

ALPHINAT INC.

CONDENSED INTERIM FINANCIAL REPORT

(unaudited)

AS AT MAY 31, 2016 AND 2015

The interim financial statements for the three-month periods ended on May 31, 2016 and 2015, have not been audited or reviewed by the Company's external auditors.

These financial statements are presented in Canadian dollars unless otherwise specified.

ALPHINAT INC.**BALANCE SHEETS****AS AT MAY 31, 2016 AND AUGUST 31, 2015**

	Note	May 31, 2016 (unaudited)	August 31, 2015 (audited)
ASSETS		\$	\$
Current assets			
Cash and cash equivalents		22,213	4,588
Accounts receivable and other receivable	7	418,924	521,631
Work in progress		17,010	6,103
Prepaid expenses		16,115	17,680
		474,262	550,002
Non-current assets			
Fixed assets	8	8,074	7,515
Intangible assets	9	4,624	7,343
Total assets		486,960	564,860
LIABILITIES			
Current liabilities			
Bank loan	10	-	20,000
Accounts payable and accrued liabilities	11	630,261	911,324
Deferred revenues		282,214	211,550
Current portion of long-term debt	15	-	42,925
Loans from a private company	12	75,000	75,000
Subordinated advances from a director and individuals related to a director, without interest		9,160	9,160
Loans from a director	13	35,000	35,000
Loan from a company under common control	14	50,000	50,000
		1,081,635	1,354,959
Non-current liabilities			
Debentures	16	1,056,211	1,042,925
Total liabilities		2,137,846	2,397,884
SHAREHOLDERS' EQUITY			
Share capital	17	6,047,782	6,047,782
Contributed surplus	18	1,711,810	1,711,810
Deficit		(9,410,478)	(9,592,616)
Total equity		(1,650,886)	(1,833,024)
Total liabilities and equity		486,960	564,860

Going concern (note 1)**On behalf of the Board***(signed) Philippe Lecoq* _____, director*(signed) Curtis Page* _____, director

ALPHINAT INC.**STATEMENTS OF CHANGES IN EQUITY****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

	Note	Share capital	Contributed surplus	Deficit	Total
(unaudited)					
		\$	\$	\$	\$
Balance - August 31, 2015		6,047,782	1,711,810	(9,592,616)	(1,833,024)
Net profit		-	-	182,138	182,138
Balance - May 31, 2016		6,047,782	1,711,810	(9,410,478)	(1,650,886)
Balance - August 31, 2014 (restated)		6,020,385	1,652,719	(8,794,573)	(1,121,469)
Net loss (restated)	4	-	-	(249,200)	(249,200)
Balance - May 31, 2015 (restated)	4	6,020,385	1,652,719	(9,043,773)	(1,370,669)

ALPHINAT INC.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

		May 31, 2016 (3 months)	May 31, 2015 (3 months) (restated Note 4)	May 31, 2016 (9 months)	May 31, 2015 (9 months) (restated Note 4)
	Note	(unaudited)	(unaudited)	(unaudited)	(unaudited)
		\$	\$	\$	\$
REVENUES					
Licenses		180,653	287,825	347,104	480,223
Support		166,318	141,499	457,836	450,975
Professional services		70,489	69,751	466,753	160,802
		417,460	499,075	1,271,693	1,092,000
OPERATING EXPENSES					
Cost of services, selling and administrative expenses	21	174,274	268,989	640,942	908,533
Research and development expenses	22	100,722	77,011	290,941	278,469
Stock-based compensation	18	-	19,150	-	19,150
		274,996	365,150	931,883	1,206,152
PROFIT (LOSS) BEFORE THE FOLLOWING ITEMS		142,464	133,925	339,810	(114,152)
Financial expenses	25	36,167	45,138	151,557	128,350
Amortization - fixed assets		1,208	1,144	3,397	3,541
Amortization - intangible assets		906	970	2,718	3,157
		38,281	47,252	157,672	135,048
PROFIT (LOSS) BEFORE INCOME TAXES		104,183	86,673	182,138	(249,200)
INCOME TAXES		-	-	-	-
NET PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS)		104,183	86,673	182,138	(249,200)
Basic and diluted net earnings per share		0.002	0.002	0.004	(0.005)
Weighted average number of common shares outstanding		50,213,220	50,213,220	50,213,220	50,213,220

Going concern (note 1)

ALPHINAT INC.**STATEMENTS OF CASH FLOWS****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

	May 31, 2016 (3 months) (unaudited)	May 31, 2015 (3 months) (restated Note 4) (unaudited)	May 31, 2016 (9 months) (unaudited)	May 31, 2015 (9 months) (restated Note 4) (unaudited)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net profit (loss)	104,183	86,673	182,138	(249,200)
Adjustments for :				
Amortization - fixed assets	1,208	1,144	3,397	3,541
Amortization - intangible assets	906	970	2,718	3,157
Interest capitalized on long-term debt	39	1,662	1,319	6,154
Recognition of deferred financing expenses on debentures	4,453	4,358	13,288	13,004
Stock-based compensation	-	19,150	-	19,150
	110,789	113,957	202,860	(204,194)
Net change in non cash working capital items	(171,824)	(39,194)	(117,034)	204,274
	(61,035)	74,763	85,826	80
INVESTING ACTIVITIES				
Acquisition of fixed assets	(850)	-	(3,957)	-
	(850)	-	(3,957)	-
FINANCING ACTIVITIES				
Bank loan	-	(10,000)	(20,000)	10,000
Loans from a director	-	-	-	35,000
Long-term debt repayment	(6,330)	(18,955)	(44,244)	(56,870)
	(6,330)	(28,955)	(64,244)	(11,870)
NET CHANGE IN CASH	(68,215)	45,808	17,625	(11,790)
CASH (BANK OVERDRAFT), BEGINNING OF PERIOD	90,428	(62,380)	4,588	(4,782)
CASH (BANK OVERDRAFT), END OF PERIOD	22,213	(16,572)	22,213	(16,572)

Cash flows related to operating activities include paid interest of \$34,764 for the three-month period ended May 31, 2016 (\$37,676 for the three-month period ended May 31, 2015) and \$103,768 for the nine-month period ended May 31, 2016 (\$100,899 for the nine-month period ended May 31, 2015)

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

1. 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 a one stop service to users who must deal with many different stakeholders and information sources within an organization whether it is a business or government organization.

Alphinat Inc. common shares are trading on the TSX Venture Exchange under the NPA symbol. Stock options and warrants are not traded on a stock exchange.

The Company's registered head office is located at 2000 Peel Street, Suite 680, Montreal, Quebec, Canada, H3A 2W5.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are applicable to a going concern. Under the going concern assumption, a company is viewed as being able to continue its operations in the foreseeable future and realize its assets and discharge its liabilities in the normal course of operations.

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 (except for the financial year ended August 31, 2013). Its cash flows from operations are negative for the last few financial years. Its current liquidities may be insufficient to meet its obligations as the Company's current liabilities exceed its current assets by \$607,373 as at May 31, 2016. The cash flow shortfall was covered by loans from directors and shareholders, a company under common control, a private company and by the issuance of debentures.

The Company has focused on developing strong channel partner alliances in United States, in Canada and in France while improving versions of its SmartGuide® software. Deferred revenues totaling \$282,214 as at May 31, 2016, will be recognized in earnings in the coming periods.

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 was unable to continue operating. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the financial statements. These adjustments could be material.

These condensed interim financial statements have been prepared in accordance with IFRS. The Company's board of directors have approved these financial statements on July 18, 2016.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all financial periods presented in these condensed interim financial statements, unless otherwise indicated.

Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention, except for other measurement bases, as indicated in the related notes.

Financial Instruments

The Company classifies its financial instruments by categories based on their nature and specification. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment annually and written down when there is evidence of impairment based on certain specific criteria mentioned further on.

The classification and measurement of the financial instruments are determined as follows:

Loans and receivables

Cash, account receivable and advance to a shareholder is classified in "loans and receivables". Such assets are initially recognized at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

If there is an objective evidence that an individual loan may be impaired, the estimated recoverable amount of the loan is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows: the carrying amount of the loan is reduced to its discounted estimated recoverable amount, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced by using an allowance account. When loans and receivables are deemed to be uncollectible, they are written off against the allowance. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal is limited to the amortized cost that would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the impairment loss and the amount of the reversal are recognized in profit or loss.

Other liabilities

Bank overdraft, bank loan, accounts payable, loans from a private company, subordinated advances from a director and individuals related to a director and a shareholder, loan from a director, loan from a company under common control, long-term debt and debentures are classified in the "other liabilities" category. Financial liabilities included in that category are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fixed assets**

Fixed assets are initially recorded at cost, including acquisition fees and all the preparation fees directly related to the asset before it can be used, less related research and development investment tax credits. Subsequent to the initial measurement, fixed assets are recorded at cost, less accumulated amortization and depreciation.

Amortization is recognized on a straight-line basis, in line with the assets useful life, as follows:

	Methods	years
Office furniture and equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gain and losses on disposals of fixed assets are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Intangible assets

The Company's intangible assets are capitalized and amortized on a straight-line basis in the statement of income over the year of their expected useful lives as follows:

	Methods	years
Trademarks	Straight-line	4 years

Impairment of long-term assets non-financial

Fixed assets and intangible assets with finite lives subject to depreciation or amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash-generating units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fixed assets and intangible assets with finite lives subject to depreciation or amortization that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

ALPHINAT INC.
CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS
(unaudited)
FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shareholders' equity

Common shares and warrants jointly issued with a shares issuance, are classified as equity and are recorded in the shareholders' equity at their issuance value. Incremental costs directly attributable to the issuance of shares or warrants are recorded in share capital as a deduction, net of tax.

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 profit or loss.

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 accepted accounting criteria for deferral and amortization; otherwise they are expensed as incurred. As at May 31, 2016 and 2015 no development costs have been deferred.

Provisions

In accordance with IAS 37 (provisions, contingent liabilities and contingent assets) provision for risk and charges are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in off-balance sheet commitments and litigation. The provisions are measured based on management's best estimate of outcome on the basis of facts known at the reporting date.

Disputes are subject, case by case, to regular monitoring by the Company with the help of outside counsel for litigation that are more significant and complex. A provision is recognized when it becomes probable that a present obligation arising from past events will require a settlement whose amount can be measured reliably. The evaluation of the provision is the best estimate of the outflow of resources allowing the extinction of this obligation.

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 and recognized as revenues as the services are rendered.

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 by 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 year and revenues from other services are recognized as the services are rendered.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

During the course of its activities, the Company receives different grants. These grants are recognized when there is a reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for a specific expense incurred are recognized in the statement of loss against the expense.

Income taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their tax bases. Tax rates used are those enacted, or substantially enacted, at the date of reporting. Deferred income tax assets are recorded when it is likely that they will be realized. Deferred income tax assets and liabilities are not discounted.

Basic and diluted net earnings per share

Basic earnings per share is determined using the weighted average number of shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of shares outstanding during the period plus the dilutive potential effect of the common shares outstanding during the period. 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 period or the issuance date, and the proceeds received had been used to redeem the Company's shares at the average market price during the period.

When funds are received, at the date of issuance of dilutive instruments, the net amount is adjusted net of tax expenses related to these instruments.

Diluted net earnings per share from continuing operations is the same as basic net earnings per share due to the anti-dilutive effect of stock options and warrants when the Company suffers losses and / or the stock options and warrants are issued at a premium to the average market price.

Stock based compensation

The Company has granted stock options as described in note 18 a). Stock based compensation cost is recorded using the fair value method for the options granted to directors, officers and 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 year 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 or transfer restrictions. Furthermore, this pricing model requires the use of subjective assumptions including expected stock price volatility.

When goods or services are obtained in exchange for stock options or warrants, the Company estimates the goods or services received and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless the fair value cannot be reliably estimated. If the Company cannot estimate reliably the fair value of the goods or services received, it evaluates the value and the corresponding increase in equity, indirectly, by reference to the fair value of equity instruments granted.

All considerations paid for stock options and the amount previously included for these stock options in shareholders' equity (contributed surplus) are credited to the share capital when the options are exercised.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Work in progress

Work in progress is assessed on the billing value.

Accounts denominated in foreign currencies

Presentation currency and foreign currency operations

The Canadian dollar is the Company's presentation currency, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency environment in which the entity operates using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the date of the statement of financial position are converted into functional currencies at the exchange rates prevailing at that date. All resulting changes are recognized in profit or loss.

Adoption of new accounting policies

IFRS 9 - Financial Instruments - In July 2014, the IASB issued IFRS 9 (2014). IFRS 9, as amended, supersedes IFRS 9 as issued by the IASB in November 2013, October 2010 and November 2009.

IFRS 9 is a three-part project to replace IAS 39, Financial instruments: Recognition and Measurement. The first part addresses the classification and measurement of financial assets and financial liabilities, while the other two parts deal with impairment of financial assets and hedge accounting. The Company will have to classify financial assets as subsequently measured either at amortized cost or at fair value, based on the Company's business model for managing the financial assets and the contractual cash flows of the financial asset. Measurement at amortized cost for most of the financial liabilities is maintained, but when an entity measures a financial liability at fair value, the changes in fair value related to the entity's own credit risk must be presented in other comprehensive income rather than in profit or loss.

IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IAS 39 Financial Instruments: Recognition and Measurement have been revised to incorporate amendments issued by the IASB in November 2013. These amendments: (1) add to IFRS 9 requirements related to hedge accounting based on a new hedge accounting model; (2) permit an entity to apply the hedge accounting requirements in IAS 39 in place of those in IFRS 9 for fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities; and (3) require, as part of IFRS 7, additional disclosures about an entity's risk management strategy and the effect of hedge accounting on the financial statements.

The mandatory effective date of these amended standards was temporarily removed while making it available for early application of the 2009, 2010 or 2013 standard. The Company chose during the financial year ended August 31, 2014, to adopt retroactively the standards for classification and measurement of financial assets and liabilities and to classify its financial assets and liabilities, previously designated at their fair value through profit or loss, into loans and receivables and other liabilities and be measured at amortised cost, to better reflect how the Company manage its financial instruments. The application of the new standard had no significant incidence on its financial statements, but had an impact on the information to disclose on its financial instruments.

IFRS 13 - Fair Value - In May 2011, the IASB issued IFRS 13 "Fair Value". This standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source for measuring fair value and requirements for disclosure that apply to all IFRS. IFRS 13 is effective for fiscal years beginning on or after January 1st, 2013, the Company adopted this new standard in its financial year beginning on September 1st, 2013. The adoption of IFRS 13 has required no adjustment to the valuation techniques used by the Company to estimate the fair value and did not result in any adjustment.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new accounting policies (continued)

IAS 32 Financial Instruments: Presentation - In December 2012, the International Accounting Standards Board (IASB) amended IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. The amendments clarified the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The retrospective application of these amendments had no impact on the Company's profit or loss or financial position.

IAS 36 Impairment of Assets - The standard has been revised to incorporate amendments issued by the IASB in May 2013. These amendments more accurately reflect the IASB's previous decision to require the disclosure of the recoverable amount of impaired assets as well as additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The retrospective application of these amendments had no impact on the Company's profit or loss or financial position.

IAS 39 Financial Instruments: Recognition and Measurement - The standard has been revised to incorporate amendments issued by the IASB in June 2013. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The retrospective application of these amendments had no impact on the Company's profit or loss or financial position.

IFRIC 21 Levies - This new interpretation was issued by the IASB in May 2013. It provides guidance on the accounting for levies within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The main features of IFRIC 21 are that the obligating event that gives rise to a liability to pay a levy is the activity that triggers payment of the levy, as identified by the legislation, and that the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. Retrospective application of these amendments had no impact on the Company's profit or loss or financial position.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

Clarification of Acceptable Methods of Depreciation and Amortization

IAS 16 Property, Plant and Equipment and IAS 38 - Intangible Assets have been revised to incorporate amendments issued by the IASB in May 2014. The amendments to IAS 16 clarify that the use of revenue-based methods to determine the depreciation of an asset is not appropriate. The amendments to IAS 38 clarify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, the amendments provide limited circumstances when a revenue-based method can be an appropriate basis for amortization. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of this new standard will have no effects on the Company's financial statements.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

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FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED (CONTINUED)

IFRS 15 - Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The standard provides for a single model that applies to contracts with customers as well as two revenue recognition approaches: at a point in time or over time. The proposed model features a contract-based, five-step analysis of transactions to determine whether, when and how much revenue is recognized. New thresholds have been established for estimates and judgments, which could affect the amount of revenue recognized and/or the timing of recognition.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or leases, which are within the scope of other IFRSs. The new standard is effective for the annual period beginning on January 1, 2018. The Company is currently analyzing the potential effects of adopting this standard on its financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle

The following standards have been revised to incorporate amendments issued by the IASB in September 2014 :

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** - The amendments introduce specific guidance for when an entity reclassifies an asset (or disposal group) from being held-for-sale to held-for-distribution to owners (or vice versa), and for when held-for-distribution accounting is discontinued.
- **IFRS 7 Financial instruments : Disclosure** - The amendments clarify that the additional disclosure required by the December 2011 amendments to IFRS 7, Disclosure–Offsetting Financial Assets and Financial Liabilities, is not explicitly required for all interim periods.
- **IAS 19 Employee benefits** - The amendments clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be in the same currency as the benefits to be paid. This requirement would result in the depth of the market for high quality corporate bonds needing to be assessed at the currency level.
- **IAS 34 Interim financial reporting** - The amendments clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and require the inclusion of a cross-reference from the interim financial statements to the location of this information .

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted.

ALPHINAT INC.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

4. CORRECTIONS OF PREVIOUS YEAR

Restatement of work in progress and gross sales - Licenses

During the financial year ended August 31, 2015, the Company has revised its criteria application for revenue recognition of license sales products as part of an agreement with a retailer. In light of its business practices with this retailer, it concluded that one of the criteria, that is convincing evidence of the existence of an effective agreement and/or shipping and licenses approval, was not reached, beyond doubt, on some of the products license sales recorded during the year ended August 31, 2014 .

Consequently, the Company adjusted downward its licenses sales for the previous year, in the amount of \$170,833, increased the balance of its opening deficit of the same amount and increased its license revenues by \$108,333 \$ for the financial year ended August 31, 2015.

The effect of the restatement on work in progress as at August 31, 2014 is as follows:

	Previously established August 31, 2014	Adjustments	Restated August 31, 2014
	\$	\$	\$
Work in progress	309,277	(257,833)	51,444
Accrued revenues	-	87,000	87,000
	309,277	(170,833)	138,444

The effect of the restatement on accounts receivable and other receivable as at August 31, 2014 is as follows:

	Previously established August 31, 2014	Adjustments	Restated August 31, 2014
	\$	\$	\$
Accounts receivable in Canadian currency	341,212	-	341,212
Accounts receivable in Euro currency	17,990	-	17,990
Accrued revenues	-	87,000	87,000
Research and development tax credits	86,046	-	86,046
Advances to a shareholder	12,315	-	12,315
	457,563	87,000	544,563

The effect of the restatement on Statements of changes in equity as at August 31, 2014 is as follows:

	Share capital	Contributed surplus	Deficit	Total
	\$	\$	\$	\$
Previously established August 31, 2014	6,047,782	1,692,660	(9,026,191)	(1,285,749)
Adjustments	-	-	(170,833)	(170,833)
Restated balance August 31, 2014	6,047,782	1,692,660	(9,197,024)	(1,456,582)

The effect of the restatement on net loss and comprehensive loss as at August 31, 2014 is as follows:

	Previously established August 31, 2014	Adjustments	Restated August 31, 2014
	\$	\$	\$
Licenses	721,620	(170,833)	550,787
Net loss and comprehensive loss	(231,618)	(170,833)	(402,451)
Basic and diluted net earnings per share	(0)	(0)	(0)

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015****4. CORRECTIONS OF PREVIOUS YEAR (CONTINUED)**

The effect of the restatement on net change in non cash working capital items (Note 6) as at August 31, 2014 is as follows:

	Previously established August 31, 2014	Adjustments	Restated August 31, 2014
	\$	\$	\$
Accounts receivable and other receivable	(143,500)	(87,000)	(230,500)
Work in progress	(56,541)	257,833	201,292
Prepaid expenses	2,271	-	2,271
Accounts payable and accrued liabilities	220,922	-	220,922
Deferred revenues	2,083	-	2,083
	25,235	170,833	196,068

The effect of the restatement on economic dependence (Note 24) as at August 31, 2014 is as follows:

	Previously established August 31, 2014	Adjustments	Restated August 31, 2014
	\$	\$	\$
French Government	335,954 (18%)	- (+2%)	335,954 (20%)
Major solutions provider for Public Sector Agencies	510,421 (28%)	(170,833) (-8%)	339,588 (20%)

ALPHINAT INC.

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FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS often requires management to make estimates and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustments.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's financial statements.

Fair value of stock options

Determining the fair value of the stock options at grant date requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or other components of shareholders' equity.

Fair value

Financial instruments must be recorded at their fair value on initial recognition. These instruments are then estimated at amortized cost or at fair value based on their classification.

Fair value is the amount of consideration that would be agreed between knowledgeable parties acting under conditions of competition. This measurement is performed at a specific time and may be modified during future reporting years due to future market conditions or other factors.

Fair value for that instrument is determined using the most advantageous quoted prices on an active market to which the Company has immediate access. If there is no active market, fair value is based on internal or external valuation models, including discounted cash flows models. Fair value determined using these valuation models requires the use of assumptions regarding the amount and timing of estimated future cash flows, as well as a number of other variables. In determining these assumptions, external readily observable market data are used as applicable. Otherwise, the Company uses the best estimate. Since they are based on estimates, these fair values may not be realized through an actual sale or immediate settlement of these instruments.

Note 20 explains in more detail the basis of calculations and estimates used.

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**Revenue distribution of multiple component contracts**

The Company's arrangements often include a mix of services and products. If an arrangement involves the provision of multiple components, the total arrangement value is allocated to each separately identifiable component based on its relative selling price. A component is considered to be separately identifiable if it has value to the client on a stand-alone basis. Assessing whether an arrangement involving the provision of multiple components has separately identifiable components requires judgment by management. When estimating selling price, the Company maximizes the use of observable prices which are established using the Company's prices for same or similar components. When observable prices are not available, the Company estimates selling prices based on its best estimate of selling price. The best estimate of selling price is the price at which the Company would normally expect to offer the services or products and is established by considering a number of internal and external factors including, but not limited to, the Company's pricing policies, internal costs and margins. The appropriate revenue recognition method is applied for each separately identifiable component.

Deferred income taxes

When the company incurs losses that cannot be associated with current or past profits, it evaluates the probability of generating taxable income in the future based on its budget forecasts. These forecasts are adjusted to take account of certain non-taxable revenues and expenses and specific regulations relating to the use of unused credit or unused tax losses. When the forecasts indicate that future taxable profits will be sufficient for temporary differences to be deductible, a deferred tax asset is recognized for all deductible temporary differences. The Company recorded a valuation allowance against the total potential deferred tax assets based on the assumption that the Company will not generate sufficient taxable income in the future. The valuation allowance could be completely reversed if the Company begins generating positive operating cash flows.

Government assistance

The Company is entitled to government assistance in the form of research and development tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

Work in progress

Revenues from long-term contracts are accounted for using the stage of completion method. The stage of completion is generally determined by comparing the incurred actual costs to anticipated total costs to complete the contract, excluding costs that are not representative in measuring the stage of completion. Estimated revenues include revenues from order changes and claims, when it is probable that they will result in additional revenue and that the amount can be reliably estimated. If a revision of a contract indicates a negative gross margin, the total expected loss on the contract is recognized in cost of services in the year during which the negative gross margin is determined.

Accrued revenues

Accrued revenues are made of licenses products delivered according to its criterias of revenue recognition, but not invoiced at year-end and whose amounts are determined or determinable. Management estimates the recoverable amount of these revenues on an ongoing basis and establishes a provision for risk, when appropriate, according to the terms of billing and collection.

ALPHINAT INC.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. The current situation indicates the existence of a material uncertainty, which may cast significant doubt upon the Company's ability to continue as a going concern. Further information regarding going concern is outlined in note 1.

6. NET CHANGE IN NON CASH WORKING CAPITAL ITEMS

	May 31, 2016 (3 months)	May 31, 2015 (3 months) (restated Note 4)	May 31, 2016 (9 months)	May 31, 2015 (9 months) (restated Note 4)
	\$	\$	\$	\$
Accounts receivable and other receivable	87,536	(151,907)	102,707	(425,232)
Work in progress	(3,630)	15,983	(10,907)	304,552
Prepaid expenses	(2,197)	4,977	1,565	16,256
Accounts payable and accrued liabilities	(78,584)	99,997	(281,063)	111,934
Deferred revenues	(174,949)	(8,244)	70,664	196,764
	(171,824)	(39,194)	(117,034)	204,274

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLE

	May 31, 2016	August 31, 2015
	\$	\$
Accounts receivable in Canadian currency ⁽¹⁾	134,735	275,078
Accounts receivable in Euro currency ⁽¹⁾	81,805	-
Research and development tax credits	131,386	165,936
Accrued revenues	62,000	63,900
Advances to a shareholder	8,998	16,717
	418,924	521,631

All amounts have short-term maturities and there is no delinquent accounts.

⁽¹⁾ The terms of these accounts receivable are detailed in the following table:

Breakdown of accounts receivable:	May 31, 2016	August 31, 2015
	\$	\$
0 to 30 days	4,069	170,976
31 to 60 days	78,538	62,508
61 to 90 days	-	4,709
More than 90 days	133,933	36,885
	216,540	275,078

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8. FIXED ASSETS

	Office furniture and equipment	Computer equipment	Total
Cost	\$	\$	\$
Balance as at August 31, 2015	11,435	19,018	30,453
Acquisitions	850	3,107	3,957
Balance as at May 31, 2016	12,285	22,125	34,410
Accumulated amortization			
Balance as at August 31, 2015	7,816	15,122	22,938
Amortization	743	2,654	3,397
Balance as at May 31, 2016	8,559	17,776	26,335
Net book value as at May 31, 2016	3,726	4,349	8,074

	Office furniture and equipment	Computer equipment	Total
Cost	\$	\$	\$
Balance as August 31, 2014	11,435	19,018	30,453
Acquisitions	-	-	-
Balance as at August 31, 2015	11,435	19,018	30,453
Accumulated amortization			
Balance as August 31, 2014	6,351	12,038	18,389
Amortization	1,465	3,084	4,549
Balance as at August 31, 2015	7,816	15,122	22,938
Net book value as at August 31, 2015	3,619	3,896	7,515

9. INTANGIBLE ASSETS

	Trademarks
Cost	\$
Balance as at August 31, 2015	24,000
Acquisitions	-
Balance as at May 31, 2016	24,000
Accumulated amortization	
Balance as at August 31, 2015	16,657
Amortization	2,719
Balance as at May 31, 2016	19,376
Net book value as at May 31, 2016	4,624

	Trademarks
Cost	\$
Balance as August 31, 2014	24,000
Acquisitions	-
Balance as at August 31, 2015	24,000
Accumulated amortization	
Balance as August 31, 2014	12,594
Amortization	4,063
Balance as at August 31, 2015	16,657
Net book value as at August 31, 2015	7,343

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

10. LINE OF CREDIT

The Company had access to a line of credit of \$5,000 until December 31, 2015 (\$35,000 as at August 31, 2015), at which time the Company ceased to borrow from this facility.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2016	August 31, 2015
	\$	\$
Accounts payable and accrued liabilities, in Canadian currency	145,065	278,120
Accounts payable and accrued liabilities, in Euro currency	61,142	107,366
Accounts payable, in US currency	4,916	11,641
Liabilities payable to shareholders, without interest	67,438	72,742
Interest payable to shareholders at the rate of 10% and 12%	-	85,831
Salaries and fringe benefits	132,300	138,815
Sales taxes	24,381	73,824
European taxes payable	195,019	142,985
	630,261	911,324

12. LOANS FROM A PRIVATE COMPANY

Loans of \$65,000 and \$10,000 from a private company, bearing interest at an annual rate of 12% which are payable monthly, with no maturity date.

13. LOANS FROM A DIRECTOR

Loans of \$25,000 and \$10,000 (\$0 in 2014) from a director, bearing interest at an annual rate of 12% which are payable monthly, with no maturity date.

14. LOAN FROM A COMPANY UNDER COMMON CONTROL

Loan of \$50,000 from a company under common control, bearing interest at an annual rate of 12% which are payable monthly, with no maturity date.

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FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

15. CURRENT PORTION OF LONG-TERM DEBT

	May 31, 2016	August 31, 2015
	\$	\$
Repayable contribution from Canada Economic Development, non-interest bearing, under the "Business and Regional Growth Program", to support marketing activities for the SmartGuide® application, both in the United States and Europe, with a pre-authorized contribution of \$227,500.	-	44,244
Implicit interest	-	(1,319)
Current portion	-	(42,925)
	-	-

As at May 31, 2016, the Company has received \$227,500 with regards to this program. This loan is interest free. Under the provisions of IAS 39, this loan was initially measured at fair value using a commonly used market interest rate. The difference of \$59,115 between the fair value of \$168,385 and the cash received of \$227,500 was recorded as a grant in the statements of income (\$34,016 was recorded in fiscal year ended August 31, 2012 and \$25,099 in fiscal year ended August 31, 2011). Initially these contributions were repayable in 3 equal annual and consecutive payments of \$75,833. A first payment was made on March 1st, 2013, before the renegotiation of the payments schedule. Starting April 1st, 2014, monthly payments of \$6,319 are being made until March 1st, 2016. Further to this change, the effective interest rate was revised downward. An effective annual interest rate of 9.21% is calculated monthly and accounted for in accretion of the debt value. As at May 31, 2016 there is no balance payable.

16. DEBENTURES

Class A and B debentures issued during financial year ended August 31, 2013 (\$810,358) and financial year ended August 31, 2014 (\$270,000), unsecured, bearing an annual interest rate of 10%, with interest payable quarterly and maturing on September 30, 2017, right to convert the principal amount plus any unpaid accrued interest into the next equity issue of the Company. In the event that the issue was offered at a discount to market, Class B debentures holders shall not be entitled to any discount. Redeemable by the Company on or after September 30, 2015, or prior to that date in the event of a change of control (50%) or in the event that the Company proceeds to complete a public issue of its securities of \$3,000,000 or more.

The Company issued one common share for every dollar of Class A debentures subscribed. Class B debentures were offered, in the context of a debt settlement, exclusively to secured lenders who advanced \$500,000 to the Company in October 2011. In consideration of the cancellation of the secured indebtedness, which bears interest at a substantially higher rate than the Class B debentures and the removal of the security, the Company issued Class B debentures on the basis of 120% of the secured indebtedness being settled. In addition, the secured lenders have received one common share per dollar of Class B debentures subscribed.

Following approval at the special shareholders meeting on February 26, 2014, the Company has issued 198,989 additional common shares to Class B debentures' holders.

	May 31, 2016	August 31, 2015
	\$	\$
Debentures Class A - insiders	253,358	253,358
Debentures Class A - non insiders	402,500	402,500
Debentures Class B - insiders	334,500	334,500
Debentures Class B - non insiders	90,000	90,000
Deferred financing expenses	(24,147)	(37,433)
	1,056,211	1,042,925

The deferred financing expenses are calculated monthly using an effective annual interest rate of 12.335% and accounted for in accretion of the debt value.

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FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015

17. CAPITAL STOCK

a) Authorized

An unlimited number of participating and voting common shares.

b) Declared

	May 31, 2016	August 31, 2015
	\$	\$
50,213,220 common shares as at May 31, 2016 and August 31, 2015.	6,047,782	6,047,782

18. 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 modified in February 2010 and February 2013, 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 7,183,041. The exercise price of the option may not be below the market price.

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 following table presents information concerning outstanding stock options as at May 31, 2016 and August 31, 2015 (these options are vested as granted):

	Number of options	Weighted average exercise price per share
		\$
Balance - August 31, 2014	5,188,544	0.12
Cancelled	(440,000)	0.12
Expired	(1,508,544)	0.10
Granted	300,000	0.12
Balance as at August 31, 2015	3,540,000	0.12
Cancelled	(200,000)	0.12
Expired	(1,550,000)	0.12
Balance as at May 31, 2016	1,790,000	0.12

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015****18. STOCK OPTIONS AND WARRANTS (CONTINUED)****a) Stock options (continued)****Transactions during the nine-month period ended May 31, 2016**

During the nine-month period ended May 31, 2016 1,550,000 stock options expired. Also during that period 200,000 stock options were cancelled.

Transactions during the year ended August 31, 2015

On March 3, 2015, the Company granted 300,000 stock options that entitle the holder to purchase 300,000 common shares at an exercise price of \$0.12 for a period of five years. The fair value of \$19,150 was estimated on the grant date using the Black-Scholes pricing model.

During the year ended August 31, 2015, 1,508,544 stock options expired. Also during that year 440,000 stock options were cancelled.

The following assumptions were used:

	March 3, 2015
Risk-free interest rate	0.63%
Expected volatility	123%
Dividend yield	0%
Expected life	5 years

The following table summarizes information about outstanding stock options granted by the Company as at May 31, 2016 and August 31, 2015:

Outstanding options				Exercisable options	
Range of exercise price	Number of options	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
\$			\$		\$
As at August 31, 2015					
0.12	3,540,000	21	0.12	3,540,000	0.12
As at May 31, 2016					
0.12	1,790,000	24	0.12	1,790,000	0.12

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18. STOCK OPTIONS AND WARRANTS (CONTINUED)

b) Warrants

The following table presents information concerning outstanding warrants as at May 31, 2016 and August 31, 2015:

	Number	Weighted average exercise price \$
Balance August 31, 2015	574,000	0.10
Expired	(574,000)	0.10
Balance as at May 31, 2016	-	-

The following table summarizes information about outstanding warrants granted by the Company as at May 31, 2016 and August 31, 2015:

Outstanding warrants				Exercisable warrants	
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, 2015					
0.10	574,000	3	0.10	-	0.10
As at May 31, 2016					
-	-	-	-	-	-

c) Contributed surplus

Contributed surplus includes outstanding and expired stock options as well as outstanding and expired warrants issued to brokers. The balance is as follows :

	May 31, 2016	August 31, 2015
	\$	\$
Outstanding stock options	67,718	178,585
Expired stock options	1,619,092	1,488,225
Outstanding warrants issued to brokers	-	20,000
Others	25,000	25,000
	1,711,810	1,711,810

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015**

19. COMMITMENTS

The commitments of the Company under a lease for the rental of its office in Montreal, expiring June 30, 2024, for a total of \$847,027. The installments over the next years are as follows:

	\$
2016	19,078
2017	81,553
2018	86,662
2019	92,281
2020	98,462
Others	468,990

20. 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 large financial institutions. The Company grants credit to its clients in the normal course of business and an allowance for doubtful accounts receivable is established when collection of amounts due from clients is deemed improbable. As at May 31, 2016, the Company had a credit concentration since more than 54% of accounts receivable were due from two customers. Due to these customers' excellent financial situation, management is of the opinion that this credit risk is limited.

Interest rate risk

The Company is exposed to interest rate risk on its financial instruments at a fixed interest rate. Financial instruments at fixed-interest rate subject the Company to a fair value risk.

The following table presents the Company's exposure to interest rate risk:

Debentures	10%
Interest payable to shareholders	10% and 12%
Loan from a private company	12%
Loans from directors and shareholders	12%
Loan from a company under common control	12%
Cash and cash equivalents	Non-interest bearing
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities (except interest payable to shareholders)	Non-interest bearing
Subordinated advances from a director and individuals related to a director	Non-interest bearing
Long-term debt	Non-interest bearing

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20. FINANCIAL INSTRUMENTS (CONTINUED)
Fair value

The Company measured the fair value of its financial instruments based on current interest rate, fair value and the current price of financial instruments with comparable characteristics. Unless otherwise indicated, the carrying value is considered approximately equal to fair value.

IFRS 7 requires additional disclosure regarding fair value measurements, including a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three level of hierarchy regarding fair value measurements are as follow:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs, other than quoted prices, for which assets or liabilities are directly or indirectly observable;

Level 3 – Inputs that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<u>Loans and receivables</u>				
Cash	4,588	-	-	4,588
Accounts receivable	-	275,078	-	275,078
Advances to a shareholder	-	16,717	-	16,717
<u>Financial liabilities</u>				
Bank overdraft and line of credit	(20,000)	-	-	(20,000)
Accounts payable and accrued liabilities	-	(261,850)	-	(261,850)
Loans from a private company	-	(75,000)	-	(75,000)
Subordinated advances from a director and individuals related to a director	-	(9,160)	-	(9,160)
Loan from a director	-	(35,000)	-	(35,000)
Loan from a company under common control	-	(50,000)	-	(50,000)
<u>Other liabilities</u>				
Long-term debt	-	(42,562)	-	(42,562)
Debentures	-	(1,042,925)	-	(1,042,925)
As at August 31, 2015	(15,412)	(1,224,702)	-	(1,240,114)

<u>Loans and receivables</u>				
Accounts receivable	-	216,540	-	216,540
Advances to a shareholder	-	8,998	-	8,998
<u>Financial liabilities</u>				
Accounts payable and accrued liabilities	-	(630,261)	-	(630,261)
Loans from a private company	-	(75,000)	-	(75,000)
Subordinated advances from a director and individuals related to a director	-	(9,160)	-	(9,160)
Loans from a director	-	(35,000)	-	(35,000)
Loan from a company under common control	-	(50,000)	-	(50,000)
<u>Other liabilities</u>				
Debentures	-	(1,056,211)	-	(1,056,211)
As at May 31, 2016	-	(1,630,094)	-	(1,630,094)

ALPHINAT INC.**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS****(unaudited)****FOR THE THREE AND NINE-MONTH PERIODS ENDED MAY 31, 2016 AND 2015****20. FINANCIAL INSTRUMENTS (CONTINUED)****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 this forecast, cash flows from 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 leasing and sales in Europe and its operations in US currency, the Company is exposed to foreign exchange risk (notes 7 and 11 show details of accounts receivable and payable in foreign currencies). These risks are partially offset by its marketing expenses in Europe. The risk is not covered.

The following table details the Company's sensitivity to an increase or decrease of 10% in foreign exchange rate. The analysis only considers current monetary items :

	Increase of 10%		Decrease of 10%	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
	\$	\$	\$	\$
Euro versus Canadian \$				
Net gain (loss) (i)	(25,432)	(2,223)	25,432	2,223
US currency versus Canadian \$				
Net gain (loss) (i)	(644)	(1,188)	644	1,188

(i) Essentially due to exposure to receivables and payables denominated in foreign currencies.

21. COST OF SERVICES, SELLING AND ADMINISTRATIVE EXPENSES

	May 31, 2016 (3 months)	May 31, 2015 (3 months)	May 31, 2016 (9 months)	May 31, 2015 (9 months)
	\$	\$	\$	\$
Salaries and fringe benefits	79,696	127,776	262,041	464,374
Subcontractors	21,078	50,010	129,079	168,508
Professional fees	22,193	17,388	58,943	67,697
Rent	17,497	21,645	53,602	65,475
Other administrative expenses	12,705	10,288	55,367	33,417
Publicity and promotion	9,709	16,627	34,874	32,507
Travel expenses	6,192	18,107	31,409	58,647
Insurance	5,204	7,148	15,627	17,908
	174,274	268,989	640,942	908,533

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22. RESEARCH AND DEVELOPMENT EXPENSES

	May 31, 2016 (3 months)	May 31, 2015 (3 months)	May 31, 2016 (9 months)	May 31, 2015 (9 months)
	\$	\$	\$	\$
Research and development expenses	113,976	92,769	342,437	335,534
Less: research and development tax credits	(13,254)	(15,758)	(51,496)	(57,065)
	100,722	77,011	290,941	278,469

23. EARNINGS PER SHARE

For the three-month period ended May 31, 2016 and 2015 there was no difference between the basic and diluted earnings per share due to the fact that all stock options and warrants, that are issued have an antidilutive effect and consequently, were not included in the calculation. The diluted earning per share was calculated using the weighted average number of common shares outstanding.

24. ECONOMIC DEPENDENCE

Sales made to the most important clients in relation with total sales :

	May 31, 2016 (3 months)	May 31, 2015 (3 months)	May 31, 2016 (9 months)	May 31, 2015 (9 months)
	\$	\$	\$	\$
Government agency of a province in Canada	33,250 (8%)	-	358,250 (28%)	-
Quebec private agency in construction field	102,097 (24%)	-	190,515 (15%)	-
French government	63,805 (15%)	63,073 (13%)	191,370 (15%)	191,830 (21%)
Global digital agency	7 541 (2%)	172,450 (36%)	22,459 (2%)	172,450 (19%)

25. INFORMATION ON INCOME - FINANCIAL EXPENSES

	May 31, 2016 (3 months)	May 31, 2015 (3 months)	May 31, 2016 (9 months)	May 31, 2015 (9 months)
	\$	\$	\$	\$
Interest and bank charges	7,832	9,785	25,294	21,926
Interest on debentures	27,231	29,283	82,596	82,857
Interest income	-	-	(26)	-
Foreign exchange loss (gain)	(3,388)	50	29,086	4,409
Interest capitalized on long-term debt	39	1,662	1,319	6,154
Recognition of deferred financing expenses on debentures	4,453	4,358	13,288	13,004
	36,167	45,138	151,557	128,350

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26. CAPITAL DISCLOSURES

With regards to capital management, the Company 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 detailed such as issuance of capital shares, warrants and other current and long term financing.

The Company defines its capital as the sum of its shareholders equity, long-term debt, loan from a company under common control and loans from shareholders, directors and individuals related to a director and debentures. The shareholders' equity of \$(1,650,886) as at May 31, 2016 \$(1,833,024) as at August 31, 2015) includes share capital and contributed surplus related to stock options issued in exchange of services and deficit. The loans from shareholders, directors, company under common control and individuals related to a director, long-term debt and debentures amount to \$1,174,518 as at May 31, 2016 (\$1,218,762) as at August 31, 2015) without taking into account the discounting.

There was no significant changes in the Company's approach to capital management during the three-month period ended May 31, 2016.

27. RELATED PARTY TRANSACTIONS

a) Key management compensation

Key management compensation, paid as salaries, for the three-month period ended May 31, 2016 was \$85,636 (\$76,240 for the three-month period ended May 31, 2015).

Key management compensation, paid as salaries, for the nine-month period ended May 31, 2016 was \$251,749 (\$241,413 for the nine-month period ended May 31, 2015).

b) Related party transactions

During the three-month period ended May 31, 2016, the Company has paid interest to:

- directors and individuals related to directors totalling \$5,848 (\$17,879 for the three-month period ended May 31, 2015) on a loan from a director and debentures.
- companies related to directors and a company owned by a director, totalling \$9,326 (\$19,479 for the three-month period ended May 31, 2015) on loans from a company related to a director and debentures.
- a shareholder and a company owned by a controlling shareholder, totalling \$6,134 (\$11,618 for the three-month period ended May 31, 2015) on a loan from a company owned by a shareholder and debentures.

During the nine-month period ended May 31, 2016, the Company has paid interest to:

- directors and individuals related to directors totalling \$17,775 (\$31,294 for the nine-month period ended May 31, 2015) on a loan from a director and debentures.
- companies related to directors and a company owned by a director, totalling \$28,301 (\$31,795 for the nine-month period ended May 31, 2015) on loans from a company related to a director and debentures.
- a shareholder and a company owned by a controlling shareholder, totalling \$18,613 (\$19,165 for the nine-month period ended May 31, 2015) on a loan from a company owned by a shareholder and debentures.

As at May 31, 2016 accounts payable include an amount of \$0 (\$76,077 as at May 31, 2015) relating to these transactions.

These transactions were carried out in the normal course of business.