

ALPHINAT INC.
FINANCIAL REPORT

AS AT AUGUST 31, 2009 AND 2008

AUDITORS' REPORT

To the Shareholders of
ALPHINAT INC.

We have audited the balance sheets of **ALPHINAT INC.** as at August 31, 2009 and 2008, 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Montreal, October 14, 2009
(November 16, 2009 for note 10)

1. CA auditor permit no. 12424

ALPHINAT INC.**BALANCE SHEETS****AS AT AUGUST 31, 2009 AND 2008**

	2009	2008
ASSETS		
CURRENT		
Cash	\$ -	\$ 127,499
Accounts receivable (note 6)	263,215	274,654
Work in progress	-	6,525
Sales taxes receivable	18,355	34,953
Prepaid expenses	12,329	17,338
Research and development tax credits receivable	156,178	105,873
	450,077	566,842
FIXED ASSETS (note 7)	10,034	12,504
INTANGIBLE ASSETS (note 8)	4,316	6,111
	\$ 464,427	\$ 585,457
LIABILITIES		
CURRENT		
Bank overdraft	\$ 49,316	\$ -
Accounts payable and accrued liabilities (note 9)	471,800	399,218
Deferred revenues	150,715	158,738
Advances from a director and individuals related to a director, without interest	84,967	84,967
Loans from directors and individuals related to a director (note 10)	163,093	-
Loan from a company under common control (note 11)	98,391	98,391
Current portion of long-term debt (note 12)	-	16,700
	1,018,282	758,014
SHAREHOLDERS' DEFICIENCY		
Capital stock (note 13)	4,608,075	4,608,075
Stock options (note 14) a))	524,330	641,931
Warrants (note 14) b))	81,881	81,881
Contributed surplus (note 15)	955,989	831,826
Deficit	(6,724,130)	(6,336,270)
	(553,855)	(172,557)
	\$ 464,427	\$ 585,457

Going concern (note 1)**On behalf of the Board,**

_____, Director

_____, Director

ALPHINAT INC.

STATEMENTS OF DEFICIT

FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
BALANCE, BEGINNING OF YEAR	\$ (6,336,270)	\$ (6,207,893)
Loss for the year	(387,860)	(128,377)
BALANCE, END OF YEAR	\$ (6,724,130)	\$ (6,336,270)

ALPHINAT INC.

STATEMENTS OF LOSS

FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	2009	2008
REVENUES	\$ 1,119,032	\$ 1,342,504
OPERATING EXPENSES		
Cost of services, selling and administrative expenses	1,018,691	1,114,716
Research and development expenses (note 18)	462,768	327,466
Financial expenses (note 22)	12,594	1,367
Stock-based compensation (notes 13 c) and 14 a))	6,562	21,542
Amortization - fixed assets	4,482	4,694
Amortization - intangible assets	1,795	1,096
	1,506,892	1,470,881
LOSS FOR THE YEAR	\$ (387,860)	\$ (128,377)
Basic and diluted loss per share (note 19)	(0.01)	(0.004)
Weighted average number of common shares outstanding (note 13 d))	35,491,112	32,380,782

Going concern (note 1)

ALPHINAT INC.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	2009	2008
OPERATING ACTIVITIES		
Loss for the year	\$ (387,860)	\$ (128,377)
Adjustments for:		
Amortization - fixed assets	4,482	4,694
Amortization - intangible assets	1,795	1,096
Stock-based compensation expense	6,562	21,542
	(375,021)	(101,045)
Net change in non-cash working capital items (note 5)	53,825	(833,069)
	(321,196)	(934,114)
INVESTING ACTIVITIES		
Purchase of fixed assets	(2,012)	(5,642)
Purchase of intangible assets	-	(6,500)
	(2,012)	(12,142)
FINANCING ACTIVITIES		
Repayment of long-term debt	(16,700)	(20,040)
Repayment of the loan from a company under common control	-	(24,000)
Issuance of capital stock and warrants	-	355,000
Share issue expenses	-	(10,644)
Loans from directors and individuals related to a director	163,093	-
	146,393	300,316
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(176,815)	(645,940)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	127,499	773,439
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ (49,316)	\$ 127,499

Cash and cash equivalents consist of cash less bank overdraft.

Cash flow related to operating activities includes paid interest of \$9,881 (\$3,616 in 2008).

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

1. CONSTITUTION, DESCRIPTION OF BUSINESS AND GOING CONCERN

The Company was incorporated on March 12, 2004 under the Canada Business Corporations Act. Its mission is to develop and market software products that meet leading-edge industry standards and that allow for the implementation of self-service solutions and Web-based work space, thereby facilitating all dealings between the organization and its clients, partners, suppliers, employees and shareholders.

Alphinat Inc. operates in four primary markets:

- Public sector
- Telecommunications
- Healthcare sector
- Financial institutions

The solutions provided help to reduce the complexity and costs of an organization's business processes by computerizing data input, processing, switching and dissemination.

These solutions offer one-stop service to users who must deal with many different people and information sources within a business or government organization. Although these financial statements have been prepared on a going concern basis, certain facts and circumstances raise doubts as to this assumption. The Company incurred major operating losses in recent years. Its cash flows from operations were negative for the years ended August 31, 2009, 2008, 2006, 2005 and 2004 and were positive for the year ended August 31, 2007. Its current liquidities may be insufficient to meet its obligations. However, this shortfall was partially offset by loans from directors and individuals related to a director after year end and by the signing of a partnership agreement with Bell Canada in October 2009 in exchange for a monetary consideration to be received in two instalments.

Although the financial statements present a deficit, the Company is focusing on developing improved versions of its SmartGuide software and on marketing its products. During the year ended August 31, 2009, the number of licenses sold increased substantially in spite of a drop in revenues, mainly at the end of the period for recognizing revenues from a license sold to the Québec government in 2007. Deferred revenues totaling \$150,715 will be recognized in earnings in the coming years. A major step was reached in October 2009 after France's Direction générale de la modernization de l'État (DGME) retained a proposal from a major French-based integrator that Alphinat is associated with to have a competitive dialogue in connection with a vast program to simplify administrative procedures for all users of public utilities.

The Company's continued operations depend on management's ability to successfully implement its business plan, under which it expects to be able to increase its operating revenues from existing products and have agreements and partnerships with third parties. There is no assurance that these measures implemented by management will provide results. These financial statements do not include any adjustments that would be required if the Company were unable to continue operating and therefore if it were required to realize its assets and pay its obligations other than in the normal course of operations. These adjustments may be material.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

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 reported amounts of assets and liabilities at the date of the financial statements and the estimates. The most significant estimates include stock-based compensation, warrants and research and development tax credits receivable.

Fixed assets

Fixed assets are accounted for at cost, net of research and development tax credits. Amortization is calculated using the declining balance method at the following rates:

	Rates
Office furniture and equipment	20%
Computer equipment	40%

Intangible assets

Intangible assets are accounted for at cost. Amortization is calculated using the following methods, rate and period:

	Methods	Rate or period
Computer software	Declining balance	40 %
Trademarks	Straight-line	4 years

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 credits 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.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

2. ACCOUNTING POLICIES (CONTINUED)

Research and development expenses

Research and development expenses are charged to expenses 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. As at August 31, 2009 and 2008, 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.

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 and the Company recognizes the revenue for each element when revenue recognition criteria are met. To determine the fair value of each element, the Company uses the requested price for an element when it is sold separately and any other information considered to be relevant.

Revenues from software licenses are recognized when there is persuasive evidence of a valid arrangement, the software product has been delivered and accepted from the client and no significant obligations from the Company remain. The after-sales technical support is recognized on a straight-line basis over the contractual service period and 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 is more likely than not that some portion or all of the future income tax assets will not be realized.

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.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

2. ACCOUNTING POLICIES (CONTINUED)

Stock-based compensations

The Company has granted stock options as described in note 14 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 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.

Financial assets and liabilities

The Company has elected to classify cash and accounts receivable as "held for trading". Consequently, any changes in the fair value of these assets will be recorded directly in net results.

Accounts payable, liabilities payable to shareholders, loans from directors and individuals related to a director and the loan from a company under common control are classified in "other liabilities" and accounted for at cost. Transaction costs related to "other liabilities" are recorded in the net result.

3. CHANGES IN ACCOUNTING POLICIES

a) Implemented during fiscal year 2009

Changes in accounting policies

On September 1st, 2008, the Company adopted the new accounting standards related to sections 1535 "Capital Disclosures", 3862 and 3863 "Financial Instruments - Disclosure and Presentation" and 3064 "Goodwill and Other Intangible Assets".

Capital Disclosures (Section 1535)

This section establishes disclosure requirements concerning capital such as: qualitative information about an entity's objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether the entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. For additional information regarding the adoption of these new requirements, see note 23.

Financial instruments - Disclosure and Presentation (Sections 3862 and 3863)

These new standards replace Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements. Presentation requirements remain unchanged.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. It establishes standards for the recognition and of intangible assets by profits-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of these new standards had no material impact on the Company's financial statements.

Changes in accounting estimates

During the year, the Company reviewed the basis of revenue recognition of software products since the sales history is sufficient to have vendor-specific objective evidence of fair value of the various elements under these multiple-element arrangements. Thus, revenues from software licenses are recognized when there is persuasive evidence of a valid arrangement, the software product has been delivered and accepted from the client and no significant obligation from the Company remain. Previously, they were recognized linearly over the contractual service period.

This change was applied on a prospective basis and resulted in a \$92,447 increase in income for the current year compare to what would be recognized according to the accounting policies used previously.

b) Implemented during fiscal year 2008

Changes in accounting policies

On September 1st, 2007, the Company adopted the new accounting standards related to sections 1530 "Comprehensive Income", 3855 "Financial Instruments - Recognition and Measurement" and 3865 "Hedges". Figures for periods prior to September 1st, 2007 were not amended.

Financial instruments - Recognition and measurement (Section 3855)

Under this new standard, all financial assets are classified in one of the following four categories: 1) held to maturity 2) loans and receivables 3) held for trading and 4) available for sale. Financial liabilities will have to be classified as "held for trading" or "other". Financial assets and liabilities held for trading such as accounts payable, liabilities payable to shareholders, loans from directors and individuals related to a director and the loan from a company under common control are classified in "other liabilities" and accounted for at cost. Transaction costs related to "other liabilities" are recorded in the net result. Held-to-maturity financial assets, loans and receivables, and financial liabilities classified as "other" will be recognized at amortized cost using the effective interest rate method. Available-for-sale financial assets will be valued at fair value, and all the unrealized gains and losses will be recorded in other comprehensive income. The new standard will enable entities to designate all financial instruments as held for trading when they are initially recognized or when this standard is adopted, even if this financial instrument does not fall within the definition of a financial instrument held for trading. Financial instruments held for trading under the fair value option must have a reliable fair value.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Comprehensive income and other elements of comprehensive income (Section 1530)

Following the adoption of these new accounting standards, the Company must present a statement of other comprehensive income. Other comprehensive income includes the net result and the other elements of the comprehensive income. Considering that the Company has classified the whole of its financial tools as financial tools “held for trading” and its long-term debts in the category “other” liabilities, no variation element was classified in the other elements of the comprehensive income, consequently, net loss corresponds to the total of the comprehensive income.

Impact of adopting these new standards

The adjustments related to the classification of investments as financial instruments held for trading were nil and therefore, no adjustment was recorded in the opening balance as at September 1st, 2007.

Changes in accounting estimates

The Company reviewed the amortization period for services to be rendered under its service contracts based on the maturity date of the contracts rather than the contract signing date after new evidence was obtained from a contract stakeholder. This change was applied on a prospective basis and resulted in a \$46,850 increase in income for the year.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Business combinations, consolidated financial statements and non-controlling interests

In December 2008, the CICA approved three new accounting standards Handbook sections 1582, Business Combinations, 1601, Consolidated Financial Statements, and 1602, Non-Controlling interest, replacing sections 1581, Business Combinations and 1600, Consolidated Financial Statements. Section 1582 provides the Canadian equivalent to IFRS 3 - Business Combinations (January 2008) and sections 1601 and 1602 to IAS 27 - Consolidated and Separate Financial Statements (January 2008). Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Entities adopting section 1582 will also be required to adopt sections 1601 and 1602. Section 1602 establishes standards for accounting for a non-controlling interest and will require the non-controlling interest to be presented as part of shareholders' equity on the balance sheet. In addition, the net earnings will include 100% of the subsidiary's results and will be allocated between the controlling interest and non-controlling interest. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. All three standards are effective at the same time Canadian public companies will have adopted IFRS, for fiscal year beginning on or after January 1, 2011.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed January 1, 2011 as the date that IFRS will replace current Canadian GAAP for publicly accountable enterprises. Even if Canadian GAAP and IFRS are both principles-based and use comparable conceptual frameworks, there are significant recognition, measurement, presentation and disclosure differences. In the period leading up to the changeover, the AcSB expect to issue converged accounting standards, intentionally mitigating the impact of adopting IFRS at the changeover date.

The Company has developed a changing plan for conversion to these new standards according to the timetable set for these new rules. The implementation plan includes four main phases, i.e. initial assessment of impacts, design and planning, solution development and implementation.

In its preliminary comparative analysis of IFRS and Canadian GAAP, the Company detected differences. At this time, the impacts on the financial position and future operating results cannot be established or estimated in a reasonable way. In 2010, the Company will continue its review of standards applicable to Alphinat and assess these impacts.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

5. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2009	2008
Accounts receivable	\$ 11,439	\$ (274,314)
Research and development tax credits receivable	(50,305)	10,691
Work in progress	6,525	(6,525)
Prepaid expenses	5,009	(13,587)
Accounts payable and accrued liabilities	72,582	166,155
Sales taxes receivable	16,598	(22,477)
Deferred revenues	(8,023)	(693,012)
	\$ 53,825	\$ (833,069)

6. ACCOUNTS RECEIVABLE

Accounts receivable includes an amount of \$140,340 made in Euro currency.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

7. FIXED ASSETS

	2009		
	Cost	Accumulated amortization	Net value
Computer equipment	\$ 118,417	\$ 112,069	\$ 6,348
Office furniture and equipment	20,245	16,559	3,686
	\$ 138,662	\$ 128,628	\$ 10,034

	2008		
	Cost	Accumulated amortization	Net value
Computer equipment	\$ 116,405	\$ 108,508	\$ 7,897
Office furniture and equipment	20,245	15,638	4,607
	\$ 136,650	\$ 124,146	\$ 12,504

8. INTANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net value
Computer software	\$ 21,929	\$ 21,675	\$ 254
Trademarks	6,500	2,438	4,062
	\$ 28,429	\$ 24,113	\$ 4,316

	2008		
	Cost	Accumulated amortization	Net value
Computer software	\$ 21,929	\$ 21,505	\$ 424
Trademarks	6,500	813	5,687
	\$ 28,429	\$ 22,318	\$ 6,111

ALPHINAT INC.**NOTES TO THE FINANCIAL STATEMENTS****AUGUST 31, 2009 AND 2008**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	\$ 293,329	\$ 286,161
Accounts payable and accrued liabilities, in euro currency	32,782	-
Liabilities payable to shareholders, without interest	104,569	84,415
Salaries and fringe benefits	27,229	28,642
European taxes payable	13,891	-
	\$ 471,800	\$ 399,218

10. LOANS FROM DIRECTORS AND INDIVIDUALS RELATED TO A DIRECTOR AND SUBSEQUENT EVENTS

Loans from directors and individuals related to a director, bearing interest at an annual rate of 12%, repayable December 31, 2009.

During the months of October and November 2009, additional loans for a total amount of \$82,000 were granted by the directors.

11. LOAN FROM A COMPANY UNDER COMMON CONTROL

The loan from a company under common control is non-interest bearing and is refundable by monthly installments of \$12,000 starting October 2007. No payments have been made since November 26, 2007. The company under common control does not intend to require the immediate payment of its loan.

12. LONG-TERM DEBT

	2009	2008
Loan for an original amount of \$100,000, refunded in June 2009.	\$ -	\$ 16,700
Current portion of long-term debt	-	16,700
	\$ -	\$ -

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

13. CAPITAL STOCK

a) Authorized : an unlimited number of participating and voting common shares.

b) Issued and paid

Common shares	Number	Amount
Balance - August 31, 2006 and 2007 previously reported	34,556,667	\$ 4,314,100
Restatement of performance shares (note 13d))	(4,166,667)	-
Adjusted balance as at August 31, 2007	30,390,000	4,314,100
Share issuance	4,737,500	304,619
Share issue costs	-	(10,644)
Release of performance shares (note 13 d))	363,612	-
Balance - August 31, 2009 and 2008	35,491,112	\$ 4,608,075

c) 2008 financial year transactions

In November 2006, the Company authorized the issuance of 300,000 common shares as additional compensation to one of its officer. As at August 31, 2007, these shares had not yet been issued and they were accounted for an approximate value of \$27,000 which was accounted for in accounts payable and accrued liabilities. The shares were issued January 16, 2008 for a value of \$31,500.

During the financial year ended August 31, 2008, the Company has issued 4,437,500 units including a common share and a warrant at the unit price of \$0.08, for cash proceeds of \$355,000 which \$81,881 were assigned to warrants considering a discount of 25% on the stock price. Each warrant will allow the holder to acquire an additional common share at the exercise price of \$0.12 for a two years period following the issue date.

d) Escrowed shares

Under an escrow agreement, 4,745,762 common shares issued as part of the eligible transaction are held in escrow as at August 31, 2009 (7,118,642 in 2008). Pursuant to the agreement terms, 5% of the 11,864,402 common shares initially held in escrow were released on April 20, 2005, the date on which the Final Exchange Bulletin was issued, and 5% were released every six months between October 20, 2005 and April 20, 2007. Finally, 10% will be released every six months beginning on October 20, 2007 until the final release in April 2011. Moreover, under this escrow agreement, 4,166,667 common shares were subject to a special escrow agreement since they are so-called performance shares. Under the terms of the agreement, these shares will be released from the special escrow agreement in proportion to the degree to which performance objectives are achieved in the three years following the eligible transaction. As at April 20, 2008, a total of 363,612 of the 4,166,667 so-called performance common shares were eligible for release from the special escrow agreement. The balance must be cancelled since not all of the performance objectives have been achieved.

Given that the so-called performance shares were issued shares that must be returned in whole or in part if specified conditions were not met, they should not have been taken into consideration in determining the number of issued common shares and earnings per share before the date on which all the conditions for their release were met. Accordingly, the number of outstanding shares and earnings per share for 2007 and 2008 have been restated.

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

14. STOCK OPTIONS AND WARRANTS

a) Stock options

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's 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, 2008 and 2009 (these options are vested and granted).

	Number of options	Weighted average exercise price per share \$
Balance - August 31, 2007	5,636,144	0.22
Granted	370,000	0.10
Expired	(860,000)	0.20
Cancelled	(873,256)	0.30
Balance - August 31, 2008	4,272,888	0.21
Granted	250,000	0.10
Cancelled	(200,000)	0.10
Expired	(215,000)	0.20
Cancelled	(250,000)	0.30
Balance - August 31, 2009	3,857,888	0.19

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

14. STOCK OPTIONS AND WARRANTS (CONTINUED)

The estimated fair value of the options granted during the year ended August 31, 2009 was \$6,562 (\$17,042 in 2008), using the Black-Scholes option pricing model with the following assumptions:

	Directors and employees 2009	Directors and employees 2008
Stock price	\$0.05	\$0.065
Risk-free interest rate	2.50%	3.85% and 4.50%
Expected volatility	100%	100%
Dividend yield	nil	nil
Expected life	5 years	5 years

The following table summarizes information about outstanding stock options granted by the Company as at August 31, 2008 and 2009:

Options outstanding				Options exercisable	
Range of exercise price	Number of options	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
0.10	2,135,000	45	0.10	2,135,000	0.10
0.20	215,000	11	0.20	215,000	0.20
0.30	1,922,888	19	0.30	1,922,888	0.30
As at August 31, 2008	4,272,888	29	0.21	4,272,888	0.21
0.10	2,185,000	35	0.10	2,185,000	0.10
0.30	1,672,888	7	0.30	1,672,888	0.30
As at August 31, 2009	3,857,888	23	0.19	3,857,888	0.19

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

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14. STOCK OPTIONS AND WARRANTS (CONTINUED)

b) Warrants

During the year ended August 31, 2009, the Company has not issued any warrants (4,437,500 in 2008).

The following table presents a reconciliation and the information concerning outstanding warrants granted by the Company as at August 31, 2009 and 2008:

	Number	Weighted average exercise price per share \$
Balance - August 31, 2007	3,366,667	0.18
Expired	(3,366,667)	0.18
Issued	4,437,500	0.12
Balance - August 31, 2008	4,437,500	0.12
Issued or expired during the year	-	-
Balance - August 31, 2009	4,437,500	0.12

The following table summarizes the information about outstanding warrants granted by the Company as at August 31, 2008 and 2009:

Warrants outstanding				Warrants exercisable	
Range of exercise price \$	Number of warrants	Weighted average remaining contractual life (months)	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
As at August 31, 2008					
0.12	4,437,500	20	0.12	4,437,500	0.12
As at August 31, 2009					
0.12	4,437,500	8	0.12	4,437,500	0.12

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

15. CONTRIBUTED SURPLUS

	2009	2008
Balance - beginning of period	\$ 831,826	\$ 310,957
Forfeited or expired stock options	124,163	406,553
Expired warrants	-	114,316
Balance - end of period	\$ 955,989	\$ 831,826

16. COMMITMENTS

The commitments of the Company under leases agreements aggregate to \$44,610. The instalments over the next two years are as follows:

2010	\$ 44,006
2011	\$ 604

17. FINANCIAL INSTRUMENTS

Credit risk

Financial instruments that potentially expose the Company to credit risk consist of cash and accounts receivable. The Company maintains its cash balance 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. As at August 31, 2009, the Company had a credit concentration since more than 43% of accounts receivable were from a single customer. Due to this customer's excellent financial situation, the Company is of the opinion that this 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 individuals related to a director	Non-interest bearing
Loan from a company under common control	Non-interest bearing
Loans from directors and individuals related to a director	12 %

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NOTES TO THE FINANCIAL STATEMENTS

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17. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The Company has estimated the fair value of its financial instruments based on actual interest rate, market value and the actual price for a similar financial instrument with similar conditions. Unless otherwise specified, book value is considered approximately equal to the fair value.

Market risk

The future performance of the Company is dependent on the continued popularity of its existing solutions and its ability to develop and release updated and upgraded versions of SmartGuide™ software suite that gain acceptance and satisfy consumer demands in its targeted markets. The popularity or relevance of any of its solutions may decline over time as consumer preferences change or as new competing softwares are introduced to target markets. The development of new solutions and their distribution within the target market, require significant investments.

Liquidity risk

In order to meet additional capital requirements, the Company may consider collaborative arrangements and additional public or private financing to fund all or a part of particular software development programs and or working capital needs. Private financing could include incurring debt and the issuance of additional equity securities, which could result in dilution to shareholders. There can be no assurance that additional funding will be available. The corporation manages this risk by establishing detailed cash forecast, as well as long-term operating and strategic plans. According to these forecast, cash flows for operating activities will be generated by government license and maintenance fees and professional services sales directly and through partnerships.

Foreign exchange risk

Because of its licences sales in Europe, The Company is exposed to foreign exchange risk. Theses risks are partially offset by its marketing expenses in Europe. As at August 31, 2009, because of its limited number of transactions in Europe, the Company believes that the foreign exchange risk is limited.

18. RESEARCH AND DEVELOPMENT EXPENSES

	2009	2008
Research and development expenses	\$ 618,946	\$ 433,339
Less: research and development tax credits	(156,178)	(105,873)
	\$ 462,768	\$ 327,466

ALPHINAT INC.

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19. LOSS PER SHARE

For the years ended August 31, 2009 and 2008 there was no difference between the basic and diluted loss per share due to the fact that all stock options, warrants and escrowed performance shares released under certain conditions that are issued have an antidilutive 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.

20. 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 30,90% (31,27% in 2008) for the following reasons:

	2009	2008
Income tax recovery using the statutory income tax rate	\$ (119,849)	\$ (40,143)
Permanent differences and other	6,643	11,066
Unrecognized tax benefits from non-capital loss	73,556	243,633
Unrecognized tax benefits from temporary differences	39,650	(214,556)
	\$ -	\$ -

b) Future income taxes include the following items:

	2009	2008
Future income tax assets		
Non-capital losses	\$ 614,812	\$ 612,115
Research and development expenses	\$ 647,068	\$ 605,207
Intangible assets	\$ 59,514	\$ 66,835
Unpaid salaries	\$ 40,350	\$ 46,905
Deferred revenues	\$ 45,561	\$ 48,256
Fixed assets and softwares	\$ 5,015	\$ 1,871
Share issue expenses	\$ 13,006	\$ 50,941
	\$ 1,425,326	\$ 1,432,130
Future income tax liabilities		
Work in progress	\$ -	\$ 1,984
Research and development tax credits	\$ 91,885	\$ 78,575
	\$ 91,885	\$ 80,559
	\$ 1,333,441	\$ 1,512,689
Valuation allowance	\$ (1,333,441)	\$ (1,512,689)
	\$ -	\$ -

ALPHINAT INC.

NOTES TO THE FINANCIAL STATEMENTS

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20. INCOME TAXES (CONTINUED)

As at August 31, 2009, the Company had non-capital loss of approximately \$2,311,254 at the federal level and \$2,253,145 at the provincial level. These losses will expire during the following financial years:

	Federal	Provincial
2014	\$ 328,533	\$ 423,066
2015	159,344	139,797
2026	785,018	710,191
2028	789,583	759,583
2029	248,776	220,508
	<hr/> \$ 2,311,254	<hr/> \$ 2,253,145

The Company has unused research and development expenses totalling approximately \$1,456,180 at the federal level and \$3,602,024 at the provincial level that may be carried forward indefinitely.

The Company has unused share issue costs that will gradually expire by August 31, 2013 totalling approximately \$48,351 at the federal level and at the provincial level.

In addition, the Company has research and development tax credits totalling approximately \$341,580 at the federal level that it may use to offset future taxable income. These tax credits expire as follows:

	\$
2020	3,143
2021	123
2025	32,101
2026	83,657
2027	63,366
2028	62,094
2029	97,096
	<hr/> 341,580

21. ECONOMIC DEPENDENCE

Sales made to the departments and agencies from the government of Québec amount to \$770,145 (\$1,315,654 in 2008), which represents 69% (98% in 2008) of the Company's total sales.

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NOTES TO THE FINANCIAL STATEMENTS

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22. INFORMATION ON INCOME

	2009	2008
Interest and bank charges	\$ 11,826	\$ 2,420
Interest on long-term debt	817	3,616
Interest income	(49)	(4,669)
	\$ 12,594	\$ 1,367

23. CAPITAL DISCLOSURES

In regards to capital management, the Company's objective, from the beginning of its operations, is the continuity of its operations in order to carry on with the development and marketing of the SmartGuide™ software suite, the protection of its assets, while maximizing the shareholders return on investment. The Company is not subject to any externally imposed capital requirements. The Company has several options regarding its capital needs. See note 17 for more detail.

The Company defines its capital as the sum of its shareholders equity and loans from directors and individuals related to a director. The shareholders deficiency (\$553,855) as at August 31, 2009 and \$(172,557) as at August 31 2008) includes: share capital, warrants, contributed surplus and deficit. The loans from shareholders, directors and individuals related to a director amount to \$346,451 in 2009 (\$183,358 in 2008). The capital deficiency decrease of \$218,205 during the 2009 fiscal year is primarily the result of the deficit of the year.

There were no significant changes in the Company's approach to capital management during the year ended August 31, 2009.

24. RELATED PARTY TRANSACTIONS

During the year ended August 31, 2009, the Company paid professional fees totalling \$29,225 to one company owned by a shareholder and officer and has paid interest totalling \$8,581 on loans from directors and individuals related to a director. As at August 31, 2009, accounts payable include an amount of \$28,951 relating to these transactions.

These transactions were carried out in the normal course of business and are measured at the exchange value which is the value of the consideration established and agreed by the related parties.

25. COMPARATIVE FIGURES

Certain figures for 2008 have been reclassified to make their presentation identical to that adopted in 2009.