

Management Discussion and Analysis

Alphinat Inc. ("Alphinat" or the "Company") (TSX Venture Exchange: NPA) has reported its results for the 12-month period ended August 31, 2020.

General

This MD&A has been prepared as of December 16, 2020. This MD&A should be read in conjunction with our annual financial statements for the years ended August 31st, 2020 and 2019 which are available on SEDAR.

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 December 16, 2020.

Overview - SmartGuide® brings security to agile development for Cloud, Web and mobile digital services.

Alphinat self-service software solutions and workspaces that make it easy for end users to deal with any organization. Its software suite simplifies, accelerates and improves digital interactions with all business constituents resulting in greater cost-effectiveness, customer satisfaction and employee productivity.

Easy to deploy natively in J2EE or .NET environments, on premises or in the cloud, SmartGuide and SmartGuide solutions 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 online self-service
- Electronic permits and forms
- Knowledge bases
- Guided selling
- Diagnostic tools
- Life event based digital applications
- Selfserve online education or training

SmartGuide® is a drag-and-drop development platform complete with features that many other solutions require developers to code, making applications easier to build, test and maintain. Furthermore, SmartGuide® will provide easy support for accessibility standards with translation capacity supporting multiple languages and can automatically generate customizable documentation of the application being built.

Alphinat technology is easy to use in the public 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 year Alphinat remained focused on its efforts of improving its operating cashflow and on increasing its solution sales including its pipeline of professional services, worked on delivering a number of showcase projects to de-risk the purchase decision of clients and to evolve and reinforce the sales pipeline.

We have also continued to work on expanding our distribution channels and on diversifying our offerings including security and automation features.

In order to accelerate future growth, Alphinat has focused on four main areas of solution development:

- 1) SmartGuide® Portal Edition for Dynamics 365¹, has optimized the way that clients can now create and deploy online services on top of Microsoft Dynamics 365 CRM solutions. This offering is available in SaaS mode as well as on-premises;
- 2) SmartGuide® GreenHouse Gas Registry is a green fintech solution allowing governments and industry to work together in reducing the harmful effects of greenhouse gases;
- 3) SmartGuide® Municipal Cloud aims at offering unparalleled productivity to municipalities. Municipalities will be able to choose from a catalogue of pre-built applications, further accelerating the speed at which they can deploy citizen-centric services. These services include service requests, permitting and licensing as well as numerous other citizen-facing services and internal applications.
- 4) SmartGuide® CIVIC Portal for Amanda^{TM2} is a derivative of the Municipal Cloud solution front ending a partner solution for an improved user experience for both the client cities and their citizens be it on-premises or in a secure-cloud offering.

The company pursues its commercialization efforts with partners at various departments and agencies of North American governments being federal, state and municipalities levels. Furthermore, the company continues to be involved in supporting its partners delivering solutions to government clients.

Alphinat is pursuing its partnership strategy with consulting firms and systems integrators to promote and ensure resale and delivery of SmartGuide, as well as with independent software vendors for OEM agreements and with other partners for SaaS services. Management believes that these agreements will help continue to reduce the sales cycle of the company's products while giving it additional exposure to new potential clients.

Selected annual data(audited)

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

Fiscal year	2020 31-08-2020	2019 31-08-2019	2018 31-08-2018
	\$	\$	\$
Revenue	1 372 185	1 298 588	1 116 781
Net income (loss)	127 803	517	(347 138)
Basic and diluted EPS	0,002	0,00001	(0,00700)
Total Assets	553 985	289 537	285 358
Total long-term liabilities (including current portion)	308 474	0	864 286

¹ Dynamics 365 is a trademark of Microsoft Corporation

² AmandaTM is a registered trade mark of Calytera

Selected quarterly financial data (unaudited)

Period	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
	31-08-2020	31-05-2020	29-02-2020	30-11-2019	31-08-2019	31-05-2019	28-02-2019	30-11-2018
			\$	\$	\$	\$	\$	\$
Revenue	224 318	449,514	290,993	407,360	531 764	305 578	220 840	240 706
Net earnings	34 328	110,960	(57,549)	40,064	253 900	(53 538)	(149 097)	(50 748)
Basic and diluted EPS	0.0005	0.0018	(0.0009)	0.00063	0.0040	(0.0008)	(0.0024)	(0.0009)

Revenue

For the 12-month period ended August 31, 2020, the Company recorded total revenue of \$1,372,185\$ compared to \$1,298,588 for the same period in 2019 mainly due to a slight increase in sales of licenses including a SmartGuide Enterprise license sale, support and professional services.

During the 12 months ending August 31, 2020, revenues result from new license sales in the amount of \$396,262, software support and maintenance in the amount of \$466,715 and professional services for training and SmartGuide implementation in the amount of \$509,208.

During the year ended August 31, 2019, revenues resulted from new license sales in the amount of \$354,859, software support and maintenance in the amount of \$449,106 and professional services for training and SmartGuide implementation in the amount of \$494,623.

Operating expenses

For the 12-month period ended August 31, 2020, operating expenses amounted to \$1,076,693 compared to \$1,203,158 for the period ended August 31, 2020 2019.

The cost of services, selling and administrative expenses were \$694,682 for the year ended August 31, 2020 compared to \$694,791 for the year ended August 31, 2019.

Research and development expenses decreased for the year ended August 31, 2020 and amounted to \$314,182 compared to \$508,367 for the year ended August 31, 2019. The decreased results from government assistance accounted for as a reduction of these expenses.

Financing expenses

Financing expenses amounted to \$106,145 for the year ended August 31, 2020 compared to \$88,393 for the year ended August 31, 2019. The increase is mainly due to an increase in Foreign exchange loss and for interest expenses on lease obligation resulting from adopting IFRS 16. For more information on financing expenses, refer to note 20 in the financial statements.

Earnings for the year

For the year ended August 31, 2020, Earnings before financial expenses, government grants, depreciation and amortization amount to \$295,492 compared to \$95,430 for year ended August 31, 2019. The net earnings for the 12 months ended August 31, 2020 amounted to \$127,803 or \$0.002 per outstanding common share compared to net earnings of \$517 or \$0.00001 per outstanding common share for the year ended August 31, 2019.

Assets

Cash amounted to \$65,625 as at August 31, 2020 compared to a bank overdraft of \$8,627 as at August 31, 2019.

As at August 31, 2020, trade and other receivables amounted to \$175,355 compared to \$265,759 as at August 31, 2019. This decrease is due to a decrease in accounts receivables.

As at August 31, 2020, prepaid expenses amounted to \$14,578 compared to \$8,976 as at August 31, 2019. The increase is mainly due to higher prepaid insurance.

As at August 31, 2020, the Right-of-use assets resulting from the adoption of IFRS -16 at September 1, 2019 is \$ 272,389.

Liabilities

Accounts payable and accrued liabilities amounted to \$863,797 as at August 31, 2020 compared to \$843,535 as at August 31, 2019.

Deferred revenue amounted to \$259,660 as at August 31, 2020 compared to \$248,140 as at August 31, 2019.

As at August 31, 2020, the loans from private companies amounted to \$60,550 (\$254,200 as at August 31, 2019), bearing interest at an annual rate of 9% to 12%, which are payable quarterly and principal repayable in eight equal quarterly payments starting January 1, 2019 and maturing on January 1st, 2021.

As at August 31, 2020, loan from an individual related to an important insider shareholder amounted to \$6,908 (\$18,446 as at August 31, 2019), bearings interest at an annual rate of 12%.

As at August 31, 2020, loans from directors amounted to \$15,125 compared to \$58,375 as at August 31, 2019. These loans bear interest at an annual rate of 12%, which are payable quarterly and principal repayable in eight quarterly payments starting January 1, 2019 and maturing on January 1st, 2021.

As at August 31, 2020, loan from a company under common control amounted to \$2,500 compared to \$8,750 as at August 31, 2019 and bear interest at an annual rate of 12%.

As at August 31, 2020, debentures amounted to \$120,000 compared to \$120,000 as at August 31, 2019. For more information on the debentures, please refer to note 11 of the financial statements.

The Company received a loan of \$40,000 under the Canada Emergency Business Account program. If the Company repays an amount totaling \$30,000 of the loan by December 31, 2022, no further amount will be repayable. Otherwise, the balance of the loan will bear interest at the rate of 5% and may be either repayable in 36 monthly installments, principal and interest, or repayable at maturity on December 31, 2025.

As at August 31, 2020, the current portion of the lease obligation is \$ 65,393 and the lease obligation is \$ 218,124, resulting from the adoptions of IFRS -16 at September 1, 2019.

Shareholders' equity

As at August 31, 2020, the number of common shares outstanding of the Company was 63,148,956. As at the date of this report, the number of common shares outstanding of the Company is 63,148,956.

Options

During the year ended August 31, 2020, 4,335,000 options were granted and 300,000 had expired. As at August 31, 2020, there were 4,953,250 options outstanding with a weighted average exercise price of \$0.12 and a weighted remaining contractual life of 20 months. As of the date of this report, there were 4,953,250 options outstanding.

Liquidity and solvency

As at August 31, 2020, the Company had cash of \$65,625. As at August 31, 2019, the Company had a bank overdraft of \$8,627.

To finance its operations, the Company relies on receipts from accounts receivable from contracts for major license sales and professional services related to these licenses and ongoing projects, loans from private companies, loan from individual related to an important insider shareholder, loans from directors, loans from a company under common control, loans from shareholders, Class A Debentures and a loan.

The Company believes that current funds available, loans from private companies, loan from individual related to an important insider shareholder, loans from directors, loans from a company under common control, loans from shareholders, Class A Debentures, loan, non-claim of repayment, 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 year ended August 31, 2020 was \$217,308 (\$165,000 for the year ended August 31, 2019). Key management compensation, paid as professional fees, for the year ended August 31, 2020 was \$29,701 (\$38,921 for the year ended August 31, 2019). Key management compensation, paid as stock options, for the year ended August 31, 2020 was \$31,294 (\$0 for the year ended August 31, 2019).

▪ **Related party transactions**

During the year ended August 31, 2020, the Company has incurred interest charges to:

- directors and individuals related to directors totaling \$2,158 (\$4,823 for the year ended August 31, 2019) on loans from directors.
- companies related to directors and a company owned by a director, totaling \$21,063 (\$29,225 for the year ended August 31, 2019) on loans from private companies.
- shareholders and a company owned by a controlling shareholder, totaling \$6,818 (\$6,717 for the year ended August 31, 2019) on loans from directors and a company under common control.

As at August 31, 2020 accounts payable include an amount of \$5,288 (\$26,293 as at August 31, 2019) relating to these transactions.

Financial instruments

Information on financial instruments is presented in note 14 to the financial statements.

Subsequent events

The company continues to be mandated to assist in project delivery to municipal customers and has sold an Enterprise License to an Ontario city and has begun the mandate to rebuild their permits and licensing portal. The company continues to be engaged to assist the delivery of projects with clients of a G7 country.

As well the company continues with an ongoing mandate with a Canadian Province to deliver an innovative Greenhouse Gas Registry with our single-sign-on solution based on SmartProfile, an authentication component of the SmartGuide suite.

As at the time of this report, the company was late in debenture repayments of \$120,000.

The Company is planning to make these repayments upon receipt of significant receivables from certain clients and partners. Although these delays could lead certain debenture and loan holders to recall their loan under the terms of the agreement, it is important to note that these debenture and loan holders are also important shareholders of the company.

Risks and uncertainties

The main uncertainty relates to the length of the sales cycle in the public and health care sectors where the Company has thus far concentrated the bulk of its efforts.

Several factors could impact actual results and cause them to be different from expected results. These factors include the Company's ability to develop new markets and partnerships and its dependence on a limited number of customers.

Alphinat has limited financial resources and could require additional cash resources that may not be available or be available under conditions deemed unacceptable to the Company.

The significant value of Alphinat's Internet tools and solutions could draw attention from players who are capable of deploying considerable means to develop competing products, which would affect Alphinat's business potential.

The Company uses and intends to continue to use various measures such as copyrights, trademarks, trade secrets legislation, confidentiality agreements and other contractual terms in order to establish, to maintain and to protect its intellectual property rights. Unauthorized parties could attempt to copy certain of the Company's products or portions of its products or to obtain what is considered as proprietary information. With increased competition, there is a greater risk that other companies will attempt to produce new substitute products or technologies.

Revenue recognition

Professional service revenues are recognised according to the percentage of completion method. Percentage of completion is usually established by comparing the accrual costs incurred to the total cost of the contract. 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 recognised as revenues as the services are rendered.

Revenues from the sale of software licenses are recognised 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. Revenues from leasing the licenses as well as after-sales technical support is recognised on a straight-line basis over the contractual service period and revenues from other services are recognised as the services are rendered.

The Company conducts transactions involving many of its services and products such as software sales and support services. In all cases, the total transaction price of a given contract is distributed among the various obligations in proportion to the specific selling prices of each.

New accounting standards

IFRS 16 - Leases – The Company adopted IFRS 16, Leases, on September 1, 2019. In accordance with the transition guidance of IFRS 16, the new requirements have been applied under the modified retroactive approach with the cumulative effect of initial application recognised as at September 1, 2019. The 2019 financial statements have not been restated.

Previously, the Company classified all leases as operating leases and did not recognise assets or liabilities in the statement of financial position because substantially all the risks and rewards incidental to ownership of the leased asset were not transferred. IFRS 16 requires that lessors recognise assets and liabilities for all leases on the statement of financial position, unless the lease term is 12 months or less or the lease for which the underlying asset is of low value.

On adoption of IFRS 16, the Company recognised the lease liabilities for leases that had previously been classified as “operating leases” in accordance with the principles of IAS 17, Leases. These obligations have been measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at September 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities as at September 1, 2019 was 6.95%. The related right-of-use assets were measured in the amount of the lease liabilities as at September 1, 2019,

Accounting standards issued but not yet applied

At the authorization date for publication of the financial statements, new standards, new amendments and new interpretations of existing standards have been published, but are not yet been put in force. The company has not adopted them early. It plans to adopt them according to their date of entry into force.

Certain other new standards and interpretations have been issued, but they are not expected to have a material impact on the Company's financial statements

Stock option agreements

The Company provides stock option and stock-based compensation plan that is described in note 13 of 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.

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 also see 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 governments, and large institutions whose operations lead to many complex procedures. 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 institutions with the number of retirements anticipated over the coming decade, the increasing number of procedures, 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.