

Alphinat Inc.

Financial Statements
August 31, 2007 and 2006

December 12, 2007

Auditors' Report

To the Shareholders of Alphinat Inc.

We have audited the balance sheets of **Alphinat Inc.** as at August 31, 2007 and 2006 and the statements of loss, 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 financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2007 and 2006 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

Alphinat Inc.

Balance Sheets

As at August 31, 2007 and 2006

	2007 \$	2006 \$
Assets		
Current assets		
Cash and cash equivalents	773,439	443,726
Accounts receivable, less provision for bad debts	340	42,904
Sales taxes receivable	12,476	34,944
Prepaid expenses	3,751	2,107
Research and development tax credits receivable	116,564	207,771
	<hr/> 906,570	<hr/> 731,452
Furniture and equipment (note 3)	11,556	14,515
Computer software , less accumulated amortization of \$21,222 (2006 – \$20,751)	707	1,178
	<hr/> 918,833	<hr/> 747,145
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 4)	260,063	141,380
Deferred revenues	851,750	16,875
Advances from a director and persons related to a director, without interest	84,967	94,005
Loan from a company under common control (note 5)	122,391	129,000
Current portion of long-term debt (note 6)	20,040	20,040
	<hr/> 1,339,211	<hr/> 401,300
Long-term debt (note 6)	16,700	26,720
	<hr/> 1,355,911	<hr/> 428,020
Shareholders' Equity (Deficiency)		
Capital stock (note 7)	4,314,100	4,314,100
Stock options (note 8(a))	1,031,442	993,537
Warrants (note 8(b))	114,316	146,392
Contributed surplus (note 9)	310,957	182,020
Deficit	<hr/> (6,207,893)	<hr/> (5,316,924)
	<hr/> (437,078)	<hr/> 319,125
	<hr/> 918,833	<hr/> 747,145

Going concern (note 1)

Approved by the Board of Directors

_____ Director

_____ Director

Alphinat Inc.

Statements of Deficit

For the years ended August 31, 2007 and 2006

	2007 \$	2006 \$
Balance – Beginning of year	(5,316,924)	(4,627,795)
Loss for the year	(890,969)	(689,129)
Balance – End of year	<u>(6,207,893)</u>	<u>(5,316,924)</u>
Going concern (note 1)		

Alphinat Inc.

Statements of Loss

For the years ended August 31, 2007 and 2006

	2007 \$	2006 \$
Revenues	341,060	111,550
Operating expenses		
Cost of services, selling and administrative	725,002	387,407
Amortization of furniture and equipment and computer software	5,830	7,549
Stock-based compensation (notes 7(c) and 8(a))	161,766	-
Research and development (note 12)	332,666	408,359
	1,225,264	803,315
Operating loss	(884,204)	(691,765)
Financing expenses (revenues)		
Interest and bank charges	4,930	2,636
Interest on long-term debt	5,269	6,887
Interest income	(3,434)	(12,159)
	6,765	(2,636)
Loss for the year	(890,969)	(689,129)
Basic and diluted loss per share (note 13)	(0.026)	(0.024)
Weighted average number of common shares outstanding	34,556,667	28,645,379
Going concern (note 1)		

Alphinat Inc.

Statements of Cash Flows

For the years ended August 31, 2007 and 2006

	2007 \$	2006 \$
Cash flows from		
Operating activities		
Loss for the year	(890,969)	(689,129)
Adjustments for non-cash items		
Amortization of furniture and equipment	5,359	6,763
Amortization of computer software	471	786
Stock-based compensation expense	161,766	-
	<u>(723,373)</u>	<u>(681,580)</u>
Changes in non-cash working capital items		
Decrease (increase) of accounts receivable	42,564	(14,146)
Decrease in sales taxes receivable	22,468	10,535
Increase in prepaid expenses	(1,644)	(15)
Decrease in research and development tax credits receivable	91,207	55,582
Increase in accounts payable and accrued liabilities	91,683	11,975
Increase (decrease) in deferred revenues	834,875	(2,250)
	<u>357,780</u>	<u>(619,899)</u>
Investing activities		
Disposal of temporary investment	-	426,586
Purchase of furniture and equipment	(2,400)	(4,450)
	<u>(2,400)</u>	<u>422,136</u>
Financing activities		
Repayment of long-term debt	(10,020)	(20,040)
Loan from a director	80,000	-
Repayment of loan from a company under common control	(6,609)	(10,000)
Repayment of advances from a director and persons related to a director	(89,038)	(4,903)
Issuance of capital stock and warrants	-	600,000
Issuance of debentures	-	130,000
Share issue costs	-	(36,241)
	<u>(25,667)</u>	<u>658,816</u>
Increase in cash and cash equivalents during the year	329,713	461,053
Cash and cash equivalents – Beginning of year	443,726	(17,327)
Cash and cash equivalents – End of year	773,439	443,726
Cash and cash equivalents are composed of:		
Cash	12,439	443,726
Short-term investment	761,000	-
	<u>773,439</u>	<u>443,726</u>
Going concern (note 1)		
Additional information		
Interest paid	10,199	9,523

Alphinat Inc.

Notes to Financial Statements

August 31, 2007 and 2006

1 Nature of business and going concern

Alphinat Inc. develops, markets and supports software technology that enables non-technical managers to configure and deploy Web applications and utilities to better serve clients. This technology uses sophisticated data organization and processing software to automate interactions between systems, employees, clients, suppliers and partners. The software is ubiquitous across organizational entities and information processing platforms, permitting a high level of collaboration in delivering complex service outcomes using existing legacy systems.

The focus of the Company's commercial activities is on the public and health care sectors and financial institutions.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses from operations. Although cash flows are positive for the current year, they were negative for years ending August 31, 2004, 2005 and 2006, and the Company may lack sufficient funds to meet its obligations. All of which raise substantial doubt about its ability to continue as a going concern.

During the current year, the Company's focus has shifted from the development of its product suite to sales and marketing. The Company has generated more substantial income for the year ended August 31, 2007 and has deferred revenues amounting to \$851,750 which will be recognized next year. The ongoing operations of the Company will depend on management's ability to successfully execute its business plan under which it expects to increase revenues from its existing products as well as from its agreements and partnerships with third parties. There is, however, no guarantee that the measures taken by management will be successful. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business. These adjustments could be significant.

2 Accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include stock-based compensation, warrants and research and development tax credits receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank overdraft and highly liquid investments with original maturities of three months or less from the acquisition date.

Alphinat Inc.

Notes to Financial Statements

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Furniture and equipment and computer software

Furniture and equipment and computer software are recorded at cost, less research and development tax credits applied against them. Amortization of furniture and equipment and computer software is accounted for using the declining balance method at the following annual rates:

Office furniture and equipment	20%
Computer equipment	40%
Software	40%

Impairment of long-lived assets

Long-lived assets are subject to impairment tests when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. Impairment losses are recognized if the book value of the asset exceeds the undiscounted future cash flows that should be derived from the asset. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value.

Share issue costs

Share issue costs are accounted for as a reduction of the proceeds from the issuance of capital stock.

Research and development tax credits

Research and development tax credits are recognized when there is reasonable assurance that they will be received. Government authorities may not agree with the Company's interpretation as it relates to admissibility of its research and development tax credit demands. When research and development tax credits relate to an asset, they are recognized as a decrease in the asset acquisition cost. When they relate to an expense item, they are reported in the statement of income.

Research and development expenses

Research and development expenses are charged to expense in the year in which they are incurred. Development costs are deferred if they meet generally accepted accounting criteria for deferral and amortization; otherwise they are expensed as incurred. At August 31, 2007, no development costs have been deferred.

Revenue recognition

Professional service revenues are recognized according to the percentage-of-completion method. Work in progress is established by taking into account services rendered that have not yet been invoiced. Any payment received before services are rendered is recorded as deferred revenue.

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The Company recognizes software products and all related service revenues, including after-sales technical support, in accordance with Statement of Position (“SOP”) 97-2, “Software Revenue Recognition”, issued by the American Institute of Certified Public Accountants. Fees from software products, after-sales technical support and other services are normally allocated among the various elements based on vendor-specific evidence of the fair value of each element. Due to a lack of sufficient sales history, it is deemed that the Company does not have vendor-specific objective evidence of fair value of the various elements under these multiple-element arrangements. Consequently, all fees related to the software and after-sales technical support are bundled together and recognized ratably over the contractual service period. Revenues from other services are recognized as the services are rendered.

Income taxes

Income taxes are accounted for under the asset and liability method. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply in years in which the temporary differences are expected to reverse.

The Company reduces future income tax assets by a valuation allowance to the extent that it is more likely than not that some portion or all of the future income tax assets will not be realized.

Financial instruments

The Company has evaluated the fair value of its financial instruments based on current interest rates, market value and current value of financial instruments with similar terms and conditions. Unless otherwise indicated, the book value of the financial instruments approximates their fair value.

Loss per share

Basic loss per share is determined using the weighted average number of shares outstanding during the year. Diluted loss per share is determined using the weighted average number of shares outstanding during the year plus the dilutive potential effect of the common shares outstanding during the year. The diluted result per share is calculated using the treasury stock method as if all the potential dilutive shares had been issued no later than the beginning of the year or the issuance date, and the proceeds received had been used to redeem the Company’s shares at the average market price during the year.

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Notes to Financial Statements

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Stock-based compensation

The Company has granted stock options as described in note 8(a). Stock-based compensation cost is recorded using the fair value method for the options granted to directors, officers, employees and non-employees. Under this method, the stock-based compensation expense is measured at the fair value at the date of grant using an option pricing model and is recognized over the vesting period of the options.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The Black-Scholes model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, valuation models usually require the input of subjective assumptions, including expected stock price volatility.

All considerations paid for stock options and the amount previously included for these stock options in contributed surplus are credited to capital stock, when they are exercised.

3 Furniture and equipment

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture and equipment	19,487	14,581	4,906
Computer equipment	111,521	104,871	6,650
	<u>131,008</u>	<u>119,452</u>	<u>11,556</u>
	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture and equipment	17,087	13,655	3,432
Computer equipment	111,521	100,438	11,083
	<u>128,608</u>	<u>114,093</u>	<u>14,515</u>

Alphinat Inc.

Notes to Financial Statements

August 31, 2007 and 2006

4 Accounts payable and accrued liabilities

	2007 \$	2006 \$
Salaries and fringe benefits	148,493	41,482
Accounts payable and accrued liabilities	111,570	99,898
	<u>260,063</u>	<u>141,380</u>

5 Loan from a company under common control

The loan from a company under common control is non-interest bearing and will be reimbursed by monthly payments of \$12,000 starting October 2007. During the current year, an amount of \$6,069 has been reimbursed.

6 Long-term debt

a) Long-term debt comprises the following:

	2007 \$	2006 \$
Loan for an original amount of \$100,000 for sales support and marketing expenses for technological solutions, guaranteed by a first ranking general hypothec over all Company assets, tangible and intangible, present and future, as well as a guarantee from a related company, bearing interest at the basic floating rate plus 5%, payable in monthly installments of \$1,670, maturing in June 2009	36,740	46,760
Less: Current portion	<u>20,040</u>	<u>20,040</u>
	<u>16,700</u>	<u>26,720</u>

During the year ended August 31, 2007, the Company benefited from a deferred capital payment on the loan for a period of six months.

Principal repayment to be made is \$20,040 and \$16,700 respectively for 2008 and 2009.

Alphinat Inc.

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b) Credit facility

During the year ended August 31, 2007, one of the Company's directors extended a \$240,000 credit facility to the Company, bearing an annual interest rate of 6% and secured by accounts receivable. The terms of the credit facility provide for the granting of stock options equal to the amount loaned divided by the market price of the Company's shares as quoted at closing of the TSX Venture Exchange (with a minimum price of \$0.10 per share) the previous day to the loan. As at August 31, 2007, no amount of this facility was in use. Included in financing expenses for the year is an amount of \$728 related to use of the credit facility.

7 Capital stock

a) Authorized

An unlimited number of participating and voting common shares

Issued

	Number	Amount \$
Common shares		
Balance – August 31, 2005	27,896,667	3,615,657
Share issuance (note 7(b))	5,000,000	600,000
Conversion of debentures (note 7(b))	866,667	130,000
Conversion of a portion of a loan from a company under common control (note 7(b))	793,333	119,000
Share issue costs	-	(36,241)
Fair value of warrants issued	-	(114,316)
	<hr/>	<hr/>
Balance – August 31, 2006 and 2007 (note 7(c))	34,556,667	4,314,100

- b) In fiscal year 2006, the Company issued 5,000,000 common shares for cash proceeds of \$600,000 in a private placement. Additionally, the Company issued convertible debentures bearing interest at 6% for an amount of \$130,000. On August 23, 2006, these debentures were converted into 866,667 common shares.

Additionally, a portion of a loan from a company under common control in the amount of \$119,000 was cancelled and converted into 793,333 common shares.

- c) In November 2006, the Company authorized the issuance of 300,000 common shares as additional compensation to one of its officers. As at August 31, 2007, these shares had not yet been issued. These shares have an approximate value of \$27,000 which has been accounted for in accounts payable and accrued liabilities.

Alphinat Inc.

Notes to Financial Statements

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8 Stock options and warrants

- a) Subsequent to the reverse takeover on April 27, 2005, the Company introduced a stock option plan. This plan replaced the stock option plan that existed in the capital pool company prior to the reverse takeover transaction.

Pursuant to the terms of the new plan, the Board of Directors is authorized to grant directors, officers, employees and consultants of the Company options to acquire common shares of the Company. Options granted under this plan have a maximum term of five years and will be granted at a price and for other conditions determined by the directors in order to achieve the objective of the new plan, the whole in accordance with the applicable regulatory policies. The maximum number of options that can be granted under this plan is 3,937,955.

The maximum number of options that may be granted to a beneficiary of the Company cannot exceed 5% of the total outstanding common shares. The maximum number of options that may be granted to consultants cannot exceed 2% of the total outstanding common shares.

The 2,000,000 options granted under the old plan are still valid but are now subject to the terms and conditions of the new plan.

The following table presents information concerning outstanding stock options granted by the Company as at August 31, 2007 and 2006:

	Number of options	Weighted average exercise price per share \$	Weighted average contractual life in months
Balance – August 31, 2005	5,221,144	0.26	44
Expired	(925,000)	0.20	-
Balance – August 31, 2006	4,296,144	0.27	42
Granted	1,765,000	0.10	56
Forfeited	(425,000)	0.30	-
Balance – August 31, 2007	5,636,144	0.22	38

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The estimated fair value of the options granted during the year ended August 31, 2007 was \$134,766, using the Black-Scholes option pricing model with the following assumptions:

	Directors and employees
Risk-free interest rate	3.85% and 4.50%
Expected volatility	100%
Dividend yield	nil
Expected life	5 years

- b) No warrants were issued during the year ended August 31, 2007.

The estimated fair value of the 3,366,667 warrants issued in 2006 is \$114,316, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.06%
Expected volatility	100%
Dividend yield	nil
Expected life	1.5 years
Issuance date fair value	\$0.03

The following table presents a reconciliation and information concerning outstanding warrants granted by the Company as at August 31, 2007 and 2006:

	Number of warrants	Weighted average exercise price per share \$	Weighted average contractual life in months
Balance – August 31, 2005	200,000	0.30	8
Issued	3,366,667	0.18	18
	<hr/>		
Balance – August 31, 2006	3,566,667	0.19	16
Expired	(200,000)	0.30	-
	<hr/>		
Balance – August 31, 2007	3,366,667	0.18	4

Alphinat Inc.

Notes to Financial Statements August 31, 2007 and 2006

9 Contributed surplus

	2007 \$	2006 \$
Balance – Beginning of year	182,020	25,000
Forfeited or expired stock options	96,861	157,020
Expired warrants	32,076	-
	<hr/>	<hr/>
Balance – End of year	310,957	182,020

10 Commitments

The minimum future payments under the terms of a vehicle lease maturing in September 2007 total \$613. The minimum payments related to the leases of the Company's premises in Montréal and Québec City, maturing in October 2007 and August 2008, total \$3,701 and \$5,600 respectively.

11 Financial instruments

Credit risk

Financial instruments that potentially expose the Company to credit risk consist of cash, temporary investments and accounts receivable. The Company maintains its cash balance and temporary investments with a large financial institution, and an allowance for doubtful accounts receivable is established when collection of amounts due from clients is deemed improbable. Management therefore believes that the credit risk is limited.

Interest rate risk

The following table presents the Company's exposure to interest rate risk:

Cash and cash equivalents	Non-interest bearing
Accounts receivable	Non-interest bearing
Sales taxes receivable	Non-interest bearing
Research and development tax credits receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Advances from a director and persons related to a director	Non-interest bearing
Loan from a company under common control	Non-interest bearing
Long-term debt	Variable rate

Alphinat Inc.

Notes to Financial Statements

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12 Research and development expenses

	2007 \$	2006 \$
Research and development expenses	447,806	560,896
Less: Research and development tax credits	115,140	152,537
	<u>332,666</u>	<u>408,359</u>

13 Loss per share

For the years ended August 31, 2007 and 2006, there was no difference between the basic and diluted loss per share due to the fact that all stock options and warrants issued have an anti-dilutive effect and consequently were not included in the calculation. The diluted loss per share was calculated using the weighted average number of common shares outstanding.

Options with acquisition rights to 2,796,144 common shares with an exercise price of \$0.30 per share, 1,075,000 common shares with an exercise price of \$0.20 per share and 1,765,000 common shares with an exercise price of \$0.10 per share were outstanding as at August 31, 2007. However, those options were not used in calculating the diluted loss per share due to the fact that the exercise price of the options was greater than the average market value of the common shares.

14 Income taxes

- a) Income tax expense (recovery) on benefits vary from the amount that would have been calculated using the statutory income tax rate of 31.68% as at August 31, 2007 (as at August 31, 2006 – 31.72%) for the following reasons:

	2007 \$	2006 \$
Income tax recovery using the statutory income tax rate	(282,259)	(218,592)
Permanent differences and other	72,979	20,580
Unrecognized tax benefits from non-capital loss	(53,629)	180,756
Effect of change in tax rate on future income taxes	-	81,782
Unrecognized tax benefits from temporary differences	262,909	(64,526)
	<u>-</u>	<u>-</u>

Alphinat Inc.

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b) Future income taxes comprise the following items:

	2007	2006
	\$	\$
Future income tax assets		
Non-capital loss	485,230	538,859
Research and development expenses	551,647	486,930
Intellectual property	68,186	63,570
Deferred revenues	259,784	-
Furniture and equipment and computer software	175	-
Share issue costs	94,625	143,084
	<hr/>	<hr/>
	1,459,647	1,232,443
Future income tax liabilities		
Furniture and equipment and computer software	-	1,651
Research and development tax credits	62,404	42,831
	<hr/>	<hr/>
	62,404	44,482
	<hr/>	<hr/>
	1,397,243	1,187,961
Valuation allowance	(1,397,243)	(1,187,961)
	<hr/>	<hr/>
	-	-

As at August 31, 2007, the Company has non-capital losses of approximately \$1,670,208 at the federal level and \$1,410,843 at the provincial level. These losses may be claimed in years ending no later than the following:

	Federal	Provincial
	\$	\$
2008	169,462	137,789
2013	506,139	423,066
2014	165,836	132,200
2015	43,753	7,597
2026	785,018	710,191
	<hr/>	<hr/>
	1,670,208	1,410,843

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The Company has unused research and development expenses totalling approximately \$1,076,574 at the federal level and \$2,916,788 at the provincial level that may be carried forward indefinitely.

The Company has unused share issue costs that gradually expire by August 31, 2010 totalling approximately \$306,229 at both the federal and provincial levels.

In addition, the Company has research and development tax credits totalling approximately \$201,956 at the federal level that it may use to offset future taxable income. These tax credits expire as follows:

	\$
2008	5,578
2009	13,988
2010	3,143
2011	123
2015	32,101
2026	83,657
2027	63,366
	<hr/>
	201,956
	<hr/>

15 Segmented information and economic dependence

The Company operates under one reportable segment and all of its long-term assets are located in Canada.

	2007	2006
	%	%
Revenues realized from major clients		
Client A	-	54
Client B	45	35
Client C	55	-

All of the Company's clients are located in Canada.

