

ALPHINAT INC.
FINANCIAL STATEMENTS
AUGUST 31, 2020

Independent Auditor's Report

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To the Shareholders of
ALPHINAT INC.

Opinion

We have audited the financial statements of ALPHINAT INC. (hereafter "the Company"), which comprise the balance sheets as at August 31, 2020 and 2019, and the statements of income and comprehensive income, the statements of changes in equity and the statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Karine Desrochers.

Raymond Chabot Grant Thornton LLP¹

Montréal
December 16, 2020

¹ CPA auditor, CA public accountancy permit no. A127023

ALPHINAT INC.
BALANCE SHEETS
AS AT AUGUST 31, 2020 AND 2019

(in Canadian dollars)

	Note	2020	2019
ASSETS		\$	\$
Current assets			
Cash		65,625	-
Accounts receivable and other receivables	5	175,355	265,759
Work in progress		14,890	-
Prepaid expenses		14,578	8,976
		270,448	274,735
Non-current assets			
Fixed assets	6	3,574	3,728
Intangible assets	7	7,574	11,074
Right-of-use assets	8	272,389	-
Total assets		553,985	289,537
LIABILITIES			
Current liabilities			
Bank overdraft		-	8,627
Accounts payable and accrued liabilities	9	863,797	843,535
Deferred revenues		259,660	248,140
Current portion of lease liability	8	65,393	-
Loans from private companies bearing interest at 9% and 12%		60,550	254,200
Loan from an individual related to an important insider shareholder bearing interest at 12%		6,908	18,446
Loans from directors bearing interest at 12%		15,125	58,375
Loan from a company under common control bearing interest at 12%		2,500	8,750
Loans from shareholders bearing interest at 12%		3,000	11,125
Debentures	11	120,000	120,000
		1,396,933	1,571,198
Non-current liabilities			
Loan	10	24,957	-
Lease liability	8	218,124	-
Total liabilities		1,640,014	1,571,198
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	6,713,719	6,713,719
Contributed surplus	13	1,811,491	1,743,662
Deficit		(9,611,239)	(9,739,042)
Total equity (deficiency)		(1,086,029)	(1,281,661)
Total liabilities and equity		553,985	289,537

Going concern (note 1)

On behalf of the Board

(signed) Curtis Page , President

(signed) Marc Chartrand , Chief financial officer

ALPHINAT INC.**STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

(in Canadian dollars)

	Note	Share capital	Contributed surplus	Deficit	Total
		\$	\$	\$	\$
Balance - August 31, 2019		6,713,719	1,743,662	(9,739,042)	(1,281,661)
Issuance of stock options	13	-	67,829	-	67,829
Transactions with owners		-	67,829	-	67,829
Net income		-	-	127,803	127,803
Balance - August 31, 2020		6,713,719	1,811,491	(9,611,239)	(1,086,029)
Balance - August 31, 2018		6,094,448	1,743,662	(9,739,559)	(1,901,449)
Debenture conversion	12	632,286	-	-	632,286
Share issue expenses		(13,015)	-	-	(13,015)
Transactions with owners		619,271	-	-	619,271
Net income		-	-	517	517
Balance - August 31, 2019		6,713,719	1,743,662	(9,739,042)	(1,281,661)

ALPHINAT INC.**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

(in Canadian dollars)

		2020	2019
	Note	\$	\$
REVENUES			
Licenses		396,262	354,859
Support		466,715	449,106
Professional services		509,208	494,623
		1,372,185	1,298,588
OPERATING EXPENSES			
Cost of services, selling and administrative expenses	15	694,682	694,791
Research expenses	16	314,182	508,367
Stock based compensation	13	67,829	-
		1,076,693	1,203,158
NET INCOME BEFORE THE FOLLOWING ITEMS		295,492	95,430
Financial expenses	20	106,145	88,393
Government assistance		(16,017)	-
Depreciation - fixed assets		3,003	4,374
Amortization - intangible assets		3,500	2,146
Depreciation - Right of use assets		71,058	-
		167,689	94,913
NET INCOME BEFORE INCOME TAXES		127,803	517
INCOME TAXES		-	-
NET INCOME AND COMPREHENSIVE INCOME		127,803	517
Basic and diluted earnings per share			
	17	0.002	0.00001
Weighted average number of common shares outstanding		63,148,956	60,342,642

Going concern (note 1)

ALPHINAT INC.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019**

(in Canadian dollars)

	Note	2020	2019
		\$	\$
OPERATING ACTIVITIES			
Net income		127,803	517
Adjustments for :			
Depreciation - fixed assets		3,003	4,374
Amortization - intangible assets		3,500	2,146
Depreciation right-of-use assets		71,058	-
Stock-based compensation		67,829	-
Government assistance		(16,017)	-
Accretion expense		974	-
Interest on lease liability		21,522	-
		279,672	7,037
Net change in non cash working capital items	4 a)	101,694	(71,352)
		381,366	(64,315)
INVESTING ACTIVITIES			
Acquisition of fixed assets		(2,849)	(1,860)
Acquisition of intangible assets		-	(6,500)
		(2,849)	(8,360)
FINANCING ACTIVITIES			
Loans from private companies		-	239,000
Repayment of loans from private companies		(193,650)	(25,000)
Loan from an individual related to an important insider shareholder		-	18,446
Repayment of loan from an individual related to an important insider shareholder		(11,538)	(9,160)
Loans from directors		-	61,000
Repayment of loans from directors		(43,250)	(37,625)
Loan from a company under common control		-	10,000
Repayment of loan from a company under common control		(6,250)	(51,250)
Loans from shareholders		-	12,000
Repayment of loans from shareholders		(8,125)	(875)
Share issue expenses		-	(13,015)
Repayment of debentures		-	(112,000)
Loan		40,000	-
Repayment of lease liability		(81,452)	-
		(304,265)	91,521
NET CHANGE IN CASH		74,252	18,846
BANK OVERDRAFT, BEGINNING OF YEAR		(8,627)	(27,473)
CASH (BANK OVERDRAFT), END OF YEAR		65,625	(8,627)

Cash flows related to operating activities include paid interest of \$88,565 for the year ended August 31, 2020 (\$74,868 for the year ended August 31, 2019).

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

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, grouped under one activity area, 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.'s common shares are trading on the TSX Venture Exchange in Toronto under the NPA symbol. Stock options 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") on a going concern basis. 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 the past. Its current liquidities may be insufficient to meet its obligations as the Company's current liabilities exceed its current assets by \$1,126,485 as at August 31, 2020 (\$1,296,463 as at August 31, 2019).

The cash flow shortfall was covered during the year ended August 31, 2020 via the Canada Emergency Business Account. In previous years, these shortfalls were covered by loans from directors, shareholders, an individual related to an important insider shareholder, a company under common control and other and by the issuance of debentures. However, in November 2018, the Company entered into a settlement with the majority of debenture holders by converting debentures into share capital. This settlement has reduced the financial expenses of the Company. Also because of the results of the fiscal year ended August 31, 2020 and the liquidity additions, the Company was able to repay a large portion of the loans and the balance should be fully repaid during next fiscal year. These situations indicate the existence of material uncertainties that may cast significant doubt about the Company ability to pursue its activities.

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 \$259,660 as at August 31, 2020 (\$248,140 as at August 31, 2019) will be recognised in revenues in the coming quarters.

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 and settle its obligations 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.

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN (CONTINUED)

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's board of directors has approved and authorized for publication these financial statements on December 16, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of measurement

These financial statements have been prepared on an accrual basis under the historical cost convention.

FINANCIAL INSTRUMENTS

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those account receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL);
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI. The classification is determined by both:

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, except for impairment of account receivables which is presented within cost of services, selling and administrative.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash, accounts receivable (except sales taxes, income tax credits and government assistance receivable) fall into this category of financial instrument.

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

The Company must consider a broader range of information to assess the credit risk and measuring expected credit losses, especially past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and;
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Accounts receivable and other receivables

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables on an individual basis.

Classification and measurement of financial liabilities

The Company's financial liabilities include bank overdraft, accounts payable and accrued liabilities (except for salaries, benefits and taxes payables), debentures and loans.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance expenses.

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

2. 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. Subsequent to the initial measurement, fixed assets are recorded at cost, less accumulated depreciation and impairment.

Depreciation is recognised on a straight-line basis, in line with the asset's useful life, as follows:

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

The Company allocates the amount initially recognised for a fixed assets to its significant parts and depreciates separately each such part. Residual values, method of depreciation 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 the net income in other revenues or other charges.

INTANGIBLE ASSETS

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

	Methods	Duration
Trademarks	Straight-line	4 years

Residual value and useful life duration are reviewed each year at year-end.

IMPAIRMENT OF FIXED ASSETS

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 recognised 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 its 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 the 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.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHAREHOLDERS' EQUITY

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

OTHER COMPONENTS OF EQUITY

Contributed surplus includes stock based compensation expense until the exercise of those financial instruments. When exercised, the cost of the stock based compensation expense is credited to share capital. Deficit includes all the losses for current and past years.

TAX CREDITS

Tax credits for the development of e-business and research and development, are recognised 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 demands. When tax credits relate to an asset, they are recognised as a decrease in the asset acquisition cost. When they relate to an expense item, they are reported in earnings.

DEVELOPMENT EXPENSES

Development expenses that do not meet the accepted accounting criteria for deferral and research 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 and are amortized over the estimated period of economic benefits. As at August 31, 2020 and 2019 no development costs have been deferred.

PROVISIONS

In accordance with IAS 37 (provisions, contingent liabilities and contingent assets) provisions 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 resources will be required to settle the obligation. In the case where a potential obligation resulting from past events exists, but where the 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 the 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 recognised 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.

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Professional service revenues are recognised according to the percentage of completion method. Percentage of completion is 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.

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.

The Company recognizes deferred revenue as a liability for consideration received in payment of unfulfilled performance obligations. Likewise, if the Company fulfills an obligation of the service before having received the corresponding consideration, it is recognized as work in progress in current assets in its statement of financial position.

LEASES

Policy applicable as of September 1, 2019

The Company recognizes a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereinafter “commencement date”).

The right-of-use asset is initially measured at cost, which includes the initial lease liabilities adjusted for lease payments made on or before the commencement date, plus the initial direct costs incurred and an estimate of all the costs for dismantling and removing the underlying asset, less any rental incentive received.

The right-of-use asset is amortised over the shorter of the estimated useful life of the underlying asset or the lease term on a straight-line basis. Additionally, the cost of a right-of-use asset is reduced by any accumulated impairment losses and, as appropriate, adjusted for any remeasurement of the related lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as its discounting rate. The lease payments included in the lease liability include the following, in particular:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Lease payments relating to extension options that the Company is reasonably certain it will exercise.

The Company has elected not to recognise separately non-lease components of leases for office space (buildings). Accordingly, lease payments and the lease liability include payments relating to lease and non-lease components. Interest expense related to lease liabilities is accounted in the statement of income under the effective interest rate method.

ALPHINAT INC.
NOTES TO THE FINANCIAL STATEMENTS
AS AT AUGUST 31, 2020 AND 2019
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

The lease liability is remeasured when there is a change in future lease payments resulting from a change in an index or when the Company changes its measurement with respect to the exercise of a purchase, extension or termination option. The lease liability adjustment is adjusted against the related right-of-use asset or recorded in profit or loss if the right-of-use asset is reduced to zero.

Lease payments relating to leases with a lease term of 12 months or less and leases for which the underlying asset is of low value are recognised on a straight-line basis as an expense in profit or loss.

Policy applicable before September 1, 2019

All operating leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

GOVERNMENT GRANTS

During the course of its activities, it is possible that the Company receives different grants. These grants are recognised 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 recognised in the statement of income against the expenses.

INCOME TAXES

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the balance sheet liability method.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is determined using the weighted average number of shares outstanding during the year.

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

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 earnings per share is the same as basic earnings per share due to the anti-dilutive effect of stock options when the Company suffers losses or the stock options are issued at a premium to the average market price.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK BASED COMPENSATION

The Company has granted stock options as described in note 13 a). Stock based compensation expense 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 recognised 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'

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 currency at the exchange rates prevailing at that date. All resulting changes are recognised in profit or loss.

ACCOUNTING STANDARD ADOPTION

The following new standard have been adopted by the Company :

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 retrospective 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING STANDARD ADOPTION (CONTINUED)

IFRS 16 - Leases (continued)

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, adjusted for the amount of lease incentives recognised in liabilities as at September 1, 2019.

Adoption of IFRS 16 had the following impact on the financial position as at September 1, 2019:

Right-of-use assets	\$343,447
Lease liability	\$343,447

The discounted value of the operating lease commitments presented in accordance with IAS 17 as at August 31, 2019, calculated using the incremental borrowing rate as at September 1, 2019 is \$343,447. For the initial application of IFRS 16, the Company used the following practical expedients permitted by the standard:

- Not apply the definition of a lease under IFRS 16 to all leases at application date and to apply this definition from that date;
- Use of hindsight to determine the lease term of a lease with renewal options;
- Not separate leasing components from non-leasing components.

IFRIC 23 – Uncertainty over income tax treatments – This new interpretation, issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019. On September 1st, 2019 the Company adopted the new accounting standard and has concluded that there is no significant impact resulting from the application of this new standard on its financial statements.

STANDARDS, MODIFICATIONS AND FUTUR INTERPRETATIONS

Standards, modifications and interpretations of existing standards that are not yet in force and that the Company has not adopted in anticipation

At the authorization date for publication of these financial statements, new standards, new amendments and new interpretations of existing standards have been published, but are not yet in force. The company did not adopt 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.

3. 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.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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 stock options at the 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.

Provisions

Provisions are recognized when the current obligations (legal or constructive), resulting from a past event, are likely to result in an outflow of resources representing economic benefits of the Company and the amounts can be reliably estimated. Provisions are liabilities of uncertain deadline or amount.

The valuation of provisions corresponds to the expenses estimated to be necessary to settle the current obligation, based on the most reliable evidence available at the end of the year, including the risks and uncertainties associated with the current obligation. Provisions are discounted when the time value of money is significant.

Judgment is used to determine whether a past event has given rise to a liability that should be recognized in the financial statements as a provision or whether it should be presented as a contingent liability. Quantifying these liabilities involves judgments and estimates. These judgments are based on several factors, such as the nature of the claim or conflict, legal procedures, the potential amount payable, previous experience and the likelihood of a loss occurring. Several of these factors cause uncertainty in the estimates.

Provisions are reviewed at the end of each fiscal year and adjusted to reflect the best estimates at that date.

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 depending 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.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Revenue allocation 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 recognised for all deductible temporary differences.

Government assistance

The Company is entitled to government assistance in the form of tax credits. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognised 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 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 recognised in cost of services in the year during which the negative gross margin is determined.

Leases

Recognising leases requires judgement and use of estimates and assumptions. Judgement is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability (refer to note 8).

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.

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4. SUPPLEMENTARY CASH FLOW INFORMATION

a) Net change in non-cash working capital items is as follows for the periods ended :

	2020	2019
	\$	\$
Accounts receivable and other receivables	90,404	(21,555)
Work in progress	(14,890)	-
Prepaid expenses	(5,602)	19,216
Accounts payable and accrued liabilities	20,262	1,190
Deferred revenues	11,520	(70,203)
	101,694	(71,352)

b) Changes arising from financing activities are as follows for the years ended :

	2020	2019
	Debentures	Debentures
	\$	\$
Balance, beginning of year	120,000	864,286
Repayment of debentures	-	(112,000)
Conversion	-	(632,286)
	120,000	120,000

	Loans	Loans
	\$	\$
Balance, beginning of year	350,896	134,360
Increase in loans	40,000	340,446
Government assistance	(16,017)	-
Accretion expense	974	-
Repayments of loans	(262,813)	(123,910)
	113,040	350,896

5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	2020	2019
	\$	\$
Accounts receivable in Canadian currency ⁽¹⁾	43,183	134,654
Accounts receivable in Euro currency ⁽¹⁾	-	63,785
Accounts receivable in US currency ⁽¹⁾	10,601	-
Research and development tax credits	-	50,119
Tax credits for the development of e-business	88,885	-
Receivable grants from the Government of Canada	29,033	11,650
Advance to a shareholder	3,653	5,551
	175,355	265,759

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

Breakdown of accounts receivable:	2020	2019
	\$	\$
0 to 30 days	26,901	94,282
31 to 60 days	3,597	91,016
61 to 90 days	21,598	-
More than 90 days	1,689	13,141
	53,784	198,439

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6. FIXED ASSETS

	Office furniture and equipment	Computer equipment	Total
Cost	\$	\$	\$
Balance as at August 31, 2019	12,843	28,926	41,769
Acquisitions	-	2,849	2,849
Balance as at August 31, 2020	12,843	31,775	44,618
Accumulated depreciation			
Balance as at August 31, 2019	12,022	26,019	38,041
Depreciation	281	2,722	3,003
Balance as at August 31, 2020	12,303	28,741	41,044
Net book value as at August 31, 2020	540	3,034	3,574
	Office furniture and equipment	Computer equipment	Total
Cost	\$	\$	\$
Balance as August 31, 2018	12,285	27,624	39,909
Acquisitions	558	1,302	1,860
Balance as at August 31, 2019	12,843	28,926	41,769
Accumulated depreciation			
Balance as August 31, 2018	11,133	22,534	33,667
Depreciation	889	3,485	4,374
Balance as at August 31, 2019	12,022	26,019	38,041
Net book value as at August 31, 2019	821	2,907	3,728

7. INTANGIBLE ASSETS

	Trademarks
Cost	\$
Balance as at August 31, 2019	38,000
Acquisitions	-
Balance as at August 31, 2020	38,000
Accumulated amortization	
Balance as at August 31, 2019	26,926
Amortization	3,500
Balance as at August 31, 2020	30,426
Net book value as at August 31, 2020	7,574
	Trademarks
Cost	\$
Balance as August 31, 2018	31,500
Acquisitions	6,500
Balance as at August 31, 2019	38,000
Accumulated amortization	
Balance as August 31, 2018	24,780
Amortization	2,146
Balance as at August 31, 2019	26,926
Net book value as at August 31, 2019	11,074

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8. LEASES

The Company leases an office space. The leases have an initial term of 8 years and has a renewal option of 5 years after that date. The lease terms are negotiated individually and encompass a wide range of different terms and conditions. The leases do not specify any restrictions and the leased property cannot be used to secure loans. The right-of-use asset and lease liability recognised by the Company relate to office space.

Right-of-use asset	Building
	\$
Impact of adopting IFRS 16	343,447
Depreciation	(71,058)
Balance as at August 31, 2020	272,389

Lease liability	2020
	\$
Impact of adopting IFRS 16	343,447
Lease payments	(81,452)
Interest expenses on lease liability	21,522
Balance as at August 31, 2020	283,517
Current portion	65,393
Non-current portion	218,124
	283,517

Contractual undiscounted payments under lease liability are as follows:

	2020
	\$
Within one year	82,571
1 to 2 years	83,613
2 to 4 years	155,997
Total	322,181

Other amounts recognised in profit or loss	\$
Interest expenses on lease liability	21,522

Cash flow amounts	
Total cash outflow for lease	81,452
Interest expenses on lease liability	21,522

Renewal option

The lease for office space include renewal options that can be exercised at the Company's option. This option is not reflected in measuring lease liability because the option is not reasonably certain to be exercised by the Company. This is also the case when the underlying office space is not vital to the Company and there are other alternative solutions to replace the underlying asset. The Company's practice is to ensure that the space meets its needs, which evolve over time. The table below summarises potential future rental payments as at August 31, 2020, relating to periods following the exercise dates of extension options:

	\$
Lease liability recognised (discounted)	283,517
Potential future lease payments not included in lease liability (discounted)	285,083

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9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
	\$	\$
Accounts payable and accrued liabilities, contracted in Canadian currency	173,077	216,943
Accounts payable, contracted in US currency	39,370	14,147
Interest payable to shareholders at the rate of 9% and 12%	5,665	30,919
Salaries and fringe benefits	240,431	212,856
Sales tax	9,078	3,129
European taxes payable, contracted in Euro currency	396,176	365,541
	863,797	843,535

10. CANADA EMERGENCY BUSINESS ACCOUNT LOAN

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.

Although government assistance of \$10,000 is not repayable if the Company repays the amount of \$30,000 by December 31, 2022, this amount will be recognized in income when the Company has reasonable assurance that it will comply with the terms of early repayment of this aid. In addition, upon initial recognition, the Company measured the loan at fair value resulting in an adjustment of \$ 16,017 recognized in earnings as government assistance.

11. DEBENTURES

Class A and B debentures issued during the year ended August 31, 2013 (\$810,358) and the 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 during the next equity issue of the Company at the market price at the date of issuance. In the event that the issue was offered at a discount to market, insiders Class B debenture 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 debenture holders.

In February 2017 the debenture holders of the Class A and Class B debentures have agreed to an extension of the maturity date of the debentures. The debentures continue to bear interest at 10% annually and shall now be reimbursed over a period of four years, being 20% no later than September 30, 2017, 30% no later than September 30, 2018, 20% no later than September 30, 2019 and the balance no later than September 30, 2020.

On November 20, 2018 the Company issued an aggregate of 12,645,736 Common Shares to Class A and Class B debenture holders who converted their debentures pursuant to the Company's offer announced in its press release of October 5, 2018. Furthermore, \$112,000 of debentures were repurchased for cancellation by the Company with the purchase financed over eight quarterly payments at an interest rate of 12%. An aggregate of \$120,000 of debentures were not converted and remain outstanding.

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11. DEBENTURES (CONTINUED)

As at August 31, 2020 the company was late in repayment in principal of debentures in the amount of \$75,000. Since the Company is in payment default, the balance is presented in the current liabilities.

	2020	2019
	\$	\$
Debentures Class A - non insiders	120,000	120,000
Short term portion	(120,000)	(120,000)
	-	-

The installments over the next year are as follows:

2021	\$ 120,000
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12. CAPITAL STOCK

a) Authorized

An unlimited number of participating and voting common shares.

b) Issued

	2020	2019
	\$	\$
63,148,956 common shares as at August 31, 2020 and 2019	6,713,719	6,713,719

c) Transactions during the year ended August 31, 2019

On November 20, 2018 the Company issued an aggregate of 12,645,736 Common Shares to Class A and Class B debenture holders who converted their debentures pursuant to the Company's offer announced in its press release of October 5, 2018. The shares were issued at a price of \$0.05 per share (closing price of \$0.0325 the day of announcement), being the minimum issuance price pursuant to the TSX Venture Exchange regulations for an aggregate consideration of \$632,286.

d) Capital stock details	Number	Amount
		\$
Balance as at August 31, 2017 and 2018	50,503,220	6,094,448
- Issuance of capital stock (note c)	12,645,736	632,286
- Share issue expenses		(13,015)
Balance as at August 31, 2020 and 2019	63,148,956	6,713,719

13. STOCK OPTIONS

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 7,193,041. 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.

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13. STOCK OPTIONS (CONTINUED)

The following table presents information concerning outstanding stock options as at August 31, 2020 and 2019:

	Number of options	Weighted average exercise price per share
		\$
Balance - August 31, 2018	2,108,544	0.12
Expired	(1,190,294)	0.12
Balance as at August 31, 2019	918,250	0.12
Granted	4,335,000	0.12
Expired	(300,000)	0.12
Balance as at August 31, 2020	4,953,250	0.12

Transactions during the financial years ended August 31, 2020 and 2019

On November 19, 2019, the Company granted 4,335,000 stock options that entitle the holder to purchase 4,335,000 common shares at an exercise price of \$0.12, for a period of three years. The fair value of \$89,912, or 0.02c per stock option, was estimated on the grant date using the Black and Scholes pricing model. These stock options were issued on November 30, 2019 and will vest every three months for six vesting periods. Also during that period 300,000 stock options

During the year ended August 31, 2019, 1,190,294 options expired.

The following assumptions were used:

	November 30, 2019
Risk-free interest rate	1.61%
Expected volatility	128%
Dividend yield	0%
Expected life	3 years

The volatility has been estimated based on the historical share prices of the Company over the expected average life of the options. An amount of \$67,829 was accounted for as stock-based compensation within statement of income and credited to contributed surplus.

The following table summarizes information about outstanding stock options granted by the Company as at August 31, 2020 and 2019 :

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, 2019					
0.12	918,250	20	0.12	918,250	0.12
As at August 31, 2020					
0.12	4,953,250	26	0.12	3,085,750	0.12

b) Contributed surplus

Contributed surplus includes outstanding and expired stock options. The balance is as follows :

	2020	2019
	\$	\$
Outstanding stock options	83,199	34,520
Expired stock options	1,703,292	1,684,142
Others	25,000	25,000
	1,811,491	1,743,662

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14. FINANCIAL INSTRUMENTS

Fair value

The Company measured the fair value of its financial instruments based on current interest rates, 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 levels of hierarchy regarding fair value measurements are as follows:

- 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.

The fair value of the loan was determined by analyzing the cash flows based on the current rates applicable to similar loans.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<u>Financial assets at amortized cost</u>				
Accounts receivable	-	210,089	-	210,089
Advances to a shareholder	-	5,551	-	5,551
<u>Financial liabilities at amortized cost</u>				
Bank overdraft	(8,627)	-	-	(8,627)
Accounts payable and accrued liabilities	-	(262,009)	-	(262,009)
Loans from private companies	-	(254,200)	-	(254,200)
Loan from an individual related to an important insider shareholder	-	(18,446)	-	(18,446)
Loans from a directors	-	(58,375)	-	(58,375)
Loan from a company under common control	-	(8,750)	-	(8,750)
Loans from shareholders	-	(11,125)	-	(11,125)
Debentures	-	(120,000)	-	(120,000)
As at August 31, 2019	(8,627)	(517,265)	-	(525,892)
<u>Financial assets at amortized cost</u>				
Cash and cash equivalents	65,625	-	-	65,625
Accounts receivable and other receivables	-	53,784	-	53,784
Advances to a shareholder	-	3,653	-	3,653
<u>Financial liabilities at amortized cost</u>				
Accounts payable and accrued liabilities	-	(218,112)	-	(218,112)
Loans from private companies	-	(60,550)	-	(60,550)
Loan from an individual related to an important insider shareholder	-	(6,908)	-	(6,908)
Loans from directors	-	(15,125)	-	(15,125)
Loan from a company under common control	-	(2,500)	-	(2,500)
Loans from shareholders	-	(3,000)	-	(3,000)
Debentures	-	(120,000)	-	(120,000)
Loan	-	(24,957)	-	(24,957)
As at August 31, 2020	65,625	(393,715)	-	(328,090)

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flow, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

As at August 31, 2020, the Company had a credit concentration since more than 48% of its' accounts receivable were due from one customer (92% as at August 31, 2019 due from two clients). Due to this customer' 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:

Accounts receivable and other receivables	Non-interest bearing
Interest payable	12%
Accounts payable and accrued liabilities, except interest payable	Non-interest bearing
Loans from private companies	9% and 12%
Loan from an individual related to an important insider shareholder	12%
Loans from directors and shareholders	12%
Loan from a company under common control	12%
Debentures	10%
Loan	Non-interest bearing until December 31, 2022

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 a 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.

As at August 31, 2020, all financial liabilities mature in less than six months with the exception of the loan maturing on December 31, 2025.

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14. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk

Because of its leasing and sales of licenses in Euros and its operations in US currency, the Company is exposed to foreign exchange risk (notes 5 and 9 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 hedged.

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

	Increase of 10%		Decrease of 10%	
	2020	2019	2020	2019
	\$	\$	\$	\$
Euro versus Canadian \$				
Net gain (loss) and shareholders' equity (i)	(39,618)	(30,176)	39,618	30,176
US currency versus Canadian \$				
Net gain (loss) and shareholders' equity (i)	(2,877)	(1,415)	2,877	1,415

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

15. COST OF SERVICES, SELLING AND ADMINISTRATIVE EXPENSES

	2020	2019
	\$	\$
Insurance	36,165	27,968
Other administrative expenses	105,059	50,617
Travel expenses	37,245	45,586
Rent	-	78,885
Publicity and promotion	23,255	31,706
Professional fees	130,922	186,421
Research expenses reclassification	(453,995)	(547,171)
Salaries and fringe benefits	815,406	700,854
Subcontractors	16,226	119,925
Gouvernement assistance	(15,601)	-
	694,682	694,791

16. RESEARCH EXPENSES

	2020	2019
	\$	\$
Development expenses	453,995	547,171
Gouvernement assistance	(83,641)	-
Tax credits	(56,172)	(38,804)
	314,182	508,367

17. EARNINGS PER SHARE

For the financial years ended August 31, 2020 and 2019, there was no difference between the basic and diluted earnings per share due to the fact that all stock options that have been issued have an antidilutive effect and consequently, were not included in the calculations. The basic and diluted earnings per share was calculated using the weighted average number of common shares outstanding.

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18. IMPORTANT CLIENTS

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

	2020	2019
	\$	\$
Major solutions provider for Public Sector Agencies	322,301 (23%)	148,748 (11%)
Major professional services provider	211,068 (15%)	198,359 (15%)
Federal Government Procurement Strategies provider	178,847 (13%)	284,998 (22%)

19. GEOGRAPHICAL DISTRIBUTION

Sales made by geographic regions based on client location:

	2020	2019
	\$	\$
Canada	1,181,016 (86%)	1,068,623 (82%)
United States	144,289 (10%)	65,822 (6%)
France	31,453 (2%)	147,045 (11%)
Other	15,427 (1%)	17,098 (1%)

20. INFORMATION ON INCOME - FINANCIAL EXPENSES

	2020	2019
	\$	\$
Interest and bank charges	53,519	76,670
Interest on debentures	9,008	18,117
Interest on lease liability	21,522	-
Accretion expense	974	-
Interest income	-	(39)
Foreign exchange loss (gain)	21,122	(6,355)
	106,145	88,393

21. INCOME TAXES

a) Income tax expense on benefits vary from the amount that would have been calculated using the statutory income tax rate of 26.53% (26.63% in 2019):

	2020	2019
	\$	\$
Net income before income taxes	127,803	517
Income tax expense using the statutory income tax rate	33,910	138
Unrecognized tax benefits from temporary differences	(59,071)	(10,299)
Effect of tax rate changes	(72)	(2,693)
Permanent differences and others	25,233	12,854
	-	-

As at August 31, 2020, deductible permanent differences for which no deferred income tax assets has been recognised, are the following:

	Federal	Quebec
	\$	\$
Unrecognised future income tax assets		
Research and development expenses	3,226,451	5,889,233
Non-current assets	32,706	32,322
Lease liability	283,517	283,517
Non-capital losses	2,669,831	2,253,402
Unused provisions and others	181,769	181,769
	6,394,274	8,640,243

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21. INCOME TAXES (CONTINUED)

The capacity to realize tax benefits depends on a number of factors, including the future profitability of operations. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow recovery of the asset. Consequently, the deferred tax assets have not been recognised, these unrecognised deferred tax assets amounts to \$1,949,821.

As at August 31, 2020, the Company had non-capital losses that can be used to reduce payable income taxes in the following financial years and expire as follows:

	Federal	Provincial
	\$	\$
2026	41,952	-
2028	789,583	469,521
2029	248,776	220,508
2031	727,354	721,971
2032	638,373	622,989
2034	51,450	47,031
2035	67,097	66,135
2038	105,246	105,247
	2,669,831	2,253,402

As at August 31, 2020, the Company has unused research and development expenses totalling approximately \$3,226,451 at the federal level and \$5,889,233 at the provincial level that may be carried forward indefinitely.

In addition, as at August 31, 2020, the Company has research and development tax credits at the federal level totalling approximately \$892,808 (\$948,583 as at August 31, 2019) that may be used to offset future taxable income. In the event of recognition of such tax credit, a deferred tax liability of \$236,594 would be recognised.

22. CAPITAL DISCLOSURES

With regards to capital management, the Company's 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 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, loans and advances from private companies, shareholders, directors, a company under common control, an individual related to an important insider shareholder, debentures and the loan. The shareholders' deficiency of \$(1,086,029) as at August 31, 2020 (\$(1,281,661) as at August 31, 2019) includes share capital and contributed surplus related to stock options issued in exchange of services and deficit. The loans and advances from private companies, shareholders, directors, a company under common control, an individual related to an important insider shareholder, debenture and the loan, amount to \$233,040 as at August 31, 2020 (\$470,896 as at August 31, 2019).

There was no significant changes in the Company's approach to capital management during the period ended August 31, 2020.

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23. RELATED PARTY TRANSACTIONS

a) 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).

b) Related party transactions

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

- directors and individuals related to directors totalling \$2,158 (\$4,823 for the year ended August 31, 2019) on loans from directors and shareholders.
- companies related to directors and a company owned by a director, totalling \$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, totalling \$6,818 (\$6,717 for the year ended August 31, 2019) on loans from shareholders 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.

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

24. CONTINGENCY

In the normal course of business, the Company is exposed to litigation or claims arising from transactions with customers or suppliers or resulting from verifications by local and foreign regulatory authorities. The Company cannot predict the outcome of such situations and the probability of an outflow of economic resources. The Company recognizes a contingent liability when the time and amount of the outflow are more likely than not to occur. For the financial years ended August 31, 2020 and 2019, no provision was recorded.