



## Interim Report to Shareholders

Three Months Ended January 31, 2011 and 2010

1

Unaudited

March 10, 2011

The interim consolidated financial statements for the three months ended January 31, 2011 and 2010, which are included in this report, have not been subject to a review by the Company's external auditors.

20-20 Technologies Inc.  
Interim Consolidated Financial Statements  
Three Months ended January 31, 2011 and 2010  
UNAUDITED

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March 10, 2011

20-20 Technologies Inc.  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands of U.S. dollars)

	January 31, 2011 (Unaudited) \$	October 31, 2010 (Audited) \$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 9)	13,016	14,681
Accounts receivable	22,673	16,685
Income taxes receivable	109	102
Contracts in progress	211	178
Prepaid expenses	982	1,019
Income tax credits recoverable	1,001	984
Future income taxes	139	263
	<b>38,131</b>	<b>33,912</b>
Property and equipment	2,290	2,345
Intangibles	6,470	6,968
Goodwill	62,490	61,472
Income tax credits recoverable	2,565	2,304
Future income taxes	2,935	2,745
Other assets	1,179	1,160
	<b>116,060</b>	<b>110,906</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan	148	148
Accounts payable	12,324	11,907
Income taxes payable	643	413
Deferred revenue	17,919	13,644
Installment on long-term debt (Note 10)	3,052	2,833
Future income taxes	99	207
	<b>34,185</b>	<b>29,152</b>
Long-term debt (Note 10)	3,355	4,710
Leasehold inducements	262	279
Future income taxes	3,243	3,392
	<b>41,045</b>	<b>37,533</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	58,569	58,569
Common stock options and warrants	1,604	1,553
Contributed surplus	1,050	1,050
Deficit	(1,586)	(1,979)
Accumulated other comprehensive income	15,378	14,180
	<b>13,792</b>	<b>12,201</b>
	<b>75,015</b>	<b>73,373</b>
	<b>116,060</b>	<b>110,906</b>

*The accompanying notes are an integral part of the interim unaudited consolidated financial statements.*

On behalf of the Board,

/s/ Jean-François Grou  
Director

/s/ Benoît La Salle  
Director

20-20 Technologies Inc.

**CONSOLIDATED EARNINGS**

(Amounts in thousands of U.S. dollars, except per share data)

	Three months ended January 31	
	2011	2010
	(Unaudited)	(Unaudited)
	\$	\$
<b>Revenues</b>	<b>16,477</b>	16,604
<b>Cost of revenues</b>	<b>4,687</b>	4,268
<b>Gross margin</b>	<b>11,790</b>	12,336
Operating expenses		
Sales and marketing	4,645	3,937
Research and development (Note 4)	2,917	3,301
General and administrative	3,461	3,498
Stock-based compensation (Note 6)	30	83
	<b>11,053</b>	10,819
<b>Operating income</b>	<b>737</b>	1,517
Financial expenses		
Bank charges and interest expense (Note 3)	274	352
Exchange loss	58	476
	<b>332</b>	828
Non-controlling interest	-	10
<b>Earnings before income taxes</b>	<b>405</b>	679
Income taxes		
Current	527	699
Future	(515)	(482)
	<b>12</b>	217
<b>Net earnings</b>	<b>393</b>	462
Earnings per share (Note 7)		
Basic and Diluted	<b>0.02</b>	0.02

*The accompanying notes are an integral part of the interim unaudited consolidated financial statements and Note 3 provides additional information on consolidated earnings.*

20-20 Technologies Inc.

**CONSOLIDATED SHAREHOLDERS' EQUITY**

(Amounts in thousands of U.S. dollars, except share data)

	Common Shares Number	Common Shares Amount	Common stock options and warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
(Audited)		\$	\$	\$	\$	\$	\$
Balance as at October 31, 2009	18,926,692	58,582	1,279	1,015	10,295	(4,268)	66,903
(Unaudited)							
Net earnings	-	-	-	-	-	462	462
Translation adjustment	-	-	-	-	785	-	785
Comprehensive income	-	-	-	-	785	462	1,247
Options granted	-	-	83	-	-	-	83
<b>Balance as at January 31, 2010</b>	<b>18,926,692</b>	<b>58,582</b>	<b>1,362</b>	<b>1,015</b>	<b>11,080</b>	<b>(3,806)</b>	<b>68,233</b>

	Common Shares Number	Common Shares Amount	Common stock options and warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
(Audited)		\$	\$	\$	\$	\$	\$
Balance as at October 31, 2010	18,921,792	58,569	1,553	1,050	14,180	(1,979)	73,373
(Unaudited)							
Net earnings	-	-	-	-	-	393	393
Translation adjustment	-	-	-	-	1,198	-	1,198
Comprehensive income	-	-	-	-	1,198	393	1,591
Options granted	-	-	51	-	-	-	51
<b>Balance as at January 31, 2011</b>	<b>18,921,792</b>	<b>58,569</b>	<b>1,604</b>	<b>1,050</b>	<b>15,378</b>	<b>(1,586)</b>	<b>75,015</b>

The accompanying notes are an integral part of the interim unaudited consolidated financial statements.

20-20 Technologies Inc.

CONSOLIDATED CASH FLOWS

(Amounts in thousands of U.S. dollars)

	Three months ended	
	January 31	
	2011	2010
	(Unaudited)	(Unaudited)
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	393	462
Non-cash items		
Amortization	908	1,024
Leasehold inducements	(21)	(20)
Stock-based compensation	19	83
Capitalized interest on long term debt	12	25
Non-controlling interest	-	10
Future income taxes	(515)	(482)
Unrealized gain on long term debt exchange	-	(134)
Unrealized loss on forward exchange contracts and currency options	194	57
Changes in working capital items (Note 8)	(1,338)	(2,110)
Cash flows used in operating activities	(348)	(1,085)
<b>INVESTING ACTIVITIES</b>		
Property and equipment	(214)	(246)
Intangible assets – acquired	(28)	-
Product of disposition of property and equipment	5	33
Other assets	(1)	(11)
Cash flows used in investing activities	(238)	(224)
<b>FINANCING ACTIVITIES</b>		
Long-term debt	-	699
Repayment of long-term debt	(1,308)	(685)
Cash flows from (used in) financing activities	(1,308)	14
Effect of changes in exchange rate on cash held in foreign currencies	229	311
<b>Net decrease in cash and cash equivalents</b>	<b>(1,665)</b>	<b>(984)</b>
Cash and cash equivalents, beginning of period	14,681	23,221
Cash and cash equivalents, end of period (Note 9)	13,016	22,237

The accompanying notes are an integral part of the interim unaudited consolidated financial statements.

## Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

**1 – BASIS OF PRESENTATION AND NATURE OF OPERATION**

The interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in United States of America dollars (U.S. dollars) unless otherwise noted. They are consistent with the principles used in the preparation of our annual audited consolidated statements. These interim unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended October 31, 2010.

The Company's operations are affected in varying degrees by market cycles and/or seasonality. As such, operating performance over a given interim period should not necessarily be considered indicative of full fiscal year performance. Seasonality and quarterly performance are affected by events such as vacations, major trade shows and the number of statutory holidays in a given quarter. The workflow from certain clients may vary from quarter to quarter based on their business cycles and the seasonality of their own operations.

**2- ACCOUNTING POLICIES**

These interim consolidated financial statements have been prepared using the same accounting policies and methods of their application as the annual audited consolidated financial statements for the year ended October 31, 2010.

**3 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF EARNINGS**

(Unaudited)	Three months ended	
	2011	January 31, 2010
Amortization of property and equipment	274	354
Amortization of intangible assets	634	670
<b>Total amortization expense <sup>(a)</sup></b>	<b>908</b>	<b>1,024</b>
Interest on long-term debt	105	241
Other interest expense	81	80
Bank charges	117	74
Gain on cash and cash equivalent and short-term investments	(29)	(43)
<b>Total bank charges and interest expense</b>	<b>274</b>	<b>352</b>
Research and development tax credits	291	149
Carrefour de la Nouvelle Économie tax credits	232	249
<b>Total tax credits <sup>(b)</sup></b>	<b>523</b>	<b>398</b>

- a) Amortization expense on property and equipment and on intangible assets is allocated between the cost of revenues and the different operating expenses in the consolidated statement of earnings.
- b) The total tax credits recovered are subject to an allocation between the cost of revenues and the research and development expenses.

**4 - RESEARCH AND DEVELOPMENT EXPENSES**

The research and development expenses and the related tax credits included in the consolidated statement of earnings are as follows:

(Unaudited)	Three months ended	
	2011	January 31, 2010
	\$	\$
Research and development expenses	3,075	3,309
Less: Tax credits- research and development	(440)	(311)
Plus : Amortization of software	282	303
	<b>2,917</b>	<b>3,301</b>

The Company received a certificate of eligibility for the Carrefour de la Nouvelle Économie (CNE) program, which enables it to receive refundable tax credits on eligible salaries until October 2012.

## Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

## 5 - RESTRUCTURING COSTS

## Operational Restructuring Plan

During the 2009 and 2010 year end, the Company approved restructuring plans to align its cost structure to its strategic plan and due to slow market conditions. The Company expects to complete all payments under these plans by October 2011. Any changes to the estimates of executing the Operational Restructuring Plan will be reflected in the future results of operations. The following table summarizes the amounts payable and the effect on consolidated income.

January 31, 2011	Total estimated cost	Accounts payable as at October 31, 2010	Restructuring expense	Cash payments	Adjustment	Foreign exchange adjustment	Accounts payable as at January 31, 2011
		(Audited)					(Unaudited)
<b>Operational Restructuring Plan</b>							
Severance	1,482	473	-	(111)	-	(2)	360
Other	155	73	-	(73)	-	-	-
<b>Total</b>	<b>1,637</b>	<b>546</b>	<b>-</b>	<b>(184)</b>	<b>-</b>	<b>(2)</b>	<b>360</b>

## 6 - STOCK BASED-COMPENSATION

## Stock option plans

The following table presents the changes in the number of options outstanding for the previous stock option plan and the Share Option Plan:

(Unaudited)	Number	Three months ended
		January 31, 2011
		Weighted Average Exercise Price (C\$)
Balance, beginning of year	825,134	5.38
Options granted	-	-
Options cancelled	-	-
<b>Balance, end of period</b>	<b>825,134</b>	<b>5.38</b>
Options exercisable, end of period	563,333	6.48

## Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

**6 - STOCK BASED-COMPENSATION (continued)**

The following table summarizes information about options outstanding and exercisable:

<b>(Unaudited)</b>					<b>January 31, 2011</b>	
Exercise Price	Expiration date	Outstanding Number	Exercisable Number	Weighted Average Remaining Contractual Life in Years		
				Outstanding	Exercisable	
C\$						
2.44	September 2019	120,000	40,000	8.6	8.6	
3.24	October 2019	197,277	23,333	8.7	8.7	
3.24	March 2020	7,857	-	9.1	-	
4.65	October 2013	120,000	120,000	2.8	2.8	
6.01	November 2013	100,000	100,000	2.8	2.8	
6.50	November 2014	15,000	15,000	3.8	3.8	
8.03	November 2013	100,000	100,000	2.8	2.8	
8.26	January 2016	115,000	115,000	4.9	4.9	
9.41	April 2015	50,000	50,000	4.2	4.2	
		<b>825,134</b>	<b>563,333</b>	<b>5.5</b>	<b>4.0</b>	

The impact of the stock based-compensation expense in the consolidated statement of earnings would be as follow:

<b>(Unaudited)</b>	<b>Three months ended</b>	
	<b>January 31</b>	
	<b>2011</b>	<b>2010</b>
Stock options plans	51	83
Deferred share unit plan (DSU)		
Expense of the period	25	16
Reevaluation of the liability	(57)	(16)
	(32)	-
Total non-cash stock based-compensation expense	19	83
Employee share purchase plan (ESPP)	11	-
Total stock based-compensation expense	30	83

**Deferred share unit plan**

During the three months ended January 31, 2011 and 2010, 7,458 (5,888 in 2010) DSUs were issued under the plan. As of January 31, 2011, the Company has recorded an account payable of \$551,685 (\$573,637 as of October 31, 2010), which will be paid as any Director leaves the Board of Directors.

## Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

**7 - EARNINGS PER SHARE**

The following table presents a reconciliation of earnings per share and diluted earnings per share:

(Unaudited)	Three months ended	
	2011	January 31 2010
	\$	\$
Basic		
Net earnings	393	462
Weighted average number of common shares outstanding	18,921,792	18,926,692
Basic earnings per share	0.02	0.02
Diluted		
Net earnings	393	462
Weighted average number of common shares outstanding	18,921,792	18,926,692
Effect of dilutive stock options	12,026	4,115
Effect of dilutive warrants	28,402	2,586
Adjusted weighted average number of common shares outstanding	18,962,220	18,933,393
Diluted earnings per share	0.02	0.02

The options and warrants not included in the computation of the diluted earnings per share because their exercise prices were greater than the average market price of the common shares for the periods as follows:

(Unaudited)	Three months ended	
	2011	January 31 2010
Options	761,801	825,497
Warrants	-	-

**8- ADDITIONAL INFORMATION RELATED TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**

The changes in working capital items are detailed as follows:

(Unaudited)	Three months ended	
	2011	January 31 2010
	\$	\$
Accounts receivable	(5,883)	(4,145)
Income taxes receivable	(6)	18
Contracts in progress	(30)	89
Prepaid expenses	54	296
Income tax credits recoverable	(1)	-
Accounts payable	272	(802)
Income taxes payable	222	(502)
Deferred revenue	4,034	2,936
	(1,338)	(2,110)

## Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

**9- CASH AND CASH EQUIVALENTS**

	January 31, 2011 (Unaudited)	October 31, 2010 (Audited)
	\$	\$
Cash	10,644	12,347
Cash equivalent	2,372	2,334
	<b>13,016</b>	<b>14,681</b>

**10 - LONG-TERM DEBT**

	Current portion	January 31, (Unaudited) 2011	October 31, (Audited) 2010
	\$	\$	\$
<b>Payable in Canadian dollars</b>			
Government loan <sup>(a)</sup>	2,011	2,011	3,082
Government loan	1,018	4,235	4,330
<b>Payable in Pounds Sterling</b>			
Other loans	23	161	131
	3,052	6,407	7,543
Installments due within one year		3,052	2,833
		<b>3,355</b>	<b>4,710</b>

a) As at January 31, 2011, the Company reclassified an amount of \$1,287,000 outstanding on a government loan from long term to current liabilities as management expects to repay this debt within 12 months of the date of the balance sheet.

**11 - SEGMENTED INFORMATION**

The Company operates in a single reportable operating segment. The single reportable operating segment derives its revenue from the sale of software solutions and related services. The following information provides the required enterprise-wide disclosures:

(Unaudited)	Three months ended	
	2011	January 31 2010
	\$	\$
Revenue by geographic location		
Canada	4,480	4,483
United States	4,150	4,178
United Kingdom	2,492	2,991
Germany	2,405	2,251
France	1,910	1,899
Europe – others	291	435
Other countries	749	367
	<b>16,477</b>	<b>16,604</b>

Revenue is attributed to geographic locations based on the selling point of origin. Most of the revenues originating from Canada are destined to customers in the United States.

20-20 Technologies Inc.

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. dollars, tabular amounts in thousands, except share and per-share data)

11 - SEGMENTED INFORMATION (continued)

	January 31, 2011 (Unaudited)	October 31, 2010 (Audited)
	\$	\$
Property and equipment by geographic location		
Canada	1,170	1,291
United States	137	141
United Kingdom	423	401
Germany	179	150
France	264	279
Europe – others	3	5
Other countries	114	78
	<b>2,290</b>	<b>2,345</b>
Goodwill by geographic location		
Canada	1,064	1,049
United States	20,850	20,510
United Kingdom	28,678	28,210
Germany	3,957	3,892
France	6,074	5,975
Europe-others	1,436	1,412
Other countries	431	424
	<b>62,490</b>	<b>61,472</b>



## Management's Discussion and Analysis

First quarter ended January 31, 2011

March 10, 2011

## Management's Discussion and Analysis

First quarter ended January 31, 2011

March 10, 2011

### Management's Responsibility for Financial

Management's Discussion and Analysis ("MD&A") for 20-20 Technologies Inc. and all other information in this report are the responsibility of management and have been reviewed and approved by its Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors.

This report was reviewed by the Company's Audit Committee on March 10, 2011 and approved by 20-20's Board of Directors on March 15, 2011.

Unless otherwise noted or the context otherwise indicates, "20-20," the "Company," "we," "us," and "our" refer to 20-20 Technologies Inc. and its direct and indirect subsidiaries. Unless otherwise indicated, all dollar amounts in this report refer to US dollars. References to "\$" or "US" are to US dollars and references to "C\$" are to Canadian dollars. Disclosure of information in this report has been limited to that which management has determined to be "material," on the basis that omitting or misstating such information would influence or change a reasonable investor's decision to purchase, hold or dispose of securities in the Company.

The primary objectives of the Company's MD&A are:

- To provide information regarding the Company's competitive environment or the market in which the Company operates to facilitate an informed analysis of the consolidated financial statements.

- To provide an explanation of our financial statements from management's perspective.
- To provide information allowing readers to assess the Company's past performance and determine whether it is likely to be reflected in future performance.

With a view to achieving these primary objectives, the MD&A includes the following sections:

#### Corporate Overview

A description of the Company's activities and markets, and the competitive environment in which we operate.

#### Corporate Strategy

Management's perspective on the economic environment and its impact on the market in which the Company operates, together with information on strategic objectives and activities.

#### Financial Review

An analysis of first quarter ended January 31, 2011 compared with the same periods in 2010, key factors affecting earnings and revenues, by type, by geographic location and by sector, factors impacting expenses, and comparative quarterly financial data for the Company's last eight quarters.

#### Liquidity

An analysis of changes in cash flows related to operating, investing and financing activities, and a description of the Company's cash position.

#### Controls, Accounting Policies, Risks and Uncertainties

Controls and the monitoring of controls implemented to ensure that financial information is complete and reliable, new accounting policies that may affect the future presentation of the Company's consolidated financial statements, and the risks to which the Company's operations are exposed.

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### 1- Introduction

The following report, dated March 10, 2011, is a discussion relating to the consolidated financial results and position of 20-20 Technologies Inc. ("20-20" or the "Company") for the first quarter ended January 31, 2011. The discussion should be read in conjunction with the selected consolidated financial information shown in this report, and our unaudited interim consolidated financial statements and accompanying notes. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in US dollars, as a significant portion of the Company's revenues are recorded in US dollars. The Company's financial statements have been translated from the measurement currency, the Canadian dollar, to the US dollar using the current rate method. Additional information relating to 20-20, including the Company's Annual Information Form, Annual Report and the audited financial statements for the year ended October 31, 2010, can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com) as well as from the Company's website at [www.2020technologies.com](http://www.2020technologies.com) in the Investors section. Information contained in this report is qualified by reference to the discussion concerning forward-looking statements detailed below.

#### Forward-looking statements

Certain statements contained in this report constitute forward-looking information within the meaning of securities laws.

Implicit in this information, particularly in respect of the Company's future operating results and economic performance

are assumptions regarding projected revenues and expenses. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that the Company's actual future operating results and economic performance are subject to a number of risks and uncertainties, including general economic, market and business conditions, and could differ materially from what is currently expected.

For more exhaustive information on these risks and uncertainties, please refer to our most recently filed Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com). Forward-looking information contained in this report is based on management's current estimates, expectations and projections, which management believes are reasonable as of the current date. The reader should not place undue reliance on forward-looking statements and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law. In addition to presenting an analysis of results for the first quarter ended January 31, 2011 and 2010, this report also discusses certain important events that occurred between the end of the period and March 10, 2011.

#### EBITDA - Non-Canadian GAAP measure

EBITDA is a non-Canadian GAAP measure related to cash earnings and is defined for these purposes as operating income, adjusted for non-recurring items plus amortization expenses.

## 2. Financial Highlights

 Revenues decline 0.8%	 EBITDA <sup>(1)</sup> decreases to \$1.8 million or 11.2% of revenues	 Net earnings decrease to \$0.4 million (2.4% of revenues) or \$0.02 per share
<p><b>Revenues</b></p>	<p><b>EBITDA (1)</b></p>	<p><b>Net earnings</b></p>
<p>Revenues for the quarter ended January 31, 2011 were down 0.8% (\$0.1 million) from the same period in 2010. In constant 2010 dollars, revenues grew 2.1% (\$0.3 million).</p>	<p>EBITDA for the quarter declined to 11.2% in 2011 (\$1.8 million) from 15.3% (\$2.5 million) in 2010. The unfavorable impact on EBITDA of the Canadian dollar's strengthening against US and European currencies over the current quarter amounts 1.9%. On a constant currency basis the EBITDA would amount to 2.2 million\$</p>	<p>Net earnings per share for the first quarter stayed stable at \$0.02 in 2011 and 2010. Net earnings for the first quarter totaled \$0.4 million (2.4% of revenues) down from \$0.5 million (2.8% of revenues) a year ago.</p>
<p>(1) EBITDA is a non-GAAP performance measure for which we provide reconciliation on page 24.</p>		

### Selected Consolidated Financial Information

The selected consolidated financial information set out below for the quarters ended January 31, 2011 and 2010 are based on and should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes.

(In thousands of dollars, except per share data)	Three months ended January 31 (Unaudited)	
	2011	2010
Revenues	16,477	16,604
Profitability		
Gross margin	11,790	12,336
Gross margin (%)	71.6%	74.3%
EBITDA <sup>(1)</sup>	1,842	2,541
EBITDA (%)	11.2%	15.3%
Net earnings	393	462
Net earnings (%)	2.4%	2.8%
Earnings per share <sup>(2)</sup>		
Basic and diluted earnings per share	0.02	0.02
Balance sheet		
Total assets	116,060	120,279
Total long-term liabilities	6,669	18,116

(1) EBITDA is a non-GAAP performance measure for which we provide reconciliation on page 24.

(2) Please refer to Note 7 to the unaudited interim consolidated financial statements for further details regarding the calculation of earnings per share.

### 3. Corporate Overview

#### Our Mission

Provide interior design and furniture industry with a platform empowering people to collaborate on creating and delivering personalized projects.

#### Our Strategy

Use our domain knowledge and relationships to create and lead an open industry platform integrating our assets and those of our partners to deliver software and services connecting the industry players.

#### Company

Retailers and furniture manufacturers have made 20-20 Technologies the world's leading provider of computer-aided design, sales and manufacturing software for the furniture and interior design industry. 20-20 Technologies offers an integrated software platform for industry-wide use from showroom to factory floor that is tailored specifically to the furniture and interior design business and employed across all environments, desktop and Web. This platform is a significant competitive advantage and a key success factor for the Company.

20-20 products and services are marketed and sold worldwide through a sales and marketing team in various locations complemented by a network of consultants and distributors. The Company has operations in the Americas, Europe, Asia, Africa and the Middle East.

#### Markets Served

20-20 Technologies serves a variety of professions related to furniture and interior design that includes architects, office and home furniture dealers and retailers, installers, manufacturers, interior designers, homebuilders and remodelers. Each can choose the software that best suits their needs and addresses their professional concerns and those of their customers. While our focus has traditionally been on the dealer channels and their respective furniture manufacturers, primarily for kitchen and office, we are increasing our sales and services activities for adjacent markets such as remodelers, homebuilders and furniture retailers by expanding our solution coverage in product categories such as bathrooms, storage spaces and other home furniture.

The Company also believes in nurturing promising design talent. This is why 20-20 Technologies offers an educational version of its 20-20 Design software to accredited academic design institutions.

Some 20-20 software solutions are available in 23 languages and sold in over 90 countries. Each version is adapted to the specific measurement units and currency of the geographic location where the software is used. 20-20 solutions include business-to-consumer (B2C) applications (design and sales), business-to-business (B2B) applications (order processing and e-procurement) and manufacturing facilities applications: enterprise resource planning (ERP) and computer-aided design (CAD) and computer-aided manufacturing (CAM) software.

#### Leadership Team

Hailing from various countries around the world, 20-20 Technologies' global reach is reflected in its leadership team. The Company's executive team members' know-how in the interior design, furniture manufacturing and software industries combined with their diversity of business and IT education backgrounds have significantly contributed to 20-20's continued success, giving the Company an edge over its competitors. Their understanding of the global industry and customer needs puts 20-20 Technologies in a unique position to address these challenges.

#### Competitive Environment

The Company currently faces competition from software providers in both the CAD and ERP markets. The interior design software industry is highly fragmented and comprised generally of point solutions (as opposed to full solutions) software providers that address specific aspects of design software, or software providers that have limited geographic reach. Accordingly, none of the Company's competitors competes in all of its products and markets. Generally, competitors can be described as follows:

- CAD software: Competitors consist almost exclusively of smaller, privately-owned companies whose products are principally focused on specific aspects of design software, that generally compete in some but not all of our markets.
- ERP software: As the Company increases the penetration of its ERP solution, it also faces competition from ERP software vendors that generally offer less targeted design, specification, photo-realistic rendering or 3-D visualization capabilities.

Large software providers prefer to form alliances with specialized software providers offering a specialized solution, such as ours, than to devote resources to developing and marketing their own products.

Our leading market position, global presence, single technology platform, end-to-end solution as well as the breadth and size of the electronic catalogs library that we have developed for our customers are all key competitive advantages that distinguish us from our existing competitors and would make it difficult for new entrants to compete effectively with us.

### 4. Corporate Strategy

#### Market Conditions

During the first quarter of 2011, market conditions in North America was stable both in our markets relating to Home and Office sectors. However, large retail and manufacturing companies are more active in finding solutions in our web products and in our factory automation solutions to computerize their operation, while remaining cautious and selective in the management of their investments. On the other hand, independent retailers' investments remain low based on a sales volume way below their historic levels of activity. However, the business volume of small manufacturers continues to grow representing an improvement over previous quarters, which gradually is being reflected in our business volume in this new market for 20-20.

In European markets, the economy is in general as stable as in our Home sector but remains more favorable than in North America. In the independent retailers market, adverse climatic conditions during the quarter interfere with the activities of our customers and delayed their investments. As a general situation, market conditions in the north and in the east are more favorable as they remain difficult in the south, in an uncertainty context concerning the unhealthy economies due to debt ratio in some countries. Nevertheless, major retailers and manufacturers, as in North America, are also investing more in our web solutions, our sale support solutions and even more in our automation solutions of their manufacturing operations. Foreign exchange rates variations continue to create fluctuations in all of our products, especially in Europe. Our international operations continue to improve, particularly in countries with higher growth, especially in China where we continue to make progress, mainly in our new closet manufacturer sector. In all our markets, the recovery is relatively slow and reaches the activities levels of our independent retailers.

#### Existing operations and growth strategy

We continue our progress with our complete solution in the Home sector in Europe and Asia for the kitchen and closet domain. Consequently, we continue to improve and develop our sale and marketing activities including our participation to the most important trade shows, while maintaining tight control over expenses. In America, while we actively pursue commercialization of our solutions and of those of our partners to new prospects, our focus is also to commercialize marketing complementary solutions and on our sale and management support solutions to our existing customers. We can see that our most up-to-date versions of our desktop design and web-based solutions are generating increasing interest. We also remain confident that our revenues will continue to grow from quarter to quarter, particularly in the Home and Manufacturing sectors, subject naturally to some seasonal fluctuations.

### 5. Financial review

#### Exchange rates

As 20-20 operates in a global environment, foreign exchange rate assumptions and sensitivity analyses are particularly significant due to their potential impact on our results.

As the measurement currency for all subsidiaries is the Canadian dollar, assets, liabilities and transactions are translated using various exchange rates as required by GAAP. The presentation currency is the US dollar.

During the quarter, our main currencies, namely the US dollar, the Canadian dollar, the euro and the pound sterling experienced significant fluctuations. Fluctuations in the Canadian dollar against the US dollar can have a major impact on net earnings as revenues in North America are essentially in US dollars while a major portion of expenses are incurred in Canadian dollars. European currencies affect earnings to a lesser extent as only earnings in Euros and pounds sterling are exposed to fluctuations.

Closing rates shown were used to value our assets and liabilities in US dollars as at January 31.

As at January 31			
Closing rate	2011	2010	Change 2011/2010
C\$	0.9978	0.9390	6.26%
Euro	1.3715	1.3870	(1.12)%
Pound sterling	1.6040	1.6008	0.20%

Weighted average rates shown were used to value our revenues and expenses in US dollars

Quarters ended January 31			
Average rate	2011	2010	change 2011/2010
C\$	0.9948	0.9472	5.03%
Euro	1.3377	1.4339	(6.71)%
Pound Sterling	1.5814	1.6183	(2.28)%

### Revenues

Licenses – Revenues from license sales are primarily from licensing of the Company's desktop software and enterprise solutions. Each software license, for which users pay a one-time fee, is perpetual in nature. Each license is intended for use by a single user and is non-transferable.

Recurring licenses – Revenues from recurring license sales are derived from user fees for licensing of the Company's desktop software and Web solutions. These licenses are renewable on a monthly, quarterly or annual basis at the customer's option.

Maintenance and other recurring services – Revenues from maintenance and other recurring services are generated by customer support, software and electronic catalog updates and Web services. Maintenance and other recurring service agreements are generally for terms of twelve months and are renewable at the customer's option.

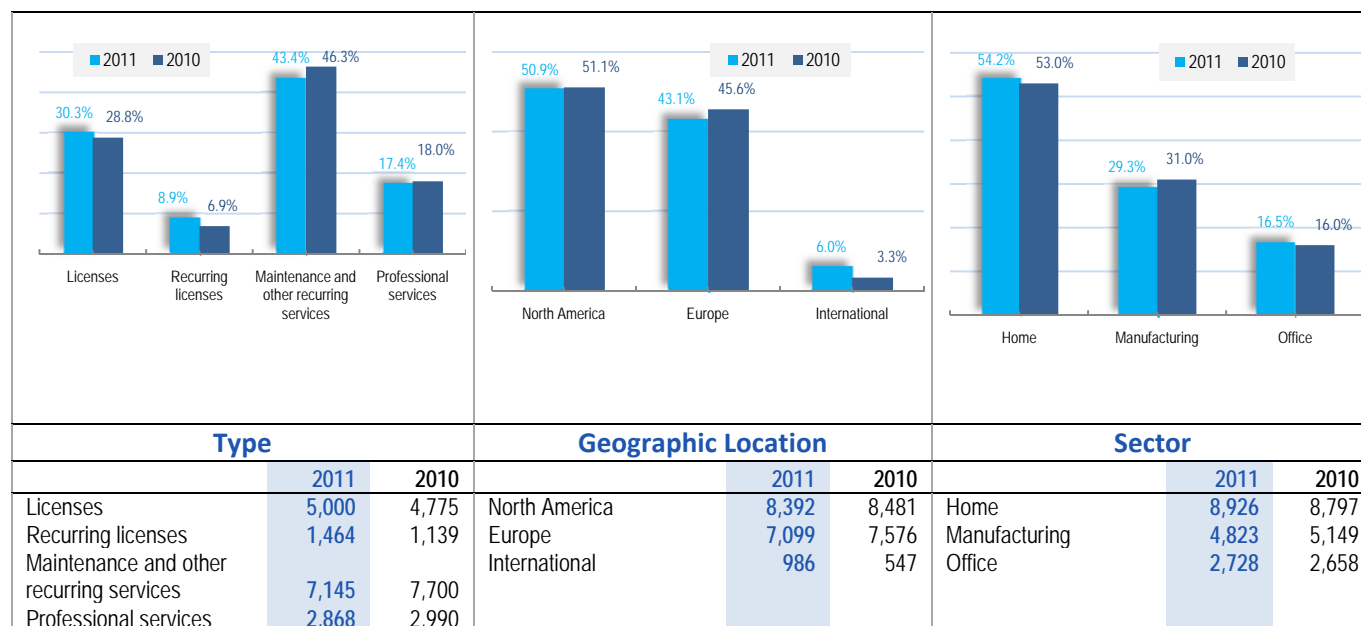
Professional services – Revenues from professional services include revenues derived from training, electronic catalog creation and management, and integration services such as consulting, application integration and hardware resale.

## Revenue Distribution

Management reviewed its organization in fiscal 2010 and following the year-end at October 31, 2010, reclassified the sectors for its different software solutions, resulting in adjustments to the distribution in revenues between the Home and Manufacturing sectors. We therefore amended the comparative data accordingly.

The following charts provide information regarding our revenue composition for the quarters ended January 31.

(In thousands of dollars, except percentages)



## Revenue Analysis

The following table summarizes the impact of exchange rate changes on revenues between 2011 and 2010:

(In thousands of dollars, except percentages)	Quarters ended January 31		
	2011	2010	Change 2011/2010
Revenues	16,477	16,604	(0.8)%
FX impact			(2.9)%
Change at constant exchange rates			2.1%

Fluctuations in European exchange rates, particularly the euro, were significant in the first quarter of 2011 compared with the same period in 2010. The unfavorable exchange rate impact on revenues amounted to \$0.5 million (2.9%). Revenues for the quarter ended January 31, 2011 were down 0.8% to \$16.5 million from \$16.6 million in 2010. Excluding the foreign exchange impact, the Company's revenues would have grown 2.1% from the first quarter of 2010.

In constant dollars, growth is attributable to a 12.5% rise in license and recurring license revenues, partly offset by a 5% fall in revenues from maintenance and other recurring services.

Including the foreign exchange impact, the International market was the only region to report revenue growth in the first quarter of 2011 over 2010, that is, an increase of more than 80.2%, while the other regions remained relatively stable.

However, in constant 2010 dollars, all sectors recorded slight increases in revenues over the first quarter of 2010: 3.1% for Home; 2.6% for Office; and a marginal increase of less than 1.0% for Manufacturing.

The following tables summarize the changes in revenues by type between the quarters ended January 31.

### Revenues by Type

(In thousands of dollars, except percentages)	2011	Quarters ended January 31	
		2010	Change
License revenues prior to FX impact	5,164	4,775	8.1%
FX impact	(164)		
<b>License revenues</b>	<b>5,000</b>	<b>4,775</b>	<b>4.7%</b>
Recurring license revenues prior to FX impact	1,490	1,139	30.8%
FX impact	(26)		
<b>Recurring license revenues</b>	<b>1,464</b>	<b>1,139</b>	<b>28.5%</b>
Maintenance and other recurring services revenues prior to FX impact	7,313	7,700	(5.0)%
FX impact	(168)		
<b>Maintenance and other recurring services revenues</b>	<b>7,145</b>	<b>7,700</b>	<b>(7.2)%</b>
Professional services revenues prior to FX impact	2,984	2,990	(0.2)%
FX impact	(116)		
<b>Professional services revenues</b>	<b>2,868</b>	<b>2,990</b>	<b>(4.1)%</b>

**Licenses** – License revenues in the first quarter of 2011 totaled \$5.0 million, up 4.7% from the same period in 2010. Excluding the unfavorable foreign exchange impact, license revenues would have grown 8.1% or \$0.4 million over 2010. China repeated its performance of the past quarter by reporting a 166.5% increase in license revenues compared with the first quarter of 2010. Following a large contract entered into with a distributor in Russia, Central Europe recorded a \$0.5 million increase in license revenues in the first quarter of 2011 compared with 2010. This increase was partly offset by declining revenues in other European markets, resulting in a net increase of \$0.1 million for Europe as a whole, in constant dollars, license revenues in Europe grew 11.1% (\$0.3 million). In North America, license revenues for the first quarter of 2011 declined \$0.3 million or 13.7% to \$1.8 million from \$2.1 million for the same period of fiscal 2010. Bolstered by the signing of a large agreement with a Russian manufacturer and significant growth in China, the Manufacturing sector grew in constant dollars 19.0% while other sectors remained relatively stable in the first quarter of 2011 compared with the same period of 2010.

**Recurring licenses** – Recurring license revenues were up \$0.3 million or 28.5% from the first quarter of 2010, driven mainly by increases of \$0.2 million (31.8%) in North America and \$0.1 million (18.1%) in Europe. The Home sector, which is the most important sector for this type of revenues, grew \$0.3 million or 53.2% during the first quarter of 2011 compared with the same period of 2010 while the other sectors remained relatively stable.

**Maintenance and other recurring services** – Excluding the foreign exchange impact, maintenance and other recurring services revenues totaled \$7.3 million for the quarter ended January 31, 2011, down 5.0% from \$7.7 million in 2010. This decrease stems primarily from the economic slowdown in recent years as our clients renewed their contracts for a lower number of licenses following workforce downsizing. Both North America and Europe recorded decreases of \$0.2 million for this type of revenues, in constant 2010 dollars, compared with the same period in 2010. Also in constant dollars, both the Home and Office sectors recorded declines of \$0.1 million, while the Manufacturing sector was more affected with a decrease of \$0.2 million compared with 2010.

**Professional services** – Professional services revenues totaled \$2.9 million in 2011, down 4.1% from \$3.0 million in 2010. Revenues in North America grew \$0.2 million or 20.7%, while Europe reported a decrease of \$0.3 million or 17.4%, compared with the first quarter of 2010. Europe's weaker performance was caused by exchange rate fluctuations in 2011 compared with 2010. Driven by growth in license and recurring license revenues, the Office sector's revenues from professional services grew 42.1% to \$0.3 million in 2011 from \$0.2 million in 2010. The decline in professional services revenues was recorded in the Manufacturing sector, with revenues falling to \$1.3 million in 2011 from \$1.5 million in 2010, while the Home sector remained stable.

## Revenues by Geographic Location

### Geographic breakdown – First quarters ended January 31



**North America** – First quarter revenues in North America declined slightly (1.0%) to \$8.4 million in 2011 from \$8.5 million in 2010. Revenues from professional services grew \$0.2 million or 20.7% from the first quarter of 2010, driven by higher revenues from catalog creation and updates. Maintenance and other recurring services revenues fell \$0.3 million or 5.1% in the first quarter of 2011, due to a lower number of licenses on support contracts. License and recurring license revenues remained stable. The Manufacturing sector in North America was the most affected in the first quarter of 2011 with a \$0.2 million or 18.4% decline in revenues over 2010. While the Home sector remained stable, the Office sector recorded revenue growth for the first time in several quarters, that is, an increase of \$0.1 million compared with 2010.

**Europe** – Excluding a \$0.5 million unfavorable exchange rate effect, European revenues declined to \$7.1 million for the first quarter of 2011 from \$7.6 million in 2010. On the upside, in

constant dollars, license and recurring license revenues grew \$0.4 million in 2011 whereas revenues from professional services and maintenance and other recurring services both fell by \$0.2 million, respectively, compared with the first quarter of 2010. Concerted efforts relating to a distributor in Russia enabled the Manufacturing sector to achieve stability in the first quarter of 2011 as the Home sector.

**International** – Driven by the ever-growing Chinese market, International revenues for the first quarter ended January 31, 2011 raised \$0.4 million or 80.2% over the same period in 2010. License revenues increased \$0.4 million, while other types of revenues remained stable. The Manufacturing sector in China grew \$0.3 million or 258.9% over 2010, while the Home sector increased its revenues to \$0.5 million in 2011 from \$0.4 million in 2010.

## Revenues by Sector

The following tables summarize the impact of exchange rates on revenues by sector between the quarters ended January 31.

(In thousands of dollars, except percentages)	Quarters ended January 31		
	2011	2010	Change
Home sector revenues prior to FX impact	9,072	8,797	3.1%
FX impact	(146)		
<b>Home sector revenues</b>	<b>8,926</b>	<b>8,797</b>	<b>1.5%</b>
Manufacturing sector revenues prior to FX impact	5,151	5,149	0.0%
FX impact	(328)		
<b>Manufacturing sector revenues</b>	<b>4,823</b>	<b>5,149</b>	<b>(6.3)%</b>
Office sector revenues prior to FX impact	2,728	2,658	2.6%
FX impact	-		
<b>Office sector revenues</b>	<b>2,728</b>	<b>2,658</b>	<b>2.6%</b>

**Home sector** – Home sector revenues for the quarter ended January 31, 2011 totaled \$8.9 million, up \$0.1 million or 1.5% from \$8.8 million in 2010. In constant dollars, the increase amounts to \$0.3 million or 3.1%. The growth in license and recurring license revenues accounted for \$0.4 million (13.6%) of this increase in constant dollars while maintenance and other recurring revenues fell \$0.1 million (3.1%). All three markets,

North America, Europe and International, grew slightly, by \$0.1 million, respectively, in constant 2010 dollars.

**Manufacturing sector** – Manufacturing sector revenues in the first quarter of 2011 stood at \$4.8 million, down \$0.3 million or 6.3% from 2010. The decrease resulted from the negative foreign exchange impact in the first quarter of 2011. In constant

dollars, license and recurring license revenues grew \$0.3 million or 16.4% in 2011, whereas revenues from maintenance and other recurring services and professional services fell by 10.4% and 5.8%, respectively, compared with the first quarter of 2010. Including the foreign exchange impact, revenues from North America and Europe declined by \$0.2 million and \$0.1 million, respectively, over 2010, whereas International revenues increased significantly by \$0.3 million or 258.9%.

**Office sector** – After declining for more than a year, the Office sector recorded a slight increase of 2.6%. With our clients investing once again in catalog creation and updates, revenues from professional services grew 42.1% over the first quarter of 2010. Maintenance and other recurring services revenues fell slightly, by 3.6%, while revenues from licenses and recurring license rose 3.0% in 2011, compared with the first quarter of 2010.

### Cost of Revenues

Cost of revenues from license and recurring license sales consists primarily of:

- Cost of software products, including duplication, manuals and inserts, as well as packaging.
- Cost of resale of third-party products.
- Royalties payable on certain license sales to third parties whose technology is used by 20-20 software.

Cost of revenues from maintenance and other recurring services consists primarily of:

- Cost of personnel and other related costs incurred for customer support, as well as catalog creation and updates.
- Cost of personnel assigned to Web services.

Cost of revenues from professional services consists primarily of:

- Cost of personnel, training, integration services and hardware and other related costs.
- Cost of personnel for the creation, updating and management of electronic catalogs.

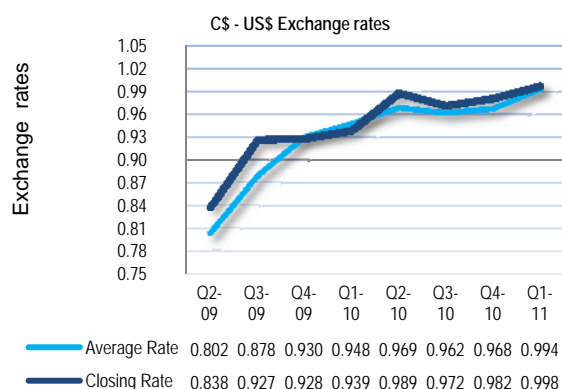
### Gross Margin

(In thousands of dollars, except percentages)	Quarters ended January 31		
	2011	2010	Change
Gross margin on licenses and recurring licenses prior to FX impact	89.0%	89.5%	(0.5)%
FX impact	(0.8)%		
<b>Change in gross margin on licenses and recurring licenses</b>	<b>88.2%</b>	<b>89.5%</b>	<b>(1.3)%</b>
Gross margin on maintenance and other recurring services prior to FX impact	77.1%	82.5%	(5.4)%
FX impact	0.1%		
<b>Change in gross margin on maintenance and other recurring services</b>	<b>77.2%</b>	<b>82.5%</b>	<b>(5.3)%</b>
Gross margin on professional services prior to FX impact	21.5%	23.1%	(1.6)%
FX impact	(1.4)%		
<b>Change in gross margin on professional services</b>	<b>20.1%</b>	<b>23.1%</b>	<b>(3.0)%</b>
Total gross margin prior to FX impact	72.0%	74.3%	(2.3)%
FX impact	(0.4)%		
<b>Change in total gross margin</b>	<b>71.6%</b>	<b>74.3%</b>	<b>(2.7)%</b>

Gross margin for the first quarter ended January 31, 2011 was down an overall 2.7% to 71.6% from 74.3% in 2010, caused mainly by lower revenues (decline of 7.2%) from maintenance and other recurring services. The gross margin on licenses and recurring services fell 1.3% since the increase in revenues is

related to sales of partner licenses which have lower profit margins. As various cost reduction measures were still in effect in North America during the first quarter of 2010, the gross margins on professional services and maintenance and other recurring services were higher in that period.

## Foreign Exchange Impact on Costs, Operating Expenses and Financial Expenses



While the Company's measurement currency is the Canadian dollar, its presentation currency is the US dollar. During the first quarter ended January 31, 2011, the US dollar traded at an average weighted exchange rate of \$0.9948 compared with \$0.9472 for the same quarter of 2010. This 5.03% change in the foreign exchange rate translated into a \$0.3 million increase in expenses denominated in Canadian dollars for the quarter ended January 31, 2011, compared to 2010. Fluctuations in European currencies, namely the euro (6.71%) and pound sterling (2.28%), had an insignificant impact, reducing costs, operating expenses and financial expenses by \$0.4 million and on the other end reducing revenues by 0,5 million\$ in 2011 compared with the quarter ended January 31, 2010.

## Operating Expenses

Operating expenses include:

- **Sales and marketing expenses** – which consist primarily of costs related to sales, marketing and product management activities, including salaries and commissions paid to our sales force, fees paid to sector consultants, commissions paid to commercial agent, and fees for shipping, advertising, telemarketing, trade shows and promotional items.
- **Research and development expenses** – consisting mainly of costs related to personnel and subcontractors for new product development, enhancement of existing products, quality assurance, documentation, and tools and equipment. Research and development expenses are reported net of applicable tax credits.
- **General and administrative expenses** – consisting primarily of costs related to general management, information technology, legal services, finance functions, human resources, legal and professional fees, insurance and other indirect corporate overhead.
- **Stock-based compensation expense** – consisting of the Company's contribution to share purchases under the Employee Share Purchase Plan ("ESPP"), the cost of stock-based awards to employees over the option vesting period, and the cost associated with deferred share units awarded quarterly to Company directors.
- **Restructuring charge** – consisting of non-recurring costs related to severance packages, external career transition costs and other costs related to workforce reduction.

## Operating Expenses

Exchange Rate Impact on Operating Expenses

(In thousands of dollars, except percentages)

	Quarters ended January 31,		
	2011	2010	Change
Sales and marketing expenses prior to FX impact	4,734	3,937	20.2%
FX impact	(89)		
<b>Sales and marketing expenses</b>	<b>4,645</b>	<b>3,937</b>	<b>18.0%</b>
Research and development expenses prior to FX impact	2,905	3,301	(12.0)%
FX impact	12		
<b>Research and development expenses</b>	<b>2,917</b>	<b>3,301</b>	<b>(11.6)%</b>
General and administrative expenses prior to FX impact	3,418	3,498	(2.3)%
FX impact	43		
<b>General and administrative expenses</b>	<b>3,461</b>	<b>3,498</b>	<b>(1.1)%</b>
Stock-based compensation expense prior to FX impact	29	83	(65.1)%
FX impact	1		
<b>Stock-based compensation expense</b>	<b>30</b>	<b>83</b>	<b>(63.9)%</b>
Operating expenses prior to FX impact	11,086	10,819	2.5%
FX impact	(33)		
<b>Operating expenses</b>	<b>11,053</b>	<b>10,819</b>	<b>2.2%</b>

Operating expenses for the first quarter ended January 31, 2011 were up 2.2% from the same period in 2010. Sales and marketing expenses grew 18%, among other things were driven by higher personnel costs following the suspension in February 2010 of temporary measures implemented in the previous year. This increase also resulted from higher commissions paid to distributors and the costs incurred by the Company as it started to take part once again in new trade fairs around the world. Following the restructuring of the different departments by management over the past year to improve customer service, research and development personnel were reduced, primarily in Europe, resulting in an 11.6% decrease in this expense for the first quarter of 2011 compared with the same period of 2010. General and administrative expenses decline by 1.1% during the quarter, compared with 2010, owing mainly attributable to the amortization in the first quarter of 2011.

Operating expenses amounted to \$11.1 million in the first quarter of 2011, up \$0.3 million from \$10.8 million in 2010. Salaries and employee benefits increased by an overall \$0.3 million in the first quarter of 2011, partly because the Company's cost reduction plan was still in effect in 2010. A substantial agreement entered with a Russian client in the first quarter of 2011 generated an additional \$0.1 million on agent commissions. Since the beginning of fiscal 2011, particularly in Europe, the sales and marketing department stepped up its participation in new trade shows, contributing to the increase in related costs and travel expenses in the amount of \$0.2 million, compared with 2010. In the first quarter of 2011, consulting and professional fees of \$0.1 million were account for the costs related to the shareholders' special meeting held in December 2010. Doubtful accounts decreased by \$0.1 million compared with the first quarter of 2010. The shutdown of a development office in France in 2010 generated savings of \$0.1 million in research and development expenses while higher tax credits in Canada gave rise to savings of \$0.1 million. Last, amortization of property and equipment and intangible assets decreased by \$0.1 million.

#### Non-recurring Expenses Included in General and Administrative Expenses

During the quarter ended January 31, 2011, a minority shareholder requested a special meeting of shareholders, which resulted in total costs of \$0.3 million. An amount of \$0.1 million related to this meeting held on December 21, 2010 was incurred during the first quarter of 2011. In January 2011, an out of court settlement of 0.1 million\$ related to our intellectual property was negotiate.

#### Financial Expenses

Financial expenses for the quarter ended January 31, 2011 amounted to \$0.3 million, down \$0.5 million from \$0.8 million for the same period of 2010. This fluctuation is in part due to the foreign exchange and foreign exchange contract losses realized in 2011 that were lesser by \$0.4 million to those in the same period of 2010. Also, the repayment of a significant portion of the Company's long-term debt generated savings of more than \$0.1 million in interest expense for the first quarter of 2011.

#### Income Taxes

The future income tax expense for the first quarter of 2011 decreased by \$0.2 million following adjustments to the income tax provision.

#### EBITDA

(In thousands of dollars, except percentages)	Quarters ended	
	January 31	
	2011	2010
Operating income (GAAP)	737	1,517
Non-recurring items	197	-
Amortization of property and equipment	274	354
Amortization of intangible assets	634	670
<b>EBITDA</b>	<b>1,842</b>	<b>2,541</b>
Margin (%)	11.2%	15.3%

For the first quarter ended January 31, 2011, EBITDA amounted to \$1.8 million or 11.2% of revenues compared with \$2.5 million or 15.3% in the same period of 2010. Unfavorable fluctuations in various currencies, particularly the US dollar, against the Canadian dollar had an impact of nearly 1.9% of revenues. Most of the various incentives implemented by the Company in 2010 to reduce operating costs came to an end starting in February 2010.

#### Human Resources

As January 31, 2011, the Company had 515 full- and part-time employees in the following countries and regions:

As at January 31	2011		2010	
	Number of employees	%	Number of employees	%
Canada	178	34.6	176	34.3
United States	84	16.3	85	16.6
United Kingdom	66	12.8	66	12.9
Germany	54	10.5	52	10.1
France	48	9.3	53	10.3
Other-Europe	7	1.4	14	2.7
Other-Worldwide	78	15.1	67	13.1
	<b>515</b>	<b>100</b>	<b>513</b>	<b>100</b>

## Liquidity

As at January 31, 2011, cash and cash equivalents totaled \$13.0 million compared with \$14.7 million as at October 31, 2010. The following table summarizes cash inflows and outflows for the quarters ended January 31, 2011 and 2010. Currently, there are no restrictions on the transfer of funds from subsidiaries to the Company.

(In thousands of dollars)	Quarters ended January 31		
	2011	2010	Change
Cash flows before changes in working capital	990	1,025	(35)
Changes in working capital	(1,338)	(2,110)	772
Cash flows used in operating activities	(348)	(1,085)	737
Cash flows used in investing activities	(238)	(224)	(14)
Cash flows from (used in) financing activities	(1,308)	14	(1,322)
FX impact on cash and cash equivalents	229	311	(82)
<b>Net decrease in cash and cash equivalents</b>	<b>(1,665)</b>	<b>(984)</b>	<b>(681)</b>

### Cash Flows used in Operating Activities

Cash flows used in operating activities for the quarter ended January 31, 2011 amounted to \$0.4 million compared with \$1.1 million for fiscal 2010. Working capital items decreased overall by \$0.7 million in 2011 compared with 2010. The increase in accounts payable and income taxes payable generated cash flows of \$0.5 million in 2011, whereas these items used cash flows of \$1.3 million in 2010. Higher receivables at the end of the first quarter combined with an increase in deferred revenues attributable to the important renewals of support contract at the beginning of the year required additional cash flows of \$0.6 million compared with the same period in 2010. Last, work in progress and prepaid expenses were stable in 2011 compared with \$0.4 million in cash flows used in 2010.

### Cash Flows used in Investing Activities

Cash flows used in investing activities over the first quarter of 2011 totaled \$0.2 million, relatively unchanged from 2010. Investing activities in 2011 and 2010 consisted solely of additions to property and equipment and intangible assets.

### Cash Flows from (used in) Financing Activities

Cash flows used in financing activities in the first quarter of 2011 totaled \$1.3 million, compared with a near nil amount of cash flows from financing activities in the first quarter of 2010. This change is attributable to repayments made on the long term debt in 2011 compared to 2010, while no additional disbursements under the government loan was received in 2011.

## Contractual Obligations

The Company has contractual obligations with various maturity dates. These obligations are mainly related to leases of office space, IT equipment and vehicle rentals for certain employees abroad. No significant changes in these obligations were recorded since the end of our fiscal year ended on October 31, 2010.

## Capital Resources

### Consolidated Balance Sheet Data

(In thousands of dollars)	Quarters ended January 31	
	2011	2010
Cash and cash equivalents	13,016	22,237
Working capital (including deferred revenues)	3,946	13,986
Total assets	116,060	120,279
Deferred revenues	17,919	17,745
Long-term debt (including current portion)	6,407	17,789
Total shareholders' equity	75,015	68,233

As at January 31, 2011, working capital decreased to \$3.9 million from \$14.0 million as at January 31, 2010, due to the following:

- \$9.2 million change in cash and cash equivalents, due to the repayment of a significant portion of long-term debt in the amount of \$11.4 million since January 2010;
- Transfer of a portion of the debt from long-term to current in January 2011 following the Company's intention to repay early a portion of the long term debt over the coming 12 months.
- \$1.1 million increase in deferred revenues in 2011 compared with 2010 combined with an increase of \$1.7 million of the account receivable
- \$1.8 million increase in account payable in 2011 compared with 2010.

It is our opinion that cash, investments and cash flows from operating activities will be sufficient to meet working capital requirements, contractual obligations, capital expenditures and corporate development program requirements for the foreseeable future. Further, the Company has authorized, undrawn bank credit facilities of \$15 million at its disposal for its current operating needs, subject to compliance with certain financial tests.

### Balance Sheet and Financial Position

Changes in balance sheet items as at January 31, 2011 compared with October 31, 2010 resulted principally from the fluctuations in the Canadian dollar against the US currency and increases in receivables and deferred revenues.

Accumulated other comprehensive income included in shareholders' equity rose \$1.2 million, due primarily to the increase in the value of net assets denominated in Canadian dollars on translation into US dollars for presentation purposes. The exchange rate used to translate balance sheet items from

the measurement currency, the Canadian dollar, to the presentation currency, the US dollar, was \$0.998 as at January 31, 2011 compared with \$0.982 as at October 31, 2010. The main items contributing to the increase are the translation of: (i) \$1.0 million in goodwill; (ii) \$0.4 million in accounts receivable; (iii) \$0.2 million in cash and cash equivalents; and (iv) \$0.1 million effect on tangible and intangible assets. These increases were partially offset by decreases of: (i) \$0.3 million in deferred revenues; (ii) \$0.2 million in accounts payable and income taxes payable.

### Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements comprise operating leases which are deemed to have been entered into in the normal course of business. The Company has no other off balance sheet arrangements and does not anticipate entering into any such arrangement other than in the normal course of business.

### Share Capital

The Company is authorized to issue an unlimited number of preferred shares without par value. Common shares are voting and participating. Preferred shares may be issued in one or more series with specific terms, privileges and restrictions to be determined for each class by the Board of Directors of the Company at the time such class is created.

#### Common Share Data

	Issued and outstanding as at	
	January 31, 2011	March 10, 2011
Common shares	18,921,792	18,921,792
Stock options	825,134	825,134
Warrants	102,459	102,459

The Company's ESPP came into effect on May 23, 2007. The purpose of this plan is to provide participants with an incentive to become shareholders of the Company. Under the ESPP, employees may contribute up to the lesser of 10% of their eligible compensation or C\$10,000 each year. The Company contributes one-third of each employee's contribution. All contributions are then remitted to the Administrative Agent who

purchases monthly, on behalf of the employees, common shares on the open market. The Company also assumes all transaction fees related to share purchase.

Stock-based compensation expense for the first quarter of 2011 amounted to \$10,850 (nil in 2010).

### Related Party Transactions

Consulting fees in the amount of \$75,000 were incurred with respect to Desjardins Securities, a shareholder of the Company, during the quarter ended January 31, 2011. These transactions were in the normal course of business and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 6. Comparative Quarterly Financial Data

The following quarterly information is presented on the same basis as the audited and unaudited consolidated financial statements and all necessary adjustments have been included in the following amounts to fairly present the unaudited quarterly results which should be read in conjunction with our audited consolidated financial statements and the accompanying notes. Quarterly operating results are not necessarily representative of future period results.

Certain factors give rise to quarterly variances which may not be reflective of the Company's future performance, such as:

- Seasonality and quarterly performance are affected by events such as vacations, major trade shows and the number of statutory holidays in a given quarter.
- The workflow from certain clients may vary from quarter to quarter based on their business cycles and the seasonality of their own operations.
- The foreign exchange impact factors into changes from quarter to quarter, and this variability is likely to increase as the percentage of revenues and monetary assets denominated in foreign currencies increases.
- Cash flows related to operating activities may vary significantly from quarter to quarter due to the timing of monthly payments from large clients, cash requirements for major acquisitions and outsourcing contracts, and the timing of various refundable tax credits.

## Comparative Quarterly Financial Data

(In thousands of dollars, except per share data)

(Unaudited)	2011	2010				2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	16,477	16,668	14,806	17,155	16,604	16,181	16,148	15,158
Profitability								
Gross margin	11,790	12,073	10,833	12,913	12,336	12,149	11,969	11,343
Gross margin (%)	71.6%	72.4%	73.2%	75.3%	74.3%	75.1%	74.1%	74.8%
EBITDA <sup>1,2</sup>	1,842	1,823	1,410	2,730	2,541	2,426	2,050	2,318
EBITDA (%)	11.2%	10.9%	9.5%	15.9%	15.3%	15.0%	12.7%	15.3%
Net earnings	393	714	840	273	462	735	1,045	621
Net earnings (%)	2.4%	4.3%	5.7%	1.6%	2.8%	4.5%	6.5%	4.1%
Earnings per share <sup>3</sup>								
Basic and diluted earnings per share	\$0.02	\$0.04	\$0.04	\$0.01	\$0.02	\$0.04	\$0.06	\$0.03
Balance sheet								
Total assets	116,060	110,906	115,797	121,256	120,279	117,236	109,395	101,464
Total long-term liabilities	6,669	7,822	14,238	16,396	18,116	18,012	11,302	11,250

(1) EBITDA is a non-GAAP measure for which we provide reconciliation on page 24 .

(2) For the year ended October 31, 2009, adjustments to the restructuring provision initially recorded in general and administrative expenses were reclassified, thereby removing them from the calculation of quarterly EBITDA.

(3) See Note 7 to the unaudited interim consolidated financial statements for further details regarding the calculation of basic and diluted earnings per share.

## 7. Responsibilities, Controls and Accounting Policies

### Management's Responsibility for Financial Reporting

The unaudited interim consolidated financial statements and MD&A of 20-20 Technologies Inc. and all other information in this MD&A are the responsibility of management and have been reviewed and approved by its Board of Directors.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with securities regulatory requirements. The unaudited interim consolidated financial statements and MD&A include amounts that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such amounts on a reasonable basis to ensure that the interim financial statements and MD&A are presented fairly in all material respects.

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Company has been made known to them and has been properly disclosed in the unaudited interim consolidated financial statements and MD&A. In compliance with National Instrument 52-109, the Company's Chief Executive Officer and Chief Financial Officer have provided to the Canadian Securities Administrators a certification related to the Company's annual disclosure documents, including the unaudited interim consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and

is ultimately responsible for reviewing and approving the unaudited interim consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors. The Audit Committee meets periodically with management and the external auditors to review the audited and unaudited consolidated financial statements, the MD&A, auditing matters and financial reporting issues to discuss internal controls over financial reporting and satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the audited and unaudited consolidated financial statements prepared by management and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

This MD&A and the unaudited interim consolidated financial statements were reviewed by the Company's Audit Committee on March 10, 2011 and approved by 20-20's Board of Directors on March 15, 2011.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

As presented in our annual report for the year ended October 31, 2010, the Company evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting, under the supervision and with the involvement of the CEO and CFO, as at that date. The CEO and CFO concluded, based on this evaluation, that disclosure controls and procedures and internal control over financial reporting were effective and appropriate and provided reasonable assurance that material information related to the Company and its consolidated subsidiaries would be made known to them by other individuals in those entities.

During the quarter ended January 31, 2011, the Company has made no change that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

## Critical Accounting Estimates

The Company's significant accounting policies are described in Note 2 to the October 31, 2010 audited annual consolidated financial statements. The preparation of the consolidated financial statements under GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could reasonably have been used in the period, or changes in the accounting estimates that are reasonably likely to occur, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

Areas impacted by estimates	Consolidated balance sheets	Consolidated statements of earnings			
		Revenues	Cost of revenues and operating expenses	Amortization and impairment	Income taxes
Goodwill	X			X	
Income taxes	X				X
Contingencies and other liabilities	X		X		
Revenue recognition	X (a)	X			
Stock-based compensation	X		X		
Investment tax credits and other government programs	X		X		
Impairment of long-lived assets	X			X	

(a) Includes accounts receivable, contracts in progress and deferred revenue

**Goodwill** – Goodwill is tested for impairment at least annually or when events or changes in circumstances exist such that the carrying amount may not be recoverable. Impairment testing requires a comparison of the fair value of the reporting unit to its carrying amount. The Company considers that it carries out its operations through a single reporting unit. Accordingly, the estimate of fair value of the reporting unit is based on a discounted cash flow analysis using management approved key assumptions such as future cash flows, growth forecasts, terminal values, discount rates and industry data. Any change in the estimates used could have a material impact on the calculation of fair value and the resulting impairment charge. Significant changes in the estimates and assumptions used in goodwill impairment testing will not impact cash flows generated from the Company's operations.

**Income taxes** – The Company measures income tax assets and liabilities, both current and future, according to enacted or substantively enacted income tax legislation that is expected to apply when the asset is realized or the liability settled. The applicable income tax legislation and regulations are subject to the Company's interpretation. An assessment of the ultimate

realization of the future income taxes generated from temporary differences between the carrying amount and the tax value of assets and liabilities as well as tax losses carried forward is performed regularly. To determine whether it is more likely than not a future tax asset will be realized, the Company must estimate its future taxable income. The ultimate amount of future income taxes and income tax provisions could be materially different from those recorded, as it is influenced by the Company's future operating results and its interpretations of tax laws.

**Contingencies and other liabilities** – The Company accrues for costs incurred to restructure and for other liabilities requiring significant judgment. Contingencies for pending or threatened litigation, guarantees and other possible liabilities involve uncertainty as to possible gain or loss to the Company that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the reduction of a liability or the occurrence of a liability. The accrued liabilities are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances.

**Revenue recognition** – The major part of our revenues is recognized using criteria that do not require us to make significant estimates. However, the Company provides services containing other pricing mechanisms such as fixed-price arrangements under the percentage-of-completion method. The percentage-of-completion method requires estimates of costs and profits over the entire term of the arrangement, including estimates of resources and costs necessary to complete performance. Further, if total costs from a contract are more likely than not to exceed the total revenue from the contract, then a provision for the probable loss is made in the period in which the loss first becomes evident. Revenues from professional services are recognized only to the extent they can be predicted, with reasonable certainty, that the benefit stream will generate amounts sufficient to fund the value on which revenue recognition is based. Another assessment, related to a contract which involves the provision of multiple-service elements, is to determine whether the total estimated contract revenue that is allocated to each element is based on the relative fair value, internal estimates or vendor specific objective evidence of each element. Revenues are then recognized for each element as for single-element contracts.

Management regularly reviews arrangement profitability and the underlying estimates. Estimates of total revenue at the start of the contract may differ materially from actual revenue generated due to volume variations, changes in technology and other factors which may not be foreseen at inception.

**Stock-based compensation** – The Company accounts for its stock option plan in accordance with *CICA Handbook* Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Pursuant to the recommendations of this section, the Company has elected to use the Black-Scholes valuation model to value the options granted as part of its share-based payment transactions. The variables in the model include, but are not limited to: the expected stock price volatility over the term of the awards, expected forfeitures, the expected life of the options and the risk-free interest rate.

In addition, the Company has a Deferred Share Unit (DSU) plan under which, at the end of each quarter, an amount of DSUs equal to the number of shares purchased on the open market for a dollar amount equal to the elected deferral amount is credited to an account the Company will maintain for each director. The account balance is remeasured monthly using the share value on the open market. Different assumptions and changes in circumstances could cause material differences in our results of operations.

**Investment tax credits and other government programs** – The Company receives refundable tax credits on salaries and tax credits on research and software development costs, which meet the criteria of investment tax credits and government programs. The Company is subject to annual audits to verify the amount for which it is entitled and whether it operates eligible activities under the terms of various government tax credit programs. The Company periodically assesses eligibility of expenses for tax credits and the conformity of its operations with the criteria set by government programs.

**Impairment of long-lived assets** – The Company tests the recoverability of long-lived assets, such as intangibles and property and equipment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For software licenses and client relationships, estimates and assumptions include determining the appropriate period over which to amortize the capitalized costs based on the estimated useful lives and estimating the related future cash flows, and assessing these against the unamortized balances. For internal-use software and property and equipment, the appropriate amortization period is based on estimates of the Company's ability to utilize these assets on an ongoing basis. To assess the recoverability of capitalized software costs, the Company must estimate future revenues, costs and future cash inflows and outflows. Changes in the estimates and assumptions used in long-lived assets impairment testing will not impact the cash flows generated by the Company's operations.

### Future Accounting Changes

The CICA has issued the following new *Handbook* sections which have not yet been implemented by the Company:

- (a) Section 1582, *Business Combinations*, which replaces Section 1581, *Business Combinations*, is effective for periods beginning on or after January 1, 2011. The section sets out accounting standards for business combinations. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The Company will apply this section prospectively to business combinations for which the acquisition date is November 1, 2011 or a later date.
- (b) Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which together replace Section 1600, *Consolidated Financial Statements*, are effective for periods beginning on or after January 1, 2011. Section 1601 established standards for the preparation of consolidated financial statements. Section 1602 sets out standards for recording non-controlling interests in subsidiaries in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard IAS 27, *Consolidated and Separate Financial Statements*. The Company will apply these sections to interim and annual consolidated financial statements relating to fiscal years beginning on November 1, 2011.

In December 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Emerging Issue Committee abstract 175, *Revenue Arrangements with Multiple Deliverables*, an amendment to EIC-142, *Revenue Arrangements with Multiple Deliverables* ("EIC-175"). EIC-175 provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating activities. Under the new guidance, when vendor-specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. EIC-175 also includes new disclosure requirements on how the application of the relative selling price method affects

the timing and amount of revenue recognition. EIC-175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on January 1, 2011.

### IFRS Conversion

The Canadian Accounting Standards Board has confirmed that Canadian publicly accountable enterprises will be required to use International Financial Reporting Standards (IFRS) in the preparation of their financial statements for fiscal years beginning on or after January 1, 2011. Accordingly, the Company is required to prepare its financial statements according to IFRS for the quarter ending on January 31, 2012.

The Company has drawn up an IFRS conversion plan with several phases:

Diagnostic	In-depth analysis of differences between GAAP and IFRS, and identifying the main differences that could impact the Company.
Detailed impact assessment	Review of the various options for IFRS adoption and for making detailed impact assessments of the differences. Documenting and assessing accounting policy choices, new disclosures, and quantitative impact evaluations, if applicable.
Design and planning	Accounting policy choices. Assessing the impacts on the Company's information systems and internal controls.
Developing solutions and implementation	Implementation plan and developing solutions for implementing the conversion plan.

Quarterly updates of the conversion project status are provided to the Audit Committee. With the assistance of external consultants, we have completed the first phase—Diagnostic—and have identified the main differences between GAAP and IFRS that could have an impact.

During the second phase, which is substantially completed, we determined the impacts of the differences between Canadian GAAP and IFRS. We are currently completing documentation of the rationale for accounting policy choices, new disclosure requirements, authoritative literature supporting these choices, and quantitative impact assessments, where applicable.

We will now assess the impacts on other key aspects of the conversion, namely changes to our information systems, training requirements, and impacts on the Company's business activities. In addition, once the accounting policy decisions are made, the Company will be required to make the necessary changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures.

The remaining two phases will be implemented as choices are made under phase two. Where we identified material system impacts associated with an accounting policy choice, we began assessing strategies to resolve the design and implementation issues. The working team successfully implemented and made the necessary changes to the information systems for the

preparation of the opening balance sheet as at November 1, 2010.

Set out below are selected key areas of accounting differences where changes in accounting policies on conversion to IFRS may impact the Company's consolidated financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS, but rather highlights those areas of accounting differences the Company currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. At this stage, the Company is not able to reliably quantify the full impact of these and other differences have on the Company's consolidated financial statements. The Company expects to complete the quantification of these selected key areas in the last quarter of 2011.

#### Revenue (IAS 18)

The applicable revenue recognition standards under IFRS are of particular significance to the Company's financial reporting. While there appears to be a consensus that the revenue recognition standards are similar to those to be used by the Company, management has yet to complete its analysis of the matter.

#### Impairment of Assets (IAS 36)

Canadian GAAP impairment testing involves two steps, the first of which compares the long-lived asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to estimated fair value. IAS 36, *Impairment of Assets*, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying amount of the reporting unit(s) to which it is allocated, including the allocated goodwill, to the fair value of the reporting unit(s). If the fair value is less than the carrying amount of the reporting unit(s), then an impairment loss is calculated. The impairment loss is measured as the difference between the implied fair value of the goodwill and its carrying amount. The implied fair value of the goodwill is determined based on the value that would be ascribed to goodwill if the reporting unit(s) were acquired in a business combination. Under IFRS, goodwill is allocated to the Company's cash generating units (CGUs) and is always tested for impairment at the level of a CGU or groups of CGUs. An impairment loss is recognized if a CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use, which is based on the net present value of future cash flows. The impairment loss equals the amount of this excess.

The Company is currently analyzing its operations to determine the cash generating units to be used for the purpose of

impairment testing. It is designing models to be for the purposes of impairment testing to be carried out on the date of transition to IFRS.

#### Property and Equipment

We have assessed IFRS against current GAAP and have not identified any major impact to our financial statements outside of additional disclosure. We do not expect any modifications to the groupings of our major assets. Management will continue to use historical cost as its measurement basis, and indicators of impairment will be assessed if there are triggering events.

#### Leases

We do not see a material impact to our financial statements outside of enhanced disclosure. Unlike GAAP today, when classifying capital leases (or “finance leases”) under IFRS, management must apply more judgment due to the lack of quantitative thresholds. IFRS include additional qualitative indicators that assist in determining lease classification. After our review during the detailed assessment phase, we concluded that we had no specific classification issues. When quantifying the value of a finance lease, IFRS require the use of the interest rate implicit in the lease. This differs from current GAAP in that the rate to use is the lower of the incremental borrowing rate and the implicit rate of the lease. Any adjustment to our opening balance sheet on transition is expected to be immaterial.

#### Financial Instruments

We do not foresee any material impact in terms of recognition and disclosure. There are certain differences between current GAAP and IFRS for the definition of the classification of financial assets and financial liabilities and in regards of transaction cost related to financial instrument. Under IFRS the cost of transaction related to the financial instrument should be added to the financial assets or reduced the financial liabilities. These differences could have an impact on the Company's present classification and on the value of the financial assets and liabilities under current GAAP.

#### Consolidation

We have not identified any material impact to our financial statements. Group entities apply the same accounting policies and reporting periods as the parent company. The Company intends to apply the optional IFRS exemption to not restate business acquisitions that occurred prior to the transition.

#### Foreign Exchange Translation

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires a business unit to determine its functional currency in accordance with the standard and translate all foreign currency items into its functional currency. Canadian GAAP, on the other hand, require a company to classify each foreign operation as integrated or self-sustaining operations. The Company then translates the financial statements using the temporal method for integrated operations and the current rate method for self-sustaining operations.

While similar to those under Canadian GAAP, the indicators used in determining the functional currency of a foreign operation under IAS 21 are based on a hierarchy of criteria used in analyzing the transactions carried out in the primary economic

environment of that operation. Currently under Canadian GAAP, management has determined that all group subsidiaries use the Canadian dollar as their functional currency. Management's preliminary analysis indicates that under IFRS, several foreign subsidiaries will change their functional currency to their local currency. Management is currently in the process of assessing the monetary impact of this change. Note that the presentation currency of the consolidated financial statements will remain the US dollar.

Accordingly, exchange gains and losses on translation into the presentation currency of foreign operations with a functional currency other than the functional currency of the parent company will be recognized as a currency translation adjustment through accumulated other comprehensive income in the statement of shareholders' equity.

IFRS 1 allows a first-time adopter on its day of transition to record its foreign currency translation adjustment (“CTA”) from all its foreign operations to retained earnings and reset the CTA balance to nil. The Company elected to adopt this choice.

#### Provisions

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. “Probable”, in this context, means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is “likely,” which is a higher threshold than “probable.” Therefore, it is possible that there may be some provisions or contingent liabilities that would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS use the mid-point of the range, whereas Canadian GAAP use the low-end of the range), and the requirement under IFRS for provisions to be discounted where material. At this point, management has not identified provisions or contingent liabilities that would meet the recognition criteria under IFRS that did not meet the criteria under Canadian GAAP.

#### Share-based Payment

With respect to compensation costs for stock options, IFRS require the use of the graded vesting method for grants with vesting periods greater than one year. Under IFRS, for grants of options exercisable in tranches, each tranche must be treated as a separate grant with a different market value. The Company will need to retroactively apply IFRS to any unvested grant options on transition. As with other sections, we will also expand our disclosure to meet IFRS standards.

#### Government Grants

No accounting impact is expected under IFRS for government grants as IAS 20 permits substantially the same accounting treatment as current GAAP. As a result, the Company will not have any additional disclosure requirements.

### Other

A number of other areas of IFRS will impact the Company as well, albeit to a lesser extent. Other differences between the Company's current accounting policies and IFRS and IFRS accounting policy choices have been identified and are expected to be resolved in the last quarter of 2011, but these are not currently expected to have a significant impact on the Company's financial statements.

### Presentation of Financial Statements (IAS 1)

A number of financial statement presentation differences exist between IFRS and Canadian GAAP, including, but not limited to, the classification of the statement of earnings by nature or function. The Company will address these presentation differences as it prepares its draft IFRS financial statements throughout 2011. The Company has made significant progress in the preparation of its draft IFRS financial statements and related note disclosures to reflect the revised presentation and disclosure requirements under IFRS. The Company expects to complete the draft financial statements during the last quarter of 2011.

### Information Technology and Data Systems

To date, the Company has not identified any material system impact as it converts to IFRS.

### Internal Control over Financial Reporting

The Company has concluded that internal controls applicable to its reporting processes under current GAAP are fundamentally the same as those required in its IFRS reporting environment. During fiscal 2011, ICFR will be appropriately addressed by our team as processes and system assessments are finalized.

### Disclosure Controls and Procedures

During the current phase, the Company will be designing appropriate controls and procedures to ensure additional information can be gathered and reported on. As communicated earlier, our financial statement note disclosures will be expanded. The working team is also producing a draft of our first set of interim financial statements under IFRS. Documentation will be substantially amended, including accounting policy disclosures.

We will continue to provide information on all changes made to ensure readers are kept up to date. Furthermore, the information to follow is a high level summary of the major impacts of IFRS conversion.

## **8. Risks and Uncertainties**

Management is confident regarding the Company's long-term prospects, but the Company must take into account the risks and uncertainties described below, which could have an impact on its capacity to achieve its growth objectives. The following factors should be taken into consideration when assessing the Company's future prospects as an investment.

### **Economic Risks**

Current economic conditions – An economic slowdown could cause demand for our products to decline. Growth in our clients' businesses is affected by the economic environment and could therefore have an impact on the Company's operating results.

We can neither predict the impact current economic conditions will have on our future results, nor predict when the economy will show meaningful improvement. During this period of economic instability, our existing and potential clients might reduce or delay purchases or projects or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower sales and contracts during an economic slowdown, competition increases and prices might be reduced by certain competitors to maintain or expand their market share. Our pricing and profitability could be adversely affected as a result of such factors.

Foreign exchange risk – A substantial portion of our revenues are earned in US dollars while a substantial portion of our operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on our business, financial position and operating results. With respect to other currencies such as the euro and the pound sterling, however, we have a natural hedge since most revenues and expenses are incurred in the same currency. Our policy is to hedge a portion of our foreign exchange exposure to minimize the impact of adverse foreign exchange movements. However, we do not entirely hedge exposure to foreign currencies. In addition, the use of forward contracts to hedge our foreign exchange exposure carries risk and could limit our gains, or result in a loss.

In addition to the exposure identified above which affects operating income due to variations in operating expenses and cost of sales denominated in Canadian dollars, the Company is exposed to unrealized exchange gains and losses with respect to the translation of monetary assets and liabilities held in currencies other than the Canadian dollar. For the Canadian dollar, our measurement currency, the largest exposure is with respect to the US dollar.

Capacity to attract and retain personnel – To ensure success for the Company, management and key technical personnel must have sound knowledge of products, the industry, clients and the market. Against the current economic background, the Company must be able to retain its key personnel and attract new employees for continued growth. Personnel are currently spread across the world according to the products and markets. With such decentralization of human capital, the Company can better manage its growth and reduce the risk of exposure to a single market. The IT labour market is highly competitive and we may not be able to hire and retain the employees we need and, as a result, the Company may have to resort to subcontractors, which would have an impact on our operating margins.

International activities – We currently conduct operations in Canada, the United States, Europe, Latin America, Asia, Africa and Middle East. We intend to continue to expand our international operations and to increase the proportion of our revenues from outside North America. These operations require significant management attention and financial resources while subjecting us to risks inherent in doing business internationally. Our failure to properly comply or address any of the above factors could greatly mitigate the success of our international

operations and have a material adverse effect on our operating performance and financial condition.

**Transfer pricing risk** – We conduct business operations through subsidiaries in various jurisdictions. Certain of these subsidiaries provide products and services to, and may from time to time undertake certain significant transactions with, other of our subsidiaries in different jurisdictions. Our method for determining transfer pricing is well-documented and supported. Our future earnings and cash may be adversely affected if any of the taxation authorities in these various jurisdictions were successful in challenging our documentation and transfer pricing policies.

**New economy centre tax credit program** – The new economy centre (“CNE”) program offers tax incentives to companies that conduct their business activities in CNE-designated buildings in Québec. As a result of the June 12, 2003 Québec budget, the credit would be eliminated in the event of an acquisition of control of the Company. There can be no guarantee that we will continue to meet the eligibility criteria or that the CNE program will not be amended or cancelled in the future.

**Other tax issues** – Although we are of the view that all expenses and tax credits claimed by the Company, including research and development expenses and tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If Canadian taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected. We may, directly or indirectly, through our subsidiaries, be subject to taxes with respect to our operations in foreign jurisdictions. Although we are of the view that the liability with respect to such foreign taxes has been provided for in our books and financial statements, our future income and cash may be adversely affected if taxation authorities were successful in challenging our liabilities for such foreign taxes.

## Business Risks

**Sales and implementation cycle** – Typically, the larger the potential sale, the more time, money and other resources will be invested. As a result, it may take an extended period of time after our first contact with a customer before a sale can actually be completed. We may invest significant sales and other resources in a potential customer that may not generate revenues for a substantial period of time, if at all. During these lengthening sales and implementation cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled. If these events were to occur, sales of certain of our new enterprise solutions or services may be adversely affected, which would reduce our operating revenues.

**Competitive environment** – The Company currently faces competition from software providers in both the computer-aided design (CAD) and enterprise resource planning (ERP) markets. The interior design software industry is highly fragmented and comprised generally of point-of-sale solutions (as opposed to full solutions) software providers that address specific aspects of design software or software providers that have limited geographic coverage. Accordingly, none of the Company's

competitors competes in all of its product and geographic markets. Generally, competitors can be described as follows:

- CAD software: Competitors include smaller, mostly privately owned, companies whose products generally have limited functionality when compared with those of the Company, are principally focused on specific aspects of design software, and compete generally in some but not all of our geographic markets.
- ERP software: As the Company increases the penetration of its ERP solution, it also faces competition from ERP software vendors, such as SAP, Lawson and Oracle, which generally offer less targeted design, specification, photo-realistic rendering or 3D visualization capabilities. In addition, 20-20 also faces competition from ERP software vendors targeting the window and door and cabinet maker markets.
- Large software providers typically prefer to form alliances with specialized software providers offering a focused solution, such as ours, than to devote resources to developing and marketing their own specialized products.
- As our software solutions expand, potential competitors may have significantly greater resources than ours, and we may therefore be at a disadvantage when competing against them. They may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Any of these factors could materially impair our ability to compete and have a material adverse effect on our operating performance and financial position.

**Capacity to adapt our business model** – Customer behavior in response to market conditions and/or industry and technology trends might change their buying and contractual habits such as renting software as opposed to buying. Any such change could impact our business model and practices which could have a material adverse effect on our operating performance and financial position.

**Capacity to integrate new technologies following acquisitions** – The different acquisitions made in the past three fiscal years enabled us to add new technologies that must be integrated into our current software platforms and to market new solutions. Management has to implement processes and systems to evaluate technologies in all business units in order to prioritize the development of certain integrated software solutions. The integration of new businesses may cause unexpected operational problems and expenditures. In addition, as management is obliged to devote much time, attention and resources to the integration of these operations, we might not be able to maintain our usual quality of products offered to established clients and as a result, our revenues and operating results could be adversely affected.

**Capacity to capitalize on new software solutions** – The addition of new software solutions also gives rise to risks. There may be little demand for our new solutions, and they may not be broadly accepted by the market. If we do not derive any benefit from our efforts to market our new solutions, our operating results could be adversely affected.

Capacity to improve our software offering – We do our best to remain the leader in our industry. To do so, we have to develop new products or enhance and improve our existing software platforms, and position and price our products to meet market demand. We have to continually invest in accelerating product introductions and shortening product life cycles, which requires ongoing expenditures for research and development. Furthermore, any new products we develop could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenues. Our competitors are alert and if we are unable to continue product development and marketing, our operating revenue and margins could be affected.

Capacity to manage strategic alliances, partnerships and distributor relationships that will contribute to future growth – We may be unable to (i) retain distributor relationships under acceptable business terms; (ii) partner with parties that are suitable for driving future growth; or (iii) complete required agreements on a timely basis. Furthermore, identifying alliances and partnerships and concluding such agreements, could divert management's attention and financial resources which may negatively affect our operating results.

Capacity to protect our intellectual property – We rely on various intellectual property protections, including contractual provisions, copyright, trademark and trade secret laws, to preserve our intellectual property rights. To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of our management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenues, financial position and results of operations.

We cannot determine with certainty whether any existing third-party trademarks or patents or the issuance of any third-party trademarks or patents would require us to alter our names or our technology, obtain licenses or cease certain activities. We may become subject to claims by third parties that we infringe their property rights due to the growth of software products in our target markets, the overlap in functionality of these products and the prevalence of software products. Litigation may be necessary to determine the scope, enforceability and validity of such third-party proprietary rights or to establish our proprietary rights. Regardless of their merit, any such claims could result in substantial expenses, divert the

attention of our management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenues, financial position and results of operations.

Bugs in our products could result in significant costs and hurt sales – Our products are complex and, accordingly, they may contain errors or "bugs" that may be detected at any point in the product life cycle. Errors in our products could materially and adversely affect our reputation, result in significant costs to us, delay planned release dates and impair our ability to sell our products in the future.

Risk of legal proceedings – In the normal course of business, the Company may be subject to lawsuits, claims and litigation for amounts not covered by our liability insurance. Some of these proceedings may result in significant costs. Although the outcome of such proceedings is not predictable with assurance, the Company has no reason to believe that the disposition of such matters could have a significant impact on its financial position, operating results or ability to carry on its business activities. As at January 31, 2011, no significant claims or litigation have been brought against the Company,

Capacity to identify and complete strategic acquisitions that will contribute to future growth – We may be unable to (i) identify suitable acquisition targets available for sale at reasonable prices; (ii) properly evaluate the fair value of target businesses; or (iii) complete an acquisition in a given timeframe. In addition, if we proceed with acquisitions, available cash may be used to complete such transactions, diminishing our liquidity and capital resources or shares may be issued which could cause significant dilution to existing shareholders. Furthermore, identifying acquisitions and the completion of acquisitions *per se*, could divert management's attention and financial resources, which may negatively affect our operating results.

Capacity to maintain rights to use third-party software – We license certain technologies used in our products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could delay our ability to ship our products while we seek to implement alternative technology offered by other sources, and require significant unplanned investments on our part. In addition, alternative technology may not be available on commercially reasonable terms.