DESCARTES™

THE DESCARTES SYSTEMS GROUP INC.

ANNUAL REPORT

US GAAP FINANCIAL RESULTS FOR 2016 FISCAL YEAR

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains references to Descartes using the words "we," "us," "our" and similar words and the reader is referred to using the words "you," "your," and similar words.

This MD&A also refers to our fiscal years. Our fiscal year commences on February 1st of each year and ends on January 31st of the following year. Our fiscal year, which ended on January 31, 2016, is referred to as the "current fiscal year", "fiscal 2016", "2016" or using similar words. Our fiscal year, which ended on January 31, 2015, is referred to as the "previous fiscal year", "fiscal 2015", "2015" or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends. For example, 2017 refers to the annual period ending January 31, 2017 and the "fourth quarter of 2017" refers to the quarter ending January 31, 2017.

This MD&A, which is prepared as of March 3, 2016, covers our year ended January 31, 2016, as compared to years ended January 31, 2015 and 2014. You should read the MD&A in conjunction with our audited consolidated financial statements for 2016. We prepare and file our consolidated financial statements and MD&A in United States ("US") dollars and in accordance with US generally accepted accounting principles ("GAAP"). All dollar amounts we use in the MD&A are in US currency, unless we indicate otherwise.

We have prepared the MD&A with reference to the Form 51-102F1 MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators.

Additional information about us, including copies of our continuous disclosure materials such as our annual information form, is available on our website at http://www.descartes.com, through the EDGAR website at http://www.sec.gov or through the SEDAR website at http://www.sedar.com.

Certain statements made in this Annual Report to Shareholders, including, but not limited to, statements in the "Trends / Business Outlook" section and statements regarding our expectations concerning future revenues and earnings, including potential variances from period to period; our expectations regarding the cyclical nature of our business, including an expectation that our third quarter will be strongest for shipping volumes and our first quarter will be the weakest; mix of revenues between services revenues and license revenues and potential variances from period to period; our plans to focus on generating services revenues yet to continue to allow customers to elect to license technology in lieu of subscribing to services; our expected loss of revenues and customers; our baseline calibration; our ability to keep our operating expenses at a level below our baseline revenues; our future business plans and business planning process; allocation of purchase price for completed acquisitions; our expectations regarding future restructuring charges and cost-reduction activities; expenses, including amortization of intangibles and stock-based compensation; goodwill impairment tests and the possibility of future impairment adjustments; capital expenditures; acquisition-related costs; our liability with respect to various claims and suits arising in the ordinary course; any commitments referred to in the "Commitments, Contingencies and Guarantees" section of this MD&A; our intention to actively explore future business combinations and other strategic transactions; our liability under indemnification obligations; our reinvestment of earnings of subsidiaries back into such subsidiaries; the sufficiency of capital to meet working capital, capital expenditure, debt repayment requirements and our anticipated growth strategy; our ability to raise capital; our adoption of certain accounting standards and other matters related thereto constitute forward-looking information for the purposes of applicable securities laws ("forward-looking statements"). When used in this document, the words "believe," "plan," "expect," "anticipate," "intend," "continue," "may," "will," "should" or the negative of such terms and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on certain assumptions including the following: global shipment volumes continuing to increase at levels consistent with the average growth rates of the global economy; countries continuing to implement and enforce existing and additional customs and security regulations relating to the provision of electronic information for imports and exports; countries continuing to implement and enforce existing and additional trade restrictions and sanctioned party lists with respect to doing business with certain countries, organizations, entities and individuals; Descartes' continued operation of a secure and reliable business network; the stability of general economic and market conditions, currency exchange rates, and interest rates; equity and debt markets continuing to provide Descartes with access to capital; Descartes' continued ability to identify and source attractive and executable business combination opportunities; Descartes' ability to develop solutions that keep pace with the continuing changes in technology, and our continued compliance with third party intellectual property rights. These assumptions may prove to be inaccurate. Such forward-looking statements also involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Descartes, or developments in Descartes' business or industry, to differ materially from the anticipated results, performance or achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the factors discussed under the heading "Certain Factors That May Affect Future Results" in this MD&A and in other documents filed with the Securities and Exchange Commission, the Ontario Securities Commission and other securities commissions across Canada from time to time. If any of such risks actually occur, they could materially adversely affect our business, financial condition or results of operations. In that case, the trading price of our common shares could decline, perhaps materially. Readers are cautioned not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Except as required by applicable law, we do not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions, assumptions or circumstances on which any such statements are based.

OVERVIEW

We use technology and networks to simplify complex business processes. We are primarily focused on logistics and supply chain management business processes. Our solutions are predominantly cloud-based and are focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service ("SaaS") solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access and leverage global trade and restricted party data; file customs and security documents for imports and exports; research and perform trade tariff and duty calculations and complete numerous other logistics processes by participating in a large, collaborative multi-modal logistics community. Our pricing model provides our customers with flexibility in purchasing our solutions either on a subscription, transactional or perpetual license basis. Our primary focus is on serving transportation providers (air, ocean and truck modes), logistics service providers (including third-party logistics providers, freight forwarders and customs brokers) and distribution-intensive companies where delivery is either a key or a defining part of their own product or service offering, or where there is an opportunity to reduce costs and improve service levels by optimizing the use of their assets.

The Market

Logistics is the management of the flow of resources between a point of origin and a point of destination – processes that move items (such as goods, people, information) from point A to point B. Supply chain management is broader than logistics and includes the sourcing, procurement, conversion and storage of resources for consumption by an enterprise. Logistics and supply chain management have been evolving over the past several years as companies are increasingly seeking automation and real-time control of their supply chain activities. We believe companies are looking for integrated solutions for managing inventory in transit, conveyance units, people and business documents.

We believe logistics-intensive organizations are seeking new ways to reduce operating costs, differentiate themselves, improve margins, and better serve customers. Existing global trade and transportation processes are often manual and complex to manage. This is a consequence of the growing number of business partners participating in companies' global supply chains and a lack of standardized business processes.

Additionally, global sourcing, logistics outsourcing, adoption of additional customs and regulatory requirements and the increased rate of change in day-to-day business requirements are adding to the overall complexities that companies face in planning and executing in their supply chains. Whether a shipment is delayed at the border, a customer changes an order or a breakdown occurs on the road, there are increasingly more issues that can significantly impact the execution of fulfillment schedules and associated costs.

These challenges are heightened for suppliers that have end-customers frequently demanding narrower order-to-fulfillment periods, lower prices and greater flexibility in scheduling and rescheduling deliveries. End customers also want real-time updates on delivery status, adding considerable burden to supply chain management as process efficiency is balanced with affordable service.

In this market, the movement and sharing of data between parties involved in the logistics process is equally important to the physical movement of goods. Manual, fragmented and distributed logistics solutions are often proving inadequate to address the needs of operators. Connecting manufacturers and suppliers to carriers on an individual, one-off basis is too costly, complex and risky for organizations dealing with many trading partners. Further, many of these solutions do not provide the flexibility required to efficiently accommodate varied processes for organizations to remain competitive. We believe this presents an opportunity for logistics technology providers to unite this highly fragmented community and help customers improve efficiencies in their operations.

As the market continues to change, we have been evolving to meet our customers' needs. The rate of adoption of newer logistics and supply chain management technologies is evolving, but a large number of organizations still have manual business processes. We have been educating our prospects and customers on the value of connecting to trading partners through our Global

Logistics Network ("GLN") and automating, as well as standardizing, multi-party business processes. We believe that our customers are increasingly looking for a single source, neutral, network-based solution provider who can help them manage the end-to-end shipment process, which involves planning a shipment, booking transportation, tracking the shipment as it moves, managing regulatory compliance filings during the move and, finally, settling and auditing of transportation invoices.

Additionally, regulatory initiatives mandating electronic filing of shipment information with customs authorities require companies to automate aspects of their shipping processes to remain compliant and competitive. Our customs compliance technology helps shippers, transportation providers, freight forwarders and other logistics intermediaries to securely and electronically file shipment and tariff/duty information with customs authorities and self-audit their own efforts. Our technology also helps carriers and freight forwarders efficiently coordinate with customs brokers and agencies to expedite cross-border shipments. While many compliance initiatives started in the US, compliance has now become a global issue with significantly more international shipments crossing several borders on the way to their final destinations.

Solutions

Descartes' Logistics Technology Platform unites a growing global community of logistics-focused parties, allowing them to transact business while leveraging a broad array of applications designed to help logistics-intensive businesses thrive. Descartes' Logistics Technology Platform is the simple, elegant synthesis of a network, applications and a community.

The Logistics Technology Platform fuses our GLN, an extensive logistics network covering multiple transportation modes, with a broad array of modular, interoperable web and wireless logistics management solutions. Designed to help accelerate time-to-value and increase productivity and performance for businesses of all sizes, the Logistics Technology Platform leverages the GLN's multimodal logistics community to enable companies to quickly and cost-effectively connect and collaborate.

Descartes' GLN, the underlying foundation of the Logistics Technology Platform, manages the flow of data and documents that track and control inventory, assets and people in motion. Designed expressly for logistics operations, it is native to the particularities of different transportation modes and country borders. As a state-of-the-art messaging network with wireless capabilities, the GLN helps manage business processes in real-time and in-motion. Its capabilities go beyond logistics, supporting common commercial transactions, regulatory compliance documents, and customer specific needs.

The GLN extends its reach using interconnect agreements with other general and logistics-specific networks, to offer companies access to a wide array of trading partners. With the flexibility to connect and collaborate in unique ways, companies can effectively route or transform data to and from partners and leverage new and existing Descartes solutions on the network. The GLN allows "low tech" partners to act and respond with "high tech" capabilities and connect to the transient partners that exist in many logistics operations. This inherent adaptability creates opportunities to develop logistics business processes that can help customers differentiate themselves from their competitors.

Descartes' Logistics Application Suite offers a wide array of modular, cloud-based, interoperable web and wireless logistics management applications. These solutions embody Descartes' deep domain expertise, not merely "check box" functionality. These solutions deliver value for a broad range of logistics intensive organizations, whether they purchase transportation, run their own fleet, operate globally or locally, or work across air, ocean or ground transportation. Descartes' comprehensive suite of solutions includes:

- Routing, Mobile and Telematics;
- Transportation Management;
- Customs & Regulatory Compliance
- Trade Data;
- Global Logistics Network Services; and
- Broker & Forwarder Enterprise Systems.

Powered by the Logistics Technology Platform, Descartes' applications are modular and interoperable to allow organizations the flexibility to deploy them quickly within an existing portfolio of solutions. Implementation is streamlined because these solutions use web-native or wireless user interfaces and are pre-integrated with the GLN. With interoperable and multi-party solutions, Descartes' solutions are designed to deliver functionality that can enhance a logistics operation's performance and productivity both within the organization and across a complex network of partners.

Descartes' GLN community members enjoy extended command of operations and accelerated time-to-value relative to many alternative logistics solutions. Given the inter-enterprise nature of logistics, quickly gaining access to partners is paramount. For this reason, Descartes has focused on growing a community that strategically attracts and retains relevant logistics parties. Upon joining the GLN community, many companies find that a number of their trading partners are already members with an existing connection to the GLN. This helps to minimize the time required to integrate Descartes' logistics management applications and to begin realizing results. Descartes is committed to continuing to expand community membership. Companies that join the GLN community or extend their participation find a single place where their entire logistics network can exist regardless of the range of transportation modes, the number of trading partners or the variety of regulatory agencies.

Sales and Distribution

Our sales efforts are primarily directed towards two specific customer markets: (a) transportation companies and logistics service providers; and (b) manufacturers, retailers, distributors and mobile business service providers. Our sales staff is regionally based and trained to sell across our solutions to specific customer markets. In North America and Europe, we promote our products primarily through direct sales efforts aimed at existing and potential users of our products. In the Asia Pacific, Indian subcontinent, Ibero-America and African regions, we focus on making our channel partners successful. Channel partners for our other international operations include distributors, alliance partners and value-added resellers.

United by Design

Descartes' 'United By Design' strategic alliance program is intended to ensure complementary hardware, software and network offerings are interoperable with Descartes' solutions and work together seamlessly to solve multi-party business problems.

'United By Design' is intended to create a global ecosystem of logistics-intensive organizations working together to standardize and automate business processes and manage resources in motion. The program centers on Descartes' Open Standard Collaborative Interfaces, which provide a wide variety of connectivity mechanisms to integrate a broad spectrum of applications and services.

Descartes has partnering relationships with multiple parties across the following three categories:

- Technology Partners – Complementary hardware, software, network, and embedded technology providers that extend the functional breadth of Descartes' solution capabilities;
- Consulting Partners - Large system integrators and enterprise resource planning system vendors through to vertically specialized or niche consulting organizations that provide domain expertise and/or implementation services for Descartes' solutions; and
- Channel Partners (Value-Added Resellers) – Organizations that market, sell, implement and support Descartes' solutions to extend access and expand market share into territories and markets where Descartes might not have a focused direct sales presence.

Marketing

Our marketing efforts are focused on growing demand for our solutions and establishing Descartes as a thought leader and innovator across the markets we serve. Marketing programs are delivered through integrated initiatives designed to reach our target customer and prospect groups. These programs include digital and online marketing, trade shows and user group events, partner-focused campaigns, and direct corporate marketing efforts.

Fiscal 2016 Highlights

At our annual meeting of shareholders on May 28, 2015, our shareholders elected one new director, Deborah Close, a senior executive with many years of experience in the software and oil and gas industries.

On July 20, 2015, we acquired all outstanding shares of privately-held MK Data Services LLC ("MK Data"), a leading US-based provider of denied party screening trade data and solutions. MK Data's technology screens shipments against a comprehensive, frequently updated, international database of restricted parties helping more than 900 businesses comply with denied party screening requirements. The total purchase price for the acquisition was $80.2 million, net of cash acquired, which was funded with cash on hand.

On July 22, 2015, we acquired all outstanding shares of privately-held BearWare Inc. ("BearWare"), a leading US-based provider of mobile solutions designed to improve collaboration between retailers and their logistics service providers. BearWare's system leverages mobile technologies to scan cartons at each point from the distribution centers through to the store front, helping retailers and their logistics service providers collaborate on store shipments. The total purchase price for the acquisition was $11.2 million, net of cash acquired, which was funded with cash on hand.

On November 25, 2015, we acquired Oz Development Inc. ("Oz"), a leading US-based provider of application integration solutions that help small-to-medium sized businesses ("SMBs") automate a number of logistics and supply chain processes. The solutions help a growing SMB community connect to, and integrate with, leading SMB ERP, CRM and e-commerce platforms. The total purchase price for the acquisition was $29.5 million, net of cash acquired, which was funded with cash on hand.

CONSOLIDATED OPERATIONS

The following table shows, for the fiscal years indicated, our results of operations in millions of dollars (except per share and weighted average share amounts):

Year ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Total revenues	**185.0**	170.9	151.3
Cost of revenues	**53.9**	54.8	49.0
Gross margin	**131.1**	116.1	102.3
Operating expenses	**75.3**	68.8	63.1
Other charges	**1.5**	2.9	6.5
Amortization of intangible assets	**26.2**	21.7	18.0
Income from operations	**28.1**	22.7	14.7
Interest income	**0.2**	0.3	0.1
Interest expense	**(0.5)**	(1.1)	(1.0)
Income before income taxes	**27.8**	21.9	13.8
Income tax expense			
Current	**1.4**	2.8	1.8
Deferred	**5.8**	4.0	2.4
Net income	**20.6**	15.1	9.6
EARNINGS PER SHARE			
BASIC	**0.27**	0.21	0.15
DILUTED	**0.27**	0.21	0.15
WEIGHTED AVERAGE SHARES OUTSTANDING (thousands)			
BASIC	**75,595**	70,559	62,841
DILUTED	**76,409**	71,584	64,370
OTHER PERTINENT INFORMATION			
Total assets	**452.8**	444.2	344.5
Non-current financial liabilities	**-**	-	31.8

Total revenues consist of ***services revenues*** and ***license revenues***. Services revenues are principally comprised of the following: (i) ongoing transactional fees for use of our services and products by our customers, which are recognized as the transactions occur; (ii) professional services revenues from consulting, implementation and training services related to our services and products, which are recognized as the services are performed; (iii) maintenance, subscription and other related revenues, including revenues associated with maintenance and support of our services and products, which are recognized ratably over the subscription period; and (iv) hardware revenues, which are recognized when hardware is shipped. License revenues are derived from perpetual licenses granted to our customers to use our software products.

The following table provides additional analysis of our services and license revenues (in millions of dollars and as a percentage of total revenues) generated over each of the periods indicated:

Year ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Services revenues	**176.3**	159.1	137.8
Percentage of total revenues	***95%***	*93%*	*91%*
License revenues	**8.7**	11.8	13.5
Percentage of total revenues	***5%***	*7%*	*9%*
Total revenues	**185.0**	170.9	151.3

Our ***services revenues*** were $176.3 million, $159.1 million and $137.8 million in 2016, 2015 and 2014, respectively. The increase in 2016 compared to 2015 was primarily due to the inclusion of a full period of services revenues from the acquisitions of Computer Management USA, Inc. and Computer Management NA, Inc. (collectively, "Computer Management"), Customs Info LLC ("Customs Info"), Airclic Inc. ("Airclic"), e-customs Inc. ("e-customs") and Pentant Limited ("Pentant"), as well as services revenues from the fiscal 2016 acquisitions of MK Data, BearWare and Oz. Services revenues in 2016 were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone, British pound sterling and Swedish krona compared to the US dollar.

The increase in 2015 compared to 2014 was primarily due to the inclusion of a full period of services revenues from the 2014 acquisitions of KSD Software Norway AS ("KSD"), Compudata AG ("Compudata") and Impatex Freight Software Ltd. ("Impatex") as well as services revenues from the fiscal 2015 acquisitions of Computer Management, Customs Info, Airclic, e-customs and Pentant. Services revenues in 2015 were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone and Swedish krona compared to the US dollar.

Our ***license revenues*** were $8.7 million, $11.8 million and $13.5 million in 2016, 2015 and 2014, respectively. While our sales focus has been on generating services revenues in our SaaS business model, we have continued to see a market for licensing the products in our omni-channel retailing and home delivery logistics solutions. The amount of license revenues in a period is dependent on our customers' preference to license our solutions instead of purchasing our solutions as a service and we anticipate variances from period to period.

As a ***percentage of total revenues***, our services revenues were 95%, 93% and 91% in 2016, 2015 and 2014, respectively. Our high percentage of services revenues reflects our emphasis on selling to new customers and expanding product offerings to existing customers under our SaaS business model.

We operate in one business segment providing logistics technology solutions. The following table provides additional analysis of our ***revenues by geographic location of customer*** (in millions of dollars and as a percentage of total revenues):

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
United States	**96.3**	73.8	69.9
Percentage of total revenues	***52%***	*43%*	*46%*
Europe, Middle-East and Africa ("EMEA")	**68.5**	72.9	62.5
Percentage of total revenues	***37%***	*44%*	*41%*
Canada	**12.6**	15.2	14.4
Percentage of total revenues	***7%***	*9%*	*10%*
Asia Pacific	**7.6**	9.0	4.5
Percentage of total revenues	***4%***	*5%*	*3%*
Total revenues	**185.0**	170.9	151.3

Revenues from the United States were $96.3 million, $73.8 million and $69.9 million in 2016, 2015 and 2014, respectively. The increase in 2016 compared to 2015 was primarily a result of United States-based revenue from the acquisitions of Computer Management, Customs Info, Airclic, MK Data, BearWare and Oz. The increase in 2015 compared to 2014 was primarily attributable to the inclusion of United States-based revenue from the 2015 acquisitions of Computer Management, Customs Info and Airclic.

Revenues from the EMEA region were $68.5 million, $72.9 million and $62.5 million in 2016, 2015 and 2014, respectively. The decreases in 2016 compared to 2015 was primarily a result of the weakening of the euro, Norwegian krone, British pound sterling and Swedish krona compared to the US dollar. The decrease was partially offset by revenues from the acquisitions of Airclic, e-customs and Pentant as well as a significant license sale made in the first quarter of 2016. The increase in 2015 compared to 2014 was primarily due to revenues from the acquisitions of Compudata, Impatex and e-customs as well as increased professional services revenues. Partially offsetting this increase, revenues from the EMEA region were negatively impacted by the weakening of the euro, Norwegian krone and Swedish krona compared to the US dollar.

Revenues from Canada were $12.6 million, $15.2 million and $14.4 million in 2016, 2015 and 2014, respectively. The decrease in 2016 compared to 2015 was primarily a result of the weakening of the Canadian dollar compared to the US dollar. The increase in 2015 compared to 2014 is principally due to increased license revenues in the region. Partially offsetting this increase, revenues from Canada were negatively impacted by the weakening of the Canadian dollar compared to the US dollar.

Revenues from the Asia Pacific region were $7.6 million, $9.0 million and $4.5 million in 2016, 2015 and 2014, respectively. The decrease in 2016 compared to 2015 was primarily a result of decreased license revenues in the region. The increase in 2015 compared to 2014 is primarily due to increased license revenues in the region as well as increased services revenues associated with Descartes' "Japan Ocean Advanced Filing Rule" solution which helps customers comply with Japan's new advanced cargo security initiative.

The following table provides analysis of **cost of revenues** (in millions of dollars) and the related gross margins for the periods indicated:

Year ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Services			
Services revenues	**176.3**	159.1	137.8
Cost of services revenues	**52.9**	53.0	47.7
Gross margin	**123.4**	106.1	90.1
Gross margin percentage	***70%***	*67%*	*65%*
License			
License revenues	**8.7**	11.8	13.5
Cost of license revenues	**1.0**	1.8	1.3
Gross margin	**7.7**	10.0	12.2
Gross margin percentage	***89%***	*85%*	*90%*
Total			
Revenues	**185.0**	170.9	151.3
Cost of revenues	**53.9**	54.8	49.0
Gross margin	**131.1**	116.1	102.3
Gross margin percentage	***71%***	*68%*	*68%*

Cost of services revenues consists of internal costs of running our systems and applications, hardware costs, and other personnel-related expenses incurred in providing professional service and maintenance work, including consulting and customer support.

Gross margin percentage for services revenues was 70%, 67% and 65% in 2016, 2015 and 2014, respectively. The margin in 2016 was positively impacted by inclusion of the acquisitions of Airclic, e-customs and MK Data which operate at margins higher than our other service revenue streams.

Gross margin in 2015 compared with 2014 was positively impacted by inclusion of the acquisitions of Compudata, Impatex, Computer Management, Airclic and e-customs which was partially offset by the inclusion of the acquisition of KSD, as well as a higher percentage of revenues from our telematics products, both of which operate at margins lower than our other services revenue streams.

Cost of license revenues consists of costs related to our sale of third-party technology, such as third-party map license fees and royalties.

Gross margin percentage for license revenues was 89%, 85% and 90% in 2016, 2015 and 2014, respectively. Our gross margin on license revenues is dependent on the proportion of our license revenues that involve third-party technology. Consequently, our gross margin percentage for license revenues is higher when a lower proportion of our license revenues attracts third-party technology costs, and vice versa.

Operating expenses consisting of sales and marketing, research and development and general and administrative expenses, were $75.3 million, $68.8 million and $63.1 million for 2016, 2015 and 2014, respectively. The increase in 2016 as compared to 2015 was primarily due to operating expenses from the acquisitions of Customs Info, Airclic, e-customs, BearWare and, to a lesser extent, Computer Management, Pentant, MK Data, and Oz. Operating expenses in 2016 were positively impacted on a comparative basis to 2015 by the weakening of the Canadian dollar, euro, Swedish krona, Norwegian krone, and British pound sterling compared to the US dollar.

The increase in 2015 compared to 2014 was primarily due to operating expenses from the acquisition of KSD, Impatex, Compudata, Customs Info, Airclic and, to a lesser extent, Computer Management, e-customs and Pentant. Operating expenses in 2015 were also impacted by fees to value-added resellers and strategic marketing alliances associated with selling and marketing our solutions, particularly in the Asia Pacific region. These increases were partially offset by a reduction in professional fees during 2015. Operating expenses in 2015 were positively impacted on a comparative basis to 2014 by the weakening of the Canadian dollar, euro Swedish krona and Norwegian krone compared to the US dollar.

The following table provides analysis of operating expenses (in millions of dollars and as a percentage of total revenues) for the periods indicated:

Year ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Total revenues	**185.0**	170.9	151.3
Sales and marketing expenses	**22.4**	20.4	16.7
Percentage of total revenues	***12%***	*12%*	*11%*
Research and development expenses	**31.3**	28.1	25.9
Percentage of total revenues	***17%***	*16%*	*17%*
General and administrative expenses	**21.6**	20.3	20.5
Percentage of total revenues	***12%***	*12%*	*14%*
Total operating expenses	**75.3**	68.8	63.1
Percentage of total revenues	***41%***	*40%*	*42%*

Sales and marketing expenses include salaries, commissions, stock-based compensation and other personnel-related costs, bad debt expenses, travel expenses, advertising programs and services, and other promotional activities associated with selling and marketing our services and products. Sales and marketing expenses were $22.4 million, $20.4 million and $16.7 million in 2016, 2015 and 2014, respectively. Sales and marketing expenses as a percentage of total revenues were 12% in 2016, 12% in 2015 and 11% in 2014. The increases in sales and marketing expenses in 2016 compared to 2015 was primarily due to the inclusion of sales and marketing expenses from the acquisitions of Customs Info and Airclic and additional expenses related to our annual User Group conference. Sales and marketing expenses in 2016 on a comparative basis to 2015 were positively impacted by the weakening of the Canadian dollar, euro, Swedish krona, Norwegian krone and British pound sterling compared to the US dollar.

The increase in sales and marketing expenses in 2015 compared to 2014 was primarily due to the inclusion of sales and marketing expenses from the acquisitions of KSD, Compudata, Impatex, Customs Info and Airclic. Sales and marketing expenses in 2015 were also impacted by increased fees to value-added resellers and strategic marketing alliances associated with selling and marketing our solutions, particularly in the Asia Pacific region. Sales and marketing expenses in 2015 on a comparative basis to 2014 were positively impacted by the weakening of the Canadian dollar, euro, Swedish krona and Norwegian krone compared to the US dollar.

Research and development expenses consist primarily of salaries, stock-based compensation and other personnel-related costs of technical and engineering personnel associated with our research and product development activities, as well as costs for third-party outsourced development providers. We expensed all costs related to research and development in 2016, 2015 and 2014. Research and development expenses were $31.3 million, $28.1 million and $25.9 million in 2016, 2015 and 2014, respectively. Research and development expenses as a percentage of total revenues were 17% in 2016, 16% in 2015 and 17% in 2014. The increase in research and development expenses in 2016 compared to 2015 was primarily attributable to increased payroll and related costs from the acquisitions of Customs Info, Airclic, e-customs, BearWare and MK Data. Research and development expenses in 2016 on a comparative basis to 2015 were positively impacted by the weakening of the Canadian dollar and euro compared to the US dollar.

The increase in research and development expenses in 2015 as compared to 2014 was primarily due to increased payroll and related costs from the acquisitions of KSD, Impatex, Computer Management, Customs Info and Airclic. Research and development expenses in 2015 on a comparative basis to 2014 were positively impacted by the weakening of the Canadian dollar and euro compared to the US dollar.

General and administrative expenses consist primarily of salaries, stock-based compensation and other personnel-related costs of administrative personnel, as well as professional fees and other administrative expenses. General and administrative costs were $21.6 million, $20.3 million and $20.5 million in 2016, 2015 and 2014, respectively. General and administrative expenses as a percentage of total revenues were 12%, 12% and 14% in 2016, 2015 and 2014, respectively. The increase in general and administrative expenses in 2016 compared to 2015 was primarily attributable to the inclusion of general and administrative expenses from the acquisitions of Customs Info. General and administrative expenses in 2016 were also impacted by an increase in the Descartes share price resulting in additional expense for deferred share unit compensation costs. General and administrative expenses in 2016 on a comparative basis to 2015 were positively impacted by the weakening of the Canadian dollar and euro compared to the US dollar.

The decrease in general and administrative expenses in 2015 compared to 2014 is primarily attributable to the weakening of the Canadian dollar compared to the US dollar over the comparative period and a reduction in professional fees in 2015. This decrease was partially offset by increased general and administrative expenses from the acquisitions of KSD, Compudata, Impatex, Customs Info and Airclic.

Other charges consist primarily of acquisition-related costs with respect to completed and prospective acquisitions, restructuring charges and executive departure charges. Acquisition-related costs primarily include retention bonuses, advisory services, brokerage services and administrative costs, and relate to completed and prospective acquisitions. Restructuring costs relate to the integration of previously completed acquisitions and other cost-reduction activities. Other charges were $1.5 million, $2.9 million and $6.5 million in 2016, 2015 and 2014, respectively. Other charges were comprised of restructuring costs of $0.1 million, $0.8 million and $1.9 million in 2016, 2015 and 2014, respectively, acquisition-related costs of $1.4 million, $1.7 million and $1.3 million in 2016, 2015 and 2014, respectively, and executive departure charges of nil, $0.4 million and $3.3 million in 2016, 2015 and 2014, respectively. The decrease in other charges in 2016 compared to 2015 was primarily a result of a reduction in restructuring and executive departure charges as a result of no new restructuring plans being implemented during the year.

The decrease in other charges in 2015 compared to 2014 was primarily a result of a reduction in executive departure charges. Partially offsetting this decrease was an increase in acquisition-related costs due to the timing of acquisition activities.

Amortization of intangible assets is amortization of the value attributable to intangible assets, including customer agreements and relationships, non-compete covenants, existing technologies and trade names, in each case associated with acquisitions completed by us as of the end of each reporting period. Intangible assets with a finite life are amortized to income over their useful life. The amount of amortization expense in a fiscal period is dependent on our acquisition activities as well as our asset impairment tests. Amortization of intangible assets was $26.2 million, $21.7 million and $18.0 million in 2016, 2015 and 2014, respectively. The increase in amortization expense over those three years primarily arose due to amortization expense from the acquisitions of Customs Info, Airclic and MK Data and, to a lesser extent, Computer Management, e-customs, Pentant, BearWare and Oz. As at January 31, 2016, the unamortized portion of all intangible assets amounted to $133.6 million.

We test the carrying value of our finite life intangible assets for recoverability when events or changes in circumstances indicate that there may be evidence of impairment. We write down intangible asset or asset groups with a finite life to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Fair value of intangible asset or asset groups is determined by discounting the expected related cash flows. No finite life intangible asset or asset group impairment has been identified or recorded for any of the fiscal periods reported.

Interest income was $0.2 million, $0.3 million and $0.1 million in 2016, 2015 and 2014, respectively. The increase in interest income was primarily attributable to changes in the average cash balance during the periods. Interest income is reflective of current market rates.

Interest expense was $0.5 million, $1.1 million and $1.0 million in 2016, 2015 and 2014, respectively. Interest expense is primarily comprised of interest expense on the amount borrowed and outstanding on our revolving debt facility as well as amortization of deferred financing charges. Interest expense decreased in 2016 compared to 2015 as a result of repayment of the revolving debt facility. As of January 31, 2016, all amounts previously borrowed under the revolving debt facility have been repaid and no amounts remain owing.

Income tax expense is comprised of current and deferred income tax expense (recovery). Income tax expense for 2016, 2015 and 2014 was 26%, 31% and 30% of income before income taxes, respectively, with current income tax expense being 5%, 13% and 13% of income before income taxes, respectively.

Income tax expense – current was $1.4 million, $2.8 million and $1.8 million in 2016, 2015 and 2014, respectively. Current income taxes arise primarily from income that is not fully sheltered by loss carry-forwards primarily in the US and EMEA. Current tax expense decreased in 2016 compared to 2015 primarily due to a decrease in taxable income in the US as a result of tax benefits related to stock option exercises.

The increase in current income tax expense in 2015 as compared to 2014 was primarily as a result of income in the US, Netherlands and EMEA region which is not sheltered by loss carry-forwards.

Income tax expense – deferred was $5.8 million, $4.0 million and $2.4 million in 2016, 2015 and 2014, respectively. Deferred income tax expense increased in 2016 compared to 2015 primarily due to additional valuation allowance in EMEA and a tax rate reduction in certain jurisdictions.

Deferred income tax expense increased in 2015 compared to 2014 primarily due to a release of valuation allowance which decreased tax expense by $2.7 million in 2014, while only $1.2 million of valuation allowance was released in 2015.

Net income was $20.6 million, $15.1 million and $9.6 million in 2016, 2015 and 2014, respectively.

QUARTERLY OPERATING RESULTS

The following table provides an analysis of our unaudited operating results (in thousands of dollars, except per share and weighted average number of share amounts) for each of the quarters ended on the date indicated.

	April 30, 2015	July 31, 2015	October 31, 2015	January 31, 2016	Total
2016					
Revenues	44,424	45,172	47,360	48,037	184,993
Gross margin	31,041	31,683	33,944	34,466	131,134
Operating expenses	17,887	18,294	19,528	19,615	75,324
Net income	4,901	5,072	5,229	5,360	20,562
Basic earnings per share	0.06	0.07	0.07	0.07	0.27
Diluted earnings per share	0.06	0.07	0.07	0.07	0.27
Weighted average shares outstanding (thousands):					
Basic	75,484	75,498	75,633	75,760	75,595
Diluted	76,344	76,396	76,421	76,423	76,409

	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015	Total
2015					
Revenues	40,836	42,680	43,057	44,287	170,860
Gross margin	27,587	28,860	29,181	30,353	115,981
Operating expenses	16,418	17,284	17,236	17,876	68,814
Net income	3,694	3,613	4,157	3,595	15,059
Basic earnings per share	0.06	0.05	0.06	0.05	0.21
Diluted earnings per share	0.06	0.05	0.05	0.05	0.21
Weighted average shares outstanding (thousands):					
Basic	63,667	67,559	75,324	75,460	70,559
Diluted	64,817	68,567	76,190	76,303	71,584

	April 30, 2013	July 31, 2013	October 31, 2013	January 31, 2014	Total
2014					
Revenues	34,031	38,195	38,763	40,305	151,294
Gross margin	23,475	25,244	26,015	27,517	102,251
Operating expenses	14,314	15,805	16,020	16,932	63,071
Net income	2,807	1,740	2,183	2,882	9,612
Basic earnings per share	0.04	0.03	0.03	0.05	0.15
Diluted earnings per share	0.04	0.03	0.03	0.04	0.15
Weighted average shares outstanding (thousands):					
Basic	62,669	62,711	62,737	63,242	62,841
Diluted	64,024	64,183	64,301	64,658	64,370

Revenues over the comparative period have been positively impacted by the eleven acquisitions that we have completed since the beginning of 2014. In addition, over the past three fiscal years we have seen increased revenues as a result of an increase in transactions processed over our GLN business document exchange as we help our customers comply with electronic filing requirements of US, Canadian, EU and Asia security and customs regulations.

Our services revenues continue to have seasonal trends. In the first fiscal quarter of each year, we historically have seen lower shipment volumes by air and truck which impact the aggregate number of transactions flowing through our GLN business document exchange. In the second fiscal quarter of each year, we historically have seen an increase in ocean services revenues as ocean carriers are in the midst of their customer contract negotiation period. In the third fiscal quarter of each year, we have historically seen shipment and transactional volumes at their highest. In the fourth fiscal quarter of each year, the various international holidays impact the aggregate number of shipping days in the quarter, and historically we have seen this adversely impact the number of transactions our network processes and, consequently, the amount of services revenues we receive during that period.

In the fourth quarter of 2016, revenues and net income were positively impacted by the inclusion of a partial quarter of operations from our acquisition of Oz. Revenues in the fourth quarter were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone, Swedish krona and British pound sterling compared to the US dollar. Gross margins and net income continue to be positively impacted by inclusion of the acquisitions of Airclic, e-customs and MK Data. Net income was partially offset by $0.4 million of additional amortization as a result of the acquisition of Oz.

In the third quarter of 2016, revenues, gross margins and net income were positively impacted by the inclusion of a full quarter of operations from our acquisitions of MK Data and BearWare. Revenues in the third quarter were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone, Swedish krona and British pound sterling compared to the US dollar. Net income in the third quarter was partially offset by $0.9 million of additional amortization as a result of the acquisitions of MK Data and BearWare.

In the second quarter of 2016, revenues and net income were positively impacted by the growth of services revenues and an increase in gross margin. Gross margins and net income in the second quarter were positively impacted by inclusion of the acquisitions of Airclic and e-customs. Revenues in the second quarter were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone, Swedish krona and British pound sterling compared to the US dollar. Net income was also positively impacted by a $0.2 million reduction in tax expense primarily related to permanent differences.

In the first quarter of 2016, revenues and net income were positively impacted by the inclusion of a full quarter of operations from our acquisitions of Airclic, e-customs and Pentant. Revenues in the first quarter were negatively impacted by the weakening of the euro, Canadian dollar, Norwegian krone, Swedish krona and British pound sterling compared to the US dollar. Net income for the first quarter was also negatively impacted by $0.1 million of other charges, primarily attributable to acquisition-related costs with respect to completed and prospective acquisitions.

In 2015, revenues and net income were positively impacted on a comparative basis to 2014 by the inclusion of a full period of operations from our fiscal 2014 acquisitions of KSD, Compudata and Impatex as well as the inclusion of a partial period of operations from our fiscal 2015 acquisitions of Computer Management, Customs Info, Airclic and to a lesser extent e-customs and Pentant. Net income was negatively impacted by a $0.4 million charge related to executive departure charges during the second quarter of 2015, as well as $0.1 million and $0.7 million of restructuring costs during the first and fourth quarters of 2015, respectively. Acquisition-related costs with respect to completed and prospective acquisitions of $0.5 million, $0.3 million, $0.2 million and $0.7 million in the first, second, third and fourth quarters of 2015, respectively, and interest expense on our revolving debt facility of $0.4 million in each of the first and second quarters of 2015 reduced net income. A deferred income tax recovery of $1.3 million in the UK also favourably contributed to net income in the fourth quarter of 2015.

In 2014, revenues and net income were positively impacted on a comparative basis to 2013 by the inclusion of a full period of operations from our fiscal 2013 acquisitions of Infodis B.V., Integrated Export Systems, Ltd. and Exentra Transport Solutions Limited as well as the inclusion of a partial period of operations from our fiscal 2014 acquisitions of Compudata and to a lesser extent Impatex. While the acquisition of KSD contributed positively to fiscal 2014 revenues, it contributed a net loss of $1.7 million, including $1.7 million of restructuring charges and $1.8 million of amortization of intangible assets. License revenues and gross margin from license revenues were positively impacted by the inclusion of significant license sales to three specific customers during 2014. Net income was negatively impacted by a $3.3 million charge related to the departure of the former Chairman and CEO during the fourth quarter of 2014, as well as $1.1 million, $0.6 million and $0.1 million of restructuring costs during the second, third and fourth quarters of 2014, respectively. Acquisition-related costs with respect to completed and prospective acquisitions of $0.3 million, $0.2 million, $0.2 million and $0.7 million in the first, second, third and fourth quarters of 2014, respectively, and interest expense on our revolving debt facility of $0.3 million in each of the second, third and fourth quarters of 2014 reduced net income. Net income was also negatively impacted by $0.6 million in deferred share unit ("DSU") and $0.4 million in cash-settled restricted share unit ("CRSU") compensation costs, primarily attributable to mark-to-market related liabilities to reflect the 25% appreciation in the value of our common shares in the fourth quarter of 2014. A deferred tax recovery of $2.8 million in the UK and Canada favourably contributed to net income in the fourth quarter of 2014.

Our weighted average shares outstanding has increased over the three year comparative period as a result of the public offering of common shares completed on July 2, 2014, common shares issued in relation to the acquisition of Customs Info and common shares issued pursuant to periodic employee stock option exercises.

LIQUIDITY AND CAPITAL RESOURCES

Cash We had $37.2 million and $118.1 million in cash as at January 31, 2016 and January 31, 2015, respectively. All cash was held in interest-bearing bank accounts, primarily with major Canadian, US and European banks.

Debt facility. As of January 31, 2016, all amounts previously borrowed under the revolving debt facility have been repaid and the balance of the $77.0 million facility remains available for use. We are in compliance with the covenants of the revolving debt facility as of January 31, 2016. On May 28 2014, we amended our revolving debt facility, increasing the borrowing limit from $50.0 million to $77.0 million. The amended facility is comprised of a $75.0 million revolving facility, with drawn amounts to be repaid in equal quarterly installments over a period of five years from the advance date, and a $2.0 million revolving facility, with no fixed repayment date on drawn amounts prior to the end of the term. Borrowings under the credit agreement are secured by a first charge over substantially all of our assets. Depending on the type of advance under the available facilities, interest will be charged on advances at a rate of either i) Canada prime rate or US base rate plus 0% to 1.5%; or ii) LIBOR plus 1.5% to 3%. Undrawn amounts are charged a standby fee of between 0.3% and 0.5%. Interest is payable monthly in arrears under both facilities. Standby fees are payable quarterly in arrears. The revolving debt facility contains certain customary representations, warranties and guarantees, and covenants.

On March 2, 2016, Descartes amended its $77.0 million revolving debt facility with a new senior secured credit facility ("Credit Facility"). The Credit Facility consists of a $150.0 million revolving operating credit facility to be available for general corporate purposes including the financing of ongoing working capital needs and acquisitions. The Credit Facility also provides for an additional $7.5 million available to support foreign exchange and interest rate hedging. The Credit Facility has a five year maturity with no fixed repayment dates prior to the end of the five year term. Borrowings under the facility are secured by a first charge over substantially all of Descartes' assets. Depending on the type of advance, interest rates under the revolving operating credit facility are based on the Canada or US prime rate, Bankers' Acceptance (BA) or London Interbank Offered Rate (LIBOR) plus an additional 0 to 200 basis points based on the ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization, as defined in the credit agreement. A standby fee of between 20 to 28 basis points will be charged on all undrawn amounts. The Credit Facility contains certain customary representations, warranties and guarantees, and covenants.

Short-form base shelf prospectus. On April 16, 2014, we filed a final short-form base shelf prospectus, allowing us to offer and issue the following securities: (i) common shares; (ii) preferred shares; (iii) senior or subordinated unsecured debt securities; (iv) subscription receipts; (v) warrants; and (vi) securities comprised of more than one of the common shares, preferred shares, debt securities, subscription receipts and/ or warrants offered together as a unit. These securities may be offered separately or together, in separate series, in amounts, at prices and on terms to be set forth in one or more shelf prospectus supplements. The aggregate initial offering price of securities that may be sold by us (or certain of our current or future shareholders) pursuant to our base shelf prospectus during the 25-month period that our base shelf prospectus, including any amendments thereto, remains valid is limited to $250 million. As noted below, securities in the amount of $147.5 million were subsequently issued under our base shelf prospectus, leaving a remaining limit of $102.5 million available to be issued under our base shelf prospectus. This base shelf prospectus expires on May 15, 2016.

On July 2, 2014, we completed a public offering of common shares in the United States and Canada at a price of $13.50 per common share pursuant to the short-form base shelf prospectus and related prospectus supplement filed in connection with the offering. The total offering of 10,925,000 common shares included the exercise in full by the underwriters of the 15% overallotment option for aggregate gross proceeds to Descartes of $147.5 million. Net proceeds to Descartes were approximately $142.1 million once expenses associated with the offering were deducted inclusive of the related deferred tax benefit related to share issuance costs. Excluding share issuance costs payable and the deferred tax benefit on issuance costs, the net cash proceeds to Descartes were approximately $140.7 million.

Working capital. As at January 31, 2016, our working capital (current assets less current liabilities) was $35.4 million. Current assets primarily include $37.2 million of cash, $25.6 million of current trade receivables and $4.7 million of prepaid assets. Current liabilities primarily include $16.8 million of accrued liabilities, $16.6 million of deferred revenue and $4.5 million of accounts payable. Our working capital has decreased since January 31, 2015 by $81.8 million, primarily due to cash used in the acquisitions of BearWare, MK Data and Oz, partially offset by cash generated from operations during the period.

Historically, we have financed our operations and met our capital expenditure requirements primarily through cash flows provided from operations, issuances of common shares and proceeds from debt. We anticipate that, considering the above, we have sufficient liquidity to fund our current cash requirements for working capital, contractual commitments, capital expenditures and other operating needs. We also believe that we have the ability to generate sufficient amounts of cash in the long term to meet planned growth targets and to fund strategic transactions. Should additional future financing be undertaken, the proceeds from any such transaction could be utilized to fund strategic transactions or for general corporate purposes. We expect, from time to time, to continue to consider select strategic transactions to create value and improve performance, which may include acquisitions, dispositions, restructurings, joint ventures and partnerships, and we may undertake further financing transactions, including draws on our revolving debt facility or equity offerings, in connection with any such potential strategic transaction.

With respect to earnings of our non-Canadian subsidiaries, our intention is that these earnings will be reinvested in each subsidiary indefinitely. Of the $37.2 million of cash as at January 31, 2016, $34.6 million was held by our foreign subsidiaries, most significantly in the United States with lesser amounts held in other countries in the EMEA and Asia Pacific regions. To date, we have not encountered significant legal or practical restrictions on the abilities of our subsidiaries to repatriate money to Canada, even if such restrictions may exist in respect of certain foreign jurisdictions where we have subsidiaries. In the future, if we elect to repatriate the unremitted earnings of our foreign subsidiaries in the form of dividends, or if the shares of the foreign subsidiaries are sold or transferred, then we could be subject to additional Canadian or foreign income taxes, net of the impact of any available foreign tax credits, which would result in a higher effective tax rate. However, since we currently anticipate investing outside of Canada, it is our current intent to permanently reinvest unremitted earnings in our foreign subsidiaries.

The table set forth below provides a summary of cash flows for the periods indicated in millions of dollars:

Year ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Cash provided by operating activities	**54.2**	49.5	42.6
Purchase of marketable securities	**(4.7)**	-	-
Additions to property and equipment	**(4.3)**	(2.7)	(2.4)
Acquisition of subsidiaries, net of cash acquired	**(120.9)**	(82.2)	(58.7)
Proceeds from borrowing on debt facility	**-**	20.0	46.3
Payment of debt issuance costs	**-**	(0.4)	(0.7)
Repayments of debt	**-**	(63.3)	(3.7)
Issuance of common shares, net of issuance costs	**0.2**	140.7	3.6
Settlement of stock options	**(2.6)**	(0.4)	(1.4)
Effect of foreign exchange rate on cash	**(2.8)**	(5.8)	(0.5)
Net change in cash	**(80.9)**	55.4	25.1
Cash, beginning of period	**118.1**	62.7	37.6
Cash, end of period	**37.2**	118.1	62.7

Cash provided by operating activities was $54.2 million, $49.5 million and $42.6 million for 2016, 2015 and 2014, respectively. For 2016, the $54.2 million of cash provided by operating activities resulted from $20.6 million of net income, plus adjustments for $36.5 million of non-cash items included in net income and less $2.9 million of cash used from changes in our operating assets and liabilities. For 2015, the $49.5 million of cash provided by operating activities resulted from $15.1 million of net income, plus adjustments for $30.5 million of non-cash items included in net income and plus $3.9 million of cash generated from changes in our operating assets and liabilities. For 2014, the $42.6 million of cash provided by operating activities resulted from $9.6 million of net income, plus adjustments for $26.3 million of non-cash items included in net income and plus $6.7 million of cash generated from changes in our operating assets and liabilities. Cash provided by operating activities increased in 2016 compared to 2015, primarily due to net income adjusted for non-cash expenses which increased $11.5 million.

Cash provided by operating activities increased in 2015 compared to 2014, primarily due to net income adjusted for non-cash expenses which increased $9.7 million.

Purchase of marketable securities was $4.7 million, nil and nil for 2016, 2015 and 2014, respectively.

Additions to property and equipment were $4.3 million, $2.7 million and $2.4 million in 2016, 2015 and 2014, respectively. Additions to property and equipment were greater in 2016 as compared to 2015 and 2014 as a result of additional investments in computing equipment and software to support our network and build out our infrastructure.

Acquisition of subsidiaries, net of cash acquired was $120.9 million, $82.2 million and $58.7 million in 2016, 2015 and 2014, respectively. In 2016, the $120.9 million was related to the acquisitions of MK Data, BearWare and Oz. In 2015, the $82.2 million was related to the acquisitions of Computer Management, Customs Info, Airclic, e-customs and Pentant. In 2014, the $58.7 million was related to the acquisitions of KSD, Compudata and Impatex.

Proceeds from borrowing on debt facility of nil, $20.0 million and $46.3 million in 2016, 2015 and 2014, respectively, were a result of borrowings on our revolving debt facility to finance our 2015 acquisition of Customs Info and 2014 acquisitions of KSD, Compudata and Impatex.

Payment of debt issuance costs of nil, $0.4 million and $0.7 million in 2016, 2015 and 2014, respectively, relate to costs paid in establishing and amending the terms of the revolving debt facility.

Repayments of debt of nil, $63.3 million and $3.7 million in 2016, 2015 and 2014, respectively, relate to principal repayments on our revolving debt facility and repayment of debt acquired from the acquisitions of KSD and Customs Info.

Issuance of common shares, net of issuance costs of $0.2 million, $140.7 million and $3.6 million in 2016, 2015 and 2014, respectively. The $0.2 million in 2016 was a result of the exercise of employee stock options. The increase in 2015 was primarily a result of the public share offering. The $3.7 million in 2014 was a result of the exercise of employee stock options.

Settlement of stock options of $2.6 million, $0.4 million and $1.4 million in 2016, 2015 and 2014, respectively, was a result of the settlement of tandem stock appreciation rights exercised upon the surrender of stock options.

COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

To facilitate a better understanding of our commitments, the following information is provided (in millions of dollars) in respect of our operating obligations as of January 31, 2016:

	Less than 1 year	**1-3 years**	**4-5 years**	**More than 5 years**	**Total**
Operating lease obligations	4.2	4.7	0.9	-	9.8
Capital lease obligations	0.1	0.1	-	-	0.2
Total	4.3	4.8	0.9	-	10.0

Lease Obligations

We are committed under non-cancelable operating leases for business premises, computer equipment and vehicles with terms expiring at various dates through 2021. We are also committed under non-cancelable capital leases for computer equipment expiring at various dates through 2018. The future minimum amounts payable under these lease agreements are presented in the table above.

Other Obligations

Deferred Share Unit and Restricted Share Unit Plans

As discussed in the "Trends / Business Outlook" section later in this MD&A and in Note 2 to our consolidated financial statements, we maintain DSU and CRSU plans for our directors and employees. Any payments made pursuant to these plans are settled in cash. For DSUs and CRSUs, the units vest over time and the liability recognized at any given consolidated balance sheet date reflects only those units vested at that date that have not yet been settled in cash. As such, we had an unrecognized aggregate amount for the unvested CRSUs of $1.0 million at January 31, 2016. As at January 31, 2016 there were no unvested DSUs. The ultimate liability for any payment of DSUs and CRSUs is dependent on the trading price of our common shares.

Contingencies

We are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. The consequences of these matters are not presently determinable but, in the opinion of management after consulting with legal counsel, the ultimate aggregate liability is not currently expected to have a material effect on our results of operations or financial position.

Product Warranties
In the normal course of operations, we provide our customers with product warranties relating to the performance of our hardware, software and network services. To date, we have not encountered material costs as a result of such obligations and have not accrued any liabilities related to such obligations in our consolidated financial statements.

Business combination agreements
In respect of our acquisition of e-customs in the fourth quarter of 2015, up to approximately $1.2 million (GBP 0.8 million) in cash may have become payable had certain revenue performance targets been met by e-customs during 2016. No amounts are accrued related to this contingent consideration as at January 31, 2016.

In respect of our acquisition of Pentant in the fourth quarter of 2015, up to approximately $0.4 million (GBP 0.3 million) in cash may have become payable had certain revenue performance targets been met by Pentant during 2016. No amounts are accrued related to this contingent consideration as at January 31, 2016.

Guarantees
In the normal course of business we enter into a variety of agreements that may contain features that meet the definition of a guarantee under ASC Topic 460, "Guarantees". The following lists our significant guarantees:

Intellectual property indemnification obligations
We provide indemnifications of varying scope to our customers against claims of intellectual property infringement made by third parties arising from the use of our products. In the event of such a claim, we are generally obligated to defend our customers against the claim and we are liable to pay damages and costs assessed against our customers that are payable as part of a final judgment or settlement. These intellectual property infringement indemnification clauses are not generally subject to any dollar limits and remain in force for the term of our license and services agreements with our customers, where license terms are typically perpetual. To date, we have not encountered material costs as a result of such indemnifications.

Other indemnification agreements
In the normal course of operations, we enter into various agreements that provide general indemnities. These indemnities typically arise in connection with purchases and sales of assets, securities offerings or buy-backs, service contracts, administration of employee benefit plans, retention of officers and directors, membership agreements, customer financing transactions, and leasing transactions. In addition, our corporate by-laws provide for the indemnification of our directors and officers. Each of these indemnities requires us, in certain circumstances, to compensate the counterparties for various costs resulting from breaches of representations or obligations under such arrangements, or as a result of third party claims that may be suffered by the counterparty as a consequence of the transaction. We believe that the likelihood that we could incur significant liability under these obligations is remote. Historically, we have not made any significant payments under such indemnities.

In evaluating estimated losses for the guarantees or indemnities described above, we consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We are unable to make a reasonable estimate of the maximum potential amount payable under such guarantees or indemnities as many of these arrangements do not specify a maximum potential dollar exposure or time limitation. The amount also depends on the outcome of future events and conditions, which cannot be predicted. Given the foregoing, to date, we have not accrued any liability in our financial statements for the guarantees or indemnities described above.

OUTSTANDING SHARE DATA

We have an unlimited number of common shares authorized for issuance. As of March 3, 2016, we had 75,761,184 common shares issued and outstanding.

On July 2, 2014, we completed a public offering of common shares in the United States and Canada at a price of $13.50 per common share pursuant to the short-form base shelf prospectus and related prospectus supplement filed in connection with the offering. The total offering of 10,925,000 common shares included the exercise in full by the underwriters of the 15% over-allotment option, for aggregate gross proceeds to Descartes of $147.5 million. Net proceeds to Descartes were approximately $142.1 million once expenses associated with the offering were deducted inclusive of the related deferred tax benefit related to share issuance costs. Excluding share issuance costs payable and the deferred tax benefit on issuance costs, the net cash proceeds to Descartes were approximately $140.7 million.

As of March 3, 2016, there were 468,889 options issued and outstanding, and 217,264 remaining available for grant under all stock option plans. As of March 3, 2016, there were 253,537 performance share units ("PSUs") and 224,779 restricted share units ("RSUs") issued and outstanding, and 354,066 remaining available for grant under all performance and restricted share unit plans.

On November 30, 2004, we announced that our board of directors had adopted a shareholder rights plan (the "Rights Plan") to ensure the fair treatment of shareholders in connection with any take-over offer, and to provide our board of directors and shareholders with additional time to fully consider any unsolicited take-over bid. We did not adopt the Rights Plan in response to any specific proposal to acquire control of the Company. The Rights Plan was approved by the TSX and was originally approved by our shareholders on May 18, 2005. The Rights Plan took effect as of November 29, 2004. On May 29, 2008, our shareholders approved certain amendments to the Rights Plan and approved the Rights Plan continuing in effect. At our annual shareholders meeting held on May 29, 2014, our shareholders approved certain amendments to the Rights Plan and approved the Rights Plan continuing in effect. The Rights Plan will expire at the termination of our annual shareholders' meeting in calendar year 2017 unless its continued existence is ratified by the shareholders before such expiration. We understand that the Rights Plan is similar to plans adopted by other Canadian companies and approved by their shareholders.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are affected by management's application of accounting policies. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period and would materially impact our financial condition or results of operations. Our significant accounting policies are discussed in Note 2 to the audited consolidated financial statements for 2016 included in our 2016 Annual Report.

Our management has discussed the development, selection and application of our critical accounting policies with the audit committee of the board of directors.

The following discusses the critical accounting estimates and assumptions that management has made under these policies and how they affect the amounts reported in the fiscal 2016 consolidated financial statements:

Revenue recognition
We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there exists persuasive evidence of an arrangement, the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

In recognizing revenue, we make estimates and assumptions on factors such as the probability of collection of the receivable from the customer, the amount of revenue to allocate to individual elements in a multiple element arrangement, the selling price and other matters. We make these estimates and assumptions using our past experience, taking into account any other current information that may be relevant. These estimates and assumptions may differ from the actual outcome for a given customer which could impact operating results in a future period.

Impairment of long-lived assets
We test long-lived asset or asset groups, such as property and equipment and finite life intangible assets, for recoverability when events or changes in circumstances indicate that there may be impairment. An impairment loss is recognized when the estimate of undiscounted future cash flows generated by such asset or asset groups is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows. Our impairment analysis contains estimates due to the inherent uncertainty relating to forecasting long-term estimated cash flows and determining the ultimate useful lives of asset or asset groups. Actual results will differ, which could materially impact our impairment assessment.

Goodwill
We test for impairment of goodwill at least annually on October 31st of each year and at any other time if any event occurs or circumstances change that would more likely than not reduce our fair value below our carrying amount. Our operations are analyzed by management and our chief operating decision maker as being part of a single industry segment providing logistics technology solutions. Accordingly, our goodwill impairment assessment is based on the allocation of goodwill to a single reporting unit.

We will perform further quarterly analysis of whether any event has occurred that would more likely than not reduce our fair value below our carrying amounts and, if so, we will perform a goodwill impairment test between the annual date. Any future impairment adjustment will be recognized as an expense in the period that the adjustment is identified.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, assessing qualitative factors and determining the fair value of each reporting unit. Significant judgments are required to estimate the fair value of reporting units and include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Stock-based compensation plans
Stock Options
We maintain stock option plans for directors, officers, employees and other service providers. Options to purchase our common shares are granted at an exercise price equal to the fair market value of our common shares as of the date of grant. This fair market value is determined using the closing price of our common shares on the TSX on the day immediately preceding the date of the grant.

Employee stock options generally vest over a five-year period starting from the grant date and expire seven years from the grant date. Directors' and officers' stock options generally have quarterly vesting over a three- to five-year period. We issue new shares from treasury upon the exercise of a stock option.

The fair value of employee stock option grants that are ultimately expected to vest are amortized to expense in our consolidated statement of operations based on the straight-line attribution method. The fair value of stock option grants is calculated using the Black-Scholes Merton option-pricing model. Expected volatility is based on historical volatility of our common stock and other factors. The risk-free interest rates are based on Government of Canada average bond yields for a period consistent with the expected life of the option in effect at the time of the grant. The expected option life is based on the historical life of our granted options and other factors.

Performance & Restricted Share Units

We maintain a performance and restricted share unit plan pursuant to which certain of our officers are eligible to receive grants of performance share units and restricted share units.

PSUs vest at the end of a three-year performance period. The ultimate number of PSUs that vest is based on the total shareholder return ("TSR") of our Company relative to the TSR of companies comprising a peer index group. TSR is calculated based on the weighted-average closing price of shares for the five trading days preceding the beginning and end of the performance period. The fair value of PSUs is expensed to stock-based compensation expense over the vesting period. PSUs expire ten years from the grant date. New shares are issued from treasury upon the redemption of a PSU.

PSUs are measured at fair value estimated using a Monte Carlo Simulation approach. Expected volatility is based on historical volatility of our common stock and other factors. The risk-free interest rates are based on the Government of Canada average bond yields for a period consistent with the expected life of the PSUs at the time of the grant. The expected PSU life is based on the historical life of our stock options and other factors.

RSUs vest annually over a three-year period starting from the grant date and expire ten years from the grant date. We issue new shares from treasury upon the redemption of an RSU.

RSUs are measured at fair value based on the closing price of our common shares for the day preceding the date of the grant and will be expensed to stock-based compensation expense over the vesting period.

Deferred Share Unit Plan

Our board of directors adopted a deferred share unit plan effective as of June 28, 2004, pursuant to which non-employee directors are eligible to receive grants of deferred share units, each of which has an initial value equal to the weighted-average closing price of our common shares for the five trading days preceding the grant date. The plan allows each director to choose to receive, in the form of DSUs, all, none or a percentage of the eligible director's fees which would otherwise be payable in cash. If a director has invested less than the minimum amount of equity in Descartes, as prescribed from time to time by the board of directors, then the director must take at least 50% of the base annual fee for serving as a director in the form of DSUs. Each DSU fully vests upon award but is distributed only when the director ceases to be a member of the board of directors. Vested units are settled in cash based on our common share price when conversion takes place. Fair value of the liability is based on the closing price of our common shares at the balance sheet date.

Cash-Settled Restricted Share Unit Plan

Our board of directors adopted a cash-settled restricted share unit plan effective as of May 23, 2007, pursuant to which certain of our employees and outside directors are eligible to receive grants of CRSUs, each of which has an initial value equal to the weighted-average closing price of our common shares for the five trading days preceding the date of the grant. The CRSUs generally vest based on continued employment and have annual vesting over three- to five-year periods. Vested units are settled in cash based on our common share price when conversion takes place, which is within 30 days following a vesting date and in any event prior to December 31st of the calendar year in which a vesting date occurs. Fair value of the liability is based on the closing price of our common shares at the balance sheet date.

Income Taxes

We have provided for income taxes based on information that is currently available to us. Tax filings are subject to audits, which could materially change the amount of deferred income tax assets and liabilities. We record deferred tax assets on our consolidated balance sheet for tax benefits that we currently expect to realize in future periods. Over recent years, we have determined that there was sufficient positive evidence such that it was more likely than not that we would utilize all or a portion of deferred tax assets in certain jurisdictions, to offset taxable income in future periods. This positive evidence included that we have earned cumulative income, after permanent differences, in each of these jurisdictions in at least the current and two preceding tax years. As such, over recent years, we have reduced our valuation allowances by amounts which represent the amount of tax loss carry forwards that we project will be used to offset taxable income in these jurisdictions over the foreseeable future. In making the projection for the period, we made certain assumptions, including the following: (i) that there will be continued customer migration from technology platforms owned by foreign jurisdictions to a technology platform owned by another entity in our corporate group; and (ii) that tax rates in these jurisdictions will be consistent over the period of projection. Any further change to increase or decrease the valuation allowance for the deferred tax assets would result in an income tax expense or income tax recovery, respectively, on the consolidated statements of operations.

Business Combinations

In connection with business acquisitions that we have completed, we identify and estimate the fair value of net assets acquired, including certain identifiable intangible assets (other than goodwill) and liabilities assumed in the acquisitions. Any excess of the purchase price over the estimated fair value of the net assets acquired is assigned to goodwill. Intangible assets include customer agreements and relationships, non-compete covenants, existing technologies and trade names. Our initial allocation of purchase price is generally preliminary in nature and may not be final for up to one year from the date of acquisition. Changes to the estimates and assumptions used in determining our purchase price allocation may result in material differences depending on the size of the acquisition completed.

CHANGE IN / INITIAL ADOPTION OF ACCOUNTING POLICIES

Recently adopted accounting pronouncements

In September 2015, the FASB issued Accounting Standards Update 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"). ASU 2015-16 provides guidance to more clearly articulate the accounting requirements for measurement-period adjustments related to a business combination. ASU 2015-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted and the Company adopted ASU 2015-16 in the third quarter of fiscal 2016. The adoption of this standard did not have a material impact on our results of operations or disclosures.

In November 2015, the FASB issued Accounting Standards Update 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). ASU 2015-17 requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. ASU 2015-17 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which will be our fiscal year beginning February 1, 2017. Early adoption at the beginning of an interim or annual period is permitted. Entities can adopt this standard either prospectively or retrospectively. The Company adopted ASU 2015-17 in the fourth quarter of fiscal 2016 on a prospective basis. As a result, we have presented all deferred tax assets and liabilities as noncurrent in our consolidated balance sheet as of January 31, 2016, but have not reclassified current deferred tax assets and liabilities in our consolidated balance sheet as of January 31, 2015. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

Recently issued accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). This update supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" and nearly all other existing revenue recognition guidance under US GAAP. The core principal of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14 which defers the effective date of ASU 2014-09 for one year. ASU 2014-09 is now effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, which will be our fiscal year beginning February 1, 2018. Early adoption as of the original effective date of ASU 2014-09 is permitted. When applying ASU 2014-09 we can either apply the amendments: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined within ASU 2014-09. We are currently evaluating the effect that the pending adoption of ASU 2014-09 will have on our results of operations, financial position and disclosures. Although it is expected to have a impact on our revenue recognition policies and disclosures, we have not yet selected a transition method nor have we determined when we will adopt the standard and the effect of the standard on our ongoing financial reporting.

In August 2014, the FASB issued Accounting Standards Update 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 2015-40)" ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the fourth quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs. ASU 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-05, "Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a software license. ASU 2015-05 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 provides guidance to more clearly articulate the requirements for the measurement and disclosure of inventory. ASU 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which will be our fiscal year beginning February 1, 2017. The Company will adopt this guidance in the first quarter of fiscal 2018. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories reducing the number of items that are recognized in other comprehensive income as well as simplifying the impairment assessment of equity investments without readily determinable fair values. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, which will be our fiscal year beginning February 1, 2018. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance in ASC Topic 840, "Leases" and requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. ASU 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, which will be our fiscal year beginning February 1, 2019. The Company will adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management evaluated our disclosure controls and procedures (as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) as of January 31, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of our internal control over financial reporting (as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) as of January 31, 2016, based on criteria established in "Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission". Based on the assessment, our Chief Executive Officer and Chief Financial Officer concluded that, as of January 31, 2016, the design and operation of our internal control over financial reporting was effective.

During the period beginning on November 1, 2015 and ended on January 31, 2016, no changes were made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRENDS / BUSINESS OUTLOOK

This section discusses our outlook for fiscal 2017 and in general as of the date of this MD&A, and contains forward-looking statements.

Our business may be impacted from time to time by the general cyclical and seasonal nature of particular modes of transportation and the freight market in general, as well as the industries that such markets serve. Factors which may create cyclical fluctuations in such modes of transportation, or the freight market in general, include: legal and regulatory requirements; timing of contract renewals between our customers and their own customers; seasonal-based tariffs; vacation periods applicable to particular shipping or receiving nations; weather-related events or natural disasters that impact shipping in particular geographies; availability of credit to support shipping operations; economic downturns; and amendments to international trade agreements. As many of our services are sold on a "per shipment" basis, we anticipate that our business will continue to reflect the general cyclical and seasonal nature of shipment volumes with our third quarter being the strongest quarter for shipment volumes, compared to our first quarter being the weakest quarter for shipment volumes. Historically, in our second fiscal quarter, we have seen an increase in ocean services revenues as ocean carriers are in the midst of their customer contract negotiation period.

In 2016, our services revenues comprised 95% of our total revenues, with the balance being license revenues. We expect that our focus in 2017 will remain on generating services revenues, primarily by promoting the use of our GLN (including customs compliance services) and the migration of customers using our legacy license-based products to our services-based architecture. We anticipate maintaining the flexibility to license our products to those customers who prefer to buy the products in that fashion and the composition of our revenues in any one quarter between services revenues and license revenues will be impacted by the buying preferences of our customers.

We have significant contracts with our license customers for ongoing support and maintenance, as well as significant service contracts which provide us with recurring services revenues. After their initial term, our service contracts are generally renewable at a customer's option, and there are generally no mandatory payment obligations or obligations to license additional software or subscribe for additional services. For 2017, based on our historic experience, we anticipate that over a one-year period we may lose approximately 5% to 7% of our aggregate annualized recurring revenues in the ordinary course. This includes the potential further loss of recurring revenue from our contract to operate the U.S. Census Bureau's Automated Export System, AESDirect, which we currently expect will continue to decline as Census transitions users of the AESDirect system to a new system operated by U.S. Customs & Border Protection. While the revenue from the Census contract currently represents less than 2% of our aggregate revenues, there can be no assurance that we will be able to replace it or any other lost revenue with new sources of recurring revenue from new customer relationships or from existing customers.

We internally measure and manage our "baseline calibration," a non-GAAP financial measure, which we define as the difference between our "baseline revenues" and "baseline operating expenses". We define our "baseline revenues," a non-GAAP financial measure, as our visible, recurring and contracted revenues. Baseline revenues are not a projection of anticipated total revenues for a period as they exclude any anticipated or expected new sales for a period beyond the date that the baseline revenues are measured. We define our "baseline operating expenses," a non-GAAP financial measure, as our total expenses less interest, taxes, depreciation and amortization, stock-based compensation (for which we include related costs and taxes), acquisition-related costs and restructuring charges. Baseline operating expenses are not a projection of anticipated total expenses for a period as they exclude any expenses associated with anticipated or expected new sales for a period beyond the date that the baseline expenses are measured. Our baseline calibration is not a projection of net income for a period as determined in accordance with GAAP, or adjusted earnings before interest, taxes, depreciation and amortization for a period as it excludes anticipated or expected new sales for a period beyond the date that the baseline calibration is measured, excludes any costs of goods sold or other expenses associated with such new sales, and excludes the expenses identified as excluded in the definition of "baseline operating expenses," above. We calculate and disclose "baseline revenues," "baseline operating expenses" and "baseline calibration" because management uses these metrics in determining its planned levels of expenditures for a period. These metrics are estimates and not projections, nor actual financial results, and are not indicative of current or future performance. These metrics do not have a standardized meaning prescribed by GAAP and are unlikely to be comparable to similarly-titled metrics used by other companies and are not a replacement or proxy for any GAAP measure. At February 1, 2016, using foreign exchange rates of $0.72 to CAD $1.00, $1.12 to EUR 1.00 and $1.45 to £1.00, we estimated that our baseline revenues for the first quarter of 2017 will be approximately $46.1 million and our baseline operating expenses will be approximately $32.9 million. We consider this to be baseline calibration of approximately $13.2 million for the first quarter of 2017, or approximately 29% of our baseline revenues as at February 1, 2016.

We estimate that aggregate amortization expense for existing intangible assets will be $26.1 million for 2017, $21.3 million for 2018, $19.3 million for 2019, $18.6 million for 2020, $15.2 million for 2021 and $33.1 million thereafter, assuming that no impairment of existing intangible assets occurs in the interim and subject to fluctuations in foreign exchange rates.

We anticipate that acquisition costs related to retention bonuses in 2017 will be approximately $1.5 million, conditional on future services rendered by employees.

We anticipate that stock-based compensation expense in 2017 will be approximately $1.3 million to $1.7 million, subject to any necessary adjustments resulting from reconciling estimated stock-based compensation forfeitures to actual stock-based compensation forfeitures.

We performed our annual goodwill impairment tests in accordance with ASC Topic 350, "Intangibles – Goodwill and Other" ("ASC Topic 350") on October 31, 2015 and determined that there was no evidence of impairment. We are currently scheduled to perform our next annual impairment test during the third quarter of fiscal 2017. We will continue to perform quarterly analyses of whether any event has occurred that would more likely than not reduce our enterprise value below our carrying amounts and, if so, we will perform a goodwill impairment test between the annual dates. The likelihood of any future impairment increases if our public market capitalization is adversely impacted by global economic, capital market or other conditions for a sustained period of time. Any future impairment adjustment will be recognized as an expense in the period that such adjustment is identified.

In 2016, capital expenditures were $4.3 million or 2% of revenues, as we continue to invest in computer equipment and software to support our network and build out our infrastructure. We anticipate that we will incur approximately $6.0 million to $7.0 million in capital expenditures in 2017 primarily related to investments in our network and security infrastructure.

We conduct business in a variety of foreign currencies and, as a result, our foreign operations are subject to foreign exchange fluctuations. Our businesses operate in their local currency environment and use their local currency as their functional currency. Assets and liabilities of foreign operations are translated into US dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses of foreign operations are translated using daily exchange rates. Translation adjustments resulting from this process are accumulated in other comprehensive income (loss) as a separate component of shareholders' equity. Transactions incurred in currencies other than the functional currency are converted to the functional currency at the transaction date. All foreign currency transaction gains and losses are included in net income. Some of our cash is held in foreign currencies. We currently have no specific hedging program in place to address fluctuations in international currency exchange rates. We can make no accurate prediction of what will happen with international currency exchange rates going forward. However, if the US dollar was to weaken in comparison to foreign currencies, then we anticipate this will increase the expenses of our business and have a negative impact on our results of operations. By way of illustration, 60% of our revenues in 2016 were in US dollars, 16% in euro, 8% in British pound sterling, 7% in Canadian dollars, and the balance in mixed currencies, while 43% of our operating expenses were in US dollars, 18% in euro, 7% in British pound sterling, 22% in Canadian dollars, and the balance in mixed currencies.

As at March 3, 2016, we had 188,766 outstanding DSUs and 85,515 outstanding CRSUs. CRSUs are notional share units granted to directors, officers and employees that, when vested, are settled in cash by Descartes using the fair market value of Descartes' common shares at the vesting date. DSUs, which have only been granted to non-executive directors, vest upon award but are only paid after the completion of the applicable director's service to Descartes. CRSUs generally vest and are paid over a period of three- to five-years. Our liability to pay amounts for DSUs and CRSUs is determined using the fair market value of Descartes' common shares at the applicable balance sheet date. Increases in the fair market value of Descartes' common shares between reporting periods will require us to record additional expense in a reporting period; while decreases in the fair market value of Descartes' common shares between reporting periods will require us to record an expense recovery. For CRSUs and DSUs, the amount of any expense or recovery is based on the number of vested units outstanding and our stock price. Because the expense is subject to fluctuations in our stock price, we are not able to predict these expenses or expense recoveries and, accordingly, they are outside our baseline calibration.

In 2016, we recorded a net deferred income tax expense of $5.8 million primarily as a result of income that is sheltered by loss carry-forwards and other tax attributes. The amount of any tax expense or recovery in a period will depend on the amount of taxable income, if any, we generate in a jurisdiction, our then current effective tax rate in that jurisdiction, and estimations of our ability to utilize deferred tax asset balances in the future. We can provide no assurance as to the timing or amounts of any income tax expense or recovery, nor can we provide any assurance that our current valuation allowance for deferred tax assets will not need to be adjusted further.

Our tax expense for a period is difficult to predict as it depends on many factors, including the actual jurisdictions in which income is earned, the tax rates in those jurisdictions, the amount of deferred tax assets relating to the jurisdictions and the valuation allowances relating to those tax assets.

We intend to continue to actively explore business combinations to add complementary services, products and customers to our existing businesses. We also intend to continue to focus our acquisition activities on companies that are targeting the same customers as us and processing similar data and, to that end, we listen to our customers' suggestions as they relate to acquisition opportunities. Depending on the size and scope of any business combination, or series of business combinations, we may choose or need to use our existing debt facility or need to raise additional debt or equity capital. However, there can be no assurance that we will be able to undertake such a financing transaction. If we use debt in connection with acquisition activity, we will incur additional interest expense from the date of the draw under such facility.

Certain future commitments are set out above in the section of this MD&A called "Commitments, Contingencies and Guarantees". We believe that we have sufficient liquidity to fund our current operating and working capital requirements, including the payment of these commitments.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Any investment in us will be subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks described below together with all other information included in this report. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are not aware of or have not focused on, or that we currently deem immaterial, may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the risks actually occur, they could materially adversely affect our business, financial condition, liquidity or results of operations. In that case, the trading price of our securities could decline and you may lose all or part of your investment.

We may have difficulties identifying, successfully integrating or maintaining or growing our acquired businesses.

Businesses that we acquire may sell products or operate services that we have limited experience operating or managing. We may experience unanticipated challenges or difficulties identifying suitable acquisition candidates, integrating their businesses into our company, maintaining these businesses at their current levels or growing these businesses. Factors that may impair our ability to identify, successfully integrate, maintain or grow acquired businesses may include, but are not limited to:

- Challenges identifying suitable businesses to buy and negotiating the acquisition of those businesses on acceptable terms;
- Challenges completing the acquisitions within our expected time frames and budgets;
- Challenges in integrating acquired businesses with our business;
- Loss of customers of the acquired business;
- Loss of key personnel from the acquired business, such as former executive officers or key technical personnel;
- Non-compatible business cultures;
- For regulatory compliance businesses, changes in government regulations impacting electronic regulatory filings or import/export compliance, including changes in which government agencies are responsible for gathering import and export information;
- Difficulties in gaining necessary approvals in international markets to expand acquired businesses as contemplated;
- Our inability to obtain or maintain necessary security clearances to provide international shipment management services;
- Our failure to make appropriate capital investments in infrastructure to facilitate growth; and
- Other risk factors identified in this report.

We may fail to properly respond to any of these risks, which may have a material adverse effect on our business results.

Investments in acquisitions and other business initiatives involve a number of risks that could harm our business.
We have in the past acquired, and in the future expect to seek to acquire, additional products, services, customers, technologies and businesses that we believe are complementary to ours. For example, in 2016, we have acquired BearWare, MK Data and Oz. In 2015 we acquired Computer Management, Customs Info, Airclic, e-customs and Pentant. In 2014 we acquired KSD, Compudata and Impatex. We are unable to predict whether or when we will be able to identify any appropriate products, technologies or businesses for acquisition, or the likelihood that any potential acquisition will be available on terms acceptable to us or will be completed. We also, from time to time, take on investments in other business initiatives, such as the implementation of new systems or purchase of marketable securities.

Acquisitions and other business initiatives involve a number of risks, including: substantial investment of funds, diversion of management's attention from current operations; additional demands on resources, systems, procedures and controls; and disruption of our ongoing business. Acquisitions specifically involve risks, including: difficulties in integrating and retaining all or part of the acquired business, its customers and its personnel; assumption of disclosed and undisclosed liabilities; dealing with unfamiliar laws, customs and practices in foreign jurisdictions; and the effectiveness of the acquired company's internal controls and procedures. In addition, we may not identify all risks or fully assess risks identified in connection with an investment. As well, by investing in such initiatives, we may deplete our cash resources or dilute our shareholder base by issuing additional shares. Furthermore, for acquisitions, there is a risk that our valuation assumptions, customer retention expectations and our models for an acquired product or business may be erroneous or inappropriate due to foreseen or unforeseen circumstances and thereby cause us to overvalue an acquisition target. There is also a risk that the contemplated benefits of an acquisition or other investment may not materialize as planned or may not materialize within the time period or to the extent anticipated. The individual or combined effect of these risks could have a material adverse effect on our business.

Our existing customers might cancel contracts with us, fail to renew contracts on their renewal dates, and/or fail to purchase additional services and products, and we may be unable to attract new customers.
We depend on our installed customer base for a significant portion of our revenues. We have significant contracts with our license customers for ongoing support and maintenance, as well as significant service contracts that provide recurring services revenues to us, such as our contract to operate the U.S.

Census Bureau's Automated Export System, AESDirect. In addition, our installed customer base has historically generated additional new license and services revenues for us. Service contracts are generally renewable at a customer's option, and there are generally no mandatory payment obligations or obligations to license additional software or subscribe for additional services.

If our customers fail to renew their service contracts, fail to purchase additional services or products, or we are unable to attract new customers, then our revenues could decrease and our operating results could be adversely affected. Factors influencing such contract terminations could include changes in the financial circumstances of our customers, dissatisfaction with our products or services, our retirement or lack of support for our legacy products and services, our customers selecting or building alternate technologies to replace us, the cost of our products and services as compared to the cost of products and services offered by our competitors, our ability to attract, hire and maintain qualified personnel to meet customer needs, consolidating activities in the market, and changes in our customers' business or in regulation impacting our customers' business that may no longer necessitate the use of our products or services, general economic or market conditions, or other reasons. Further, our customers could delay or terminate implementations or use of our services and products or be reluctant to migrate to new products. Such customers will not generate the revenues we may have anticipated within the timelines anticipated, if at all, and may be less likely to invest in additional services or products from us in the future. We may not be able to adjust our expense levels quickly enough to account for any such revenue losses. In addition, loss of one or more of our key customers could adversely impact our competitive position in the marketplace and hurt our credibility and ability to attract new customers.

System or network failures or information security breaches in connection with our services and products could reduce our sales, impair our reputation, increase costs or result in liability claims, and seriously harm our business.

Any disruption to our services and products, our own information systems or communications networks or those of third-party providers on which we rely as part of our own product offerings could result in the inability of our customers to receive our products for an indeterminate period of time. Our ability to deliver our products and services depends on the development and maintenance of internet infrastructure by third parties. This includes maintenance of reliable networks with the necessary security, speed, data capacity and bandwidth. While our services are designed to operate without interruption, we have experienced, and may in the future experience, interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with customers. Our services and products may not function properly for reasons which may include, but are not limited to, the following:

- System or network failure;
- Software errors, failures and crashes;
- Interruption in the supply of power;
- Virus proliferation;
- Communications failures;
- Information or infrastructure security breaches;
- Insufficient investment in infrastructure;
- Earthquakes, fires, floods, natural disasters, or other force majeure events outside our control; and
- Acts of war, cyber-attacks, denial-of-service attacks and/or terrorism.

In addition, any disruption to the availability of customer information, or any compromise to the integrity or confidentiality of customer information in our systems or networks, or the systems or networks of third parties on which we rely, could result in our customers being unable to effectively use our products or services or forced to take mitigating actions to protect their information. Back-up and redundant systems may be insufficient or may fail and result in a disruption of availability of our products or services to our customers or the integrity or availability of our customers' information.

Any disruption to our services or compromise of customer information could impair our reputation and cause us to lose customers or revenue, or face litigation, necessitate customer service or repair work that would involve substantial costs and distract management from operating our business. Such issues could have a material adverse effect on our business, results of operations and financial condition.

Changes in the value of the U.S. dollar, as compared to the currencies of other countries where we transact business, could harm our operating results and financial condition.
Historically, the largest percentage of our revenues has been denominated in U.S. dollars. However, the majority of our international expenses, including the wages of our non-U.S. employees and certain key supply agreements, have been denominated in Canadian dollars, euros and other foreign currencies. Therefore, changes in the value of the U.S. dollar as compared to the Canadian dollar, the euro and other foreign currencies may materially affect our operating results. We generally have not implemented hedging programs to mitigate our exposure to currency fluctuations affecting international accounts receivable, cash balances and inter-company accounts. We also have not hedged our exposure to currency fluctuations affecting future international revenues and expenses and other commitments. Accordingly, currency exchange rate fluctuations have caused, and may continue to cause, variability in our foreign currency denominated revenue streams, expenses, and our cost to settle foreign currency denominated liabilities.

General economic conditions may affect our results of operations and financial condition.
Demand for our products depends in large part upon the level of capital and operating expenditures by many of our customers. Decreased capital and operational spending could have a material adverse effect on the demand for our products and our business, results of operations, cash flow and overall financial condition. Disruptions in the financial markets may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends. In addition, disruptions in the financial markets may also have an adverse impact on regional economies or the world economy, which could negatively impact the capital and operating expenditures of our customers. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase.

Disruptions in the movement of freight could negatively affect our revenues.
Our business is highly dependent on the movement of freight from one point to another since we generate transaction revenues as freight is moved by, to or from our customers. If there are disruptions in the movement of freight or proper reporting, whether as a result of labor disputes, weather or natural disaster, or caused by terrorists, political instability, or security activities, contagious illness outbreaks, or otherwise, then the traffic volume on our Global Logistics Network will be impacted and our revenues will be adversely affected. As these types of freight disruptions are generally unpredictable, there can be no assurance that our business, results of operations and financial condition will not be adversely affected by such events.

If we fail to attract and retain key personnel, it would adversely affect our ability to develop and effectively manage our business.
Our performance is substantially dependent on the performance of our highly qualified management, technical expertise, and sales and marketing personnel, which we regard as key individuals to our business. We do not maintain life insurance policies on any of our employees that list Descartes as a loss payee. Our success is highly dependent on our ability to identify, hire, train, motivate, promote, and retain key individuals. Significant competition exists for management and skilled personnel. If we fail to cross train key employees, particularly those with specialized knowledge it could impair our ability to provide consistent and uninterrupted service to our customers. If we are not able to attract, retain or establish an effective succession planning program for key individuals it could have a material adverse effect on our business, results of operations, financial condition and the price of our common shares.

We have in the past, and may in the future, make changes to our executive management team or board of directors. There can be no assurance that any such changes and the resulting transition will not have a material adverse effect on our business, results of operations, financial condition and the price of our common shares.

Changes in government filing or screening requirements for global trade may adversely impact our business.
Our regulatory compliance services help our customers comply with government filing and screening requirements relating to global trade. The services that we offer may be impacted, from time to time, by changes in these requirements. Changes in requirements that impact electronic regulatory filings or import/export compliance, including changes adding or reducing filing requirements, changes in enforcement practices or changes in the government agency responsible for such requirements could adversely impact our business, results of operations and financial condition.

Emergence or increased adoption of alternative sources for trade data may adversely impact our business.
With recent acquisitions in the area of supplying trade data and content, an increasing portion of our business relates to the supply of trade data and content that is often used by our customers in other systems, such as enterprise resource planning systems. Emergence or increased adoption of alternative sources of this data and content could have an adverse impact on our customers' needs to obtain this data and content from us and/or the need for certain of the third party system vendors in this field to refer customers to us for this data and content, each of which could adversely impact upon the revenues and income we generate from these areas of our business.

We may have exposure to greater than anticipated tax liabilities or expenses.
We are subject to income and non-income taxes in various jurisdictions and our tax structure is subject to review by both domestic and foreign taxation authorities and currently has tax audits open in a number of jurisdictions in which we operate. On a quarterly basis we assess the status of these audits and the potential for adverse outcomes to determine whether a provision for income and other taxes is appropriate. The timing of the resolution of income tax audits is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from any amounts that we accrue from time to time. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements. We cannot currently provide an estimate of the range of possible outcomes.

The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Any audit of our tax filings could materially change the amount of current and deferred income tax assets and liabilities. We have recorded a valuation allowance against a portion of our net deferred tax assets. If we achieve a consistent level of profitability, the likelihood of further reducing our deferred tax valuation allowance for some portion of the losses incurred in prior periods in one of our jurisdictions will increase. We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during subsequent years. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the global tax implications are known. Our estimate of the potential outcome for any uncertain tax issue is based on a number of assumptions. Any further changes to the valuation allowance for our deferred tax assets would also result in an income tax recovery or income tax expense, as applicable, on the consolidated statements of operations in the period in which the valuation allowance is changed.

Changes to earnings resulting from past acquisitions may adversely affect our operating results.
Under ASC Topic 805, "Business Combinations", we allocate the total purchase price to an acquired company's net tangible assets, intangible assets and in-process research and development based on their values as of the date of the acquisition (including certain assets and liabilities that are recorded at fair value) and record the excess of the purchase price over those values as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. After we complete an acquisition, the following factors, among others, could result in material charges that would adversely affect our operating results and may adversely affect our cash flows:

- Impairment of goodwill or intangible assets;

- A reduction in the useful lives of intangible assets acquired;
- Identification of assumed contingent liabilities after we finalize the purchase price allocation period;
- Charges to our operating results to eliminate certain pre-merger activities that duplicate those of the acquired company or to reduce our cost structure; and
- Charges to our operating results resulting from revised estimates to restructure an acquired company's operations after we finalize the purchase price allocation period.

Routine charges to our operating results associated with acquisitions include amortization of intangible assets, acquisition-related costs and restructuring charges. Acquisition-related costs primarily include advisory services, brokerage services and administrative costs with respect to completed and prospective acquisitions.

We expect to continue to incur additional costs associated with combining the operations of our acquired companies, which may be substantial. Additional costs may include costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated stock-based compensation expenses and severance payments, reorganization or closure of facilities, taxes, and termination of contracts that provide redundant or conflicting services. These costs would be accounted for as expenses and would decrease our net income and earnings per share for the periods in which those adjustments are made.

Our success depends on our ability to continue to innovate and to create new solutions and enhancements to our existing products

We may not be able to develop and introduce new solutions and enhancements to our existing products that respond to new technologies or shipment regulations on a timely basis. If we are unable to develop and sell new products and new features for our existing products that keep pace with rapid technological and regulatory change as well as developments in the transportation logistics industry, our business, results of operations and financial condition could be adversely affected. We intend to continue to invest significant resources in research and development to enhance our existing products and services and introduce new high-quality products that customers will want. If we are unable to predict or quickly react to user preferences or changes in the transportation logistics industry, or its regulatory requirements, or if we are unable to modify our products and services on a timely basis or to effectively bring new products to market, our sales may suffer.

In addition, we may experience difficulties with software or hardware development, design, integration with third-party software or hardware, or marketing that could delay or prevent our introduction, deployment or implementation of new solutions and enhancements. The introduction of new solutions by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing offerings could render our existing or future solutions obsolete.

We may not have sufficient resources to make the necessary investments in software development and our technical infrastructure, and we may experience difficulties that could delay or prevent the successful development, introduction or marketing of new products or enhancements. In addition, our products or enhancements may not meet increasingly complex customer requirements or achieve market acceptance at the rate we expect, or at all. Any failure by us to anticipate or respond adequately to technological advancements, customer requirements and changing industry standards, or any significant delays in the development, introduction or availability of new products or enhancements, could undermine our current market position and negatively impact our business, results of operations or financial condition.

As we continue to increase our international operations we increase our exposure to international business risks that could cause our operating results to suffer.

While our headquarters are in Canada, we currently have direct operations in the U.S., EMEA and the Asia Pacific region. We anticipate that these international operations will continue to require significant management attention and financial resources to localize our services and products for delivery in these markets, to develop compliance expertise relating to international regulatory agencies, and to develop direct and indirect sales and support channels in those markets. We face a number of risks associated with conducting our business internationally that could negatively impact our operating results. These risks include, but are not limited to:

- Longer collection time from foreign clients, particularly in the EMEA region and the Asia Pacific region;
- Difficulty in repatriating cash from certain foreign jurisdictions;
- Language barriers, conflicting international business practices, and other difficulties related to the management and administration of a global business;
- Increased management, travel, infrastructure and legal compliance costs associated with having international operations;
- Difficulties and costs of staffing and managing geographically disparate direct and indirect operations;
- Volatility or fluctuations in foreign currency and tariff rates;
- Multiple, and possibly overlapping, tax structures;
- Complying with complicated and widely differing global laws and regulations in areas such as employment, tax, privacy and data protection;
- Trade restrictions;
- Enhanced security procedures and requirements relating to certain jurisdictions;
- The need to consider characteristics unique to technology systems used internationally;
- Economic or political instability in some markets; and
- Other risk factors set out herein.

If we need additional capital in the future and are unable to obtain it or can only obtain it on unfavorable terms, our operations may be adversely affected, and the market price for our securities could decline.

Historically, we have financed our operations primarily through cash flows from our operations, the sale of our equity securities and borrowing under our revolving debt facility. In addition to our current cash and available debt facilities, we may need to raise additional debt or equity capital to fund expansion of our operations, to enhance our services and products, or to acquire or invest in complementary products, services, businesses or technologies. However, there can be no assurance that we will be able to undertake incremental financing transactions. If we raise additional funds through further issuances of convertible debt or equity securities, our existing shareholders could suffer significant dilution and any new equity securities we issue could have rights, preferences and privileges superior to those attaching to our common shares. Our current revolving debt facility contains, and any debt financing secured by us in the future could contain restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If adequate funds are not available on terms favorable or at all, our operations and growth strategy may be adversely affected and the market price for our common shares could decline.

Increases in fuel prices and other transportation costs may have an adverse effect on the businesses of our customers resulting in them spending less money with us.

Our customers are all involved, directly or indirectly, in the delivery of goods from one point to another, particularly transportation providers and freight forwarders. As the costs of these deliveries become more expensive, whether as a result of increases in fuel costs or otherwise, our customers may have fewer funds available to spend on our products and services. There can be no assurance that these companies will be able to allocate sufficient funds to use our products and services. In addition, rising fuel costs may cause global or geographic-specific reductions in the number of shipments being made, thereby impacting the number of transactions being processed by our Global Logistics Network and our corresponding network revenues.

We may not be able to compensate for downward pricing pressure on certain products and services by increased volumes of transactions or increased prices elsewhere in our business, ultimately resulting in lower revenues.
Some of our products and services are sold to industries where there is downward pricing pressure on the particular product or service due to competition, general industry conditions or other causes. If we cannot offset any such downward pricing pressure, then the particular customer may generate less revenue for our business or we may have less aggregate revenue. This could have an adverse impact on our operating results.

Concerns about the environmental impacts of greenhouse gas emissions and global climate change may result in environmental taxes, charges, regulatory schemes, assessments or penalties, which could restrict or negatively impact our operations or reduce our profitability.
The impacts of human activity on global climate change have attracted considerable public and scientific attention, as well as the attention of the U.S. and other governments. Efforts are being made to reduce greenhouse gas emissions and energy consumption, including those from automobiles and other modes of transportation. The added cost of any environmental regulation, taxes, charges, assessments or penalties levied or imposed on our customers in light of these efforts could result in additional costs for our customers, which could lead them to reduce use of our services. There are also a number of legislative and environmental regulatory initiatives internationally that could restrict or negatively impact our operations or increase our costs. Additionally, environmental regulation, taxes, charges, assessments or penalties could be levied or imposed directly on us. Any enactment of laws or passage of regulations regarding greenhouse gas emissions by Canada, the U.S., or any other jurisdiction we conduct our business in, could adversely affect our operations and financial results.

The general cyclical and seasonal nature of the freight market may have a material adverse effect on our business, results of operations and financial condition.
Our business may be impacted from time to time by the general cyclical and seasonal nature of particular modes of transportation and the freight market in general, as well as the cyclical and seasonal nature of the industries that such markets serve. Factors which may create cyclical fluctuations in such modes of transportation or the freight market in general include legal and regulatory requirements, timing of contract renewals between our customers and their own customers, seasonal-based tariffs, vacation periods applicable to particular shipping or receiving nations, weather-related events that impact shipping in particular geographies and amendments to international trade agreements. Since some of our revenues from particular products and services are tied to the volume of shipments being processed, adverse fluctuations in the volume of global shipments or shipments in any particular mode of transportation may adversely affect our revenues. Declines in shipment volumes in the U.S. or internationally likely would have a material adverse effect on our business.

From time to time, we may be subject to litigation or dispute resolution that could result in significant costs to us and damage to our reputation.
From time to time, we may be subject to litigation or dispute resolution relating to any number or type of claims, including claims for damages related to undetected errors or malfunctions of our services and products or their deployment, claims related to previously-completed acquisition transactions or claims relating to applicable securities laws. Litigation may seriously harm our business because of the costs of defending the lawsuit, diversion of employees' time and attention and potential damage to our reputation.

Further, our services and products are complex and often implemented by our customers to interact with third-party technology or networks. Claims may be made against us for damages properly attributable to those third-party technologies or networks, regardless of our lack of responsibility for any failure resulting in a loss, even if our services and products perform in accordance with their functional specifications. We may also have disputes with key suppliers for damages incurred which, depending on resolution of the disputes, could impact the ongoing quality, price or availability of the services or products we procure from the supplier. Limitation of liability provisions in certain third-party contracts may not be enforceable under the laws of some jurisdictions. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims, and incur damage to our reputation and products. The likelihood of such claims and the amount of damages we may be required to pay may increase as our customers increasingly use our services and products for critical business functions, or rely on our services and products as the systems of record to store data for use by other customer applications. Our insurance may not cover potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby harming our operating results and leading analysts or potential investors to lower their expectations of our performance, which could reduce the trading price of our common shares.

We are dependent on certain key vendors for our inventory of telematics units, which could impede our development and expansion.
We currently have relationships with a small number of mobile asset unit vendors over which we have no operational or financial control and no influence in how these vendors conduct their businesses. Suppliers of mobile asset units could among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Interruption in the supply of equipment from these vendors could delay our ability to maintain, grow and expand our telematics solutions business. If our relationships with any of these unit vendors were to terminate, there is no guarantee that our remaining unit vendors would be able to handle the increased equipment supply required to maintain and grow our expansive networks at our desired rates. There is also no guarantee that business relationships with other key unit vendors could be entered into on terms desirable or favorable to us, if at all. Fewer key vendors might mean that existing or potential customers are unable to meaningfully communicate using our Global Logistics Network, which may cause existing and potential customers to move to competitors' products. Such equipment supply issues could adversely affect our business, results of operations and financial condition.

We may not remain competitive. Increased competition could seriously harm our business.
The market for supply chain technology is highly competitive and subject to rapid technological change. We expect that competition will increase in the future. To maintain and improve our competitive position, we must continue to develop and introduce in a timely and cost effective manner new products, product features and network services to keep pace with our competitors. We currently face competition from a large number of specific market entrants, some of which are focused on specific industries, geographic regions or other components of markets we operate in.

Current and potential competitors include supply chain application software vendors, customers that undertake internal software development efforts, value-added networks and business document exchanges, enterprise resource planning software vendors, regulatory filing companies, trade data vendors and general business application software vendors. Many of our current and potential competitors may have one or more of the following relative advantages:

- Established relationships with existing customers or prospects that we are targeting;
- Superior product functionality and industry-specific expertise;
- Broader range of products to offer and better product life cycle management;
- Larger installed base of customers;
- Greater financial, technical, marketing, sales, distribution and other resources;
- Better performance;
- Lower cost structure and more profitable operations;
- Greater investment in infrastructure;
- Greater worldwide presence;
- Early adoption of, or adaptation to changes in, technology; or
- Longer operating history; and/or greater name recognition.

Further, current and potential competitors have established, or may establish, cooperative relationships and business combinations among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition and competition surrounding other commercial terms as we compete for market share. In particular, larger competitors or competitors with a broader range of services and products may bundle their products, rendering our products more expensive and/or less functional. As a result of these and other factors, we may be unable to compete successfully with our existing or new competitors.

If we are unable to generate broad market acceptance of our services, products and pricing, serious harm could result to our business.

We currently derive substantially all of our revenues from our federated network and global logistics technology solutions and expect to do so in the future. Broad market acceptance of these types of services and products, and their related pricing, is therefore critical to our future success. The demand for, and market acceptance of, our services and products is subject to a high level of uncertainty. Some of our services and products are often considered complex and may involve a new approach to the conduct of business by our customers. The market for our services and products may weaken, competitors may develop superior services and products that perform logistics services on a global scale or within a particular geographic region, or we may fail to develop or maintain acceptable services and products to address new market conditions, governmental regulations or technological changes. Any one of these events could have a material adverse effect on our business, results of operations and financial condition.

Our success and ability to compete depend upon our ability to secure and protect patents, trademarks and other proprietary rights.

We consider certain aspects of our internal operations, products, services and related documentation to be proprietary, and we primarily rely on a combination of patent, copyright, trademark and trade secret laws and other measures to protect our proprietary rights. Patent applications or issued patents, as well as trademark, copyright, and trade secret rights may not provide adequate protection or competitive advantage and may require significant resources to obtain and defend. We will also not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. We also rely on contractual restrictions in our agreements with customers, employees, outsourced developers and others to protect our intellectual property rights. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that our patents, copyrights, trademarks or trade secrets will not otherwise become known. Through an escrow arrangement, we have granted some of our customers a contingent future right to use our source code for software products solely for their internal maintenance services. If our source code is accessed through an escrow, the likelihood of misappropriation or other misuse of our intellectual property may increase.

Moreover, the laws of some countries do not protect proprietary intellectual property rights as effectively as do the laws of the U.S. and Canada. Protecting and defending our intellectual property rights could be costly regardless of venue. In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our solutions, or injure our reputation.

Claims that we infringe third-party proprietary rights could trigger indemnification obligations and result in significant expenses or restrictions on our ability to provide our products or services.

Competitors and other third parties have claimed, and in the future may claim, that our current or future services or products infringe their proprietary rights or assert other claims against us. Many of our competitors have obtained patents covering products and services generally related to our products and services, and they may assert these patents against us. Such claims, whether with or without merit, could be time consuming and expensive to litigate or settle and could divert management attention from focusing on our core business.

As a result of such a dispute, we may have to pay damages, incur substantial legal fees, suspend the sale or deployment of our services and products, develop costly non-infringing technology, if possible, or enter into license agreements, which may not be available on terms acceptable to us, if at all. Any of these results would increase our expenses and could decrease the functionality of our services and products, which would make our services and products less attractive to our current and/or potential customers. We have agreed in some of our agreements, and may agree in the future, to indemnify other parties for any expenses or liabilities resulting from claimed infringements of the proprietary rights of third parties. If we are required to make payments pursuant to these indemnification agreements, such payments could have a material adverse effect on our business, results of operations and financial condition.

Our results of operations may vary significantly from quarter to quarter and therefore may be difficult to predict or may fail to meet investment community expectations.

Our results of operations may vary from quarter to quarter in the future due to a variety of factors, many of which are outside of our control. Such factors include, but are not limited to:

- Volatility or fluctuations in foreign currency exchange rates;
- Timing of acquisitions and related costs;
- Timing of restructuring activities;
- The introduction of enhanced products and services from competitors;
- Our ability to introduce new products and updates to our existing products on a timely basis;
- The termination of any key customer contracts, whether by the customer or by us;
- Recognition and expensing of deferred tax assets;
- Legal costs incurred in bringing or defending any litigation with customers or third-party providers, and any corresponding judgments or awards;
- Legal and compliance costs incurred to comply with regulatory requirements;
- Fluctuations in the demand for our services and products;
- The impact of stock-based compensation expense;
- Price and functionality competition in our industry;
- Changes in legislation and accounting standards;
- Our ability to satisfy contractual obligations in customer contracts and deliver services and products to the satisfaction of our customers; and
- Other risk factors discussed in this report.

Although our revenues may fluctuate from quarter to quarter, significant portions of our expenses are not variable in the short term, and we may not be able to reduce them quickly to respond to decreases in revenues. If revenues are below expectations, this shortfall is likely to adversely and/or disproportionately affect our operating results. If this occurs, the trading price of our common shares may fall substantially.

Privacy laws and regulations are extensive, open to various interpretations, complex to implement and may reduce demand for our products, and failure to comply may impose significant liabilities.

Our customers can use our products to collect, use, process and store information regarding their shipments. Federal, state and foreign government bodies and agencies may adopt laws and regulations regarding the collection, use, processing, storage and disclosure of such information obtained from consumers and individuals. In addition to government regulatory activity, privacy advocacy groups and the technology industry and other industries may consider various new, additional or different self-regulatory standards that may place additional burdens directly on our customers and target customers, and indirectly on us. Our products are expected to be capable of use by our customers in compliance with such laws and regulations. The functional and operational requirements and costs of compliance with such laws and regulations may adversely impact our business, and failure to enable our products to comply with such laws and regulations could lead to significant fines and penalties imposed by regulators, as well as claims by our customers or third parties. Additionally, all of these domestic and international legislative and regulatory initiatives could adversely affect our customers' ability or desire to collect, use, process and store shipment logistics information, which could reduce demand for our products.

The price of our common shares has in the past been volatile and may also be volatile in the future.

The trading price of our common shares may be subject to fluctuation in the future. This may make it more difficult for you to resell your common shares when you want at prices that you find attractive. Increases in our common share price may also increase our compensation expense pursuant to our existing director, officer and employee compensation arrangements. Fluctuations in our common share price may be caused by events unrelated to our operating performance and beyond our control. Factors that may contribute to fluctuations include, but are not limited to:

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;
- Announcements of technological innovations or acquisitions by us or by our competitors;
- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions; and
- Other risk factors set out in this report.

If the market price of our common shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

Fair value assessments of our intangible assets required by GAAP may require us to record significant non-cash charges associated with intangible asset impairment.

Significant portions of our assets, which include customer agreements and relationships, non-compete covenants, existing technologies and trade names, are intangible. We amortize intangible assets on a straight-line basis over their estimated useful lives. We review the carrying value of these assets at least annually for evidence of impairment. In accordance with ASC Topic 360-10-35, "Property, Plant, and Equipment: Overview: Subsequent Measurement" an impairment loss is recognized when the estimate of undiscounted future cash flows generated by such assets is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows. Future fair value assessments of intangible assets may require impairment charges to be recorded in the results of operations for future periods. This could impair our ability to achieve or maintain profitability in the future.

If our common share price decreases to a level such that the fair value of our net assets is less than the carrying value of our net assets, we may be required to record additional significant non-cash charges associated with goodwill impairment.

We account for goodwill in accordance with ASC Topic 350, "Intangibles – Goodwill and Other", which among other things, requires that goodwill be tested for impairment at least annually. We have designated October 31st for our annual impairment test. Should the fair value of our net assets, determined by our market capitalization, be less than the carrying value of our net assets at future annual impairment test dates, we may have to recognize goodwill impairment losses in our results of operations in future periods. This could impair our ability to achieve or maintain profitability in the future.

We have a substantial accumulated deficit and may incur losses in the future.

As at January 31, 2016, our accumulated deficit was $262.3 million, which has been accumulated from 2005 and prior fiscal periods. Although the Company has been profitable since 2005, there can be no assurance that we will not incur losses again in the future. If we fail to maintain profitability, the market price of our common shares may decline.

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Statements
Management is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. These consolidated financial statements have been prepared in accordance with US generally accepted accounting principles ("GAAP") and necessarily include amounts that reflect management's judgment and best estimates. Financial information contained elsewhere in this Annual Report is prepared on a basis consistent with the consolidated financial statements.

The Board of Directors carries out its responsibilities for the consolidated financial statements through its Audit Committee, consisting solely of independent directors. The Audit Committee meets with management and the independent auditors to review the consolidated financial statements and internal controls as they relate to financial reporting. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to shareholders.

Internal Control Over Financial Reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of our internal control over financial reporting as of January 31, 2016, based on criteria established in "Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission". Based on the assessment, management concluded that, as of January 31, 2016, the design and operation of our internal control over financial reporting was effective.

Management's internal control over financial reporting as of January 31, 2016, has been audited by KPMG LLP, Independent Registered Public Accounting Firm, who also audited our Consolidated Financial Statements for the year ended January 31, 2016, as stated in the Report of Independent Registered Public Accounting Firm, which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of January 31, 2016.

Changes in Internal Control Over Financial Reporting
During the fiscal year ended January 31, 2016, no changes were made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

'Edward J. Ryan'
Edward J. Ryan
Chief Executive Officer
Waterloo, Ontario

'Allan Brett'
Allan Brett
Chief Financial Officer
Waterloo, Ontario

Deloitte LLP
Bay Adelaide East
22 Adelaide Street West, Suite 200
Toronto ON M5H 0A9
Canada

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Descartes Systems Group Inc.

We have audited the accompanying consolidated financial statements of The Descartes Systems Group Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at January 31, 2015, and the consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended January 31, 2015, and 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 accounting principles generally accepted in the United States of America, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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 the auditor's 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, the auditor considers 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. 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Descartes Systems Group Inc. and subsidiaries as at January 31, 2015, and the results of their operations and cash flows for each of the years in the two-year period ended January 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 5, 2015

KPMG LLP
Yonge Corporate Centre
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Descartes Systems Group Inc.

We have audited the accompanying consolidated financial statements of The Descartes Systems Group Inc., which comprise the consolidated balance sheet as at January 31, 2016, the consolidated statements of operations, comprehensive income (loss), 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 US 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 and the standards of the Public Company Accounting Oversight Board (United States). 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. 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Descartes Systems Group Inc. as at January 31, 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company adopted a new accounting pronouncement related to prospective presentation of deferred income tax assets and liabilities as non-current in the year ended January 31, 2016.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Descartes Systems Group Inc.'s internal control over financial reporting as of January 31, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2016 expressed an unqualified (unmodified) opinion on the effectiveness of The Descartes Systems Group Inc.'s internal control over financial reporting.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 2, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Descartes Systems Group Inc.

We have audited The Descartes Systems Group Inc.'s internal control over financial reporting as of January 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Descartes Systems Group Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under the heading Management's Report on Financial Statements and Internal Control over Financial Reporting in Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended January 31, 2016. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Descartes Systems Group Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Descartes Systems Group Inc. as of January 31, 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year then ended, and our report dated March 2, 2016 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 2, 2016

THE DESCARTES SYSTEMS GROUP INC.
CONSOLIDATED BALANCE SHEETS
(US DOLLARS IN THOUSANDS; US GAAP)

	January 31, 2016	January 31, 2015
ASSETS		
CURRENT ASSETS		
Cash	**37,213**	118,053
Short-Term marketable securities (Note 4)	**4,639**	-
Accounts receivable (net)		
Trade (Note 5)	**25,614**	22,613
Other (Note 6)	**3,131**	3,257
Prepaid expenses and other	**4,673**	4,327
Inventory (Note 7)	**155**	474
Deferred income taxes	**-**	8,572
	75,425	157,296
PROPERTY AND EQUIPMENT, NET (Note 8)	**8,604**	7,829
DEFERRED INCOME TAXES	**16,804**	16,510
DEFERRED TAX CHARGE (Note 18)	**906**	-
INTANGIBLE ASSETS, NET (Note 9)	**133,562**	115,126
GOODWILL (Note 10)	**217,486**	147,440
	452,787	444,201
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**4,473**	4,620
Accrued liabilities (Note 11)	**16,844**	16,695
Income taxes payable	**2,086**	4,112
Deferred revenue	**16,639**	14,720
	40,042	40,147
LONG-TERM DEFERRED REVENUE	**941**	589
LONG-TERM INCOME TAXES PAYABLE (Note 18)	**3,672**	3,450
DEFERRED INCOME TAXES	**6,097**	9,630
	50,752	53,816
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Note 13)		
SUBSEQUENT EVENT (Note 12)		
SHAREHOLDERS' EQUITY		
Common shares – unlimited shares authorized; Shares issued and outstanding totaled 75,761,184 at January 31, 2016 (January 31, 2015 – 75,480,492) (Note 14)	**252,471**	247,839
Additional paid-in capital	**446,747**	450,623
Accumulated other comprehensive loss	**(34,880)**	(25,212)
Accumulated deficit	**(262,303)**	(282,865)
	402,035	390,385
	452,787	444,201

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

Approved by the Board:

'Eric A. Demirian'
Eric A. Demirian
Director

'Edward J. Ryan'
Edward J. Ryan
Chief Executive Officer

THE DESCARTES SYSTEMS GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(US DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND WEIGHTED AVERAGE SHARE AMOUNTS; US GAAP)

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
REVENUES	**184,993**	170,860	151,294
COST OF REVENUES	**53,859**	54,879	49,043
GROSS MARGIN	**131,134**	115,981	102,251
EXPENSES			
Sales and marketing	**22,424**	20,404	16,681
Research and development	**31,293**	28,077	25,881
General and administrative	**21,607**	20,333	20,509
Other charges (Note 19)	**1,491**	2,876	6,512
Amortization of intangible assets	**26,222**	21,715	17,999
	103,037	93,405	87,582
INCOME FROM OPERATIONS	**28,097**	22,576	14,669
INTEREST EXPENSE	**(522)**	(1,088)	(993)
INTEREST INCOME	**195**	333	57
INCOME BEFORE INCOME TAXES	**27,770**	21,821	13,733
INCOME TAX EXPENSE (Note 17)			
Current	**1,443**	2,784	1,768
Deferred	**5,765**	3,978	2,353
	7,208	6,762	4,121
NET INCOME	**20,562**	15,059	9,612
EARNINGS PER SHARE (Note 15)			
Basic	**0.27**	0.21	0.15
Diluted	**0.27**	0.21	0.15
WEIGHTED AVERAGE SHARES OUTSTANDING (thousands)			
Basic	**75,595**	70,559	62,841
Diluted	**76,409**	71,584	64,370

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

THE DESCARTES SYSTEMS GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(US DOLLARS IN THOUSANDS; US GAAP)

	January 31, 2016	January 31, 2015	January 31, 2014
NET INCOME	**20,562**	15,059	9,612
Other comprehensive loss:			
Foreign currency translation adjustment, net of income tax (recovery) expense of ($797) for the year ended January 31, 2016 (January 31, 2015 – $445; January 31, 2014 – $562)	**(9,640)**	(24,123)	(2,958)
Unrealized loss on marketable securities (Note 4)	**(28)**	-	-
Total other comprehensive loss	**(9,668)**	(24,123)	(2,958)
COMPREHENSIVE INCOME (LOSS)	**10,894**	(9,064)	6,654

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

The Descartes Systems Group Inc.
Consolidated Statements of Shareholders' Equity
(US dollars in thousands; US GAAP)

	January 31, 2016	January 31, 2015	January 31, 2014
Common shares			
Balance, beginning of year	**247,839**	97,779	92,472
Shares issued:			
Stock options and share units exercised	**4,632**	2,626	5,307
Issuance of common shares, net of issuance costs (Note 14)	**-**	142,052	**-**
Acquisitions (Note 3)	**-**	5,382	**-**
Balance, end of year	**252,471**	247,839	97,779
Additional paid-in capital			
Balance, beginning of year	**450,623**	451,394	451,434
Stock-based compensation expense (Note 16)	**1,577**	1,543	2,523
Stock options and share units exercised	**(68)**	(1,670)	(1,525)
Settlement of stock options (Note 16)	**(7,000)**	(733)	(1,510)
Stock option income tax benefits	**1,615**	89	472
Balance, end of year	**446,747**	450,623	451,394
Accumulated other comprehensive (loss) income			
Balance, beginning of year	**(25,212)**	(1,089)	1,869
Foreign currency translation adjustments, net of income taxes	**(9,640)**	(24,123)	(2,958)
Unrealized loss on marketable securities (Note 4)	**(28)**	-	-
Balance, end of year	**(34,880)**	(25,212)	(1,089)
Accumulated deficit			
Balance, beginning of year	**(282,865)**	(297,924)	(307,536)
Net income	**20,562**	15,059	9,612
Balance, end of year	**(262,303)**	(282,865)	(297,924)
Total Shareholders' Equity	**402,035**	390,385	250,160

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

THE DESCARTES SYSTEMS GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US DOLLARS IN THOUSANDS; US GAAP)

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
OPERATING ACTIVITIES			
Net income	**20,562**	15,059	9,612
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**3,377**	3,295	3,396
Amortization of intangible assets	**26,222**	21,715	17,999
Stock-based compensation expense (Note 16)	**1,577**	1,543	2,523
Other non-cash operating activities	**(392)**	-	-
Deferred tax expense	**5,765**	3,978	2,353
Deferred tax charge	**22**	-	-
Changes in operating assets and liabilities:			
Accounts receivable			
Trade	**764**	3,999	3,650
Other	**203**	4,869	2,164
Prepaid expenses and other	**(86)**	141	91
Inventory	**314**	859	(535)
Accounts payable	**(412)**	(3,121)	146
Accrued liabilities	**25**	(294)	2,051
Income taxes payable	**(1,690)**	(73)	596
Deferred revenue	**(2,008)**	(2,492)	(1,432)
Cash provided by operating activities	**54,243**	49,478	42,614
INVESTING ACTIVITIES			
Purchase of marketable securities	**(4,667)**	-	-
Additions to property and equipment	**(4,309)**	(2,679)	(2,385)
Acquisition of subsidiaries, net of cash acquired and bank indebtedness assumed (Note 3)	**(120,853)**	(82,152)	(58,737)
Cash used in investing activities	**(129,829)**	(84,831)	(61,122)
FINANCING ACTIVITIES			
Proceeds from borrowing on the debt facility	**-**	20,000	46,262
Payment of debt issuance costs	**-**	(386)	(692)
Repayments of debt and other financial liabilities	**-**	(63,305)	(3,722)
Issuance of common shares for cash, net of issuance costs	**158**	140,724	3,633
Settlement of stock options (Note 16)	**(2,590)**	(405)	(1,361)
Cash (used in) provided by financing activities	**(2,432)**	96,628	44,120
Effect of foreign exchange rate changes on cash	**(2,822)**	(5,927)	(545)
(Decrease) increase in cash	**(80,840)**	55,348	25,067
Cash, beginning of year	**118,053**	62,705	37,638
Cash, end of year	**37,213**	118,053	62,705
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	**31**	692	406
Cash paid during the year for income taxes	**3,533**	2,983	1,762

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

Note 1 - Description of the Business

The Descartes Systems Group Inc. ("Descartes", "Company", "our" or "we") is a global provider of federated network and global logistics technology solutions that help our customers make and receive shipments and manage related resources. Our network-based solutions, which primarily consist of services and software, connect people to their trading partners and enable business document exchange (bookings, bills of lading, status messages); regulatory compliance and customs filing; route and resource planning, execution and monitoring; access and leverage global trade and restricted party data; inventory and asset visibility; rate and transportation management; and warehouse operations. Our pricing model provides our customers with flexibility in purchasing our solutions either on a perpetual license, subscription or transactional basis. Our primary focus is on serving transportation providers (air, ocean and truck modes), logistics service providers (including third-party logistics providers, freight forwarders and customs brokers) and distribution-intensive companies where delivery is either a key or a defining part of their own product or service offering, or where there is an opportunity to reduce costs and improve service levels by optimizing the use of their assets.

Note 2 –Basis of Presentation

The accompanying consolidated financial statements are presented in United States ("US") dollars and are prepared in accordance with generally accepted accounting principles in the US ("GAAP") and the rules and regulations of the Canadian Securities Administrators and US Securities and Exchange Commission ("SEC") for the preparation of consolidated financial statements.

Our fiscal year commences on February 1st of each year and ends on January 31st of the following year. Our fiscal year, which ends on January 31, 2016, is referred to as the "current fiscal year", "fiscal 2016", "2016" or using similar words. Our previous fiscal year, which ended on January 31, 2015, is referred to as the "previous fiscal year", "fiscal 2015", "2015" or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends. For example, "2017" refers to the annual period ending January 31, 2017 and the "fourth quarter of 2017" refers to the quarter ending January 31, 2017.

We have reclassified certain immaterial items in the consolidated financial statements to conform to the current presentation.

Basis of consolidation
The consolidated financial statements include the financial statements of Descartes and our wholly-owned subsidiaries. We do not have any variable interests in variable interest entities. All intercompany accounts and transactions have been eliminated during consolidation.

Financial instruments
Fair value of financial instruments
In accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") Topic 320 "Investments - Debt and Equity Securities" (Topic 320) related to accounting for certain investments in equity securities, and based on our intentions regarding these instruments, we classify our marketable securities as available for sale and account for these investments at fair value.

The carrying amounts of the Company's cash, accounts receivable (net), accounts payable, accrued liabilities and income taxes payable approximate their fair value due to the relatively short period of time between origination of the instruments and their expected realization.

Foreign exchange risk
We are exposed to foreign exchange risk because the Company transacts business in currencies other than the US dollar. Accordingly, our results are affected, and may be affected in the future, by exchange rate fluctuations of the US dollar relative to the Canadian dollar, euro and various other foreign currencies.

Interest rate risk
We are exposed to interest rate fluctuations to the extent that we borrow on our revolving debt facility, which depending on the type of advance under the available facilities, interest will be charged based on either i) Canada prime rate; or ii) US base rate; or iii) LIBOR. As of January 31, 2016, all amounts previously borrowed under the revolving debt facility have been repaid and no amounts remain owing.

We are also exposed to reductions in interest rates, which could adversely impact expected returns from our investment of corporate funds in interest bearing bank accounts.

Credit risk
We are exposed to credit risk through our invested cash and accounts receivable. We hold our cash with reputable financial institutions. The lack of concentration of accounts receivable from a single customer and the dispersion of customers among industries and geographical locations mitigate our credit risk.

We do not use any type of speculative financial instruments, including but not limited to foreign exchange contracts, futures, swaps and option agreements, to manage our foreign exchange or interest rate risks. In addition, we do not hold or issue financial instruments for trading purposes.

Foreign currency translation
The US dollar is the presentation currency of the Company. Assets and liabilities of our subsidiaries are translated into US dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated into US dollars using daily exchange rates. Translation adjustments resulting from this process are accumulated in other comprehensive income (loss) as a separate component of shareholders' equity. On substantial liquidation of a foreign operation, the component of other accumulated comprehensive income relating to that particular foreign operation is recognized in the consolidated statements of operations.

The functional currency of each of our entities is the local currency in which they operate. Transactions incurred in currencies other than the local currency of an entity are converted to the local currency at the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-measured into the local currency at the exchange rate in effect at the balance sheet date. All foreign currency re-measurement gains and losses are included in net income. For the year ended January 31, 2016, foreign currency re-measurement loss of $0.2 million was included in net income (January 31, 2015 – gain of $1.4 million; January 31, 2014 – loss of $0.2 million).

Use of estimates
Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying note disclosures. Although these estimates and assumptions are based on management's best knowledge of current events, actual results may be different from the estimates. These estimates, judgments and assumptions are evaluated on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Estimates and assumptions are used when accounting for items such as allocations of the purchase price and the fair value of net assets acquired in business combination transactions, useful lives of intangible assets and property and equipment, allowance for doubtful accounts, collectability of other receivables, provisions for excess or obsolete inventory, restructuring accruals, revenue related estimates including vendor-specific objective evidence ("VSOE") of selling price and best estimate of selling price ("BESP"), fair value of stock-based compensation, assumptions embodied in the valuation of assets for impairment assessment, valuation allowances for deferred income tax assets, realization of investment tax credits, uncertain tax positions and recognition of contingencies.

Cash

Cash included highly liquid short-term deposits with original maturities of three months or less.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make their required payments. Specifically, we consider the age of the receivables, customers' payment history, historical write-offs, the creditworthiness of the customer, and current economic trends among other factors. Accounts receivable are written off, and the associated allowance is eliminated, if it is determined that the specific balance is no longer collectible. The allowance is maintained for 100% of all accounts deemed to be uncollectible and, for those receivables not specifically identified as uncollectible, an allowance is maintained for a specific percentage of those receivables based upon the aging of accounts, our historical collection experience and current economic expectations. To date, the actual losses have been within our expectations. No single customer accounted for more than 10% of the accounts receivable balance as of January 31, 2016 and 2015.

Inventory

Finished goods inventories are stated at the lower of cost and market. The cost of finished goods is determined on the basis of average cost of units.

The valuation of inventory, including the determination of obsolete or excess inventory, requires management to estimate the future demand for our products within specified time horizons. We perform an assessment of inventory which includes a review of, among other factors, demand requirements, product life cycle and development plans, product pricing and quality issues. If the demand for our products indicates we are no longer able to sell inventories above cost or at all, we write down inventory to market or excess inventory is written off.

Impairment of long-lived assets

We test long-lived assets or asset groups, such as property and equipment and finite life intangible assets, for recoverability when events or changes in circumstances indicate that there may be impairment. Circumstances which could trigger a review include, but are not limited to: significant adverse changes in the business climate or legal factors; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset or asset group; and a current expectation that the asset or asset group will more likely than not be sold or disposed of before the end of its estimated useful life. An impairment loss is recognized when the estimate of undiscounted future cash flows generated by such asset or asset group is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows. No impairment of long-lived assets has been identified or recorded in our consolidated statements of operations for any of the fiscal years presented.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not subject to amortization.

We test for impairment of goodwill at least annually on October 31st of each year and at any other time if any event occurs or circumstances change that would more likely than not reduce our fair value below our reporting unit's carrying amount. Our operations are analyzed by management and our chief operating decision makers as being part of a single industry segment providing logistics technology solutions. Accordingly, our goodwill impairment assessment is based on the allocation of goodwill to a single reporting unit. We completed the qualitative assessment during our third quarter of 2016 and concluded that it was more likely than not that the fair value of the goodwill was greater than the carrying value. As a result, no impairment of goodwill was recorded in fiscal 2016 (no impairments were recorded for fiscal 2015 or fiscal 2014).

We perform further quarterly analysis of whether any event has occurred that would more likely than not reduce our fair value below our reporting unit's carrying amount and, if so, we perform a goodwill impairment test between the annual date. Any impairment adjustment is recognized as an expense in the period that the adjustment is identified.

Intangible assets related to our acquisitions are recorded at their fair value at the acquisition date. Intangible assets include customer agreements and relationships, non-compete covenants, existing technologies and trade names. Intangible assets are amortized on a straight-line basis over their estimated useful lives. We write down intangible asset or asset groups with a finite life to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Fair value of intangible asset or asset groups is determined by discounting the expected related future cash flows.

Amortization of our intangible assets is generally recorded at the following rates:

Customer agreements and relationships	Straight-line over three to twenty years
Existing technologies	Straight-line over three to twelve years
Trade names	Straight-line over one to fifteen years
Non-compete covenants	Straight-line over two to twelve years

Property and equipment

Property and equipment is recorded at cost. Depreciation of our property and equipment is generally recorded at the following rates:

Computer equipment and software	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	Straight-line over lesser of useful life or term of lease

Fully depreciated property and equipment are removed from the balance sheet when they are no longer in use.

Revenue recognition

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there exists persuasive evidence of an arrangement, the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. All revenue is recognized net of any related sales taxes. In addition to this general policy, the specific revenue recognition policies for each major category of revenue are included below.

Services Revenues - Services revenues are principally comprised of the following: (i) ongoing transactional fees for use of our services and products by our customers, which are recognized as the transactions occur; (ii) professional services revenues from consulting, implementation and training services related to our services and products, which are recognized as the services are performed; (iii) maintenance, subscription and other related revenues, including revenues associated with maintenance and support of our services and products, which are recognized ratably over the subscription period; and (iv) hardware revenues, which are recognized when hardware is shipped.

License Revenues - License revenues are derived from perpetual licenses granted to our customers to use our software products.

We enter into arrangements from time to time that may consist of multiple deliverables which may include any combination of services and software licenses. Our typical multiple-element arrangements involve: (i) software with maintenance support services, (ii) professional services with one time set-up fees and (iii) hardware with services. For any arrangements involving multiple deliverables involving non-software elements (hardware, one time set-up fees, professional services, subscription, etc.) the consideration from the arrangement is allocated to each respective element based on its relative selling price, using VSOE of selling price. In instances when we are unable to establish the selling price using VSOE, we attempt to establish selling price of each element based on acceptable third party evidence of selling price ("TPE"); however we are generally unable to reliably determine the selling price of similar competitor products or services on a stand-alone basis. In these instances, we use our BESP in our allocation of the arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service was sold on a stand-alone basis. We determine BESP for each specific element in a multiple element arrangement considering multiple factors including, but not limited to, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices.

For arrangements involving multiple deliverables of software with maintenance support services, the revenue is recognized based ASC Subtopic 985-605 "Software: Revenue Recognition". If we are unable to determine VSOE of fair value for all of the deliverables of the arrangement, but are able to obtain VSOE of fair value for all the undelivered elements, revenue is allocated using the residual method. Under the residual method, the amount of revenue allocated to the delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. If VSOE of fair value of any undelivered software items does not exist, revenue from the entire arrangement is initially deferred and recognized at the earlier of: (i) delivery of those elements for which VSOE of fair value did not exist; or (ii) when VSOE of fair value can be established.

Research and development costs
To date, we have not capitalized any costs related to research and development of our computer software products. Costs incurred between the dates that the product is considered to be technologically feasible and is considered to be ready for general release to customers have historically been expensed as they have not been significant.

Stock-based compensation plans
Stock Options
We maintain stock option plans for directors, officers, employees and other service providers. Options to purchase our common shares are granted at an exercise price equal to the fair market value of our common shares as of the date of grant. This fair market value is determined using the closing price of our common shares on the TSX on the day immediately preceding the date of the grant.

Employee stock options generally vest over a five-year period starting from the grant date and expire seven years from the grant date. Directors' and officers' stock options generally have quarterly vesting over a three- to five-year period. We issue new shares from treasury upon the exercise of a stock option.

The fair value of employee stock option grants that are ultimately expected to vest are amortized to expense in our consolidated statement of operations based on the straight-line attribution method. The fair value of stock option grants is calculated using the Black-Scholes Merton option-pricing model. Expected volatility is based on historical volatility of our common stock and other factors. The risk-free interest rates are based on Government of Canada average bond yields for a period consistent with the expected life of the option in effect at the time of the grant. The expected option life is based on the historical life of our granted options and other factors.

Performance & Restricted Share Units
We maintain a performance and restricted share unit plan pursuant to which certain of our officers are eligible to receive grants of performance share units ("PSUs") and restricted share units ("RSUs").

PSUs vest at the end of a three-year performance period. The ultimate number of PSUs that vest is based on the total shareholder return ("TSR") of our Company relative to the TSR of companies comprising a peer index group. TSR is calculated based on the weighted-average closing price of shares for the five trading days preceding the beginning and end of the performance period. The fair value of PSUs is expensed to stock-based compensation expense over the vesting period. PSUs expire ten years from the grant date. New shares are issued from treasury upon the redemption of a PSU.

PSUs are measured at fair value estimated using a Monte Carlo Simulation approach. Expected volatility is based on historical volatility of our common stock and other factors. The risk-free interest rates are based on the Government of Canada average bond yields for a period consistent with the expected life of the PSUs at the time of the grant. The expected PSU life is based on the historical life of our stock options and other factors.

RSUs vest annually over a three-year period starting from the grant date and expire ten years from the grant date. We issue new shares from treasury upon the redemption of an RSU.

RSUs are measured at fair value based on the closing price of our common shares for the day preceding the date of the grant and will be expensed to stock-based compensation expense over the vesting period.

Deferred Share Unit Plan

Our board of directors adopted a deferred share unit plan effective as of June 28, 2004, pursuant to which non-employee directors are eligible to receive grants of deferred share units ("DSUs"), each of which has an initial value equal to the weighted-average closing price of our common shares for the five trading days preceding the grant date. The plan allows each director to choose to receive, in the form of DSUs, all, none or a percentage of the eligible director's fees which would otherwise be payable in cash. If a director has invested less than the minimum amount of equity in Descartes, as prescribed from time to time by the board of directors then the director must take at least 50% of the base annual fee for serving as a director in the form of DSUs. Each DSU fully vests upon award but is distributed only when the director ceases to be a member of the board of directors. Vested units are settled in cash based on our common share price when conversion takes place. Fair value of the liability is based on the closing price of our common shares at the balance sheet date.

Cash-Settled Restricted Share Unit Plan

Our board of directors adopted a cash-settled restricted share unit plan effective as of May 23, 2007, pursuant to which certain of our employees and outside directors are eligible to receive grants of cash-settled restricted share units ("CRSUs"), each of which has an initial value equal to the weighted-average closing price of our common shares for the five trading days preceding the date of the grant. The CRSUs generally vest based on continued employment and have annual vesting over three- to five-year periods. Vested units are settled in cash based on our common share price when conversion takes place, which is within 30 days following a vesting date and in any event prior to December 31st of the calendar year in which a vesting date occurs. Fair value of the liability is based on the closing price of our common shares at the balance sheet date.

Business combinations

We apply the provisions of ASC Topic 805, "Business Combinations" (Topic 805), in the accounting for our acquisitions. It requires us to recognize separately from goodwill, the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments would be recorded to our consolidated statement of operations.

Costs to exit or restructure certain activities of an acquired company or our internal operations are accounted for as termination and exit costs pursuant to ASC Topic 420, "Exit or Disposal Cost Obligations" (Topic 420) and are accounted for separately from the business combination.

For a given acquisition, we generally identify certain pre-acquisition contingencies as of the acquisition date and may extend our review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether we include these contingencies as a part of the purchase price allocation and, if so, to determine the estimated amounts. If we determine that a pre-acquisition contingency (non-income tax related) is probable in nature and estimable as of the acquisition date, we record our best estimate for such a contingency as a part of the preliminary purchase price allocation. We often continue to gather information and evaluate our pre-acquisition contingencies throughout the measurement period and if we make changes to the amounts recorded or if we identify additional pre-acquisition contingencies during the measurement period, such amounts will be included in the purchase price allocation during the measurement period and, subsequently, in our results of operations.

Uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We review these items during the measurement period as we continue to actively seek and collect information relating to facts and circumstances that existed at the acquisition date. Changes to these uncertain tax positions and tax related valuation allowances made subsequent to the measurement period, or if they relate to facts and circumstances that did not exist at the acquisition date, are recorded in our provision for income taxes in our consolidated statement of operations.

Income taxes

We use the liability method of income tax allocation to account for income taxes. Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. These temporary differences are measured using enacted tax rates. A valuation allowance is recorded to reduce deferred tax assets to the extent that we consider it is more likely than not that a deferred tax asset will not be realized. In determining the valuation allowance, we consider factors such as the reversal of deferred income tax liabilities, projected taxable income, our history of losses for tax purposes, and the character of income tax assets and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

We evaluate our uncertain tax positions by using a two-step approach to recognizing and measuring uncertain tax positions and provisions for income taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, based solely on the technical merits, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the appropriate amount of the benefit to recognize. The amount of benefit to recognize is measured as the maximum amount which is more likely than not to be realized. The tax position is derecognized when it is no longer more likely than not that the position will be sustained on audit. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provisions, income taxes payable and deferred income taxes in the period in which the facts that give rise to a revision become known.

Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The treasury stock method is used to compute the dilutive effect of stock-based compensation.

Recently adopted accounting pronouncements
In September 2015, the FASB issued Accounting Standards Update 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"). ASU 2015-16 provides guidance to more clearly articulate the accounting requirements for measurement-period adjustments related to a business combination. ASU 2015-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted and the Company adopted ASU 2015-16 in the third quarter of fiscal 2016. The adoption of this standard did not have a material impact on our results of operations or disclosures.

In November 2015, the FASB issued Accounting Standards Update 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). ASU 2015-17 requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. ASU 2015-17 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which will be our fiscal year beginning February 1, 2017. Early adoption at the beginning of an interim or annual period is permitted. Entities can adopt this standard either prospectively or retrospectively. The Company adopted ASU 2015-17 in the fourth quarter of fiscal 2016 on a prospective basis. As a result, we have presented all deferred tax assets and liabilities as noncurrent in our consolidated balance sheet as of January 31, 2016, but have not reclassified current deferred tax assets and liabilities in our consolidated balance sheet as of January 31, 2015. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

Recently issued accounting pronouncements
In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). This update supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition" and nearly all other existing revenue recognition guidance under US GAAP. The core principal of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14 which defers the effective date of ASU 2014-09 for one year. ASU 2014-09 is now effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, which will be our fiscal year beginning February 1, 2018. Early adoption as of the original effective date of ASU 2014-09 is permitted. When applying ASU 2014-09 we can either apply the amendments: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined within ASU 2014-09. We are currently evaluating the effect that the pending adoption of ASU 2014-09 will have on our results of operations, financial position and disclosures. Although it is expected to have a impact on our revenue recognition policies and disclosures, we have not yet selected a transition method nor have we determined when we will adopt the standard and the effect of the standard on our ongoing financial reporting.

In August 2014, the FASB issued Accounting Standards Update 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 2015-40)" ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the fourth quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs. ASU 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-05, "Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a software license. ASU 2015-05 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, which will be our fiscal year beginning February 1, 2016. Early adoption is permitted. The Company will adopt this guidance in the first quarter of fiscal 2017. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 provides guidance to more clearly articulate the requirements for the measurement and disclosure of inventory. ASU 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which will be our fiscal year beginning February 1, 2017. The Company will adopt this guidance in the first quarter of fiscal 2018. The adoption of this amendment is not expected to have a material impact on our results of operations or disclosures.

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories reducing the number of items that are recognized in other comprehensive income as well as simplifying the impairment assessment of equity investments without readily determinable fair values. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, which will be our fiscal year beginning February 1, 2018. The Company will adopt this guidance in the first quarter of fiscal 2019 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance in ASC Topic 840, "Leases" and requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. ASU 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, which will be our fiscal year beginning February 1, 2019. The Company will adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures.

Note 3 – Acquisitions

On November 25, 2015, we acquired Oz Development Inc. ("Oz"), a leading US-based provider of application integration solutions that help small-to-medium sized businesses ("SMBs") automate a number of logistics and supply chain processes. The solutions help a growing SMB community connect to, and integrate with, leading SMB ERP, CRM and e-commerce platforms. The total purchase price for the acquisition was $29.5 million, net of cash acquired, which was funded with cash on hand. The gross contractual amount of trade receivables acquired was $0.3 million with a fair value of $0.3 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was nil. The finalization of the initial purchase price allocation is pending the determination of the finalization of the fair value for certain taxation-related and accrued liability balances, as well as potential unrecorded liabilities. We expect to finalize this determination on or before November 25, 2016.

On July 22, 2015, we acquired all outstanding shares of privately-held BearWare Inc. ("BearWare"), a leading US-based provider of mobile solutions designed to improve collaboration between retailers and their logistics service providers. BearWare's system leverages mobile technologies to scan cartons at each point from the distribution centers through to the store front, helping retailers and their logistics service providers collaborate on store shipments. The total purchase price for the acquisition was $11.2 million, net of cash acquired, which was funded with cash on hand. The gross contractual amount of trade receivables acquired was $0.8 million with a fair value of $0.7 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was $0.1 million. The finalization of the initial purchase price allocation is pending the determination of the finalization of the fair value for certain taxation-related and accrued liability balances, as well as potential unrecorded liabilities. We expect to finalize this determination on or before July 22, 2016.

On July 20, 2015, we acquired all outstanding shares of privately-held MK Data Services LLC ("MK Data"), a leading US-based provider of denied party screening trade data and solutions. MK Data's technology screens shipments against a comprehensive, frequently updated, international database of restricted parties helping businesses comply with denied party screening requirements. The total purchase price for the acquisition was $80.2 million, net of cash acquired, which was funded with cash on hand. The acquisition included an employee retention agreement to provide up to $3.1 million in retention bonuses to employees conditional on future services rendered over a specified time period. These amounts are being expensed over the service periods. The gross contractual amount of trade receivables acquired was $1.3 million with a fair value of $1.2 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was $0.1 million. The finalization of the initial purchase price allocation is pending the determination of the finalization of the fair value for certain taxation-related and accrued liability balances, as well as potential unrecorded liabilities. We expect to finalize this determination on or before July 20, 2016.

For businesses acquired during 2016, we incurred acquisition-related costs of $1.2 million, primarily for advisory services and retention bonuses. These costs are included in other charges in our consolidated statements of operations. During 2016, we have recognized aggregate revenues of $7.7 million and aggregate net income of $2.4 million from MK Data, BearWare and Oz since the date of acquisition in our consolidated statements of operations.

The preliminary purchase price allocations for businesses acquired during 2016, which have not been finalized, is as follows:

	MK Data	**BearWare**	**Oz**	**Total**
Purchase price consideration:				
Cash, net of cash acquired related to MK Data ($345), BearWare ($243) and Oz ($870)	80,151	11,243	29,459	120,853
Net working capital adjustments (receivable)	(133)	(19)	(61)	(213)
	80,018	11,224	29,398	120,640
Allocated to:				
Current assets, excluding cash acquired	2,034	759	440	3,233
Property and equipment	-	-	29	29
Current liabilities	(204)	(112)	(304)	(620)
Deferred revenue	(2,610)	(451)	(1,634)	(4,695)
Net tangible assets (liabilities) assumed	(780)	196	(1,469)	(2,053)
Finite life intangible assets acquired:				
Customer agreements and relationships	7,500	2,600	5,400	15,500
Existing technology	22,000	3,400	7,500	32,900
Tradenames	190	70	90	350
Non-compete covenants	-	-	240	240
Goodwill	51,108	4,958	17,637	73,703
	80,018	11,224	29,398	120,640

The above transactions were accounted for using the acquisition method in accordance with ASC Topic 805, "Business Combinations". The purchase price allocation in the table above represents our estimates of the allocations of the purchase price and the fair value of net assets acquired. The preliminary purchase price may differ from the final purchase price allocation, and these differences may be material. Revisions to the valuation will occur as additional information about the fair value of assets and liabilities becomes available. The final purchase price allocation will be completed within one year from the acquisition date.

No in-process research and development was acquired in these transactions.

The acquired intangible assets are being amortized over their estimated useful lives as follows:

	MK Data	**BearWare**	**Oz**
Customer agreements and relationships	13 years	11 years	9 years
Existing technology	7 years	5 years	5 years
Tradenames	5 years	5 years	3 years
Non-compete covenants	N/A	N/A	5 years

The goodwill on the MK Data, BearWare and Oz acquisitions arose as a result of the combined strategic value to our growth plan. The goodwill arising from the MK Data, BearWare and Oz acquisitions is deductible for tax purposes.

On December 5, 2014, we acquired all outstanding shares of privately-held Pentant Limited ("Pentant"), a leading UK-based Community System Provider offering customs connectivity and import/export inventory control solutions for ocean, truck and air cargo. Pentant provides its shipper and logistics customers with a reliable and secure connection to both CHIEF (the central UK Revenue & Customs system) and ICS (the European Union Import Control System) to streamline declaration, cargo security and clearance processes. The total purchase price for the acquisition was $2.1 million, net of cash acquired, which was funded with cash on hand. Additional contingent consideration of up to $0.4 million in cash may have become payable had certain revenue performance targets been met by Pentant during 2016. The fair value of the contingent consideration was valued at nil at the acquisition date and January 31, 2016. The gross contractual amount of trade receivables acquired was $0.1 million with a fair value of $0.1 million at the date of acquisition.

On December 5, 2014, we acquired all outstanding shares of privately-held e-customs Inc. ("e-customs"), a leading provider of electronic security and fiscal customs filing solutions in the UK. e-customs' cloud-based solution, Webdecs, provides both shippers and logistics service providers with a wide range of customs capabilities to cost effectively comply with UK fiscal filing and security filing requirements. The total purchase price for the acquisition was $9.6 million, net of cash acquired, which was funded with cash on hand. Additional contingent consideration of up to $1.2 million in cash may have become payable had certain revenue performance targets been met by e-customs during 2016. The fair value of the contingent consideration was valued at nil at the acquisition date and January 31, 2016. The gross contractual amount of trade receivables acquired was $0.2 million with a fair value of $0.2 million at the date of acquisition.

On November 19, 2014, we acquired all outstanding shares of privately-held Airclic Inc. ("Airclic"), a leading US-based provider of mobile solutions that help companies reduce the cost of delivering goods by automating traditional paper-based processes. Airclic's cloud-based mobile solutions help streamline and automate complex 'last mile' logistics processes. The total purchase price for the acquisition was $29.6 million, net of cash acquired, which was funded with cash on hand. The gross contractual amount of trade receivables acquired was $4.5 million with a fair value of $4.5 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was nil.

In the third quarter of 2016, the preliminary purchase price allocation for Airclic was finalized resulting in a $0.8 million increase to goodwill and income taxes payable.

On May 30, 2014 we acquired all outstanding membership interests of privately-held Customs Info, LLC ("Customs Info"), a leading US-based provider of trade data content to power Global Trade Management (GTM) systems and streamline global trade automation. The total purchase price for the acquisition was $39.5 million, net of cash acquired, which was funded by $34.1 million in cash and approximately 0.4 million Descartes common shares valued at $5.4 million. As part of completing the acquisition $20.0 million of the $39.5 million purchase price was funded by drawing on our revolving debt facility, which was subsequently repaid. Additional contingent consideration of up to $3.9 million in cash may have become payable had certain revenue performance targets been met by Customs Info during the calendar year 2014. The fair value of the contingent consideration was valued at nil at the acquisition date and the performance targets were not met. The gross contractual amount of trade receivables acquired was $1.8 million with a fair value of $1.7 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was $0.1 million.

On April 1, 2014, we acquired all outstanding shares of privately-held Computer Management USA, Inc. and Computer Management NA, Inc. (collectively, "Computer Management"), a US-based provider of security filing solutions and air cargo management solutions for airlines and their partners. The total purchase price for the acquisition was $6.7 million, net of cash acquired, which was funded with cash on hand. The gross contractual amount of trade receivables acquired was $0.2 million with a fair value of $0.2 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was nil.

For businesses acquired during 2015, we incurred acquisition-related costs of $1.5 million, primarily for advisory services and retention bonuses. These costs are included in other charges in our consolidated statements of operations.

The final purchase price allocations for businesses we acquired during 2015 are as follows:

	Computer Management	**Customs Info**	**Airclic**	**e-customs**	**Pentant**	**Total**
Purchase price consideration:						
Cash, excluding cash acquired related to Computer Management ($112), Customs Info (nil), Airclic ($117), e-customs ($1,983) and Pentant ($21)	6,689	34,121	29,597	9,611	2,134	82,152
Common shares issued	-	5,382	-	-	-	5,382
Net working capital adjustments (receivable) / payable	3	(813)	(318)	(41)	(13)	(1,182)
	6,692	38,690	29,279	9,570	2,121	86,352
Allocated to:						
Current assets, excluding cash acquired	211	1,754	4,990	1,190	142	8,287
Property and equipment	65	-	440	7	-	512
Current liabilities	(10)	(556)	(3,466)	(399)	(658)	(5,089)
Deferred revenue	(8)	(3,147)	(6,930)	(19)	(38)	(10,142)
Deferred income tax liability	-	-	-	(1,053)	(315)	(1,368)
Debt	-	(927)	-	-	-	(927)
Net tangible assets (liabilities) assumed	258	(2,876)	(4,966)	(274)	(869)	(8,727)
Finite life intangible assets acquired:						
Customer agreements and relationships	3,256	8,650	7,802	2,318	1,336	23,362

Existing technology	1,840	5,708	13,786	2,807	595	24,736
Trade names	-	682	-	-	-	682
Non-compete covenants	-	391	177	138	-	706
Goodwill	1,338	26,135	12,480	4,581	1,059	45,593
	6,692	38,690	29,279	9,570	2,121	86,352

No in-process research and development was acquired in these transactions.

The acquired intangible assets are being amortized over their estimated useful lives as follows:

	Computer Management	**Customs Info**	**Airclic**	**e-customs**	**Pentant**
Customer agreements and relationships	9 years	9 years	9 years	10 years	9 years
Existing technology	6 years	3 years	8 years	6 years	6 years
Trade names	N/A	15 years	N/A	N/A	N/A
Non-compete covenants	N/A	12 years	12 years	12 years	N/A

The goodwill on the Pentant, e-customs, Airclic, Customs Info and Computer Management acquisitions arose as a result of the combined strategic value to our growth plan. The goodwill arising from the Pentant and e-customs acquisitions is not deductible for tax purposes. The goodwill arising from the Airclic, Customs Info and Computer Management acquisitions is deductible for tax purposes

On December 23, 2013, we acquired all outstanding shares of privately-held Impatex Freight Software Limited ("Impatex"), a leading UK-based provider of electronic customs filing and freight forwarding solutions. The total purchase price for the acquisition was $8.2 million, net of cash acquired, which was funded by drawing on our revolving debt facility. We incurred acquisition-related costs, primarily for advisory services, of $0.3 million included in other charges in our consolidated statements of operations in 2014. The gross contractual amount of trade receivables acquired was $0.3 million with a fair value of $0.3 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was nil.

On December 20, 2013, we acquired all outstanding shares of privately-held Compudata, a leading provider of business-to-business supply chain integration and e-invoicing solutions in Switzerland. The total purchase price for the acquisition was $18.1 million, net of cash acquired, which was funded by drawing on our revolving debt facility. We incurred acquisition-related costs, primarily for advisory services, of $0.3 million included in other charges in our consolidated statements of operations in 2014. The gross contractual amount of trade receivables acquired was $0.6 million with a fair value of $0.5 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was $0.1 million.

On May 2, 2013 we acquired all outstanding shares of privately-held KSD Software Norway AS ("KSD"), a leading Scandinavian-based provider of electronic customs filing solutions for the European Union ("EU"). KSD's software helps customers manage the complexities of EU customs compliance. The total purchase price for the acquisition was $32.4 million, net of cash acquired. As part of completing the acquisition $19.8 million of the $32.4 million purchase price was funded by drawing on our revolving debt facility, with the remainder funded with cash on hand. We incurred acquisition-related costs, primarily for advisory services, of $0.7 million included in other charges in our consolidated statements of operations in 2014. The gross contractual amount of trade receivables acquired was $3.1 million with a fair value of $2.6 million at the date of acquisition. Our acquisition date estimate of contractual cash flows not expected to be collected was $0.5 million.

In 2015, the preliminary purchase price allocation for KSD was adjusted due to changes made to net working capital adjustments and receivable estimates made upon close of the acquisition. The purchase price allocation adjustments were to increase goodwill $0.7 million from $13.1 million to $13.8 million and decrease net working capital adjustments receivable $0.7 million from $2.9 million to $2.2 million.

For businesses acquired during 2014, we incurred acquisition-related costs of $1.4 million, primarily for advisory services and retention bonuses. These costs are included in other charges in our consolidated statements of operations.

The final purchase price allocations for businesses we acquired during 2014 are as follows:

	KSD	Compudata	Impatex	Total
Purchase price consideration:				
Cash, less cash acquired related to Impatex ($200), Compudata ($166) and KSD ($199)	32,419	18,143	8,175	58,737
Net working capital adjustments receivable	(2,213)	(71)	(209)	(2,493)
	30,206	18,072	7,966	56,244
Allocated to:				
Current assets, excluding cash acquired	4,174	1,793	524	6,491
Property and equipment	67	24	109	200
Deferred income tax assets	863	-	11	874
Current liabilities	(3,904)	(934)	(300)	(5,138)
Deferred revenue	(3,004)	(21)	(441)	(3,466)
Deferred income tax liability	(6,720)	(2,924)	(1,140)	(10,784)
Debt	(894)	-	-	(894)
Net tangible liabilities assumed	(9,418)	(2,062)	(1,237)	(12,717)
Finite life intangible assets acquired:				
Customer agreements and relationships	17,500	11,910	2,495	31,905
Existing technology	8,300	-	3,207	11,507
Non-compete covenants	-	23	-	23
Goodwill	13,824	8,201	3,501	25,526
	30,206	18,072	7,966	56,244

No in-process research and development was acquired in the Impatex, Compudata or KSD acquisitions.

The acquired intangible assets are being amortized over their estimated useful lives as follows:

	Impatex	Compudata	KSD
Customer agreements and relationships	10 years	9 years	12 years
Existing technology	8 years	N/A	8 years
Non-compete covenants	N/A	3 years	N/A

The goodwill on the Impatex, Compudata and KSD acquisitions arose as a result of the value of their assembled workforces and the combined strategic value to our growth plan. The goodwill arising from these acquisitions is not deductible for tax purposes.

The financial information in the table below summarizes selected results of operations on a pro forma basis as if we had acquired Oz, BearWare, MK Data, Airclic, Customs Info, Impatex, Compudata and KSD as of the beginning of each of the periods presented. The pro forma results of operations for the Pentant, e-customs and Computer Management transactions have not been included in the table below as they are not material to our consolidated financial statements.

This pro forma information is for information purposes only and does not purport to represent what our results of operations for the periods presented would have been had the acquisitions of Oz, BearWare, MK Data Airclic, Customs Info, Impatex, Compudata and KSD occurred at the beginning of the period indicated, or to project our results of operations for any future period.

Pro forma results of operations (unaudited)

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Revenues	**197,088**	205,723	199,860
Net income	**22,391**	16,830	8,223
Earnings per share			
Basic	**0.30**	0.24	0.13
Diluted	**0.29**	0.24	0.13

Note 4 – Fair Value Measurements

ASC Topic 820 "Fair Value Measurements and Disclosures" (Topic 820) defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value, in this context, should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including our own credit risk.

Topic 820 establishes a fair value hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following table shows the Company's marketable securities investment portfolio measured at fair value on a recurring basis as of January 31, 2016:

	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Level 1				
Short-Term Marketable Securities	4,667	-	(28)	4,639

The Company's marketable securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the designations at each balance sheet date. The Company classifies its marketable securities as either short-term or long-term based on the nature of each security and its availability for use in current operations. The Company's marketable securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a separate component of accumulated other comprehensive loss. The cost of securities sold is based upon the specific identification method.

As of January 31, 2016, the Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company did not hold any available-for-sale securities as of January 31, 2015.

The carrying amounts of the Company’s cash, accounts receivable (net), accounts payable, accrued liabilities and income taxes payable approximate their fair value (a Level 2 measurement) due to their short maturities.

Note 5 – Trade Receivables

	January 31, 2016	January 31, 2015
Trade receivables	**27,080**	23,714
Less: Allowance for doubtful accounts	**(1,466)**	(1,101)
	25,614	22,613

Included in accounts receivable are unbilled receivables in the amount of $1.0 million as at January 31, 2016 ($1.0 million as at January 31, 2015). Bad debt expense was $0.8 million, $0.4 million and $0.3 million for the years ended January 31, 2016, January 31, 2015 and January 31, 2014, respectively.

Note 6 – Other Receivables

	January 31, 2016	January 31, 2015
Net working capital adjustments receivable from acquisitions	**193**	372
Other receivables	**2,938**	2,885
	3,131	3,257

As at January 31, 2016, $0.2 million ($0.4 million as at January 31, 2015) of the net working capital adjustments receivable from acquisitions is recoverable from amounts held in escrow related to the respective acquisitions.

Note 7 – Inventory

At January 31, 2016 and January 31, 2015, inventory is entirely comprised of finished goods inventory. Finished goods inventory consists of hardware and related parts for mobile asset units held for sale. A provision for excess or obsolete inventories has been recorded in cost of revenues of $0.1 million, $0.3 million and nil for the years ended January 31, 2016, January 31, 2015 and January 31, 2014, respectively.

Note 8 – Property and Equipment

	January 31, 2016	January 31, 2015
Cost		
Computer equipment and software	**26,335**	27,218
Furniture and fixtures	**1,062**	1,117
Leasehold improvements	**431**	466
	27,828	28,801
Accumulated amortization		
Computer equipment and software	**18,134**	19,881
Furniture and fixtures	**853**	919
Leasehold improvements	**237**	172
	19,224	20,972
Net	**8,604**	7,829

Note 9 - Intangible Assets

	January 31, 2016	January 31, 2015
Cost		
Customer agreements and relationships	**107,743**	97,344
Existing technology	**117,586**	93,911
Trade names	**4,515**	4,349
Non-compete covenants	**2,559**	2,407
	232,403	198,011
Accumulated amortization		
Customer agreements and relationships	**45,853**	37,956
Existing technology	**48,295**	40,326
Trade names	**3,128**	3,130
Non-compete covenants	**1,565**	1,473
	98,841	82,885
Net	**133,562**	115,126

Intangible assets related to our acquisitions are recorded at their fair value at the acquisition date. The change in intangible assets during 2016 is primarily due to the acquisition of BearWare, MK Data, and Oz described in Note 3 to these consolidated financial statements. The balance of the change in intangible assets is due to foreign currency translation and amortization.

Intangible assets with a finite life are amortized into income over their useful lives. Amortization expense for existing intangible assets is expected to be $133.6 million over the following periods: $26.1 million for 2017, $21.3 million for 2018, $19.3 million for 2019, $18.6 million for 2020, $15.2 million for 2021 and $33.1 million thereafter. Expected future amortization expense is subject to fluctuations in foreign exchange rates and assumes no future adjustments to acquired intangible assets.

Note 10 – Goodwill

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets acquired. The following table summarizes the changes in goodwill since January 31, 2014:

	January 31, 2016	January 31, 2015
Balance at beginning of period	**147,440**	111,179
Adjustment to purchase price allocation of KSD	**-**	714
Acquisition of Computer Management	**-**	1,338
Acquisition of Customs Info	**-**	26,135
Acquisition of Airclic	**810**	11,670
Acquisition of e-customs	**-**	4,581
Acquisition of Pentant	**-**	1,059
Acquisition of MK Data	**51,108**	-
Acquisition of BearWare	**4,958**	-
Acquisition of Oz	**17,637**	-
Adjustments on account of foreign exchange	**(4,467)**	(9,236)
Balance at end of period	**217,486**	147,440

Note 11 - Accrued Liabilities

	January 31, 2016	January 31, 2015
Accrued compensation and benefits	**10,700**	9,017
Accrued professional fees	**1,211**	1,137
Other accrued liabilities	**4,933**	6,541
	16,844	16,695

Other accrued liabilities include accrued expenses related to third party resellers and royalties, vendors and accrued restructuring charges.

Note 12 - Debt

As of January 31, 2016, all amounts previously borrowed under the revolving debt facility have been repaid and the balance of the $77.0 million facility remains available for use. We are in compliance with the covenants of the revolving debt facility as of January 31, 2016. On May 28 2014, we amended our revolving debt facility, increasing the borrowing limit from $50.0 million to $77.0 million and renewing the agreement for a five year term. The amended facility is comprised of a $75.0 million revolving facility, with drawn amounts to be repaid in equal quarterly installments over a period of five years from the advance date, and a $2.0 million revolving facility, with no fixed repayment date on drawn amounts prior to the end of the term. Borrowings under the credit agreement are secured by a first charge over substantially all of our assets. Depending on the type of advance under the available facilities, interest will be charged on advances at a rate of either i) Canada prime rate or US base rate plus 0% to 1.5%; or ii) LIBOR plus 1.5% to 3%. Undrawn amounts are charged a standby fee of between 0.3% and 0.5%. Interest is payable monthly in arrears under both facilities. Standby fees are payable quarterly in arrears. The revolving debt facility contains certain customary representations, warranties and guarantees, and covenants.

On March 2, 2016, Descartes amended its $77.0 million revolving debt facility with a new senior secured credit facility ("Credit Facility"). The Credit Facility consists of a $150.0 million revolving operating credit facility to be available for general corporate purposes including the financing of ongoing working capital needs and acquisitions. The Credit Facility also provides for an additional $7.5 million available to support foreign exchange and interest rate hedging. The Credit Facility has a five year maturity with no fixed repayment dates prior to the end of the five year term. Borrowings under the facility are secured by a first charge over substantially all of Descartes' assets. Depending on the type of advance, interest rates under the revolving operating credit facility are based on the Canada or US prime rate, Bankers' Acceptance (BA) or London Interbank Offered Rate (LIBOR) plus an additional 0 to 200 basis points based on the ratio of net debt to adjusted earnings before interest, taxes, depreciation and amortization, as defined in the credit agreement. A standby fee of between 20 to 28 basis points will be charged on all undrawn amounts. The Credit Facility contains certain customary representations, warranties and guarantees, and covenants.

As at January 31, 2016, we have outstanding letters of credit of approximately $0.3 million primarily related to our leased premises ($0.4 million as at January 31, 2015) which are not related to the debt facility or Credit facility.

Note 13 - Commitments, Contingencies and Guarantees

Commitments

The following information is provided in respect of our operating and capital lease obligations:

Years Ended January 31,	Operating Leases	Capital Leases	Total
2017	4,152	134	**4,286**
2018	2,845	66	**2,911**
2019	1,872	-	**1,872**
2020	685	-	**685**
2021	254	-	**254**
	9,808	200	**10,008**

Lease Obligations

We are committed under non-cancelable operating leases for business premises, computer equipment and vehicles with terms expiring at various dates through 2021. We are also committed under non-cancelable capital leases for computer equipment expiring at various dates through 2018. The future minimum amounts payable under these lease agreements are outlined in the chart above. The $0.2 million balance of the capital lease obligation outstanding at January 31, 2016 is included in accrued liabilities in the consolidated balance sheet. Rental expense from operating leases was $4.4 million, $5.2 million and $4.8 million for the years ended January 31, 2016, January 31, 2015 and January 31, 2014, respectively.

Other Obligations

Deferred Share Unit and Cash-Settled Restricted Share Unit Plans

As described in Note 2 to these consolidated financial statements, we maintain DSU and CRSU plans for our directors and employees. Any payments made pursuant to these plans are settled in cash. For DSUs and CRSUs, the units vest over time and the liability recognized at any given consolidated balance sheet date reflects only those units vested at that date that have not yet been settled in cash. As such, we had an unrecognized aggregate amount for the unvested CRSUs of $1.0 million at January 31, 2016. As at January 31, 2016 there were no unvested DSUs. The ultimate liability for any payment of DSUs and CRSUs is dependent on the trading price of our common shares.

Contingencies
We are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. The consequences of these matters are not presently determinable but, in the opinion of management after consulting with legal counsel, the ultimate aggregate potential liability is not currently expected to have a material effect on our results of operations or financial position.

Product Warranties
In the normal course of operations, we provide our customers with product warranties relating to the performance of our hardware, software and network services. To date, we have not encountered material costs as a result of such obligations and have not accrued any liabilities related to such obligations in our consolidated financial statements.

Business combination agreements
In respect of our acquisition of e-customs in the fourth quarter of 2015, up to approximately $1.2 million (GBP 0.8 million) in cash may have become payable had certain revenue performance targets been met by e-customs during 2016. No amounts are accrued related to this contingent consideration as at January 31, 2016.

In respect of our acquisition of Pentant in the fourth quarter of 2015, up to approximately $0.4 million (GBP 0.3 million) in cash may have become payable had certain revenue performance targets been met by Pentant during 2016. No amounts are accrued related to this contingent consideration as at January 31, 2016.

Guarantees
In the normal course of business we enter into a variety of agreements that may contain features that meet the definition of a guarantee under ASC Topic 460, "Guarantees". The following lists our significant guarantees:

Intellectual property indemnification obligations
We provide indemnifications of varying scope to our customers against claims of intellectual property infringement made by third parties arising from the use of our products. In the event of such a claim, we are generally obligated to defend our customers against the claim and we are liable to pay damages and costs assessed against our customers that are payable as part of a final judgment or settlement. These intellectual property infringement indemnification clauses are not generally subject to any dollar limits and remain in force for the term of our license agreement with our customer, which license terms are typically perpetual. Historically, we have not encountered material costs as a result of such indemnifications.

Other indemnification agreements
In the normal course of operations, we enter into various agreements that provide general indemnities. These indemnities typically arise in connection with purchases and sales of assets, securities offerings or buy-backs, service contracts, administration of employee benefit plans, retention of officers and directors, membership agreements, customer financing transactions, and leasing transactions. In addition, our corporate by-laws provide for the indemnification of our directors and officers. Each of these indemnities requires us, in certain circumstances, to compensate the counterparties for various costs resulting from breaches of representations or obligations under such arrangements, or as a result of third party claims that may be suffered by the counterparty as a consequence of the transaction. We believe that the likelihood that we could incur significant liability under these obligations is remote. Historically, we have not made any significant payments under such indemnities.

In evaluating estimated losses for the guarantees or indemnities described above, we consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We are unable to make a reasonable estimate of the maximum potential amount payable under such guarantees or indemnities as many of these arrangements do not specify a maximum potential dollar exposure or time limitation. The amount also depends on the outcome of future events and conditions, which cannot be predicted. Given the foregoing, to date, we have not accrued any liability in our financial statements for the guarantees or indemnities described above.

Note 14 – Share Capital

On July 2, 2014, we completed a public offering of common shares in the United States and Canada at a price of $13.50 per common share pursuant to the short-form base shelf prospectus and related prospectus supplement filed in connection with the offering. The total offering of 10,925,000 common shares included the exercise in full by the underwriters of the 15% overallotment option for aggregate gross proceeds to Descartes of $147.5 million. Net proceeds to Descartes were approximately $142.1 million once expenses associated with the offering were deducted inclusive of the related deferred tax benefit related to share issuance costs. Excluding share issuance costs payable and the deferred tax benefit on issuance costs, the net cash proceeds to Descartes were approximately $140.7 million.

We are authorized to issue an unlimited number of our common shares, without par value, for unlimited consideration. Our common shares are not redeemable or convertible.

(thousands of shares)	**January 31, 2016**	January 31, 2015	January 31, 2014
Balance, beginning of year	**75,480**	63,661	62,654
Shares issued:			
Stock options and share units exercised	**281**	478	1,007
Issuance of common shares	**-**	10,925	-
Acquisitions (Note 3)	**-**	416	-
Balance, end of year	**75,761**	75,480	63,661

Cash flows provided from stock options and share units exercised during 2016, 2015 and 2014 was approximately $0.2 million, $0.9 million and $3.6 million, respectively.

Note 15 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share ("EPS") (number of shares in thousands):

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Net income for purposes of calculating basic and diluted earnings per share	**20,562**	15,059	9,612
Weighted average shares outstanding	**75,595**	70,559	62,841
Dilutive effect of employee stock options	**452**	665	1,258
Dilutive effect of restricted and performance share units	**362**	360	271
Weighted average common and common equivalent shares outstanding	**76,409**	71,584	64,370
Earnings per share			
Basic	**0.27**	0.21	0.15
Diluted	**0.27**	0.21	0.15

For the years ended January 31, 2016, 2015 and 2014, nil options were excluded from the calculation of diluted EPS as those options had an exercise price greater than or equal to the average market value of our common shares during the applicable periods and their inclusion would have been anti-dilutive. Additionally, for 2016, 2015 and 2014, respectively, the application of the treasury stock method excluded nil, 215,000 and nil options, restricted and performance share units from the calculation of diluted EPS as the assumed proceeds from the unrecognized stock-based compensation expense that are attributed to future service periods made such stock-based compensation anti-dilutive.

Note 16 - Stock-Based Compensation Plans

Total estimated stock-based compensation expense recognized in our consolidated statement of operations was as follows:

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Cost of revenues	**24**	45	54
Sales and marketing	**41**	70	538
Research and development	**-**	2	12
General and administrative	**1,512**	1,426	1,138
Other charges	**-**	-	781
Effect on net income	**1,577**	1,543	2,523

For the year ended January 31, 2014 other charges includes stock-based compensation expense of $0.3 million related to a modification of certain PSU grants.

Differences between how GAAP and applicable income tax laws treat the amount and timing of recognition of stock-based compensation expense may result in a deferred tax asset. We have recorded a valuation allowance against any such deferred tax asset except for $0.1 million ($0.1 million at January 31, 2015) recognized in the United States. The tax benefit realized in connection with stock options exercised and settled during 2016, 2015 and 2014 was $1.6 million, $0.1 million and $0.4 million, respectively.

Stock Options

As of January 31, 2016, we had 293,889 stock options granted and outstanding under our shareholder-approved stock option plan and 217,264 remained available for grant. In addition, we had 175,000 stock options outstanding pursuant to option grants made outside of our shareholder-approved stock option plan as permitted under the rules of the Toronto Stock Exchange in certain circumstances.

For the year ended January 31, 2016, the Company settled 446,875 options for $4.4 million of common shares issued from treasury and $2.6 million in cash related to payment of applicable employee withholding taxes. For the year ended January 31, 2015, the Company settled 175,000 options for $0.4 million in cash related to payment of applicable employee withholding taxes and $0.3 million of common shares issued from treasury. For the year ended January 31, 2014, 300,000 options were settled for $1.4 million in cash including payment of applicable employee withholding taxes and $0.1 million of common shares were issued from treasury.

As of January 31, 2016, $0.4 million of total unrecognized compensation costs, net of forfeitures, related to non-vested stock option awards is expected to be recognized over a weighted average period of 1.6 years. The total fair value of stock options vested during 2016 was $0.3 million.

The total number of options granted during 2016, 2015 and 2014 was nil, 215,000 and nil, respectively. The weighted average grant-date fair value of options granted during 2016, 2015 and 2014 was nil, $3.47 and nil per option, respectively.

The weighted-average assumptions were as follows:

Year Ended	January 31, 2015
Expected dividend yield (%)	-
Expected volatility (%)	25.4
Risk-free rate (%)	1.5
Expected option life (years)	5

A summary of option activity under all of our plans is presented as follows:

	Number of Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Balance at January 31, 2014	1,139,853	$4.39		
Granted	215,000	$13.77		
Exercised	(220,138)	$3.49		
Surrendered for Shares	(175,000)	$4.53		
Forfeited	(6,451)	$5.72		
Balance at January 31, 2015	953,264	$6.33	2.5	10.6
Exercised	**(37,500)**	**$4.18**		
Surrendered for Shares	**(446,875)**	**$2.59**		
Balance at January 31, 2016	**468,889**	**$8.25**	**3.5**	**5.2**
Vested or expected to vest at January 31, 2016	**450,589**	**$8.18**	**3.5**	**5.0**
Exercisable at January 31, 2016	**292,811**	**$6.54**	**2.6**	**3.7**

The total intrinsic value of options exercised during 2016, 2015 and 2014 was approximately $0.5 million, $2.4 million and $9.4 million, respectively. The total intrinsic value of options surrendered for shares during 2016, 2015 and 2014 was approximately $6.7 million, $1.6 million and $1.5 million, respectively.

Options outstanding and options exercisable as at January 31, 2016 by range of exercise price are as follows:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Stock Options
$4.88 – $5.54	$4.91	215,889	1.8	$4.91	208,311
$6.91 – $6.91	$6.91	38,000	3.5	$6.91	22,000
$11.69 – $11.85	$11.84	215,000	5.4	$11.84	62,500
	$8.25	**468,889**	**3.5**	**$6.54**	**292,811**

A summary of the status of our unvested stock options under our shareholder-approved stock option plan as of January 31, 2016 is presented as follows:

	Number of Stock Options Outstanding	Weighted-Average Grant-Date Fair Value per Share
Balance at January 31, 2014	164,145	$2.21
Granted	40,000	$3.43
Vested	(73,840)	$1.97
Forfeited	(6,451)	$1.96
Balance at January 31, 2015	123,854	$2.56
Vested	**(70,276)**	**$1.92**
Balance at January 31, 2016	**53,578**	**$2.52**

Performance Share Units

A summary of PSU activity is as follows:

	Number of PSUs Outstanding	Weighted-Average Granted Date Fair Value	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Balance at January 31, 2014	211,428	$11.69		
Granted	51,752	$16.67		
Exercised	(83,984)	$10.88		
Forfeited	(4,938)	$10.93		
Balance at January 31, 2015	174,258	$12.61	7.9	3.0
Granted	**49,187**	**$19.70**		
Performance units issued	**30,092**	**$9.34**		
Balance at January 31, 2016	**253,537**	**$12.39**	**7.2**	**4.9**
Vested or expected to vest at January 31, 2016	**253,537**	**$12.39**	**7.2**	**4.9**
Exercisable at January 31, 2016	**152,598**	**$9.36**	**6.3**	**2.9**

The aggregate intrinsic values represents the total pre-tax intrinsic value (the aggregate closing share price of our common shares on January 31, 2016) that would have been received by PSU holders if all PSUs had been vested on January 31, 2016.

As of January 31, 2016, $0.9 million of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 1.5 years. The total fair value of PSUs vested during 2016 was $0.8 million.

Restricted Share Units

A summary of RSU activity is as follows:

	Number of RSUs Outstanding	Weighted-Average Granted Date Fair Value	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Balance at January 31, 2014	214,076	$8.96		
Granted	51,752	$13.79		
Exercised	(85,298)	$8.36		
Forfeited	(4,938)	$8.59		
Balance at January 31, 2015	175,592	$9.94	7.9	3.1
Granted	**49,187**	**$15.33**		
Balance at January 31, 2016	**224,779**	**$10.03**	**7.4**	**4.3**
Vested or expected to vest at January 31, 2016	**224,779**	**$10.03**	**7.4**	**4.3**
Exercisable at January 31, 2016	**174,737**	**$8.86**	**7.0**	**3.4**

The aggregate intrinsic values represents the total pre-tax intrinsic value (the aggregate closing share price of our common shares on January 31, 2016) that would have been received by RSU holders if all RSUs had been vested on January 31, 2016.

As of January 31, 2016, $0.7 million of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 1.7 years. The total fair value of RSUs vested during 2016 was $0.6 million.

Deferred Share Unit Plan

As at January 31, 2016, the total number of DSUs held by participating directors was 188,766 (209,727 at January 31, 2015), representing an aggregate accrued liability of $3.3 million ($3.2 million at January 31, 2015). During 2016, 61,020 DSUs were granted and 81,981 were settled for cash. As at January 31, 2016, the unrecognized aggregate liability for the unvested DSUs was nil (nil at January 31, 2015). The fair value of the DSU liability is based on the closing price of our common shares at the balance sheet date. The total compensation cost related to DSUs recognized in our consolidated statements of operations was approximately $1.9 million, $1.5 million and $1.1 million for 2016, 2015 and 2014, respectively.

Cash-Settled Restricted Share Unit Plan

A summary of activity under our CRSU plan is as follows:

	Number of CRSUs Outstanding	Weighted-Average Remaining Contractual Life (years)
Balance at January 31, 2014	152,794	
Granted	68,439	
Vested and settled in cash	(106,910)	
Forfeited	(467)	
Balance at January 31, 2015	113,856	1.5
Granted	**72,817**	
Vested and settled in cash	**(85,924)**	
Balance at January 31, 2016	**100,749**	**1.6**
Non-vested at January 31, 2016	**100,749**	**1.6**

We have recognized the compensation cost of the CRSUs ratably over the service/vesting period relating to the grant and have recorded an aggregate accrued liability of $0.8 million at January 31, 2016 ($1.0 million at January 31, 2015). As at January 31, 2016, the unrecognized aggregate liability for the unvested CRSUs was $1.0 million ($0.7 million at January 31, 2015). The fair value of the CRSU liability is based on the closing price of our common shares at the balance sheet date. The total compensation cost related to CRSUs recognized in our consolidated statements of operations was approximately $0.7 million, $0.6 million and $1.2 million for 2016, 2015 and 2014, respectively.

Note 17 - Income Taxes

Income (loss) before income taxes is earned in the following tax jurisdictions:

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Canada	**13,933**	14,489	6,922
United States	**4,773**	6,300	7,841
Other countries	**9,064**	1,032	(1,030)
	27,770	21,821	13,733

Income tax expense is incurred in the following jurisdictions:

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Current income tax expense			
Canada	**94**	568	61
United States	**70**	1,060	605
Other countries	**1,279**	1,156	1,102
	1,443	2,784	1,768
Deferred income tax expense (recovery)			

Canada	**3,493**	3,741	3,827
United States	**800**	2,144	2,804
Other countries	**1,472**	(1,907)	(4,278)
	5,765	3,978	2,353
	7,208	6,762	4,121

Income tax expense for 2016, 2015 and 2014 was 26%, 31% and 30% of income before income taxes, respectively, with current income tax expense being 5%, 13% and 13% of income before income taxes, respectively.

The components of the deferred income tax assets and liabilities are as follows:

	January 31, 2016	January 31, 2015
Assets		
Accruals not currently deductible	**8,653**	4,238
Accumulated net operating losses	**19,859**	22,617
Corporate minimum taxes	**1,589**	1,710
Difference between tax and accounting basis of property and equipment	**700**	7,031
Research and development and other tax credits and expenses	**2,885**	2,792
Other timing differences	**924**	1,508
Total deferred income tax assets	**34,610**	39,896
Liabilities		
Difference between tax and accounting basis of intangible assets	**(9,584)**	(9,232)
Uncertain tax positions incurred in loss years	**(356)**	(530)
Total deferred income tax liabilities	**(9,940)**	(9,762)
Net deferred income taxes	**24,670**	30,134
Valuation allowance	**(13,963)**	(14,681)
Net deferred income taxes, net of valuation allowance	**10,707**	15,453

As at January 31, 2016, we have not accrued for foreign withholding taxes and Canadian income taxes applicable to approximately $118.1 million of unremitted earnings of subsidiaries operating outside of Canada. These earnings, which we consider to be invested indefinitely, will become subject to these taxes if and when they are remitted as dividends or if we sell our stock in the subsidiaries. If we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside Canada.

The provision (recovery) for income taxes varies from the expected provision at the statutory rates for the reasons detailed in the table below:

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Net income before taxes	**27,770**	21,821	13,733
Combined basic Canadian statutory rates	**26.5%**	26.5%	26.5%
Income tax expense based on the above rates	**7,359**	5,783	3,639
Increase (decrease) in income taxes resulting from:			
Permanent differences including amortization of intangibles	**(2,593)**	800	1,078
Effect of differences between Canadian and foreign tax rates	**169**	1,007	663
Effect of rate changes on current year timing differences	**1,150**	-	321
Adjustments relating to previous periods	**36**	9	355
(Decrease) increase in tax reserves	**(172)**	(41)	239
Valuation allowance	**(41)**	(1,195)	(2,707)
Stock compensation	**345**	86	481
Deferred tax charges	**270**	-	-
Other, including foreign exchange	**685**	313	52
Income tax expense	**7,208**	6,762	4,121

We have income tax loss carryforwards which expire as follows:

Expiry year	**Canada**	**United States**	**EMEA**	**Asia Pacific**	**Total**
2017	-	-	-	122	**122**
2018	-	-	316	-	**316**
2019	-	2,649	388	57	**3,094**
2020	-	-	194	48	**242**
2021	-	805	-	20	**825**
Thereafter	115	9,653	64,744	6,808	**81,320**
	115	**13,107**	**65,642**	**7,055**	**85,919**

The following is a tabular reconciliation of the total estimated liability associated with uncertain tax positions taken:

	January 31, 2016	January 31, 2015	January 31, 2014
Liability, beginning of year	**5,721**	6,211	5,639
Gross increases – current period	**1,967**	825	981
Lapsing due to statutes of limitations	**(1,920)**	(1,315)	(409)
Liability, end of year	**5,768**	5,721	6,211

We have identified accruals of $5.8 million with respect to uncertain tax positions as at January 31, 2016. It is possible that these uncertain tax positions will not be realized in which case up to $4.7 million of the recorded liability will decrease the effective tax rate in future years if this liability is reversed. We believe that it is reasonably possible that $1.0 million of the uncertain tax positions could decrease tax expense in the next 12 months relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing jurisdictions.

We recognize accrued interest and penalties related to uncertain tax positions as a current tax expense. As at January 31, 2016 and January 31, 2015, the unrecognized tax positions have resulted in no material liability for estimated interest and penalties.

Descartes and our subsidiaries file their tax returns as prescribed by the tax laws of the jurisdictions within which they operate. We are no longer subject to income tax examinations by tax authorities in our major tax jurisdictions as follows:

	Years No Longer Subject to Audit
Tax Jurisdiction	
United States Federal	2012 and prior
Canada	2013 and prior
United Kingdom	2012 and prior
Sweden	2010 and prior
Norway	2013 and prior
Netherlands	2014 and prior
Belgium	2012 and prior

Note 18 – Deferred Tax Charge

During 2016, we had internal re-organizations related to intellectual property in some of our subsidiaries. The tax impact related to the reorganizations has been recorded as a deferred charge and is being amortized to income tax expense over the remaining estimated useful life of the intellectual property. Deferred tax charges are amortized to income tax expense over a period of 3 to 8 years.

Note 19 - Other Charges

Other charges are comprised of executive departure charges, restructuring initiatives which have been undertaken from time to time under various restructuring plans, and acquisition-related costs. Acquisition-related costs primarily include retention bonuses, advisory services, brokerage services and administrative costs, and relate to completed and prospective acquisitions.

Other charges included in our consolidated statements of operations are as follows:

	January 31, 2016	January 31, 2015	January 31, 2014
Executive departure charges	**-**	396	3,313
Acquisition-related costs	**1,416**	1,666	1,308
Fiscal 2015 restructuring plan	**50**	715	-
Fiscal 2014 restructuring plan	**33**	100	1,904
Other restructuring plans	**(7)**	(1)	(13)
	1,492	2,876	6,512

Executive Departure Charges

In the fourth quarter of 2014, the Company incurred charges related to the departure of the former Chairman and CEO. In the second quarter of 2015, the Company incurred charges related to the departure of the former CFO. To date $3.7 million has been recorded within other charges in conjunction with executive departure charges. At January 31, 2016, $0.5 million remains payable relating to this charge ($0.9 million at January 31, 2015).

Fiscal 2015 Restructuring Plan
In the fourth quarter of 2015, management approved and began to implement the fiscal 2015 restructuring plan to reduce operating expenses and increase operating margins. To date, $0.8 million has been recorded within other charges in conjunction with this restructuring plan. These charges are comprised of workforce reduction charges, office closure costs and other costs. This plan is complete with no further expected costs.

The following table shows the changes in the restructuring provision for the fiscal 2015 restructuring plan.

	Workforce Reduction	Office Closure Costs	Other Costs	Total
Balance at January 31, 2014	-	-	-	-
Accruals and adjustments	464	224	27	715
Cash draw downs	(238)	(4)	(27)	(269)
Balance at January 31, 2015	226	220	-	446
Accruals and adjustments	**24**	**14**	**12**	**50**
Cash payments	**(250)**	**(93)**	**(12)**	**(355)**
Balance at January 31, 2016	**-**	**141**	**-**	**141**

Fiscal 2014 Restructuring Plan
In the second quarter of 2014, management approved and began to implement the fiscal 2014 restructuring plan to reduce operating expenses and increase operating margins. To date, $2.0 million has been recorded within other charges in conjunction with this restructuring plan. These charges are comprised of workforce reduction charges, office closure costs and network consolidation costs. This plan is complete with no further expected costs.

The following table shows the changes in the restructuring provision for the fiscal 2014 restructuring plan.

	Workforce Reduction	Office Closure Costs	Total
Balance at January 31, 2014	52	96	148
Accruals and adjustments	64	36	100
Cash draw downs	(116)	(99)	(215)
Foreign exchange	-	(8)	(8)
Balance at January 31, 2015	-	25	25
Accruals and adjustments	-	**33**	**33**
Cash payments	-	**(57)**	**(57)**
Foreign exchange	-	**(1)**	**(1)**
Balance at January 31, 2016	-	**-**	**-**

Note 20 - Segmented Information

We review our operating results, assess our performance, make decisions about resources, and generate discrete financial information at the single enterprise level. Accordingly, we have determined that we operate in one reportable business segment providing logistics technology solutions. The following tables provide our revenue information by geographic location of customer and revenue type:

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Revenues			
United States	**96,300**	73,810	69,905
Europe, Middle-East and Africa	**68,451**	72,900	62,531
Canada	**12,572**	15,187	14,388
Asia Pacific	**7,670**	8,963	4,470
	184,993	170,860	151,294

Year Ended	**January 31, 2016**	January 31, 2015	January 31, 2014
Revenues			
Services	**176,288**	159,050	137,795
Licenses	**8,705**	11,810	13,499
	184,993	170,860	151,294

Services revenues are composed of the following: (i) ongoing transactional and/or subscription fees for use of our services and products by our customers; (ii) professional services revenues from consulting, implementation and training services related to our services and products; (iii) maintenance and other related revenues, which include revenues associated with maintenance and support of our services and products; and (iv) hardware revenues. License revenues derive from licenses granted to our customers to use our software products.

The following table provides information by geographic area of operation for our long-lived assets. Long-lived assets represent property and equipment and intangibles that are attributed to geographic areas.

	January 31, 2016	January 31, 2015
Total long-lived assets		
United States	**49,192**	59,041
Europe, Middle-East and Africa	**44,963**	57,711
Canada	**48,011**	6,203
	142,166	122,955

CORPORATE INFORMATION

Stock Exchange Information
Our common stock trades on the Toronto Stock Exchange under the symbol DSG and on The Nasdaq Stock Market under the symbol DSGX.

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