

Information

Informace

Informação

Enformasyon

المعلومات

Enformasyon

Información

Informação

情報

Información

informace

informacja

informacja

information

정보

資訊

Информация

Enformasyon



annual report
2003



About Nstein Technologies Inc.

Nstein Technologies, (TSX-V: EIN), an emerging leader in Business Intelligence (BI), provides large corporations and organizations with a new way of generating value from their information using its proprietary Global Intelligent Information Management (GIIM) platform. The comprehensive and scalable GIIM platform unlocks and assimilates vast amounts of information in real time and in 12 languages from unstructured sources such as emails and websites or legacy sources (databases). It then organizes and reveals new data – such as customer satisfaction indicators, trends and early warnings – essential to a company's critical business and decision-making processes. Nstein's solution provides a new layer of intelligent information management at a global level, enabling development of proactive strategies, increases in productivity, creation of new revenue opportunities, and leverage of past and future IT investments. The GIIM platform is the result of ten years of research in computational linguistics and relies on award-winning technology to help global corporations and organizations in various markets, such as e-publishing, finance, legal, governments and homeland security. Nstein is headquartered in Montreal (Quebec, Canada) with operations in Boston, San Francisco, Washington D.C. and New York, USA. For more information, please visit our website at www.nstein.com

01	letter to shareholders
03	management's discussion and analysis
06	reports to shareholders
08	consolidated financial statements
10	notes to consolidated financial statements
20	management team and board of directors

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S MESSAGE

Building on solid foundations

2003 was a momentous year for Nstein as it allowed us to confirm how effectively our solutions – first marketed for the e-publishing industry – could also meet the needs of other high growth areas. Over the last few years, stringent demands from the e-publishing sector have encouraged us to push further the limits of our technology, thus enhancing our competitive advantage.

It was also a recovery year in the technology sector. This economic environment helped to promote investments in new technologies in the industries we target. In keeping with our growth strategy, we also formed a number of major partnerships, giving our technology access to highly promising markets.

Also in fiscal 2003, revenues increased by 31% to \$1.8 million, compared to \$1.4 million in 2002. The fourth quarter was the main contributor to last year's results as revenues grew an unprecedented 72% resulting from major new contracts. Beginning in late 2002, we implemented cost containment measures across all levels of the organization which improved our bottom line. These factors decreased our net loss to \$2.4 million or \$0.02 per share in fiscal 2003 from \$4.7 million or \$0.05 per share in the previous year. In November 2003, Nstein received a new vote of confidence from its financial partners in the form of \$4.25 million in additional funding. This important backing has enabled us to improve our financial situation and intensify our marketing efforts.

Our seasoned management team has been working relentlessly to implement the market diversification strategy it introduced in 2003 and explore the many opportunities for its products. We have also strengthened it with the appointment of Mario Lapointe as Vice President, Sales, Jacques Dufort as Vice President, Business Development and Denis Lavallée as Vice President, Business Development, who is based in our New York office. These new executives bring extensive IT expertise to Nstein, along with a strong track record.

An effective Global Intelligent Information Management solution (GIIM)

Large corporations and organizations are being swamped with information from various sources, both structured and unstructured. This phenomenon is growing at an exponential rate and is becoming a real problem. Until very recently, available solutions only managed structured information, which many studies suggest represents approximately 20% of a company's information. In fact, about 80% of information is unstructured and comes from a wide variety of sources, such as Web sites, intranets, e-mails and thousands of reports and documents in various formats.



Mario Girard

This analysis reviews the Company's financial situation and consolidated results of operations for the 2003 fiscal year. It should be read along with the audited consolidated financial statements and related notes that are also presented in this annual report. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Some statements in this analysis constitute forward-looking statements and reflect the Company's present assumptions regarding future events. Forward-looking statements involve risks and uncertainties that could cause actual results to differ from current expectations.

Overview

Founded in 2000, Nstein Technologies Inc. is a public corporation listed on the TSX Venture Stock Exchange (EIN). Nstein Technologies is an emerging leader in Business Intelligence (BI), and provides large corporations and organizations with a new way of generating value from their information using its proprietary Global Intelligent Information Management (GIIM) platform. The comprehensive and scalable GIIM platform unlocks and assimilates vast amounts of information in real time and in 12 languages from unstructured sources such as emails and websites or legacy sources (databases). It then organizes and reveals new data – such as customer satisfaction indicators, trends and early warnings – essential to a company's critical business and decision-making processes. Nstein's solution provides a new layer of intelligent information management at a global level, enabling development of proactive strategies, increases in productivity, creation of new revenue opportunities, and leverage of past and future IT investments. The GIIM platform is the result of ten years of research in computational linguistics and relies on award-winning technology to help global corporations and organizations in various markets, such as e-publishing, finance, legal, governments and homeland security.

Over the last few years, Nstein has made inroads into the e-publishing market with its Nserver™ product suite that

allows users to extract key information concepts and categorize documents rapidly and efficiently. Specialized tools to create knowledge bases and taxonomies, as well as search and browsing tools, are integrated into its suite of products. Information drives businesses in the e-publishing industry. Contact with this market and its very stringent requirements has allowed Nstein to acquire extensive expertise in the real-time processing and understanding of unstructured, multilingual information that will enable it to adapt its existing products to deliver a whole new generation of business intelligence solutions. These solutions will enable the Company to target large corporations and organizations while pursuing its momentum in the e-publishing market.

Results of operations

• Sales

The Company's revenues reached \$1.8 million for the fiscal year ending December 31, 2003, showing an increase over revenues of \$1.4 million for the previous year. The majority of the Company's revenues come from the sale of user licenses for software, post-sale technical support services and specialized services. Revenues were generated mostly by clients in the e-publishing industry, except for an agreement signed with Health Canada for the Global Public Health Intelligence Network (GPHIN) project, a global early warning system for diseases and viruses. Recurring revenues from post-sale technical support services made up 17% of total revenues for the fiscal year. Nstein earned 21% of its revenues through new product sales and the delivery of specialized services for its existing client base, which is a good customer satisfaction indicator. During the fiscal year, nine new clients used Nstein's products and services. The largest share of the Company's revenues was generated through its direct sales force. The increase in total revenues clearly indicates market receptiveness to innovative technology solutions such as those offered by Nstein.

Outlook

Nstein has been receiving encouraging signals from potential clients with whom it is currently in discussions. The Company has a powerful technology with proven effectiveness that has generated additional sales among Nstein's existing clients. In addition, the improving economic climate is helpful in solidifying sales opportunities. In 2004, the Company will pursue its commercialization efforts in the e-publishing sector and with large corporations and organizations that are struggling with masses of unstructured information. Sales efforts will be directed toward the North American and European markets through the direct sales force and through the development of partnerships in order to expand and accelerate the distribution of Nstein solutions. For 2004, the Company is aiming for a significant increase in sales and a notable improvement in its results as a consequence.

Risks and uncertainties

Nstein's sphere of activity is relatively new and includes several competitors. New players, new partnerships and new technology solutions are constantly entering the picture. Nstein will thus need to pursue the market diversification strategy it introduced in 2003, continue with its aggressive commercialization efforts, and also continue to develop its technology in order to meet the needs of large corporations and organizations. To achieve this end, the Company will need to keep its key personnel.

Nstein's products are state-of-the-art and nothing can guarantee that they will be adopted rapidly by its clientele. The Company has demonstrated that its products can meet the needs of the e-publishing market, but it does not have enough historical metrics to be able to judge the exact potential of its solutions for large corporations and organizations. Actual results could thus differ significantly from anticipated results.

The majority of the Company's revenues are generated abroad. The firm is thus exposed to currency fluctuations and does not presently use financial instruments to guard against these variations.

In addition, the Company's future capital requirements will depend on a number of factors, notably research and development expenses aimed at consolidating or improving the competitive advantage of Nstein's technology, expenses required to drive adoption of the technology, and the level and rate of new sales. There is no guarantee that additional financing will be available or that it will be available on acceptable terms.



Bruno Martel
Finance Director

Auditors' Report

To the Shareholders of Nstein Technologies Inc.

We have audited the consolidated balance sheets of **Nstein Technologies Inc.** as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PriceWaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada

January 23, 2004

Consolidated Balance Sheets ■■■ As at December 31, 2003 and 2002

	2003	2002
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,107,684	3,341,078
Term deposits (note 7)	164,600	372,600
Accounts receivable (note 3)	1,127,100	481,166
Refundable tax credits (notes 6 and 7)	380,000	352,500
Prepaid expenses	20,224	38,021
	4,799,608	4,585,365
Property, plant and equipment (notes 4 and 7)	479,782	637,345
Intangible assets (notes 5 and 7)	22,085	54,812
Deferred financing expenses , net of amortization of \$2,339 (note 7)	123,974	-
	5,425,449	5,277,522
Liabilities		
Current liabilities		
Bank loan (note 6)	172,011	-
Accounts payable and accrued liabilities	1,250,235	677,018
Deferred revenues	101,728	250,056
Current portion of long-term debt	380,080	893,600
	1,904,054	1,820,674
Long-term debt (note 7)	749,883	129,963
	2,653,937	1,950,637
Shareholders' Equity		
Share capital (note 8)	19,954,649	18,445,136
Other equity components (notes 7 and 8)	330,858	-
Deficit	(17,513,995)	(15,118,251)
	2,771,512	3,326,885
	5,425,449	5,277,522
Commitments (note 10)		

Consolidated Statements of Earnings and Deficit ■■■ For the years ended December 31, 2003 and 2002

	2003	2002
	\$	\$
Revenues (note 13)	1,775,322	1,352,164
Expenses		
Operating, selling and administrative	2,903,121	4,291,568
Research and development	1,701,826	2,242,250
Research and development tax credits	(650,214)	(849,091)
Depreciation of property, plant and equipment	151,533	160,066
Amortization of intangible assets	15,617	33,803
Interest on long-term debt	53,493	173,361
Interest and bank charges	50,216	72,284
Interest income	(42,770)	(119,453)
Exchange loss (gain)	(17,728)	15,779
Loss on disposal of property, plant and equipment	3,633	9,733
Amortization of deferred financing expenses	2,339	-
	4,171,066	6,030,300
Loss for the year	2,395,744	4,678,136
Deficit – Beginning of year	15,118,251	10,440,115
Deficit – End of year	17,513,995	15,118,251
Basic and diluted loss per share	0.02	0.05
Basic and diluted weighted average number of shares outstanding	106,928,613	100,815,110

	2003	2002
	\$	\$
Cash flows from operating activities		
Loss for the year	(2,395,744)	(4,678,136)
Items not affecting cash and cash equivalents		
Depreciation of property, plant and equipment	151,533	160,066
Amortization of intangible assets	15,617	33,803
Amortization of deferred financing expenses	2,339	-
Loss on disposal of property, plant and equipment	3,633	9,733
	(2,222,622)	(4,474,534)
Change in non-cash operating working capital items		
Accounts receivable	(645,934)	262,223
Refundable tax credits	(27,500)	(93,396)
Prepaid expenses	17,797	31,001
Accounts payable and accrued liabilities (note 8)	354,775	(231,920)
Deferred revenues	(148,328)	(79,823)
	(449,190)	(111,915)
	(2,671,812)	(4,586,449)
Cash flows from financing activities		
Bank loan contracted	172,011	-
Long-term debt contracted	1,000,000	-
Payments on long-term debt	(893,600)	(1,440,106)
Issuance of common shares, net of share issue expenses (note 8)	1,932,500	5,628,067
	2,210,911	4,187,961
Cash flows from investing activities		
Term deposit maturity	208,000	676,377
Additions to property, plant and equipment	(17,578)	(500,581)
Acquisition of intangible assets	(1,654)	(16,730)
Tax credits related to property, plant and equipment	19,975	20,653
Tax credits related to intangible assets	18,764	-
	227,507	179,719
Decrease in cash and cash equivalents	(233,394)	(218,769)
Cash and cash equivalents - Beginning of year	3,341,078	3,559,847
Cash and cash equivalents - End of year	3,107,684	3,341,078
Additional information		
Interest paid	112,118	255,645
Interest cashed	(44,640)	(141,181)

Approved by the Board of Directors,



Mario Girard
Director



Marc Dutil
Director

1. STATUTES AND NATURE OF ACTIVITIES

The company, incorporated under Part 1A of the Québec Companies Act, operates in the area of linguistic intelligence products applied to businesses in the private and public sectors. The company's objective is to create and market innovative business solutions based on linguistic intelligence in order to optimize the knowledge management and increase significantly the productivity and performance of its clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and basis of presentation

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiaries, Nstein R&D Inc. and Nstein Technologies Corp.

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. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the allowance for doubtful accounts receivable, refundable tax credits, the useful lives of property, plant and equipment and intangible assets and certain accrued liabilities. Actual results could differ from those estimates.

Foreign currency

- *Foreign currency transactions*

Transactions denominated in currencies other than Canadian dollars 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 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 subsidiary*

Nstein Technologies Corp. is considered to be an integrated foreign operation. As a result, the foreign subsidiary's 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 average rate for the year. Gains and losses resulting from remeasurement are reflected in the statements of earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks as well as all highly liquid short-term investments having a term of less than three months at the acquisition date.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated using the declining balance method at the rates mentioned in note 4, except for leasehold improvements which are depreciated using the straight-line method over a period of five years.

The carrying value of property, plant and equipment is evaluated whenever significant events occur which may indicate an impairment in value, based upon a comparison of the carrying value to the net recoverable amount.

Intangible assets

Intangible assets are recorded at cost and are amortized using the declining balance method at the rates mentioned in note 5.

The carrying value of intangible assets is evaluated whenever significant events occur which may indicate an impairment in value, based upon a comparison of the carrying value to the net recoverable amount.

Deferred financing expenses

Deferred financing expenses relate to the granting of warrants and are amortized over the term of the related financing (note 7).

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax credits

As a result of its eligibility to 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.

Research and development tax credits and other tax credits are accounted for using the cost reduction method. Under this method, tax credits related to

qualified expenditures are accounted for as a reduction of the related expenditures in the year in which the expenditures are incurred, provided their realization is reasonably assured.

These tax credits could be subjected to a review and a possible adjustment by the Canadian federal and Quebec provincial tax authorities.

Revenue recognition

The company recognizes revenues from the sale of software and related post-contract customer support and other related services in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition". Fees from arrangements involving licenses, post-contract customer support and other related services are allocated to the various elements based on company-specific objective evidence of fair value of each of the elements. Revenues from software licenses are recognized when persuasive evidence of an arrangement exists, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable, and collection is considered probable. Revenues from post-contract customer support elements are recognized ratably over the related support period. Revenues from other related services are recognized as the services are performed.

Research and development expenses

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research, are expensed as incurred, net of related tax credits and government grants. Development expenses which would meet generally accepted criteria for deferral would be capitalized, net of related tax credits and government grants, and would be amortized against earnings over the estimated period of benefit.

As at December 31, 2003 and 2002, the company had not deferred any development costs.

3. ACCOUNTS RECEIVABLE

	2003 \$	2002 \$
Trade	1,048,641	405,387
Commodity taxes recoverable	70,876	67,667
Interest receivable	6,241	8,112
Other	1,342	-
	1,127,100	481,166

4. PROPERTY, PLANT AND EQUIPMENT

	Depreciation rate and period	2003		2002	
		Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Office furniture and equipment	20%	218,183	79,202	218,183	48,144
Computer equipment	35%	645,950	480,207	246,214	103,351
Leasehold improvements	5 years	262,145	87,087	262,145	34,661
Computer equipment held under a capital lease	35%	-	-	410,310	313,351
		1,126,278	646,496	1,136,852	499,507
Less: Accumulated depreciation		646,496		499,507	
Net amount		479,782		637,345	

During fiscal 2003, tax credits in the amount of \$19,975 (\$20,653 in 2002) have been applied against the cost of property, plant and equipment.

5. INTANGIBLE ASSETS

	Amortization rate %	2003		2002	
		Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Software	50	140,992	132,610	45,304	24,714
Nstein software	50	1,040,000	1,026,297	1,040,000	1,017,165
Software held under a capital lease	50	-	-	112,798	101,411
		1,180,992	1,158,907	1,198,102	1,143,290
Less: Accumulated amortization		1,158,907		1,143,290	
Net amount		22,085		54,812	

During fiscal 2003, tax credits in the amount of \$18,764 (nil in 2002) have been applied against the cost of intangible assets.

6. BANK LOAN

During the year, a company's subsidiary contracted a bank loan to finance a portion of its scientific research and experimental development tax credits. This loan bears interest at prime rate plus 1.5% and is repayable on receipt of the refundable tax credits. A second moveable hypothec on the universality of the subsidiary's receivables and its present and future accounts receivable has been given as security for that loan.

7. LONG-TERM DEBT

	2003 \$	2002 \$
Term loans		
11.9%, payable in monthly instalments of \$15,951 including principal and interest for a period of thirty-six months, maturing in February 2004. A moveable hypothec on the company's present and future moveable properties has been given as security for this loan	31,434	617,164
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 for a period of one hundred and sixteen months, 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	98,529	106,680
Prime rate plus 2.95%, payable in monthly principal instalments of \$20,833 plus interest from June to September 2004 inclusively and in monthly principal instalments of \$16,106 plus interest afterwards, maturing in May 2008. An additional repayment of \$207,989 will also be made on receipt of a subsidiary's refundable tax credits. A second moveable hypothec of \$2,700,000 on Nstein technology's intellectual property and patent and the universality of the company's present and future properties has been given as security for that loan a)	1,000,000	-
Reimbursed during the year	-	299,719
	1,129,963	1,023,563
Less: Current portion	380,080	893,600
	749,883	129,963

a) On November 27, 2003, the company accepted a financing offer from the Bank of Montreal consisting of a term loan in the amount of \$2,250,000, secured by La Financière du Québec up to 80%. In consideration of the loan collateral, the company granted La Financière du Québec stock warrants entitling the latter to acquire 2,649,429 newly issued shares at a price of \$0.13 per share. These stock warrants vest over a five-year period. An amount of \$1,000,000 was disbursed upon the closing of the financing. The fair value of the stock warrants related to the financing disbursed has been estimated at \$126,313 using the Black-Scholes valuation model. The value of stock warrants has been accounted for as deferred financing expenses in the balance sheet and is amortized over a 54-month period. The related credit has been recorded under the item "Other equity components". The balance of the loan will be used to finance the selling expenses incurred by the end of fiscal 2004. The other disbursements are conditional upon the company reaching certain levels of sales and operating results for fiscal year 2004 and for the three-month periods ending March 31, 2004 and June 30, 2004. Under that loan, the company is bound to meet certain financial conditions.

The annual principal instalments required on long-term debt over the next five years amount to \$380,080 in 2004, \$203,224 in 2005, \$204,265 in 2006, \$205,416 in 2007 and \$93,943 in 2008.

8. 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

Issued and fully paid

	2003 \$	2002 \$
132,838,594 common shares (104,267,165 in 2002)	19,954,649	18,445,136

On November 28, 2003, the company issued 28,571,429 common shares at a unit price at \$0.07 to the Fonds de solidarité des travailleurs du Québec (F.T.Q.) (the "Fund") for cash consideration of \$2,000,000. Share issue expenses in the amount of \$285,942 have been applied against share capital (of which an amount of \$218,442 has been included in accounts payable and accrued liabilities as at December 31, 2003). Under this private placement, the company also issued stock warrants to the Fund entitling the latter to acquire 2,000,000 newly issued shares at a price of \$0.10 per share. These stock warrants vest over a five-year period. An amount of \$204,545 has been allocated to these warrants using the Black-Scholes valuation model and has been recorded under the item "Other equity components". As part of this transaction, 6,666,667 stock warrants granted in favour of the Fund upon the March 2002 transaction have been cancelled.

9. STOCK OPTION PLAN

a) Under the plan

In June 2000, the company established a stock option plan for directors, employees and service suppliers of the company or its subsidiaries. All the options granted under the plan may be exercised within a maximum period of ten years following the date of grant. The Board of Directors will designate the recipients of options and will determine the number of common shares covered by each of these options, the date of vesting of each option, the exercise price of each option, the expiry date, the acquisition conditions and the restrictions related to the exercise of these options. The purchase price of these shares may not be lower than their closing price on the day preceding the date of grant. The maximum number of common shares that is issuable under the plan was fixed at 10,800,000 common shares and the maximum number that may be granted to a recipient shall not exceed 5% of all the outstanding common shares.

The company's directors have agreed that options might generally be exercised at a rate of 20% to 25% per annum from the first anniversary of the date of grant, except for options granted to directors and service suppliers, which are exercisable on the date of grant.

The following tables present the stock option activity since January 1, 2002 and summarize information about fixed stock options outstanding and exercisable as at December 31:

	2003		2002	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	5,574,200	0.57	3,601,800	1.15
Granted	2,813,334	0.12	4,009,900	0.30
Cancelled	(2,008,000)	0.70	(2,037,500)	0.65
Outstanding – End of year	6,379,534	0.46	5,574,200	0.57
Options exercisable – End of year	2,287,662	0.77	1,910,508	0.96

Exercise price \$	Options outstanding as at Dec. 31, 2003		Options exercisable as at Dec. 31, 2003	
	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life
0.10	1,598,334	6.16	300,000	6.39
0.14	1,200,000	4.90	-	-
0.30	1,748,400	4.85	661,400	4.23
1.00	125,000	6.45	125,000	6.45
1.10	1,657,800	4.02	1,151,262	4.01
2.97	50,000	6.45	50,000	6.45
	6,379,534		2,287,662	

b) External to the plan

As at December 31, 2003, the company had 64,000 (114,505 in 2002) common stock options outstanding that will expire in June 2005 at an exercise price of \$1.00.

Accounting for stock-based compensation plans

The company has elected not to use the fair value-based method to measure the compensation cost related to grants of stock options. In this instance, however, under Section 3870, Stock-based Compensation and Other Stock-Based payments, the company is required to make pro-forma disclosures of loss and basic and diluted loss per share as if the fair value based method of accounting had been applied.

The fair value of options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	2003	2002
Risk-free interest rate	4.42%	5 %
Expected volatility	75%	75 %
Dividend yield	nil	nil
Expected life	55 months	60 months

The weighted average fair value of these options is \$78,721 (\$119,903 in 2002)

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions, and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

If the fair value based method had been used to account for stock-based compensation costs related to stock options granted to employees, the loss and related loss per share would be as follows:

	2003 \$	2002 \$
Pro-forma loss for the year	2,474,465	4,798,039
Pro-forma basic and diluted loss per share	0.02	0.05

10. COMMITMENTS

Use of offices

The company's aggregate commitments under lease agreements for offices amount to \$2,897,502 and consist of annual payments of \$334,350 from 2004 to 2008.

Research agreement

The company's minimum aggregate commitments of a company's subsidiary under a research agreement entered into in 2003 with the Université de Montréal amount to \$190,000. Minimum annual payments under this agreement amount to \$76,667 in 2004, \$68,333 in 2005 and \$45,000 in 2006. Furthermore, the company put at the Université de Montréal's disposal, free of charge, two copies of its software, including customer support, and this, throughout the term of the agreement.

11. FINANCIAL INSTRUMENTS

Fair value

Cash and cash equivalents, term deposits, accounts receivable, bank loan, accounts payable and accrued liabilities and long-term debt are financial instruments whose fair value approximates their carrying value due to their short-term maturity or current market rates and the company's credit rating.

Credit risk

Financial instruments which 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 high-credit quality financial institutions. Consequently, management considers the concentration of credit risk related to these instruments to be minimal.

There is no particular concentration of credit risk. Generally, the company does not require collateral or other security from customers for trade accounts receivable; however credit is extended following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

Interest rate risk

As at December 31, 2003 and 2002, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	.....	Fixed and variable interest rate
Term deposits	.....	1.75% (0.9% to 2.3% in 2002)
Accounts receivable	.....	Non-interest bearing
Bank loan	.....	As described in note 6
Accounts payable and accrued liabilities	.....	Non-interest bearing
Long-term debt	.....	As described in note 7

Currency risk

The company is exposed to currency risks as a result of its export sales and the related trade accounts receivable. Substantially all of these sales are denominated in US dollars. These risks are partially hedged by purchases and operating expenses denominated in that foreign currency.

12. FUTURE INCOME TAXES

As at December 31, 2003, for Canada federal, Quebec provincial and United States income tax purposes, the company has accumulated non-capital losses of approximately \$7,460,000 (\$8,264,000 in 2002), \$7,980,000 (\$8,446,000 in 2002) and \$3,720,000 (\$2,870,000 in 2002), respectively, which can be carried

forward against future years' taxable income and which will expire as follows:

	CANADA		UNITED STATES
	Federal \$	Provincial \$	\$
2007	890,000	2,800,000	-
2008	3,830,000	2,520,000	-
2009	1,930,000	1,910,000	-
2010	810,000	750,000	-
2021	-	-	440,000
2022	-	-	2,460,000
2023	-	-	820,000

Certain research and development expenses incurred by the company can be carried forward against future years' taxable income. These unclaimed deductions, which can be carried forward indefinitely, amount to approximately \$4,000,000 (\$2,993,000 in 2002) for Canada federal income tax purposes and \$5,020,000 (\$4,312,000 in 2002) for Quebec provincial income tax purposes. Furthermore, for Canada federal income tax purposes, investment tax credits in the amount of \$1,080,000 will be deductible against the income tax payable of future years ending between 2010 and 2013.

Loss carryforwards and research and development expenses could be subjected to a review and a possible adjustment by tax authorities.

Share issue expenses in the amount of \$868,000 (\$984,000 in 2002) will be deductible for income tax purposes over a five-year period expiring at the latest in 2007.

Furthermore, the net tax value of property, plant and equipment and intangible assets exceeds their net carrying value by approximately \$4,120,000 (\$1,424,000 in 2002) for federal income tax purposes and \$4,300,000 (\$1,629,000 in 2002) for provincial income tax purposes.

The income tax expense differs from the amount that would have been calculated using the combined Canadian federal and provincial statutory income tax rate of 33.02% (35.02% in 2002) as no tax benefit in connection with those items has been accounted for in the financial statements since the company considers that it is not more likely than not that this future income tax asset will be realized.

13. SEGMENT INFORMATION

The company is organized under a single operating segment, that being the sale of software licenses 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:

	2003 \$	2002 \$
United States	1,258,511	1,209,110
Canada	462,721	143,054
Europe	54,090	-
	<u>1,775,322</u>	<u>1,352,164</u>

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

Four customers represent 67% (two customers represented 46% in 2002) of the company's total sales. As at December 31, 2003, these customers represent 66% of the company's accounts receivable (the two customers represented 51% in 2002).

14. COMPARATIVE FIGURES

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

OFFICERS

Mario Girard, Chairman and Chief Executive Officer
Laurent Proulx, Senior Vice-President and Chief Technology Officer
Mario Lapointe, Vice-President, Sales
Denis Lavallée, Vice-President, Business Development
Jacques Dufort, Vice-President, Business Development
Bruno Martel, Finance Director
Nathalie Després, Legal Secretary

BOARD OF DIRECTORS

Robert Barakett

Robert Barakett has been with the QFL Fund for the past three years. He is currently Investment Director. Previously, he held a CFO position for a small-cap public technology company. From 1998 to 2000, he was Treasurer at Saputo Inc. Prior to that, he held various corporate banking positions with the National Bank of Canada and the Bank of Montreal for eight years. He has served on the board of many private and public companies and numerous audit, HR and corporate governance committees.

Yves H. Boucher

Yves H. Boucher is Executive Vice-President and Chief Financial Officer of eGENUITY Technologies Inc. He held the same position at Nstein Technologies Inc. from 2000 to 2002. He was also Vice-President, Finance and subsequently Executive Vice-President of BABN Technologies from 1995 to 2000. From 1990 to 1995, Mr. Boucher was Vice-President, Finance and Administration of Ramca Tiles Ltd. Between 1985 and 1990, Mr. Boucher held various strategic positions at Arthur Andersen.

Richard Drouin

Richard Drouin is Chairman of the Board of Abitibi Consolidated and Stelco. He is also Chairman of the North American Electric Reliability Council (NERC). He is a former Chairman and Chief Executive Officer of Hydro-Québec (1988 to 1995). Richard Drouin is also a Director of American Superconductor Corporation (Boston). He is a Fellow of the Royal Canadian Geographical Society and Chairman of the Board of Trustees of Université Laval. Mr. Drouin is an Officer of the Order of Canada and Honorary Consul of Great Britain in Quebec.

Pierre Ducros

President of P. Ducros & Associates Inc., Pierre Ducros co-founded DMR in 1973. He was President and Chief Executive Officer of that company from 1973 to 1996. He has been a member of the Policy Committee of the Canadian Council of Chief Executives, a past Director of the Conference Board of Canada and a past Chairman of the Board of the Information Technology Association of Canada.

MANAGEMENT

Yves Ferland, Product Development Director
Arman Tajarobi, Linguistic Engineering Director
Jean-François Martin, Production Manager
Rina Marchand, Office Manager

He is a member of the board of the following corporations: National Bank Financial, BCE Emergis, ManuLife Financial, eGENUITY Technologies Inc. and Cognos Incorporated. Pierre Ducros is also a Member of the Order of Canada and an Officer of the *Ordre de la Couronne* of Belgium.

Marc Dutil

Marc Dutil joined The Canam Manac Group Inc. in 1989. He held different positions at the head office of Canam Steel Works, Inc. before being named General Manager of Steel Plus Network®. In 2002, Mr. Dutil was named Executive Vice-President of the Canam Manac Group Inc. The following year he was appointed President and Chief Operating Officer. He is also a member of the Board of Directors of this company.

Mario Girard

Chairman of the Board and Chief Executive Officer of Nstein Technologies Inc., Mario Girard was previously President of Gespro Technologies, a company he founded in 1985. Among his achievements, Mario Girard played a major role in raising approximately \$20 million in public and private investments for key strategic projects at the company. He carried out several company acquisitions and managed their successful integration into Gespro, and was also responsible for the spin-off of several technology companies that are now independent. Mario Girard is a member of the Young Presidents' Organization and was recipient of the 1996 Arista-Sun Life Young Quebec Entrepreneur award.

Jean-Pierre Soublière

Jean-Pierre Soublière is President of Anderson Soublière Inc. He was President, SHL Systemhouse International & Canada for 12 years. He is a member of several councils and boards including the Canadian E-Business Opportunities Roundtable, the University of Ottawa, International DataCasting, Med-Eng Systems, Atomic Energy of Canada (AECL), Provance Technologies and E-Witness. He was Chairman of the Canadian Federal Government's Ad Hoc Industry Advisory Committee on Electronic Commerce (1988). He has received several honours: Business Person of the Year from the Ottawa-Carleton Board of Trade (1995), the Prix d'excellence from the Regroupement des gens d'affaires (1996) and the Trudeau Medal from the University of Ottawa (1997).



Stock Exchange Listing

Canadian Venture Exchange (TSX-V), under the "EIN" symbol

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Ogilvy Renault

Transfer Agents and Registrars

CIBC Mellon Trust Company

Investor Relations

Mr. Bruno Martel, Finance Director

Telephone: (514) 908-5406, ext. 235

Fax: (514) 908-5407

Toll Free: 1 877 678-3461

E-mail: bruno.martel@nstein.com

Annual Meeting

The annual meeting for Nstein Technologies Inc. shareholders will be held on May 4th 2004 at 10:30 A.M. (EST) at the Hilton Montréal Bonaventure Hotel, Portage Suite, located at 900, De la Gauchetière W., Montreal, Quebec, H5A 1E4.



Nstein Technologies Inc.

Cité Multimédia

75 Queen Street, Suite 4400

Montreal (Quebec)

H3C 2N6 Canada

Tel.: **(514) 908-5406**

Fax.: **(514) 908-5407**

Toll-free: 1 877 678-3461

E-mail: info@nstein.com

www.nstein.com