



Quarterly Report

FOR OUR SHAREHOLDERS

> QUARTER ENDING MARCH 31, 2002





During the first quarter of 2002 Nstein completed a number of significant projects to ensure the Company's growth. Along with these initiatives, Nstein has also made important commercial progress. In our current sales negotiations, we have reached a key stage, which involves demonstrating the reliability and efficiency of our technology (proof of concept). In various comparative analyses, Nstein's technology has consistently ranked first overall.

In our industry sector, the sales process can expand over several months. We expect the pace of new sales to accelerate over the year, since we are in increasingly advanced negotiations with a growing number of serious prospects. Our commercialization strategy involves a rigorous identification and qualification process for potential new clients.

In March, we achieved an important commercial breakthrough with the sale of a user's licence for our nserver™ software to Internet Securities, Inc. (ISI) at a cost of \$650,000. This transaction has allowed us to enter into the field of electronic information for the financial and business sector – a market segment that holds excellent business potential for Nstein. In addition, the agreement gives Nstein first-rate international visibility. Through its twenty-one offices worldwide, ISI serves institutional investment customers across Latin America, Europe and Asia. ISI's global headquarters are located in New York and it is a member of the London-based Euromoney Group.

To meet the specific needs of ISI, Nstein will integrate the Portuguese, Russian, Turkish, Czech, Polish and Chinese languages into its automated indexing solution. Our technology's high degree of flexibility and adaptability enables us to position ourselves as the premier Computer Aided Indexing (CAI) solution vendor.

Strong Support

With respect to the important achievements of the last quarter, the Company also received strong backing provided by the QFL Solidarity Fund, which invested \$6 million in Nstein's share capital, as well as an additional \$4 million in newly issued equity warrants. The Fund has thus expressed a true vote of confidence in Nstein's financial model and executive team, particularly considering the present difficult context of financial markets.

Enlightened Leadership

Last January's appointment of Randy Marcinko to the position of President and Chief Operating Officer of the Company is another highlight of this quarter. With a thorough knowledge of the e-publishing industry, Randy is providing strong leadership, especially in our commercial development efforts, which should enable us to accelerate our growth.

CEO'S MESSAGE

In recent months, Randy has also participated in several e-publishing sector forums and has been interviewed by many specialized trade publications aimed at players in our target markets. These actions have significantly raised our profile in the e-publishing industry internationally.

Based on these important new achievements during the first quarter, and considering the significant work accomplished over recent months, we believe that all the success factors are in place to permit Nstein to achieve its goals for the benefit of our shareholders.

Mario Girard

Chairman and Chief Executive Officer

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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.

> QUARTER ENDING MARCH 31, 2002



MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION AND OPERATING RESULTS

Operating Results

During the first quarter of 2002, Nstein earned revenues of \$373,533, compared to \$201,667 for the same period last year, for an increase of 85.2%. The loss for the first three months of 2002 reached \$1.3 million, or \$0.015 per share, compared to \$1.8 million, or \$0.021 per share for the corresponding quarter last year. This represents a decrease of 25.0%.

Income recorded in the first quarter is mainly attributable to the sale of an nserver™ user's licence to Internet Securities, Inc. Income was also earned from installation and maintenance services, which Nstein provided to its current customers as part of on-going agreements.

Nstein's operating, selling and administrative expenses were \$1.1 million in the first quarter of 2002, approximately the same amount as one year earlier. Meanwhile, research and development expenses were \$584,940, a slight reduction from last year when the total was \$593,525.

Financial Situation

As of March 31, 2002, total short-term assets were \$10.0 million, compared to \$5.7 million one year earlier. Cash and cash equivalents reached \$7.8 million at the end of the first quarter of 2002, compared to \$3.6 million at the end of the same quarter in 2001. These increases are mainly attributable to an investment of \$6.0 million in share capital invested last March by the QFL Solidarity Fund, net of share issue expenses. At the end of the first quarter, term deposits remained unchanged at \$1.0 million.

As of March 31, 2002, Nstein's total debt stood at \$2.1 million, compared to \$2.4 million 12 months earlier. This reflects a decrease of 15.9%.

Cash Flow

Cash flow assigned to operating activities during the first quarter reached \$848,562, compared to \$993,622 for the corresponding quarter in 2001. This represents a decrease of 14.6%. Primarily, this reduction is explained by the decrease in losses.

Cash flow related to financing activities generated \$5.4 million for the first quarter of the current fiscal year. This compares to \$184,013 for the same quarter one year ago. These funds were generated by the QFL Solidarity Fund investment, including deductions made for fees related to share issuance.

Cash flow allocated to investment activities amounted to \$279,157 during the first quarter of 2002, which paid for Nstein's move to its new headquarters in the Cité Multimédia business complex. During the same quarter last year, funds amounting to \$278,385 were assigned to investment activities.



CONSOLIDATED FINANCIAL STATEMENTS

NSTEIN TECHNOLOGIES INC. Consolidated Balance Sheets[†]

	As at Mar. 31 2002 \$ (unaudited)	As at Dec.31 2001 \$
Assets		
Current assets		
Cash and cash equivalents	7,815,897	3,559,847
Term deposits	1,048,977	1,048,977
Accounts receivable		
Trade, net amount	457,284	592,323
Commodity taxes recoverable and others	235,663	151,066
Tax credits recoverable	349,104	259,104
Prepaid expenses	84,394	69,022
	<u>9,991,319</u>	<u>5,680,339</u>
Property, plant and equipment	<u>643,473</u>	<u>399,101</u>
	<u>10,634,792</u>	<u>6,079,440</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Corporate shareholders	17,127	19,448
Others	1,375,241	889,490
Deferred revenue	490,452	329,879
Current portion of long-term debt	1,407,136	1,440,109
	<u>3,289,956</u>	<u>2,678,926</u>
Long-term debt	<u>665,280</u>	<u>1,023,560</u>
	<u>3,955,236</u>	<u>3,702,486</u>
Shareholders' Equity		
Share capital (note 2)	18,445,136	12,817,069
Deficit	<u>(11,765,580)</u>	<u>(10,440,115)</u>
	<u>6,679,556</u>	<u>2,376,954</u>
	<u>10,634,792</u>	<u>6,079,440</u>

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



NSTEIN TECHNOLOGIES INC.
Consolidated Statements of Deficit[†]

	Three Months Ended March 31	
	2002	2001
	\$	\$
	(unaudited)	(unaudited)
Balance – Beginning of period	10,440,115	6,018,878
Loss for period	1,325,465	1,767,197
Balance – End of period	11,765,580	7,786,075

NSTEIN TECHNOLOGIES INC.
Consolidated Statements of Earnings[†]

	Three Months Ended March 31	
	2002	2001
	\$	\$
	(unaudited)	(unaudited)
Revenues	373,533	201,667
Expenses		
Operating, selling and administrative	1,126,277	1,141,031
Research and development	584,940	593,525
Research and development tax credits	(90,000)	(59,000)
Amortization of property, plant and equipment	34,784	256,406
Net financial expenses	42,997	36,902
	1,698,998	1,968,864
Loss for the period	1,325,465	1,767,197
Basic and diluted loss per share	0.015	0.021
Basic and diluted weighted average number of shares outstanding	90,267,165	84,267,165

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

NSTEIN TECHNOLOGIES INC.**Consolidated Statements of Cash Flows[†]**

	Three Months Ended March 31	
	2002	2001
	\$	\$
	(unaudited)	(unaudited)
Cash flows from operating activities		
Loss for the period	(1,325,465)	(1,767,197)
Amortization of property, plant and equipment not affecting cash and cash equivalents	34,784	256,406
	<u>(1,290,681)</u>	<u>(1,510,791)</u>
Change in non-cash operating working capital items		
Accounts receivable		
Trade	135,039	(201,667)
Commodity taxes recoverable & other	(84,597)	202,347
Tax credits recoverable	(90,000)	(59,000)
Prepaid expenses	(15,372)	-
Accounts payable and accrued liabilities	336,476	575,489
Deferred revenues	160,573	-
	<u>442,119</u>	<u>517,169</u>
	<u>(848,562)</u>	<u>(993,622)</u>
Cash flows from financing activities		
Long-term debt contracted	-	485,690
Repayment of long-term debt	(391,253)	(301,677)
Variation in share capital, net of share issue expenses	5,775,021	-
	<u>5,383,768</u>	<u>184,013</u>
Cash flows from investing activities		
Increase in term deposits	-	(225,443)
Purchase of property, plant & equipment	(279,156)	(52,942)
	<u>(279,156)</u>	<u>(278,385)</u>
Net change in cash and cash equivalents	4,256,050	(1,087,994)
Cash and cash equivalents –		
Beginning of period	3,559,847	6,631,765
End of period	7,815,897	5,543,771
Additional information		
Items not affecting cash and cash equivalents related to financing activities		
Share issue expenses payable	146,954	-
Interest paid	58,139	85,437
Interest cashed	(30,840)	(65,030)



1. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as at March 31, 2002 and for the three months ended March 31, 2001 and 2002 is unaudited. However, in Management's opinion, all adjustments necessary to fairly present the results of these periods have been included. The adjustments made were of a normally recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual financial statements. However, all disclosures required for annual financial statements have not been included in these statements. Thus these interim financial statements should be read in conjunction with the Company's most recent annual financial report.

Stock-Based Compensation Plan and New Accounting Standard

The Company maintains a stock-based compensation plan, which is described in note 9 of the audited annual consolidated financial statements. Under Canadian generally accepted accounting principles, no compensation cost is recognized for this plan when stock options or shares are issued to plan participants. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

In November 2001, the Accounting Standards Board of the Canadian Institute of Chartered Accountants issued a standard for stock-based payments (CICA 3870, Stock-Based Compensation and Other Stock-Based Payments), which is effective for fiscal years beginning on or after January 1, 2002. The new standard applies to awards granted on or after the date of adoption and, therefore, will not apply to modifications and settlements of awards granted before fiscal years beginning on or after January 1, 2002. The new standard requires that stock-based compensation plans offered to employees be accounted for using a fair value-based method of accounting. The CICA recommends that this method be applied without imposing it. For companies that decide not to apply this information, the requirement is to disclose pro-forma earnings information as a note to financial statements (note 4).

The new standard also requires enterprises to account for stock appreciation rights (SARs) and similar cash settlement awards by measuring on an ongoing basis the amount by which the quoted market price exceeds the option price at the settlement date. SARs and similar awards to be settled by equity instruments are measured using the fair value-based method or in a manner similar to accounting for SARs and similar awards settled in cash.

NOTES TO FINANCIAL STATEMENTS

2. Share Capital

On March 5, 2002, the Company issued 20,000,000 common shares to the Fonds de solidarité des travailleurs du Québec ("Fund") for cash consideration of \$6,000,000.

Share issue expenses in the amount of \$371,933 were applied against share capital.

Furthermore, the Company granted 6,666,667 warrants to the Fund entitling the latter to acquire 6,666,667 common shares at \$0.60 per share for a total amount of \$4,000,000. These warrants are exercisable by the Fund under certain conditions, including the Company's attainment of certain financial objectives related to its revenues and profits. These warrants expire on March 5, 2007.

3. Segment Information

The Company is organized under a single operating unit, conducting the sale of software and related contracted customer support. For the most part, the Company's property, plant and equipment is located in Canada.

Revenues by geographic region are as follows:

	Three Months Ended March 31	
	2002	2001
	\$	\$
	(unaudited)	(unaudited)
United States	373,533	-
Canada	-	201,667
	<u>373,533</u>	<u>201,667</u>

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

4. Accounting for Stock-Based Compensation

The Company has elected not to use the fair value-based method to measure compensation costs related to stock option grants. 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 losses and basic and diluted losses per share as if the fair value-based method of accounting had been applied.



NOTES TO FINANCIAL STATEMENTS

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

Period Ended March 31, 2002

Risk-free interest rate	5%
Expected volatility	75%
Dividend yield	nil
Weighted average expected life	60 months

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 issued to employees, directors and executive officers, the loss and related loss per share would be as follows:

Period Ended March 31, 2002

\$

Pro-forma loss for the period	1,335,455
Pro-forma basic and diluted loss per share	0.015

