

Quarterly Report for our Shareholders

President's message



The third-quarter of 2001 enabled Nstein to strengthen its strategic position in the United States, our target market. This resulted in the closing of two additional sales of user's licenses for the nserver e-publisher suite™. One of these licenses was sold to the American Psychological Association for \$450,000. The APA, located in Washington, DC, is the largest association of psychologists in the world. Our nserver™ will allow it to automatically classify and index data from the APA's documentation centre, the most renowned in the psychology world.

The other nserver™ sale was made to Interactive Business Research (IBR), a Los Angeles-based company that provides on-line services and research and training tools for businesses. This agreement has good commercial potential since it makes Nstein an original equipment manufacturer (OEM) for IBR. The agreement consists of an initial sale of a software development license for \$115,000. The deal also includes the payment of royalties to Nstein on future sales of the system developed by IBR. Our solution will enable IBR to create a competitively-priced, quick and precise research tool designed for specialized databases.

More than two ordinary sales deals

The last two sales of the third-quarter testify to the recognition that Nstein has now gained in the electronic publishing market in the United States. This recognition is largely due to our recently announced sale of the nserver™ to United Press International (UPI), a media giant. That sale, our very first in the U.S. market, was closed after UPI conducted a thorough comparative analysis of the various competing solutions on the market – an analysis from which Nstein came out the big winner.

In addition to facilitating the sales to the APA and IBR, the UPI deal made a loud echo in the electronic publishing industry. Ever since, Nstein has been carrying out multiple negotiations with other potential clients. We are confident that we will continue making inroads into the U.S. market during the coming months.

To consolidate our U.S. breakthrough, we also recently announced the appointment of two top executives who will be dedicated to business development in the U.S. market. They are Marty Reiner, who has taken the position of Vice President, Sales and Mark Adrian who is the new Director, Sales. Mr. Reiner and Mr. Adrian were both previously employed at Webmind, a computer company specialized in the development of artificial intelligence-based technology.

Income growth

During the third quarter of 2001, Nstein continued its sales growth with recorded income of just over \$360,000. For the first nine months of the year, the Company's income totaled more than \$907,000.

In order to support its future development projects, Nstein has also recently undertaken a round of financing. The timing is right because our technology now enjoys strong recognition – recognition that has resulted in our first commercial agreements.

Mario Girard
Chairman of the Board,
President and Chief Executive Officer

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 Earnings

	Three months ended September 30,		Nine months ended September 30,	
	2001 (unaudited) \$	2000 (unaudited) \$	2001 (unaudited) \$	2000 (unaudited) \$
Revenues	360,464	–	907,782	–
Operating, selling and administrative	641,954	563,833	2,555,450	2,088,275
Research and development	398,125	346,400	1,388,419	2,497,242
Research and development tax credits	(70,000)	–	(160,000)	(784,000)
Depreciation of capital assets	206,662	350,175	692,922	468,931
Net financial	(45,205)	12,626	9,248	47,642
	1,131,536	1,273,034	4,486,039	4,318,090
Loss for the period	771,072	1,273,034	3,578,257	4,318,090
Basic and fully diluted loss per share	0.009	0.015	0.042	0.058
Basic weighted average number of shares outstanding	84,267,165	84,267,165	84,267,165	74,903,562

Nstein TECHNOLOGIES INC.

Interim Consolidated Statements of Deficit

	Nine months ended September 30,	
	2001 (unaudited) \$	2000 (unaudited) \$
Balance at the beginning of the period	(6,018,878)	–
Loss for the period	(3,578,257)	(4,318,090)
Balance at the end of the period	(9,597,135)	(4,318,090)

Nstein TECHNOLOGIES INC.

Interim Consolidated Balance Sheets

	As at September 30,	As at December 31,
	2001 (unaudited) \$	2000 \$
Assets		
Current assets		
Cash and cash equivalents	2,909,447	6,631,765
Term deposits	1,048,977	800,000
Accounts receivable		
Trade	728,477	–
Commodity taxes recoverable and other	133,054	267,939
Tax credits recoverable	556,956	858,850
	5,376,911	8,558,554
Capital assets	1,740,981	2,357,728
	7,117,892	10,916,282
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Corporate shareholders	–	141,220
Other suppliers	986,995	651,293
Deferred revenue	180,816	–
Current portion of long-term debt	1,464,855	1,330,237
	2,632,666	2,122,750
Long-term debt	1,265,292	1,995,341
	3,897,958	4,118,091
Shareholders' equity		
Share capital	12,817,069	12,817,069
Deficit	(9,597,135)	(6,018,878)
	3,219,934	6,798,191
	7,117,892	10,916,282



Nstein TECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Cash flows from operating activities				
Loss for the period	(771,072)	(1,273,034)	(3,578,257)	(4,318,090)
Depreciation of capital assets not affecting cash and cash equivalents	206,662	350,175	692,922	468,931
	(564,410)	(922,859)	(2,885,335)	(3,849,159)
Changes in non-cash operating working capital items				
Accounts receivable				
Trade	(354,412)	–	(728,477)	–
Commodity taxes recoverable and other	28,940	194,657	134,885	342,026
Tax credits recoverable	410,894	–	301,894	(808,000)
Accounts payable and accrued liabilities	(147,718)	(480,609)	194,482	741,219
Deferred revenue	180,816	–	180,816	–
	118,520	(285,952)	83,600	275,245
	(445,890)	(1,208,811)	(2,801,735)	(3,573,914)
Cash flows from financing activities				
Long-term debt contracted	–	2,429,480	485,690	2,929,480
Reimbursement of long-term debt	(374,650)	(155,482)	(1,081,121)	(1,547,148)
Variation in share capital, net of share issue expenses	–	(64,644)	–	12,007,467
	(374,650)	2,209,354	(595,431)	13,389,799
Cash flows from investment activities				
Term deposits	(23,534)	(450,000)	(248,977)	(800,000)
Purchase of capital assets	(17,702)	(4,427)	(76,175)	(307,462)
	(41,236)	(454,427)	(325,152)	(1,107,462)
Changes in cash and cash equivalents				
Cash and cash equivalents at the beginning of the period	3,771,223	8,321,801	6,631,765	159,496
Cash and cash equivalents at the end of the period	2,909,447	8,867,917	2,909,447	8,867,919
Additional information				
Interest paid	79,652	63,237	254,262	71,902
Interest received	(66,267)	(67,297)	(200,769)	(75,957)

