



Message to shareholders

Dear shareholders,

Despite a difficult global economic context, Alphinat reached important milestones that were laid out in its' strategic plan. Fiscal year 2009 saw Alphinat consolidate its' position with the Quebec government while establishing itself in Europe with key wins in close collaboration with partners of choice. The productivity gains that SmartGuide™ offers clients and the competitive advantage it gives partners were key elements in this success.

In 2009 we had set 5 specific objectives

- To consolidate a world class technical team;
- Pursue research and development activities on our products, especially on version 4.0 of SmartGuide™;
- Intensify sales and partnership efforts in North American and in Europe;
- Streamline and perfect processes for the commercial and technical support of partners;
- Generate revenues and secure funding to finance these objectives.

In 2009 we have surpassed these objectives

Revenues generated by our operations and loans from our directors and individuals related to a director have allowed us to surpass our objectives:

- We have established a world class core technical team to support and assist clients and partners in the implementation of our products and to train their personnel to develop internal SmartGuide™ expertise. The projects which we completed in Europe were delivered by our partners and allowed us to perfect the process of remote support which is critical to achieve optimal allocation of Alphinat expert resources. With the current team, Alphinat is able to support the current partnerships as those which it plans to conclude in 2010;
- We have consolidated our position with the Quebec provincial government, bringing the number of e-services based on SmartGuide™ to over 30;
- We have ensured the evolution of SmartGuide™ by taking into account client suggestions as well as technical and market trends into the ongoing development. This work has resulted in a November release of version 4.0 of SmartGuide™. This new version allows for greater productivity gains for our clients and partners, and further reduces the learning curve and training cycle. New features allow for greater flexibility in terms of reuse of existing data sources and IT systems all while ensuring optimal allocation of IT resources to higher value tasks.
- We have intensified our sales efforts in Europe with the following results:
 - Licenses being sold for proofs of concept to a Swiss Canton and to French government agencies such as Caisse National d'Assurance Maladie (Health insurance authority), la Caisse Nationale d'Allocation Familiale (Family benefits authority), la Direction Générale de Modernisation de l'État (State modernization agency) and la Direction Générale de l'Aviation Civile (Civil aviation authority);
 - Production licenses being sold to a Swiss Canton and to the Hague Conference on Private International Law;
 - Response to a public request for proposal launched by the Direction Générale de la Modernisation de l'État of the French Republic;
 - Consolidation of partnerships to ensure implementation and support of SmartGuide licenses to end-clients.
- We have intensified our sales efforts in North America by indentifying potential partners with whom negotiations are under way.



These efforts have resulted in two major announcements in October 2009:

- On October 7, 2009 we announced a partnership agreement with Bell Canada to collaborate on commercialization and implementation of SmartGuide™ for their clients;
- On October 27, 2009 we announced that the Direction Générale de Modernisation de l'État of the French Republic had selected SmartGuide™ to build a "factory" to streamline delivery of e-government services to constituents and enterprises.

In 2010 we aim to

- Ensure the success of the agreements announced in October 2009, in Canada with Bell and in France with Bull for the Direction Générale de Modernisation de l'État project.
- Pursue our sales efforts with partners in Canada, the United States and Europe. Potential partners have been identified and negotiations are under way.
- Ensure greater visibility for SmartGuide™ and the important productivity gains this innovative product offers in quickly and cost-effectively launching e-services that require complex dialogue between an organization and its' stakeholders.

Dear friends, this is our 2010 program. Please be assured that the entire Alphinat team is committed to implement it.

On behalf of management and the board of directors of Alphinat, we would like to thank our employees, customers, shareholders and partners for their support and confidence.

Michel Lemoine
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, 2009.

General

This Management Discussion and Analysis ("MD&A") was prepared as of December 7, 2009 and should be read in conjunction with Alphinat's audited financial statements and the notes thereto for the fiscal years ended August 31, 2009 and August 31, 2008.

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 7, 2009.

Overview

Alphinat Inc. develops, markets and supports SmartGuide™ software technology that enables non-technical managers to configure and deploy complex Web applications quicker and at lower cost. SmartGuide™ allows an experience similar to an "in person" help to transposed over the WEB resulting in better user adoption, customer satisfaction and employee productivity.

Solutions developed with SmartGuide™ permit the full information and functional richness of an organization to be available to the end user without the complexity being seen by the end user. A user can now with 100% accuracy now find information sought with the additional benefit of being guided to task completion to avoid any confusion or errors should they chose. In effect SmartGuide™ permits a Web environment to have the benefits and ease of use of an in person experience.

Using its SmartGuide™ software suite, Alphinat implements innovative on-line government and enterprise solutions that center on the needs of citizens and customer. These solutions which were adopted by the Quebec government are recognized internationally as innovative and as a "best Internet practices".

Business Operations

During the year under review, the company continued to develop and innovate SmartGuide™. The enhancements in version 4.0 reduce the learning curve and the training cycle required to become a SmartGuide™ expert. The innovations inherent to version 4.0 improve client and partner productivity while ensuring greater flexibility in terms of exploiting existing data sources and back-end systems and optimal allocation of IT resources to higher value tasks. In short it makes developing complex web application creation quicker and easier all the while ensuring a higher degree of leverage for existing IT assets. On the back of its success of the V4.0 release the company continues to accelerate its international marketing and partnership efforts.

Furthermore, SmartGuide™ v4.0 gives Alphinat a distinct advantage in securing partnerships such as the one announced with Bell Canada on October 7, 2009. Company's operations have focused on the marketing of SmartGuide™, its flagship product. The company also focused on partnering and supporting partnerships for greater client and industry sales reach. The company also trains and develops related professional services expertise within our partnerships to support commercialization and implementation of SmartGuide™.

The Company's effort to consolidate its' position with the Quebec provincial government has brought the number of e-services based on SmartGuide™ to over 30. Of those, Commission des Normes du



Travail was nominated as finalist for the Octas award in April 2009 for the quality of its online services.

In fiscal 2009 Alphinat also focused on European governments in Switzerland and France which resulted in a strategic win in Switzerland followed by a public tender process in France that resulted in SmartGuide™ v4.0 being chosen as the solution to build a web application factory for inter-ministerial government services. The detailed results of the French efforts were made public by Alphinat on October 27, 2009 and by Bull (www.bull.com), the systems integrator with whom the Company partnered for the bid, on November 23, 2009.

Selected annual data (audited)

The information contained in the table below represents selected financial information from operations and the financial evolution of Alphinat for the periods ending August 31 as well as the financial position at these dates.

	2009	2008	2007
	\$	\$	\$
Revenue	1,119,032	1,342,504	341,060
Net profit (loss)	(387,860)	(128,377)	(890,969)
Earnings (loss) per share (basic and diluted)	(0.01)	(0.004)	(0.029)
Total assets	464,427	585,457	918,833
Total long-term financial liabilities, including current portion	0	16,700	36 740

Selected quarterly financial data (unaudited)

	2009 fiscal year			
	Q4	Q3	Q2	Q1
	\$	\$	\$	\$
Revenue	321,872	164,112	345,967	287,081
Net profit (loss)	(67,637)	(200,132)	(51,916)	(68,175)
Earnings (loss) per share (basic and diluted)	(0.001)	(0.006)	(0.001)	(0.002)
	2008 fiscal year			
	Q4	Q3	Q2	Q1
	\$	\$	\$	\$
Revenue	545 317	251,464	217,283	328,440
Net profit (loss)	139 056	(214,034)	(73,206)	19,807
Earnings (loss) per share (basic and diluted)	0.004	(0.007)	(0.002)	0.001

Revenue

For the 12-month period ended August 31, 2009, the Company recorded total revenue of \$1,119,032 compared to \$1,342,504 for the same period in 2008.

Revenue was \$321,872 for the quarter ended August 31, 2009 compared to \$545,317 revenue for the same quarter in 2008.



The 2009 revenue results from revenue of the SmartGuide™ new governmental license sales and from maintenance and services related to licenses provided to the Quebec government. In 2008 revenues were essentially from services related to licenses provided to the Government of Quebec and revenue recognition of the maintenance contracts SmartGuide™ with small amounts for governmental license sales.

Operating expenses

For the period under review, operating expenses including financial charges rose marginally from \$1,470,881 to \$1,506,892. This increase is due to additional staffing of Alphinat's technical team for software development and deployments as well as client and partner channel support and deployment.

Salaries increased by \$206,715 for the period as a result of the hiring of new development and operational staff during the period.

During the period subcontracting expenses decreased from \$420,283 to \$281,235 as a result of a shift to license sales and an internalization of a number of mandates the company worked on.

An amount of \$6,562 in the form of stock-based compensation represents the carrying value of the 250,000 options granted to a Company employee and a director on July 15, 2009

For the year under review, research and development expenses, net of research and development tax credits increased by \$135,302 compared to 2008 related to development work on SmartGuide™ version 4.0.

Financial expenses

Financial net expenses amounted to \$12,594 for fiscal 2009 compared to net expense of \$1,367 for fiscal 2008. The difference is mostly due to an increase in interest expenses related to loans from directors and individuals related to a director.

Loss for the period

The net loss for fiscal 2009 was \$387,860 or \$0.01 per (averaged outstanding) common share compared to \$128,377 or \$0.004 per (averaged outstanding) common share in fiscal 2008. It should be noted that, the increase in licenses revenues did not fully offset a decline in recognition of deferred revenue as well as related service mandates and resulted in an increase in the losses reported.

For the quarter ended August 31, 2009, the net loss was \$67,637 or \$0.001 per (averaged outstanding) common share compared to a net income of \$139,056 or \$0.004 per (averaged outstanding) common share for the same period of 2008.

The annual results show an increase in loss for 2009 as the Company accelerated its marketing efforts, invested in partnerships agreements and the development of SmartGuide™ version 4.

Assets

Cash and cash equivalents amounted to \$(49,316) as at August 31, 2009 compared to \$127,499 as at August 31, 2008.

Accounts receivable were \$263,215 compared to \$274,654 in 2008.

Sales taxes receivable decreased from \$34,953 in 2008 to \$18,355 in 2009. The reduction is explained by reduction in revenues during the period.

R&D tax credits receivable increased to \$156,178 in 2009 from \$105,873 in 2008. This increase is related to additional hiring for software development of SmartGuide™.

Liabilities

Accounts payable and accrued charges rose from \$399,219 in 2008 to \$471,800 in 2009. This is due to an increase in current trade accounts payable and amount due to European business expansion.

Deferred revenue decreased from \$158,738 in 2008 to \$150,715 in 2009.

Advances made to the Company by a director and non-arm's length parties remained the same as in 2008. These advances carry no interest charges.

The current portion of the loan from a company under common control remained \$ 98 391 the same as in 2008. This non-interest-bearing loan will be repaid in monthly installments of \$12,000 to have started in October 2007. It is to be noted that no installments were made in fiscal 2009.

Loans from directors and individuals related to a director totaling \$163,093 were incurred during fiscal 2009. These loans carry an interest charge of 12% per annum and repayable on or before December 31, 2009. No repayments were made in fiscal 2009.

Long-term debt current portion of \$0 related to a loan from the Business Development Bank of Canada that was repaid in full in June 2009.

Shareholders' equity

During the fiscal year ended August 31, 2009, the Company did not raise funds through equity issuance. As at the date of this report, 35,491,112 common shares of the Company were outstanding.

Options and warrants

On July 15 2009, the Company's board of directors granted 150,000 options at an exercise price of \$0.10 as additional compensation to a key employee. The options expire on July 15, 2014.

Also on July 15 2009, the Company's board of directors granted 100,000 options to a Director at an exercise price of \$0.10 with an expiry date of July 15, 2014.

During the fiscal period 215,000 options expired and 450,000 options were canceled in accordance with Alphinat's option plan.

During the year, no warrants expired and none were issued.

Note 14 to the financial statements provides details on the amount of options and warrants outstanding as at August 31, 2009 that relates respectively to:

- 3,857,888 options with an average exercise price of \$0.19, a weighted contractual life of 23 months and a carrying value of \$524,330;
- 4,437,500 warrants with an average exercise price of \$0.12, a contractual life of 8 months and a carrying value of \$81,881.

Liquidity and solvency

As at August 31, 2009, the Company had a cash balance of \$(49,316) compared to \$127,499 as at August 31, 2008. In order to finance its operations, the Company has relied on receipts from accounts receivable, loans from directors and individuals related to a director.

The Company believes that current funds available, loans from directors and individuals related to a director and those it will obtain upon entering into contracts 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, 2009, the Company is responsible for the following long-term commitments:

- current lease for the Montreal offices with monthly payments of \$4,736.88 until March 31, 2010;
- current lease for the Quebec City offices with monthly payments of \$300 until August 31, 2010; and
- monthly payments of \$604 until September 27, 2010 on its vehicle lease contract.

Related party transactions

As at August 31, 2009 the Company's directors and individuals related to a director had provided the Company with loans totaling \$163,093. These loans bear interest at a rate of 12%. No assets have been pledged as security for the loans.

Financial instruments

Information on financial instruments is presented in note 17 to the financial statements.

Subsequent events

The company announced on October 7, 2009 that it had concluded an agreement with Bell Canada for the commercialisation of SmartGuide™ and the establishment of a SmartGuide™ center of expertise. In addition to an initial focus on the Quebec government, the two companies will pursue mutual opportunities for license sales of Alphinat's software and Bell's professional services in other regions and vertical markets.

On October 27, 2009, the Company announced that "la Direction Générale de la Modernisation de l'État" (DGME), the State Modernisation Agency of the French Republic, adopted the proposal of the Bull-Alphinat-Axway consortium that followed a public tender process. Within the framework of its mission of modernizing operating processes and management of the State, the DGME launched a vast program of simplification of the administrative approaches for all public service users.

The DGME defined an ambitious program of putting administrative procedures online. Their e-government initiative implies the implementation of a generic platform enabling design, production and implementation of online administrative processes for citizen-centric services that are in constant evolution while respecting time and cost constraints.

To respond to these challenges, Bull, Alphinat and Axway worked to define the functionalities of an "Online Application FACTORY", whose objective is to allow the French government to optimize the secure implementation of e-services.

This solution rests on proper planning and methodology, and rapid applications development tools that are easy to use by line of business managers and business architects. This service oriented architecture (SOA) approach allows for leveraging existing applications and the development of new, simplified e-services that are constituent centric. This is precisely what SmartGuide™, an Alphinat product, was designed for.

These agreements align perfectly with Alphinat's strategic plan of developing new markets through partnerships focused on North America and Europe.



During the quarter ended November 30, 2009, directors made additional loans for \$82,000 under the same conditions as for the other loans made during the period under review. During this period \$30,000 of these loans were repaid.

Risks and uncertainties

The main uncertainty relates to the length of the sales cycle in the public, telecom, financial services 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

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.

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.

Changes in accounting policies

Information on changes in accounting policies is presented in note 3 a) to the financial statements.

Future changes in accounting standards

- *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):* The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies will be converged to IFRS. The changeover date from current Canadian GAAP to IFRS, for the Company, is for the fiscal year beginning on September 1st, 2011. The Company will convert to these new standards according to the timetable set with these new rules. The management is currently assessing the future impact of these new standards on its financial statements.

Below is management's plan to achieve IFRS:

Phase	Key Activities	Expected completion date
Diagnostic	Identify significant differences between Canadian GAAP and IFRS, as relevant to our specific instance.	In progress
Design and planning	Establish project strategy, infrastructure and timeframe; Identify internal stakeholders that may be affected by the changeover;	Q2/ 2010 Q2/ 2010

	Train the core project team; Raise awareness across the organization.	Q2/ 2010 Q2/ 2010
Solution development	Perform a detailed review of all relevant IFRS standards adopted by AcSB to identify differences with our current accounting policies;	During 2010 fiscal year
	Select new accounting policies under IFRS including those in accordance with IFRS-1	During 2010 fiscal year
	Design a process to prepare the IFRS comparative information;	During 2010 fiscal year
	Identify the effect on other internal and external stakeholders.	During 2010 fiscal year
Implementation	Gathering information and testing necessary changes in processes and systems;	During 2010 fiscal year
	Prepare the opening balance sheet according to IFRS;	During 2011 fiscal year
	Prepare the comparative financial statements according to IFRS;	During 2011 fiscal year
	Prepare Interim and annual financial statements according to IFRS.	During 2012 fiscal year

Stock option agreements

The Company provides stock option and stock-based compensation plans that are described in note 13 (c) and note 14 (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, 2009. 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, 2009.

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 and private sector markets. Indeed, in most large administrations, the 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 and private sector's productivity while users press for a radical simplification of the administrative burden.

**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.