



Consolidated Financial Statements

Years Ended October 31, 2011 and 2010

Consolidated Financial Statements
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January 19, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management Discussion and Analysis ("MD&A") of 20-20 Technologies Inc. (the "Company" or "20-20") and all other information in this Annual Report are the responsibility of Management. The Consolidated Financial Statements and the MD&A have been reviewed and approved by its Board of Directors.

The 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 the requirements of securities regulations. The Financial Statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the Financial Statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

The Company's Chief Executive Officer and Chief Financial Officer 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 Corporation has been made known to them and has been properly disclosed in the Consolidated Financial Statements and MD&A. The Company's Chief Executive Officer and Chief Financial Officer have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal year 2011. As at year end, Management believes that the disclosure controls and procedures effectively provide reasonable assurance that material information related to the Company has been disclosed in the Consolidated Financial Statements and MD&A. In compliance with Multilateral 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 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 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 is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, as well as with the external auditors, to review the Consolidated Financial Statements, the MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy it 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 Consolidated Financial Statements as presented 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.

KPMG LLP, external auditors approved by the shareholders, meets with the Audit Committee to discuss audit activities, financial reporting matters and other related subjects.

This report and our audited consolidated financial statements were reviewed by the Company's Audit Committee on January 17, 2012 and approved by 20-20's Board of Directors on January 19, 2012.

/s/ Jean-François Grou
Chief Executive Officer

/s/ Steve Perrone, C.A.
Chief Financial Officer

Laval, Canada
January 19, 2012



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of 20-20 Technologies Inc.

We have audited the accompanying consolidated financial statements of 20-20 Technologies Inc., which comprise the consolidated balance sheet as at October 31, 2011, the consolidated statements of earnings, shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of 20-20 Technologies Inc. as at October 31, 2011 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements of 20-20 Technologies Inc. as at and for the year ended October 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on December 23, 2010.

*KPMG LLP**

A handwritten signature in black ink that reads 'KPMG LLP*' with a long horizontal line underneath.

Chartered Accountants

January 19, 2012

Montréal, Canada

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

	October 31, 2011	October 31, 2010
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 10)	11,362	14,681
Accounts receivable (Note 11)	15,996	14,815
Income taxes receivable	115	102
Contracts in progress	356	178
Prepaid expenses	1,420	1,019
Income tax credits recoverable	631	984
Future income taxes (Note 6)	179	263
	30,059	32,042
Property and equipment (Note 12)	2,257	2,345
Intangibles (Note 13)	6,023	6,968
Goodwill (Note 14)	63,037	61,472
Income tax credits recoverable	3,654	2,304
Future income taxes (Note 6)	2,468	2,745
Other assets	1,215	1,160
	108,713	109,036
LIABILITIES		
Current liabilities		
Bank loan (Note 15)	-	148
Accounts payable	11,902	11,907
Income taxes payable	186	413
Deferred revenue	12,057	11,774
Current portion of long-term debt (Note 16)	2,099	2,833
Future income taxes (Note 6)	252	207
	26,496	27,282
Long-term debt (Note 16)	2,610	4,710
Leasehold inducements	350	279
Future income taxes (Note 6)	2,972	3,392
	32,428	35,663
SHAREHOLDERS' EQUITY		
Capital stock (Note 18)	58,154	58,569
Common stock options and warrants	1,753	1,553
Contributed surplus	1,058	1,050
Deficit	(654)	(1,979)
Accumulated other comprehensive income	15,974	14,180
	15,320	12,201
	76,285	73,373
	108,713	109,036
Commitments and contingencies (Note 21)		

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

On behalf of the Board,

/s/ **Jean-François Grou**
Director

/s/ **Benoît La Salle**
Director

20-20 Technologies Inc.
CONSOLIDATED EARNINGS

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

	Years ended October 31	
	2011	2010
	\$	\$
Revenues	68,717	65,233
Cost of revenues	19,259	17,078
Gross margin	49,458	48,155
Operating expenses		
Sales and marketing	19,765	17,731
Research and development expenses (Note 4)	11,617	12,399
General and administrative	14,150	12,970
Stock-based compensation (Note 17)	216	565
Restructuring expense (Note 5)	193	515
	45,941	44,180
Operating income	3,517	3,975
Financial expenses		
Bank charges and interest expense, net (Note 3)	919	1,243
Exchange loss	349	250
	1,268	1,493
Non-controlling interest	-	37
Earnings before income taxes	2,249	2,445
Income taxes (Note 6)		
Current	1,005	948
Future	(81)	(792)
	924	156
Net earnings	1,325	2,289
Earnings per share (Note 7)		
Basic and Diluted	0.07	0.12
Supplemental information related to the consolidated statement of earnings (Note 3)		

The accompanying notes are an integral part of the audited consolidated financial statements

20-20 Technologies Inc.

CONSOLIDATED SHAREHOLDERS' EQUITY

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

	Number	Capital stock Amount	Common stock options and warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance as at October 31, 2009	18,926,692	58,582	1,279	1,015	10,295	(4,268)	66,903
Net earnings	-	-	-	-	-	2,289	2,289
Translation adjustment	-	-	-	-	3,885	-	3,885
Comprehensive income	-	-	-	-	3,885	2,289	6,174
Options expired	-	-	(39)	39	-	-	-
Options granted (Note 17)	-	-	319	-	-	-	319
Options exercised	1,400	6	(6)	-	-	-	-
Common shares repurchased for a cash consideration (Note 18)	(6,300)	(19)	-	(4)	-	-	(23)
Balance as at October 31, 2010	18,921,792	58,569	1,553	1,050	14,180	(1,979)	73,373

	Number	Capital stock Amount	Common stock options and warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance as at October 31, 2010	18,921,792	58,569	1,553	1,050	14,180	(1,979)	73,373
Net earnings	-	-	-	-	-	1,325	1,325
Translation adjustment	-	-	-	-	1,794	-	1,794
Comprehensive income	-	-	-	-	1,794	1,325	3,119
Options granted (Note 17)	-	-	200	-	-	-	200
Common shares repurchased for a cash consideration (Note 18)	(104,600)	(415)	-	8	-	-	(407)
Balance as at October 31, 2011	18,817,192	58,154	1,753	1,058	15,974	(654)	76,285

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

20-20 Technologies Inc.
CONSOLIDATED CASH FLOWS
(Amounts in thousands of U.S. dollars)

	Years ended October 31	
	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Net earnings	1,325	2,289
Non-cash items		
Amortization (Note 3)	3,554	3,894
Gain on debt extinguishment	-	(190)
Leasehold inducements	65	(82)
Stock-based compensation (Note 17)	185	518
Accreted interest on long term debt	47	66
Non-controlling interest	-	37
Future income taxes	(81)	(792)
Unrealized foreign exchange gain	(201)	(143)
Changes in non-cash working capital items (Note 8)	(2,699)	(2,718)
Cash flows from operating activities	2,195	2,879
INVESTING ACTIVITIES		
Business acquisition (Note 9)	(137)	-
Property and equipment – acquired	(887)	(977)
Intangible assets – acquired (Note 13)	(1,027)	(41)
Proceeds from disposition of property and equipment	24	63
Other assets	(25)	(669)
Cash flows used in investing activities	(2,052)	(1,624)
FINANCING ACTIVITIES		
Repayment of bank loan	(148)	-
Proceeds from issuance of long-term debt	1,007	1,160
Repayment of long-term debt	(4,292)	(11,909)
Common shares repurchased	(407)	(23)
Cash flows used in financing activities	(3,840)	(10,772)
Effect of changes in exchange rate on cash held in foreign currencies	378	977
Net decrease in cash and cash equivalents	(3,319)	(8,540)
Cash and cash equivalents, beginning of year	14,681	23,221
Cash and cash equivalents, end of year (Note 10)	11,362	14,681

Supplemental information related to the consolidated statement of cash flows (Note 8)

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

20-20 Technologies Inc.

Notes to Consolidated Financial Statements

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

1 – GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under Part 1A of the Companies Act (Québec), is a developer and provider of computer-aided design, sales and manufacturing software tailored for the interior design industry, including a suite of proprietary e-commerce solutions and related services.

2- ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in United States of America dollars (U.S. dollars).

Use of estimates

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

Significant estimates in these consolidated financial statements include the determination of the amount and timing of revenue to be recognized and the allowance for doubtful accounts, estimating of the useful life and recoverability of long-lived assets, including property and equipment and intangibles, estimating the fair value of assets and liabilities of acquired businesses for purchase price allocation purposes, as well as assessing the recoverability of income tax and other credits recoverable, future income tax assets and goodwill.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries:

	October 31,	
	2011	2010
	% owned	% owned
20-20 Technologies B.V.	100	100
Twenty Twenty (UK) Technologies Limited	100	100
Interior Design Software Ltda.	100	100
20-20 Technologies SAS	100	100
20-20 Technologies Commercial Corp.	100	100
20-20 Technologies International Inc.	100	100
20-20 Technologies Bangladesh Ltd.	100	100
20-20 Technologies GmbH and its subsidiary	100	100
Shanghai Twenty-Twenty Technologies Co Ltd.	100	100
20-20 Fusion Limited	100	100
20-20 Icovia Inc. (Note 9)	100	100
20-20 Technologies Limited	100	-

Reporting currency and translation of foreign currencies

The Company uses the U.S. dollar as its reporting currency. The Company's financial statements have been translated from the functional currency, the Canadian dollar (C\$), into the reporting currency using the current rate method as follows: assets and liabilities are translated using the exchange rate in effect at year-end and revenues and expenses are translated using the average rate for the period. The cumulative translation gains or losses have been included as a separate component of shareholders' equity, under "Accumulated other comprehensive income".

2- ACCOUNTING POLICIES (Continued)

Reporting currency and translation of foreign currencies (Continued)

Transactions concluded in currencies other than the functional currency have been translated as follows:

- Monetary assets and liabilities denominated in foreign currencies in the Canadian companies and in the integrated foreign operations have been translated at the exchange rates in effect at the balance sheet dates; non-monetary assets and liabilities have been translated at the rate in effect at transaction dates;
- Revenues and expenses have been translated at the weighted average exchange rates for the fiscal years, except for amortization, which is translated at the historical rate.

Exchange gains and losses arising from such transactions have been included in earnings.

Revenue recognition

The Company's revenues are derived from license, recurring license, maintenance and other service fees. The Company licenses its desktop and enterprise software solutions under single-user license agreements that are non-transferable. Each software license, for which the user pays a one-time fee, is typically perpetual in nature. However, for a recurring license, the user pays an annually fee for usage of the license, renewable yearly. The Company also provides maintenance and other recurring services, including customer support, software and electronic catalog updates and web services, which are renewable at the option of the client. Finally, the Company provides professional services that include training, electronic catalog creation and maintenance and integration services. The Company recognizes revenue in accordance with provisions of Section 3400, *Revenue*, Emerging Issues Committee Abstracts No. 141 (EIC-141), *Revenue Recognition*, and No. 142 (EIC-142), *Revenue Arrangements with Multiple Deliverables* of the CICA Handbook.

The Company recognizes license revenue when it has persuasive evidence that an agreement exists, the software product has been delivered, the amount to be paid by the customer is fixed and determinable, and collection is deemed probable.

Revenue from maintenance and other recurring services is recognized over the term of the agreement, which typically is 12 months. If it is not considered probable that the revenue is collectible, then it is only recognized when the fee is collected.

Revenue from professional services is recognized when the services are provided.

The Company also enters into various contracts with its clients for customized services such as electronic catalog creation and updates, training and integration services. Contract revenue is recorded based on the advancement of the work using the percentage-of-completion method. Under this method, contract revenue and profits are recognized proportionately based on the percentage of completion of the work under these contracts. The Company uses the efforts expended method to calculate the percentage of completion of work based on direct labor cost incurred at the date of the financial statements compared to estimated total direct labor costs to complete the contract. Contracts in progress are valued considering labor, including estimated profits. Contracts in progress represent contracts for which services have been rendered and which have not yet been invoiced. Losses are recorded when total cost estimates indicate that a loss will be recorded on the contract.

Deferred revenue is comprised of cash received or receivable for services invoiced that have not met the recognition criteria.

For contracts with multiple deliverables (e.g., licenses, maintenance and other services), the Company allocates revenue to each element of the contract based on the relative fair value of each of the elements. The revenue related to each element of the contract is then recognized as described above. The fair value of an element must be based on evidence that is specific to the vendor. The Company limits its assessment of vendor-specific objective evidence (VSOE) of fair value for each element to the price charged when the same element is sold separately. If VSOE of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the agreement fee related to the delivered elements is recognized as revenue, provided that all other revenue

2- ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

recognition criteria are met. If evidence of fair value of one or more undelivered elements cannot be established, revenue is deferred and recognized ratably over the last undelivered element.

Research and development costs and related tax credits

Research and development costs, net of tax credits, are charged to the consolidated earnings in the period in which they are incurred unless the criteria for capitalization for development costs under Canadian GAAP are met, in which case they are deferred and amortized. At October 31, 2011 and 2010, no development costs were deferred.

The Company is entitled to scientific research and experimental development ("SRED") tax credits granted by the Canadian federal government ("Federal") and the governments of the province of Quebec ("Provincial"). Federal SRED tax credits, which are non-refundable, are earned on qualified Canadian SRED expenditures and can only be used to offset Federal income taxes otherwise payable. Provincial SRED tax credits, which are refundable, are earned on qualified SRED salaries in the province of Quebec.

A refundable tax credit for the development of e-business in information technologies was introduced in the Quebec March 13, 2008 budget speech and subsequently adjusted as announced in the March 2009 budget. The Company expects to maintain its eligibility for this tax credit in fiscal 2011, and also for fiscal 2010. This tax credit is granted to eligible corporations regarding salaries paid to eligible employees for carrying out eligible activities. Such credits are earned at an annual rate of 30% of salaries paid to eligible employees engaged in eligible activities, to a maximum annual tax credit of \$20,000 per eligible employee. The Company must obtain, each year, an eligibility certificate from Investissement Québec confirming that it has satisfied the criterion relating to the proportion of the activities in the information technology sector and in respect of the services supplied.

Tax credits are recognized once the Company has reasonable assurance that they will be realized. The tax credits recorded by the Company are subject to review and approval by tax authorities and it is possible that these amounts will be different from the amounts accounted for. Tax credits are accounted for as a reduction of the related expenditures for items expensed in the consolidated earnings and a reduction of the related asset cost for items capitalized on the consolidated balance sheet.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that includes the substantive enactment date. The Company records a valuation allowance against any future income tax asset if, according to management, it is more likely than not that the asset will not be realized.

Stock-based compensation and other stock-based payments

The Company has stock-based compensation plans as described in Note 17. The Company uses the fair value method to account for stock options granted to employees, using the Black-Scholes option pricing model. Compensation expense is recognized over the applicable vesting period with a corresponding increase in Shareholders' Equity under "Common stock options and warrants". When stock options are exercised, the exercise price and the related portion previously recorded in "Common stock options and warrants" are credited to "Common shares".

The Company has a long-term incentive plan for executives as described in Note 17. When it is likely that the financial metric performance conditions attached to the long-term incentive will be met, the share option portion is recognized as described above and the cash portion is recognized in compensation expense and accrued liabilities. Compensation cost for the cash portion is prorated based on the underlying service period.

20-20 Technologies Inc.

Notes to Consolidated Financial Statements

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

2- ACCOUNTING POLICIES (Continued)

Deferred Share Units ("DSUs")

The Company granted deferred share units to directors as described in Note 17. The number of DSUs issued is calculated by dividing the compensation by the fair market value of the Company's shares on the date of grant. The DSUs outstanding are liabilities classified and are reevaluated monthly until settlement occurs at the share market price. All changes in measurement are recorded as stock-based compensation.

Employee Share Purchase Plan (ESPP)

The Company implemented a purchase plan of the Company's shares available to employees as described in Note 17. Compensation costs are included in the consolidated statement of earnings as stock-based compensation.

Earnings per share

Earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreement for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date. The treasury stock method is used to determine the dilutive effect of the stock options and warrants. This method assumes that proceeds of exercise of the stock options and warrants during the year are used to redeem common shares at their average price during the period.

Cash and cash equivalents

Cash and cash equivalents which include cash and short-term investments with original maturities of three months or less are presented at their fair value.

Depreciation and Amortization

Property and equipment and intangible assets are accounted for at cost. Assets under capital lease are carried at cost, being the present value of the minimum lease payments after deduction of executory costs. Management has estimated the useful life of its intangibles based upon rapidly changing industry trends and changes in its customers' businesses. These assets are amortized over their estimated useful lives according to the straight-line method and the following periods:

Property and equipment (Note 12)	
Office furniture	5 years
Computer equipment (including capital leases)	3 years
Leasehold improvements	Lease term equivalent to 10 years
Automotive equipment (including capital leases)	3 to 6 years
Intangible assets (Note 13)	
Client lists	3 or 7 years
Software	3 or 4 years
Trade names	3 or 5 years
Non-compete agreements	10 or 15 years
Distributor relationships	7 or 10 years

Property and equipment and intangible assets are not amortized until they are ready for their intended use.

Impairment of long-lived assets

The Company reviews the carrying values of its property and equipment and intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows, a write-down to their fair value is charged to the consolidated statement of earnings. When quoted market values are unavailable, the fair value of the long-lived assets is calculated based on estimates of discounted cash flows expected from their use and eventual disposition.

2- ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill is assessed for impairment through an estimation of the fair value of the reporting unit, using the discounted cash flow method, annually or more frequently when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amounts. In the event that the carrying amount exceeds fair value, a second step must be performed whereby the fair value of the reporting unit's goodwill must be estimated to determine if it is less than its carrying amount. An impairment charge is recorded when the goodwill carrying amount of the reporting unit exceeds its fair value.

Leasehold inducements

Leasehold inducements received in connection with the leasing of premises are amortized on a straight-line basis over the lease term.

Financial instruments

All financial assets are classified as held for trading or loans and receivables categories. Also, all financial liabilities are classified as other financial liabilities. On initial recognition, financial instruments are measured and recorded on the consolidated balance sheet at fair value. After initial recognition, the financial instruments are measured at amortized cost except for those in the held for trading category and derivatives which are measured at fair value. The effective interest related to the financial liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading are included in net earnings for the period in which it arises.

The Company has classified its cash and cash equivalents as held for trading. The trade accounts receivable, balance receivable on asset disposal, loan receivable, sales tax receivable, other receivables, contracts in progress and other assets were classified as loans and receivables, and the bank loan, the accounts payable and the long-term debt were classified as other financial liabilities. Income and losses on cash and cash equivalents are presented in financial expenses in the consolidated earnings.

Transaction costs

Transaction costs are capitalized to the cost of financial assets and liabilities when they are not classified as held for trading or derivatives. Capitalized transaction costs are being amortized using the effective rate method over the life of the related financial instrument.

Derivatives

The Company enters into forward exchange contracts to manage portions of its currency risk exposure. The Company does not account for these derivatives using hedge accounting; therefore forward exchange contracts are recorded at fair value. Gains or losses resulting from changes in fair values are included in financial expenses, in consolidated earnings.

Embedded derivatives are required to be separated from the host contract and accounted for as a derivative financial instrument at fair value if the embedded derivative and host contract are not closely related, and the combined contract is not held for trading or designated at fair value. Gain and losses resulting from changes in fair values are included in financial expenses, in the consolidated earnings.

FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that GAAP, as used by publicly accountable enterprises, will be fully converged into International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Company will be required to report under IFRS for its 2012 interim and annual consolidated financial statements, beginning with the interim period ended January 31, 2012.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

3 – SUPPLEMENTAL INFORMATION RELATED TO THE CONSOLIDATED STATEMENT OF EARNINGS

	Years ended October 31	
	2011	2010
Amortization of property and equipment	1,246	1,268
Amortization of intangible assets	2,308	2,626
Total amortization expense ^(a)	3,554	3,894
Interest on long-term debt	404	816
Other interest expense	256	370
Bank charges	340	299
Interest income on cash and cash equivalents and short-term investments	(81)	(242)
Total bank charges and interest expense	919	1,243
Research and development tax credits	1,213	1,336
Other tax credits	1,402	739
Total tax credits ^(b)	2,615	2,075

- a) Amortization expense on property and equipment and on intangible assets is allocated between cost of revenues and the operating expenses in the consolidated statement of earnings.
- b) The total tax credits recovered are allocated between cost of revenues and research and development expenses. During the year ended October 31, 2011, the Company filed for tax credits under the new Quebec government program. Estimates of the tax credits for the prior year have been revised under this new program increasing the prior year claim by \$295,000.
- c) During the year ended October 31, 2011, consulting fees were incurred with a related party of the Company for an amount totaling \$75,000. These transactions were made in the ordinary course of business at exchange amount agreed between the related parties.

4 - RESEARCH AND DEVELOPMENT EXPENSES

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

	Years ended October 31	
	2011	2010
Research and development expenses	12,833	13,028
Less: Tax credits	(2,043)	(1,838)
Plus: Amortization of software acquired	827	1,209
	11,617	12,399

5 - RESTRUCTURING EXPENSE**Operational Restructuring Plan**

On October 18, 2011, the Company approved a restructuring plan following the reorganization of the worldwide sales work force. The total estimated restructuring charge related to employee severance, associated to the Operational Restructuring Plan is \$393,000.

On October 19, 2010, the Company approved a restructuring plan in order to align its cost structure to its strategic plan and to adjust for market conditions in Southern Europe through 2010. The total estimated restructuring charge related to employee severance, associated to the Operational Restructuring Plan was \$399,000. Due to manufacturing market recovery in 2011, management canceled a part of the 2010 restructuring plan and adjusted the operational restructuring provision.

20-20 Technologies Inc.
Notes to Consolidated Financial Statements

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

5 - RESTRUCTURING EXPENSE (Continued)
Operational Restructuring Plan

The Company expects to complete all payments under these plans by October 2012. Any changes to the estimates of executing the Operational Restructuring Plan will be reflected in the future results of operations. The following table summarizes the amounts payable and the effect on consolidated earnings:

October 31, 2011	Total estimated cost (a)	Accounts payable as at October 31, 2010	Restructuring expense	Subsequent adjustment to the expense	Cash payments	Foreign exchange adjustment	Accounts payable as at October 31, 2011
Operational Restructuring Plan							
Severance	1,675	473	393	(200)	(171)	4	499
Other	155	73	-	-	(73)	-	-
Total	1,830	546	393	(200)	(244)	4	499

October 31, 2010	Total estimated cost (a)	Accounts payable as at October 31, 2009	Restructuring expense	Subsequent adjustment to the expense	Cash payments	Foreign exchange adjustment	Accounts payable as at October 31, 2010
Operational Restructuring Plan							
Severance	2,334	296	399	63	(286)	1	473
Outplacement fees	47	-	-	-	-	-	-
Other	235	111	-	53	(86)	(5)	73
Total	2,616	407	399	116	(372)	(4)	546

- a) During the year ended October 31, 2011, prior year's restructuring plans were completed representing \$786,000 of initial estimated costs.

6 - INCOME TAXES

	Years ended October 31,	
	2011	2010
	%	%
Combined statutory income tax rate in Canada (a)	28.7	30.1
Foreign income taxed at different rates	(5.2)	(7.3)
Non deductible items	7.3	6.6
Non taxable items	(2.2)	(10.1)
Change in valuation allowance	10.9	(4.2)
Impact of reduction in income tax rates on future income taxes	(0.9)	(1.3)
Expired losses	-	4.8
Uncertainties allowance reversal	-	(11.4)
Other differences	2.5	(0.8)
Effective income tax rate	41.1	6.4

- (a) The Company's combined statutory income tax rate in Canada includes the applicable provincial income tax rates.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

6 - INCOME TAXES (Continued)

The income tax effects of temporary differences that give rise to significant future income tax assets and liabilities are as follows:

	October 31,	
	2011	2010
	\$	\$
Future income tax assets		
Property and equipment	47	81
Intangible assets and goodwill	2,013	1,916
Financing costs	9	11
Restructuring costs	-	86
Leasehold inducements	94	75
Net operating loss carry-forwards	2,312	2,266
Capital losses	178	177
Other	310	420
Total future income tax assets	4,963	5,032
Less valuation allowance	(917)	(680)
Net future income tax assets	4,046	4,352
Future income tax liabilities		
Tax credits	(1,535)	(1,330)
Intangible assets and goodwill	(2,661)	(3,390)
Other	(427)	(223)
Total future income tax liabilities	(4,623)	(4,943)
Net future income tax liabilities	(577)	(591)

Amounts recognized in the consolidated balance sheet consist of :

	October 31,	
	2011	2010
	\$	\$
Future income tax assets – current	179	263
Future income tax assets – non-current	2,468	2,745
Future income tax liabilities – current	(252)	(207)
Future income tax liabilities – non-current	(2,972)	(3,392)
Net future income tax liabilities	(577)	(591)

As at October 31, 2011, the Company had operating losses carried forward for an unlimited period in certain European subsidiaries of \$2,786,000 for which a tax benefit was not recorded.

The Company has not recognized a future income tax liability for the undistributed earnings of its subsidiaries in the current or prior years since the Company does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings may become taxable. Any such liability cannot reasonably be determined at the present time.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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7 - EARNINGS PER SHARE

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

	Years ended October 31	
	2011	2010
Basic		
Net earnings	1,325	2,289
Weighted average number of common shares outstanding	18,885,710	18,926,896
Basic earnings per share	0.07	0.12
Diluted		
Net earnings	1,325	2,289
Weighted average number of common shares outstanding	18,885,710	18,926,896
Effect of dilutive stock options	18,208	3,334
Effect of dilutive warrants	23,319	18,605
Weighted average number of common shares outstanding - diluted	18,927,237	18,948,835
Diluted earnings per share	0.07	0.12

The options not included in the computation of the diluted earnings per share because their inclusion would be anti-dilutive since their exercise prices were greater than the average market price of the common shares for the periods are as follows:

	Years ended October 31	
	2011	2010
Options	745,134	785,134

These could have an effect on the calculation of the earnings per share in the future.

8 - SUPPLEMENTAL INFORMATION RELATED TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash working capital items are detailed as follows:

	Years ended October 31	
	2011	2010
Accounts receivable	(862)	976
Income taxes receivable	(11)	(75)
Contracts in progress	(174)	88
Prepaid expenses	(377)	290
Income tax credits recoverable	(920)	(1,011)
Accounts payable	(52)	88
Income taxes payable	(239)	(1,329)
Deferred revenue	(64)	(1,745)
	(2,699)	(2,718)

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

8 - SUPPLEMENTAL INFORMATION RELATED TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	Years ended October 31	
	2011	2010
Interest paid	717	1,193
Income taxes paid	1,167	2,282

- a) The amount recorded as a business acquisition in the investing activities of the statement of cash flows for the year ended October 31, 2011 represents the payment on the remaining purchase price of 20-20 Icovia (Note 9 a), a transaction that took place in the year ended October 31, 2010.
- b) Non-cash acquisition of property and equipment and intangible are presented in Note 12 and Note 13 respectively.

9 - BUSINESS ACQUISITIONS

During the year ended October 31, 2011 there was no business combinations. In 2010, the Company finalized the purchase price allocation for Planit*Fusion and acquired the remaining interest of 20-20 Icovia resulting in a net decrease in goodwill of \$34,000 recorded in 2010.

a) 20-20 Icovia Inc.

On September 1, 2010, the Company exercised its option to acquire the remaining 49% of the issued and outstanding shares of 20-20 Icovia for total consideration of \$137,000. The purchase price of \$137,000 has been allocated to the non-controlling interest liability for \$73,000 and the residual was allocated to goodwill for \$64,000.

b) Planit* Fusion

On February 9, 2010, the Company finalized the purchase price allocation following an out of court settlement in regard to a litigation instituted against Planit Holdings Ltd. Under this agreement, the total settlement amounted to \$385,000 (\$295,000 equivalent to £176,000 and \$90,000) and has been applied against the costs incurred and the cancellation of a debt to the seller for \$287,000. The residual amount of \$98,000 was accounted as a reduction of goodwill in 2010.

* - Planit is a Trademark used under License from Planit Holdings Limited

10 - CASH AND CASH EQUIVALENTS

	October 31	
	2011	2010
Cash	11,362	12,347
Cash equivalents		
Interest bearing corporate bank accounts, with no maturity date and interest rate of 0.65% to 0.95%	-	2,334
	11,362	14,681

20-20 Technologies Inc.

Notes to Consolidated Financial Statements

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

11 - ACCOUNTS RECEIVABLE

	October 31,	
	2011	2010
Trade accounts	13,548	12,072
Balance receivable on asset disposal	-	83
Loan receivable on demand without interest	100	226
Tax credits receivable	1,674	2,204
Sales tax receivable	331	-
Other	343	230
	15,996	14,815

12 - PROPERTY AND EQUIPMENT

	October 31, 2011		
	Cost	Accumulated amortization	Net
Office furniture	1,813	1,666	147
Computer equipment (including capital leases)	5,929	4,795	1,134
Leasehold improvements	2,834	2,149	685
Automotive equipment (including capital leases)	525	234	291
	11,101	8,844	2,257

	October 31, 2010		
	Cost	Accumulated amortization	Net
Office furniture	1,801	1,552	249
Computer equipment (including capital lease)	5,050	3,996	1,054
Leasehold improvements	2,793	1,942	851
Automotive equipment (including capital lease)	353	162	191
	9,997	7,652	2,345

Capital leases included in property and equipment:

	October 31, 2011		
	Cost	Accumulated amortization	Net
Computer equipment	125	63	62
Automotive equipment	391	130	261
	516	193	323

	October 31, 2010		
	Cost	Accumulated amortization	Net
Computer equipment	122	21	101
Automotive equipment	145	18	127
	267	39	228

As of October 31, 2011, accounts payable included \$5,000 (\$24,000 in 2010) in relation to property and equipment acquired but not yet paid. During the year, \$244,000 property and equipment were acquired under capital lease. Amortization expense of property and equipment acquired under capital leases was \$152,000 (\$39,000 in 2010).

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

13- INTANGIBLE ASSETS

	October 31, 2011		
	Cost	Accumulated amortization	Net
Client lists	9,530	6,952	2,578
Software	7,855	6,596	1,259
Trade names	538	538	-
Non-compete agreements	552	210	342
Distributor relationships	2,951	1,107	1,844
	21,426	15,403	6,023

	October 31, 2010		
	Cost	Accumulated amortization	Net
Client lists	9,293	5,684	3,609
Software	6,501	5,628	873
Trade names	524	500	24
Non-compete agreements	539	163	376
Distributor relationships	2,877	791	2,086
	19,734	12,766	6,968

During the year ended October 31, 2011, \$1,200,000 of intangible assets was acquired (\$41,000 in 2010). From this total, \$212,000 in software represents internal cost capitalized by the Company and \$125,000 of the consideration paid for software acquisitions was through the settlement of an outstanding loan receivable. As of October 31, 2011, accounts payable included \$48,000 in relation to intangible acquired but not yet paid.

14 – GOODWILL

	October 31,	
	2011	2010
Balance, beginning of year	61,472	58,161
Change in purchase price allocation (Note 9)	-	(34)
Effect of foreign currency exchange rate changes	1,565	3,345
Balance, end of year	63,037	61,472

15 – BANK LOAN

A subsidiary of the Company obtained in June 2008 a demand credit facility of \$300,000 (subsequently reduced to \$200,000) in the form of a secured revolving line of credit renewal with a United States bank. The facility renewable annually, bears interest at 0.5% plus a premium based on the US Prime rate and is secured by the subsidiary's assets (4.75% as of October 31, 2011 and 2010). This loan contains a covenant that requires the subsidiary to maintain a financial ratio. As of October 31, 2011, the credit facility is unused (\$51,934 as of October 2010) and the subsidiary was in compliance with the financial covenants and other obligations under this credit facility. On December 9, 2011, the credit facility was terminated.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

16 - LONG-TERM DEBT

		As at October 31,	
	Current portion	2011	2010
Payable in Canadian dollars			
Government loan (a)	-	-	3,082
Government loan (b)	1,036	3,416	4,330
Revolving credit line (c)	1,007	1,007	-
Payable in Pounds Sterling			
Other loans	56	286	131
	2,099	4,709	7,543
Current portion		2,099	2,833
		2,610	4,710

- a) The amount outstanding as of October 31, 2010 on this Government loan was repaid during 2011.
- b) Government loan, maximum authorized amount of C\$5,000,000, payable commencing 12 months after initial disbursement in eighty four monthly installments of C\$59,523 plus an additional amount based on the Company's net income up to a maximum of C\$350,000 per year, bearing interest at Investissement Québec's preferred rate plus 2% (5% as of October 31, 2011 and 2010), maturing on March 14, 2015. The loan is secured by a moveable hypothec of C\$6,000,000 on the Company's assets. The hypothec is subordinated in favor of the lender of the credit facility of the Company described in Note 16 c). This loan contains covenants that require the Company to maintain certain financial ratios. At October 31, 2011, was in compliance with the financial covenants and other obligations under this credit facility.

In addition, the lender was granted 102,459 warrants for no additional consideration. The fair value of the warrants was determined upon issuance using the Black-Scholes option pricing model and amounted to an aggregate of C\$182,203 and was credited to Common stock options and warrants in the Consolidated Shareholders' Equity. The nominal value of the loan (C\$5,000,000) was reduced by the fair value of the warrants for C\$182,203. The interest expense on the loan is determined by applying an effective interest rate of 5.33% to the outstanding liability component. The difference between the actual interest payment and the interest expense is accreted to the loan up to its face value.

- c) The Company has a credit facility with the following terms and conditions: a credit facility of up to \$15 million, maturing in May 15, 2013 but payable at the discretion of the Company at any time and the option to draw loans based on Cnd prime rate, U.S. base rate, Libor or banker's acceptances. The interest rate charged is the sum of the base rate applicable according to the type of loan (Libor, US Prime, CND Prime) and a premium which is based on certain financial test results achieved on a quarterly basis. The Company may request an extension of one year before February 15 of each year, commencing February 15, 2011, subject to the consent of lenders. The maximum premium on the interest rate is 2% on U.S. base rate and the Canadian prime rate, or 3.5% over LIBOR (2% as of October 31, 2010, calculated on the U.S. base rate or 3.5% over LIBOR). As of October 31, 2011, the interest rate applicable to this facility was 6.125%. The facility is secured by a moveable hypothec of C\$37.5 million on the Company's and two of its subsidiaries' assets. The amount that can be borrowed under this facility is subject to the maintenance of certain financial covenants which include a leverage ratio and an interest and rent coverage ratio. As of October 31, 2011, the unused portion of the facility available amounted to \$12 million and the Company was in compliance with the financial covenants and other obligations under this credit facility. The Company intends to repay the outstanding amounts under the credit facility within the next 12 months and therefore presents the balance outstanding within the current portion.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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16 - LONG-TERM DEBT (continued)

The installments on long-term debt for the next five years assume that the maximum payment is made yearly in relation with Government loan b). The payments are as follows:

	As at October 31, 2011		
	\$	\$	\$
	Payment	Interest accretion	Total
2012	2,134	(35)	2,099
2013	1,214	(24)	1,190
2014	1,158	(11)	1,147
2015	276	(3)	273
Total	4,782	(73)	4,709

17- STOCK BASED-COMPENSATION**Stock option plans**

Under a stock option plan adopted in 1999, the Company could grant a maximum of 720,000 options to its officers and key employees, all of which have been granted. Since its inception, 214,360 shares have been issued following the exercise of options. The options granted to officers could be exercised as of the grant date or on another basis as determined by the Board. Unless determined otherwise by the Board, options granted to other employees could be exercised at the rate of 20% per year beginning on the grant date anniversary. These options expire 6 to 12 years after being granted. When an employee leaves the Company, options held must be exercised within 90 days.

On May 27, 2004, the Board of Directors approved the termination of the above plan, and such resolution was effective following the completion of the initial public offering. Such terminations did not affect options previously granted under these plans which were not exercised or expired.

In conjunction with its initial public offering, the Company established a new share option plan (the "Share Option Plan"). Under the Share Option Plan, options to acquire Common Shares may be granted to officers, consultants and full-time employees of the Company and its subsidiaries. The terms, exercise price and number of Common Shares covered by each option as well as the vesting periods and conditions of such options is determined by the Board of Directors at the time the options are granted but cannot be more favorable than those permitted under applicable securities legislation. The total number of Common Shares that is reserved for issuance under the Share Option Plan and the previous stock option plans cannot exceed, in the aggregate, 10% of the issued and outstanding Common Shares.

Since its inception, 540,134 options have been granted under the Share Option Plan. Options granted vest 33.3% per year over 3 years and expire 10 years after being granted.

The Company established in 2009 a long-term incentive plan for executives including a cash portion and a share option grant portion. Option grant levels are established based on performance conditions set in the long-term incentives plan for each executive and are considered part of the Share Option Plan described above. The share option grant and cash portions represent respectively 50% of reward on each performance condition achieved based on long-term incentive set for each executive. The measurement of the achievement of the long term incentive plan conditions is calculated on a multiyear basis over a three year period. In accordance with the incentive plan conditions, annual payments and the option grant additional vesting period will only start in 2013, reflecting the first program cycle (2010 to 2012).

During the year ended October 31, 2011, the Company did not grant additional options in conjunction with the Share Option Plan or under the long term incentive plan (7,857 options in 2010).

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17- STOCK BASED-COMPENSATION (Continued)

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

	October 31, 2011		October 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
		C\$		C\$
Balance, beginning of year	825,134	5.38	825,497	5.42
Options granted	-	-	7,857	3.24
Options cancelled	-	-	(8,220)	(7.38)
Balance, end of year	825,134	5.38	825,134	5.38
Options exercisable, end of year	626,666	6.11	563,333	6.48

The following table summarizes information about options outstanding and exercisable:

Exercise Price	Expiration date	Outstanding Number	Exercisable Number	October 31, 2011	
				Outstanding	Exercisable
				Weighted Average Remaining Contractual Life in Years	
C\$					
2.44	September 2019	120,000	80,000	7.9	7.9
3.24	October 2019	197,277	46,666	8.0	8.0
3.24	March 2020	7,857	-	8.4	-
4.65	October 2013	120,000	120,000	2.0	2.0
6.01	November 2013	100,000	100,000	2.0	2.0
6.50	November 2014	15,000	15,000	3.1	3.1
8.03	November 2013	100,000	100,000	2.0	2.0
8.26	January 2016	115,000	115,000	4.2	4.2
9.41	April 2015	50,000	50,000	3.4	3.4
		825,134	626,666	4.8	3.7

Deferred share unit plan

On November 29, 2004, the Board of Directors of the Company approved a deferred share unit ("DSU") plan for the benefit of the directors under which they will receive 100% or less of their annual retainer or total compensation in the form of DSUs. Under the terms of the DSU plan, at the end of each quarter, a number of DSUs equal to the number of common shares that could be 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. At such time as any director leaves the Board of Directors, such director will receive lump sum cash payment equal to his credit balance under the DSU plan.

During the year ended October 31, 2011, 41,341 DSUs (28,592 in 2010) were issued under the plan. As of October 31, 2011, the Company has recorded an amount payable of \$441,000 (\$574,000 as of October 31, 2010) related to the DSU plan.

Warrants

On September 14, 2009, the Company under the term of a loan agreement with Investissement Québec (Note 16 b), issued 102,459 warrants. Each warrant permits the acquisition of one common share at an exercise price of C\$2.44 and will expire at the earlier of 2 years after the full reimbursement of the loan or August 27, 2018. No warrants were exercised during the years ended October 31, 2011 and 2010.

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

17- STOCK BASED-COMPENSATION (Continued)**Employee Share Purchase Plan (ESPP)**

The Company Employee Share Purchase Plan (ESPP) came into effect on May 23, 2007. The purpose of this plan is to provide the participants with an incentive to become Shareholders of the Company. The ESPP allows employees to contribute up to the lesser of 10% of their eligible compensation and C\$10,000 annually. The Company contributes one-third of each employee's contribution. All contributions are then remitted to the Administrative Agent who purchases monthly, on behalf of the employees, Common shares on the open market. The Company also assumes all transaction fees related to the purchases of shares.

During the year ended October 31, 2011, an amount of \$31,000 (\$47,000 in 2010) related to the Company's contribution, was charged to stock-based compensation expense.

The impact of the stock based-compensation expense in the consolidated statement of earnings is as follows:

	Years ended October 31,	
	2011	2010
Stock options plans	200	319
Deferred share unit plan (DSU)		
Expense of the period	125	92
Reevaluation of the liability	(140)	107
Total non-cash stock based-compensation expense	185	518
Employee share purchase plan (ESPP)	31	47
Total stock based-compensation expense	216	565

18 - CAPITAL STOCK**Authorized:**

- Unlimited number of Common shares, voting and participating
- Unlimited number of preferred shares whose privileges, terms and conditions are to be established when they are issued.

	2011	2010
Issued:		
Common Shares	18,817,192	18,921,792

In October 2008, the Company made a loan to a director who is an officer, for an amount of \$82,463 to permit him to exercise outstanding stock options. The promissory note is payable upon demand, is recorded against Capital Stock and bears interest at the rate published quarterly by Canada Revenue Agency (1% as at October 31, 2011 and 2010).

18 - CAPITAL STOCK (continued)

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 March 31, 2012. The Company may repurchase for cancellation, up to 946,089 common shares over a maximum period of 12 months representing approximately 5% of its 18,921,792 issued and outstanding as of March 29, 2011. The consideration to be paid by the Company for any common shares it will repurchase under the Bid will be the market price of such common shares at the time of acquisition.

During the year ended October 31, 2011, 133,900 shares (6,300 in 2010) were repurchased for a total cash consideration of \$407,000 (\$23,000 in 2010). As of October 31, 2011, 29,300 out of 133,900 shares repurchased were not yet cancelled. In addition, 25,100 shares repurchased since October 31, 2011 have not been canceled as of January 19, 2012.

Shareholder rights plan

The Company's shareholder rights plan requires anyone who seeks to acquire 20% or more of the Company's voting shares to make a bid complying with specific provisions.

19 - FINANCIAL INSTRUMENTS

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are described below:

Credit Risk

The Company's maximum exposure to credit risk consists in the carrying value of its cash and cash equivalents and accounts receivable (except tax credits recoverable) and other assets.

The Company's exposure to credit risk associated with its accounts receivable is the risk that a client will be unable to pay amounts due to the Company. In its determination of the valuation of accounts receivable, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed in the balance sheet are net of these allowances for bad debts. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, his credit worthiness and the then current economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. All bad debt write-offs are charged to sales and marketing expenses.

The Company believes that the credit risk of accounts receivable is mitigated by the following:

- i. A broad client base dispersed across various geographic locations. However, the client base is somewhat concentrated in the interior design and furniture manufacturing sectors and may be affected by any downturns due to prevailing economic conditions in any given geography.
- ii. Approximately 65.5% (87.3% in 2010) of trade receivables are past due for less than 90 days. The Company does not require collateral or other security from clients for trade receivables; however credit is extended to clients following an evaluation of creditworthiness. In addition, the Company performs periodic credit reviews of its clients.
- iii. The Company's three largest customers do not account for 10% of total revenues.

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19 - FINANCIAL INSTRUMENTS (Continued)

All of the Company's accounts receivable and other assets have been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and a provision of \$1.4 million (\$2.3 million in 2010) has been recorded accordingly. The impaired accounts receivable are mostly due from customers that are experiencing financial difficulties.

As at October 31, 2011, the aging of trade receivables is as follows:

	October 31,	
	2011	2010
Current:		
Past due 1-30 days	3,833	5,433
Past due 31-90 days	2,411	2,273
Past due over 90 days	2,624	2,831
	6,093	3,835
Trade accounts receivable	14,961	14,372
Less allowance for doubtful accounts	(1,413)	(2,300)
	13,548	12,072

The following table provides the change in allowance for doubtful accounts for trade accounts receivable:

	October 31,	
	2011	2010
Balance at beginning of the year	2,300	2,403
Accounts written off	(1,254)	(673)
Allowance for doubtful accounts	309	432
Effect of foreign currency exchange rate changes	58	138
Balance at the end of the year	1,413	2,300

The credit risk on cash and cash equivalents and forward exchange contracts is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. This credit risk is generally diversified since the Company deals with many different establishments.

Fair value of derivative financial instruments

The Company enters into forward exchange contracts to sell amounts of currency in the future at predetermined exchange rates. These forward exchange contracts serve to protect against the risk exposure to future exchange rate fluctuations. As at October 31, 2011, the fair value of such derivative financial instruments is determined based on prices obtained from the Company's financial institution for identical or similar financial instruments. The following table summarizes the amounts of committed currency sales, the average rate and the favorable (unfavorable) fair value at the specified date of the forward contracts according to their remaining terms:

Remaining term	Contract amount	October 31, 2011	
		Average rate	Fair value
		C\$	\$
Less than three months			
Forward contracts- Pound	1,800	1.58	(40)
Forward contracts- USD	4,000	0.9915	(29)
Forward contracts- Euro	4,000	1.406	100

The fair value of forward exchange contracts has been accounted for as an unrealized foreign exchange gain, presented in financial expenses in the consolidated earnings, and in accounts receivable for \$31,000 (\$7,000 in 2010). The realized loss on forward exchange contracts amounted to \$85,000 (\$24,000 of gain in 2010) for the year ended October 31, 2011 and is accounted for as a foreign exchange loss, presented in financial expenses in the consolidated earnings.

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Notes to Consolidated Financial Statements

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

19 - FINANCIAL INSTRUMENTS (Continued)

Foreign exchange risk

The Company operates internationally and is exposed to risk resulting from changes in foreign currency rates. The functional currency used by the Company is the Canadian dollar; however, the Company's financial statements are presented in U.S. dollars. Therefore, only earnings resulting from transactions in currencies other than the Canadian dollar expose the Company to fluctuations in currency rates. With respect to Canadian operations, the great majority of revenues are billed and recognized in U.S. dollars while the majority of expenses are incurred in Canadian dollars. The Company uses forward exchange contracts to sell U.S. dollars in order to meet future Canadian dollar expense requirements thereby reducing, but not eliminating, the impact of changes in exchange rates.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and their degree of volatility. Of the total financial assets of \$27,255,000 (\$28,630,000 in 2010) and financial liabilities of \$16,611,000 (\$19,598,000 in 2010) as of October 31, 2011 and 2010, amounts expressed in foreign currencies and the equivalent total in U.S. dollars are as follows:

As at October 31, 2011	Total \$	CND \$	\$	€	£	BDT	RMB	BRL
<i>Financial assets</i>								
Cash and cash equivalents	11,362	685	3,961	829	2,820	3,118	5,428	184
Accounts receivable	14,322	1,038	3,006	5,668	955	14	3,615	430
Contracts in progress	356	-	212	9	83	-	-	-
Other assets	1,215	1,000	25	122	-	974	4	-
	27,255	2,723	7,204	6,628	3,858	4,106	9,047	614
<i>Financial liabilities</i>								
Bank loan	-	-	-	-	-	-	-	-
Accounts payable	11,902	3,700	2,568	2,998	563	846	1,697	410
Long-term debt	4,709	4,394	-	-	177	-	-	-
	16,611	8,094	2,568	2,998	740	846	1,697	410

As at October 31, 2010	Total \$	CND \$	\$	€	£	BDT	RMB	BRL
<i>Financial assets</i>								
Cash and cash equivalents	14,681	4,537	1,531	806	3,835	1,118	8,661	200
Accounts receivable	12,611	450	3,908	4,330	1,213	-	929	275
Contracts in progress	178	68	67	26	4	-	-	-
Other assets	1,160	975	25	124	-	405	-	-
	28,630	6,030	5,531	5,286	5,052	1,523	9,590	475
<i>Financial liabilities</i>								
Bank loan	148	-	148	-	-	-	-	-
Accounts payable	11,907	4,281	2,847	2,560	589	199	1,311	269
Long-term debt	7,543	7,552	-	-	82	-	-	-
	19,598	11,833	2,995	2,560	671	199	1,311	269

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

19 - FINANCIAL INSTRUMENTS (Continued)**Currencies Legend:**

\$	- U.S. Dollar	RMB	- Chinese Renminbi
€	- European Euro	BRL	- Brazilian Real
£	- U.K. Pound Sterling	BDT	- Bangladesh taka
CND\$	- Canadian Dollar		

The Company is mainly exposed to fluctuations in the U.S. dollar, Euro and the U.K. Pound Sterling. The following table details the Company's sensitivity to a 10% variation of the U.S. dollar, the Euro and the U.K. Pound on net earnings and comprehensive income against the Canadian dollar. The sensitivity analysis includes foreign currency denominated monetary items and adjusts their translation at period end for a 10% change in foreign currency rates. A 10% variation in the other currencies would not have a significant effect on the net earnings. A weaker U.S. dollar or a stronger Euro and the U.K. Pound Sterling with respect to the Canadian dollar will result in a positive impact while the reverse would result from a stronger U.S. dollar or a weaker Euro and the U.K. Pound.

	U.S. dollar impact	Euro impact	UK Pound impact
Exchange rate as at October 31, 2011	0.9935	1.3856	1.6321
On net earnings	C\$461,000 \$464,000	C\$503,000 \$506,000	C\$500,000 \$503,000
On comprehensive income - increase	6,9 million	N/A	N/A
- decrease	(6,9 million)	N/A	N/A

Interest rate risk

The Company does not enter into derivative financial instruments for speculative purposes. It is exposed to interest rate risk on its long-term debt and bank loan since the interest rates applicable are variable and is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. A 1% variation in interest rates would have an impact of approximately \$47,000 (\$75,000 in 2010) on the net earnings, on an annual basis.

Fair value of other than derivative financial instruments

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

When the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of cash and cash equivalents was measured using Level 2 inputs in the fair value hierarchy. The fair value of the foreign exchange contracts were measured using Level 2 inputs in the fair value hierarchy.

20-20 Technologies Inc.

Notes to Consolidated Financial Statements

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

19 - FINANCIAL INSTRUMENTS (Continued)

The fair value of foreign exchange contracts is measured using a generally accepted valuation technique which is the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the counterparty would use if it were to renegotiate the same contract at today's date under the same conditions. The Company's or the counterparty's credit risk is also taken into consideration in determining fair value.

Trade accounts receivable, balance receivable on asset disposal, loan receivable, sales tax receivable, other receivables, contract in progress as well as the bank loan and accounts payable are short-term financial instruments whose fair value is equivalent to their carrying value given that they will mature shortly.

The fair value of rental deposits included in the other assets approximates the carrying value of \$525,000 (\$488,000 in 2010). For the rental deposits consisting in term deposits, the fair value was established using the market value with an interest rate of 3.806% (4.347% in 2010). The fair value of the other asset excluding the rental deposits approximates the carrying value at the balance sheet date because the amount is on demand.

The fair value of the government loan denominated in Canadian dollars is C\$3,239,000 (C\$4,450,000 in 2010) compared to a carrying value of C\$3,416,000 (C\$4,330,000 in 2010). The fair value was established using the cost of borrowing that the Company could have obtained as of October 31, 2011 (5.56% in 2011 and 5.71% in 2010) for a loan with similar terms, conditions and maturity dates. The fair value of the revolving line of credit and other loans approximates the carrying value at the balance sheet date because of their shorter term maturities and because they bear interest at a variable rates.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, borrowing under the existing credit facilities and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The credit facility covenants were respected during the year and as of October 31, 2011. Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

The Company's liabilities have contractual maturities which are summarized below:

	Current within	Non-Current later than	
	12 months	1-5 years	5 years
	\$	\$	\$
Accounts payable	11,902	-	-
Long-term debt- Principal	2,134	2,648	-
Long-term debt- Interest	234	190	-
	14,270	2,838	-

20 - CAPITAL RISK MANAGEMENT

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximizing the growth of its business and the returns to its shareholders. The Company's capital consists of shareholders equity, excluding accumulated other comprehensive income. In its capital structure, the Company considers its share repurchase program (Normal Course Issuer Bid) as a means to achieve its objectives.

This objective is achieved by prudently managing the capital generated through internal growth, optimizing the use of lower cost capital and raising share capital when required to fund growth initiatives as well as a conservative approach to safeguarding its balance sheet.

20-20 Technologies Inc.

Notes to Consolidated Financial Statements

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

20 - CAPITAL RISK MANAGEMENT (Continued)

Consistent with others in the industry, the Company monitors capital on the basis of the ratio of return on capital (net earnings, excluding non-recurring items divided by the average book value of shareholders' equity, excluding accumulated other comprehensive income). The Company also monitors capital on the basis of the ratio of interest bearing debt to capital which the Company expects to maintain in the range of 0.1 to 0.4 to 1.0.

The Company monitors these ratios and reports them to its Board of directors on a quarterly basis. The Company's objectives for capital for the 2011 fiscal year include:

	Objectives	As of October 31	
		2011	2010
i - Long term debt to Capital ratio	not to exceed 0.3 to 1.0	0.08 to 1.0	0.13 to 1.0
ii - Current Assets to Current Liabilities ratio	a minimum of 1.0	1.14 to 1.0	1.16 to 1.0
iii - Interest bearing debt to EBITDA ⁽¹⁾	not to exceed 2.5 to 1.0	0.60 to 1.0	0.89 to 1.0

¹⁾ EBITDA is a non-Canadian GAAP measure that the Company defines as earnings from operations plus depreciation and amortization and specific items not expected to occur frequently.

The Company intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics. Also, due to imposed capital requirements related to its credit facility, the Company monitors the long term debt to net worth ratio to ensure that it does not exceed 1.0. The Company was in compliance with the above requirement during the year ended October 31, 2011.

21 - COMMITMENTS AND CONTINGENCIES

The Company has entered into various leases expiring on different dates until June 30, 2024, which call for lease payments of \$13,528,000 for the rental of buildings and other operating leases. The minimum lease payments for the coming years are:

	Years ending October 31,
	\$
2012	2,460
2013	2,271
2014	1,266
2015	1,017
2016	627
2017 and subsequent years	5,887

At trial earlier this year, a jury established that a competitor to the Company was liable for damages toward 20-20 for illegally downloading its intellectual property. A trial is currently underway to establish the value of damages resulting from the illegal download and Management believes that it is impossible to estimate the amount of such damages that may be awarded by the Court at this time.

Through the course of operations, the Company may be exposed to a number of lawsuits, claims and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accrual has been made, the Company has no reason to believe that the ultimate resolution of such matters will have a material impact on its financial position.

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

22 - SEGMENTED INFORMATION

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

	October 31,	
	2011	2010
	\$	\$
Revenue by geographic location		
Canada	18,284	19,571
United States	17,380	15,756
United Kingdom	10,755	10,786
Germany	9,643	8,338
France	8,120	7,068
Europe – others	1,212	1,527
Other countries	3,323	2,187
	68,717	65,233

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

	October 31,	
	2011	2010
	\$	\$
Revenue by product type		
Licenses	20,903	20,237
Recurring licenses	5,678	4,947
Maintenance and other recurring services	29,250	28,916
Professional services	12,886	11,133
	68,717	65,233

	October 31,	
	2011	2010
	\$	\$
Revenue by sector		
Home	36,195	36,354
Manufacturing	20,913	18,548
Office	11,609	10,331
	68,717	65,233

	October 31,	
	2011	2010
	\$	\$
Property and equipment by geographic location		
Canada	1,081	1,291
United States	139	141
United Kingdom	485	401
Germany	172	150
France	248	279
Europe – others	9	5
Other countries	123	78
	2,257	2,345

20-20 Technologies Inc.**Notes to Consolidated Financial Statements**

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

22 - SEGMENTED INFORMATION (Continued)

	October 31,	
	2011	2010
Goodwill by geographic location		
Canada	1,075	1,049
United States	21,032	20,510
United Kingdom	28,929	28,210
Germany	3,992	3,892
France	6,127	5,975
Europe-others	1,448	1,412
Other countries	434	424
	63,037	61,472

23- COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the basis of presentation used in the current year.