

Management Discussion and Analysis

Alphinat Inc. ("Alphinat" or the "Company") ((TSX Venture Exchange: NPA) has reported its results for the 3-month period ended May 31, 2008.

General

This Management Discussion and Analysis ("MD&A") was prepared as of July 17, 2008 and should be read in conjunction with Alphinat's unaudited financial statements and the notes thereto for the periods ended May 31, 2008 and May 31, 2007 as well as the audited annual financial statements for the year ended August 31, 2007.

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 at July 17, 2008.

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 can be used ubiquitously 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 practice".

Business Operations

During the period under review and to the date of this MD&A, the Company's operations have focused on marketing SmartGuide, its flagship product, and related professional services.

During the period under review, the Company has entered into discussion with various ministries and departments of the Quebec provincial government for pilot projects based on the Alphinat SmartGuide product. These measures are in line with the Company's strategy of assisting government ministries and departments in optimizing their service delivery over the Internet by leveraging the Alphinat SmartGuide product.

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 directly and 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.

**Selected quarterly financial data
(unaudited)**

| | Q3 2008 | Q3 2007 |
|---|----------------|----------------|
| | May 31, 2008 | May 31, 2007 |
| | \$ | \$ |
| Revenue | 251,464 | 38,063 |
| Net earnings (loss) | (214,034) | (167,946) |
| Earnings (loss) per share (basic and diluted) | (0.005) | (0.005) |

Revenue

For the 3-month period ended May 31, 2008, the Company recorded total revenue of \$251,464 compared to \$38,063 for the same period in 2007.

The revenue for the period under review results mainly from revenue recognition of the SmartGuide governmental license agreement with the government of Quebec. Revenue from license sales are recorded 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 their respective contractual terms.

During the period ended May 31, 2008, the Company recognized \$20,284 in revenue stemming from project pilots that have been delivered to ministries and departments of the Quebec government.

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 and ongoing deployment issues help 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 ministries and departments that wish to provide a single access point to the services they provide.

Operating expenses

For the 3-month period ended May 31, operating expenses rose from \$204,515 in 2007 to \$463,902 in 2008. This increase is due to additional staffing of the Alphinat team and sub-contractors, particularly in Québec City, and to the fact that the Company has now reached the marketing stage.

Financial expenses

Financial expenses amounted to a net expense of \$1,596 for the period ended May 31, 2008 compared to net expense of \$1,494 for the corresponding period in 2007.

Losses for the period

The net loss for the 3-month period ended May 31, 2008 is \$214,034 or \$0.005 per outstanding common share compared to a net loss of \$167,946 or 0.005\$ per outstanding common share for the corresponding period in 2007.

These results are indicative of the Company's transition towards the sales and marketing stage. Higher revenue is now being generated and this trend is expected to continue.

Assets

Cash and cash equivalents amounted to \$220,011 as at May 31, 2008 compared to \$773,439 as at August 31, 2007.

Accounts receivable were \$9,255 as at May 31, 2008 compared to \$340 as at August 31, 2007.

R&D tax credits receivable decreased from \$116,564 as at August 31, 2007 to \$91,320 as at May 31, 2008.

Liabilities

Accounts payable and accrued charges increased from \$260,063 as at August 31, 2007 to \$369,954 as at May 31, 2008. This is due to an increase in sub-contracts to support ongoing deployment initiatives with various ministries of the Quebec government.

Deferred revenue decreased from \$851,750 as at August 31, 2007 to \$115,349 as at May 31, 2008 due to revenue being recognized resulting from the governmental license agreement with the Quebec government during the past fiscal year 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."

The current portion of the loan from a company under common control decreased from \$122,391 as at August 31, 2007 to \$98,391 as at May 31, 2008 due to a partial repayment of this loan. This non-interest-bearing loan is repaid in monthly installments of \$12,000 beginning in October 2007. During the 3-month period ending May 31, 2008, no installment has been made.

Long-term debt of \$1,670 and the current portion of \$20,040 relate to a loan from the Business Development Bank of Canada.

Shareholders' equity

During the quarter ended May 31, 2008, issued 4,437,500 common shares as part of a private placement it closed during the quarter for gross proceeds to Alphinat of \$355,000.

As at the date of this report 39,294,167 common shares of the Company were outstanding.

Options and warrants

During the quarter ended May 31, 2008, no stock option was issued. At that date, there are 5,146,144 options with an average exercise price of \$0.21, a weighted contractual life of 32 months and a carrying value of \$840,953.

During the quarter ended May 31, 2008, 4,437,500 new warrants were issued by the Company as part of the private placement. These warrants carry a strike price of \$0.12, a weighted contractual life of 23 months and a carrying value of \$130,478.

Liquidity and solvency

As at May 31, 2008, the Company had cash totaling \$220,011 compared to \$773,439 as at August 31, 2007. 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. Also, two of Alphinat's directors have 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 May 31, 2008, the Company had monthly payments of \$4,887.50 until March 31, 2010 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, two 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 May 31, 2008, no amount is drawn on this credit facility.

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 12 to the financial statements.

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 8 (c) and note 9 (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 period ended May 31, 2008.

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.

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.

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.