



THE DESCARTES SYSTEMS GROUP INC.
2008 ANNUAL REPORT

US GAAP FINANCIAL RESULTS FOR 2008 FISCAL YEAR

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LETTER FROM THE CEO

Dear Shareholders,

Fiscal 2008 was another year of record financial performance for Descartes in a challenging market environment. We grew profitably by delivering results for our customers through our top-quality logistics solutions and services. We did this in the face of global credit market challenges, declining global shipment volumes and unparalleled advancement of foreign currency values compared to the United States dollar. We've succeeded in a very tough environment.

Fiscal 2008 was also about enhancing our Global Logistics Network™. We enhanced our existing solutions and assembled new, end-to-end business process solutions for our customers. We worked with our community of more than 4,000 customers to deliver additional value from our market-leading logistics solutions. We identified, executed and integrated strategic acquisitions to augment the scope of our solutions and broaden our Global Logistics Network community.

Our mission remains the same. We focus on bringing together shippers, transportation carriers, forwarders and government agencies and other logistics intermediaries, and encourage them to work together to create standardized business processes and improve efficiencies. We are a logistics-focused global network that manages multiple transportation methods (air, ocean, truck, contract carrier and private fleet) and multiple business processes. Our results-based and phased approach to engaging customers and assisting them in implementing our solutions proves the value of our solutions and the return on investment that can be realized by working together with Descartes. We focus on delivering value quickly to our customers while managing project risk. We continue to innovate, develop and support global logistics management solutions to differentiate our logistics intensive customers.

Our experienced employees specialize in operations, technology, marketing and sales. The team has deep domain expertise in logistics and distribution and can address the challenges our customers face with first-hand experience. We have cross-trained our field representatives so they can educate our customers on the comprehensive nature of our offerings. We have further developed our reseller and strategic partner channels and are creating logistics communities with our partners to extend our reach. Our reputation grows as our customers succeed.

Descartes is delivering and growing. Our software-as-a-service business model has proven effective and our customer-focused strategy is a competitive differentiator. We have a proven platform for consolidating in our highly fragmented industry. We believe we are well-positioned for growth and focused on continuing to deliver results for our customers and shareholders.



Arthur Mesher,
Chief Executive Officer
Member of the Board of Directors

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.

The 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, 2008, is referred to as the "current fiscal year," "fiscal 2008," "2008" or using similar words. Our previous fiscal year, which ended on January 31, 2007, is referred to as the "previous fiscal year," "fiscal 2007," "2007" or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends. For example, 2009 refers to the annual period ending January 31, 2009 and the "fourth quarter of 2009" refers to the quarter ending January 31, 2009.

This MD&A, which is prepared as of March 18, 2008, covers our year ended January 31, 2008, as compared to January 31, 2007 and 2006. You should read the MD&A in conjunction with our audited consolidated financial statements for 2008. 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, including, but not limited to, statements in the "Trends / Business Outlook" section and statements regarding our expectations concerning future revenues and earnings; our baseline calibration; use of proceeds from previously completed financings or other transactions; future purchase price that may be payable pursuant to completed acquisitions; allocation of purchase price for completed acquisitions; the impact of our customs compliance business on our revenues; mix of revenues between services revenues and license revenues; 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; our plans to continue to allow customers to elect to license technology in lieu of subscribing to services; our anticipated potential loss of customers and our ability to replace any corresponding loss of revenue; our ability to keep our operating expenses at a level below our baseline revenues; uses of cash; expenses, including amortization of intangibles; goodwill impairment tests and the possibility of future impairment adjustments; contingent acquisition consideration and capital expenditures; general and administrative, and sales and marketing, expenses; income tax provision and expense; the effect on expenses of a weak US dollar; our liability with respect to various claims and suits arising in the ordinary course; any commitments referred to in the "Commitments, Contingencies & Guarantees" section of this MD&A; our intention to actively explore future business combinations; our liability under indemnification obligations; anticipated geographic break-down of business; our expectations regarding future restructuring charges associated with restructuring initiatives; our reinvestment of earnings of subsidiaries back into such subsidiaries; the sufficiency of capital to meet working capital and capital expenditure requirements; plans to raise capital; anticipated tax benefits; statements regarding increases or decreases to deferred tax assets; statements with respect to the status of the shareholder rights plan referred to as the Rights Plan in the "Outstanding Share Data" section of this MD&A; the impact of new accounting pronouncements; 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 subject to risks, uncertainties and assumptions that may cause future results to differ materially from those expected. Factors that may cause such differences include, but are not limited to, the factors discussed under the heading "Certain Factors That May Affect Future Results" appearing in the MD&A. 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 are a global provider of on-demand, software-as-a-service (SaaS) logistics technology solutions that help our customers make and receive shipments. Using our technology solutions, companies can reduce costs, save time, and enhance the service that they deliver to their own customers. Our technology-based solutions, which 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 planning and wireless dispatch; inventory and asset visibility; rate management; transportation management; and warehouse optimization. Our pricing model provides our customers with flexibility in purchasing our solutions on either a license or an on-demand basis. Our primary focus is on serving transportation providers (air, ocean and truck modes), third party intermediaries (including third-party logistics providers, freight forwarders and customs house brokers) and distribution-sensitive 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

Supply chain management has been evolving over the past several years as companies are increasingly seeking automation and real-time control of their supply chain activities. Companies are looking for integrated, end-to-end solutions that combine business document exchange and mobile resource management applications (MRM) with end-to-end supply chain execution management (SCEM) applications, such as transportation management, routing and scheduling, and inventory visibility.

Logistics-intensive organizations are seeking new ways to differentiate themselves, drive efficiencies to offset escalating operating costs and improve margins that are trending downward. 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 and changes in day-to-

day requirements are adding to the overall complexities that companies face in planning and executing in their supply chains. Whether a shipment gets delayed at the border, a customer changes an order or a breakdown occurs on the road, there are more and more issues that can significantly impact the status of fulfillment schedules and associated costs.

These challenges are heightened for suppliers that have end customers frequently demanding narrower order-to-fulfillment time frames, 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, manual and fragmented 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 for the majority of organizations. Further, these solutions don't provide the flexibility required to efficiently accommodate varied processes for organizations to remain competitive. The rate of adoption of newer logistics technology is evolving, but a disproportionate number of organizations still have manual business processes. This presents an opportunity for logistics technology providers to help customers improve efficiencies in their operations.

As the market continues to change, we have been evolving to meet our customers' needs. We have been educating our prospects and customers on the value of connecting to trading partners through our logistics network and automating, as well as standardizing, business processes. Our customers are increasingly looking for a single source, web-based solution provider who can help them manage the end-to-end shipment process – from the booking of the move of a shipment, to the tracking of that shipment as it moves and, finally, the settlement and audit of the invoice relating to that move. With that in mind, this past fiscal year we acquired Global Freight Exchange Limited (“GF-X”), an electronic exchange that enables air carriers and air freight forwarders to automate the booking process. When combined as a service available over our Global Logistics Network™ (GLN), we now offer our customers a comprehensive solution to manage the entire air cargo shipment process.

Additionally, regulatory initiatives mandating electronic filing of shipment information with customs authorities require companies who move freight by air, ocean or truck to automate their processes to remain compliant and competitive. Our customs compliance technology helps shippers, transportation providers, freight forwarders and other logistics intermediaries securely and electronically file shipment information with customs authorities. Our technology also helps carriers and freight forwarders efficiently coordinate with customs brokers to expedite cross-border shipments. In 2008 we acquired certain assets of Ocean Tariff Bureau, Inc. (“OTB”) and Pacific Coast Tariff Bureau (“PCTB”) to strengthen our Global Logistics Network regulatory filing solutions for the ocean industry.

More information is becoming available relating to the movement of goods through the supply chain and, with the proliferation of wireless technologies, that information is becoming available in real-time. We are helping our customers take advantage of this trend by offering technology solutions that leverage this new information and the mechanisms by which it is delivered. Our acquisitions of RouteView Technologies, Inc. (“RouteView”) in December 2007, and the Mobitrac fleet management business (“Mobitrac”) from Fluensee, Inc. in January 2008, broadened our ability to collect and process this real-time information to help our customers make delivery decisions in an on-demand model.

Solutions

Our solutions are offered to two identified customer groups: transportation providers and logistics service providers (LSPs) who are served by our Global Logistics Network; and manufacturers, retailers and distributors (MRDs), who are served by our Delivery Management™ solutions. Our solutions enable our customers to purchase and use either one module at a time or combine several modules as a part of their end-to-end, real-time supply chain solution. This gives our customers an opportunity to add supply chain services and capabilities as their business needs grow and change.

Our Global Logistics Network helps transportation companies and LSPs better manage their shipment management process, optimize fleet performance, comply with regulatory requirements, expedite cross-border shipments and connect and communicate with

their trading partners. Our Global Logistics Network is one of the world’s largest multimodal electronic networks focused on transportation providers, their trading partners and regulatory agencies.

LSPs are increasingly looking for technology to help them manage the end-to-end shipment lifecycle – from the booking of the shipment with the transportation provider to the settlement of the invoice relating to the shipment. With our acquisition of GF-X, we added air cargo booking functionality to our Global Logistics Network to enable our customers to access technology to help them manage the entire air shipment lifecycle.

Our Delivery Management solutions help MRD enterprises reduce logistics costs, efficiently use logistics assets and decrease lead-time variability for their global shipments and regional operations. In addition, these solutions arm the customer service departments of private fleets and contract carriers with information about the location, availability and scheduling of vehicles so they can provide better information to their own clients. Our Delivery Management solutions are differentiated by the ability to combine planning, execution, messaging services and performance management into an integrated solution.

Sales and Distribution

Our sales efforts are primarily directed toward two specific customer markets: (a) transportation companies and LSPs; and (b) MRDs. 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 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.

Marketing

Marketing materials are delivered through targeted programs designed to reach our core customer groups. These programs include trade shows and user group conferences, partner-focused marketing programs, and direct corporate marketing efforts.

Significant 2008 Events

In March 2007, we announced that we had acquired certain assets of OTB and Blue Pacific Services, Inc. (“Blue Pacific” and, together with OTB, the “OTB Acquisition”), both based in Long Beach, California. OTB provides tariff filing and publishing services to ocean intermediaries involved in the shipping of cargo into or out of US waters. Blue Pacific helps these same types of companies secure surety bonds required to ship cargo into or out of US waters. We paid \$1.0 million in cash at closing, with up to an additional \$0.85 million in cash payable over the 2.5 year period following closing, dependent on the financial performance of the acquired assets.

In April 2007, Ms. Stephanie Ratza joined Descartes as Chief Financial Officer, replacing Mr. Brandon Nussey who had left to pursue an opportunity with a private technology company.

On April 26, 2007, we closed a bought deal public share offering in Canada (the “Fiscal 2008 Bought Deal”) that raised gross proceeds of CAD\$25.0 million (equivalent to approximately \$22.3 million at the time of the transaction) from a sale of 5,000,000 common shares at a price of CAD\$5.00 per share. The underwriters also exercised an over-allotment option on April 26, 2007 to purchase an additional 200,000, 400,000 and 150,000 common shares (in aggregate, 15% of the offering) at CAD\$5.00 per share from Descartes, Mr. Arthur Mesher (our Chief Executive Officer) and Mr. Edward Ryan (our Executive Vice President, Global Field Operations), respectively. Gross proceeds to us from the exercise of the over-allotment option were CAD\$1.0 million (equivalent to approximately \$0.9 million at the time of the transaction). In addition, we received an aggregate of approximately CAD\$1.1 million (equivalent to approximately \$1.0 million at the time of the transaction) in proceeds from Mr. Mesher’s and Mr. Ryan’s exercise of employee stock options to satisfy their respective obligations under the over-allotment option.

In May 2007, Mr. Ryan was promoted to Executive Vice President, Global Field Operations. Mr. Ryan was formerly General Manager, Global Logistics Network. We also announced that Gregory Cronin, Executive Vice President Sales and Marketing, had resigned to pursue an executive role with a private US company.

On June 26, 2007, we announced that technology industry veteran Michael Cardiff had been appointed to our board of directors.

On August 17, 2007, we acquired GF-X, a global leader for electronic freight booking in the air cargo industry based in London, U.K. GF-X added electronic air freight booking capability to our Global Logistics Network to enable us to help our customers manage the entire air cargo shipment lifecycle. GF-X’s offering includes a comprehensive, on-line cargo reservation system where air carriers and freight forwarders can complete electronic air cargo bookings. Many of the world’s leading carriers and forwarders use GF-X’s products in major airfreight markets worldwide, including American Airlines, Air France, British Airways, Delta Air Lines, DHL, Kühne + Nagel, Lufthansa, and Panalpina. In support of the acquisition, several key air cargo carriers and freight forwarders extended their customer commitments to use GF-X’s products and services. The purchase price for this acquisition included approximately \$9.2 million in cash and approximately 0.5 million Descartes common shares valued at \$1.7 million at the time of the acquisition. Additional purchase price of up to \$5.2 million in cash is payable if certain performance targets, primarily related to revenues, are met by GF-X over the four-year period ending in August 2011. We also incurred \$2.2 million of acquisition-related costs comprised of \$1.0 million in transactional expenses, primarily professional fees, and \$1.2 million of exit costs and involuntary employee termination benefits.

On December 20, 2007, we acquired RouteView, a provider of technology solutions in a recurring revenue model to help small- and medium-sized organizations manage their delivery operations. RouteView’s map-based routing software combines with wireless, GPS and automated call-out technology to help numerous customers, particularly in the home delivery and distribution industries, with a comprehensive delivery management solution. The purchase price for this acquisition was approximately \$3.0 million in cash, plus up to an additional \$0.5 million in cash if certain sales targets are met by RouteView in the first year post-acquisition.

On January 9, 2008, we acquired PCTB for approximately \$2.1 million in cash. For over 60 years,

PCTB has provided tariff and contract publishing services to leading ocean carriers, non-vessel operating common carriers (NVOCCs) and shippers to help them comply with US regulations for domestic and foreign shipping trades. PCTB also provides technology solutions to its customers to help them manage ocean contracts and apply the correct freight rates to bills of lading for ocean shipments.

On January 10, 2008, we acquired the fleet management business formerly known as Mobitrac from privately-held Fluensee, Inc. for approximately \$0.7 million in cash. The Mobitrac business includes a software-as-a-service, routing and scheduling technology.

CONSOLIDATED OPERATIONS

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

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Total revenues	59.0	52.0	45.7
Cost of revenues	20.6	17.5	18.1
Gross margin	38.4	34.5	27.6
Operating expenses	27.5	26.2	23.2
Acquisition-related expenses	5.7	4.9	2.9
Restructuring recovery	-	(0.2)	(0.2)
Income from operations	5.2	3.6	1.7
Investment income net of interest expense	1.5	0.6	-
Gain on sale of long-term investment	-	-	1.4
Income before income taxes	6.7	4.2	3.1
Income tax expense (recovery)	(15.7)	0.2	0.1
Net income	22.4	4.0	3.0
EARNINGS PER SHARE			
BASIC	0.44	0.09	0.07
DILUTED	0.43	0.09	0.07
WEIGHTED AVERAGE SHARES OUTSTANDING (thousands)			
BASIC	51,225	45,225	40,711
DILUTED	52,290	46,475	41,596
Other Pertinent Information:			
Total assets	126.4	71.3	46.8

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; and (iii) maintenance, subscription and other related revenues, which include revenues associated with maintenance and support of our services and products, which are recognized ratably over the subscription period. License revenues derive from 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 proportion of total revenues) generated over each of the years indicated:

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Services revenues	54.5	46.8	40.8
<i>Percentage of total revenues</i>	92%	90%	89%
License revenues	4.5	5.2	4.9
<i>Percentage of total revenues</i>	8%	10%	11%
Total revenues	59.0	52.0	45.7

Our *services revenues* were \$54.5 million, \$46.8 million and \$40.8 million in 2008, 2007 and 2006, respectively. The increase in services revenues in 2008 from 2007 is primarily due to the inclusion in 2008 of a full year of services revenues from our 2007 acquisition of Flagship Customs Services, Inc. (“FCS”), a partial-year of 2008 revenues from our acquisition of GF-X and, to a lesser extent, other 2008 acquisitions. 2008 services revenues also increased customs compliance revenues from the new US Customs and Border Protection Agency Automated Commercial Environment (“ACE”) e-manifest initiative (as discussed further in the “Trends / Business Outlook” section of this MD&A). The increase in 2008 was partially offset by a decrease in 2008 of recurring ocean services revenues as a result of certain customers of our legacy ocean services cancelling relatively large recurring revenue contracts effective in the third and fourth quarters of 2007 (“Legacy Ocean Services Cancellations”).

The increase in services revenues in 2007 from 2006 is primarily due to the inclusion of services revenues in 2007 from our 2007 acquisitions of ViaSafe Inc. (“ViaSafe”) and FCS, as well as increased sales from some of our Global Logistics Network value-added applications. The increase in 2007 was partially offset by a decrease in 2007 recurring ocean services revenues as a result of the Legacy Ocean Services Cancellations, as well as by lower 2007 maintenance revenues as customers migrated away from some of our other legacy products.

Our services revenues are dependent on the number of shipments being moved by our customers and, accordingly, our services revenues are somewhat subject to seasonal shipment volume trends across the various modes of transportation (i.e. air, ocean, truck) we serve. In our first fiscal quarter, we historically have seen lower shipment volumes in air and truck which impact the aggregate number of transactions flowing through our business document exchange. In our second fiscal quarter, 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 quarter, we have historically seen shipment and transactional volumes at their highest. In the fourth quarter, 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.

Our *license revenues* were \$4.5 million, \$5.2 million and \$4.9 million in 2008, 2007 and 2006, respectively. While our sales focus has been on generating services revenues in our on-demand, SaaS business model, we have continued to see a market for licensing the products in our Delivery Management suite to MRD and service provider enterprises. The amount of license revenue in a period is dependent on our customers’ preference to license our solutions instead of purchasing our solutions as a service.

As a *percentage of total revenues*, our services revenues were 92%, 90% and 89% in 2008, 2007 and 2006, respectively. The increase reflects our success in selling to new customers under our services-based business model rather than our former model that emphasized more license sales.

We operate in one business segment providing logistics technology solutions. The following table provides additional analysis of our *segmented revenues by geographic area of operation* (in millions of dollars):

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Canada	8.9	5.7	1.5
<i>Percentage of total revenues</i>	15%	11%	3%
Americas, excluding Canada	34.5	31.9	30.0
<i>Percentage of total revenues</i>	58%	61%	66%
Europe, Middle-East and Africa (“EMEA”)	14.0	12.5	12.4
<i>Percentage of total revenues</i>	24%	24%	27%
Asia Pacific	1.6	1.9	1.8
<i>Percentage of total revenues</i>	3%	4%	4%
Total revenues	59.0	52.0	45.7

Revenues from Canada were \$8.9 million, \$5.7 million and \$1.5 million in 2008, 2007 and 2006, respectively. The increase in 2008 as compared to 2007 was principally due to the inclusion of a full year of revenues in 2008 from the predominantly Canada-based ViaSafe and, to a lesser extent, Cube Route Inc. (“Cube Route”), which we acquired in December 2006. Canadian revenues also increased due to customs compliance revenues generated through services related to the ACE e-manifest initiative (as discussed in the “Trends / Business Outlook” section of this MD&A).

The increase in 2007 as compared to 2006 was due to the inclusion of the revenues from ViaSafe from early April 2006 onward and, to a lesser extent, Cube Route, from early December 2006 onward.

Revenues from the Americas region, excluding Canada were \$34.5 million, \$31.9 million and \$30.0 million in 2008, 2007 and 2006, respectively. The increase in 2008 as compared to 2007 was due to the inclusion of a full year of revenues from the predominantly US-based FCS and partial-year revenues from other smaller acquisitions completed in 2008. These increases were partially offset by the loss in the third and fourth quarters of 2007 of recurring revenues from the Legacy Ocean Services Cancellations.

The increase in 2007, as compared to 2006, was due to the inclusion of FCS revenues, which are predominantly US-based, from the beginning of July 2006 onward. This increase was partially offset by the loss in the third and fourth quarters of 2007 of previously recurring revenues from the Legacy Ocean Services Cancellations.

Revenues from the EMEA region were \$14.0 million, \$12.5 million and \$12.4 million in 2008, 2007 and 2006, respectively. The increase in 2008 from 2007 was primarily due to the inclusion of GF-X revenues from mid-August 2007 onward.

Revenues from the EMEA region in 2007 increased slightly from 2006 with consistent license revenues in this region from the sale of our Delivery Management solutions.

Revenues from the Asia Pacific region were \$1.6 million, \$1.9 million and \$1.8 million in 2008, 2007 and 2006, respectively. The dollar amount of revenues for the Asia Pacific region decreased in 2008 from 2007 as 2007 included a large license deal from the sale of our Delivery Management solutions in China in the fourth quarter of 2007.

Revenues from the Asia Pacific region in 2007 increased slightly from 2006 due to a large license deal from the sale of our Delivery Management solutions in China in the fourth quarter of 2007.

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

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
<u>Services</u>			
Services revenues	54.5	46.8	40.8
Cost of services revenues	19.8	16.4	17.1
Gross margin	34.7	30.4	23.7
<i>Gross margin percentage</i>	64%	65%	58%
<u>License</u>			
License revenues	4.5	5.2	4.9
Cost of license revenues	0.8	1.1	1.0
Gross margin	3.7	4.1	3.9
<i>Gross margin percentage</i>	82%	79%	80%
<u>Total</u>			
Revenues	59.0	52.0	45.7
Cost of revenues	20.6	17.5	18.1
Gross margin	38.4	34.5	27.6
<i>Gross margin percentage</i>	65%	66%	60%

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

Gross margin percentage for services revenues were 64%, 65% and 58% in 2008, 2007 and 2006, respectively. The decrease in 2008 from 2007 was primarily due to incurring a one-time fee related to the termination of a hosting and management services contract with a vendor in the second half of 2008.

The increase in gross margin in 2007 from 2006 was primarily due to increased services revenues against a relatively fixed cost base due to excess capacity on our Global Logistics Network, and cost reductions achieved in running our network and providing our services.

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

Gross margin percentage for license revenues were 82%, 79%, and 80% in 2008, 2007 and 2006, respectively. Our gross margin on license revenues is dependant on the proportion of our license revenues that involve third-party software. Consequently, our gross margin percentage for license revenues is higher when a lower proportion of our license revenues attract third-party software costs, and vice versa.

Operating expenses (consisting of sales and marketing, research and development and general and administrative expenses) were \$27.5 million, \$26.2 million and \$23.2 million for 2008, 2007 and 2006, respectively. The increase in operating expenses over those three years arose primarily from the addition of businesses that we acquired in 2008 and 2007. In addition, operating expenses in 2008 and 2007 included approximately \$0.4 million

and \$0.7 million, respectively, of stock-based compensation expense as a result of our adoption of Statement of Financial Accounting Standards No. 123 (R) (“SFAS 123R”), “Share-Based Payment”, effective February 1, 2006.

The following table provides additional analysis of operating expenses (in millions of dollars) for the years indicated:

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Total revenues	59.0	52.0	45.7
Sales and marketing expenses	9.7	10.2	8.5
<i>Percentage of total revenues</i>	16%	20%	19%
Research and development expenses	10.5	9.0	7.0
<i>Percentage of total revenues</i>	18%	17%	15%
General and administrative expenses	7.3	7.0	7.7
<i>Percentage of total revenues</i>	12%	13%	17%
Total operating expenses	27.5	26.2	23.2

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 as a percentage of total revenues were 16%, 20% and 19% in 2008, 2007 and 2006, respectively. The decrease in 2008, as compared to 2007, was primarily attributable to a reduction in the number of employees as a result of our more efficient deployment of existing resources and integrating acquisitions, leading to a decrease in employee compensation, travel expenses and third-party marketing consulting costs. This was partially offset by an increase in bad debt expense. The decrease as a percentage of total revenues is primarily attributable to integrating the sales and marketing functions of acquired entities into our global corporate organization.

The increase in expense in 2007 from 2006 was primarily attributable to the following: increased marketing costs related to launches of our new and enhanced solutions in 2007; the inclusion of stock-based compensation expense in 2007; the inclusion of sales and marketing costs from businesses acquired during 2007, principally ViaSafe and FCS; and increased employee compensation costs related to the sales and marketing team.

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 2008, 2007 and 2006. The increase in 2008, as compared to 2007, was primarily attributable to increased payroll and related costs from the ViaSafe, FCS and GF-X acquisitions in April 2006, July 2006 and August 2007, respectively.

The increase in expense in 2007 from 2006 was primarily attributable to increased payroll and related costs from the redeployment of certain employees to research and development activities during the latter part of 2006; the inclusion of stock-based compensation expense in 2007; and the inclusion of ViaSafe’s and FCS’s research and development costs from early April 2006 and from the beginning of July 2006, respectively.

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 \$7.3 million, \$7.0 million and \$7.7 million in 2008, 2007 and 2006, respectively. The increase in 2008 from 2007 was primarily due to increased compliance costs.

The decrease in expenses in 2007 from 2006 was primarily attributable to lower professional fees associated with tax, accounting and legal advice in 2007, and lower payroll and related headcount costs. This decrease was partially offset by the following: inclusion of stock-based compensation expense in 2007; costs related to preparations for compliance with the internal control certification and attestation provisions of the *Sarbanes-Oxley Act of 2002* and associated rules and regulations applicable to foreign private issuers; and devaluation of the US dollar relative to the Canadian dollar from 2006 to 2007, since a majority of our general and administrative expenses were incurred in Canadian dollars.

Acquisition-related expenses. The following table provides an additional analysis of acquisition-related expenses for the periods indicated (in millions of dollars):

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Amortization of intangible assets	3.7	2.7	2.7
Contingent acquisition consideration	2.0	2.1	-
Impairment of goodwill	-	0.1	0.2
Total acquisition-related expenses	5.7	4.9	2.9

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 associated with acquisitions completed by us as of January 31, 2008. 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 \$3.7 million in 2008 and \$2.7 million in each of 2007 and 2006. Amortization expense increased in 2008 from 2007 primarily as a result of including a full year of amortization for the ViaSafe, FCS and Cube Route intangible assets. We also had a partial year of amortization for the GF-X intangible assets acquired in August 2007 and, to a much lesser extent, other 2008 acquisitions. Offsetting the amortization expense from the 2008 and 2007 acquisitions was a \$0.4 million decrease from several components of our intangible assets that are now fully amortized. As of January 31, 2008, the unamortized portion of all intangible assets amounted to \$18.9 million.

Amortization expense in 2007 was unchanged from 2006 as a result of a reduction in expense from fully amortizing components of our previously-acquired intangible assets, offset by amortization of the intangible assets that we acquired from ViaSafe, FCS and Cube Route.

We test the fair 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 assets 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 intangibles is determined by discounting the expected related cash flows. No finite life intangible asset impairment has been identified or recorded for any of the fiscal periods reported.

Contingent acquisition consideration. As described more fully in Note 3 to our Consolidated Financial Statements for 2008, contingent acquisition consideration relates to our 2007 acquisitions of ViaSafe and FCS. It represents acquisition consideration that was placed in escrow for the benefit of the former shareholders, to be released over time contingent on the continued employment of those shareholders. If we terminate the employment of a former shareholder (other than for cause) prior to the escrow period expiring, the portion of the contingent acquisition consideration then remaining relating to that employee is released to the former shareholder and is expensed in the period that such shareholder's employment is terminated. Contingent

acquisition consideration of \$2.0 million expensed in 2008 relates solely to FCS. Contingent acquisition consideration of \$2.1 million expensed in 2007 relates to ViaSafe and FCS. For ViaSafe, \$0.9 million of such consideration expensed in 2007 included contingent acquisition consideration released to former shareholders whose employment was terminated during 2007. No contingent acquisition consideration remains related to ViaSafe. For FCS, \$1.2 million of contingent acquisition consideration was expensed in 2007. At January 31, 2008, \$0.8 million of contingent acquisition consideration related to FCS remains to be expensed through June 2008.

Impairment of Goodwill was nil, \$0.1 million and \$0.2 million in 2008, 2007 and 2006, respectively. We performed our annual goodwill impairment tests in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142 “Goodwill and Other Intangible Assets” on October 31, 2007. Our testing indicated no evidence that goodwill impairment had occurred as at October 31, 2007. In addition, we will continue to perform quarterly analysis of whether any event has occurred that would more likely than not reduce our enterprise value below our carrying amount, and, if so, we will perform a goodwill impairment test between the annual dates. Any future impairment adjustment will be recognized as an expense in the period that the adjustment is identified. During 2008, we recorded an aggregate of \$4.6 million of goodwill on our consolidated balance sheets related to the OTB Acquisition and the acquisitions of GF-X, RouteView, PCTB and Mobitrac. During 2007, we recorded an aggregate of \$20.4 million of goodwill on our consolidated balance sheets related to our acquisitions of ViaSafe, FCS and Cube Route.

Restructuring recovery was nil, \$0.2 million and \$0.2 million in 2008, 2007 and 2006, respectively, relating to our past restructuring plans. The activities under all restructuring initiatives are completed and we do not expect any additional restructuring expenses in connection with any of our restructuring initiatives. During each of 2007 and 2006, we had net favourable revisions to our restructuring provisions totaling \$0.2 million related primarily to the sublease of certain offices.

Investment income net of interest expense was \$1.5 million, \$0.6 million and nil in 2008, 2007 and 2006, respectively. The increase in investment income is principally a result of higher invested cash balances subsequent to the first quarter of 2008 from the Fiscal 2008 Bought Deal. The increase in investment income net of interest expense from 2006 to 2007 is principally a result of us repaying our convertible unsecured debentures on maturity in June 2005, thereby eliminating an ongoing interest expense obligation. The convertible debentures are discussed in more detail in Note 9 to the Consolidated Financial Statements for 2008.

Gain on sale of long-term investment of \$1.4 million relates to sales during the first and second quarters of 2006 of our entire investment in Ocado, a UK online grocer, for approximately \$4.7 million relative to its carrying value of \$3.3 million.

Income tax expense (recovery) is comprised of current income tax expense and deferred income tax recovery. **Income tax expense – current** was \$0.3 million, \$0.2 million and \$0.1 million in 2008, 2007 and 2006, respectively. Current income taxes arise primarily from our estimate of our US taxable income that will be subject to federal alternative minimum tax and not fully sheltered by our loss carryforwards in certain US states.

Income tax recovery – deferred was a recovery of \$16.0 million in 2008 and nil for all prior years presented. A deferred tax asset of \$17.6 million has been recorded on our 2008 consolidated balance sheets for tax benefits that we currently expect to realize in future years. We have provided a valuation allowance of \$76.1 million for the amount of tax benefits that are not currently expected to be realized. In determining the valuation allowance, we considered various factors by taxing jurisdiction, including our currently estimated taxable income over future periods, our history of losses for tax purposes, our tax planning strategies and the likelihood of success of our tax filing positions, among others. A change to any of these factors could impact the estimated valuation allowance and, as a consequence, result in an increase (recovery) or decrease (expense) to the deferred tax assets recorded on our consolidated balance sheets.

Overall, we generated **net income** of \$22.4 million, \$4.0 million and \$3.0 million in 2008, 2007 and 2006, respectively. The increase in 2008 from 2007 was primarily a result of the \$16.0 million deferred income tax recovery, a \$3.9 million increase in gross margin, and a \$0.9 million increase in investment income. Partially offsetting these increases was a \$1.3 million increase in operating expenses and a \$1.0 million increase in amortization of intangible assets.

The improvement in net income in 2007 from 2006 was principally attributable to improved gross margin and the elimination of interest expense from the repayment of the convertible debentures, which was partially offset by an increase in operating expenses and contingent acquisition consideration and the absence of a gain on sale of long-term investment.

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, 2007	July 31, 2007	October 31, 2007	January 31, 2008	Total
<u>2008</u>					
Revenues	13,288	14,263	15,463	16,011	59,025
Gross margin	8,716	9,408	9,995	10,266	38,385
Operating expenses	6,468	6,832	7,171	7,022	27,493
Net income	1,128	1,682	1,697	17,936	22,443
Basic earnings per share	0.02	0.03	0.03	0.34	0.44
Diluted earnings per share	0.02	0.03	0.03	0.33	0.43
Weighted average shares outstanding (thousands):					
Basic	46,672	52,354	52,801	52,924	51,225
Diluted	48,221	53,401	53,715	53,721	52,290
<u>2007</u>					
	April 30, 2006	July 31, 2006	October 31, 2006	January 31, 2007	Total
Revenues	11,692	13,293	13,445	13,560	51,990
Gross margin	7,570	8,894	9,079	8,960	34,503
Operating expenses	5,892	6,820	6,870	6,636	26,218
Net income	1,239	1,085	449	1,214	3,987
Basic and diluted earnings per share	0.03	0.02	0.01	0.03	0.09
Weighted average shares outstanding (thousands):					
Basic	42,618	45,549	46,304	46,342	45,225
Diluted	43,621	47,122	47,548	47,609	46,475

Our operations continue to have seasonal trends. In our first fiscal quarter, we historically have seen lower shipment volumes by air and truck which impact the aggregate number of transactions flowing through our business document exchange. In our second fiscal quarter, 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 quarter, we have historically seen shipment and transactional volumes at their highest. In the fourth quarter, 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.

Revenues have been positively impacted by the nine acquisitions that we completed over the past two fiscal years. In addition, over the past two fiscal years we have seen increasing transactions processed over our business document exchange as we help our customers comply with electronic filing requirements of new US and Canadian customs regulations, including the CBP ACE e-manifest filing initiative described in more detail in the “Trends / Business Outlook” section later in this MD&A.

Revenues increased in the second quarter of 2007, as compared to the first quarter of 2007, due to our ViaSafe and FCS acquisitions. Revenues increased in the second quarter of 2008 over the previous quarter, principally due to the performance of our ocean and customs compliance services. Revenues increased in the third quarter of 2008 by \$1.2 million over the previous quarter, principally due to our acquisition of GF-X in that quarter. Revenues also increased in the fourth quarter of 2008 primarily as a result of our acquisitions of RouteView, PCTB and Mobitrac completed in that quarter.

In the third and fourth quarters of 2007, our revenues were adversely impacted by the Legacy Ocean Services Cancellations. These customers provided us with recurring revenues, so the impact of these losses has continued to negatively impact our revenues through 2008.

Beginning with the second quarter of 2007, our net income included the expense of contingent acquisition consideration, an expense that was not included in any prior quarter. In the third quarter of 2007, the expense associated with contingent acquisition consideration was higher due to the acceleration of the release of contingent acquisition consideration from escrow, which was a principal contributor to our net income being lower than other quarters in the year. Contingent acquisition consideration expensed in the fourth quarter of 2007 and in subsequent quarters was lower mainly because the contingent acquisition consideration related to the ViaSafe acquisition was fully expensed in the third quarter of 2007.

Net income in the fourth quarter of 2008 was significantly impacted by an income tax recovery of \$16.0 million resulting from a reduction in the valuation allowance for our deferred tax assets. Overall, our net income has been impacted in 2008 by the declining value of the US dollar in comparison to the Canadian dollar and other currencies. The majority of our revenues are generated in US dollars while our expenses are incurred in numerous different currencies in support of our global operations.

Our weighted average shares outstanding has increased since the first quarter of 2007, principally as a result of the issuance of additional shares in connection with the issuance of 4,140,000 common shares pursuant to our March 2006 bought deal share offering (the “Fiscal 2007 Bought Deal”), the FCS acquisition in the second quarter of 2007, the Fiscal 2008 Bought Deal, the GF-X acquisition in the third quarter of 2008 and periodic employee stock option exercises.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations and met our capital expenditure requirements primarily through cash flows provided from operations, long-term borrowings and sales of debt and equity securities. As at January 31, 2008, we had \$44.1 million in cash and cash equivalents, none of which was held in asset-backed commercial paper (“ABCP”), and \$3.0 million in available lines of credit. As at January 31, 2007, we had \$21.9 million in

cash, cash equivalents and marketable securities, and \$2.5 million in available lines of credit.

We believe that, considering the above, we have sufficient liquidity to fund our current operating and working capital requirements, including the payment of current operating lease and purchase obligations, and additional purchase price that may become payable pursuant to the terms of previously completed acquisitions. 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 consider select strategic transactions to create value and improve performance, which may include acquisitions, dispositions, restructurings, joint ventures and partnerships, and we may undertake a financing transaction in connection with any such potential strategic transaction.

To the extent that our non-Canadian subsidiaries have earnings, our intention is that these earnings be re-invested in the subsidiary indefinitely. Accordingly, to date we have not encountered 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. To the extent there are restrictions, they have not had a material effect on the ability of our Canadian parent to meet its financial obligations.

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

<i>Year ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Cash provided by operating activities	11.9	6.5	8.5
Additions to capital assets	(1.1)	(1.4)	(1.2)
Sale of long-term investment	-	-	4.7
Acquisition of subsidiaries and acquisition-related costs	(13.3)	(30.4)	(0.2)
Repayment of convertible debentures	-	-	(27.0)
Issuance of common shares, net of issue costs	23.3	13.8	-
Effect of foreign exchange rates on cash and cash equivalents	1.4	0.4	(0.6)
Net change in cash and cash equivalents and marketable securities	22.2	(11.1)	(15.8)
Cash and cash equivalents and marketable securities, beginning of year	21.9	33.0	48.8
Cash and cash equivalents and marketable securities, end of year	44.1	21.9	33.0

Cash provided by operating activities was \$11.9 million, \$6.5 million and \$8.5 million for 2008, 2007 and 2006, respectively. The increase in cash provided by operating activities in 2008, as compared to 2007, was principally due to the 2007 use of \$4.0 million of cash to establish the contingent acquisition consideration escrow for the former shareholders of FCS in connection with our acquisition of FCS, as well as improved operating performance in 2008.

The decrease in cash provided by operating activities in 2007, as compared to 2006, was principally due to using \$4.0 million of cash to establish the contingent acquisition consideration escrow for the former shareholders of FCS in connection with our acquisition of FCS as well as stronger cash collections in the prior fiscal year, which was partially offset by improved operating performance in 2007.

Additions to capital assets of \$1.1 million, \$1.4 million and \$1.2 million in 2008, 2007 and 2006, respectively, were primarily composed of investments in computing equipment and software to support our global operations and Global Logistics Network.

Sale of long-term investment of \$4.7 million represents the \$1.2 million sale of 22% of our investment in Ocado in the first quarter of 2006 and the sale of the remaining investment in the second quarter of 2006 for \$3.5 million.

Acquisition of subsidiaries and acquisition-related costs of \$13.3 million in 2008 represents \$6.2 million of cash paid for the acquisition of GF-X, \$1.1 million of cash paid related to the OTB Acquisition, \$3.0 million of cash related to the acquisition of RouteView, \$2.1 million for the acquisition of PCTB and \$0.5 million related to the acquisition of Mobitrac, as well as \$0.4 million of cash paid related to acquisitions that we made in 2007.

2007 cash paid of \$30.4 million represents our 2007 purchases of ViaSafe, FCS and Cube Route, net of cash acquired, and the final \$0.1 million ‘earn-out’ payment related to our acquisition of Tradevision AB (“Tradevision”) in 2003. These amounts exclude \$4.0 million of cash that was used to establish the contingent acquisition consideration escrow in connection with the FCS acquisition, as the cash used to establish this escrow was included in the calculation of the cash used in operating activities.

Cash of \$0.2 million used in 2006 represents ‘earn-out’ payments related to the acquisition of Tradevision.

Repayment of convertible debentures represents the June 30, 2005 payment of \$27.0 million in satisfaction of the principal portion of all of the outstanding convertible debentures on their maturity.

Issuance of common shares of \$23.3 million in 2008 is comprised of \$21.6 million net cash proceeds received from the Fiscal 2008 Bought Deal and \$1.7 million from the exercise of employee stock options.

Issuance of common shares of \$13.8 million in 2007 is comprised of \$13.6 million net cash proceeds received from the Fiscal 2007 Bought Deal and \$0.2 million from the exercise of employee stock options.

Working capital. At January 31, 2008, our current assets exceeded our current liabilities by \$48.5 million. Current assets include \$44.1 million of cash and cash equivalents, \$10.4 million in current trade receivables and a \$3.0 million deferred tax asset. Our working capital has increased since January 31, 2007 by \$24.7 million primarily as a result of cash provided by the Fiscal 2008 Bought Deal and our 2008 operating activities, partially offset by cash used in acquisitions.

Cash and cash equivalents and marketable securities. At January 31, 2008, all funds are held in interest-bearing bank accounts, primarily with a major US bank. Cash and cash equivalents include short-term deposits and marketable debt securities with original maturities of three months or less. Debt securities are marked-to-market with the resulting gain or loss included in other comprehensive income (loss). At January 31, 2008, we held no investments in ABCP.

At various times in 2008 and 2007, we invested in marketable securities. Marketable securities represent cash invested in investment-grade corporate bonds and commercial paper. Short-term marketable securities were composed of debt securities maturing within 12 months from the balance sheet date. Our investments in marketable securities were governed by our Investment Policy Guidelines as approved by our board of directors. The policy stipulates a conservative investment philosophy whereby all maturing investments are re-invested in AAA-rated marketable securities and, to the extent deemed necessary to avoid adverse tax consequences, in dividend-received deduction (DRD) eligible securities.

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 lease obligations and purchase obligation:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Operating lease obligations	2.3	1.6	0.6	0.8	5.3
Purchase obligation	0.2	-	-	-	0.2
	2.5	1.6	0.6	0.8	5.5

Operating Lease Obligations

We are committed under non-cancelable operating leases for business premises and computer equipment with terms expiring at various dates through 2016. The future minimum amounts payable under these lease agreements are described in the chart above.

Purchase Obligation

We are committed under a non-cancelable agreement to procure various information technology hosting and co-location services over the next year. The future minimum amounts payable under this hosting agreement are described in the chart above.

Other Obligations

We have a commitment for income taxes incurred to various taxing authorities related to unrecognized tax benefits in the amount of \$4.4 million. At this time, we are unable to make reasonably reliable estimates of the period of settlement with the respective taxing authority due to the possibility of the respective statutes of limitations expiring without examination by the applicable taxing authority.

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 annual results of operations or financial position.

Business combination agreements

In connection with our acquisition of FCS on June 30, 2006, we paid \$4.0 million into escrow to be released to certain former shareholders of FCS over a period of 24 months. If we terminate the employment of a former shareholder of FCS (other than for cause) prior to the expiration of the escrow period, then any portion of the escrow then remaining and allocated to that former shareholder will be released to that former shareholder. If the employment of a former shareholder of FCS is terminated for cause during the escrow period or the former shareholder resigns his employment during the escrow period without good reason, then any portion of the escrow then remaining and allocated to that former shareholder will be forfeited by the former shareholder and released to us. At January 31, 2008, \$0.5 million remained subject to this escrow.

In connection with the OTB Acquisition in March 2007, up to an additional \$0.85 million in cash may be payable over the 2.5 year period after closing dependent on the financial performance of the acquired assets.

In connection with the GF-X acquisition in August 2007, up to \$5.2 million in cash may become payable if certain performance targets, primarily relating to revenues, are met by GF-X over the four years ending in August 2011.

In connection with the acquisition of RouteView in December 2007, an additional \$0.5 million in cash may be payable if certain sales targets are achieved by RouteView during the one-year period ending in December 2008.

Product Warranties

In the normal course of operations, we provide our customers with product warranties relating to the performance of our 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 on our financial statements.

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 the Financial Accounting Standards Board (“FASB”) Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). 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. 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 indemnifications. These indemnifications typically occur 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 and leasing transactions. We also provide and receive indemnifications in connection with acquisition transactions. Each of these indemnifications we provide 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 the counterparty may suffer 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 indemnifications.

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 for the guarantees or indemnities described above on our financial statements.

OUTSTANDING SHARE DATA

We have an unlimited number of common shares authorized for issuance. As of March 18, 2008, we had 52,931,627 common shares issued and outstanding.

On April 26, 2007, we closed the Fiscal 2008 Bought Deal, which raised gross proceeds of CAD\$25.0 million (equivalent to approximately \$22.3 million at the time of the transaction) from a sale of 5,000,000 common shares at a price of CAD\$5.00 per share. The underwriters also exercised an over-allotment option on April 26, 2007 to purchase an additional 200,000, 400,000 and 150,000 common shares (in aggregate, 15% of the offering) at CAD\$5.00 per share from the Company, Mr. Mesher and Mr. Ryan, respectively. Once expenses associated with the offering were deducted, including an underwriting fee of 4.5%, total net proceeds to Descartes were approximately \$21.5 million at the time of the transaction. We anticipate using the net proceeds of the offering for general corporate purposes, potential future acquisitions, and working capital.

As of March 18, 2008, there were 4,477,854 options issued and outstanding, and 1,173,738 remaining available for grant under all stock option 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 Toronto Stock Exchange and was approved by our shareholders on May 18, 2005. The Rights Plan took effect as of November 29, 2004 and will expire at the termination of our annual shareholders' meeting in calendar 2008 unless its continued existence is ratified by the shareholders before such expiration. The Rights Plan is similar to plans adopted by other Canadian companies and approved by their shareholders.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with US 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 operation. Our significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements for 2008.

Our management has discussed the development, selection and application of our critical accounting policies with the audit committee of the board of directors. In addition, the board of directors has reviewed the accounting policy disclosures in this MD&A.

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 2008 Consolidated Financial Statements:

Revenue recognition

In recognizing revenue, we make estimates and assumptions on factors such as the probability of collection of the revenue from the customer, whether the sales price is fixed or determinable, the amount of revenue to allocate to individual elements in a multiple element arrangement 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.

Long-Lived Assets

We test long-lived assets for recoverability when events or changes in circumstances indicate evidence of impairment.

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, existing technologies and trade names. Intangible assets are amortized on a straight-line basis over their estimated useful lives. 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. Our impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. Actual results will differ, which could materially impact our impairment assessment.

In the case of goodwill, we test for impairment at least annually at October 31 of each year and at any other time if any event occurs or circumstances change that would more likely than not reduce our enterprise value below our carrying amount. 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, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units 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.

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 current and deferred income tax assets and liabilities. As outlined in Note 15 to the Consolidated Financial Statements for 2008, we have recorded deferred tax assets of \$17.6 million on our 2008 consolidated balance sheets for tax benefits that we currently expect to realize in future years. In particular, in the fourth quarter of 2008, we determined that there was sufficient positive evidence such that it was more likely than not that we would use a portion of our tax loss carryforwards to offset taxable income in the US in future periods. This positive evidence included that we had earned taxable income in the US in each of the three preceding tax years, resulting in cumulative taxable income of \$43.8 million over these three preceding US tax years. Accordingly, we reduced our valuation allowance for our deferred tax assets by \$16.0 million, representing the amount of tax loss carryforwards that we projected would be used to offset taxable income in the US over the ensuing six-year period. In making that projection for the six-year period, we made certain assumptions, including the following: (i) that the US entity would maintain a consistent level of taxable income, taking into account decreases in US taxable income anticipated as a result of tax planning transactions entered in 2008; (ii) that the settlement of US intercompany debt obligations in 2009 would reduce US taxable income from 2008 levels; (iii) that there will be continued customer migration from a technology platform owned by our US entity to a technology platform owned by another entity in our corporate group, further reducing US taxable income; and (iv) that tax rates in the US would be consistent over the six-year period of projection. We have provided a valuation allowance of \$76.1 million for the amount of tax benefits that are not currently

expected to be realized. Any further change to decrease the valuation allowance for the deferred tax assets would result in an income tax recovery on the consolidated statements of operations. If we achieve and maintain a consistent level of profitability, the likelihood of recording additional deferred tax assets for some portion of the losses incurred in prior periods in one of our business jurisdictions will increase.

CHANGE IN / INITIAL ADOPTION OF ACCOUNTING POLICIES

FIN 48 Uncertain Tax Positions

In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (“SFAS 109”). The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN 48 on February 1, 2007, resulting in total unrecognized tax benefits of \$3.2 million of which \$0.3 million was recorded as an income tax liability and \$2.9 million was offset against deferred tax assets to which it was directly related. As of January 31, 2008, we had unrecognized tax benefits of \$4.4 million of which \$1.6 million was recorded as an income tax liability and \$2.8 million was offset against deferred tax assets to which it was directly related.

The following table reconciles our unrecognized tax benefits for 2008 (in thousands of dollars):

Unrecognized tax benefits as at February 1, 2007	3,194
Gross increases – tax positions in prior periods	132
Gross increases – tax positions in the current period	1,294
Lapsing of statutes of limitations	(182)
Unrecognized tax benefits as at January 31, 2008	<u>4,438</u>

We currently expect that unrecognized tax benefits will increase in 2009 due to uncertain tax positions expected to be taken, although at this time a reasonable estimate of the possible increase cannot be made. Of the \$4.4 million of unrecognized tax benefits as at January 31, 2008, approximately \$1.0 million would impact our effective income tax rate if recognized.

Consistent with our historical financial reporting, we recognize accrued interest and penalties related to unrecognized tax benefits in general and administrative expense. As at January 31, 2008 and January 31, 2007, the unrecognized tax benefits 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:

Tax Jurisdiction	Years No Longer Subject to Audit
US Federal	2004 and prior
Canada	2000 and prior
United Kingdom	2001 and prior
Sweden	2001 and prior

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), effective for fiscal years beginning after November 15, 2007, which is our fiscal year ending January 31, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In November 2007, the FASB agreed to a one-year deferral of the effective date for the application of SFAS 157 as it applies to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. We are currently in the process of assessing the anticipated impact SFAS 157 will have on our results of operations and financial condition once effective.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115” (“SFAS 159”), effective for fiscal years beginning after November 15, 2007, which is our fiscal year ending January 31, 2009. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. We are currently in the process of assessing the anticipated impact SFAS 159 will have on our results of operations and financial condition once effective.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 is effective for fiscal years beginning after December 15, 2008, which is our fiscal year ending January 31, 2010. The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements as it relates to noncontrolling interests in entities. We are not currently impacted by SFAS 160 as we have a controlling interest in all of our subsidiaries.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” (“SFAS 141R”). SFAS 141R is effective for fiscal years beginning after December 15, 2008, which is our fiscal year ending January 31, 2010. The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. We are currently in the process of assessing the anticipated impact SFAS 141R will have on our results of operations and financial condition once effective.

DISCLOSURE CONTROLS

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as defined in Multilateral Instrument 52-109) as of the end of the period covered by this MD&A. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective.

Operations acquired as part of acquisitions completed during fiscal 2008 were excluded from the above evaluation, and will be assessed as of the end of fiscal 2009. These acquisitions were the OTB Acquisition, our acquisitions of GF-X and RouteView, and our acquisition of certain assets of PCTB and Mobitrac. The financial reporting for these acquired businesses operates under a similar control framework as the remainder of our business.

TRENDS / BUSINESS OUTLOOK

This section discusses our outlook for 2009 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 that impact shipping in particular geographies; 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).

In the latter half of calendar 2006, US Customs and Border Protection (“CBP”) launched its e-manifest initiative requiring trucks entering the US to file an electronic manifest through ACE, providing the CBP with an advance electronic notice of the contents of the truck. Such filings are now mandatory at land ports of entry into the US. Similar filings are required for ocean vessels and airplanes at US air and sea ports. We have various customs compliance services specifically designed to help air, ocean and truck carriers comply with this ACE e-manifest initiative. If the roll-out of this initiative continues as scheduled and compliance is rigidly enforced by CBP, then we anticipate that our revenues will be positively impacted in 2009. A similar e-manifest initiative is being developed for Canada by the Canadian Border Service Agency and may be effective and enforced in our 2010 fiscal year.

In 2008, our services revenues comprised approximately 92% of our total revenues, with the balance being license revenues. We expect that our focus in 2009 will remain on generating services revenues, primarily by promoting use of our Global Logistics Network and the migration of customers using our legacy license-based products to our services-based architecture. We do, however, 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, particularly for our ocean products, which provide recurring services revenues to us. 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. We anticipate that, in 2009, we may lose 3% or more of our aggregate revenues in the ordinary course and there can be no assurance that we will be able to replace such lost revenue with new revenue from new customer relationships or from existing customers.

We internally measure and manage our “baseline operating expenses,” which we define as our total expenses less interest, taxes, depreciation and amortization (for which we include amortization of intangible assets, contingent acquisition consideration, convertible debenture costs, deferred compensation and stock-based compensation, and the impairment of goodwill). We currently intend to manage our business with the goal of having our baseline operating expenses for a period be between 75 and 80 per cent of our total revenues for that period. We also internally measure and monitor our visible, recurring and contracted revenues, which we refer to as our “baseline revenues”. In 2009, we intend to continue to manage our business with our baseline operating expenses at a level

below our baseline revenues. We refer to the difference between our baseline revenues and baseline operating expenses as our “baseline calibration”. At the beginning of the first quarter of 2009, we estimated our baseline revenues for that quarter were \$15.3 million and our baseline operating expenses were \$12.1 million. We consider this to be baseline calibration of \$3.2 million, or approximately 21% of our baseline revenues, as of the beginning of the first quarter of 2009. Our current internal goal is to maintain baseline calibration of 20% of our baseline revenues at the beginning of each fiscal quarter.

We anticipate that in 2009 the significant majority of our business will continue to be in the Americas, with the EMEA region being the bulk of the remainder of our business (though a larger percentage in 2008 as a result of the GF-X acquisition). We currently have some significant opportunities in the Americas region. We anticipate that revenues from the Asia Pacific Region will continue to represent less than 10% of our total revenues in 2009.

We estimate that amortization expense for existing intangible assets will be \$5.1 million for 2009, \$4.2 million for 2010, \$3.7 million for 2011, \$2.2 million for 2012, \$1.0 million for 2013 and \$2.7 million thereafter, assuming that no impairment of existing intangible assets occurs in the interim.

There is \$0.8 million in remaining contingent acquisition consideration relating to our 2007 acquisition of FCS to be expensed through June 2008.

We performed our annual goodwill impairment tests in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets” on October 31, 2007 and determined that there was no evidence of impairment as of October 31, 2007. We are currently scheduled to perform our next annual impairment test on October 31, 2008. In addition, 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. Any future impairment adjustment will be recognized as an expense in the period that the adjustment is identified.

In 2008, we spent \$1.1 million on capital expenditures and expect that 2009 expenditures will be above that level as we invest in our network and build out infrastructure. We expect capital expenditure to be between \$0.3 and \$0.4 million in the first quarter of 2009.

We incur a significant portion of our expenses in Canadian dollars relative to the amount of revenue we receive in Canadian dollars, so increases in the value of the Canadian dollar relative to the US dollar will negatively impact our earnings. At January 31, 2008, the value of the Canadian dollar was approximately equal to the value of the US dollar. We also hold some of our cash in foreign currencies. We currently have no specific hedging program in place to address fluctuations in the Canadian-US dollar exchange rate, or any other international currency exchange rates. We can make no accurate prediction of what will happen with the Canadian-US dollar exchange rate, or any other international currency exchange rates, in 2009. However, if the US dollar continues 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.

As of January 31, 2008, our gross amount of unrecognized tax benefits was approximately \$4.4 million. We expect that the unrecognized tax benefits will increase within the next 12 months due to uncertain tax positions that may be taken, although at this time a reasonable estimate of the possible increase cannot be made.

In the fourth quarter of 2008, we determined that there was sufficient positive evidence such that it was more likely than not that, in future periods, we would use a portion of our tax loss carryforwards to offset taxable income in the US. Accordingly, we reduced our valuation allowance for our deferred tax assets by \$16.0 million, representing the amount of tax loss carryforwards that we projected would be used to offset taxable income in the US over the ensuing six-year period. Commencing with the first quarter of 2009, we anticipate that we will expense a portion of the \$16.0 million deferred tax asset as we earn taxable income in the US. The amount of any

expense in a period will depend on the amount of taxable income, if any, we generate in the US and our then current effective US tax rate. We can provide no assurance as to the timing or amounts of any expensing of deferred tax assets, nor can we provide any assurance that our current valuation allowance for deferred tax assets will not need to be adjusted further.

We intend to actively explore business combinations in 2009 to add complementary services, products and customers to our existing businesses. We intend to focus on companies that are targeting the same customers as us and processing similar data and, to that end, will listen to our customers' suggestions as they relate to consolidation opportunities. Depending on the size and scope of any such business combination, or series of contemplated business combinations, we may need to raise additional debt or equity capital. We anticipate using the net proceeds of the Fiscal 2008 Bought Deal in connection with any such potential acquisition, as well as for general corporate purposes and working capital.

Solely for the purposes of negotiating the initial purchase price and for planning ongoing integration activities in connection with our acquisition of GF-X, we assumed that GF-X would have a neutral impact on our results of operations for 2008 and would contribute at least \$4.0 million in revenues and \$0.8 million in baseline calibration to our results of operations for 2009. Upon completing the acquisition in August 2007, we promptly began integrating GF-X into our existing operations. We believe that GF-X was neutral, to slightly accretive, to our results of operations for 2008. However, since we measure performance and expenses of our business at the consolidated entity level and don't separately allocate revenues and expenses to acquired entities, we haven't calculated detailed contributions for GF-X or for other acquisitions. Accordingly, we can't project the revenues or baseline calibration contribution of GF-X or any other acquisition to our results of operation in 2009 or in any other future period.

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 following 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 have a substantial accumulated deficit and a history of losses and may incur losses in the future.

At January 31, 2008, our accumulated deficit was \$382.9 million. Although we have been profitable for each of the past twelve quarters, we had losses in 2005 and prior fiscal periods. While we are encouraged by our recent profits, our profits in 2006 benefited from one-time gains on the disposition of an asset and a significant portion of our net income and earnings per share in the fourth quarter of 2008 benefited from a non-cash, deferred income tax recovery of \$16.0 million. There can be no assurance that we will not incur losses again in the future. We believe that the success of our business and our ability to remain profitable depends on our ability to keep our baseline operating expenses to a level at or below our baseline revenues. There can be no assurance that we can

generate further expense reductions or achieve revenues growth, or that any expense reductions or revenues growth achieved can be sustained, to enable us to do so. If we fail to maintain profitability, this would increase the possibility that the value of your investment will decline.

Our existing customers might cancel existing contracts with us, fail to renew contracts on their renewal dates, fail to purchase additional services and products, or consolidate contracts with acquired companies.

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. An example would be our contract to operate the US 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. In 2007, for example, we lost certain customers due to the Legacy Ocean Services Cancellations who generated significant recurring revenues. We can provide no assurance that we will not lose customers in the future.

If our customers fail to renew their service contracts, fail to purchase additional services or products, or consolidate contracts with acquired companies, 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, 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 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 revenues losses. Our business may also be unfavorably affected by market trends impacting our customer base, such as consolidation activity in our customer base.

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 as we generate transaction revenues as freight is moved by, to or from our customers. If there are disruptions in the movement of freight, whether as a result of labour disputes or weather or natural disaster or caused by terrorists, political or security activities, contagious illness outbreaks, or otherwise, then our revenues will be adversely affected. As these types of freight disruptions are generally unpredictable, there can be no assurance that our revenues will not be adversely affected by such events.

Making and integrating acquisitions involves 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 or businesses that we believe are complementary to ours. For example, in 2008, we acquired six businesses and in 2007 we acquired three businesses. However, we may not be able to identify appropriate products, technologies or businesses for acquisition or, if identified, conclude such acquisitions on terms acceptable to us. Acquisitions involve a number of risks, including: diversion of management's attention from current operations; disruption of our ongoing business; 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 acquisition. The individual or combined effect of these risks could have a material adverse effect on our business. As well, in paying for an acquisition, we may deplete our cash resources or dilute our shareholder base by issuing additional shares. Furthermore, there is the 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 the risk that the contemplated benefits of an acquisition may not materialize as planned or may not materialize within the time period or to the extent anticipated.

We may have difficulties maintaining or growing our acquired businesses.

Businesses that we acquire may sell products, or operate services, that we have limited experience operating or managing. For example, ViaSafe and FCS each operate in the emerging regulatory compliance business, and GF-X operates in electronic air freight booking. We may experience unanticipated challenges or difficulties in maintaining these businesses at their current levels or in growing these businesses. Factors that may impair our ability to maintain or grow acquired businesses may include, but are not limited to:

- 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;
- 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; and
- Other risk factors identified in this report.

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 key technical, sales and marketing, and senior management personnel. We do not maintain life insurance policies on any of our employees that list the company as a loss payee. Our success is highly dependent on our ability to identify, hire, train, motivate, promote, and retain highly qualified management, directors, technical, and sales and marketing personnel, including key technical and senior management personnel. Competition for such personnel is always strong. Our inability to attract or retain the necessary management, directors, technical, and sales and marketing personnel, or to attract such personnel on a timely basis, could have a material adverse effect on our business, results of operations, financial condition and the price of our securities.

In 2007, we made changes to our management team with the addition of executive vice-presidents, Mr. Greg Cronin and Mr. Chris Jones, the departure of executive vice president of field operations, Mr. Mark Weisberger, and the departure of certain members of the former management team at ViaSafe. In April 2007, Ms. Stephanie Ratza joined us as CFO and our then-CFO, Mr. Brandon Nussey, left to become CFO at a private technology company. In May 2007, Mr. Edward Ryan was promoted to EVP, Global Field Operations and Mr. Cronin, our then EVP Sales and Marketing, resigned to pursue an executive role with a private company. There can be no assurance that these 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 securities.

If we need additional capital in the future and are unable to obtain it as needed 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, long-term borrowings, and the sale of our debt and equity securities. As at January 31, 2008, we had cash and cash equivalents of approximately \$44.1 million and \$3.0 million in unutilized operating lines of credit.

While we believe we have sufficient liquidity to fund our current operating and working capital requirements, 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. 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. Any debt financing secured by us in the future could involve 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 to us, our operations and growth strategy may be adversely affected and the market price for our common shares could decline.

Changes in the value of the US dollar, as compared to the currencies of other countries where we transact business, could harm our operating results and financial condition.

To date, our international revenues have been denominated primarily in US dollars. However, the majority of our international expenses, including the wages of our non-US employees and certain key supply agreements, have been denominated in currencies other than the US dollar. Therefore, changes in the value of the US dollar as compared to these other currencies may materially adversely 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 and our cost to settle foreign currency denominated liabilities. In particular, we incur a significant portion of our expenses in Canadian dollars relative to the amount of revenue we receive in Canadian dollars, so fluctuations in the Canadian-US dollar exchange rate, and in particular, the weakening of the US dollar, could have a material adverse effect on our business, results of operations and financial condition. In 2008, the effect of foreign exchange rate changes on our cash and cash equivalents was \$1.0 million, compared to \$0.5 million in 2007.

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. While it is possible that the demand for our products and services will increase as companies look for ways to reduce fleet size and fuel use and recognize that our products and services are designed to make their deliveries more cost-efficient, 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. We may attempt to deal with this pricing pressure by committing these customers to volumes of activity so that we may better control our costs. In addition, we may attempt to offset this pricing pressure by securing better margins on other products or services sold to the customer, or to other customers elsewhere in our business. If we cannot so 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.

The general cyclical and seasonal nature of our business 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. There can be no assurance that declines in shipment volumes in the US or internationally won't have a material adverse effect on 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. 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. Although we believe that our estimates are reasonable and that we have adequately provided for income taxes based on all of the information that is currently available to us, tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities. We have recorded a valuation allowance for all but \$17.6 million of our net deferred tax assets. If we achieve a consistent level of profitability, the likelihood of recording further deferred tax assets on our consolidated balance sheets for some portion of the losses incurred in prior periods in one of our business 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 highly judgmental. 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. In addition, when we record a deferred tax asset on the consolidated balance sheets, we will record income tax expense in any subsequent period where we use that deferred tax asset to offset any income tax payable in that period, reducing net income reported for that period, perhaps materially.

There could be material differences between preliminary purchase price allocations and final purchase price allocations for acquisitions.

The OTB Acquisition, the acquisitions of GF-X and RouteView, and the acquisitions of certain assets of PCTB and Mobitrac were accounted for as purchases in accordance with SFAS No. 141, "Business combinations"; therefore, the tangible assets acquired were recorded at fair value on the acquisition date. Preliminary purchase price allocations were established for the purposes of our consolidated financial statements representing our

estimate of the allocation of the purchase price and the fair value of net assets acquired. The estimated valuation is preliminary, may differ from the final purchase price allocation, and these differences may be material. For example, if the purchase price allocated to intangible assets increases, our future amortization of intangibles expense will increase. We expect the valuation process to be completed within one year from the respective acquisition dates.

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 SFAS No. 142, "Goodwill and Other Intangible Assets", which we adopted effective February 1, 2002. SFAS No. 142, among other things, requires that goodwill be tested for impairment at least annually. We have designated October 31 as the date for our annual impairment test. Although the results of our testing on October 31, 2007 indicated no evidence of impairment, 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 future results of operations. This could impair our ability to achieve or maintain profitability in the future.

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, which are generally three to five years. We review the carrying value of these assets at least annually for evidence of impairment. In accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", 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.

We could be exposed to business risks in our international operations that could cause our operating results to suffer.

While our headquarters are in North America, we currently have direct operations in both Europe and China. 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 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;
- Difficulties and costs of staffing and managing geographically disparate direct and indirect operations;
- Currency fluctuations and exchange and tariff rates;
- Multiple, and possibly overlapping, tax structures and a wide variety of foreign laws;
- Trade restrictions;
- The need to consider characteristics unique to technology systems used internationally;
- Economic or political instability in some markets; and
- Other risk factors set out in this report.

System or network failures or 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 upon whom we rely as part of our own product offerings, including the Internet, could result in the inability of our customers to receive our products for an indeterminate period of time. Our services and products may not function properly for any of the following reasons:

- System or network failure;
- Interruption in the supply of power;
- Virus proliferation;
- Security breaches;
- Earthquake, fire, flood or other natural disaster; or
- An act of war or terrorism.

Although we have made significant investments, both internally and with third-party providers, in redundant and back-up systems for some of our services and products, these systems may be insufficient or may fail and result in a disruption of availability of our products or services to our customers. Any disruption to our services 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.

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. A product liability, patent infringement, acquisition-related or securities class action claim could 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. While our agreements with our customers, suppliers and other third-parties may contain provisions designed to limit exposure to potential claims, these limitation of liability provisions 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 the reputation of Descartes and our 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. Although we carry general liability and directors and officers insurance, 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.

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 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, and general business application software vendors. Many of our current and potential competitors may have one or more of the following relative advantages:

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

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 supply chain services and products 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, or we may fail to develop acceptable services and products to address new market conditions. 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 depends upon our ability to secure and protect patents, trademarks and other proprietary rights.

We consider certain aspects of our internal operations, our 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 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 have adequate remedies for any breach, or that our patents, copyrights, trademarks or trade secrets will not otherwise become known. Moreover, the laws of some countries do not protect proprietary intellectual property rights as effectively as do the laws of the US and Canada. Protecting and defending our intellectual property rights could be costly regardless of venue. 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 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.

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, it 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:

- 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 and third-party providers, and any corresponding judgments or awards;
- Legal and compliance costs incurred to comply with Canadian and US regulatory requirements;
- Fluctuations in the demand for our services and products;
- Price and functionality competition in our industry;
- Timing of acquisitions and related costs;
- Changes in legislation and accounting standards;
- Fluctuations in foreign currency exchange rates;
- 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.

Our common share price has in the past been volatile and may also be volatile in the future.

The trading price of our common shares has in the past been subject to wide fluctuations and may also 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.

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

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 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.

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 controls over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation to the effectiveness of internal control over the financial reporting 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.

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, 2008, based on criteria established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission". Based on the assessment, management concluded that, as of January 31, 2008, our internal control over financial reporting was effective. Operations acquired as part of acquisitions completed during 2008 were excluded from the above assessment, and will be assessed in 2009. These acquisitions were the OTB Acquisition, our acquisitions of GF-X and RouteView, and our acquisition of the assets of PCTB and Mobitrac. The financial reporting for these acquired businesses operate under a similar control framework as the remainder of our business.

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 independent auditors to review the consolidated financial statements and the 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.

Management's internal control over financial reporting as of January 31, 2008, has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited our Consolidated Financial Statements for the year ended January 31, 2008, as stated in the Report of Independent Chartered Accountants, which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting.



Arthur Mesher
Chief Executive Officer
Waterloo, Ontario



Stephanie Ratza
Chief Financial Officer
Waterloo, Ontario



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Report of Independent Registered Chartered Accountants

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

We have audited the internal control over financial reporting of The Descartes Systems Group Inc. (the “Company”) as of January 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company'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 in the accompanying Management's Report on Financial Statements and Internal Control over Financial Reporting. 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's 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 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 31, 2008 of the Company and our report dated March 5, 2008 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference referring to a change in accounting principle.

Independent Registered Chartered Accountants
Licensed Public Accountants
Kitchener, Ontario
March 5, 2008



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Report of Independent Registered Chartered Accountants

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

We have audited the accompanying consolidated balance sheets of The Descartes Systems Group (the “Company”) as of January 31, 2008 and 2007, and the related consolidated statements of operations, shareholders’ equity and cash flows for each of the years in the three-year period ended January 31, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these 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). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Descartes Systems Group as of January 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2008 in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of January 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2008 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Independent Registered Chartered Accountants
Licensed Public Accountants
Kitchener, Ontario
March 5, 2008

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company’s financial statements, such as the change described in Notes 2 and 15 to the consolidated financial statements relating to the Company’s adoption of Financial Accounting Standards Board’s (FASB) Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*”. Our report to the Board of Directors and Shareholders, dated March 5, 2008, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors’ report when the change is properly accounted for and adequately disclosed in the financial statements.

Independent Registered Chartered Accountants
Licensed Public Accountants
Kitchener, Ontario
March 5, 2008

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

	<u>January 31,</u> <u>2008</u>	<u>January 31,</u> <u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	44,091	19,370
Marketable securities (Note 4)	-	2,551
Accounts receivable		
Trade (Note 5)	10,447	6,905
Other	1,288	611
Prepaid expenses and other	1,524	919
Deferred contingent acquisition consideration (Note 3)	833	2,000
Deferred income taxes (Note 15)	3,000	-
	<u>61,183</u>	<u>32,356</u>
CAPITAL ASSETS (Note 6)	6,722	6,766
GOODWILL	25,005	20,426
INTANGIBLE ASSETS (Note 8)	18,914	10,953
DEFERRED CONTINGENT ACQUISITION CONSIDERATION (Note 3)	-	833
DEFERRED INCOME TAXES (Note 15)	14,570	-
	<u>126,394</u>	<u>71,334</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	3,054	3,188
Accrued liabilities	4,514	2,820
Income taxes payable	783	203
Deferred revenue	3,750	2,374
	<u>12,101</u>	<u>8,585</u>
INCOME TAX LIABILITY (Note 15)	1,570	-
	<u>13,671</u>	<u>8,585</u>
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Note 10)		
SHAREHOLDERS' EQUITY		
Common shares – unlimited shares authorized; Shares issued and outstanding totaled 52,929,977 at January 31, 2008 (January 31, 2007 – 46,361,500) (Note 11)	44,251	19,319
Additional paid-in capital	449,320	448,850
Accumulated other comprehensive income (loss) (Note 11)	2,006	(123)
Accumulated deficit	(382,854)	(405,297)
	<u>112,723</u>	<u>62,749</u>
	<u>126,394</u>	<u>71,334</u>

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

Approved by the Board:



J. Ian Giffen
Director



Stephen Watt
Director

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

	Year Ended	<u>January 31,</u> <u>2008</u>	<u>January 31,</u> <u>2007</u>	<u>January 31,</u> <u>2006</u>
REVENUES		59,025	51,990	45,729
COST OF REVENUES		20,640	17,487	18,127
GROSS MARGIN		38,385	34,503	27,602
EXPENSES				
Sales and marketing		9,700	10,138	8,488
Research and development		10,540	9,033	6,991
General and administrative		7,253	7,047	7,732
Amortization of intangible assets		3,644	2,718	2,693
Contingent acquisition consideration (Note 3)		2,000	2,040	-
Impairment of goodwill		-	100	200
Restructuring recovery		-	(172)	(221)
		<u>33,137</u>	<u>30,904</u>	<u>25,883</u>
INCOME FROM OPERATIONS		5,248	3,599	1,719
OTHER INCOME				
Interest expense		-	-	(699)
Investment income		1,518	592	645
Gain on sale of long-term investment (Note 7)		-	-	1,420
		<u>1,518</u>	<u>592</u>	<u>1,366</u>
INCOME BEFORE INCOME TAXES		6,766	4,191	3,085
INCOME TAX EXPENSE (RECOVERY) (Note 15)				
Current		323	204	96
Deferred		(16,000)	-	-
		<u>(15,677)</u>	<u>204</u>	<u>96</u>
NET INCOME		22,443	3,987	2,989
EARNINGS PER SHARE (Note 12)				
Basic		0.44	0.09	0.07
Diluted		0.43	0.09	0.07
WEIGHTED AVERAGE SHARES OUTSTANDING (thousands)				
Basic		51,225	45,225	40,711
Diluted		52,290	46,475	41,596

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)

	<u>January 31, 2008</u>	<u>January 31, 2007</u>	<u>January 31, 2006</u>
Common shares			
Balance, beginning of year	19,319	21	364,907
Reduction in stated capital (Note 11)	-	-	(364,907)
Shares issued:			
Stock options exercised	1,699	166	21
Issue of common shares net of issuance costs	21,514	13,621	-
Acquisitions	1,719	5,511	-
Balance, end of year	<u>44,251</u>	<u>19,319</u>	<u>21</u>
Additional paid-in capital			
Balance, beginning of year, as originally reported	448,850	446,565	81,658
Cumulative effect of adjustments from the adoption of SAB 108 (Note 13)	-	1,546	-
Balance, beginning of year, as adjusted	<u>448,850</u>	<u>448,111</u>	<u>81,658</u>
Reduction in stated capital (Note 11)	-	-	364,907
Unearned compensation related to issuance of stock options	4	10	-
Stock-based compensation expense	466	729	-
Balance, end of year	<u>449,320</u>	<u>448,850</u>	<u>446,565</u>
Unearned deferred compensation			
Balance, beginning of year	-	(57)	(193)
Deferred compensation earned on stock options	-	57	136
Contingent acquisition consideration recorded (Note 3)	-	(869)	-
Contingent acquisition consideration expensed (Note 3)	-	869	-
Balance, end of year	<u>-</u>	<u>-</u>	<u>(57)</u>
Accumulated other comprehensive income (loss)			
Balance, beginning of year	(123)	(375)	93
Foreign currency translation adjustments	2,127	280	(557)
Net unrealized investment gains (losses)	2	(28)	89
Balance, end of year	<u>2,006</u>	<u>(123)</u>	<u>(375)</u>
Accumulated deficit			
Balance, beginning of year, as originally reported	(405,297)	(407,738)	(410,727)
Cumulative effect of adjustments from the adoption of SAB 108 (Note 13)	-	(1,546)	-
Balance, beginning of year, as adjusted	<u>(405,297)</u>	<u>(409,284)</u>	<u>(410,727)</u>
Net income	22,443	3,987	2,989
Balance, end of year	<u>(382,854)</u>	<u>(405,297)</u>	<u>(407,738)</u>
Total Shareholders' Equity	<u>126,394</u>	<u>62,749</u>	<u>38,416</u>
Comprehensive income			
Net income	22,443	3,987	2,989
Other comprehensive income (loss):			
Foreign currency translation adjustment	2,127	280	(557)
Net unrealized investment gains (losses)	2	(28)	89
Total other comprehensive income (loss)	<u>2,129</u>	<u>252</u>	<u>(468)</u>
Comprehensive income	<u>24,572</u>	<u>4,239</u>	<u>2,521</u>

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	<u>January 31,</u> <u>2008</u>	<u>January 31,</u> <u>2007</u>	<u>January 31,</u> <u>2006</u>
OPERATING ACTIVITIES				
Net income		22,443	3,987	2,989
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation		2,424	2,200	2,098
Amortization of intangible assets		3,644	2,718	2,693
Contingent acquisition consideration		-	869	-
Impairment of goodwill		-	100	200
Amortization of convertible debenture costs		-	-	107
Amortization of deferred compensation		4	67	136
Stock-based compensation expense		466	729	-
Gain on sale of long-term investment		-	-	(1,420)
Deferred income taxes		(16,000)	-	-
Changes in operating assets and liabilities:				
Accounts receivable				
Trade		(1,356)	73	1,648
Other		(364)	731	547
Prepaid expenses and other		67	(110)	559
Deferred contingent acquisition consideration		2,000	(2,833)	-
Accounts payable		(812)	554	(57)
Accrued liabilities		(815)	(1,898)	(1,497)
Income taxes payable		580	(5)	139
Deferred revenue		(343)	(706)	309
Cash provided by operating activities		<u>11,938</u>	<u>6,476</u>	<u>8,451</u>
INVESTING ACTIVITIES				
Maturities of marketable securities		2,820	5,425	26,614
Sale of marketable securities		-	5,092	10,000
Purchase of marketable securities		-	(7,734)	(10,447)
Additions to capital assets		(1,074)	(1,359)	(1,197)
Sale of long-term investment		-	-	4,720
Acquisition of subsidiaries, net of cash acquired and bank indebtedness assumed		(11,374)	(29,352)	(200)
Acquisition-related costs		(1,903)	(1,079)	-
Cash provided by (used in) investing activities		<u>(11,531)</u>	<u>(29,007)</u>	<u>29,490</u>
FINANCING ACTIVITIES				
Repayment of convertible debentures (Note 9)		-	-	(26,995)
Issuance of common shares for cash, net of issue costs		23,279	13,787	21
Cash provided by (used in) financing activities		<u>23,279</u>	<u>13,787</u>	<u>(26,974)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		1,035	480	(553)
Increase (decrease) in cash and cash equivalents		24,721	(8,264)	10,414
Cash and cash equivalents, beginning of year		19,370	27,634	17,220
Cash and cash equivalents, end of year		44,091	19,370	27,634
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest		-	-	742
Cash paid during the year for income taxes		322	373	-

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

THE DESCARTES SYSTEMS GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands of US dollars, except per share amounts; US GAAP)

Note 1 - Description of the Business

The Descartes Systems Group Inc. (“Descartes”, “Company”, “our” or “we”) operates in one business segment providing logistics technology solutions that help companies efficiently deliver their own products and services to their customers. Our technology-based solutions, which consist of services and software, provide connectivity and document exchange, shipment bookings, regulatory compliance, route planning and wireless dispatch, inventory and asset visibility, rate management, transportation management, and warehouse optimization.

Note 2 –Significant Accounting Policies

Basis of presentation

We prepare our consolidated financial statements in US dollars in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

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, 2008, is referred to as the “current fiscal year,” “fiscal 2008,” “2008” or using similar words. Our previous fiscal year, which ended on January 31, 2007, is referred to as the “previous fiscal year,” “fiscal 2007,” “2007” or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends. For example, “2009” refers to the annual period ending January 31, 2009 and the “fourth quarter of 2009” refers to the quarter ending January 31, 2009.

Certain immaterial reclassifications have been made to prior year financial statements and the notes to conform to the current year presentation. Specifically, we previously aggregated income taxes payable with accounts payable on our consolidated balance sheets. Since our income taxes payable are greater than five percent of current liabilities in 2008 we changed our 2007 presentation to reclassify \$203,000 from accounts payable to income taxes payable. Accordingly, we also made the related changes to accounts payable and income taxes payable on our consolidated statements of cash flows.

Given the deterioration of the US dollar (our reporting currency) relative to other currencies we transacted in during 2008, we began to present the effect of foreign exchange rate changes on cash and cash equivalents on our consolidated statements of cash flows. Our 2007 and 2006 consolidated statements now present the effect of foreign exchange rate changes on cash and cash equivalents in the amount of \$480,000 and (\$553,000), respectively.

There were no changes to our consolidated statements of operations for any of the periods presented as a result of these reclassifications.

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

Financial instruments are composed of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The estimated fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are approximate to book values because of their short-term maturities.

Foreign exchange risk

We are exposed to foreign exchange risk because a higher proportion of our revenues are denominated in US dollars relative to expenditures. 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, to various European currencies, and, to a lesser extent, other foreign currencies.

Interest rate risk

We are 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 and in highly liquid financial instruments. The lack of concentration of accounts receivable from a single customer and the dispersion of customers among industries and geographical locations mitigate this 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

We conduct business in a variety of foreign currencies and, as a result, all of our foreign operations are subject to foreign exchange fluctuations. All operations 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 monthly average 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.

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. Estimates and assumptions are used when accounting for items such as allowance for doubtful accounts, depreciation of capital assets, amortization of intangible assets, assumptions embodied in the valuation of assets for impairment assessment, restructuring costs, valuation allowances against deferred tax assets, tax positions and recognition of contingencies.

Cash, cash equivalents and marketable securities

Cash and cash equivalents include short-term deposits and marketable debt securities with original maturities of three months or less. Short-term marketable securities are composed of debt securities maturing between three and 12 months from the balance sheet date. Marketable securities represent cash invested in investment-grade corporate bonds.

Our investment portfolio is subject to market risk due to changes in interest rates. We place our investments with high credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our investment policy, we are averse to principal loss and seek to preserve our invested funds by limiting default risk, market risk and reinvestment risk.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from customers who do not make required payments. Specifically, we consider the age of the receivables, 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.

Impairment of long-lived assets

We account for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets.” We test long-lived assets, such as capital assets and finite life intangible assets, for recoverability when events or changes in circumstances indicate that there may be an impairment. 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.

Goodwill and intangible assets

We account for goodwill in accordance with the SFAS No. 142, “Goodwill and other intangible assets” (“SFAS 142”). When we acquire a business, we determine the fair value of the net tangible and intangible (other than goodwill) assets acquired and compare the total amount to the amount that we paid for the investment. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill. Goodwill is tested annually on October 31 for impairment to ensure that the fair value is greater than or equal to the carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined. Our annual goodwill impairment testing on October 31, 2007 indicated no evidence that goodwill impairment had occurred as of October 31, 2007. We will perform further quarterly analysis 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. Any future impairment adjustment will be 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 assets 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 intangibles is determined by discounting the expected related future cash flows.

Capital assets

Capital assets are recorded at cost. Depreciation of our capital assets 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 term of lease

Revenue recognition

We follow the accounting guidelines and recommendations contained in the American Institute of Certified Public Accountants Statement of Position 97-2, “Software revenue recognition” (“SOP 97-2”) and the United States Securities and Exchange Commission’s (“SEC”) Staff Accounting Bulletin 104, “Revenue recognition in financial statements” (“SAB 104”).

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when it has 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 collectibility is reasonably assured. 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 composed 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; and (iii) maintenance, subscription and other related revenues, which include revenues associated with maintenance and support of our services and products, which are recognized ratably over the subscription period.

License Revenues - License revenues derive from licenses granted to our customers to use our software products, and are recognized in accordance with SOP 97-2.

We sometimes enter into transactions that represent multiple-element arrangements, which may include any combination of services and software licenses. These multiple element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. Fees are allocated to the various elements using the residual method as outlined in SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." Pursuant to the residual method, we defer recognition of the fair value of any undelivered elements and determine such fair value using vendor-specific objective evidence. This vendor-specific objective evidence of fair value is established through prices charged for each revenue element when that element is sold separately. We then allocate any residual portion of the arrangement fee to the delivered elements. The revenue recognition policies described in this section are then applied to each element.

We evaluate the collectibility of our trade receivables based upon a combination of factors on a periodic basis. When we become aware of a specific customer's inability to meet its financial obligations to us (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, payment experiences and existence of credit risk insurance for certain customers), we record a specific bad debt provision to reduce the customer's related trade receivable to its estimated net realizable value. If circumstances related to specific customers change, the estimate of the recoverability of trade receivables could be further adjusted.

With respect to deferred revenue, we expect to complete the applicable services or obligations corresponding to such deferred revenue within the next 12 months.

Research and development costs

We incur costs related to research and development of our software products. To date, we have not capitalized any development costs under SFAS No. 86, "Accounting for the costs of computer software to be sold, leased or otherwise marketed." Costs incurred between the time of establishment of a working model and the point where products are marketed are expensed as they are insignificant.

Stock-based compensation

We adopted SFAS No. 123 (revised 2004) "Share Based Payment" ("SFAS 123R") effective February 1, 2006 using the modified prospective application method. Accordingly, the fair value of that portion of employee stock options that is ultimately expected to vest has been amortized to expense in our consolidated statement of operations for 2008 and 2007 based on the straight-line attribution method. Prior to February 1, 2006, we accounted for share-based payments under Accounting Principles Board Opinion No. 25, "Accounting for Stock

Issued to Employees” (“APB 25”). The accounting for our various stock-based employee compensation plans is described more fully in Note 13 below.

Income taxes

We account for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes” (“SFAS 109”). SFAS 109 requires the determination of deferred tax assets and liabilities based on the differences between the financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The measurement of a deferred tax asset is adjusted by a valuation allowance, if necessary, to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized. In determining the valuation allowance, we consider factors by taxing jurisdiction, including our estimated taxable income, our history of losses for tax purposes, our tax planning strategies and the likelihood of success of our tax filing positions, among others. A change to any of these factors could impact the estimated valuation allowance and income tax expense.

Effective February 1, 2007, we adopted FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”) which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The accounting for FIN 48 is described more fully in Note 15 below.

Earnings per share

Basic earnings per share is calculated by dividing the net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing the applicable 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 options.

Recently issued accounting pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), effective for fiscal years beginning after November 15, 2007, which is our fiscal year ending January 31, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In November 2007, the FASB agreed to a one-year deferral of the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. We are currently in the process of assessing the anticipated impact SFAS 157 will have on our results of operations and financial condition once effective.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115” (“SFAS 159”), effective for fiscal years beginning after November 15, 2007, which is our year ending January 31, 2009. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. We are currently in the process of assessing the anticipated impact SFAS 159 will have on our results of operations and financial condition once effective.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 is effective for fiscal years beginning after December 15, 2008, which is our year ending January 31, 2010. The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements as it relates to noncontrolling interests in entities. We are not currently impacted by SFAS 160 as we have a controlling interest in all of our subsidiaries.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” (“SFAS 141R”). SFAS 141R is effective for fiscal years beginning after December 15, 2008, which is our fiscal year ending January 31, 2010. The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. We are currently in the process of assessing the anticipated impact SFAS 141R will have on our results of operations and financial condition once effective.

Note 3 – Acquisitions

The preliminary purchase price allocations for the businesses that we acquired during the year ended January 31, 2008 are set out in the following table:

	OTB	GF-X	RouteView	PCTB	Mobitrac	Total
Purchase price consideration:						
Cash, including cash acquired related to GF-X (\$814) and RouteView (\$149)	1,143	9,241	3,028	2,090	649	16,151
Common shares	-	1,719	-	-	-	1,719
Acquisition-related costs	60	2,191	108	55	32	2,446
Total preliminary purchase price	1,203	13,151	3,136	2,145	681	20,316
Allocated to:						
Net tangible assets acquired	(56)	3,931	(128)	318	81	4,146
Finite life intangible assets acquired:						
Customer agreements and relationships	333	3,356	467	813	217	5,186
Non-compete covenants	-	925	-	-	-	925
Existing technology	-	2,312	904	277	243	3,736
Trade names	51	1,478	143	66	20	1,758
Goodwill	875	1,149	1,750	671	120	4,565
	1,203	13,151	3,136	2,145	681	20,316

The results of operations for the businesses that we acquired in 2008 are included in our consolidated statements of operations from the date acquired, as indicated below.

On March 6, 2007, we acquired certain assets of Ocean Tariff Bureau, Inc. (“Ocean Tariff Bureau”) and Blue Pacific Services, Inc. (“Blue Pacific” and, together with Ocean Tariff Bureau, the “OTB Acquisition”), both based in Long Beach, California. Ocean Tariff Bureau provides tariff filing and contract publishing services to ocean intermediaries involved in the shipping of cargo into or out of US waters. Blue Pacific helps these same types of companies secure surety bonds required to ship cargo into or out of US waters. We paid \$1.0 million in cash at closing, with up to an additional \$0.85 million in cash payable over the 2.5 year period after closing dependent on the financial performance of the acquired assets. If any such additional purchase price becomes payable it will be recorded as goodwill in the period that such payments come due. We also incurred transactional expenses of approximately \$60,000.

On August 17, 2007 we acquired 100% of the outstanding shares of Global Freight Exchange Limited (“GF-X”), a global leader for electronic freight booking in the air cargo industry based in London, U.K. The acquisition adds electronic air freight booking capability to our Global Logistics Network, creating a global network capable of managing the entire air cargo shipment lifecycle. The purchase price for this acquisition included approximately

\$9.2 million in cash and approximately 0.5 million Descartes common shares valued at \$1.7 million. An additional purchase price of up to \$5.2 million in cash is payable if certain performance targets, primarily related to revenues, and are met by GF-X during the period of 4 years from the date of acquisition. If any such additional purchase price becomes payable it will be recorded as goodwill in the period that such payments come due. We also incurred \$2.2 million of acquisition-related costs comprised of \$1.0 million in transactional expenses, primarily professional fees, and \$1.2 million of exit costs and involuntary employee termination benefits. In accordance with Emerging Issues Task Force (“EITF”) No. 95-3, Recognition of Liabilities in Connection with a Business Combination (“EITF 95-3”), the exit costs and involuntary employee termination benefits were accrued as liabilities in a purchase business combination. A summary of the costs recorded under EITF 95-3 is as follows:

	Employee Termination Costs	Other Contractual Exit Costs	Total
Initial accrual	722	295	1,017
Cash payments	(512)	(79)	(591)
Balance at October 31, 2007	210	216	426
Revisions to accrual	172	(34)	138
Cash payments	(210)	(8)	(218)
Effect of foreign exchange rate changes	-	(5)	(5)
Balance at January 31, 2008	172	169	341

Our plan includes additional involuntary employee termination benefits and additional contractual exit costs which have not been included in the initial accrual. Such benefits will be recorded as additional goodwill in the period that they are finalized. We anticipate that the activities under our plan will be completed by the end of the third quarter of 2009.

On December 20, 2007, we acquired 100% of the outstanding shares of RouteView Technologies, Inc. (“RouteView”), based in Burnsville, Minnesota. RouteView provides technology solutions in a recurring revenue model to help small- and medium-sized organizations manage their delivery operations. RouteView's map-based routing software combines with wireless, GPS and automated call-out technology to help numerous customers, particularly in the home delivery and distribution industries, with a comprehensive delivery management solution. The purchase price for this acquisition was approximately \$3.0 million in cash, plus an additional \$0.5 million in cash if certain sales targets are met by RouteView during the period of one year from the date of acquisition. If such additional purchase price becomes payable it will be recorded as goodwill in the period that such payment comes due. We also incurred approximately \$0.1 million in transactional expenses, primarily professional fees, associated with the acquisition of RouteView.

On January 9, 2008, we acquired certain assets of San Francisco, California-based Pacific Coast Tariff Bureau, Inc. (“PCTB”) in an all cash transaction. PCTB provides tariff filing and contract publishing services to ocean carriers, non-vessel operating common carriers (NVOCCs) and shippers to help them comply with U.S. regulations for domestic and foreign shipping trades. PCTB also provides technology solutions to its customers to help them manage ocean contracts and apply the correct freight rates to bills of lading for ocean shipments. We paid \$2.1 million in cash at closing and also incurred transactional expenses of approximately \$55,000.

On January 10, 2008, we acquired certain assets of the fleet management business formerly known as Mobitrac (“Mobitrac”) from privately-held Fluensee, Inc. in an all cash transaction. As part of the transaction, we acquired software-as-a-service routing and scheduling technology. The purchase price included \$0.7 million in cash and we also incurred transactional expenses of approximately \$32,000.

The OTB Acquisition and the GF-X, RouteView, PCTB and Mobitrac transactions were accounted for as purchases in accordance with SFAS No. 141 “Business Combinations” (“SFAS 141”). The preliminary purchase price allocations in the table above represent our estimate of the allocations of the purchase prices and the fair value of net assets acquired. The valuations of the acquired assets are preliminary, may differ from the final purchase price allocations, and these differences may be material. There may be additional purchase price payable and post-closing working capital adjustments pursuant to the OTB Acquisition and the acquisitions of GF-X, RouteView and PCTB. We expect that the final purchase price allocations will be completed within one year from the respective acquisition dates.

No in-process research and development was acquired or written-off relating to the OTB Acquisition or the GF-X, RouteView, PCTB and Mobitrac transactions.

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

	OTB	GF-X	RouteView	PCTB	Mobitrac
Customer agreements and relationships	5 years	8 years	20 years	10 years	1.5 years
Non-compete covenants	N/A	3 years	N/A	N/A	N/A
Existing technology	N/A	5 years	5 years	1 year	4 years
Trade names	5 years	15 years	5 years	3 years	2 years

The goodwill on the above acquisitions arose as a result of their assembled workforce and the combined strategic value to our growth plan.

The results of operations subsequent to the August 17, 2007 acquisition date for GF-X have been included in our interim consolidated financial statements. As required by GAAP, the financial information in the table below summarizes selected results of operations on a *pro forma* basis as if we had acquired GF-X as of the beginning of each of the periods presented. The *pro forma* results of operations for the OTB Acquisition and the RouteView, PCTB and Mobitrac transactions have not been included in the table below as those acquisitions 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 acquisition of GF-X occurred at the beginning of the period indicated, or to project our result of operations for any future period.

Pro forma results of operations

<i>Year Ended</i>	January 31, 2008	January 31, 2007
Revenues	61,897	58,046
Net income	20,445	3,983
Earnings per share		
Basic	0.40	0.08
Diluted	0.39	0.08

The *pro forma* net income for 2008 in the table above is inclusive of \$0.5 million of non-recurring bonus expense earned by GF-X management in 2008; \$0.4 million of costs incurred by GF-X related to the sale of GF-X to us; and non-recurring expenses of \$0.2 million for the early termination of a premises lease and related dilapidations. The *pro forma* net income for 2007 in the table above is inclusive of \$1.5 million of a research and development tax credit settlement, net of costs, related to claims from prior fiscal years; and \$0.4 million of costs incurred by GF-X related to the sale of GF-X.

The final purchase price allocations for the businesses that we acquired during the year ended January 31, 2007, are set out in the following table:

	ViaSafe	FCS	Cube Route	Total
Purchase price consideration:				
Cash (including \$1,275 of cash acquired related to FCS and \$386 of bank indebtedness assumed related to ViaSafe)	7,278	21,283	1,580	30,141
Common shares	263	4,379	-	4,642
Acquisition-related costs	429	638	453	1,520
Total purchase price	7,970	26,300	2,033	36,303
Allocated to:				
Net tangible assets acquired	942	1,561	1,118	3,621
Finite life intangible assets acquired:				
Customer agreements and relationships	2,839	5,896	454	9,189
Existing technology	510	1,488	-	1,998
Trade names	673	296	86	1,055
Goodwill	3,006	17,059	375	20,440
	7,970	26,300	2,033	36,303

The results of operations for the businesses that we acquired in 2007 are included in our consolidated statements of operations from the date acquired, as indicated below.

On April 7, 2006, we acquired 100% of the outstanding shares of Ottawa-based ViaSafe Inc. (“ViaSafe”), a privately-held provider of secure electronic logistics services for global trade. ViaSafe’s services help carriers and logistics services providers, across all modes of transportation, negotiate increasingly complex document exchange requirements brought about by new international security initiatives and tightened borders. The acquisition broadened the regulatory and compliance services that are delivered through our Global Logistics Network. We acquired ViaSafe through the issuance of 307,799 of our common shares valued at \$1.1 million (based on the average closing price of our common shares on the Toronto Stock Exchange for a reasonable period before and after the acquisition date) and \$7.3 million in cash (net of \$0.4 million of bank indebtedness assumed). We also incurred \$0.4 million of costs directly connected to the acquisition.

Pursuant to the ViaSafe acquisition agreement, 230,849 of the 307,799 common shares issued, with a market value of approximately \$0.9 million, were placed into an escrow account to be released to the former shareholders of ViaSafe subject to meeting various criteria, including their continued employment with us. In accordance with the guidance contained in Emerging Issues Task Force 95-8 “Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination” (“EITF 95-8”), this \$0.9 million was originally to be expensed on a straight-line basis over the anticipated 18 month service and escrow period applicable to the former shareholders. However, as a result of the termination of the employment of all of the former shareholders in 2007, the entire \$0.9 million of contingent acquisition consideration was expensed in 2007. This expense is shown as “Contingent acquisition consideration” on our consolidated statements of operations.

As part of the acquisition, we also assumed ViaSafe’s employee stock option plan pursuant to which outstanding unvested options converted to options to purchase 140,000 Descartes common shares. At January 31, 2008, 46,100 of these stock options were outstanding and 10,700 were exercisable. Unearned deferred compensation of approximately \$23,000 remains relating to the unvested stock options held by ViaSafe employees as determined using the fair value of the stock options on the date of acquisition in accordance with SFAS No. 123 (revised

2004) “Share Based Payment” (“SFAS 123R”). The unearned deferred compensation is being amortized over the remaining vesting period of the options.

On June 30, 2006, we acquired 100% of the outstanding shares of Maryland-based Flagship Customs Services, Inc. (“FCS”), a privately-held provider of technology as a service to help shippers, transportation providers, freight forwarders and other logistics intermediaries securely and electronically file shipment information with customs authorities. FCS also operates the United States Census Bureau's AESDirect service for electronic filing of export information. To acquire FCS, we paid \$21.3 million in cash (net of \$1.3 million of cash acquired at closing), paid another \$4.0 million to establish a contingent acquisition consideration escrow, issued 1,100,251 of our common shares valued at \$4.4 million (based on the average closing price of our common shares on the Toronto Stock Exchange for a reasonable period before and after the acquisition date), and incurred \$0.6 million in costs directly attributable to the acquisition. The contingent acquisition consideration escrow is to be released to the former shareholders of FCS subject to meeting various criteria, including their continued employment with Descartes. This amount has been presented on our consolidated balance sheets as “Deferred contingent acquisition consideration”. In accordance with the guidance contained in EITF 95-8, we are expensing the \$4.0 million on a straight-line basis over the 24 month service and escrow period applicable to the former shareholders. This expense is shown as “Contingent acquisition consideration” on our consolidated statements of operations. If we terminate the employment of a former shareholder (other than for cause) prior to the escrow period expiring, any portion of deferred contingent acquisition consideration then remaining relating to that employee will be expensed in the period that such former shareholder’s employment is terminated. At January 31, 2008, \$0.8 million remains to be expensed through June 2008.

On December 6, 2006 we acquired certain assets, constituting the business of privately-held Cube Route Inc. (“Cube Route”), based in Toronto, Ontario. Cube Route provides on-demand logistics management solutions that include planning, routing, sequencing and optimizing of delivery routes, real-time driver and vehicle tracking, and delivery route analysis. Assets included in the business acquisition transaction included specified accounts receivable, prepaid accounts, customer contracts and prospects, capital assets, trade and service names, technology and other intellectual property. To complete the transaction, we paid approximately \$1.6 million in cash, assumed certain Cube Route liabilities and incurred \$0.5 million in transactional expenses.

The ViaSafe, FCS and Cube Route transactions were accounted for as purchases in accordance with SFAS 141; therefore, the tangible assets acquired were recorded at their fair value on acquisition date.

The acquired intangible assets for ViaSafe, FCS and Cube Route, if applicable, are being amortized over their estimated useful lives, which are presented in the table below:

Customer agreements and relationships	5 years
Existing technology	3 years
Trade names	5 years

Goodwill arose on the ViaSafe and FCS acquisitions as a result of each company’s assembled workforce, their strategic value to our growth plan and the prospects for future growth in compliance-oriented services. The goodwill on the Cube Route acquisition arose as a result of their assembled workforce and their strategic value to our growth plan.

The results of operations subsequent to the dates of acquisition of ViaSafe (April 7, 2006), FCS (June 30, 2006) and Cube Route (December 6, 2006) have been included in our consolidated financial statements. As required by GAAP, the financial information in the table below summarizes selected results of operations for ViaSafe and FCS on a *pro forma* basis as if we had acquired these particular companies as of the beginning of each of the periods presented. The *pro forma* results of operations of Cube Route 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 ViaSafe and FCS acquisitions occurred at the beginning of the period indicated, or to project our result of operations for any future period:

<i>Year Ended</i>	January 31,	January 31,
	2007	2006
Revenues	54,781	53,663
Net income	2,889	707
Earnings per share – Basic and diluted	0.06	0.02

The *pro forma* net income in the table above is inclusive of \$1.9 million of non-recurring bonus expense earned by FCS senior management in 2006. The *pro forma* net income in 2007 includes non-recurring expenses of \$0.6 million of share-based compensation related to shares issued to FCS employees and \$0.2 million of costs incurred by FCS related to the sale of FCS to us.

Note 4 - Cash, Cash Equivalents and Marketable Securities

Our total cash and cash equivalents balance at January 31, 2008 of \$44.1 million is comprised entirely of balances with banks. \$33.7 million of our cash is held in an interest-bearing money market account with a major US bank. Our total cash and cash equivalents balance at January 31, 2008 included \$0.1 million of restricted cash that was held back from the \$0.7 million purchase price payable in the Mobitrac acquisition until full resolution of certain post-closing matters.

Our total cash, cash equivalents and marketable securities balance at January 31, 2007 of \$21.9 million is comprised of \$19.4 million of balances with banks and \$2.5 million of corporate bonds that are classified as short-term marketable securities. The fair value of those marketable securities approximates the amount shown on the consolidated balance sheet.

We have operating lines of credit in Canada aggregating \$3.0 million (CAD \$3.0 million) of which approximately \$47,000 was utilized by way of a letter of credit as at January 31, 2008. Borrowings under these facilities bear interest at prime based on the borrowed currency (5.75% on Canadian dollar borrowings and 6.00% on US dollar borrowings at January 31, 2008), are due on demand, and are secured by our bond portfolio and a general assignment of inventory and accounts receivable.

Note 5 - Trade Receivables

	January 31,	January 31,
	2008	2007
Trade receivables	11,072	7,447
Less: Allowance for doubtful accounts	(625)	(542)
	10,447	6,905

Note 6 – Capital Assets

	January 31, 2008	January 31, 2007
Cost		
Computer equipment and software	17,671	14,381
Furniture and fixtures	1,785	1,599
Leasehold improvements	2,050	1,685
	21,506	17,665
Accumulated amortization		
Computer equipment and software	11,632	8,410
Furniture and fixtures	1,397	1,196
Leasehold improvements	1,755	1,293
	14,784	10,899
	6,722	6,766

Note 7 – Long-Term Investment

In June 2000, in conjunction with the licensing of our technology solutions to Ocado, formerly LM Solutions, we took a minority equity position in Ocado. Ocado is an online food retailer based in the United Kingdom. The aggregate investment in Ocado, which was accounted for using the cost method, was \$5.1 million. During the quarter ended April 30, 2001, management conducted a review of the carrying value of this investment and as a result recorded a provision of \$1.8 million against the carrying value of this investment as the impairment was considered to be other than temporary. From the quarter ended April 30, 2001 until the second quarter of 2006, management conducted a quarterly assessment of this investment. No further impairment of this long-term investment was identified in those quarters.

During the first quarter of 2006, we sold 22% of our investment in Ocado for approximately \$1.2 million, resulting in a gain of \$0.5 million. In the second quarter of 2006 we sold the remainder of our investment for \$3.5 million, resulting in a gain of \$0.9 million.

Note 8 – Intangible Assets

	January 31, 2008	January 31, 2007
Cost		
Customer agreements and relationships	15,281	10,095
Non-compete covenants	925	-
Existing technology	5,734	1,998
Trade names	3,826	2,069
	25,766	14,162
Accumulated amortization		
Customer agreements and relationships	4,059	1,807
Non-compete covenants	139	-
Existing technology	1,339	431
Trade names	1,315	971
	6,852	3,209
	18,914	10,953

Intangible assets related to our acquisitions are recorded at their fair value at the acquisition date. Intangible assets with a finite life are amortized to income over their useful lives. Amortization expense for existing intangible assets for the next five years commencing in 2009 is expected to be \$5.1 million, \$4.2 million, \$3.7 million, \$2.2 million and \$1.0 million.

We write down intangible assets 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 intangibles is determined by discounting the expected related future cash flows. No finite life intangible asset impairment has been identified or recorded in our consolidated statements of operations for any of the fiscal years reported.

Note 9 – Convertible Debentures

On June 30, 2000, we issued \$75.0 million aggregate principal amount of 5-year convertible unsecured subordinated debentures. The debentures bore interest at the rate of 5.5% per annum, which accrued from June 30, 2000 and was paid in equal semi-annual installments in arrears on June 30th and December 30th of each year. We cumulatively purchased for cancellation \$48.0 million principal amount of the debentures in December 2001 (\$1.5 million), March 2002 (\$1.5 million), August 2002 (nominal), and July 2003 (\$45.0 million). The July 2003 purchase of \$45.0 million principal amount of the debentures for \$42.8 million resulted in a gain of \$0.9 million net of costs associated with the offer and the write-off of the related deferred issuance costs. On maturity at June 30, 2005 we paid \$27.7 million in principal and interest to satisfy all of the remaining outstanding convertible debentures.

Note 10 – 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 lease obligations and purchase obligation:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Operating lease obligations	2.3	1.6	0.6	0.8	5.3
Purchase obligation	0.2	-	-	-	0.2
	2.5	1.6	0.6	0.8	5.5

Operating Lease Obligations

We are committed under non-cancelable operating leases for business premises and computer equipment with terms expiring at various dates through 2016. The future minimum amounts payable under these lease agreements are described in the chart above.

Purchase Obligation

We are committed under a non-cancelable agreement to procure various information technology hosting and co-location services over the next year. The future minimum amounts payable under this hosting agreement are described in the chart above.

Other Obligations

We have a commitment for income taxes incurred to various taxing authorities related to unrecognized tax benefits in the amount of \$4.4 million. At this time, we are unable to make reasonably reliable estimates of the

period of settlement with the respective taxing authority due to the possibility of the respective statutes of limitations expiring without examination by the applicable taxing authority.

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 annual results of operations or financial position.

Business combination agreements

In connection with our acquisition of FCS, we paid \$4.0 million into escrow to be released to certain former shareholders of FCS over a period of 24 months. If we terminate the employment of a former shareholder (other than for cause) prior to the expiration of the escrow period, then any portion of the escrow then remaining and allocated to that former shareholder will be released to that former shareholder. If the employment of a former shareholder is terminated for cause during the escrow period or the former shareholder resigns his employment during the escrow period without good reason, then any portion of the escrow then remaining and allocated to that former shareholder will be forfeited by the former shareholder and released to us. At January 31, 2008, \$0.5 million remained subject to this escrow.

In connection with the OTB Acquisition, an additional \$0.85 million in cash may be payable over the 2.5 year period after closing dependent on the financial performance of the acquired assets.

In respect of our acquisition of GF-X in August 2007, up to \$5.2 million in cash may become payable if certain performance targets, primarily relating to revenues, are met by GF-X over the four years subsequent to the date of acquisition.

An additional \$0.5 million in cash may be payable if certain sales targets are met by RouteView during the one-year period from the date of that acquisition.

Product Warranties

In the normal course of operations, we provide our customers with product warranties relating to the performance of our 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 on our financial statements.

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 FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). 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. 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 indemnifications. These indemnifications typically occur 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 and leasing transactions. These indemnifications that we provide require 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 indemnifications.

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 for the guarantees or indemnities described above on our financial statements.

Note 11 – Share Capital

Common Shares Outstanding

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.

<i>(thousands of shares)</i>	January 31, 2008	January 31, 2007	January 31, 2006
Balance, beginning of year	46,362	40,724	40,706
Shares issued:			
Stock options exercised	878	90	18
Issue of common shares net of issuance costs	5,200	4,140	-
Acquisitions	490	1,408	-
Balance, end of year	52,930	46,362	40,724

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 the 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 Descartes. The Rights Plan was approved by the Toronto Stock Exchange and was approved by our shareholders on May 18, 2005. The plan took effect as of November 29, 2004, and will expire at the termination of our annual shareholders’ meeting in calendar 2008 unless its continued existence is ratified by the shareholders before such expiration. The Rights Plan is similar to plans adopted by other Canadian public companies and approved by their shareholders.

On May 18, 2005, our shareholders passed a special resolution to reduce the stated capital of our common shares to \$1.00 in the aggregate, resulting in a reduction in our stated capital account of \$364.9 million. This amount was allocated to additional paid-in capital.

On March 21, 2006, we closed a bought-deal share offering in Canada which raised gross proceeds of CAD\$14,940,000 (approximately \$12.9 million) from a sale of 3,600,000 common shares at a price of CAD\$4.15 per share. The underwriters exercised an over-allotment option on March 27, 2006 to purchase an additional 540,000 common shares (15% of the offering) at CAD\$4.15 per share for gross proceeds of CAD\$2,241,000

(approximately \$1.9 million). Once expenses associated with the offering were deducted, including an underwriting fee of 4.5%, total net proceeds to us were approximately \$13.6 million. We used the net proceeds of the offering for general corporate purposes, funding a portion of the purchase prices of ViaSafe and FCS, and working capital.

As previously described, as part of the consideration for the acquisition of ViaSafe on April 7, 2006 we issued 307,799 common shares valued at approximately \$1.1 million for accounting purposes. Also, as previously described, as part of the consideration for the acquisition of FCS on June 30, 2006 we issued 1,100,251 common shares valued at approximately \$4.4 million for accounting purposes.

On April 26, 2007, we closed a bought-deal share offering in Canada which raised gross proceeds of CAD\$25,000,000 (equivalent to approximately \$22.3 million at the time of the transaction) from a sale of 5,000,000 common shares at a price of CAD\$5.00 per share. The underwriters also exercised an over-allotment option on April 26, 2007 to purchase an additional 200,000, 400,000 and 150,000 common shares (in aggregate, 15% of the offering) at CAD\$5.00 per share from the Company, Mr. Arthur Mesher (our Chief Executive Officer) and Mr. Edward Ryan (our Executive Vice President, Global Field Operations), respectively. Once expenses associated with the offering were deducted, including an underwriting fee of 4.5%, total net proceeds to Descartes were approximately \$21.5 million. In addition, we received an aggregate of approximately CAD\$1.1 million (equivalent to approximately \$1.0 million at the time of the transaction) in proceeds from Mr. Mesher's and Mr. Ryan's exercise of employee stock options to satisfy their respective obligations under the over-allotment option. We used part of the net proceeds of the offering to fund the acquisitions of GF-X, RouteView, PCTB and Mobitrac and we anticipate using the remaining net proceeds of the offering for the following purposes: general corporate purposes; potential future acquisitions; and working capital.

As previously described, as part of the consideration for the acquisition of GF-X on August 17, 2007 we issued 489,831 common shares valued at approximately \$1.7 million for accounting purposes.

Accumulated Other Comprehensive Income (Loss)

The following table shows the components of accumulated other comprehensive income (loss) appearing in shareholders' equity on the balance sheet:

	<u>January 31,</u> <u>2008</u>	<u>January 31,</u> <u>2007</u>
Foreign currency translation adjustments	2,006	(121)
Net unrealized investment losses	-	(2)
Accumulated other comprehensive income (loss)	<u>2,006</u>	<u>(123)</u>

Note 12 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (“EPS”):

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Net income for purposes of calculating basic and diluted earnings per share	22,443	3,987	2,989
<i>(number of shares in thousands)</i>			
Weighted average shares outstanding	51,225	45,225	40,711
Dilutive effect of employee stock options	1,065	1,250	885
Weighted average common and common equivalent shares outstanding	52,290	46,475	41,596
Earnings per share			
Basic	0.44	0.09	0.07
Diluted	0.43	0.09	0.07

For the years ended January 31, 2008, 2007 and 2006, respectively, 770,868, 1,734,547 and 1,796,649 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 2008 and 2007, the application of the treasury stock method excluded 1,208,100 and 578,600 options, respectively, from the calculation of diluted EPS as the assumed proceeds from the unrecognized stock-based compensation expense of such options that is attributed to future service periods made such options anti-dilutive.

Note 13 – Stock-Based Compensation Plans

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

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

As of January 31, 2008, we had 4,236,727 stock options granted and outstanding under our shareholder-approved stock option plan and 1,249,188 remained available for grant. In addition, there were 168,127 stock options outstanding in connection with option plans assumed or adopted pursuant to various previously completed acquisitions.

On December 16, 2004, FASB issued SFAS 123R which requires all entities to recognize compensation expense based on the fair value of share-based payments. On April 14, 2005, the SEC amended the compliance date for SFAS 123R to require SEC registrants to implement SFAS 123R for their first fiscal year commencing after June 15, 2005. We adopted SFAS 123R effective February 1, 2006. Prior to February 1, 2006, we accounted for share-based payments under APB 25. In March 2005, the SEC released SAB No. 107, “Share-Based Payments” (“SAB 107”). SAB 107 provides the SEC staff position regarding the application of SFAS 123R. We have applied the provisions of SAB 107 in our adoption of SFAS 123R.

We adopted SFAS 123R using the modified prospective application method, as allowed under the transitional methods of SFAS 123R. The valuation provisions of SFAS 123R apply to new awards and to awards that are outstanding at the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In accordance with the modified prospective application method, our financial statements for prior periods were not restated.

Stock-based compensation expense recognized in our consolidated statement of operations for 2008 and 2007 included compensation expense for stock options granted prior to, but not yet vested as of, February 1, 2006, based on the grant date fair value estimated in accordance with the *pro forma* provisions of SFAS 123, and stock options granted subsequent to January 31, 2006 based on the grant date fair value estimated in accordance with SFAS 123R. For all stock options granted, the fair value of each award is amortized using the straight-line attribution method prescribed by SFAS 123. Stock-based compensation expense is based on the fair value of that portion of employee stock options that is ultimately expected to vest during the period and, as such, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We estimated forfeitures based on our historical experience. In our *pro forma* information required under SFAS 123 for the periods prior to February 1, 2006, we accounted for forfeitures as they occurred.

Total estimated stock-based compensation expense recognized under SFAS 123R related to all of our stock options was included in our consolidated statement of operations as follows:

<i>Year Ended</i>	January 31, 2008	January 31, 2007
Cost of revenues	23	22
Sales and marketing	123	228
Research and development	53	63
General and administrative	267	416
Effect on net income	466	729
Effect on earnings per share:		
Basic and diluted	0.01	0.02

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 the full amount of any such deferred tax asset. We realized a nominal tax benefit in connection with stock options exercised during 2008.

As of January 31, 2008, \$1.5 million of total unrecognized compensation costs, net of forfeitures, related to non-vested awards is expected to be recognized over a weighted average period of 1.6 years.

The fair value of stock option grants is estimated using the Black-Scholes 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 the 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.

Assumptions used in the Black-Scholes model were as follows:

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Black-Scholes weighted-average assumptions:			
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility	56.5%	64.3%	67.0%
Risk-free rate	4.0%	4.0%	3.4%
Expected option life in years	5.0	5.0	5.0

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, 2007	5,717,433	\$3.63		
Granted	540,000	\$4.36		
Forfeited	(973,933)	\$7.52		
Exercised	(878,646)	\$2.03		
Balance at January 31, 2008	4,404,854	\$3.82	4.3	3.9
Exercisable at January 31, 2008	1,995,834	\$4.41	3.5	1.9

The weighted average grant-date fair value of options granted during 2008, 2007 and 2006 was \$2.15, \$2.10, and \$1.20 per share, respectively. The total intrinsic value of options exercised during 2008, 2007 and 2006 was approximately \$2.1 million, \$0.2 million and \$25,000, respectively.

Options outstanding and options exercisable as at January 31, 2008 by range of exercise price are as follows:

<i>Range of Exercise Prices</i>	Options Outstanding			Options Exercisable	
	Weighted Average Exercise Price	Number of Stock Options	Weighted average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options
\$1.34 – \$1.34	\$1.34	990,950	3.67	\$1.34	508,930
\$2.18 – \$2.81	\$2.49	1,016,190	4.17	\$2.50	412,776
\$3.02 – \$3.69	\$3.27	414,246	2.87	\$3.28	357,860
\$4.14 – \$5.45	\$4.45	1,668,521	5.59	\$4.60	401,321
\$6.35 – \$26.34	\$12.41	314,947	2.09	\$12.41	314,947
	\$3.82	4,404,854	4.32	\$4.41	1,995,834

A summary of the status of our non-vested stock options under our shareholder-approved stock option plan as of January 31, 2008 is presented as follows:

	Number of Stock Options Outstanding	Weighted- Average Grant- Date Fair Value per Share
Balance at January 31, 2007	3,429,601	\$1.47
Granted	540,000	\$4.36
Forfeited	(663,850)	\$1.86
Vested	(932,131)	\$2.70
Balance at January 31, 2008	2,373,620	\$1.80

Pro Forma Information Pursuant to SFAS 123

Prior to February 1, 2006, we accounted for our stock option plans in accordance with APB 25 and related interpretations. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, as amended by SFAS 148, “Accounting for Stock-Based Compensation — Transition and Disclosure an amendment of FASB No. 123.”

<i>Year Ended</i>	January 31, 2006
Net income – as reported	2,989
Add: Stock-based compensation – as reported	136
Less: Total stock-based compensation expense determined under the fair value based method for all awards	(1,341)
Net income – <i>pro forma</i>	<u>1,784</u>
Earnings per share – Basic and diluted	
As reported	<u>0.07</u>
<i>Pro forma</i>	<u>0.04</u>

The fair value of stock options granted was estimated for the purposes of the *pro forma* information presented above using the Black-Scholes option-pricing model with the following assumptions:

<i>Year Ended</i>	January 31, 2006
Black-Scholes weighted-average assumptions:	
Expected dividend yield	0.0%
Expected volatility	67.0%
Risk-free rate	3.4%
Expected option life in years	<u>5.0</u>
Weighted-average grant date fair value per option	<u>\$1.20</u>

SAB 108

In September 2006, the SEC issued SAB No. 108 “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), which provides interpretive guidance on how registrants should quantify financial statement misstatements. Under SAB 108 registrants are required to consider both a “rollover” method which focuses primarily on the income statement impact of misstatements and the “iron curtain” method which focuses primarily on the balance sheet impact of

misstatements. The transitional provisions of SAB 108 allow us to adjust retained earnings for the cumulative effect of immaterial errors relating to prior years. We were required to adopt SAB 108 for the year ended January 31, 2007.

In applying SAB 108, we considered the results of a Company-initiated voluntary review of our stock option granting process since 1997, which review was completed by a Special Committee of independent directors with the assistance of independent external legal counsel. This review did not identify any fraud or intentional wrongdoing. The review did identify certain administrative errors that resulted in an aggregate understatement of approximately \$1.5 million in non-cash stock-based compensation expense over the seven fiscal years ended January 31, 2006. The identified errors were: (a) certain instances relating to grants made to employees where the list of employees and/or shares allocated to them was not sufficiently definitive for the grant to be deemed final as of the reported grant date (\$1.1 million); (b) delays between board approval and the final grant of stock options that departed from our normal practice (\$0.3 million); and (c) one grant in 1999 which inadvertently used the wrong exercise price in the grant documents (\$0.1 million).

The following table shows the understated non-cash stock-based compensation expense for each of the periods identified together with the understatement expressed as a percentage of net income (loss) for the applicable period:

<i>Year Ended January 31</i> <i>(thousands of dollars)</i>	2006	2005	2004	2003	2002	2001	2000	Total
Stock-based compensation expense	20	33	63	269	616	451	94	1,546
Net income (loss) as reported	2,989	(55,331)	(38,493)	(138,195)	(58,718)	(31,626)	(21,769)	
Percent of net income (loss) as reported	0.68%	0.06%	0.16%	0.19%	1.05%	1.43%	0.43%	

Based in part on this analysis, and applying the guidance of SEC Staff Accounting Bulletin No. 99, "Materiality" ("SAB 99"), we concluded that the impact of these errors was immaterial to prior fiscal years under the "rollover" method that we have historically used. However, applying the "iron curtain" method identified in SAB 108, we concluded that the cumulative errors were material to our fiscal 2007 consolidated financial statements. Accordingly, our opening accumulated deficit for fiscal 2007 was increased by \$1.5 million from \$407.7 million to \$409.3 million, with an offsetting \$1.5 million increase to additional paid-in capital, in accordance with the implementation guidance in SAB 108.

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 date of the grant. 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 (currently \$60,000), 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. As at January 31, 2008, the total DSUs held by participating directors was 41,861, representing an aggregate accrued liability of approximately \$158,000.

Restricted Share Unit Plan

Our board of directors adopted a restricted share unit plan effective as of May 23, 2007 pursuant to which certain of its employees and outside directors are eligible to receive grants of restricted share units (“RSUs”), 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 RSUs generally become vested 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 31 of the calendar year of a vesting date. In 2008, we used approximately \$0.2 million in cash to settle the RSUs that vested in December 2007. As at January 31, 2008, there were 195,728 RSUs granted and outstanding of which none are vested. We are recognizing the compensation cost of the RSUs over their vesting period and have recorded an aggregate accrued liability at January 31, 2008 of approximately \$34,000.

Note 14 – Employee Pension Plans

We maintain various defined contribution benefit plans for our Canadian, US and UK employees. While the specifics of each plan are different in each country, we contribute an amount related to the level of employee contributions. These contributions are subject to maximum limits and vesting provisions, and can be discontinued at our discretion. The pension costs were approximately \$0.3 million in 2008 and 2007 and \$0.1 million in 2006.

Note 15 – Income Taxes

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

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Canada	(2,950)	(1,484)	(4,310)
United States	7,589	6,466	9,065
Other countries	2,127	(791)	(1,670)
Income before income taxes	6,766	4,191	3,085

Income tax expense is incurred in the following jurisdictions:

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Current income tax expense			
Canada	(160)	59	(69)
United States	450	92	178
Other countries	33	53	(13)
	323	204	96
Deferred income tax expense (recovery)			
Canada	-	-	-
United States	(16,000)	-	-
Other countries	-	-	-
	(16,000)		
Income tax expense (recovery)	(15,677)	204	96

The components of the deferred tax assets are as follows:

	January 31,	January 31,
	2008	2007
Current deferred income tax asset:		
Accumulated net operating losses:		
United States	3,000	-
Net current deferred income tax asset	3,000	-
Non-current deferred income tax liability:		
Difference between tax and accounting basis of intangible assets	(6,554)	-
Uncertain tax positions incurred in loss years	(2,868)	-
	(9,422)	
Non-current deferred income tax asset:		
Accruals not currently deductible	1,072	1,961
Accumulated net operating losses:		
Canada	20,952	23,807
United States	14,731	28,654
Europe, Middle East and Africa (“EMEA”)	34,429	16,625
Asia Pacific	5,999	6,550
Accumulated net capital losses:		
Canada	492	-
Corporate minimum taxes	869	241
Difference between tax and accounting basis of capital assets	17,307	3,716
Research and development tax credits and expenses	3,512	4,303
Expenses of public offerings	659	320
Other timing differences	26	35
	100,048	86,212
Net non-current deferred income tax asset	90,626	86,212
Valuation allowance	(76,056)	(86,212)
Non-current deferred income tax asset, net of valuation allowance	14,570	-

The measurement of a deferred tax asset is adjusted by a valuation allowance, if necessary, to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized. In determining the valuation allowance, we consider factors by taxing jurisdiction, including our estimated taxable income, our history of losses for tax purposes, our tax planning strategies and the likelihood of success of our tax filing positions, among others. A change to any of these factors could impact the estimated valuation allowance and income tax expense. Based on the weight of positive and negative evidence regarding recoverability of our deferred tax assets, we have recorded a valuation allowance for \$76.1 million of our deferred tax assets of \$93.6 million, resulting in the recording of a net deferred tax asset of \$17.6 million during 2008.

As at January 31, 2008, we had not accrued for Canadian income taxes and foreign withholding taxes applicable to approximately \$7.3 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. We also have not accrued for Canadian and foreign income taxes applicable to approximately \$6.3 million of foreign exchange gains related to loans and advances with and between our subsidiaries. The foreign exchange gains on these loans and advances, which we also consider to be invested indefinitely, will become subject to these taxes if and when the underlying loans and advances are

settled. The potential amount of unrecognized deferred Canadian income tax liabilities and foreign withholding and income tax liabilities on the unremitted earnings and foreign exchange gains is not currently practicably determinable.

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

<i>Year Ended</i>	January 31, 2008	January 31, 2007	January 31, 2006
Combined basic Canadian statutory rates	35.9%	36.1%	36.1%
Income tax expense based on the above rates	2,429	1,514	1,089
Increase (decrease) in income taxes resulting from:			
Permanent differences including amortization of intangibles	3,223	2,698	1,195
Effect of differences between Canadian and foreign tax rates	960	(113)	330
Application of loss carryforwards	(18,549)	(4,028)	(3,877)
Application of research and development tax credits	(101)	-	-
Valuation allowance	(3,849)	52	1,263
Deferral of tax charges	(573)	-	-
Other	783	81	96
Income tax expense (recovery)	(15,677)	204	96

We have combined income tax loss carryforwards of approximately \$265.7 million, which expire as follows:

<i>Expiry year</i>	Canada	United States	EMEA	Asia Pacific	Total
2009	4,450	-	60	956	5,466
2010	21,809	1,423	120	377	23,729
2011	-	1,226	6,145	809	8180
2012	-	883	6,336	698	7917
2013	-	-	4,796	565	5,361
2014	18,185	-	3,896	311	22,392
2015	-	-	1,912	80	1,992
2017	-	-	259	-	259
2018	-	3,161	-	-	3,161
2019	-	1,920	-	-	1,920
2020	-	12,164	-	-	12,164
2021	-	3,502	-	-	3,502
2022	-	1,568	-	-	1,568
2023	-	703	-	-	703
2024	-	9,740	-	-	9,740
2025	27,600	7,926	-	-	35,526
2026	204	-	-	-	204
Indefinite	686	-	102,582	18,603	121,871
	72,934	44,216	126,106	22,399	265,655

We adopted the provisions of FIN 48 on February 1, 2007, resulting in total unrecognized tax benefits of \$3.2 million of which \$0.3 million was recorded as an income tax liability and \$2.9 million was offset against deferred tax assets to which it was directly related. As of January 31, 2008 we had unrecognized tax benefits of \$4.4

million of which \$1.6 million was recorded as an income tax liability and \$2.8 million was offset against deferred tax assets to which it was directly related.

Following is a reconciliation of the beginning and ending amount of unrecognized tax benefits:

Unrecognized tax benefits as at February 1, 2007	3,194
Gross increases – tax positions in prior periods	132
Gross increases – tax positions in the current period	1,294
Lapsing of statutes of limitations	<u>(182)</u>
Unrecognized tax benefits as at January 31, 2008	<u>4,438</u>

We expect that the unrecognized tax benefits will increase within the next 12 months due to uncertain tax positions expected to be taken, although at this time a reasonable estimate of the possible increase cannot be made. Of the \$4.4 million of unrecognized tax benefits at January 31, 2008, approximately \$1.0 million would impact the effective income tax rate if recognized.

Consistent with our historical financial reporting, we recognize accrued interest and penalties related to unrecognized tax benefits in general and administrative expense. As at January 31, 2008 and January 31, 2007, the unrecognized tax benefits 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:

Tax Jurisdiction	Years No Longer Subject to Audit
US Federal	2004 and prior
Canada	2000 and prior
United Kingdom	2001 and prior
Sweden	2001 and prior

Note 16 – 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 business segment providing logistics technology solutions. The following tables provide our segmented revenue information by geographic area of operation and revenue type:

<i>Year Ended</i>	January 31,	January 31,	January 31,
	2008	2007	2006
Revenues			
Canada	8,851	5,670	1,456
Americas, excluding Canada	34,533	31,914	30,056
EMEA	13,993	12,479	12,433
Asia Pacific	1,648	1,927	1,784
	<u>59,025</u>	<u>51,990</u>	<u>45,729</u>

<i>Year Ended</i>	January 31,	January 31,	January 31,
	2008	2007	2006
Revenues			
Services	54,553	46,750	40,792
License	4,472	5,240	4,937
	59,025	51,990	45,729

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; and (iii) maintenance and other related revenues, which include revenues associated with maintenance and support of our services and products. License revenues derive from licenses granted to our customers to use our software products.

The following table provides our segmented information by geographic area of operation for our long-lived assets. Long-lived assets represent capital assets that are attributed to individual geographic segments.

	January 31,	January 31,
	2008	2007
Total long-lived assets		
Canada	5,050	5,278
Americas, excluding Canada	1,097	1,195
EMEA	524	241
Asia Pacific	51	52
	6,722	6,766

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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