



## 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, 2009.

### General

This Management Discussion and Analysis ("MD&A") was prepared as of July 13, 2009 and should be read in conjunction with Alphinat's unaudited financial statements and the notes thereto for the periods ended May 31, 2009 and May 31, 2008 as well as the audited annual financial statements for the year ended 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 at July 13, 2009.

### Overview

Alphinat Inc. develops, markets and supports software technology that enables non-technical managers to quickly and cost-effectively 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 the marketing of SmartGuide, its flagship product, and related professional services.

Alphinat continued to consolidate its position as an eGovernment software supplier of the Quebec government by assisting various agencies and departments in deploying government services targeted at citizens and entrepreneurs. However, during period under review, the attributions of many projects were delayed due to the Quebec provincial election in December 2008 and the global economic downturn.

Alphinat also concentrated its sales efforts in Europe, announcing that three leading European systems integrators had retained the Company's SmartGuide™ suite in order to respond to an important and significant call for public tenders issued by the French government that closed May 4, 2009.

Alphinat continues to pursue its strategic focus on the Government of Québec and prospect in new markets through partnerships.

During the period under review, the company continued to innovate with the development of version 4 of SmartGuide™. This latest version, due for release in August 2009, will make web application creation even quicker and easier while ensuring a higher degree of leveraging existing IT assets. Furthermore, this version will give Alphinat more flexibility in securing industry-specific partnerships.

**Selected quarterly financial data  
(unaudited)**

	<b>Q3 2009</b>	<b>Q3 2008</b>
	May 31, 2009	May 31, 2008
	\$	\$
Revenue	164,112	251,464
Net earnings (loss)	(200,132)	(214,034)
Earnings (loss) per share (basic and diluted)	(0.006)	(0.007)

**Revenue**

For the 3-month period ended May 31, 2009, the Company recorded total revenue of \$164,112 compared to \$251,464 for the same period in 2008.

Revenues for the period under review result mainly from services related to the government license sold to the Québec government and from the European contracts that were announced during the quarter. 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, 2009, the Company recognized \$117,262 in revenue stemming from projects that have been delivered to ministries and departments of the Quebec government as well as from European contracts.

For the 3-month period ending May 31, 2008, revenues resulted mainly from revenue recognition of the SmartGuide governmental license sale.

The SmartGuide license sale to the Government of Québec contributes to improve transactional services. As a result of the governmental license sale SmartGuide suite is now at the disposal of all Government of Québec departments and agencies that wish to use this new tool to give their users WEB access to their broad service offerings. This offering to the ministries and agencies will be made through the "Centre of Excellence" of Revenu Québec with the support of the Alphinat team.

**Operating expenses**

Operating expenses decreased from \$463,902 for the 3-month period ended May 31, 2008 to \$360,381 for the 3-month period ended May 31, 2009. This decrease is due reduced needs in sub-contractors, particularly in Québec City.

**Financial expenses**

Financial expenses amounted to a net expense of \$3,863 for the period ended May 31, 2009 compared to net expense of \$1,596 for the corresponding period in 2008. The difference is due to the interests from the Directors' loans.

**Losses for the period**

The net loss for the 3-month period ended May 31, 2009 is \$200,132 or \$0.006 per outstanding common share compared to a net loss of \$214,034 or \$0.007 per outstanding common share for the corresponding period in 2008.

**Assets**

Cash and cash equivalents amounted to \$19,838 as at May 31, 2009 compared to \$127,499 as at August 31, 2008.

Accounts receivable were \$111,879 as at May 31, 2009 compared to \$274,654 as at August 31, 2008.

R&D tax credits receivable increased from \$105,873 as at August 31, 2008 to \$123,432 as at May 31, 2009.

**Liabilities**

Accounts payable and accrued charges decreased from \$399,218 as at August 31, 2008 to \$337,156 as at May 31, 2009.

Deferred revenue increased from \$158,738 as at August 31, 2008 to \$179,603 as at May 31, 2009 due to the renewal of the maintenance license agreement with the Quebec government during the previous fiscal quarter in accordance with Emerging Issues Committee Abstracts EIC-141 to EIC-143 on software sales revenue recognition and American Institute of Certified Public Accountants' ("AICPA") Statement of Position (SOP) 97-2, "Software Revenue Recognition."

The current portion of the loan from a company under common control remained unchanged during the period under review. This non-interest-bearing loan is repaid in monthly installments of \$12,000 beginning in October 2007. During the 3-month period ending February 28, 2009, no installments were made.

Loans from Directors bear interest at an annual rate of 12% and are repayable August 31, 2009.

Current portion of long-term debt of \$1,670 relate to a loan from the Business Development Bank of Canada.

**Shareholders' equity**

As at the date of this report 35,491,112 common shares of the Company were outstanding.

**Options and warrants**

During the quarter ended May 31, 2009, no stock option was issued. At that date, there were 4,122,888 options with an average exercise price of \$0.19, a weighted contractual life of 21 months and a carrying value of \$615,314.

During the quarter ended May 31, 2009, no warrants was issued. At that date, there were 4,437,500 warrants with an average exercise price of \$0.12, a weighted contractual life of 11 months and a carrying value of \$81,881.

**Liquidity and solvency**

As at May 31, 2009, the Company had cash totaling \$19,838 compared to \$127,499 as at August 31, 2008. In order to finance its operations, the Company can count on its accounts receivables and it anticipates that it will, in the near future, enter into significant licensing agreements for Alphinat products and professional services contracts relating to its products as a result of marketing initiatives under way. Furthermore, the Company is currently discussing a financing program with a group of investors.

The Company believes that the funds currently available, those it will obtain upon entering into contracts resulting from initiatives under way and those it will obtain from its current financing

activities 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, 2009, the Company had commitments under leasing agreements in the amount of \$57,556. The installments over the next three years are the following:

- 2009 : \$16,546
- 2010 : \$40,406
- 2011 : \$604

### **Related party transactions**

Loans of \$90,000 from Directors bear interest at an annual rate of 12% and are repayable August 31, 2009.

### **Financial instruments**

Information on financial instruments is presented in note 16 to the financial statements.

### **Off balance sheet arrangements**

During the period, there were no below-the-line arrangements or arrangements likely to have an impact on our operating results or our financial situation.

### **Post period activities**

On June 30, 2009, Alphinat announced that a Swiss canton has signed a limited production license for Alphinat's SmartGuide™ suite and that they have retained SmartGuide™ solutions to provide up to ten initial online e-government services to its citizens and enterprises. This contract follows an initial proof of concept that was delivered in conjunction with a local systems integrator in December 2008.

### **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.

### **Changes in accounting policies**

- a) Changes in accounting policies: On September 1st, 2007, the Company adopted the new accounting standards related to: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments - Recognition and Measurement" and Section 3865 "Hedges". Figures for periods prior to September 1st, 2007 were not amended.
- Financial instruments - Recognition and measurement: Under this new standard, all financial assets will be 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 will be valued at their fair value, and gains and losses will be recorded in net results. 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. All current financial assets and liabilities, being cash and cash equivalents, accounts receivable, accounts payable, advances from a director and persons related to a director, and loan from a company under common control, have been classified as held for trading. Their fair value is equivalent to their recorded cost due to their short-term nature. Long-term debts are classified in "other" liabilities and accounted for at cost. Transaction costs related to "other" liabilities are capitalized and depreciated in accordance with the effective interest rate method and recorded in the net result.

- Comprehensive income: 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.

b) Changes in accounting estimates: For the period under review, there were no changes in accounting estimates.

### **Future changes in accounting standards**

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") published Section 1535, "Capital Disclosures". This new standard 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. The Company will adopt the new standards for its fiscal year beginning September 1st, 2008 and the management is currently assessing the future impact of this new standard on its financial statements.

In December 2006, the CICA published section 3862, "Financial Instrument - Disclosures", and Section 3863, "Financial Instruments - Presentation". These new standards replace Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. The management will adopt those Sections as of September 1st, 2008.

In November 2007, 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. The new Section will be applicable to financial statement relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning September 1, 2009. 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 management is currently assessing the impact of the adoption of this new Section on its financial statements.

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.

### **Stock option agreements**

The Company provides stock option and stock-based compensation plan that is described in note 13 to the financial statements.

### **Continuous disclosure process and disclosure controls**

The Company files its financial statements, management discussions and analyses, press releases and other required documents in the Sedar database at [www.sedar.com](http://www.sedar.com).



The Company's shares are listed on the 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 Certification of Disclosure in Issuers' Annual and Interim Filings ("Regulation 52-109") on internal control over financial reporting issued by the Autorité des marchés financiers.

In conformity with Regulation 52-109, 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, 2008. They also reached the conclusion that the design of these controls and procedures provides reasonable assurance that material information relating to the Company 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, 2009.

In addition, the Company issued its code of ethics that was sent to all employees by the Chief Executive Officer. The company invites all employees 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 as well as by the hiring of a chief financial officer.

## **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.

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. This need is equally felt in Quebec where Alphinat has been active as well internationally as illustrated by the Company's recent commercial activity on France and in Switzerland.



**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](http://www.sedar.com)) for additional information on the Company.