

Management Discussion and Analysis

Alphinat Inc. ("Alphinat" or the "Company") ((TSX Venture Exchange: NPA) has reported its results for the 3-month period ended November 30, 2009.

General

This Management Discussion and Analysis ("MD&A") was prepared as of January 13, 2010 and should be read in conjunction with Alphinat's unaudited financial statements and the notes thereto for the periods ended November 30, 2009 and November 30, 2008 as well as the audited annual financial statements for the year ended August 31, 2009.

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 January 13, 2010.

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 be 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. An Internet user can now with 100% accuracy 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 period under review and to the date of this MD&A, 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.

In parallel, the Company's activities have focused on establishing partnership agreements such as the one announced with Bell Canada on October 7, 2009. In order to ensure 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™.

Furthermore, during the period under review, Alphinat has also focused its activities on international sales. These efforts resulted in SmartGuide™ 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.

Short term commercial activities remain strongly focused on leveraging v4.0 of SmartGuide with partners in the e-government sector and well as the private sector.

**Selected quarterly financial data
(unaudited)**

	Q1 2010	Q1 2009
	November 30, 2009	November 30, 2008
	\$	\$
Revenue	334,170	287,081
Net earnings (loss)	64,029	(68,175)
Earnings (loss) per share (basic and diluted)	0.002	(0.002)

Revenue

For the 3-month period ended November 30, 2009, the Company recorded total revenue of \$334,170 compared to \$287,081 for the same period in 2008.

Revenues for the period under review result mainly from the partnership agreement with for the establishment of a SmartGuide™ center of expertise and from professional services rendered within the scope of the inter-ministerial e-government project of the Direction Générale de Modernisation de l'État, the French government agency responsible for State modernization. The balance of revenues result from services related to the government license sold to the Québec government.

During the period ended November 30, 2008, revenues resulted mainly from services related to the government license sold to the Québec government and from the European contracts that were announced during the quarter.

Operating expenses

For the 3-month period ended November 30, operating expenses decreased from \$355,256 in 2008 to \$270,141 in 2009. This decrease is due to a reduction in sub-contractors, particularly in Québec City, and in personnel for services, selling and administrative purposes.

During the period ended November 30, 2009 an adjustment of \$1,640 was made due to incorrect calculation of stock based compensation as at August 31, 2009 (see note 13).

Financial expenses

Financial expenses amounted to a net expense of \$1,056 for the period ended November 30, 2008 compared to a net expense of \$7,003 for the corresponding period in 2009. The difference is due to an increase in loans from directors and individuals related to a director.

Earnings for the period

The net earnings for the 3-month period ended November 30, 2009 is \$64,029 or \$0.002 per outstanding common share compared to a net loss of \$68,175 or \$0.002 per outstanding common share for the corresponding period in 2008.

Assets

Cash and cash equivalents amounted to \$163,897 as at November 30, 2009 compared to \$(49,316) as at August 31, 2009.



Accounts receivable were \$36,865 as at November 30, 2009 compared to \$263,215 as at August 31, 2009.

R&D tax credits receivable increased from \$156,178 as at August 31, 2009 to \$193,315 as at November 30, 2009.

Liabilities

Accounts payable and accrued charges decreased from \$471,800 as at August 31, 2009 to \$420,684 as at November 30, 2009.

Deferred revenue decreased from \$150,715 as at August 31, 2008 to \$130,733 as at November 30, 2009. The decrease of \$19,982 is due to:

- a decrease in deferred revenue in the amount of \$64,805 due to revenue being recognized for the renewal of the maintenance license agreement with the Quebec government during the past fiscal year and for services rendered related to the sale of the government license to the government of Quebec;
- a decrease in deferred revenue in the amount of \$5,177 due to revenue being recognized from other maintenance license agreements; and
- an increase in deferred revenue in the amount of \$50,000 due to license maintenance for the SmartGuide™ center of expertise license sold to a partner and to professional services to be rendered under the same agreement.

Revenue from license maintenance agreements is recognized 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 in the amount of \$98,391 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 November 30, 2009, no installments were made.

Loans from directors and individuals related to a director totaling increased from \$163,093 as at August 31, 2009 to \$225,707 as at November 30, 2009. These loans carry an interest charge of 12% per annum and repayable on or before December 31, 2009.

Advances from a director and individuals related to a director, without interest, remained unchanged at \$84,967.

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 November 30, 2009, no stock option was issued. At that date, there were 3,857,888 options with an average exercise price of \$0.19, a weighted contractual life of 20 months and a carrying value of \$525,970.

During the quarter ended November 30, 2009, no warrant was issued. At that date, there were 4,437,500 warrants with an average exercise price of \$0.12, a weighted contractual life of 5 months and a carrying value of \$81,881.

Liquidity and solvency

As at November 30, 2009, the Company had cash totaling \$163,897 compared to \$(49,316) as at August 31, 2009. 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 November 30, 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 \$225,707. 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 16 to the financial statements.

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 fiscal year ended August 31, 2009, 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.

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;	Q2/ 2010
	Identify internal stakeholders that may be affected by the changeover;	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 plan that is described in notes 12 c) and 13 a) 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.

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, 2009. 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 November 30, 2009.

In addition, the Company issued its code of ethics that was sent to all employees by the Chief Executive Officer. The company instructs all employees 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 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. 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.