



Message to shareholders

Dear shareholders,

2007 was a pivotal year for our company during which we moved from a research and development stage to the full-fledged commercialization of our software products. This evolution started with the hiring of an executive vice president of sales and business development in November 2006. We then reached a major milestone in May 2007 by selling a government-wide license of Alphinat SmartGuide to the Government of Quebec. Through this agreement, the SmartGuide suite is available to all departments and agencies that wish to provide a single access point to the different services they provide.

During the course of next year, we will continue to focus on commercializing our current software products through direct sales and partnerships as well as expanding our product line. We expect to finance these activities with revenues generated by ongoing operations.

2007 was also marked by the death of Alphinat's founder, Mr. Fernand Lecoq. On June 8th 2007, the board announced the nomination of Mr. Philippe Lecoq as acting CEO and of Mr. Austin Page as acting Chairman. In accordance with best governance practices, the Company will keep the functions of CEO and Chairman of the Board distinct in the future.

Our software products allow our clients to better serve their constituents by cost-effectively deploying Internet services that are entirely based on their needs and expectations. The innovative approach of guided interactions inherent to the SmartGuide suite allows transforming complex processes and steps into an easy-to-follow and fulfilling user experience.

Unlike traditional approaches where the burden of finding information and fulfilling mandated procedures rests squarely on the user's shoulders, Alphinat software products allow creating people-centric applications that guide them with 100% relevance every step of the way.

This paradigm shift helps organizations greatly increase the quality and cost-effectiveness of service delivery without having to change their existing processes, systems or infrastructure by leveraging existing knowledge and assets found in different, autonomous departments.

To ensure our software products continue to serve our clients' needs and maintain their competitive edge, we will continue to invest in R&D and make further improvements incrementally using short development cycles.

A new strategic plan was created over the course of the year in order to further our growth and improve our global yield. The first objective of this plan, the sale of a government-wide license of SmartGuide to the Government of Quebec, was achieved in May 2007. This first step opened the door to further sales efforts targeted at the Quebec Government departments and agencies.

To better support our clients within the Quebec Government, we opened an office in Quebec City staffed with experts dedicated to commercializing and supporting the Alphinat software products in addition to selling professional services. We are also capitalizing on our success in Quebec by branching out towards other provincial governments as well as the federal government.

In parallel, we are continuing to build and seek partnerships with leaders in the computing and consulting fields. We expect these efforts to lead to a joint commercialization to U.S. state governments starting in the spring of 2008. We also anticipate these efforts to result in multiple joint proposals to the Government of France and local authorities during the same timeframe. Finally, we are building partnerships with firms specialized in the public sector with a view to generating recurrent revenues.

It is therefore with much enthusiasm and confidence that we foresee the future of the company and its ability to create value for all of its stakeholders. We would like to thank our employees, officers and directors for their contributions. Finally, we would like to thank our shareholders for their continued trust and support.

Austin Page
Chairman of the board

Philippe Lecoq
Chief executive officer



Management Discussion and Analysis

Alphinat Inc. ("Alphinat" or the "Company") ((TSX Venture Exchange: NPA) has reported its results for the 12-month period ended August 31, 2007.

General

This Management Discussion and Analysis ("MD&A") was prepared as of December 12, 2007 and should be read in conjunction with Alphinat's audited consolidated financial statements and the notes thereto for the years ended August 31, 2007 and August 31, 2006.

These financial statements were prepared by management in accordance with Canadian generally accepted accounting principles.

All dollar amounts are expressed in Canadian dollars unless stated otherwise. This MD&A was prepared based on information available as of December 21, 2007.

Overview

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 organisation and processing software to automate interactions between systems, employees, clients, suppliers and partners. The software is ubiquitous across organisational entities and information processing platforms, permitting a high level of collaboration in delivering complex service outcomes using existing legacy systems.

Using its SmartGuide software suite, Alphinat implemented an innovative on-line government solution that is entirely centered on the needs of citizens and entrepreneurs. This solution was awarded IBM's "Top Star" award for on-line government solutions among applications from 189 different countries. Furthermore, the OECD recognized Alphinat's e-government solution as a "best Internet practices".

Business Operations

During the year under review and to the date of this MD&A, the Company's operations have focused on the marketing of SmartGuide, its flagship product, and related professional services. During the year, the Company sold two licenses, the first to a systems integrator during the first quarter of the year under review for an amount of \$150,000 and the second to the Government of Quebec during the third quarter for an amount of \$1,012,000, including \$75,000 for training and installation services. Through this latter agreement, the SmartGuide suite is at the disposal of 150 Government of Quebec departments and agencies that wish to provide a single access point to the services they provide. For fiscal year 2007, an amount of \$341,060 was recorded as revenue and an amount of \$851,750 was recorded as deferred revenue. Included in deferred revenue is an amount of \$576,875 from license sales that will be recognized as revenue for fiscal year 2008. In addition, an amount of \$262,500 from sales of professional services contracts will be recorded using the percentage-of-completion method.

The Company's short-term strategy is to build on the ongoing development of SmartGuide and on its successful involvement in the Government of Quebec's e-government initiative while pursuing its sales efforts through partnerships. To better support its clients within the Quebec Government, the Company opened an office in Quebec City staffed with experts dedicated to selling and supporting the Alphinat software products in addition to selling and delivering professional services. In addition, Alphinat has been selected as a partner by a global information technology leader for a joint marketing program aimed at the public sector.

The year under review has been a turning point in the Company's history. In this past year, the Company's focus has shifted from the development of its product suite to sales and marketing.

Selected annual data (audited)

	2007	2006	2005
	\$	\$	\$
Revenue	341,060	111,550	362,439
Net loss	(890,969)	(689,129)	(945,454)
Loss per share (basic and diluted)	(0.026)	(0.024)	(0.046)
Total assets	918,833	747,145	785,060
Total long-term financial liabilities, including current portion	159,131	175,760	324,800

**Selected quarterly financial data
(Unaudited)**

	2007 fiscal year			
	Q4	Q3*	Q2*	Q1*
	\$	\$	\$	\$
Revenue	225,436	38,063	38,063	39,498
Net loss	(333,673)	(167,946)	(228,158)	(161,189)
Loss per share (basic and diluted)	(0.010)	(0.005)	(0.007)	(0.005)
	2006 fiscal year			
	Q4	Q3	Q2	Q1
	\$	\$	\$	\$
Revenue	-	67,863	15,563	28,313
Net loss	(271,262)	(112,518)	(189,224)	(116,125)
Loss per share (basic and diluted)	(0.009)	(0.004)	(0.007)	(0.005)

** The Q1, Q2 and Q3 data have been adjusted. For the first quarter of the current year, the Company recognized \$150,000 on a software sale. Because of the Company's lack of license sales history, and in accordance with the recommendations of the Company's auditors, that are based on Emerging Issues Committee Abstracts EIC-141 to EIC-143 on software sales revenue recognition, and with AICPA's Statement of Position (SOP) 97-2, "Software Revenue Recognition," this revenue should have been recognized ratably over the 12-month contractual term.*

The increase in revenue in the fourth quarter is due to the sale of a SmartGuide governmental license to the Government of Quebec. Details and revenue recognition of this sale are provided below under the "Revenue" section.

Revenue

For the 12-month period ended August 31, 2007, the Company recorded total revenue of \$341,060 compared to \$111,550 for the same period in 2006.

Revenue was \$225,436 for the quarter ended August 31, 2007 compared to nil revenue for the same quarter in 2006.

The 2007 revenue results mainly from the SmartGuide license agreement entered into with a leading systems integrator in September 2006 for the supply of professional services using SmartGuide under delivery phase 3 of the Government of Quebec's Services for businesses portal and the SmartGuide governmental license agreement entered into with the Government of Quebec in May 2007. In both cases, the total sales amount was recorded as deferred revenue in accordance with the recommendations of the Company's auditors, which are based on Emerging Issues Committee Abstracts EIC-141 to EIC-143 on software sales revenue recognition, and with AICPA's Statement of Position (SOP) 97-2, "Software Revenue Recognition." Under these accounting standards, the Company's SmartGuide license sales history is too short to establish consistency in the application of maintenance expenses. Consequently, these sales, including the amount paid for the license, must be recognized ratably over the respective contractual terms, which in both cases is 12 months.

Revenue earned in 2006 was on a subcontract entered into with a leading systems integrator for the supply of professional services deliverables under delivery phase 2 of the Government of Quebec's Services for businesses portal.

SmartGuide plays an important role in the deployment of the Services for businesses portal and allows the Government of Quebec to provide a single window view of all government services while guiding users with 100% accuracy in information retrieval or completion of required procedures. With a standardized data capture format, the entire data processing chain can then be quickly automated.

The SmartGuide governmental license helps to improve the Government of Quebec's transactional services. Thanks to this acquisition, the SmartGuide suite is now at the disposal of 150 Government of Quebec departments and agencies that wish to provide a single access point to the services they provide.

Operating expenses

For the period under review, operating expenses rose from \$803,315 to \$1,225,264. This increase is due to additional staffing of Alphinat's team, particularly in Québec City, and to the fact that the Company has now reached the marketing stage. Salaries increased by \$256,278 for the period as a result of the hiring of new marketing and operational staff. Insurance expense rose from \$2,755 to \$18,274. This increase is due to the fact that insurance was taken out for directors and officers during the year. An amount of \$161,766 in the form of stock-based compensation represents the carrying value of the 715,000 stock options granted to the Company's Vice-President, Sales and Business Development, as an incentive in November 2006 and the 1,050,000 options granted to three of the Company's four directors on July 25, 2007. Subcontracting costs increased from \$7,832 to \$56,109 because of the increasing number of contracts the Company is carrying out. For the year under review, research and development expenses, net of research and development tax credits, fell from \$408,359 in 2006 to \$332,666 in 2007. The decrease is due to the termination of a programmer whose specific development mandate was finished and to the transfer of an employee to professional services and marketing duties.

Financial expenses

Financial expenses amounted to a net expense of \$6,765 for fiscal 2007 compared to net income of \$2,636 for fiscal 2006. The difference is due to a decrease in investment income on temporary investments.

Loss for the period

The net loss for fiscal 2007 was \$890,969 or \$0.026 per outstanding common share compared to \$689,129 or \$0.024 per outstanding common share in fiscal 2006. It should be noted that, due to the sales revenue recognition basis, sales made for the year under review are recognized ratably over the contractual term of 12 months. In addition, compensation in the form of stock-based compensation expense represent a charge of \$161,766 that does not affect cash.

For the quarter ended August 31, 2007, the net loss was \$333,673 or \$0.010 per outstanding common share compared to \$271,262 or \$0.009 per outstanding common share for the same period of 2006.

These results continue to show a loss despite the fact the Company has gone from the development stage to the marketing stage. It must be noted, however, that higher revenue is now being generated and that this trend is expected to continue.

Assets

Cash and cash equivalents amounted to \$773,439 as at August 31, 2007 compared to \$443,726 as at August 31, 2006.

Accounts receivable were \$340 compared to \$42,904 in 2006.

Sales taxes receivable decreased from \$34,944 in 2006 to \$12,476 in 2007.

R&D tax credits receivable declined from \$207,111 in 2006 to \$116,564 in 2007. This decrease is due to the termination of a programmer whose specific development mandate was finished and to the transfer of an employee to professional services and marketing duties. As well, in 2006, a portion of R&D tax credits receivable dated back to the time the Company was a private corporation.

Liabilities

Accounts payable and accrued charges rose from \$141,380 in 2006 to \$260,063 in 2007. This is due to an increase of \$11,672 in trade accounts payable and accrued charges and to an increase of \$107,011 in accrued salaries and fringe benefits.

Deferred revenue was \$16,875 in 2006 and \$851,750 in 2007 due to sales made for the year that are recognized on ratably over the contract term in accordance with Emerging Issues Committee Abstracts EIC-141 to EIC-143 on software sales revenue recognition and AICPA's Statement of Position (SOP) 97-2, "Software Revenue Recognition."

Advances made to the Company by a director and non-arm's length parties went from \$94,005 in 2006 to \$84,967 in 2007 due to a partial repayment of these non-interest-bearing advances.

The current portion of the loan from a company under common control decreased from \$129,000 in 2006 to \$122,391 in 2007 due to a partial repayment of this loan. This non-interest-bearing loan will be repaid in monthly installments of \$12,000 beginning in October 2007.

Long-term debt of \$16,760 and the current portion of \$20,040 relate to a loan from the Business Development Bank of Canada.

Shareholders' equity

As at the date of this report, 34,556,667 common shares of the Company were outstanding.

In November 2006, the Company agreed to issue 300,000 shares valued at approximately \$27,000 as additional compensation upon the hiring of an Executive Vice-President of Sales and Business Development. As at the date of this report, this stock award was still in the process of being approved by the Toronto Venture Exchange. Consequently, an equivalent amount has been recorded in accrued charges.

Options and warrants

In November 2006, the Company agreed to grant 715,000 options at a exercise price of \$0.10 as additional compensation upon the hiring of an Executive Vice-President of Sales and Business Development. The options expire on November 22, 2011.

In July 2007, Alphinat's board of directors awarded 1,050,000 stock options to three of the Company's directors. These options have an exercise price of \$0.10 and expire on July 25, 2012.

During the year, the departure of two directors and one employee resulted in the cancellation of 425,000 stock options granted under Alphinat's stock option plan. Moreover, 200,000 warrants granted to a consultant expired.

Note 8 to the consolidated financial statements provides details on the amount of options and warrants outstanding as at August 31, 2007 that relates respectively to:

- 5,636,144 options with an average exercise price of \$0.22, a weighted contractual life of 36 months and a carrying value of \$1,031,442;
- 3,366,667 warrants with an average exercise price of \$0.18, a contractual life of 6 months and a carrying value of \$114,316.

Liquidity and solvency

As at August 31, 2007, the Company had cash totalling \$773,439 compared to \$443,726 as at August 31, 2006. In order to finance its operations, the Company anticipates that it will, in the near future, enter into significant licensing agreements for Alphinat products and professional services contracts relating to its products as a result of marketing initiatives under way. Furthermore, one of Alphinat's directors has provided a credit facility to the Company.

The Company believes that the funds currently available and those it will obtain upon entering into contracts resulting from initiatives under way will enable it to recruit the additional personnel required to ensure its growth and to meet its financial obligations as they become due.

Long-term commitments

As at August 31, 2007, the Company had monthly payments of \$3,763 until May 31, 2007 on the current lease for its premises and monthly payments of \$604 until August 27, 2010 on its vehicle lease contract.

Related party transactions

During the period under review, one of the Company's directors provided the Company with a credit facility of \$240,000 that bears interest at a rate of 6%. Under the terms of the credit facility, the Company is to grant stock options equivalent to the amount of the loan divided by the closing price of the Company's common shares on the TSX Venture Exchange on the day preceding the loan (subject to a minimum price of \$0.10 per share). Certain accounts receivable have been pledged as security for the loan. As at August 31, 2007, no is drawn on this credit facility and an amount of \$728 relating to this facility is included in financial expenses for the year.

No other transaction was entered into with related parties, except for a partial repayment of advances due to an affiliate.

Financial instruments

Information on financial instruments is presented in note 11 to the financial statements.

Subsequent events

In October 2007, it was agreed that a loan from a company under common control that is non-interest bearing would be repaid in monthly installments of \$12,000 beginning in October 2007.

Risks and uncertainties

The main uncertainty relates to the length of the sales cycle in the public and health care sectors where the Company has thus far concentrated the bulk of its efforts.

Several factors could impact actual results and cause them to be different from expected results. These factors include the Company's ability to develop new markets and partnerships and its dependence on a limited number of customers.

Alphinat has limited financial resources and could require additional cash resources that may not be available or be available under conditions deemed unacceptable to the Company.

The significant value of Alphinat's Internet tools and solutions could draw attention from players who are capable of deploying considerable means to develop competing products, which would affect Alphinat's business potential.

The Company uses and intends to continue to use various measures such as copyrights, trademarks, trade secrets legislation, confidentiality agreements and other contractual terms in order to establish, to maintain and to protect its intellectual property rights. Unauthorized parties could attempt to copy certain of the Company's products or portions of its products or to obtain what is considered as proprietary information. With increased competition, there is a greater risk that other companies will attempt to produce new substitute products or technologies.

Accounting policies and estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the period. Critical accounting estimates relate to the valuation of warrants and stock options and to the valuation allowance for future income taxes.

These financial statements have been prepared in accordance with Canadian GAAP.

Revenue recognition

The Company recognizes revenue from the sale of software user licenses and related customer technical support services as well as other related services in accordance with AICPA's Statement of Position (SOP) 97-2, "Software Revenue Recognition." Fees earned from license agreements, technical support service and other related service agreements are generally allocated to the various activities or deliverables based on objective and supplier-specific evidence of the fair value of each deliverable or activity. As the Company does not have a long sales history, it is considered to not have sufficient objective and supplier-specific evidence required to support the fair value for each item of these agreements. Consequently, revenue from sales of licenses and related technical support service activities is recognized ratably over the contract term. Revenue from other related services is recognized as the services are provided.

Professional service fees are generally billed on the basis of the hours worked to provide the services. Revenue from these services is recognized as the services are provided. Work in process is determined on the basis of services provided but not yet billed. Amounts received for services not yet provided are recorded in deferred revenue and are recognized in revenue when the services are provided.

Future changes in accounting standards

In January 2005, the Accounting Standards Board (“ASB”) issued three new accounting standards dealing with financial instruments. CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, indicates when a financial instrument must be recognized on the balance sheet and measured at fair value or at cost. Section 3855 also indicates how gains and losses on financial instruments should be presented. New CICA Handbook Section 3865, Hedges, sets out an optional accounting treatment that requires that hedges be designated either as fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation.

For a fair value hedge, the gain or loss attributable to the hedged risk is recognized in net income in the period in which the change occurred along with the offsetting loss or gain on the hedged item attributable to the hedged risk. The carrying amount of the hedged item is adjusted for the hedged risk. For a cash flow hedge or a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the hedging item’s gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the hedged item affects net income.

The ASB issued new CICA Handbook Section 1530, Comprehensive Income, and amended Section 3250, Surplus, which is now Section 3251, Equity. These new standards require that, in addition to net income, companies also present comprehensive income and its components in their financial statements. They also require that an enterprise present separately changes in equity for the reporting period and the components of equity at the end of the period, including comprehensive income.

The Company believes these changes will not have a material impact on its results.

Stock option agreements

The Company provides stock option and stock-based compensation plans that are described in note 7 (c) and note 8 (a) to the financial statements.

Continuous disclosure process and disclosure controls

The Company files its consolidated financial statements, management discussions and analyses, press releases and other required documents in the Sedar database at www.sedar.com.

The Company’s shares are listed on the Toronto TSX Venture Exchange under stock symbol NPA.

At the date of this report, the Company issued a governance document detailing its risk control and analysis procedures based on the COSO framework, “Internal Control over Financial Reporting – Guidance for Smaller Public Companies.” This requirement is included in the provisions of Regulation 52-109 on internal control over financial reporting issued by the Autorité des marchés financiers.

In conformity with Regulation 52-109 respecting Certification of Disclosure in Issuers’ Annual and Interim Filings, the effectiveness of the Company’s controls and financial reporting procedures was assessed. Based on this assessment, the President and Chief Executive Officer and the Chief Financial Officer have reached the conclusion that the controls and financial reporting procedures were effective at the end of the year ended August 31, 2007. They also reached the conclusion that the design of these controls and procedures provides reasonable assurance that material information relating to the Company (including its consolidated subsidiaries) is made known to them by others within those entities, particularly during the period in which the interim and annual filings are being prepared. The

purpose of the Company's internal control over financial reporting is to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with GAAP. No change to an internal control mechanism that has had or could likely have a material impact on internal control was reported by others within those entities or was identified by management for the year ended August 31, 2007.

In addition, the Company issued its code of ethics that was sent to all employees by the Chief Executive Officer. In the transmittal letter, employees are invited to contact the audit committee directly if they are aware of information that could potentially impact the Company's financial statements.

For the first quarter of the year under review, the full amount of the \$150,000 sale of a license to a leading systems integrator was recognized in the Company's financial statements. These revenues should have been recognized ratably over the duration of the contract, that is, a period of 12 months beginning in October 2007. The quarterly financial statements for the year should have been as follows:

Fiscal 2007	Q4	Q3	Q2	Q1
	\$	\$	\$	\$
Deferred revenue	851,750	889,686	103,249	141,312
Revenue	225,436	38,063	38,063	39,498
Net loss	(333,663)	(167,946)	(228,158)	(161,189)
Loss per share (basic and diluted)	(0.010)	(0.05)	(0.007)	(0.005)

This interpretation error did not have a material impact on the results of the year under review and in no way affects the Company's cash. To prevent such errors from reoccurring in the future, management will ensure that the Company's transaction history is sufficient so that revenue from these sales may be recognized during the quarter in which the sale is made. As well, management will consult the auditors to confirm its opinion.

Given Alphinat's current size, it is difficult to ensure segregation of all management duties. However, the Chief Executive Officer's direct involvement in the business on a daily basis compensates for this weakness, as he is able to exercise more effective oversight than in a larger entity.

Outlook

Alphinat specializes in the development and marketing of service-oriented architecture (SOA) products that simplify and accelerate the implementation of applications, sites and portals designed to meet specific user needs while ensuring reuse of computer resources and experience within an organization.

The Company's products respond to a real need in the market, which is definitely moving toward the deployment of reusable services and the use of organizations' internal expertise. Market expectations show that 80% of new applications developments will be done through the development of composite applications (i.e. assembly and reuse of existing functionalities) rather than traditional applications development.

The Company's SmartGuide suite is the result of years of experience with customers who saw the need to customize access to their data and processes based on users' needs and situation regardless of where the computer systems were located. This capability is crucial for making it easier for citizens and businesses to deal with the government, whose operations lead to many complex procedures. Alphinat's unified access layer is part of the Government of Quebec's new generation of service portals that are currently being deployed. The Company is actively working to build on this added value and to establish an integrated support, training and service delivery plan for its software solution.

There is a strong potential for Alphinat's "turnkey" solution in the public sector market. Indeed, in most public administrations, the large number of retirements anticipated over the coming decade, the increasing number of procedures and their increasing complexity, and the reduction of operating budgets require an improvement in the public sector's productivity while users press for a radical simplification of the administrative burden.

Alphinat is currently working to improve its public sector solution based on the Quebec model. This type of solution to problems encountered by on-line government can be sold through direct and indirect marketing at extremely competitive prices when compared to traditional custom-coded solutions.

Overall these are markets where investments in new services run into billions of dollars, specifically \$230 billion in 2006 and \$250 billion in 2007, of which 50% were for professional services (Source: IBM Webcast on the public sector, March 2007).

Forward-looking statements

This MD&A contains forward-looking statements regarding the Company. These forward-looking statements are inherently subject to certain risks and uncertainties that could cause actual results to be materially different from those suggested by these statements.

The Company believes that these forward-looking statements were based on premises that were reasonable at the time they were made. However, readers are warned that future assumptions, several of which are beyond management's control, could otherwise prove to be incorrect.

Readers are invited to refer to Sedar (www.sedar.com) for additional information on the Company.