



Management's Discussion and Analysis

Third quarter ended July 31, 2011

September 12, 2011

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Management's Responsibility for Financial Reporting

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 consists entirely of independent and financially literate directors.

This MD&A was reviewed by the Company's Audit Committee and approved by 20-20's Board of Directors on September 12, 2011.

Unless otherwise noted or the context otherwise indicates, "20-20 Technologies," "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 the third quarter and the nine months ended July 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

This MD&A, dated September 12, 2011, is a discussion of the consolidated financial results and position of 20-20 Technologies Inc. (“20-20” or the “Company”) for the third quarter and nine months ended July 31, 2011. The discussion should be read in conjunction with the selected consolidated financial information shown in this MD&A, 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 as well as from the Company’s website at 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 MD&A 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 information on these risks and uncertainties, please refer to our most recently filed Annual Information Form, which is available at www.sedar.com. Forward-looking information contained in this MD&A 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 third quarters and the nine months ended July 31, 2011 and 2010, this MD&A also discusses certain significant events that occurred between the end of the Quarter and September 12, 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 up 17.6%	↑ EBITDA ⁽¹⁾ of \$1.6 million or 9.4% of revenues	↓ Net earnings of \$0.4 million (2.3%) or \$0.02 per share
<p>Revenues</p>	<p>EBITDA⁽¹⁾</p>	<p>Net earnings</p>
<p>For the third quarter ended July 31, 2011, revenues amounted to \$17.4 million, up \$2.6 million (17.6%) from \$14.8 million for the same period last year. In constant dollars, revenues growth would have amounted to \$1.7 million (11.7%).</p>	<p>EBITDA for the third quarter totaled \$1.6 million (9.4%), up 15.8% from \$1.4 million (9.5%) year over year. In constant dollars, EBITDA would have totaled \$1.9 million (10.8%).</p>	<p>Net earnings for the third quarter of 2011 totaled \$0.4 million (\$0.02 per share) compared with \$0.8 million (\$0.04 per share) for the corresponding period of 2010. The foreign exchange effect curbed nearly \$0.2 million from net earnings in constant dollars.</p>
<p>(1) EBITDA is a non-GAAP measure for which we provide reconciliation on page 14.</p>		

Selected Consolidated Financial Information

The selected consolidated financial information set out below for the three and nine months ended July 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)	Quarters ended July 31, (Unaudited)		Nine months ended July 31, (Unaudited)	
	2011	2010	2011	2010
Revenues	17,409	14,806	50,836	48,565
Profitability				
Gross margin	12,571	10,833	36,754	36,083
Gross margin (%)	72.2%	73.2%	72.3%	74.3%
EBITDA ⁽¹⁾	1,632	1,410	5,142	6,682
EBITDA (%)	9.4%	9.5%	10.1%	13.8%
Net earnings	403	840	1,033	1,575
Net earnings (%)	2.3%	5.7%	2.0%	3.2%
Earnings per share ⁽²⁾				
Basic and diluted earnings per share	\$0.02	\$0.04	\$0.05	\$0.08
Balance sheet				
Total assets	115,469	115,797	115,469	115,797
Total long-term liabilities ⁽³⁾	5,274	14,238	5,274	14,238

(1) EBITDA is a non-GAAP measure for which we provide reconciliation on page 14.

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

(3) Including the current portion of long-term debt and excluding future income taxes and non-controlling interest.

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, Africa, the Middle East and Asia Pacific.

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 educational 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 third quarter of 2011, despite turbulent financial markets, North American market conditions in our Home and Office sectors were stable. In our Retail and Manufacturing sectors, large corporations were more active than smaller businesses in shopping for marketing support solutions, but continue to make cautious and selective investments. This results in slower decision-making and requires greater sale effort from the Company. Investments by independent retailers and small manufacturers are still low owing to sales that are still well below historical levels.

Overall European market conditions in our Home sector are also stable and remain more favorable than in North America. Northern and eastern markets are generally more favorable, while southern Europe remains a challenge, amid widespread uncertainty in a number of sagging economies related to debt levels in some countries. Nonetheless, as in North America, major retailers and manufacturers are increasingly investing in

our Web and sales support solutions and even more so in our manufacturing automation solutions. Our international operations continue to expand, particularly in higher growth countries, led by China where we continue to make inroads, notably in the Manufacturing sector in the new closet product market. In all of our markets, the pace of recovery is relatively slow, especially for independent dealers.

Existing Business and Growth Strategy

We continue to grow with our comprehensive solution in the Home sector in Europe and Asia for kitchens and closets. We continue to improve and develop our marketing and sales initiatives, while maintaining stringent spending controls. In the Americas, we continue to actively market 20-20 and partner solutions to new prospects, while promoting complementary marketing, sales and management support solutions to existing customers. We have seen growing interest in the latest versions of our desktop design and Web-based solutions. Furthermore, we remain confident that our revenues will continue to grow from quarter to quarter, with some exposure, naturally, to seasonal factors.

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.

Given that 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 Company has adopted the US dollar as its presentation currency.

Fluctuations in the Canadian dollar against its US counterpart can have a significant impact on net earnings, as revenues in North America are essentially in US dollars while a major portion of expenses are incurred in Canadian currency. European currencies affect earnings to a lesser extent, as only earnings are exposed to fluctuations.

The third quarter saw significant fluctuations in our main currencies: the US dollar, the Canadian dollar, the euro and the pound sterling.

The following closing rates were used to measure our US dollar assets and liabilities as at July 31.

As at July 31,			
Closing rate	2011	2010	Change 2011/2010
C\$	1.0484	0.9718	7.9%
Euro	1.4387	1.3068	10.1%
Pound sterling	1.6454	1.5713	4.7%

The following average rates were used to measure our US dollar revenues and expenses.

Quarters ended July 31,			
Average rate	2011	2010	Change 2011/2010
C\$	1.0343	0.9668	7.0%
Euro	1.4355	1.3049	10.0%
Pound sterling	1.6230	1.5125	7.3%

Nine months ended July 31,			
Average rate	2011	2010	Change 2011/2010
C\$	1.0179	0.9603	6.0%
Euro	1.3911	1.3582	2.4%
Pound sterling	1.6083	1.5544	3.5%

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 at a time 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 an annual, quarterly or monthly 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 agreements are generally for terms of twelve months and are renewable at the customer’s option.

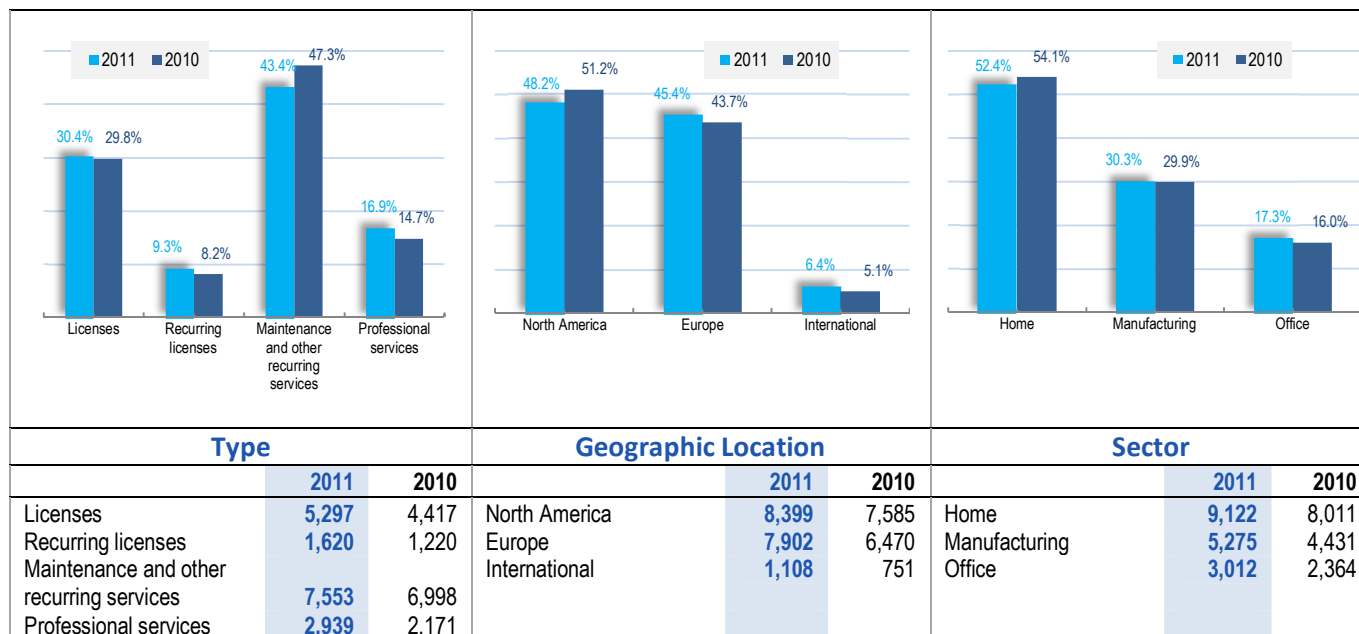
Professional services – Revenues from professional services include revenues derived from training, electronic catalog creation and management, and integration services such as consulting, application integration and hardware resale.

Revenue Distribution

At the October 31, 2010 fiscal year-end, management reviewed the classification by sector of its various software solutions, giving rise to changes in revenue distribution between the Home and Manufacturing sectors. We therefore amended the comparative data accordingly.

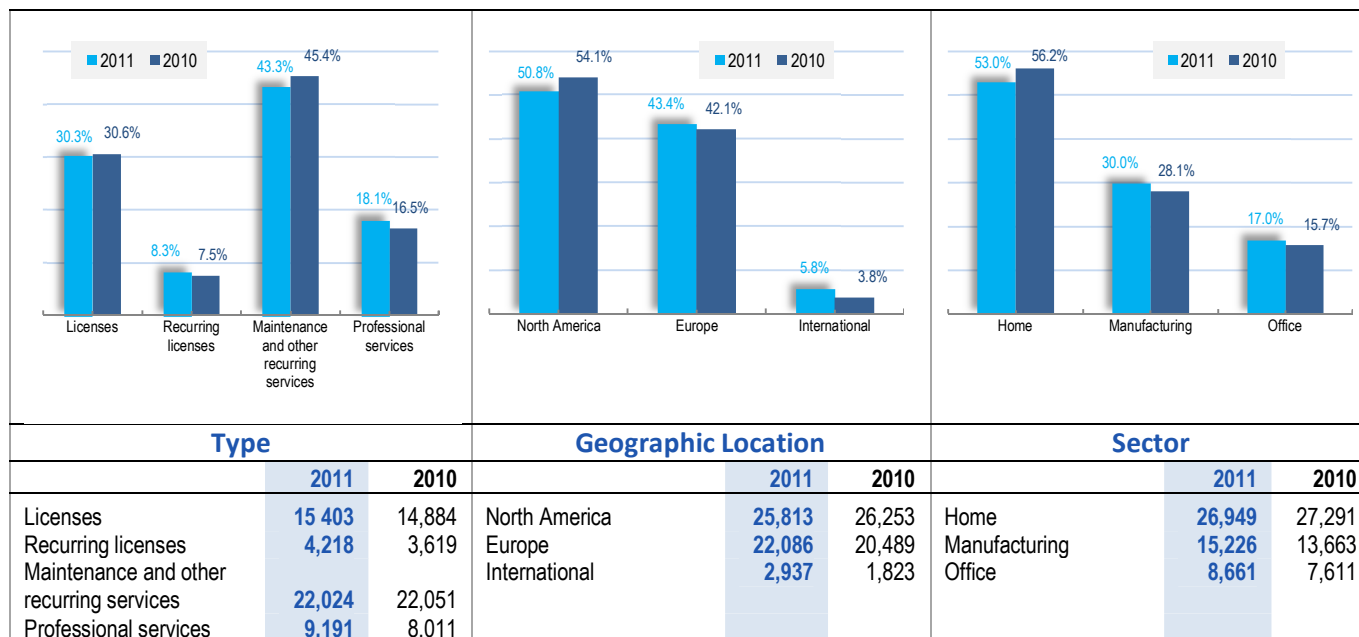
The following charts provide information regarding our revenue distribution for the quarters ended July 31.

(In thousands of dollars, except percentages)



The following charts provide information regarding our revenue distribution for the nine months ended July 31.

(In thousands of dollars, except percentages)



Revenue Analysis

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

(In thousands of dollars, except percentages)	Quarters ended July 31,			Nine months ended July 31,		
	2011	2010	Change 2011/2010	2011	2010	Change 2011/2010
Revenues	17,409	14,806	17.6%	50,836	48,565	4.7%
FX impact			5.9%			1.3%
Change at constant exchange rates			11.7%			3.4%

Revenues for the third quarter of fiscal 2011 totaled \$17.4 million, up 17.6% from \$14.8 million for the same quarter of 2010. Excluding the favorable foreign exchange effect, revenues for the third quarter of fiscal 2011 grew 11.7%. In the third quarter of fiscal 2011, the Company reported significant revenue year-over-year growth in its different sectors: 13.9% in Home, 27.4% in Office and 19.1% in Manufacturing. Compared with the same period of 2010, all geographic regions contributed significant revenue gains for the third quarter of fiscal 2011: 10.7% in North America, 22.1% in Europe and 47.6% in International

Year-to-date revenues rose 4.7% to \$50.8 million from \$48.6 million for the first nine months of fiscal 2010. Favorable

fluctuations in European exchange rates compared with fiscal 2010 increased revenues by \$0.6 million (1.3%) in 2011. Year to date, the Company recorded increases in revenues in the Manufacturing and Office sectors of \$1.6 million and \$1.0 million, respectively, while the Home sector saw a \$0.3 million decline in revenues, compared with the nine months ended July 31, 2010. Year to date, growth in the International market was up sharply, reaching 61.1%, owing primarily to revenue gains in China, while Europe advanced 7.8% and North America declined slightly, trimming 1.7% from revenues, compared with the nine-month period of fiscal 2010.

The following table summarizes the changes in revenues by type for the quarters and nine months ended July 31.

Revenues by Type

(In thousands of dollars, except percentages)	Quarters ended July 31,			Nine months ended July 31,		
	2011	2010	Change	2011	2010	Change
License revenues prior to FX impact	5,020	4,417	13.7%	15,203	14,884	2.1%
FX impact	277			200		
License revenues	5,297	4,417	19.9%	15,403	14,884	3.5%
Recurring license revenues prior to FX impact	1,540	1,220	26.2%	4,158	3,619	14.9%
FX impact	80			60		
Recurring license revenues	1,620	1,220	32.8%	4,218	3,619	16.6%
Maintenance and other recurring services revenues prior to FX impact	7,240	6,998	3.5%	21,876	22,051	(0.8)%
FX impact	313			148		
Maintenance and other recurring services revenues	7,553	6,998	7.9%	22,024	22,051	(0.1)%
Professional services revenues prior to FX impact	2,737	2,171	26.1%	8,950	8,011	11.7%
FX impact	202			241		
Professional services revenues	2,939	2,171	35.4%	9,191	8,011	14.7%

Licenses – License revenues for the third quarter of fiscal 2011 rose 19.9% to \$5.3 million from \$4.4 million for the same period of 2010. Strong European exchange rates in the third quarter of 2011 resulted in a \$0.3 million (6.2%) boost in license revenues, year over year. Excluding the European foreign exchange effect, license revenues for the third quarter of 2011 were higher in all geographic regions than in the corresponding period of 2010. As percentages, the North America, Europe and International markets grew 15.7%, 16.8% and 44.4%, respectively. The Office and Manufacturing sectors made significant contributions with increases of \$0.4 million each,

while the Home sector posted a \$0.1 million rise compared with the corresponding quarter of fiscal 2010.

Year-to-date license revenues rose 3.5% to \$15.4 million from \$14.9 million for the first nine months of fiscal 2010. Revenue growth in the International and Europe markets amounted to 74.8% (\$0.9 million) and 8.1% (\$0.5 million), respectively, compared with the same period of fiscal 2010. In North America, year-to-date license revenues were down 13.9% from the same period of 2010, but excluding a significant non-recurring license sales contract reported in the first nine months of 2010, North

American license revenues would have grown slightly, rising 3.3%. Bolstered by the Visual Impression launch early in the year, the Office sector continues to show significant signs of a recovery with revenues surging 41.6% to \$2.3 million in 2011 from \$1.6 million in 2010. The Company also recorded brisk growth in Manufacturing sector revenues, up 30.5% to \$6.0 million in 2011 from \$4.6 million in 2010, driven in large part by gains in Europe. License revenues in the Home sector dropped 17.8% to \$7.2 million in 2011 from \$8.7 million in 2010, owing in part to a significant non-recurring agreement entered into in 2010.

Recurring licenses – Recurring license revenues for the third quarter ended July 31, 2011 totaled \$1.6 million, up 32.8% from \$1.2 million for the corresponding period in 2010. The favorable foreign exchange rate effect accounted for 6.6% of this increase. Across all of its networks, the Company reported year-over-year growth in recurring license revenues for the third quarter of fiscal 2011 in the North America, Europe and International markets of 19.3%, 44.2% and 76.8%, respectively. Web solutions reported in the Home sector contributed 45.8% of growth in recurring license revenues, particularly in Europe, compared with the corresponding quarter of 2010. A recovery in the Office sector sparked growth of 26.3% compared with the third quarter of 2010. There are currently no Manufacturing sector solutions for which recurring licenses are granted.

For the nine months ended July 31, 2011, recurring license revenues rose 16.6% to \$4.2 million from \$3.6 million year over year. In constant 2010 dollars, recurring license revenues rose 14.9%. Revenues in North America and Europe were up \$0.3 million in both geographic regions, representing increases of 10.4% and 24.6%, respectively. Recurring license revenues in the International market rose significantly as a percentage, but the region does not account for a significant portion of overall recurring license revenues in dollar terms. Growth in the Home and Office sectors amounted to \$0.5 million (25.3%) and \$0.1 million (11.7%), respectively.

Maintenance and other recurring services – Revenues for the third quarter of 2011 derived from maintenance and other recurring services rose 7.9% to \$7.6 million from \$7.0 million for the same period of 2010. The favorable European foreign exchange effect accounted for \$0.3 million (4.4%) of the increase. In North America, the 6.4% growth in maintenance and other recurring service revenues was driven mainly by the resumption of support contracts with certain clients and price increases, compared with the third quarter of 2010. While growth in this revenue type in Europe amounted to \$0.3 million compared with 2010, the increase resulted from a favorable foreign exchange effect. For the International market, revenues were up 30.6% but represented only \$0.03 million. The Home, Office and Manufacturing sectors all posted gains for the third

quarter of 2011, with revenues up 7.5%, 7.4% and 9.6%, respectively.

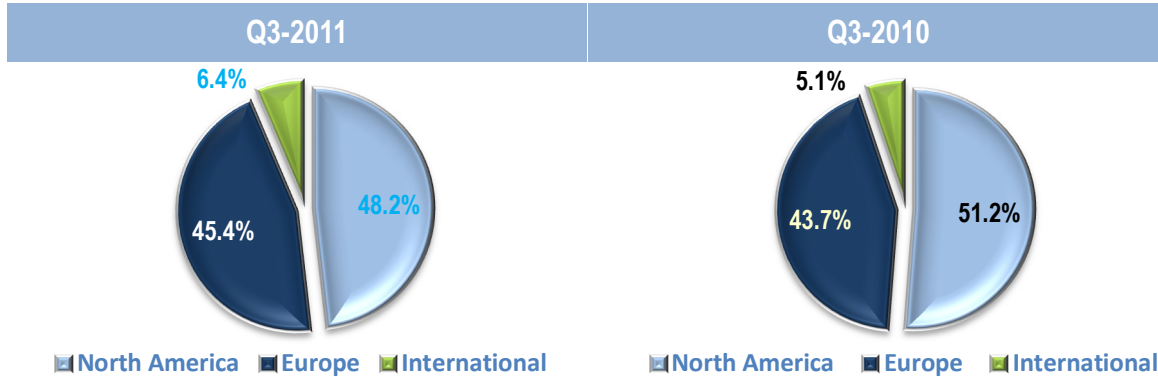
Maintenance and recurring service revenues for the nine months ended July 31, 2011 held relatively steady, easing a slight 0.1% lower or 0.8% in constant 2010 dollars. This stability was reflected in all geographic regions. Only the Home sector reported an increase, with revenues up 2.1% to \$13.0 million in 2011 from \$12.8 million in 2010. The Office and Manufacturing sectors recorded declines of 0.4% and 5.3%, respectively.

Professional services – Professional service revenues for the third quarter of 2011 grew 35.4% to \$2.9 million from \$2.2 million year over year. In constant 2010 dollars, revenues were up \$0.6 million (26.1%). Growth was strongest in Europe, where professional service revenues for the quarter surged 47.9% to \$1.7 million from \$1.2 million for the third quarter of 2010. In constant dollars, Europe was up \$0.4 million or 30.8%. Nearly half of the increase stemmed from the integration of manufacturing solutions, primarily in Central Europe, with an equivalent contribution from several integration, training and catalog creation projects in France. Revenue in North America growth for the third quarter of 2011 stood at 16.3% compared with the same period of 2010, distributed equally between the Home and Office sectors as a percentage of revenues. In the International market, revenues for the quarter were up \$0.1 million compared with the same period of 2010. All operating sectors reported considerable increases for the quarter ended July 31, 2011. Growth in the Home sector (35.8%) resulted from expanded catalog creation and training services. In the Office sector, our clients began requesting catalog updates again, as well as the creation of new catalogs, which translated into a 33.5% increase in professional service revenues, whereas the 35.4% rise in the Manufacturing sector stemmed primarily from various new integration projects.

For the nine months ended July 31, 2011, professional service revenues grew 14.7% to \$9.0 million from \$8.0 million year over year. In constant 2010 dollars, revenues were up 11.7% or \$0.9 million from the same period of 2010. Once again, all geographic regions reported increases, with North America, Europe and International revenues up 8%, 18.9% and 33.0%, respectively, compared with the corresponding period of 2010. In the Home sector, our clients began investing again in catalog production or updates, as well as training, generating 10.3% growth in the sector's professional service revenues. A recovery in the Office sector contributed 32.8% growth in professional service revenues compared with the nine months ended July 31, 2010. Lastly, bolstered by license revenue growth over the past few quarters, the Manufacturing sector also recorded higher professional service revenues, up 15.7% from the corresponding period of 2010.

Revenues by Geographic Region

Geographic breakdown in revenues – Third quarters ended July 31



North America – Revenues from North America for the third quarter ended July 31, 2011 rose 10.7% to \$8.4 million from \$7.6 million for the same period of 2010. The Office sector, buoyed in particular by the Visual Impression launch early in the year, was the main growth driver, with revenues up 27.4%. The Home sector also posted growth, adding 5.5%, while the Manufacturing sector was mostly flat compared with the same period last year.

Year-to-date revenues from North America eased slightly lower to \$25.8 million from \$26.2 million for the first nine months of 2010. Revenues for the nine months ended July 31, 2011 were up \$1.1 million in the Office sector, whereas the Home and Manufacturing sectors ended the period with declines of \$1.2 million and \$0.3 million, respectively, year over year.

Europe – As in previous quarters, fluctuating European exchange rates significantly affected the third quarter ended July 31, 2011. The favorable foreign exchange effect of European currencies amounted to \$0.9 million or 13.5% of revenues compared with the corresponding period of 2010. Revenues from Europe for the third quarter rose to \$7.9 million from \$6.5 million for the 2010 period including the previously mentioned foreign exchange effect. In Europe, the Home and Manufacturing sectors contributed similar increases of \$0.7 million each. In the Manufacturing sector, sales of InSight solutions in Central and Eastern Europe drove much of the growth in the third quarter of 2011.

For the nine months ended July 31, 2011, revenues from Europe grew 7.8% to \$22.1 million from \$20.5 million for the same period a year earlier. Excluding favorable European exchange rates, revenue growth in constant 2010 dollars would have been 4.6%. Revenues from France and the U.K. accounted for increases in the Home sector (5.9%), while Central Europe fuelled revenue growth in the Manufacturing sector (9.9%) for the nine months ended July 31, 2011 compared with the same period of 2010.

International – China was once again the growth leader in the International market. For the third quarter of 2011, revenues from the Asian country surged 47.6% to \$1.1 million from \$0.7 million for the same period of 2010, due largely to revenues sales of 2020 Design, a specialized solution for closets. Revenues for the third quarter of 2011 in Home and Manufacturing sectors were up 78.5% and 30.4%, respectively, compared with the same period of 2010.

Year-to-date revenues from the International market reflected constant growth, particularly in China. Revenues from the International region for the nine months ended July 31, 2011 soared 61.1% to \$2.9 million from \$1.8 million for the same period of the previous year, with the Manufacturing sector posting the highest revenue growth (\$0.9 million) and Home sector revenues up \$0.2 million.

Revenues by Sector

The following table summarizes the changes in revenues by sector for the quarters and nine months ended July 31.

(In thousands of dollars, except percentages)	Quarters ended July 31,			Nine months ended July 31,		
	2011	2010	Change	2011	2010	Change
Home sector revenues prior to FX impact	8,776	8,011	9.5%	26,608	27,291	(2.5)%
FX impact	346			341		
Home sector revenues	9,122	8,011	13.9%	26,949	27,291	(1.3)%
Manufacturing sector revenues prior to FX impact	4,749	4,431	7.2%	14,918	13,663	9.2%
FX impact	526			308		
Manufacturing sector revenues	5,275	4,431	19.1%	15,226	13,663	11.4%
Office sector revenues prior to FX impact	3,012	2,364	27.4%	8,661	7,611	13.8%
FX impact	-			-		
Office sector revenues	3,012	2,364	27.4%	8,661	7,611	13.8%

Home sector – Revenues in the Home sector for the third quarter ended July 31, 2011 rose 13.9% to \$9.1 million from \$8.0 million compared with the same period of 2010, owing in part (4.4%) to the favorable foreign exchange effect. All types of revenues were up with growth stemming primarily from the Europe and International markets. Year over year, license and recurring license revenues for the third quarter of 2011 grew \$0.5 million (16.1%), while professional service and maintenance and other service revenues were up \$0.3 million (35.8%) and \$0.3 million (7.5%), respectively.

Year-to-date revenues in the Home sector fell 1.3% (2.5% in constant 2010 dollars) to \$26.9 million from \$27.3 million for the first nine months of 2010. However, excluding a significant contract in the Home sector in 2010, year-to-date revenues would have been up 3.8%. License and recurring license revenues were down 9.0%, but excluding the non-recurring contract in 2010, growth of 1.9% would have been recorded. Professional services and maintenance and other recurring service revenues rose 10.3% and 2.1%, respectively, compared with 2010. Growth in Home sector revenues was strongest in Europe, particularly in France and the U.K., up \$0.6 million from the same period in 2010, owing in part as previously mentioned to sales of 2020 Design, a specialized solution for closets. The International market also reported growth with revenues up \$1.2 million in 2011 compared with \$1.0 million in 2010. North America revenues held relatively firm, with growth of 1.1%, if the significant 2010 non-recurring contract is not taken into account, which as discussed above, impacts comparability.

Manufacturing sector – Markets fared well in Central Europe and China, resulting in strong growth in the Manufacturing sector for the third quarter of 2011 with revenues rising 19.1% to \$5.3 million from \$4.4 million for the same period of 2010. The favorable foreign exchange effect contributed \$0.5 million (11.9%). License and recurring license revenues for the third quarter of 2011 totaled \$2.2 million, up 18.3% from \$1.9 million year over year. Successive rises in license revenues since the beginning of the year buoyed professional service and maintenance and other recurring service revenues, up 35.4% and 9.6%, respectively, from the third quarter of 2010.

The European launch of inSight late in fiscal 2010 drove growth in the Manufacturing sector (11.4%), with revenues for the third quarter of 2011 totaling \$15.2 million, compared with \$13.7 million for the same period of 2010. The North American Manufacturing sector saw no recovery in 2011, with revenues down \$0.3 million, while the Europe and International markets recorded growth of \$0.9 million each compared with the third quarter of 2010. License and recurring license revenues rose \$1.2 million in 2011 compared with the corresponding period of 2010 and, as previously discussed, this growth resulted in a \$0.6 million increase in professional service revenues in 2011. With respect to maintenance and other recurring service revenues, the European launch of inSight has garnered the attention of our existing manufacturing clients, prompting them to plan their migration to inSight. In the short-term, the impact is that certain maintenance and update contracts are not renewed or renewed only partially ahead of a planned migration, resulting in a \$0.3 million decline.

Office sector – A palpable recovery since the beginning of the current fiscal year and the market launch of Visual Impression at the outset of 2011 were growth drivers in this sector. Sector revenues for the third quarter of 2011 totaled \$3.0 million, up 27.4% from \$2.4 million for the same period of 2010. License and recurring license, professional service and maintenance and other recurring service revenues were all higher, with increases of 54.4%, 33.5% and 7.4%, respectively.

Year to date, sector revenues grew 13.8% to \$8.7 million from \$7.6 million for the nine months ended July 31, 2010. As was the case for the third quarter, all revenue types finished the period higher, except maintenance and other recurring service revenues, which were flat.

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, and catalog design and maintenance.
- 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

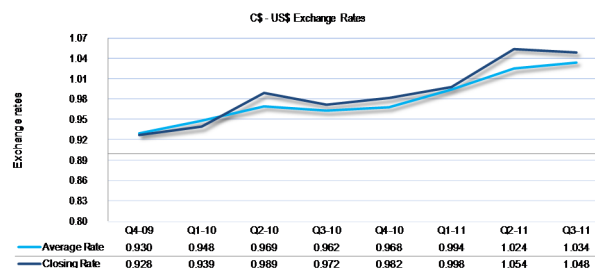
	Quarters ended July 31,			Nine months ended July 31,		
	2011	2010	Change	2011	2010	Change
Gross margin on licenses and recurring licenses prior to FX impact	92.6%	90.0%	2.6%	89.9%	90.9%	(1.0)%
FX impact	(2.2)%			-		
Gross margin on licenses and recurring licenses	90.4%	90.0%	0.4%	89.9%	90.9%	(1.0)%
Gross margin on maintenance and other recurring services revenues prior to FX impact	76.8%	72.2%	4.6%	77.3%	78.9%	(1.6)%
FX impact	(1.8)%			(0.3)%		
Gross margin on maintenance and other recurring services revenues	75.0%	72.2%	2.8%	77.0%	78.9%	(1.9)%
Gross margin on professional services prior to FX impact	26.2%	32.6%	(6.4)%	24.3%	23.1%	1.2%
FX impact	(4.2)%			(0.9)%		
Gross margin on professional services	22.0%	32.6%	(10.6)%	23.4%	23.1%	0.3%
Total gross margin prior to FX impact	74.7%	73.2%	1.5%	72.6%	74.3%	(1.7)%
FX impact	(2.5)%			(0.3)%		
Total gross margin	72.2%	73.2%	(1.0)%	72.3%	74.3%	(2.0)%

Gross margin for the third quarter ended July 31, 2011 declined an aggregate 1.0% to 72.2% from 73.2% for the same period of 2010. In constant 2010 dollars, the change in aggregate gross margin would have been a 1.5% increase. Despite a different distribution by revenue type for the third quarter of 2011 than in the same period of the previous year, aggregate margin held steady. License and recurring license revenues were higher but the stronger revenue growth in third-party licenses, which have slimmer margins, limited margin growth on licenses and recurring licenses to 0.4% year over year. During the second and third quarters of fiscal 2010, management reallocated resources between maintenance and other recurring services, and professional services, making it difficult to adequately compare individual margins. For the third quarter of 2011, combined gross margin on recurring service and professional service revenues amounted to 60.2% compared with 62.8% for the same period of 2010, with the decline resulting solely from the foreign exchange effect (2.7%).

Year-to-date aggregate gross margin stood at 72.3%, compared with 74.3% for the nine-month period of 2010. The foreign exchange impact was practically nil. With respect to distribution by revenue type as a percentage, maintenance and other recurring service revenues accounted for a slightly lower portion of overall revenues, with a corresponding slight rise in the percentage of professional service revenues, which generate lower gross margins. License and recurring license revenues accounted for a similar percentage of total revenues in the nine-month period of 2011 as in the same period of 2010; however, total license revenues comprised a higher percentage of third-

party versus proprietary license revenues, resulting in a 1% decline in margin on license and recurring license revenues for the nine-month period of 2011 compared with the same period of 2010.

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.

The foreign exchange effect for the third quarter ended July 31, 2011 resulted in a \$1.2 million increase in direct costs, operating expenses and financial expenses. The weighted average US dollar exchange rate (\$1.0343) strengthened 7.0% from \$0.9668 in 2010, giving rise to a \$0.4 million increase in expenses in Canadian dollars. Fluctuations in European currencies, namely the euro (10.0%) and pound sterling (7.3%) translated into a \$0.8 million increase in overall expenses in the third quarter of 2011 compared with the quarter ended July 31, 2010.

The Company's various costs were affected by an unfavorable foreign exchange effect in the nine months ended July 31, 2011. Changes in exchange rates for the nine months ended July 31, 2011 increased direct costs, operating expenses and financial expenses by \$1.4 million in constant dollars, year over year. The most significant change was the impact of the Canadian dollar's appreciation against its US counterpart, reflected in a \$0.9 million year-to-date increase in direct costs, whereas the unfavorable foreign exchange effect of European currencies amounted to \$0.5 million, consisting of \$0.3 million for the euro and \$0.2 million for the pound sterling.

Operating Expenses

Operating expenses include:

- [Sales and marketing expenses](#) – consisting primarily of costs related to sales, marketing and product management activities, including salaries and commissions paid to our sales force, fees paid to industry consultants, commissions paid to distributing agents 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, financial 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 (excluding restructuring expense)

(Unaudited, in thousands of dollars, except percentages)	Quarters ended July 31,			Nine months ended July 31,		
	2011	2010	Change	2011	2010	Change
Sales and marketing expenses prior to FX impact	4,967	4,126	20.4%	14,681	12,891	13.9%
FX impact	380			426		
Sales and marketing expenses	5,347	4,126	29.6%	15,107	12,891	17.2%
Research and development expenses prior to FX impact	2,818	3,091	(8.8)%	8,404	9,333	(10.0)%
FX impact	160			234		
Research and development expenses	2,978	3,091	(3.7)%	8,638	9,333	(7.4)%
General and administrative expenses prior to FX impact	3,097	3,081	0.6%	10,056	9,736	3.3%
FX impact	247			396		
General and administrative expenses	3,344	3,081	8.6%	10,452	9,736	7.4%
Stock-based compensation expense prior to FX impact	115	66	72.7%	182	358	(49.2)%
FX impact	8			10		
Stock-based compensation expense	123	66	86.4%	192	358	(46.4)%
Operating expenses prior to FX impact (excluding restructuring expense)	10,997	10,364	6.1%	33,323	32,318	3.1%
FX impact	795			1,066		
Operating expenses (excluding restructuring expense)	11,792	10,364	13.8%	34,389	32,318	6.4%

Operating expenses were particularly affected by the various exchange rate fluctuations for the third quarter ended July 31, 2011, rising to \$11.8 million from \$10.4 million in the same period of 2010, a 13.8% increase (\$2.2 million), of which 7.7% (\$0.8 million) was attributable to the unfavorable foreign exchange effect. Labor costs, consisting primarily of sales and marketing expenses, were up \$0.4 million from the third quarter

of 2010, with the sales force reorganization increasing staffing levels, particularly in the US and Asia. For new markets served in Europe, the Company deals with distributors, which has supported revenue growth and increased commissions by \$0.3 million for the third quarter ended July 31, 2011 compared with the same period of 2010. As part of ongoing development initiatives in its various markets, during the quarter ending

July 31, 2011, the Company continued to invest in commercial trade shows and promotion, resulting in a \$0.3 million increase in sales and marketing expenses year over year. Doubtful accounts were up \$0.1 million from the third quarter of 2010 owing to economic conditions in the US and South America. Consulting fees for the three months ended July 31, 2011 were down \$0.3 million compared with the same period of 2010. Lastly, the Company began the process of making claims under a new salary tax credit program, generating \$0.2 million in savings for the quarter ended July 31, 2011 compared with the same period in 2010.

Year-to-date operating expenses rose \$2.1 million (6.4%) to \$34.4 million from \$32.3 million for the nine months ended July 31, 2010. During the period, the foreign exchange effect amounted to \$1.1 million or 3.3% compared with the first nine months of 2010. Compensation related costs increased by \$1.1 million, \$0.9 million in sales and marketing and \$0.6 million in general and administrative expenses, offset by a decline of \$0.4 million in research and development expenses. Sales commissions were up \$0.4 million, in line with revenue growth for the nine months ended July 31, 2011 compared with the year-over-year period, also reflecting commissions paid to new distributors in Central Europe. Trade show and marketing expenses rose \$0.3 million in the first nine months of 2011 compared with the same period of 2010. The Company generated \$0.4 million in year-to-date savings following a change in various research and development and e-business tax credit programs compared with the nine-month period of 2010. Amortization expense for the nine months ended July 31, 2011 fell \$0.2 million from the same period of 2010. Year-to-date stock-based compensation expense was down \$0.2 million from the 2010 period as a result of a write-down of deferred share units in 2011 in relation to a reevaluation in 2010.

Non-recurring Expenses Included in General and Administrative Expenses

Following the request by a minority shareholder for a special meeting of shareholders, additional costs of \$0.3 million were incurred during the nine months ended July 31, 2011. 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, the Company negotiated a \$0.1 million out-of-court settlement related to its intellectual property.

Restructuring Costs

Following revenue growth in the Manufacturing sector in Europe, management decided to cancel part of its October 2010 restructuring plan. Accordingly, the restructuring provision for the nine months ended July 31, 2011 was reduced by \$0.2 million.

Financial Expenses

	(In thousands of dollars)			
	Quarters ended July 31,		Nine months ended July 31,	
	2011	2010	2011	2010
Interest and bank charges	220	273	700	972
Foreign exchange gain (loss)	30	(838)	494	614
	250	(565)	1,194	1,586

Bank charges and interest expense for the third quarter of 2011 decreased by 19.0% to \$0.2 million from \$0.3 million in 2010 following repayment of a significant portion of the long-term debt during the past year. Realized and unrealized foreign exchange gains and losses during this period show an unfavorable variance of \$0.9 million from the same quarter of 2010, including \$0.7 million attributable to the translation of subsidiaries' assets and liabilities.

Financial expenses for the nine months ended July 31, 2011 were down 24.7% to \$1.2 million from \$1.6 million in 2010. The interest expense decreased by \$0.3 million in 2011 following repayment of a significant portion of the long-term debt. During the nine months ended July 31, 2011, unrealized losses on translation of subsidiaries' assets and liabilities decreased by \$0.6 million and other foreign exchange losses increased by \$0.5 million, compared with the same period of 2010.

EBITDA

	(In thousands of dollars, except percentages)			
	Quarters ended July 31,		Nine months ended July 31,	
	2011	2010	2011	2010
Operating income (GAAP)	782	469	2,563	3,765
Non-recurring items and restructuring	(3)	-	(1)	-
Amortization of property and equipment	272	290	843	936
Amortization of intangible assets	581	651	1,737	1,981
EBITDA	1,632	1,410	5,142	6,682
Margin (%)	9.4%	9.5%	10.1%	13.8%

EBITDA for the third quarter of fiscal 2011 amounted to \$1.6 million (9.4%) compared with \$1.4 million (9.5%) in 2010. The unfavorable exchange rate effect amounted to \$0.2 million or 1.4% of revenues compared with the corresponding period of 2010. The 1.0% decline in gross margin and the increase in sales and marketing expenses as a percentage of revenues (2%) in 2011 from the same period of 2010 had a negative impact on EBITDA.

For the nine months ended July 31, 2011, EBITDA was down \$1.6 million to \$5.1 million from \$6.7 million in 2010. In constant 2010 dollars, EBITDA stood at \$5.9 million or 11.6% of revenues compared with 13.8% for the same period of 2010. The lower EBITDA in 2011 is attributable to the 2.0% decline in gross margin as well as the increase in sales and marketing expenses as a percentage of revenues (3%) for the nine months ended July 31, 2011, compared with the same period of 2010.

Liquidity

The Company's operations are funded by cash flows from operating activities and credit facilities. As at July 31, 2011, cash and cash equivalents totaled \$11.6 million compared with \$14.7 million as at October 31, 2010. The following table summarizes cash inflows and outflows for the three and nine months ended July 31, 2011 and 2010.

(In thousands of dollars)	Quarters ended July 31,		
	2011	2010	Change
Cash flows before working capital items	1,048	1,981	(933)
Working capital items	270	(2,214)	2,484
Cash flows from (used in) operating activities	1,318	(233)	1,551
Cash flows used in investing activities	(444)	(300)	(144)
Cash flows from (used in) financing activities	734	(2,000)	2,734
FX impact on cash and cash equivalents	(135)	(370)	235
Net increase (decrease) in cash and cash equivalents	1,473	(2,903)	4,376

(In thousands of dollars)	Nine months ended July 31,		
	2011	2010	Change
Cash flows before working capital items	2,734	3,995	(1,261)
Working capital items	(1,604)	(3,759)	2,155
Cash flows from operating activities	1,130	236	894
Cash flows used in investing activities	(1,715)	(635)	(1,080)
Cash flows used in financing activities	(3,415)	(4,082)	667
FX impact on cash and cash equivalents	929	1,051	(122)
Net decrease in cash and cash equivalents	(3,071)	(3,430)	359

Human Resources

As at July 31, 2011, the Company had 534 full- and part-time employees in the following countries and regions:

As at July 31,	2011		2010	
	Number of employees	%	Number of employees	%
Canada	180	33.7	182	35.6
United States	88	16.5	83	16.2
United Kingdom	67	12.5	62	12.1
Germany	58	10.9	54	10.6
France	50	9.4	52	10.2
Other-Europe	7	1.3	8	1.6
Other-Worldwide	84	15.7	70	13.7
	534	100	511	100

Cash Flows from (Used in) Operating Activities

Cash flows from operating activities for the third quarter of fiscal 2011 totaled \$1.3 million compared with \$(0.2) million for the same period of 2010. As always, changes in inflows and outflows of working capital items related to accounts receivable and accounts payable and in deferred revenues had a significant impact on cash flows from (used in) operating activities. The increase in cash flows from operating activities resulted from these fluctuations.

Cash flows from operating activities for the nine months ended July 31, 2011 rose to \$1.1 million from \$0.2 million in 2010. This increase stems mainly from lower earnings and the significant change in working capital items compared with 2010.

Cash Flows Used in Investing Activities

Cash flows used in investing activities during the third quarter of fiscal 2011 totaled \$0.4 million compared with \$0.3 million for the same period in 2010. The intangible assets acquired in fiscal 2011 included a large amount (\$0.3 million) in Europe for the intellectual property of a software solution that was already integrated into one of our products. Additions to property and equipment used cash flows in the amount of \$0.1 million for the quarter, down \$0.2 million compared with investments made during the same period in 2010.

Cash flows used in investing activities for the nine months ended July 31, 2011 were up \$1.1 million from the same period of fiscal 2010. This increase is mainly attributable to the acquisition of intangible assets in Canada and Europe for a total of \$0.9 million. The \$0.1 million amount recorded under business acquisition represents the purchase price for 49% of Icovia shares—a transaction that took place in September 2010.

Cash Flows Used in Financing Activities

Financing activities generated cash flows of \$0.7 million for the nine months ended July 31, 2011 compared with the utilization of cash flows amounting to \$2.0 million during the same period of 2010. This change is attributable to repayments made on the long-term debt in 2010 while the Company received additional funds in 2011.

Cash flows used in financing activities for the nine months ended July 31, 2011 were down \$0.7 million from the same period of 2010. This decrease resulted from the repurchase of shares under the normal course issuer bid as well as the repayment of a portion of the Company's borrowings, compared with the nine months ended July 31, 2010.

Capital Resources

Consolidated Balance Sheet Data

(In thousands of dollars)	Quarters ended July 31,	
	2011	2010
Cash and cash equivalents	11,610	19,791
Working capital (including deferred revenues)	2,622	11,633
Total assets	115,469	115,797
Deferred revenues	16,273	15,827
Long-term debt (including current portion)	5,274	14,238
Total shareholders' equity	79,321	71,868

Our cash holdings, bank line of credit and cash flows generated from operations are sufficient to fund the Company's growth.

Working capital was down \$9.0 million to \$2.6 million as at July 31, 2011 from \$11.6 million as at July 31, 2010, mainly due to the following:

- \$8.2 million change in cash and cash equivalents, mainly due to the repayment of a significant portion of long-term debt in the amount of \$8.9 million since July 2010;
- \$0.4 million increase in deferred revenues in 2011 compared with 2010 combined with a \$2.8 million rise in accounts receivable;
- \$3.6 million change in the classification of refundable tax credits to short term from long term in 2010.

Contractual Obligations

The Company has contractual obligations with various maturity dates. These obligations are mainly related to leases of office space, IT equipment or vehicle rentals for certain representatives abroad.

During the current quarter, the Company amended the lease for head office premises, extending it for an additional ten years.

Balance Sheet and Financial Position

Changes in balance sheet items as at July 31, 2011 compared with October 31, 2010 resulted mainly from the change in the US dollar exchange rate.

Accumulated other comprehensive income included in shareholders' equity rose \$5.0 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 \$1.048 as at July 31, 2011 compared with \$0.982 as at October 31, 2010. The main items contributing to the increase are the translation of: (i) \$4.2 million in goodwill; (ii) \$1.5 million in accounts receivable; (iii) \$0.7 million in cash and cash equivalents; and (iv) \$0.6 million effect on tangible and intangible assets. These increases were partially offset by decreases of: (i) \$1.0 million in deferred revenues; (ii) \$0.8 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	
	2011	September 12, 2011
Common shares ⁽¹⁾	18,872,392	18,872,392
Stock options	825,134	825,134
Warrants	102,459	102,459

(1) Shares repurchased under the normal course issuer bid but not yet cancelled have not been deducted.

Normal course issuer bid: The Company announced its intention to purchase for cancellation purposes by way of a normal course issuer bid (the "Bid") some of its common shares, beginning on April 1, 2011 and ending on March 31, 2012. The

Company may repurchase for cancellation purposes up to 946,089 common shares over a maximum period of 12 months, which represents approximately 5% of its 18,921,792 shares issued and outstanding as at March 29, 2011. The consideration payable by the Company for these common shares under the Bid is their market value at the time of repurchase.

During the nine months ended July 31, 2011 72,000 common shares were repurchased for a total cash consideration of \$233,000. The repurchased shares had not been cancelled as at July 31, 2011 but were cancelled subsequently. Also, 22,600 shares that were repurchased since August 1, 2011 had not been cancelled as at September 12, 2011.

Related Party Transactions

For the nine months ended July 31, 2011, consulting fees totaling \$75,000 were incurred in respect of Desjardins Securities, a shareholder of the Company. 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 vacation time, 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 may increase as the percentage of revenues and monetary assets denominated in foreign currencies increases.
- Cash flows from (used in) 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	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Revenues	17,409	16,950	16,477	16,668	14,806	17,155	16,604	16,181
Profitability								
Gross margin	12,571	12,393	11,790	12,073	10,833	12,913	12,336	12,149
Gross margin (%)	72.2%	73.1%	71.6%	72.4%	73.2%	75.3%	74.3%	75.1%
EBITDA ^{(1),(2)}	1,632	1,668	1,842	1,823	1,410	2,730	2,541	2,426
EBITDA (%)	9.4%	9.8%	11.2%	10.9%	9.5%	15.9%	15.3%	15.0%
Net earnings	403	237	393	714	840	273	462	735
Net earnings (%)	2.3%	1.4%	2.4%	4.3%	5.7%	1.6%	2.8%	4.5%
Earnings per share ⁽³⁾								
Basic and diluted earnings per share	\$0.02	\$0.01	\$0.02	\$0.04	\$0.04	\$0.01	\$0.02	\$0.04
Balance sheet								
Total assets	115,469	115,712	116,060	110,906	115,797	121,256	120,279	117,236
Total long-term liabilities	5,274	4,404	6,669	7,822	14,238	16,396	18,116	18,012

(1) EBITDA is a non-GAAP performance measure for which we provide reconciliation on page 14.

(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 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 and approved by 20-20's Board of Directors on September 12, 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 July 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.

The second phase, which has been completed, determined the impacts of the differences between Canadian GAAP and IFRS. We completed documenting the rationale for accounting policy choices, new disclosure requirements, authoritative literature supporting these choices, and are currently performing quantitative impact assessments, as needed.

We are currently assessing 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, based on the accounting policy choices made, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made.

The remaining two phases were implemented as choices were made under phase three. 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 initial 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 labor 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 assurance that we will continue to meet the eligibility criteria or that the CNE program will not be amended or canceled in the future.

Since the beginning of the current fiscal year, the Company has undertaken to secure accreditation for the Refundable Tax Credit for the Development of E-Business (“CDAE” in French). This change will be retroactive to the fiscal year ended October 31, 2010. There can be no assurance at the present time that we will meet all of the eligibility criteria.

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.