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Management Discussion and Analysis

Alphinat Inc. ("Alphinat" or the "Company") (TSX Venture Exchange: NPA) has reported its results for the 3-month period ended February 28, 2017.

General

This MD&A has been prepared as of April 13, 2017. This MD&A should be read in conjunction with our interim condensed financial statements for the three-month period ended February 28, 2017, prepared in accordance with IAS 34, Interim financial reporting.

These financial statements were prepared by management in accordance with IFRS.

All dollar amounts are expressed in Canadian dollars unless stated otherwise.

This MD&A was prepared based on information available as at April 13, 2017.

Overview - SmartGuide® brings agile development to the Cloud, Web and mobile.

Alphinat provides online self-service tools and workspaces that make it easy to deal with an organization. Its software suite simplifies, accelerates and improves interactions with all business constituents — resulting in greater cost-effectiveness, customer satisfaction and employee productivity.

Deployable natively in J2EE or .NET environments, on premises or in the cloud, SmartGuide can help quickly build interactive web and mobile dialogs that guide people to the relevant response, help them diagnose problems or lead them through a series of well-defined steps that make it easy to key-in data and to complete complex—or infrequently performed—tasks. It is ideally suited for:

- Customer self-service
- Electronic forms
- Knowledge bases
- Guided selling
- Diagnostic tools
- Life event based applications
- Education or training

SmartGuide is chock-full of drag-and-drop features that other solutions require developers to code, making applications easier to build, test and maintain. Furthermore, SmartGuide will automatically generate customizable documentation of the application being built.

Alphinat technology could be used in the government sector, healthcare, banking, insurance, telecommunications and other sectors, in modernising, automating and rendering cost-effective a number of business processes at a fraction of the cost associated with conventional customized solutions. For more details about Alphinat or its software suite, please visit www.alphinat.com.

Business operations

During the quarter under review, Alphinat has focused its efforts on nurturing and expanding its distribution channels and on diversifying its offering.

During the quarter under review, Alphinat recognized new license sales from a Canadian Province and a State in the USA. They have selected SmartGuide in their effort to modernize their digital government service delivery to their constituents.

Also during the quarter under review, the government of France exercised its options to extend the use of SmartGuide to deliver digital government services to its citizens and enterprises.

SmartGuide has regularly demonstrated the productivity gains it delivers. The decision drivers for Alphinat's partners and clients in selecting SmartGuide is always Total Cost of Ownership (TCO), ease of use and quality of service.

The company continues to be involved with delivery of projects for various agencies of Canadian federal government, the government of France and various municipalities.

Alphinat intends to pursue its partnership strategy with consulting firms and systems integrators for resale and delivery of SmartGuide, with independent software vendors for OEM agreements and with other partners for the launch of SaaS services. Management believes that these partnerships will help reduce the sales cycle of the company's products with potential clients.

Selected quarterly financial data (unaudited)

Period	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015 (restated)
	28-02-2017	30-11-2016	31-08-2016	31-05-2016	29-02-2016	30-11-2015	31-08-2015	31-05-2015
	$	$	$	$	$	$	$	$
Revenue	499,399	603,985	251,238	417,460	473,381	380,850	345,821	499,075
Net earnings	167,455	259,243	(133,944)	104,183	46,790	30,983	(146,392)	86,673
Basic and diluted EPS	0.003	0.005	(0.003)	0.002	0.001	0.001	(0.003)	0.002

Revenue

For the 3-month period ended February 28, 2017, the Company recorded total revenue of $499,399 compared to $473,381 for the same period in 2016.

During the period under review, revenues result from new license sales in the amount of $280,489, software support and maintenance in the amount of $148,995 and professional services for training and SmartGuide implementation in the amount of $69,915.

During the quarter ended February 29, 2016, revenues resulted from new license sales in the amount of $109,567, software support and maintenance in the amount of $144,001 and professional services for training and SmartGuide implementation in the amount of $219,813.

Operating expenses

For the 3-month period ended February 28, 2017, operating expenses amounted to $292,423 compared to $350,909 in 2016.

The cost of services, selling and administrative expenses amounted to $181,253 for the quarter ended February 28, 2017 compared to $242,809 for the quarter ended February 29, 2016. This decrease results mainly from the cost cutting plan that management executed in the previous exercise to centralize the Company's sales structure.

Research and development for the quarter ended February 28, 2017 amounted to $111,170 compared to $108,100 for the quarter ended February 29, 2016.

Financing expenses

Financing expenses amounted to $37,467 for the quarter ended February 28, 2017 compared to $73,415 for the quarter ended February 29, 2016. This decrease is due mainly to gains on Foreign exchange. For more information on financing expenses, refer to note 23 of the financial statements.

Earnings for the period

The earnings for the period ended February 28, 2017 amounted to $167,455 or $0.003 per outstanding common share compared to earnings of $46,790 or $0.001 per outstanding common share for the 3-month period ended February 29, 2016.

Assets

Cash amounted to $0 as at February 28, 2017 compared to $0 as at August 31, 2016.

As at February 28, 2017, accounts receivable amounted to $940,046 compared to $385,493 as at August 31, 2016. This increase is due to additional license and services contracts.

As at February 28, 2017, prepaid expenses amounted to $11,939 compared to $2,678 as at August 31, 2016. This increase is due to the payment of corporate insurance for the year.

Liabilities

As at February 28, 2017 the bank overdraft amounted to $37,134 compared to $11,007 as at August 31, 2016.

Accounts payable and accrued charges decreased from $717,675 as at August 31, 2016 to $589,466 as at February 28, 2017.

Deferred revenue increased from $226,280 as at August 31, 2016 to $412,242 as at February 28, 2017. This increase is mainly due to support and maintenance contracts resulting from new license sales as well as the renewal of license maintenance and support contracts that must be recognized over the period of the contract.

As at February 28, 2017, the loan from a private company represents advances for a total $40,200 (down from $75,000 as t August 31, 2016), bearing interest at an annual rate of 12%, which are payable monthly, with no maturity date.

As at February 28, 2017, subordinated advances from a director and individuals related to a director amounted to $9,160, unchanged as compared to August 31, 2016. This loan does not bear interest.

As at February 28, 2017, loan from a director amounted to $35,000, unchanged as compared to August 31, 2016. This loan bears interest at an annual rate of 12%, which are payable monthly, with no maturity date.

As at February 28, 2017, loan from a company under common control amounted to $50,000 bearing interest at an annual rate of 12%, which are payable monthly, with no maturity date.

As at February 28, 2017, debentures amounted to $1,069,715 compared to $1,060,688 as at August 31, 2016. The difference is due to a decrease in deferred financing expenses that were accounted for during the period. As at February 28, 2017, the debentures are short term liabilities. For more information on the debentures, please refer to note 13 of the financial statements.

Shareholders' equity

As at February 28, 2017, the number of common shares outstanding of the Company was 50,503,220. As at the date of this report, the number of common shares outstanding of the Company was 50,503,220.

Options and warrants

On January 29, 2017, 290,000 stock options granted at $0.12, were exercised to purchase 290,000 common shares at an exercise price of $0.12. On November 30, 2016, the Company has granted 1,758,544 stock options that entitle the holder to purchase 1,758,544 common shares at an exercise price of $0.12 for a period of five years. The fair value of $43,718 was estimated on the grant date using the Black-Scholes pricing model.

As at February 28, 2017, there were 3,108,544 options outstanding with an weighted average exercise price of $0.12 and a weighted remaining contractual life of 39 months. As of the date of this report, there were 3,108,544 options outstanding.

During the quarter ended February 28, 2017, no warrants were issued, had expired or were cancelled. As at February 28, 2017, there were 0 warrants outstanding. As of the date of this report, there were 0 warrants outstanding.

Liquidity and solvency

As at February 28, 2017, the Company had cash and cash equivalence totalling $(37,134). This amount includes cash for an amount of $0 and a Bank overdraft for an amount of $37,134. As at August 31, 2016, the Company had cash and cash equivalents totalling $(11,007). This amount includes cash for an amount of $0 and a Bank overdraft in the amount of $11,007.

To finance its operations, the Company relies on receipts from accounts receivable, loans from shareholders, directors and individuals related to a director, Class A and Class B Debentures and future contracts for major license sales and professional services related to these licenses and ongoing projects.

The Company believes that current funds available, loans from shareholders, directors and individuals related to a director, Class A and Class B Debentures, non-claim of repayment of a loan from a company under common control and of a loan from an individual related to a Director, as well as funds 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.

Related party transactions

- ***Key management compensation***
  Key management compensation, paid as salaries, for the three-month period ended February 28, 2017 was $88,986 ($89,460 for the three-month period ended February 29, 2016). Key management compensation, paid as salaries, for the six-month period ended February 28, 2017 was $165,260 ($166,113 for the six-month period ended February 29, 2016). Key management compensation, paid as stock options, for the three-month period ended February 28, 2017 was $0 ($0 for the six-month period ended February 29, 2016). Key management compensation, paid as stock options, for the six-month period ended February 28, 2017 was $14,675 ($0 for the six-month period ended February 29, 2016).

- ***Related party transactions***
  During the three-month period ended February 28, 2017, the Company has incurred interest charges to:
  - directors and individuals related to directors totalling $5,721 ($5,784 for the three-month period ended February 29, 2016) on a loan from a director and debentures.

- companies related to directors and a company owned by a director, totalling $8,803 ($9,225 for the three-month period ended February 29, 2016) on loans from a company related to a director and debentures.
- a shareholder and a company owned by a controlling shareholder, totalling $6,001 ($8,345 for the three-month period ended February 29, 2016) on a loan from a company owned by a shareholder and debentures.

As at February 28, 2017 accounts payable include an amount of $0 ($0 as at February 29, 2016) relating to these transactions.

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

Financial instruments

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

Subsequent events

After the quarter under review, Alphinat has been contracted for consultancy mandates by various clients.

The company has also received renewal confirmation of renewals for annual software maintenance contracts of SmartGuide from existing clients.

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 can deploy 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 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.

Revenue recognition

Professional service revenues are recognized according to the percentage-of-completion method. Work in progress is established by considering 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.

Accounting standards issued but not yet applied

- **IFRS 15 - Revenue from Contracts with Customers** - In May 2014, the IASB issued IFRS 15 which replace IAS 18 - Revenue, IAS 11 - Construction contracts and other revenue related interpretations. IFRS 15 specify how and when to recognize revenue as well as requiring the provision of more information and relevant disclosures. The standard will be effective for period beginning on or after October 1, 2017 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its financial statements.

- **IFRS 16 - Leases** - In January 2016, the IASB issued IFRS 16 which will replace IAS 17 - Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position with exemptions permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non- lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted in certain circumstances. The Company has not yet assessed the impact of this standard on its financial statements.

Stock option agreements

The Company provides stock option and stock-based compensation plan that is described in note 15 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.

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 a Cloud-related next generation rapid application development (RAD) platform with a service-oriented architecture (SOA) approach 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.