwide.

We are already in advanced discussions with other U.S.-based groups. We are confident that these negotiations will soon translate into new sales agreements.

The American market offers excellent sales potential for the Nmedia Server. According to the Delphi Group of Boston, the electronic information management and distribution market is expected to amount to \$1.0 billion US by 2002. In terms of speed and flexibility, our Linguistic DNATM technology offers superior performance. This is a fact that UPI recognized after it conducted an exhaustive preliminary study on the different solutions available in the marketplace – a study that led UPI to choose the Nmedia Server.

With respect to finances, we expect that Nstein will continue steadily to improve its performance. Our goal is to reach the breakeven point during the 2002 fiscal year.

Moreover, you may have noticed that Nstein has created for itself a new logo and new website. Our new logo truly reflects the unique and innovative nature of our technology.

The "N" is highlighted and will be a central point of our corporate branding. The sinuous lines drawn over the "N" symbolize the volumes of unstructured information that, when treated by Nstein's Linguistic DNATM technology, represented by the "N", transform into a true asset for the client company – a structured knowledge base. This transformation is symbolized by three straight, vertical lines placed under the "N". At the same time, the lines over the "N" also represent the legendary physicist, Albert Einstein.

Nstein's new website (www.nstein.com) contains a wealth of precise information on the company's technology and products. This information is presented in a clear and structured manner. A complete section of the site is dedicated to investors. Thanks to the beauty and refinement of its design and the quality of its navigation system, the site enables the Internet user to explore the site with ease and pleasure. Our new site is a rich and effective information tool that will help us establish relationships of partnership with our present and future clients.

Over the next months, we will intensify our marketing efforts in the United States. Our agreement with UPI is, in this regard, an important stepping stone over which we intend to pursue our U.S. breakthrough.

Mario Girard
Chairman of the Board and President & CEO

This quarterly report contains forward-looking statements which are subject to a number of risks, uncertainties and assumptions. Actual results and events may vary significantly.

Nstein TECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Cash flows from operating activities				
Loss for the period	(1,039,988)	(158,960)	(2,807,185)	(3,045,056)
Depreciation of capital assets not affecting cash and cash equivalents	229,854	89,139	486,260	118,756
	(810,134)	(69,821)	(2,320,925)	(2,926,300)
Changes in non-cash operating working capital items				
Accounts receivable		-		-
Trade	(172,398)		(374,065)	
Commodity taxes recoverable and other	(96,402)	89,854	105,945	147,369
Tax credits recoverable	(50,000)	(808,000)	(109,000)	(808,000)
Accounts payable and accrued liabilities	(233,289)	315,267	342,200	1,221,828
	(552,089)	(402,879)	(34,920)	561,197
	(1,362,223)	(472,700)	(2,355,845)	(2,365,103)
Cash flows from financing activities				
Long-term debt contracted	-	500,000	485,690	500,000
Reimbursement of long-term debt	(404,794)	(1,254,166)	(706,471)	(1,391,666)
Variation in share capital, net of share issue expenses	-	9,120,252	-	12,072,111
	(404,794)	8,366,086	(220,781)	11,180,445
Cash flows from investment activities				
Term deposits	-	150,000	(225,443)	(350,000)
Purchase of capital assets	(5,531)	(12,473)	(58,473)	(303,035)
	(5,531)	137,527	(283,916)	(653,035)
Changes in cash and cash equivalents	(1,772,548)	8,030,913	(2,860,542)	8,162,307
Cash and cash equivalents at the beginning of the period	5,543,771	290,890	6,631,765	159,496
Cash and cash equivalents at the end of the period	3,771,223	8,321,803	3,771,223	8,321,803
Additional information				
Interest paid	89,173	8,665	174,610	8,665
Interest received	(69,472)	(4,318)	(134,502)	(8,660)



Nstein TECHNOLOGIES INC.

Interim Consolidated Statements of Earnings

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Revenues	345,651	-	547,318	-
Operating, selling and administrative	772,465	595,331	1,913,496	1,524,442
Net research and development	415,769	247,012	990,294	2,150,842
Research and development tax credits	(50,000)	(784,000)	(90,000)	(784,000)
Depreciation of capital assets	229,854	89,139	486,260	118,756
Net financial	17,551	11,478	54,453	35,016
	1,385,639	158,960	3,354,503	3,045,056
Loss for the period	1,039,988	158,960	2,807,185	3,045,056
Basic and fully diluted loss per share	0.012	0.002	0.033	0.043
Basic weighted average number of shares outstanding	84,267,165	71,457,243	84,267,165	70,144,162

Nstein TECHNOLOGIES INC.

Interim Consolidated Statements of Deficit

	Six months ended June 30,	
	2001	2000
	(unaudited)	(unaudited)
	\$	\$
Balance at the beginning of the period	(6,018,878)	-
Loss for the period	(2,807,185)	(3,045,056)
Balance at the end of the period	(8,826,063)	(3,045,056)

Nstein TECHNOLOGIES INC.

Interim Consolidated Balance Sheets

	At June 30 2001 (unaudited)	At December 31 2000
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,771,223	6,631,765
Term deposits	1,025,443	800,000
Accounts receivable		
Trade	374,065	-
Commodity taxes recoverable and other	161,994	267,939
Tax credits recoverable	967,850	858,850
	6,300,575	8,558,554
Capital assets	1,929,941	2,357,728
	8,230,516	10,916,282
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Corporate shareholders	7,208	141,220
Other suppliers	1,127,505	651,293
Current portion of long-term debt	1,498,772	1,330,237
	2,633,485	2,122,750
Long-term debt	1,606,025	1,995,341
	4,239,510	4,118,091
Shareholders' equity		
Share capital	12,817,069	12,817,069
Deficit	(8,826,063)	(6,018,878)
	3,991,006	6,798,191
	8,230,516	10,916,282

