

A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This amended and restated preliminary prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only to persons permitted to sell such securities.

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or any state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, a US person (within the meaning of Regulation S under the US Securities Act) except pursuant to an exemption from the registration requirements of the US Securities Act and applicable state securities laws. See "Plan of Distribution".

**AMENDED AND RESTATED PRELIMINARY PROSPECTUS
(Amending and Restating the Preliminary Prospectus dated April 2, 2013)**

Initial Public Offering and Secondary Offering

April 17, 2013



This prospectus qualifies the distribution (the "Offering") of ● common shares (the "Common Shares") of Halogen Software Inc. ("we", "us", the "Company" or "Halogen") at a price of Cdn\$ ● per Common Share (the "Offering Price"). The Offering consists of an initial public offering of ● Common Shares by Halogen (the "Treasury Offering") and a secondary offering of ● Common Shares (the "Secondary Offering") by JMI Equity Fund VI, L.P. (the "Selling Shareholder"). Halogen will not receive any proceeds from the Secondary Offering.

The Offering is being underwritten by Canaccord Genuity Corp., Stifel Nicolaus Canada Inc. (together, the "Joint Bookrunners"), Raymond James Ltd., Cantor Fitzgerald Canada Corporation and National Bank Financial Inc. (collectively with the Joint Bookrunners, the "Underwriters"). If the Over-Allotment Option defined below is exercised in full, an additional ● Common Shares will be offered by Halogen.

There is no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See "Risk Factors". An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. Investors should carefully consider the risk factors described under "Risk Factors" before purchasing the Common Shares.

In connection with the Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. See "Plan of Distribution".

Price: Cdn\$ ● per Common Share

	<u>Price to the Public</u>	<u>Underwriters' Commissions</u>	<u>Net Proceeds to the Company⁽¹⁾</u>	<u>Net Proceeds to the Selling Shareholder⁽²⁾</u>
Per Common Share	Cdn\$ ●	Cdn\$ ●	Cdn\$ ●	Cdn\$ ●
Total Offering ⁽³⁾	Cdn\$ ●	Cdn\$ ●	Cdn\$ ●	Cdn\$ ●

Notes:

- (1) After deducting the Underwriters' commissions payable by the Company but before deducting the expenses of the Offering. The expenses of the Offering are estimated to be approximately Cdn\$ ● and will be paid by the Company out of the proceeds of the Treasury Offering. The Company has agreed to pay the Offering expenses on behalf of the Selling Shareholder as such expenses are not expected to add materially to the expenses of the Offering.
- (2) After deducting the Underwriters' commissions payable by the Selling Shareholder.
- (3) The Company has granted to the Underwriters an over-allotment option, exercisable, in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from the closing of the Offering (the "Closing"), to purchase up to an additional ● Common Shares (the "Over-Allotment Shares"), representing 15% of the Common Shares offered under this prospectus. The Over-Allotment Shares will be sold on the same terms as set out above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Commissions" and "Net Proceeds to the Company" will be Cdn\$ ●, Cdn\$ ● and Cdn\$ ●, respectively. This prospectus qualifies the distribution of the Over-Allotment Shares. A purchaser who acquires Common Shares forming part of the underwriters' over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".



A leading provider of cloud-based
Talent Management solutions.

A smiling woman with dark hair, wearing a white blazer, is the central focus. She is surrounded by a large, glowing orange circle. Inside this circle, several HALOGEN software solutions are displayed, each with a small icon and the product name. The solutions include: HALOGEN e360 Multirater™ (top), HALOGEN eAppraisal™ (top-left), HALOGEN eLearning Manager™ (top-right), HALOGEN eRecruitment™ (middle-left), HALOGEN eSuccession™ (middle-right), HALOGEN Job Description Builder™ (bottom-left), and HALOGEN eCompensation™ (bottom-right). Below the woman, the text "Mission | Vision | Values | Strategy | Goals" is displayed in a blue, sans-serif font.

HALOGEN e360 Multirater™

HALOGEN eAppraisal™

HALOGEN eLearning Manager™

HALOGEN eRecruitment™

HALOGEN eSuccession™

HALOGEN Job Description Builder™

HALOGEN eCompensation™

Mission | Vision | Values | Strategy | Goals

A powerful, organically built Talent Management suite.

>1,750 customers
worldwide

Large, growing
and underserved
target market

\$15B*

TM total market per year

* Based on company estimate of 300,000 mid-market (100-10,000 employee) organizations worldwide

High recurring
revenue

>85%

Recurring revenue (2012)

>100%

Dollar renewal rate

World Class
Customer
Experience

>90%

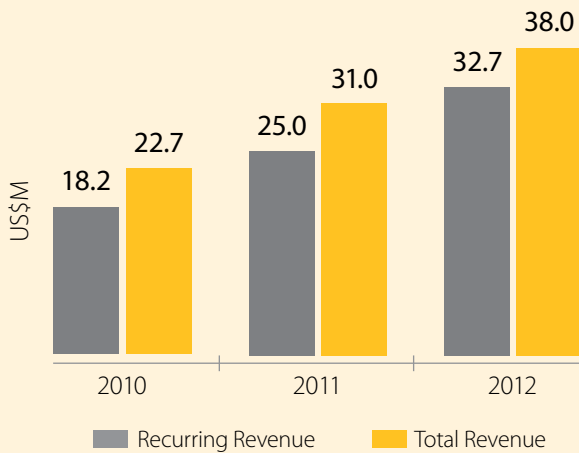
Customer retention rate



>90%

have no Talent Management software solution[†]

[†] Based on company estimates



34% CAGR for recurring revenue

Emphasis on recurring revenue provides high visibility into future financial performance.

“...the highest scores in customer service and cost-effectiveness...”

IDC, IDC MarketScape: Worldwide Integrated Talent Management 2012 Vendor Analysis, April 2012

“...a leader in customer service and support...”

Forrester, *The Forrester Wave™: Talent Management, Q1, 2013*, March 12, 2013

Be Brilliant.

The following table sets out the number of Common Shares that may be sold by the Company to the Underwriters pursuant to the Over-Allotment Option.

	<u>Number of Common Shares Available</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option	●	Up to 30 days following Closing	Cdn\$ ● per Common Share

The Underwriters, as principals, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Company and sold by the Selling Shareholder and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement dated ●, 2013 (the “Underwriting Agreement”) referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Company by Osler, Hoskin & Harcourt LLP and on behalf of the Underwriters by LaBarge Weinstein LLP. **The Underwriters may offer the Common Shares at a lower price than stated above. See “Plan of Distribution”.**

Subscriptions will be received subject to rejection or allotment in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the Closing will occur on or about ●, 2013, or such later date as the Company and the Underwriters may agree, but in any event not later than ●, 2013. One or more certificates representing the Common Shares to be sold in the Offering will be issued in registered form to CDS Clearing and Depository Services Inc., or to its nominee (“CDS”), and deposited with CDS on the Closing Date. A purchaser of Common Shares will receive only a customer confirmation from the registered dealer from or through which the Common Shares are purchased. See “Plan of Distribution”.

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GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise, “Halogen”, the “Company”, “we”, “us” and “our” refer to Halogen Software Inc. and its subsidiaries.

Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary of Terms” beginning on page 68.

Immediately before the completion of the Offering, we will give effect to a share capital reorganization pursuant to which our existing outstanding Class B Preferred Shares will be converted into Class A Common shares, and the Class A Common shares will then be consolidated on a 1.5 to 1 basis and redesignated as Common Shares. See “Reorganization” and “Description of Share Capital”. Unless otherwise indicated, all information in this prospectus gives effect to the Reorganization, but does not give effect to the exercise of the Over-Allotment Option or any other options granted by us as described in “Options to Purchase Securities”.

Prospective purchasers should rely only on the information contained in this prospectus. We have not, and the Underwriters have not, authorized any other person to provide prospective purchasers with additional or different information. If anyone provides prospective purchasers with additional or different or inconsistent information, including information or statements in media articles about the Company, prospective purchasers should not rely on it. The Company is not, and the Underwriters are not, making an offer to sell or seeking offers to buy Common Shares in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing in this prospectus is accurate only as at its date, regardless of its time of delivery or of any sale of Common Shares. The Company’s business, financial conditions, results of operations and prospects may have changed since that date.

PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION

The Company presents its consolidated financial statements in US dollars. In this prospectus, all references to “\$”, “US\$”, or “dollars” are to United States dollars and references to “Cdn\$” are references to Canadian dollars. Amounts are stated in US dollars unless otherwise indicated.

NON-IFRS MEASURES

This prospectus makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company’s results of operations from management’s perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures, including Adjusted EBITDA, to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to the Company’s current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary”, “Our Business”, “Use of Proceeds”, “Management’s Discussion and Analysis” and “Risk Factors”.

In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “estimates”, “predicts” or “likely”, or the negative of these terms, or other similar expressions intended to identify forward-looking statements.

The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the Company's expectations regarding its revenue, expenses and operations
- the Company's anticipated cash needs and its needs for additional financing
- the Company's ability to protect, maintain and enforce its intellectual property
- third-party claims of infringement or violation of, or other conflicts with, intellectual property rights
- the Company's plans for and timing of expansion of its solution and services
- the Company's future growth plans
- the acceptance by the Company's customers and the marketplace of new technologies and solutions
- the Company's ability to attract new customers and develop and maintain existing customers
- the Company's ability to attract and retain personnel
- the Company's expectations with respect to advancement of its product offering
- the Company's competitive position and the regulatory environment in which the Company operates
- anticipated trends and challenges in the Company's business and the markets in which it operates

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, prospective purchasers of Common Shares should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk Factors", which include:

- our history of losses
- our dependence on customer retention and renewals
- risks related to managing our growth
- risks related to expanding our marketing and sales
- risks related to international expansion
- risks related to security of customer information
- competition in our industry
- risks related to adoption of talent management software solutions
- risks related to privacy concerns
- risks related to our revenue being recognized over the term of customer agreements
- risks related to fluctuations in quarterly operating results
- risks related to reliance on key personnel
- risks related to reliance on third-party service providers
- risks related to exchange rate fluctuations

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Information contained in forward-looking statements in this prospectus is provided as of the date of this prospectus, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking statements or the information contained in those statements.

MARKET AND INDUSTRY DATA

We have obtained the market and industry data presented in this prospectus from third-party information, including from independent industry publications, and Halogen’s internal research and management estimates. While we believe the third-party information is reliable, we have not verified it, nor has it been verified by independent sources. Management estimates are derived from publicly available information released by independent industry analysts and other third-party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of our industry and markets, which we believe to be reasonable. While we are not aware of any misstatements regarding the market and industry data presented in this prospectus, such data involve risks and uncertainties and are subject to change based on various factors, including those factors discussed under “Forward-Looking Statements” and “Risk Factors”.

TRADE-MARKS, TRADE NAMES AND SERVICE MARKS

This prospectus includes trade-marks, such as “Halogen” and “Halogen Software”, which are protected under applicable intellectual property laws and are the property of Halogen. Solely for convenience, our trade-marks and trade names referred to in this prospectus may appear without the ® symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trade-marks and trade names. See “Business of the Company – Intellectual Property”. All other trade-marks used in this prospectus are the property of their respective owners.

EXCHANGE RATE DATA

We disclose certain financial information contained in this prospectus in US dollars. The following table sets forth, for the periods indicated, the high, low, average daily noon and period-end rates of exchange for one US dollar, expressed in Canadian dollars, published by the Bank of Canada during the respective periods.

	Fiscal Year Ended December 31			Three-Month Period Ended March 31	
	2012 (Cdn\$)	2011 (Cdn\$)	2010 (Cdn\$)	2013 (Cdn\$)	2012 (Cdn\$)
Highest rate during the period	1.0418	1.0604	1.0778	1.0314	1.0272
Lowest rate during the period	0.9710	0.9449	0.9946	0.9839	0.9849
Average daily noon rate for the period	0.9996	0.9891	1.0299	1.0083	1.0011
Rate at the end of the period	0.9949	1.0170	0.9946	1.0156	0.9975

On ● , 2013, the noon rate of exchange posted by the Bank of Canada for conversion of one US dollar into Canadian dollars was US\$1.00 equals Cdn\$ ● .

ELIGIBILITY FOR INVESTMENT

On the Closing Date, provided that the Common Shares are listed at that time on a designated stock exchange (which currently includes the TSX), the Common Shares offered hereby will be qualified investments under the Tax Act and the regulations thereunder (in effect on the date hereof) for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (“TFSA”). Notwithstanding that the Common Shares will so be a qualified investment for a RRSP, RRIF or TFSA, the annuitant under an RRSP or RRIF or the holder of a TFSA, as the case may be, will be subject to a penalty tax if the Common Shares are a prohibited

investment for such RRSP, RRIF or TFSA. The Common Shares will not be a prohibited investment provided that the annuitant or holder, as the case may be, deals at arm's length with the Company for the purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Company or any corporation, partnership or trust that does not deal at arm's length with the Company for the purposes of the Tax Act. However, if proposed amendments to the Tax Act released on December 21, 2012 are enacted as proposed, the Common Shares will not be a prohibited investment for a RRSP, RRIF or TFSA provided that the annuitant, or holder, as the case may be, deals at arm's length with the Company and does not have a "significant interest" (within the meaning of the Tax Act) in the Company. There can be no assurance that these proposals will be enacted as proposed, or at all.

Prospective investors who intend to hold the Common Shares in a RRSP, RRIF or TFSA should consult their own tax advisors with respect to the application of the prohibited investment rules in their particular circumstances.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary of Terms” beginning on page 68.

Our Business

Overview

We are a leading provider of comprehensive software-as-a-service- (“SaaS”), cloud-based talent management (“TM”) solutions primarily targeted at customers in the mid-market. Maximizing performance and productivity of human capital is of paramount importance to almost all organizations. Companies are challenged to empower their employees and align these employees with performance objectives as well as the strategic direction of the business. Our customers address these challenges by using our powerful suite of integrated TM applications to recruit top talent, align goals, assess and develop employees, provide feedback and recognition, enhance employee engagement, build a pay-for-performance culture and manage succession.

Management of human resources within an organization has become of strategic importance to companies of all sizes. We believe that the benefits provided by advanced TM solutions have resulted in the rapid adoption of these solutions by companies ranging from very large organizations through to mid-market organizations. We provide a highly differentiated solution that is specifically targeted to customers in the mid-market. We define the mid-market as organizations with 100 to 10,000 employees, but our solution scales and is utilized by large enterprises with more than 10,000 employees. Our solution contrasts with the relatively complicated solutions targeted at larger enterprises. We offer a modular solution that is easily configurable, includes best-in class content and technology and is supported by industry-leading customer service. We further enhance our solution with vertical offerings that include features, services and content for specific vertical market segments. With over 1,750 customers, we believe we have one of the largest customer bases in the TM marketplace, and no one customer represents more than 2% of our total annual revenue.

Our business model, including our marketing and sales processes, has been structured to efficiently address the mid-market. Our solution can be configured to fit the needs of each customer without requiring expensive and time-consuming customization. Our exceptional customer-focused approach has enabled us to achieve greater customer satisfaction than our competitors, as measured by leading analyst firms, resulting in customer retention rates of over 90% and dollar retention rates of over 100%.

Our subscription-based revenue model results in a high proportion of recurring revenue, which represented approximately 86% of our total revenue in 2012. Our emphasis on recurring revenue has resulted in a steady growth rate of our revenue over the past several years and provides high visibility into future financial performance. Typically, greater than 90% of our quarterly revenue is recognized from customers that were in place at the beginning of the quarter.

Our Industry

Human capital is a major expense for most organizations. Management of human resources is evolving from a tactical, transaction-oriented function to a more integral component in achieving an organization’s overall strategic goals. The value in adopting more advanced TM practices was initially recognized by larger organizations but is now being increasingly understood and utilized by organizations in the mid-market. According to Gartner Inc., there is a real and growing appetite from mid and global mid-sized corporations, which represents a market that is currently underserved and thus more “greenfield” in nature.¹

Managing talent to maximize performance and productivity is critical to almost all organizations. According to a 2012 survey conducted by PricewaterhouseCoopers, 77% of CEOs planned to revise their TM strategies within the next year.²

¹ Gartner, Inc., *Competitive Landscape: New Opportunities and Imperatives Share the Talent Management Software Market*, 8 February 2013.

² PricewaterhouseCoopers LLP, *15th Annual Global CEO Survey 2012: Delivering results – Growth and value in a volatile world*, 2012.

According to Gartner, talent management software will be a \$3.3 billion opportunity in 2013, and most revenue will come from large enterprises, but a largely untapped opportunity is emerging from domestic/regional midsize (mid) and global midsize organizations.³ In terms of deployment preference, performance management appears to be the area in which most organizations start. A Gartner reference survey shows that more than 50% of organizations started with performance, while 30% started with recruiting and 10% started with learning.⁴

Software solutions are increasingly delivered through the Internet ‘cloud’ using a SaaS model, which allows organizations to implement, access and use software solutions remotely through an Internet connection and a standard web browser. The SaaS model can significantly reduce an organization’s costs in installing and maintaining software applications. Organizations can also leverage the IT infrastructure management, security, disaster recovery and other systems of the software solution vendor by purchasing software solutions delivered as SaaS. Gartner estimates the annualized SaaS end-user spending will grow from a base of \$13.5 billion in 2011 to \$32.8 billion on cloud SaaS in 2016, at a compound annual growth rate of 19.5%.⁵

Competitive Strengths

We have established a leadership position in providing a comprehensive TM solution in the mid-market, which we believe results from several key competitive strengths, including those set out below.

- *TM Solution Focused on Distinct Mid-Market Demands* – We provide a highly differentiated solution that is specifically targeted at the mid-market. This approach contrasts with complicated solutions targeted at large enterprises, which typically involve long implementation cycles and extensive information technology support.
- *Targeted Go-to-Market Strategy* – We have designed our business model to efficiently address and target mid-market customers. Our fulfillment sales model is formulaic and structured, focusing on higher probability opportunities generated by our marketing process.
- *Customer Focus* – Our mission statement begins with “At Halogen, our passion is to provide a world class customer experience”. World class customer experience is embedded in our corporate culture. This highly customer-focused approach has resulted in higher customer satisfaction than that of our competitors.
- *Vertical Configurations* – While we have designed our solution to be applicable to the broad mid-market, we also provide tailored configurations for specific industry verticals. These vertical offerings have features, content and use cases that allow us to differentiate ourselves from horizontally-focused solution providers without limiting our ability to scale. We have tailored offerings for healthcare, professional services, financial services, manufacturing, education, public sector and hospitality.

Our Business Model

In addition to our competitive strengths, we believe our business model offers specific benefits that are instrumental to our successful growth.

Revenue Model

We offer our TM solution to new customers solely under the subscription-based model. Our solution is generally priced on a per-end-user, per-module basis. The overwhelming majority of these subscription agreements include provisions by which they automatically renew on a year-to-year basis following the initial two-year term.

Our subscription model results in a high proportion of recurring revenue. Our recurring revenue represented approximately 86% of our total revenue in 2012. The power of the subscription licensing model is only fully realized when a vendor has high retention rates. High retention rates extend customer lifetime and create very high lifetime

³ Gartner, Inc., *Competitive Landscape: New Opportunities and Imperatives Share the Talent Management Software Market*, 8 February 2013.

⁴ Gartner, Inc., *Magic Quadrant for Talent Management Suites*, 14 March 2013.

⁵ Gartner, Inc., *Forecast Overview: Public Cloud Services, Worldwide, 2011–2016, 4Q12 Update*, 8 February 2013.

value of the customer. Our retention rates are over 90% on a customer basis and over 100% by dollar value, which includes sales of additional modules and end-user licenses (also referred to as “seats”) to existing customers. Our emphasis on recurring revenue has resulted in steady growth of our revenue over the past several years.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. Typically, greater than 90% of our quarterly revenue are recognized from customers that were in place at the beginning of the quarter.

Delivery Model

We offer both an on-demand and an on-premises delivery model, with no difference in cost to the customer. Approximately 90% of our new customers elect on-demand access. As our solution is developed with a single code base, regardless of how the customer decides to deploy it, our delivery costs do not differ significantly between the two models.

Growth Strategy

Key elements of our growth strategy include:

- *Aggressively Expand our Customer Base* – We believe that the global market for TM is large and underserved, especially in the mid-market, and we intend to make significant investments to aggressively expand our customer base. Lead generation, in both our marketing and sales activities, is a pillar of future growth. We intend to increase our investment in programs designed to drive more customer wins. We will also increase investment in our brand as a mechanism to drive additional leads.
- *Retain and Expand Business with Existing Customers* – As our solution becomes increasingly integral to our customers’ success, we believe we have significant opportunities to grow our business. Our customer base represents a considerable source of follow-on sales, as our solution facilitates the addition of new modules and additional seats to existing customers. We believe that expanding our customer account management program will result in increased revenue from our existing customers.
- *Expand our Total Addressable Market by Adding New Product Offerings* – We intend to explore ways to leverage our existing customer base and attract new customers to derive additional revenue by adding additional modules, functionality and content to our current product suite. As the market for TM solutions continues to evolve, we anticipate that opportunities to broaden the scope of our offering will arise, and we intend to pursue opportunities we believe to be economically beneficial to us and our customers.
- *Acquisition Strategy* – We will consider making acquisitions of businesses, technologies and solutions on an opportunistic basis that complement our existing offerings in an effort to accelerate our growth, enhance the capabilities of our existing solution and broaden our solution offerings.

Products

The Halogen TM suite is a comprehensive set of software modules that provides an integrated TM solution. Each module comprising the suite was organically built, and the modules are seamlessly integrated into one platform. This integration allows an organization to choose the specific modules that will address their particular requirements, yet provide their employees with a common user experience from module to module. It also allows the organization to leverage common data and processes across these modules and to produce integrated reporting from one place.

THE OFFERING

Issuer:	Halogen Software Inc.
Selling Shareholder:	JMI Equity Fund VI, L.P.
Treasury Offering:	\$ ●
Secondary Offering:	\$ ●
Offering Price per Share:	\$ ●
Aggregate Number of Shares Offered:	● Common Shares
Common Shares Outstanding:	16,515,617 Common Shares are issued and outstanding as of the date of this prospectus, and ● Common Shares will be issued and outstanding immediately after the Offering (in each case, excluding Common Shares that may be issued upon exercise of Options). See “Description of Share Capital”.
Over-Allotment Option:	The Company has granted to the Underwriters an Over-Allotment Option exercisable for a period of 30 days from the Closing Date to purchase up to an additional ● Common Shares (representing 15% of the Common Shares offered under this prospectus) at the offering price to cover over-allocations, if any. See “Plan of Distribution”.
Use of Proceeds:	<p>The Company expects to receive \$ ● in net proceeds from the Treasury Offering (\$ ● if the Over-Allotment Option is exercised in full), after deducting fees payable by us to the Underwriters in connection with the Offering and the estimated expenses of the Offering.</p> <p>We intend to use the net proceeds from the Offering as follows:</p> <ul style="list-style-type: none">• approximately 25% to grow our operations, including:<ul style="list-style-type: none">○ to strengthen our North American sales and marketing operations;○ to expand our presence in the United Kingdom and Australia; and○ to expand our operations into new geographies; and• approximately 10% for product development with a view to adding additional modules, functionality and content to our current product suite. <p>The remaining net proceeds are expected to be used for balance sheet strength, working capital, general corporate purposes and selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. See “Use of Proceeds”.</p>
Lock-Up Arrangements	The executive officers and directors of the Company as well as certain employees and shareholders holding in aggregate ● % of the Common Shares outstanding prior to the Offering (● % of the outstanding Common Shares after the Offering or ● % if the Over-Allotment Option is exercised in full) have entered into agreements pursuant to which such parties have agreed, subject to certain exceptions, not to sell Common Shares or securities convertible or exchangeable into Common Shares (or announce any intention to do so) for a period commencing on the Closing Date and ending 180 days after the Closing Date. See “Plan of Distribution – Lock-Up Arrangements”.

Dividend Policy:

The Company has not paid dividends to its shareholders to date and does not anticipate paying cash dividends on the Common Shares in the foreseeable future. The Company's current policy is to retain cash flows to finance the development and enhancement of its products and to otherwise reinvest in the Company's business.

Risk Factors:

An investment in the Common Shares is speculative and involves a high degree of risk. Prospective purchasers should carefully consider the information set out under "Risk Factors" beginning on page 57 and the other information in this prospectus before purchasing Common Shares.

SUMMARY FINANCIAL INFORMATION

The following table sets out selected financial information for the periods or as of the dates indicated. The selected financial information of the Company as at December 31, 2012 and 2011 and for the financial years ended December 31, 2012, 2011 and 2010, and as at March 31, 2013 for the three-month periods ended March 31, 2013 and 2012 has been derived from the Company's financial statements included elsewhere in this prospectus. You should read the following information in conjunction with the annual financial statements of the Company and the related notes and with "Management's Discussion and Analysis" included elsewhere in this prospectus.

	<u>Year Ended December 31,</u>			<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2013</u>	<u>2012</u>
	(in thousands of US dollars)				
Earnings Results					
Revenue	38,003	31,017	22,742	11,586	8,785
Cost of revenue	10,622	9,161	7,193	2,735	2,496
Gross margin	27,381	21,856	15,549	8,851	6,289
Sales, marketing, research and development, general and administrative expenses	32,725	29,043	18,281	10,064	6,891
Operating income (loss)	(5,344)	(7,187)	(2,732)	(1,213)	(602)
Loss related to change in fair value of redeemable preferred shares	(14,329)	(2,891)	(5,092)	(6,099)	(7,389)
Net earnings (loss) to common shareholders	(19,578)	(9,934)	(7,767)	(7,306)	(7,970)

	<u>As at December 31,</u>		<u>As at</u>
	<u>2012</u>	<u>2011</u>	<u>March 31, 2013</u>
	(in thousands of US dollars)		
Balance Sheet			
Cash and cash equivalents	3,683	4,081	4,717
Short-term investments	5,210	6,356	3,323
Trade and other receivables, net	6,961	5,831	6,729
Current assets	18,258	18,612	17,905
Property, equipment and intangible assets	4,494	3,743	4,239
Total assets	22,752	22,632	22,144
Current liabilities	27,652	22,237	28,251
Redeemable preferred shares ⁽¹⁾	40,996	26,667	47,095
Other long-term liabilities	287	551	199
Shareholders' equity (deficiency)	(46,183)	(26,823)	(53,401)

Note:

- (1) Upon completion of the Offering, all of the redeemable preferred shares (being the Class B Preferred Shares) will be converted into Class A Common shares on a one-for-one basis, and the Class A Common shares will be consolidated on a 1.5 to 1 basis and redesignated as Common Shares. As a result, the corresponding liability in respect of the Class B Preferred Shares will be reduced to \$Nil with a corresponding increase in share capital. We have recorded significant losses related to this liability in each of the years presented. Going forward there will be no impact to our result of operations from the Class B Preferred Shares.

OUR BUSINESS

Overview

We are a leading provider of comprehensive software-as-a-service- (“SaaS”), cloud-based talent management (“TM”) solutions primarily targeted at customers in the mid-market. Maximizing performance and productivity of human capital is of paramount importance to almost all organizations. Companies are challenged to empower their employees and align these employees with performance objectives as well as the strategic direction of the business. Our customers address these challenges by using our powerful suite of integrated TM applications to recruit top talent, align goals, assess and develop employees, provide feedback and recognition, enhance employee engagement, build a pay-for-performance culture and manage succession.

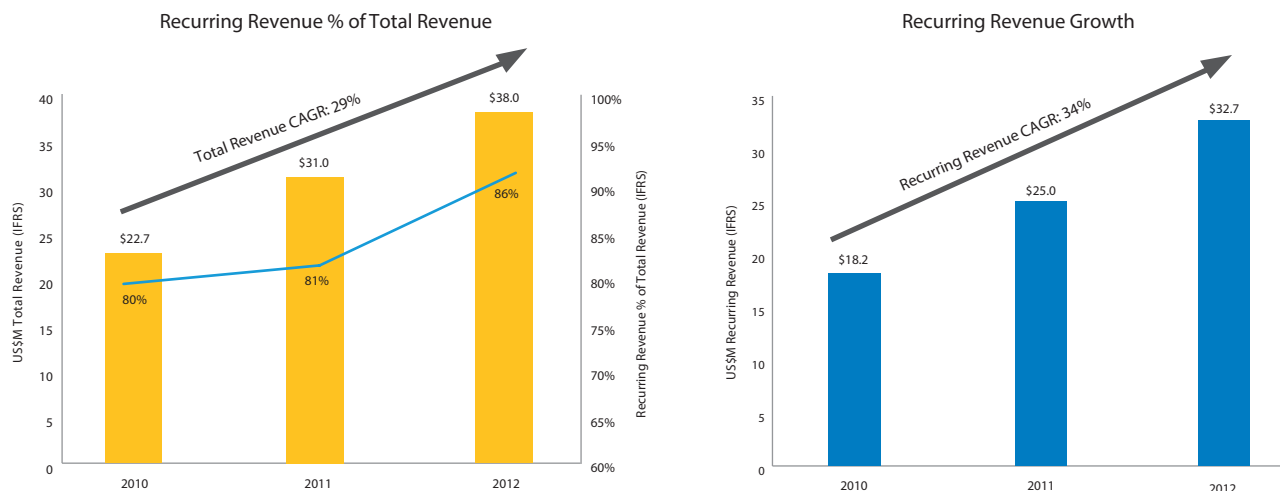
Addressing these customer challenges is built into our vision statement, which is to help our customers:

- build their world class workforce,
- get better results through a high-performing, aligned and engaged workforce, and
- establish talent as a lasting competitive advantage.

Management of human resources within an organization has become of strategic importance to companies of all sizes. We believe that the benefits provided by advanced TM solutions have resulted in the rapid adoption of these solutions by companies ranging from very large organizations through to mid-market organizations. We provide a highly differentiated solution that is specifically targeted to customers in the mid-market. We define the mid-market as organizations with 100 to 10,000 employees, but our solution scales and is utilized by large enterprises with more than 10,000 employees. Our solution contrasts with the relatively complicated solutions targeted at larger enterprises. We offer a modular solution that is easily configurable, includes best-in class content and technology and is supported by industry-leading customer service. We further enhance our solution with vertical offerings that include features, services and content for specific vertical market segments. With over 1,750 customers, we believe we have one of the largest customer bases in the TM marketplace, and no one customer represents more than 2% of our total annual revenue.

Our business model, including our marketing and sales processes, has been structured to efficiently address the mid-market. Our solution can be configured to fit the needs of each customer without requiring expensive and time-consuming customization. Our exceptional customer-focused approach has enabled us to achieve greater customer satisfaction than our competitors, as measured by leading analyst firms, resulting in customer retention rates of over 90% and dollar retention rates of over 100%.

We began developing and marketing a TM solution in 2002, with an initial focus on performance management. Since then, we have developed a comprehensive set of modules providing an integrated TM solution. We deliver our solution primarily as SaaS on a subscription basis. As a result, the vast majority of our revenue is recurring in nature. The overwhelming majority of our subscription customers enter into two-year agreements, paid annually in advance, for the use of our solution. Those agreements include provisions by which they automatically renew on a year-to-year basis following the initial term. Our revenue has grown from \$22.7 million in 2010 to \$31.0 million in 2011 and to \$38.0 million in 2012. Our recurring revenue has grown from \$18.2 million in 2010 to \$25.0 million in 2011 and to \$32.7 million in 2012, with the percentage of our total recurring revenue growing from 80% in 2010 to 81% in 2011 and to 86% in 2012.



Our Industry

TM Market and Challenges

Human capital is a major expense for most organizations. Total compensation paid to employees in the United States in 2012 was estimated to be \$8.5 trillion, representing approximately 55% of US gross domestic product.⁶

Management of human resources is evolving from a tactical, transaction-oriented function to a more integral component in achieving an organization’s overall strategic goals. The value in adopting more advanced TM practices was initially recognized by larger organizations but is now being increasingly understood and utilized by organizations in the mid-market. According to Gartner Inc., there is a real and growing appetite from mid and global mid-sized corporations, which represents a market that is currently underserved and thus more “greenfield” in nature.⁷

Managing talent to maximize performance and productivity is critical to almost all organizations. According to a 2012 survey conducted by PricewaterhouseCoopers, 77% of CEOs planned to revise their TM strategies within the next year.⁸ This focus on TM flows from studies indicating that investment in TM can provide significant rewards. For example, academic studies have indicated that top performers within an organization can produce three to ten times the output of an average performer in the same job. Furthermore, we believe companies with highly effective TM strategies experience materially higher revenue per employee.

An organization’s success often begins with understanding the organization’s core requirements and values and ensuring that they are embedded in its TM program. This requires intentionality – deliberately aligning human capital investment with the organization’s culture, values and strategies and ensuring that TM programs reinforce those attributes. Challenges that organizations face in this regard include:

- *Hiring Top Talent* – To improve performance, organizations must effectively recruit top talent;
- *Aligning Goals* – To achieve better results, organizations must effectively align employee goals with organizational goals;
- *Developing Employees* – To foster employee development, organizations must provide timely and accurate feedback and manage and assess employee performance, and then link any gaps with appropriate training and development;
- *Establishing a Pay-for-Performance Culture* – To optimize employee and company performance, economic incentive must be aligned with employee performance objectives;

⁶ United States Bureau of Economic Analysis, *Table 1.10. Gross Domestic Income by Type of Income*, February 28, 2013 (http://www.bea.gov/iTable/index_nipa.cfm).

⁷ Gartner, Inc., *Competitive Landscape: New Opportunities and Imperatives Share the Talent Management Software Market*, 8 February 2013.

⁸ PricewaterhouseCoopers LLP, *15th Annual Global CEO Survey 2012: Delivering results – Growth and value in a volatile world*, 2012.

- *Building Succession Bench Strength* – To fill future organizational needs, identifying, developing and retaining top performers in all key roles – not just leadership – is critical; and
- *Managing a Distributed Workforce* – As an organization’s workforce becomes more geographically disbursed, it is increasingly difficult and important to actively create a uniform alignment of the organization’s culture, values and strategies among all employees.

Most mid-market organizations address these challenges by using generic desktop applications. These approaches are often inefficient and ineffective. Software solutions designed to automate TM processes achieve greater efficiency. Furthermore, comprehensive TM solutions enable organizations to improve business results and to develop a culture that reinforces organizational values.

TM Market Opportunity

There are over 110,000 mid-market companies in North America, which we estimate represents a total market for TM solutions in the North American mid-market of over \$6 billion per year. We believe that there are more than 300,000 mid-market companies worldwide, representing a total TM market for mid-market organizations of over \$15 billion per year. We believe market penetration rates for dedicated TM applications in the mid-market are low – between 5% and 10%.⁹

According to Gartner, talent management software will be a \$3.3 billion opportunity in 2013, and most revenue will come from large enterprises, but a largely untapped opportunity is emerging from domestic/regional midsize (mid) and global midsize organizations.¹⁰ In terms of deployment preference, performance management appears to be the area in which most organizations start. A Gartner reference survey shows that more than 50% of organizations started with performance, while 30% started with recruiting and 10% started with learning.¹¹

Software solutions are increasingly delivered through the Internet ‘cloud’ using a SaaS model, which allows organizations to implement, access and use software solutions remotely through an Internet connection and a standard web browser. The SaaS model can significantly reduce an organization’s costs in installing and maintaining software applications. Organizations can also leverage the IT infrastructure management, security, disaster recovery and other systems of the software solution vendor by purchasing software solutions delivered as SaaS. Gartner estimates the annualized SaaS end-user spending will grow from a base of \$13.5 billion in 2011 to \$32.8 billion on cloud SaaS in 2016, at a compound annual growth rate of 19.5%.¹²

Our Business

Our Solution

We are a leading provider of comprehensive SaaS-based TM solutions primarily targeted at customers in the mid-market. Maximizing performance and productivity of human capital is of paramount importance to almost all organizations. Our customers address these challenges by using our powerful suite of integrated TM applications to recruit top talent, align goals, assess and develop employees, provide feedback and recognition, enhance employee engagement, build a pay-for-performance culture and manage succession.

Competitive Strengths

We have established a leadership position in providing a comprehensive TM solution in the mid-market, which we believe results from several key competitive strengths, including those set out below.

⁹ Company estimates based on various sources and management’s calculations, including, for purposes of the number of mid-market companies in North America and worldwide, statistics in United States Census Bureau, *Statistics about Business Size (including Small Business), data, Employment Size of Employer and Nonemployer Firms*, 2008 (<http://www.census.gov/econ/smallbus.html>); Statistics Canada, *Canada Year Book, 2011 – Business Performance and Ownership* (<http://www.statcan.gc.ca/pub/11-402-x/2011000/chap/business-enterprise/tbl/tbl02-eng.htm>); European Commission – Eurostat, *Business economy – size class analysis*, March 2011 (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Business_economy_size_class_analysis); Australian Bureau of Statistics, *Business Register, Counts of Businesses – Summary Tables*, June 2004 (<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8161.0.55.001Jun%202004>).

¹⁰ Gartner, Inc., *Competitive Landscape: New Opportunities and Imperatives Share the Talent Management Software Market*, 8 February 2013.

¹¹ Gartner, Inc., *Magic Quadrant for Talent Management Suites*, 14 March 2013.

¹² Gartner, Inc., *Forecast Overview: Public Cloud Services, Worldwide, 2011–2016, 4Q12 Update*, 8 February 2013.

TM Solution Focused on Distinct Mid-Market Demands

We provide a highly differentiated solution that is specifically targeted at the mid-market. This approach contrasts with complicated solutions targeted at large enterprises, which typically involve long implementation cycles and extensive information technology support. We have tailored our product to the mid-market in the following ways:

- Our solution is designed to be simple to implement and easy to use. This design allows our customers' human resource managers to control the buying and implementation process.
- Our highly flexible solution is configurable by our customers, eliminating their reliance on vendor configuration and associated additional service costs.
- We have employed deliberate product design approaches to avoid feature bloat.
- Our solution includes TM best-practices content, allowing our customers to access content that was typically accessible only to large enterprises.
- Our TM suite consists of various modules, which enables customers to add modules seamlessly as their requirements expand.
- Our innovative solution includes social media and mobile capabilities.
- Our solution was developed organically, resulting in the integration of our TM functions and allowing our customers to provide their employees with a common user experience and to leverage common data and processes across all modules.
- We have a single version of our software that has appropriate functionality to support our customers as they grow as opposed to solutions focused on large enterprises that offer different versions of their software for companies of different sizes, requiring companies to change software as their needs become more complex.

Targeted Go-to-Market Strategy

We target mid-market organizations, and we have designed our solution and our business model to address this market. Mid-market customers typically look for solutions that are simple to implement, are easy to use and offer exceptional value.

Our go-to-market strategy is geared to the mid-market in the following ways:

- Our marketing is focused on human resource leaders as the target buyer, as opposed to executive leadership or information technology personnel.
- Our marketing programs are designed to generate leads from a broad mid-market audience rather than taking a large enterprise one-on-one approach.
- We have a fulfillment sales model that is formulaic and structured. Our model focuses on higher probability opportunities generated by our marketing program, as opposed to generating demand through an evangelical sales force. Sales opportunities are funnelled to sales representatives, who typically engage with prospects remotely from our offices.
- Our sales representatives perform their own product demonstrations and do not require a pre-sales engineer for the demonstration.
- Implementation and support are undertaken remotely from our head office, requiring minimal travel or on-site meetings.
- Training is delivered through a regionally distributed capability in order to minimize travel expenses.
- We are headquartered in a relatively low-cost geography, specifically Ottawa, Canada. We believe this is an optimal means of addressing the mid-market, by providing a suitable cost structure to enable a price point for our solution that meets our mid-market customers' expectations.

Customer Focus

Our mission statement begins with “At Halogen, our passion is to provide a world class customer experience”. World class customer experience is embedded in our corporate culture.

This highly customer-focused approach has resulted in higher customer satisfaction than that of our competitors as measured by leading industry research firms. For example:

“Halogen garnered the highest scores in customer service and cost-effectiveness from its clients” IDC, *MarketScape Worldwide Integrated Talent Management Vendor Analysis 2012 Vendor Analysis*, April 2012

“Halogen continues as a leader in customer service and support; customers view Halogen as a partner.” Forrester, *The Forrester Wave: Talent Management, Q1, 2013*, March 12, 2013

We have customer retention rates of over 90% as measured on a year-over-year basis. By dollar value, which includes sales of additional modules and end-user licenses (also referred to as seats) to existing customers, we experience retention rates of over 100%. Furthermore, customer satisfaction encourages human resource managers that use our product to recommend our offering to their counterparts in other companies, leading to increased sales opportunities.

Our customer-focused approach is applied at every customer touch point. We understand that product quality is the item most highly correlated to customer satisfaction – when customers use our product, it is important that they find it easy to use and experience minimal errors. Our website is content rich with very fast response times.

We train, test and certify our sales representatives prior to engaging them with potential customers. Sales representatives perform product demonstrations without support from pre-sales engineering. Our implementation consulting team is consistently successful, timely and efficient. The training services that we provide to our customers are professional and high quality. Our support desk is rated very highly by our customers, and over 90% of all customer calls are answered by a live representative within 60 seconds. We use a third-party expert, the Help Desk Institute, to assess our support organization’s performance and we consistently achieve above average levels of overall customer satisfaction.

Each of our customers is assigned a customer account manager, a single point of contact who is responsible for ensuring the customer’s ongoing success with our product. Each of our customer account managers is a certified human capital strategist (having satisfied the requirements of the Human Capital Institute for such certification).

We are in regular communication with our customer base, employing formal customer advisory boards, beta programs and regular customer satisfaction surveys. As well, we solicit ideas and suggestions through implementation consulting, support and training. We frequently call customers to solicit input. All feedback we gather from our customers is systematically reviewed by our product management team and used to provide insight for product innovation and to improve our quality of service.

Vertical Configurations

While we have designed our solution to be applicable to the broad mid-market, we also provide tailored configurations for specific industry verticals. These vertical offerings have features, content and use cases that allow us to differentiate ourselves from horizontally-focused solution providers without limiting our ability to scale. We have tailored offerings for healthcare, professional services, financial services, manufacturing, education, public sector and hospitality. Several industry groups have endorsed our solution, including exclusive endorsements from the American Hospital Association and the Ontario Hospital Association.

We believe we are the only talent management solution vendor to have this depth of vertical offerings. Our organization is operationally aligned within each of our vertical markets. Our marketing and sales initiatives focus on prospects within each vertical, our product management team addresses the unique requirements of customers in those verticals, and we use implementation specialists who have a detailed understanding of the nuances of our verticals. As a result, we understand their business challenges and speak in terms that they understand. Our domain expertise further differentiates us from our competitors.

Our Business Model

In addition to our competitive strengths, we believe our business model offers specific benefits that are instrumental to our successful growth.

Revenue Model

We offer our TM solution to new customers solely under the subscription-based model. Our solution is generally priced on a per-end-user, per-module basis. Our subscription customers typically enter into two-year agreements, paid annually in advance, for use of our solution. The overwhelming majority of these subscription agreements include provisions by which the agreements automatically renew on a year-to-year basis following the initial two-year term.

Our subscription model results in a high proportion of recurring revenue. Our recurring revenue represented approximately 86% of our total revenue in 2012. The power of the subscription licensing model is only fully realized when a vendor has high retention rates. High retention rates extend customer lifetime and create very high lifetime value of the customer. Our retention rates are over 90% on a customer basis and over 100% by dollar value, which includes sales of additional modules and end-user licenses to existing customers. Our emphasis on recurring revenue has resulted in steady growth of our revenue over the past several years.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. Typically, greater than 90% of our quarterly revenue are recognized from customers that were in place at the beginning of the quarter.

Prior to 2009, we also offered our solution under a perpetual license-based revenue model. Under the perpetual license model, customers paid an initial fee at deployment for a perpetual license and pay annual maintenance and support fees, as well as hosting fees, if applicable. The proportion of our subscription-based customers has been increasing relative to customers with perpetual licenses, and that trend will continue as we only offer the subscription-based model to our new customers.

Delivery Model

We offer both an on-demand and an on-premises delivery model, with no difference in cost to the customer. Approximately 90% of our new customers elect on-demand access. As our solution is developed with a single code base, regardless of how the customer decides to deploy it, our delivery costs do not differ significantly between the two models.

Growth Strategy

Key elements of our growth strategy include:

Aggressively Expand our Customer Base

We believe that the global market for TM is large and underserved, especially in the mid-market, and we intend to make significant investments to aggressively expand our customer base.

Lead generation, in both our marketing and sales activities, is a pillar of future growth. We intend to increase our investment in programs designed to drive more customer wins. We will also increase investment in our brand as a mechanism to drive additional leads.

We intend to pursue opportunities in the market and aggressively expand our customer base by increasing our deployment of sales professionals and expanding our marketing efforts in North America, the United Kingdom, Australia and other geographic areas in which we currently do not have a presence.

Retain and Expand Business with Existing Customers

As our solution becomes increasingly integral to our customers' success, we believe we have significant opportunities to grow our business. Our customer base represents a considerable source of follow-on sales, as our

solution facilitates the addition of new modules and additional seats to existing customers. We believe expanding our customer account management program will result in increased revenue from our existing customers.

Expand our Total Addressable Market by Adding New Product Offerings

We intend to explore ways to leverage our existing customer base and attract new customers to derive additional revenue by adding additional modules, functionality and content to our current product suite. As the market for TM solutions continues to evolve, we anticipate that opportunities to broaden the scope of our offering may arise, and we intend to pursue opportunities we believe to be economically beneficial to us and our customers.

Acquisition Strategy

We will consider making acquisitions of businesses, technologies and solutions on an opportunistic basis that complement our existing offerings in an effort to accelerate our growth, enhance the capabilities of our existing solution and broaden our solution offerings.

Products

The Halogen TM suite is a comprehensive set of software modules that provides an integrated TM solution. Each module comprising the suite was organically built, and the modules are seamlessly integrated into one platform. This integration allows an organization to choose the specific modules that will address their particular requirements, yet provide their employees with a common user experience from module to module. It also allows the organization to leverage common data and processes across these modules and to produce integrated reporting from one place.



The modules comprising the Halogen TM Suite include the following:

- *Halogen eAppraisal.* Halogen eAppraisal is our performance management module and forms the foundation of our offering. It is a highly configurable solution that enables our customers to manage performance feedback and recognition, assess competencies, create performance appraisals and developmental plans, manage goals and objectives and maintain employee talent profiles. Its ease-of-use focus enables customers to easily and quickly create quality employee performance appraisals. It provides sophisticated workflow management and exceptional form design flexibility. A component of our eAppraisal

module, which we call “Feedback Central”, builds on developments in social networking and allows employees and managers to send notes to a central location to be retrieved and compiled in periodic employee reviews.

- *Halogen e360 Multirater.* Halogen e360 Multirater is integrated into Halogen eAppraisal and Halogen eSuccession to specifically manage the collection of 360 degree feedback during an appraisal or assessment process. This allows the writer of an appraisal to access either anonymous or attributed feedback about an individual’s performance collected from people throughout the organization. Feedback can also be requested from external sources such as customers and is collected in the format of an on-line survey. 360 degree feedback allows for a broader, more objective view of an employee’s performance.
- *Halogen eLearning Manager.* Halogen eLearning Manager is a robust learning management system. Its functionality includes centralized training and certification management, classroom and on-line learning support, and individual development and learning plans. Customers can manage catalogs, class schedules and all types of learning activities, including e-learning, seminars and on-the-job activities. They can manage and deploy courseware of their own or from hundreds of third-party learning providers. The eLearning Manager module enables managers to find and register employees for the appropriate learning activities as part of writing a performance appraisal, thus having more effective target training programs. It also allows our customers’ employees to manage their own performance and development by giving them one place to go to understand their skill gaps and past performance, update goals and development plans, and launch targeted learning activities.
- *Halogen eCompensation.* Halogen eCompensation automates the compensation adjustment process and helps our customers establish a pay-for-performance culture. It enables our customers to manage the annual compensation process, including budget distribution, merit pay adjustments, promotions, incentive pay and stock-based award distribution. The eCompensation module leverages the workflow capabilities of the suite to ensure appropriate reviews and approvals of compensation adjustments. It has robust multi-currency capabilities that allow a single process to drive compensation adjustments across any number of currencies and locales. With its tight integration to Halogen eAppraisal, it enables organizations to cultivate a pay-for-performance culture by automatically recommending appropriate merit adjustments based on performance results.
- *Halogen eSuccession.* Halogen eSuccession supports the identification of high-potential employees and development of future leaders based on the talent pool model of succession management, a proven best-practice approach. It allows our customers to gain visibility into their workforce potential and risk, and to retain and develop internal pools of talent with targeted learning plans that prepare them for future roles in the organization. With its tight integration to Halogen eAppraisal, employees being managed inside a talent pool are regularly re-assessed against a defined competency model that measures their progress and development.
- *Halogen Job Description Builder.* Halogen Job Description Builder automates the process of creating and maintaining job descriptions and ensures consistency and standardization across the organization. It allows a company to store, manage and provide organizational access to all of its job descriptions from one central location. With its deep integration to the rest of the suite, it allows an organization to leverage those job descriptions in other processes. For example, job requisitions in Halogen eRecruitment and performance appraisals in Halogen eAppraisal can be automatically generated from the information contained in the job description, eliminating both effort and potential for error. For our customers, it greatly reduces the administrative burden of keeping job descriptions up-to-date and allows them to leverage that data to greater advantage. More importantly, it provides employees a consistent definition of their job responsibilities throughout the employee life-cycle.
- *Halogen eRecruitment.* Halogen eRecruitment is an applicant tracking system that streamlines the process of identifying, screening, selecting, hiring and on-boarding job applicants. It provides the ability to publish an organization’s job openings directly to its career web site. It seamlessly integrates with Halogen Job Description Builder to generate a hiring requisition based on the position’s job description. It provides the ability to manage candidate profiles that can be matched to future job openings. Managers and recruiters communicate through the integrated suite in the process of assessing and interviewing candidates. Tight integration with Halogen eAppraisal and Halogen eLearning Manager allows for automatic launching of

newly hired employees into the appropriate processes and learning paths for on-boarding (being the process through which new employees acquire the knowledge, skills, and behaviours to become effective organizational members).

We also provide tailored configurations of our offering for specific industry verticals in healthcare, professional services, financial services, manufacturing, education, public sector and hospitality. These vertical offerings have features and content that go further than the generic version in support of practices that are industry specific.

Customers

As of December 31, 2012, we had over 1,750 customers. We have very low revenue concentration, with our top five customers combined representing less than 6% of our revenue. The following table provides a representative sample of our customers, categorized by market verticals.

Education Campus Management Corporation Englewood Schools Herzing University Purdue University – Housing & Food Services Division	Financial Services CarVal Investors LLC First West Credit Union PEMCO Mutual Insurance Company University of Wisconsin Credit Union
Healthcare Christiana Care Health Services Sisters of St. Francis Health Services, Inc. South Bend Medical Foundation Thomas Jefferson University Hospitals, Inc.	Hospitality Atlantic Lottery Corporation Inc. Drury Hotels Company, LLC Pechanga Resort & Casino The Zoological Society of San Diego (San Diego Zoo)
Manufacturing Basic American Foods Fuel Cell Energy GL&V USA Inc. PCS Nitrogen Trinidad Limited	Professional Services Clark Nuber Lattimore Black Morgan Cain, P.C. Brown Smith Wallace, LLC Golder Associates Corporation
Public Sector City of Henderson City of Keene Sacramento Municipal Utility District San Antonio Water System	Other Society for Human Resource Management Girl Scouts of the United States of America Herff Jones, Inc. OHL International

Case Studies

The following are examples of applications in which our customers have deployed our solution, the problems they were seeking to solve and some of the benefits that they have reported from the use of our TM solution.

Black River Memorial Hospital

Customer Since: June 2008

Black River Memorial Hospital (“Black River”) first opened in Jackson County, Wisconsin in 1964. Many years later, as recent healthcare reform led to a shift from fee-for-service/volume-based payments to value-based payments, healthcare facilities have had to adapt their culture to one focused on performance improvement and accountability. Recognizing that Black River’s paper-based performance appraisal process at the time lacked alignment and formal goal-setting, and had poor on-time completion rates, Black River began searching for a solution that would streamline workflow while supporting the existing process, and reduce or eliminate paper. After seeking advice from the American Society for Healthcare Human Resources Administration and the Society for Human Resource Management, and researching what other healthcare facilities were using, Halogen was ultimately selected as vendor. The decision to choose Halogen led to immediate results, including: (1) dramatic increase in scores for patient perception of care (from the 70th percentile to the 95th percentile), (2) 100 percent performance evaluation completion rates, (3) time and effort savings with full Joint Commission (being an independent, not-for-profit organization that accredits and certifies health

care organizations and programs in the United States) compliance, and (4) a substantial improvement in net operating margins (from less than 1% in 2008 to 9.6% in 2011). With the deployment of Halogen eAppraisal Healthcare and Halogen e360 Multirater modules, Black River has become a more nimble organization better able to respond to client and patient needs.

Pechanga Resort & Casino

Customer Since: May 2008

When Pechanga Resort & Casino in Temecula, California, set out to implement its pay for performance system in 2008, it involved a culture change for the organization. Previously, the 4500 team members were paid based largely on their positions and seniority, not on their performance, and the performance feedback was inconsistent and not timely. Pechanga chose to implement Halogen eAppraisal and Halogen eCompensation to support their change to a pay for performance culture. Having an easy-to-use system that supports managers in performance ratings, calibration and in making compensation decisions has made a tangible impact on how Pechanga was successful in enabling this culture change. The Pechanga HR team was able to implement the system in less than one month, and train all staff on the new competency model and merit-based pay system enabled by Halogen. Employees attest to the difference the tools and changes have made with nearly all surveyed saying the new process was highly beneficial.

Clark Nuber P.S.

Customer Since: March 2005

Clark Nuber P.S. (“Clark Nuber”) is an award-winning CPA and consulting firm that has been serving the Northwest US from Bellevue, Washington, for over five decades. To support Clark Nuber’s mandate of ensuring that it is an employer of choice for accounting professionals in Washington State, the leadership team identified the need to modernize its cumbersome and legacy Excel-based HR system by replacing it with a comprehensive, flexible and cloud-based talent management solution. After sending requests-for-proposals to a dozen vendors and receiving demonstrations by a short list of candidates, Clark Nuber’s HR team selected the Halogen talent management solution. With Halogen eAppraisal and Halogen e360 Multirater in place, Clark Nuber has seen an increase in engagement among high performers who now receive broader richer feedback on their performance. The solution has in turn provided senior leadership with value and better visibility into its talent and employee performance. Clark Nuber has also dramatically reduced the amount of time spent on administrative tasks – saving the firm between 130 and 170 hours annually, and allowing the HR team to focus on key strategic initiatives.

Christiana Care Health Services

Customer Since: November 2004

Christiana Care Health Services, headquartered in Wilmington, Delaware, is one of the largest health care providers in the US, ranking 21st in the nation for hospital admissions. Christiana Care uses the Halogen talent management solution in support of a robust talent management program that includes job descriptions, performance management, peer reviews, and succession planning. The HR service delivery team initially selected Halogen eAppraisal Healthcare to automate and streamline its performance appraisal process and support reporting for Joint Commission compliance. Christiana Care then expanded its investment in the suite, and began leveraging the flexibility of the Halogen e360 Multirater module to provide a unique peer-review process for nursing staff, in support of the coveted Magnet accreditation for nursing (being a recognition program developed by the American Nurses Credentialing Center), and the organization’s own shared governance requirements. Christiana Care is also using Halogen eSuccession to help with employee career planning, build leadership and nursing talent pools, and identify development opportunities for employees with high potential in the organization, and is currently implementing Halogen Job Description Builder to streamline job description management and link them to other talent management processes. Using Halogen’s solution, Christiana Care Health Services has built a strong talent management framework to support its core values of patient care, patient safety and quality.

Employees and Culture

Employees are a key stakeholder and a critical component of our success. At Halogen, we have intentionally developed a strong and valued corporate culture. Core to the culture is an emphasis on achieving results and delivering

a world class customer experience; both are accomplished with a work hard, have fun mindset. We use our solution extensively to drive this culture.

We are committed to corporate social responsibility and enjoy giving back to the community. Each year Halogen employees vote on and select three charities to support and then throughout the year our Corporate Social Responsibility Committee organizes various fundraising activities.

As of December 31, 2012, we had 297 employees. None of our employees is represented by a labour union or is covered by a collective bargaining agreement. We consider our relations with our employees to be good.

Sales and Marketing

We sell our solution worldwide primarily through our direct sales organization. We intend to continue employing a direct sales model rather than using third-party resellers.

Our sales team is organized by geographic regions. We further organize our sales force into teams focused on specific customer segments, based on the size of our prospective customers, as well as vertical industry, to provide a higher level of service and understanding of our customers' unique needs. Finally, we have a dedicated sales team focusing on retention of and upsells to the existing customer base. When required, our direct sales team is supported by an RFP (request for proposals) team as well as product specialists who are available to provide technical and product expertise in sales scenarios where advanced technical or product questions arise.

We generate prospect leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs primarily target human resource executives. Our marketing team and programs are organized by geography and vertical industry segment to focus on the unique needs of customers within our target markets. Our marketing programs include:

- online marketing activities
- direct email
- participation in trade shows and industry events
- customer programs, including user meetings and our online customer community
- public relations
- annual customer conference

We typically enter into two-year, organization-wide subscription agreements with our customers, with pricing based on the number of end users in the customer's organization and the number of modules requested by the customer. We license our TM solution under a subscription-based revenue model, by which a subscription fee is paid by customers annually at the beginning of each year of the term of the agreement. Our customers may choose whether to access our software on-demand (that is, under the SaaS model) or to host it on their own premises, although most customers elect the on-demand model.

Product Development

Our product development team is based entirely at our headquarters in Ottawa, Canada. The team's responsibilities include software development, quality assurance and SaaS operations.

The product development team's primary focus is adding new modules, as well as features and capabilities, to our solution, which, leveraging our SaaS delivery model, are typically deployed to our customer base with no customer actions required. As we do not customize our code for individual customers, our developers work from a single main code stream.

At our current scale, we believe the synergies offered by having the entire team in one location offers the highest return. Our product development expenses net of tax credits received from government sources were \$4.9 million in 2010, \$6.3 million in 2011, and \$7.8 million in 2012. These amounts do not include expenses associated with hosting our SaaS operations.

Operations

SaaS

We physically host our on-demand solution in a secure data centre facility in Calgary, Canada, which is leased from Q9 Networks Inc. This facility features redundant and fault-tolerant systems for power, cooling and Internet connectivity. In addition, the data centre is continuously staffed with security officers and features video surveillance and bullet-resistant entrances equipped with biometric access controls.

Hosting our solution and our customers' data in a data centre facility in Canada allows us to access the European market without the need for an additional European regional data centre. Under a directive of the European Parliament, the transfer of personal data from the EU to a non-EU country is permitted if the non-EU country ensures an adequate level of protection. According to a decision of the Commission of the European Communities issued in 2001 (subsequently confirmed in 2006),¹³ Canadian privacy legislation provides an adequate level of protection of personal data for purposes of the EC directive. Accordingly, we can serve our worldwide customer base without subjecting non-US customers to the US *Patriot Act*.

The integrity of our customers' data is vitally important to us, and to that end we electronically monitor the security of our hosting solution. As a further safeguard, in addition to our internal audits, we regularly engage in third-party audits of our operations to confirm we are operating in accordance with SSAE No. 16 Type II and ISAE No. 3402 Type II standards. All transactions to our on-demand environment, including customer data, are encrypted. Data backups are multi-stage and geographically separated. We leverage Oracle Corporation's and NetApp, Inc.'s capabilities to facilitate disk-to-disk backup to a remote data centre, where tape backups are conducted. The tapes are moved to secure storage at a third site.

Required capacity on our on-demand system grows in line with our sales growth and is designed and built to handle peak usage periods effectively. Further, the design of our system has been shown to scale readily by adding additional server farms (a group of servers on which applications and data are stored for a certain number of our customers) to our system in parallel with existing farms. As part of the same design, our application servers are clustered to allow failover without affecting users.

Our TM software is primarily deployed in a combination single-tenant and multi-tenant environment. The application shares common resource files, with each customer using its own Oracle database schema.

Technology

Our solution is a Java and JavaScript based application leveraging Oracle's and Microsoft's relational database management systems. Most of our customers prefer to deploy our on-demand solution, but a small minority of customers elect an on-premises configuration to maintain greater control over their own data. Both configurations use the same code base, and are accessed by our customers via a standard web browser. Some elements of the solution have also been optimized for mobile devices employing an HTML5-based solution.

Since its creation, delivery of our on-demand solution has reduced our customers' reliance upon their information technology organizations. Instead, initial setup of the TM suite is facilitated by Halogen implementation specialists who are expert users of our suite. Configuring our system requires no programming knowledge. Ongoing administration of the system is usually handled within the human resources department of most of our customers.

¹³ Commission Decision of 20 December 2001 pursuant to Directive 95/46/EC of the European Parliament and of the Council on the adequate protection of personal data provided by the Canadian Personal Information Protection and Electronic Documents Act, 2002/2/EC, [2002] O.J.L. 002, 04/01/2002, pp. 13-16; confirmed in Commission Staff Working Document SEC(2006) 1520 (20 November 2006).

Our flexible, configurable solution allows our customers to easily streamline their existing manual processes. The resulting forms closely emulate the paper-based original, eliminating or greatly decreasing rollout costs. Deeper integration of our solution into an organization's workflow is achieved with minimal assistance from our customers' information technology groups. Our HRIS Connect module is used to connect to existing systems (such as payroll systems) and to their enterprise resource planning systems.

Our software is maintained as a single code base, and incorporates single tenant components for data storage (no data of one customer is intertwined with data from another customer) and multi-tenant components for certain applications. This architecture scales and suits the needs of our customers.

Our TM suite is currently available in the following languages: English (US, UK), Brazilian Portuguese, French, Italian, German, Spanish, Danish, Finnish, Dutch, Norwegian, Swedish, Arabic, Turkish and Simplified Chinese (although administrator capabilities are currently available only in English).

Competition

The overall market for TM solutions is fragmented, rapidly evolving and highly competitive. The most common type of competitive solution among mid-market organizations consists of processes based on generic desktop applications that are not specifically designed for TM. We also face competition from software vendors that include, without limitation, Automatic Data Processing, Inc., Cornerstone OnDemand, Inc., HealthStream, Inc., International Business Machines Corporation (incl. Kenexa Corporation), Oracle Corporation (incl. Taleo Corporation), SAP AG (incl. SuccessFactors, Inc.), SilkRoad Technology, Inc., The Ultimate Software Group, Inc. and Workday, Inc.

We expect that the competitive landscape will change as the market for TM software consolidates and matures. We believe the principal competitive factors in the mid-market segment of the TM industry include the following:

- customer experience
- total cost of ownership
- breadth and depth of product functionality
- ease of use of solutions
- security, scalability and reliability of solutions
- brand awareness and reputation
- size of customer base and level of user adoption

We believe we compete favourably with respect to most of these factors in the mid-market. However, many of our competitors and potential competitors have substantially greater name recognition, longer operating histories, larger marketing budgets and significantly greater resources than we do. Our competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we can to ours, which could allow them to respond more quickly and effectively to new technologies and changes in customer needs. Additionally, our competitors may offer or develop products or services that are superior to ours or that achieve greater market acceptance. See "Risk Factors – Competition".

Intellectual Property

In accordance with industry practice, we protect our proprietary rights through a combination of copyright, trademark, trade secret laws and contractual provisions. The source code for our software is protected under Canadian and applicable international copyright laws. We currently have no issued patents or pending patent applications. In the future, we may file patent applications, but patents might not be issued with respect to these patent applications, or if patents are issued, they might not provide us with any competitive advantages, might not be issued in a manner that gives us the protection that we seek and might be successfully challenged by third parties.

We generally license our software pursuant to agreements that impose restrictions on our customers' ability to use the technology, such as prohibiting reverse engineering, limiting the use of software copies and restricting access and use of our source code.

We also seek to avoid disclosure of our intellectual property and proprietary information by requiring employees and consultants to execute non-disclosure and assignment of intellectual property agreements. Such agreements require our employees and consultants to assign to us all intellectual property developed in the course of their employment or engagement. We also utilize non-disclosure agreements to govern interaction with business partners and prospective business partners and other relationships where disclosure of proprietary information may be necessary.

Our software includes software components licensed from third parties, including open source software. We believe that we follow industry best practices for using open source software and that replacements for this third-party licensed software are available either as open source software or on commercially reasonable terms.

We have registered the trade-marks "Halogen", "Halogen Software & Design" and "Be Brilliant" and "Big Picture Talent Management" in Canada, the United States and certain other jurisdictions. We have registered and maintain the registration of a variety of domain names that include "halogensoftware" or variations of it.

The enforcement of our intellectual property rights also depends on any legal actions against any infringers being successful, but these actions may not be successful or may be prohibitively expensive, even when our rights have been infringed.

Facilities

Our principal office is located in Ottawa, Canada, where we occupy approximately 60,000 square feet of space. We have additional facilities in London, UK, and Sydney, Australia. We currently plan to expand our facilities in Ottawa and Australia, but otherwise we believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate planned expansion of our operations.

CORPORATE STRUCTURE

Halogen Software Inc. was incorporated under the *Business Corporations Act* (Ontario) (the “OBCA”) on January 9, 1996 as Manta Corporation. Our name was changed to Halogen Software Inc. by articles of amendment dated June 29, 2001. Our articles were amended on June 26, 2008 to, among other things, authorize us to issue Class B Preferred Shares. Immediately before the completion of the Offering, we will amend our articles to delete the Class B Preferred Shares from our authorized capital, to consolidate the Class A Common Shares on a 1.5 to 1 basis and to redesignate the Class A Common shares as Common Shares. See “Reorganization”. Unless otherwise indicated, all information in this prospectus gives effect to the Reorganization.

Our head office and registered office is located at 495 March Road, Ottawa, Ontario, Canada K2K 3G1. We also have offices in the United Kingdom and Australia.

Halogen has the following subsidiaries, each of which is wholly-owned by Halogen:

- Halogen Software Limited was incorporated under the laws of the United Kingdom on March 11, 2011, and operates as a sales and services centre for the Company’s activities in Europe, the Middle East and Africa.
- Halogen Software Australia Pty Ltd was incorporated under the laws of Australia on January 13, 2012 and operates as a sales and services centre for the Company’s activities in Australia and New Zealand.
- Halogen Software (US) Inc. was incorporated under the laws of Delaware on January 3, 2000 and operates as a sales centre for the Company’s activities in the United States.

Unless otherwise noted or the context indicates otherwise “Halogen”, “we”, “us” and “our” refer to Halogen Software Inc. and its subsidiaries.

USE OF PROCEEDS

We expect to receive \$ ● in net proceeds from the Treasury Offering (\$ ● if the Over-Allotment Option is exercised in full), after deducting fees payable by us to the Underwriters in connection with the Treasury Offering and the estimated expenses of the Offering.

We intend to use the net proceeds from the Offering as follows:

- approximately 25% to grow our operations, including:
 - to strengthen our North American sales and marketing operations;
 - to expand our presence in the United Kingdom and Australia; and
 - to expand our operations into new geographies; and
- approximately 10% for product development with a view to adding additional modules, functionality and content to our current product suite.

The remaining net proceeds are expected to be used for balance sheet strength, working capital, general corporate purposes and selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. Any such acquisitions or investments will be made in accordance with our growth strategy. Although we may, from time to time, evaluate potential acquisition and investment opportunities, we have no agreements or commitments with respect to any particular transaction of this nature. See “Our Business – Growth Strategy”.

While we currently anticipate that we will use the net proceeds of the Treasury Offering as set forth above, we may re-allocate the net proceeds from time to time depending upon our growth strategy relative to market and other conditions in effect at the time. Until we use the net proceeds, we expect to invest them in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

We have never declared dividends on our Common Shares in the past. Following the Offering, we currently intend to reinvest all future earnings in order to finance the development and growth of our business. As a result, we do not intend to pay dividends on our Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends and any other factors that the Board of Directors deems relevant.

REORGANIZATION

Conversion of Preferred Shares, Consolidation and Redesignation

We are currently authorized to issue an unlimited number of Class A Common shares and 6,366,723 Class B Preferred Shares. Immediately before the completion of the Offering, all of the 6,366,723 Class B Preferred Shares (4,244,482 shares on a post-consolidated basis) will be converted into Class A Common shares on a one-for-one basis.

Immediately following the conversion of the Class B Preferred Shares into Class A Common shares, we will amend our articles to (i) consolidate the Class A Common shares on a 1.5 to 1 basis, (ii) redesignate the Class A Common shares as Common Shares, and (iii) delete the Class B Preferred Shares from our authorized capital.

The conversion of the Class B Preferred Shares into Class A Common shares and the amendment of our articles described above are referred to in this prospectus as the “Reorganization”. Except as otherwise noted, the information in this prospectus assumes the completion of the Reorganization. As of the date of this prospectus, assuming the Reorganization has been completed as of such date and without taking into account the exercise of the Over-Allotment Option or the options described under “Options to Purchase Securities”, there were 16,515,617 Common Shares outstanding. See “Description of Share Capital”.

Reduction of Stated Capital

Pursuant to Section 34(1) of the *Business Corporations Act* (Ontario), a corporation may reduce the stated capital of any class of its shares for any purpose, including a reduction of the stated capital account of a class of shares by an amount that is not represented by realizable assets. The shareholders of the corporation must authorize a reduction in the stated capital account of any class of shares by special resolution.

As at December 31, 2012, the deficit of the Company was \$48.9 million. A significant portion of the deficit has directly resulted from the increase in value of \$26.2 million recorded on the Class B Preferred Shares. Immediately prior to the completion of the Offering, these shares will automatically convert into Class A Common shares, and such Class A Common shares will be consolidated on a 1.5 to 1 basis and redesignated as Common Shares. The fair value of the liability recorded on the Statement of Financial Position as at the date of conversion will be transferred into share capital. As such, the Class B Preferred Shares will over time have increased both the share capital and deficit of the Company. Based on the Board’s assessment of the Company’s financial requirements and the value of its net realizable assets, the Board determined that the Company should reduce the stated capital account of the Common Shares. Prior to the Closing, we will propose to our shareholders that the stated capital account of the Common Shares be reduced by \$32,314,000. Such amount is equal to the amount of the accumulated deficit of the Company that arose as a result of the increase in value of the Class B Preferred Shares as of March 31, 2013, calculated in accordance with IFRS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of our financial condition as at March 31, 2013 and 2012 and December 31, 2012 and 2011 and results of operations for the three months ended March 31, 2013 and 2012 and the fiscal years ended December 31, 2012, 2011 and 2010. The MD&A should be read in conjunction with our consolidated financial statements and accompanying notes that are included elsewhere in this prospectus. All audited financial information presented in this prospectus has been prepared in accordance with IFRS.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding developments in Halogen's operations in future periods, adequacy of financial resources and future plans and objectives of Halogen. Actual results could differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the sections entitled "Forward-Looking Statements" and "Risk Factors" and elsewhere in this prospectus. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on this forward-looking information.

Overview

We are a leading provider of comprehensive SaaS-based talent management solutions primarily targeted at customers in the mid-market. Maximizing performance and productivity of human capital is of paramount importance to almost all organizations. Companies are challenged to empower their employees and align these employees with performance objectives as well as the strategic direction of the business. Our customers address these challenges by using our powerful suite of integrated TM solutions to recruit top talent, align goals, assess and develop employees, provide feedback and recognition, enhance employee engagement, build a pay-for-performance culture and manage succession. We enhance our solution with vertical offerings that include features, services and content for specific vertical market segments.

The Company was incorporated in 1996, yet did not begin selling its performance management software solution until 2002. The solution was originally sold under a perpetual-based license model; however, in late 2006, the Company began selling the solution under a subscription-based model, allowing customers a choice between the two licensing models. In early 2009, the Company stopped selling perpetual licenses to new customers. Since December 31, 2011, the only perpetual licenses sold by the Company are to existing legacy customers that are purchasing additional seats of products already owned under the perpetual licensing model. Therefore, we expect that revenue from perpetual licenses will remain relatively low for the foreseeable future and, at some point, will likely become immaterial to the business.

As at December 31, 2012, we had over 1,750 customers. We believe we have one of the largest customer bases in the talent management marketplace, and no one customer represents more than 2% of our total revenue.

We believe that the market for TM remains large and under-penetrated, providing us with significant growth opportunities. We have focused on growing our business to pursue this significant market opportunity, and we plan to continue to invest in building for growth. We intend to pursue opportunities in the market and aggressively expand our customer base by increasing our deployment of sales professionals and expanding our marketing efforts in North America, the United Kingdom, Australia and other geographic areas in which we currently do not have a presence. Additionally, we intend to continue to increase revenue from our existing customer base through the sale of additional seats and modules, to develop new solutions and modules to expand our total addressable market and to selectively pursue acquisitions that will complement our existing offerings in an effort to accelerate our growth, enhance the capabilities of our existing solution and broaden our solution offerings.

Key Performance Indicators

Key performance indicators that we use to manage our business and evaluate our financial results and operating performance include: recurring revenue, customer retention rates, total revenue, number of customers and expenses. We evaluate our performance on these metrics by comparing our actual results to management budgets, forecasts and prior period performance.

Recurring revenue and retention rates

Our subscription customers generally enter into two-year agreements, paid annually in advance, for use of our solution. The overwhelming majority of those subscription agreements include provisions by which they automatically renew on a year-to-year basis following the initial two-year term. In addition, customers may acquire licenses for additional modules or additional seats.

Our subscription model results in a high proportion of recurring revenue – 80% or greater in each of the last three years. The power of the subscription licensing model is only fully realized when a vendor has high retention rates. High customer retention rates generate a long customer lifetime and a very high lifetime value of the customer. Our retention rates are over 90% on a customer basis and over 100% by dollar value, which includes sales of additional modules and additional seats to existing customers. Our emphasis on recurring revenue has resulted in continued growth in our revenue over the past several years.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. Typically, more than 90% of our quarterly revenue is recognized from customers that were in place at the beginning of the quarter. However, this also means that agreements with new customers or agreements with existing customers purchasing additional modules or seats in a quarter may not contribute significantly to current quarter revenue. As an example, a new customer who enters into an agreement on the last day of a quarter will have no impact on the revenue recognized in that quarter.

Number of customers

We believe that our ability to expand our customer base is an indicator of our market penetration and the growth of our business. We define customers as the number of independent entities that are separately billed.

Significant Factors Affecting Results of Operations

Our results of operations are influenced by a variety of factors, including:

Revenue

The Company reports its revenue under three categories, namely, recurring, professional services and license.

Recurring revenue is derived from annual subscription fees from customers using our TM solution, as well as the maintenance, support and hosting charges from our legacy perpetual license customers. Also included in recurring revenue are additional annual consulting and support services customers may purchase beyond the standard support that is included in the basic subscription fees.

Professional services are comprised of one-time consulting services, including implementation services, billable expenses, technical services and training. Customers must use the services within 12 months of signing a contract. Also included in professional services is revenue from our annual customer conference. This conference is held in the third quarter of the year and results in higher professional services revenue and cost of revenue.

License revenue relates only to the Company's legacy perpetual license customers who are purchasing additional licenses for software they have previously purchased. We previously offered our solution under a perpetual license model, but subsequently moved to a subscription model, with all new customers since early 2009 acquiring our product on a subscription basis. We will now only sell additional licenses to customers who own existing modules previously sold under the perpetual license model. We expect that revenue from the sale of new perpetual licenses will fluctuate significantly from period to period but will continue to decrease over time as customers who want to purchase additional modules move to the subscription model.

Cost of revenue

Recurring cost of revenue includes the cost of our secure data facility where we physically host our on-demand solution, our customer support department and a portion of the technical services and training department costs related to providing services under annual support contracts. The costs of the two departments consist primarily of employee-related expenses and corporate overhead costs.

Professional services cost of revenue consists primarily of salaries, contract fees and other employee benefits for the portion of our training and consulting departments that are providing one-time services. We also include allocated overhead costs and any travel costs incurred in the process of providing these services. Some of these travel-related expenditures are charged back to the customer.

Sales and marketing expenses

Sales and marketing expenses consist primarily of salaries and related expenses for our sales and marketing staff, including commission payments, which are fully paid and expensed once the effective date of the contract has occurred. Sales and marketing expenses also include marketing program expenses, payments to partners and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities.

We plan to continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We expect that in the future, sales and marketing expenses will increase in absolute dollars and continue to be one of our largest costs.

Research and development (“R&D”) expenses

R&D expenses include the costs of our research and development team and product management team. Costs mainly consist of salaries and other benefits, consulting costs and allocated overhead.

In the periods prior to the Offering, research and development expenses are recorded net of scientific research and experimental development (“SR&ED”) investment tax credits received for qualifying expenditures. As a Canadian controlled private corporation, these tax credits were refundable. As a public company, we will only record the tax credit to the extent it is probable we will be able to use the tax credits to reduce taxes owing. As the Company has a history of losses, we do not expect to record these tax credits in the near term, which will result in higher R&D expenses in the near term. Further, we anticipate that spending on R&D will also be higher in absolute dollars as we expand our research and development and product management teams.

General and administrative expenses

General and administrative expenses consist of salaries and related expenses for finance and accounting, legal, human resources and information systems personnel, legal costs, professional fees, foreign exchange gains and losses, other corporate expenses and allocated overhead. We expect that, in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee-related costs and professional fees related to the growth of our business and international expansion.

Our presentation and functional currency is US dollars and all of the amounts in this management discussion and analysis are in US dollars unless otherwise indicated. We derive most of our revenue from customers who pay in US dollars. Our head office and most of our employees are located in Ottawa, Canada, and as such a significant amount of our expenses are paid in Canadian dollars. We manage some of the impact of foreign exchange rate fluctuations on our results through the purchase of forward contracts.

Loss related to change in fair value of redeemable preferred shares

Immediately before the completion of the Offering, all of the redeemable, convertible preferred shares will be converted into common shares of Halogen on a one-for-one basis. As a result, the corresponding liability will be reduced to nil, with a corresponding increase in share capital. We have recorded significant losses related to this liability in each of the years presented. Going forward there will be no impact to our result of operations from these shares.

Results of Operations

The following table sets forth a summary of key results of operations as at and for the periods ended March 31, 2013 and 2012 and December 31, 2012, 2011 and 2010:

	Three months ended/ as at March 31,		Year ended/as at December 31,		
	2013	2012	2012	2011	2010
	(thousands of dollars) (except per share amounts)				
Total revenue	\$11,586	\$ 8,785	\$ 38,003	\$31,017	\$22,742
Gross margin	8,851	6,289	27,381	21,856	15,549
Expenses	10,064	6,891	32,725	29,043	18,281
Income (loss) from operations	(1,213)	(602)	(5,344)	(7,187)	(2,732)
Net income (loss)	(7,306)	(7,970)	(19,578)	(9,934)	(7,767)
Earnings (loss) per share	(0.40)	(0.44)	(1.07)	(0.55)	(0.43)
Total assets	22,144	22,276	22,752	22,632	25,528
Deferred revenue	22,660	18,498	22,931	18,761	14,278
Cash flow provided by (used in) operating activities	(412)	252	1,329	(1,477)	2,727

Discussion of Operations – Three-month periods ending March 31, 2013 and 2012

Revenue

The following is a breakdown of revenue into the significant types of revenue:

	Three months ended March 31,		2012 to 2013 % change
	2013	2012	
	(thousands of dollars)		
Recurring	\$10,007	\$7,544	33%
Professional services	1,283	1,114	15%
License	296	127	133%
Total revenue	<u>\$11,586</u>	<u>\$8,785</u>	<u>32%</u>

We recorded total revenue in the first quarter of 2013 of \$11.6 million, an increase of 32% when compared to the same period in 2012. Revenue is analyzed by category as follows:

Recurring revenue

Subscription revenue in the first quarter of 2013 was \$10.0 million, up 33% when compared to the \$7.5 million recorded in the same period in 2012. Increases in recurring revenue have been driven by the addition of net new customers over the last year and additional seat and module sales to our existing customers. Our recurring revenue was also impacted in the first quarter of 2013 by approximately \$300,000 (2012 – \$100,000) for additional licenses used in 2012 by our customers which were not billed until 2013. Our standard contract allows us to audit our customers' use of the software to determine if additional licenses are being used over and above the number contracted. In this case, we will charge customers for the additional licenses and recognize the amount relating to prior periods immediately into revenue. The majority of these billings for 2011 (approximately \$200,000) were recorded in the second quarter of 2012.

Professional services revenue

Professional services revenue was \$1.3 million in the first quarter of 2013, up 15% when compared to the same period in 2012. The increase in revenue in the first quarter of 2013 as compared to the same period last year is the combination of a higher volume of sales and also increased service delivery.

License revenue

Since early 2009, no new customers have been able to purchase perpetual licenses. Further, beginning in 2012, we no longer sold perpetual licenses to existing customers when purchasing new modules (i.e. existing customers could

only purchase a perpetual license for additional seats of existing modules). License revenue increased 133% in the first quarter of 2013 as compared to the first quarter of 2012. The majority of the license revenue was the result of billing customers for licenses they were using in the previous year but had previously not been contracted to purchase, similar to the subscription customers as described above. We anticipate this stream of revenue to fluctuate from period to period and to diminish over time.

Gross margin

	Three months ended		2012 to 2013
	March 31,		
	2013	2012	% change
	(thousands of dollars)		
Recurring	\$8,052	\$5,830	38%
Professional services	507	335	51%
License	<u>292</u>	<u>124</u>	<u>135%</u>
Gross margin	\$8,851	\$6,289	41%
Gross margin %	76%	72%	

Our overall gross margin as a percentage of revenue for the first quarter of 2013 has improved by 4 percentage points over the same period in 2012. Our improved margin is mainly due to increased economies of scale achieved by higher revenue levels. The Company is anticipating its gross margin percentage to return to the low 70's in the near-to-mid-term as planned investments in our on-demand services group will result in higher costs.

Sales and marketing expenses

	Three months		2012 to 2013
	ended March 31,		
	2013	2012	% change
	(thousands of dollars)		
Sales and marketing	\$5,362	\$4,081	31%
As a percentage of revenue	46%	46%	

Sales and marketing expenses were \$5.4 million in the first quarter of 2013 as compared to \$4.1 million for the same period in 2012, an increase of 31%. The main driver for the increase in spending is the expansion of our sales force both domestically and internationally over the last twelve months. We also increased our marketing program investment as we expanded our market presence.

As a percentage of revenue, sales and marketing expenses were flat when comparing the first quarter of 2013 with the first quarter of 2012. As our revenues have increased, our spending in this area has increased proportionately in order to drive continued growth and revenue. We anticipate expenditures in this area to continue to increase in absolute dollars, but the extent of the increase will depend on the timing of marketing programs, the on-boarding of additional sales representatives and the expansion of our new foreign offices.

Research and development

	Three months		2012 to 2013
	ended March 31,		
	2013	2012	% change
	(thousands of dollars)		
Research and development – gross	\$2,707	\$2,208	23%
Less: SR&ED tax credit	<u>(325)</u>	<u>(300)</u>	8%
Research and development	<u>\$2,382</u>	<u>\$1,908</u>	25%
As a percentage of revenue	21%	22%	

R&D expenses for the first quarter of 2013 were \$2.4 million, which was 25% higher than in the same period in 2012. The growth in spending was driven by higher headcount and thus higher compensation costs. The increase in headcount was the result of our effort to expand our product portfolio and introduce new features into our existing platforms.

In the first quarters of 2013 and 2012, we utilized SR&ED investment tax credits in order to offset a portion of our R&D spending; however, we do not expect to have this cost offset after the completion of the Offering.

R&D expenses as a percentage of revenue is about the same in both periods presented. We feel it is critical that we invest in R&D to ensure that we continue to evolve our software and expand its scope, while ensuring that it remains simple to implement and easy to use. We expect our investment in R&D to increase in absolute dollars.

General and administrative expenses

	Three months ended March 31,		2012 to 2013 % change
	2013	2012	
	(thousands of dollars)		
General and administrative – gross	\$1,918	\$1,533	25%
Foreign exchange (gain) loss	402	(631)	
General and administrative – net	\$2,320	\$ 902	157%
As a percentage of revenue – gross	17%	17%	
As a percentage of revenue – net	20%	10%	

In the first quarter of 2013, general and administrative costs were up 157% to \$2.3 million from the first quarter of 2012. The increase in our general administrative costs was primarily caused by the recognition of a \$402,000 foreign currency exchange loss in the period as opposed to a gain of \$631,000 recorded in the first quarter of 2012.

General and administrative costs as a percentage of revenue, after adjusting for the impact of foreign exchange, has remained unchanged at 17% when comparing the first quarters of 2013 and 2012. Spending in general and administrative expenses has increased due to higher headcount and consulting costs that we incurred in order to continue the growth in the business and preparing for the Offering. The Company expects general and administrative costs to increase in future quarters as a result of higher costs associated with the Company transitioning to a publicly-traded company.

Operating income (loss)

	Three months ended March 31,		2012 to 2013 % change
	2013	2012	
	(thousands of dollars)		
Operating income (loss)	\$(1,213)	\$(602)	(101%)

Our operating loss was \$1.2 million for the first quarter of 2013 as compared to a loss of \$602,000 for the same period in 2012. Consistent with our annual results, these losses are the result of our investing in the business with a focus on growing revenue, and not the short-term profitability of the business. As a result, we have allowed our expenses to outpace our revenue. The nature of our business is such that the majority of our cash inflows are recorded as deferred revenue rather than as revenue and, as a result, we can be cash flow positive while still incurring net losses in a given period.

The increase in the operating loss from 2012 to 2013 was significantly impacted by foreign exchange. For the three-month period ended March 31, 2013, we recorded a loss from foreign exchange of \$402,000, compared to a gain in the same period of 2012 of \$631,000.

Net income (loss)

	Three months ended March 31,		2012 to 2013 % change
	2013	2012	
	(thousands of dollars)		
Net income (loss)	\$(7,306)	\$(7,970)	8%

Our net loss was \$7.3 million in the first quarter of 2013 as opposed to an \$8.0 million loss for the same period last year. The primary driver of our net losses in both periods was the fair value adjustments of our redeemable preferred shares. While the preferred shares have not negatively affected our cash flows in these periods, they have increased our net loss by \$6.1 million and \$7.4 million in the first quarter of 2013 and 2012, respectively. These shares will convert to common shares immediately prior to the completion of the Offering and will no longer impact earnings.

Discussion of Operations – Years ended December 31, 2012, 2011 and 2010

Revenue

The following is a breakdown of revenue into the significant types of revenue:

	Year ended December 31,			2011 to 2012 % change	2010 to 2011 % change
	2012	2011	2010		
	(thousands of dollars)				
Recurring	\$32,661	\$25,001	\$18,181	31%	38%
Professional services	4,517	4,482	3,780	1	19
License	825	1,534	781	(46)	96
Total revenue	\$38,003	\$31,017	\$22,742	23%	36%

We recorded total revenue in 2012 of \$38.0 million, an increase of 23% from 2011. Our total revenue in 2011 was \$31.0 million, an increase of 36% over 2010 revenue. Revenue is analyzed by category as follows:

Recurring revenue

Subscription revenue has grown from \$18.2 million to \$32.7 million over the last two years, which represents an increase of 31% from 2011 to 2012 and 38% from 2010 to 2011. Increases in recurring revenue have been driven by the addition of new customers over the last two years and additional seats and module sales to our existing customers. Further contributing to the increase in revenue in 2012 has been the sale of annual professional services, which are services we began offering on a subscription basis in late 2011 and continued to increase in 2012.

Professional services revenue

Professional services revenue was \$4.5 million in 2011 and 2012, which grew 19% from 2010. Professional services revenue was flat in 2012 as compared to 2011 as a result of the introduction of our annual professional service offering, which caused some of our service revenue previously sold on a one-time basis and recognized in professional services to be delivered as recurring services and recognized in recurring revenue.

License revenue

Since early 2009, no new customers can purchase perpetual licenses. Further, beginning in 2012, we are no longer selling perpetual licenses to existing customers when selling new modules. We saw license revenue increase in 2011 by 96% to \$1.5 million as customers were purchasing licenses in advance of us applying end of life conditions on these products. Consequently, license revenue was down 46% in 2012 from 2011. We anticipate this stream of revenue to fluctuate from period to period and continue to diminish over time.

Gross margin

	Year ended December 31,			2011 to 2012 % change	2010 to 2011 % change
	2012	2011	2010		
	(thousands of dollars)				
Recurring	\$25,462	\$19,261	\$13,425	32%	43%
Professional services	1,113	1,117	1,443	0%	(23%)
License	806	1,478	681	(45%)	117%
Gross Margin	\$27,381	\$21,856	\$15,549	25%	41%
Gross Margin %	72%	70%	68%		

Our overall gross margin as a percentage of revenue has improved by 2% in each of the last two years. Our improved margin is mainly due to increased economies of scale achieved by higher revenue levels. The Company is anticipating its gross margin percentage to remain relatively flat in the near term as investments in our on-demand hosting environment will likely offset savings from economies of scale.

Sales and marketing expenses

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
	(thousands of dollars)				
Sales and marketing	\$18,515	\$13,892	\$9,712	33%	43%
As a percentage of revenue	49%	45%	43%		

Sales and marketing expenses have seen year-over-year increases from 2010 through 2012, with increases of 33% and 43% from 2011 to 2012 and from 2010 to 2011, respectively. The main driver for the increase in spending is the expansion of our sales force both domestically and internationally over the last three years. We have opened offices in the United Kingdom and Australia as well as expanded in North America. We also saw higher marketing program investment as we expanded our market presence.

As a percentage of revenue, sales and marketing expenses were 4% higher in 2012 compared to 2011 and 2% higher in 2011 compared to 2010. We anticipate expenditures in this area to increase in absolute dollars, but the extent of the increase will depend on the timing of marketing programs and the on-boarding of additional sales representatives and expansion and opening of new foreign offices.

Research and development

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
	(thousands of dollars)				
Research and development – gross	\$ 9,314	\$ 7,897	\$ 6,246	18%	26%
Less: SR&ED tax credit	(1,555)	(1,623)	(1,334)	(4%)	22%
Research and development	<u>\$ 7,759</u>	<u>\$ 6,274</u>	<u>\$ 4,912</u>	24%	28%
As a percentage of revenue	20%	20%	22%		

R&D expenses for 2012 were \$7.8 million, which was 24% higher than in 2011. In 2011, R&D expenses were \$6.3 million, which was 28% higher than in 2010. The growth in spending in each of the last two years was driven by higher headcount and thus higher compensation costs. The increase in headcount was the result of our effort to expand our product portfolio and introduce new features into our existing platforms.

In all three years, we utilized SR&ED investment tax credits in order to offset a portion of our R&D spending; however, we do not expect to have this cost offset after the completion of the Offering.

R&D expenses as a percentage of revenue has remained consistent at 20% over the last two years. We feel it is critical that we invest in R&D to ensure that we continue to evolve our software and expand its scope, while ensuring that it remains simple and easy to use. We expect our investment in R&D to increase in absolute dollars.

General and administrative expenses

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
	(thousands of dollars)				
General and administrative	\$6,451	\$8,877	\$3,657	(27%)	143%
As a percentage of revenue	17%	29%	16%		

In 2012, general and administrative costs were down \$2.4 million (27%) to \$6.5 million from 2011. After adjusting 2011 expenses to remove the impact of a one-time litigation charge, spending in general and administrative would have increased in 2012. The increased spending is attributable to higher headcount and consulting costs that we incurred in order to continue the growth in the business.

General and administrative costs were \$8.9 million in 2011, which was \$5.2 million (143%) higher than in 2010. The increase in spending from 2010 was primarily driven by a litigation charge incurred during 2011. Further contributing to the increase in spending were additional employee-related expenses necessitated by the growth in the business.

In 2012, general and administrative costs were approximately 17% of revenue. The Company expects general and administrative costs to increase as a result of higher costs associated with the Company transitioning to a publicly-traded company.

Operating income (loss)

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
	(thousands of dollars)				
Operating income (loss)	\$ (5,344)	\$ (7,187)	\$ (2,732)	26%	(163%)

Our operating loss was \$5.3 million in 2012 compared to \$7.2 million and \$2.7 million in 2011 and 2010, respectively. These losses are the result of our investing in the business with a focus on growing revenue and not the short-term profitability of the business. As a result, we have allowed our expenses to outpace our revenue. The nature of our business is such that the majority of our cash inflows are recorded as deferred revenue rather than as revenue and, as a result, we can be cash flow positive while still incurring net losses in a given period. Our 2011 loss was also impacted by one-time expenses related to a lawsuit settled in June of that year.

Net income (loss)

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
	(thousands of dollars)				
Net Income (loss)	\$ (19,578)	\$ (9,934)	\$ (7,767)	(97%)	(28%)

Our net loss was \$19.6 million in 2012 as opposed to \$9.9 million and \$7.8 million in 2011 and 2010, respectively. Beyond the impact of operating losses, as noted above, the other driver of our annual net losses is the fair value adjustments related to our redeemable preferred shares. While the preferred shares have not negatively affected our cash flows in these years, they have increased our net loss by \$14.3 million, \$2.9 million and \$5.1 million in 2012, 2011 and 2010, respectively. These shares will convert to common shares immediately before the completion of the Offering and will no longer impact earnings.

Adjusted EBITDA

Limitations on the use of non-IFRS financial measures

Adjusted EBITDA does not have a uniform definition. Our definition will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-IFRS measure of Adjusted EBITDA should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with IFRS.

There are inherent limitations with non-IFRS measures; we compensate for these limitations by reconciling Adjusted EBITDA to the most comparable IFRS financial measure. Management encourages investors and others to review our financial information in its entirety, not to rely on any single financial measure, and to view our non-IFRS financial measures in conjunction with the most comparable IFRS financial measures.

Reconciliation to IFRS net income (loss)

	<u>Year ended December 31,</u>			<u>2011 to 2012</u>	<u>2010 to 2011</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>% change</u>	<u>% change</u>
	(thousands of dollars)				
Net income (loss)	\$(19,578)	\$(9,934)	\$(7,767)	(97%)	(28%)
Loss related to change in fair market value of redeemable preferred shares	14,329	2,891	5,092	396%	43%
Interest income (expense) and other, net	(100)	(153)	(57)	35%	(168%)
Depreciation and amortization	2,007	1,744	1,109	15%	57%
Share-based compensation	189	165	37	15%	346%
Litigation costs	—	3,374	—	100%	100%
Adjusted EBITDA	\$ (3,153)	\$(1,913)	\$(1,586)	(65%)	(21%)

	<u>Three months ended March 31,</u>		<u>2012 to 2013</u>
	<u>2013</u>	<u>2012</u>	<u>% change</u>
	(thousands of dollars)		
Net income (loss)	\$(7,306)	\$(7,970)	8%
Loss related to change in fair market value of redeemable preferred shares	6,099	7,389	(17%)
Interest income (expense) and other, net	(19)	(21)	(10%)
Depreciation and amortization	524	479	9%
Share-based compensation	52	45	16%
Adjusted EBITDA	\$ (650)	\$ (78)	(733%)

Adjusted EBITDA has been in a loss position in each of the last three years. The decrease in Adjusted EBITDA when comparing the first quarter of 2013 to the first quarter of 2012 is significantly impacted by foreign exchange. The decrease in Adjusted EBITDA, when comparing 2012 to 2011 of \$1.2 million and 2011 to 2010 of \$0.3 million, is principally the result of our increased spending in both sales and marketing and research and development.

Key balance sheet items

	<u>As at March 31,</u>	<u>As at December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(thousands of dollars)		
Total Assets	\$22,144	\$22,752	\$22,632
Total Liabilities	75,545	68,935	49,455

Our balance sheet has several key items that are necessary to analyze in order to gain a full understanding of our financial results. The following analysis explains those items.

Trade and other receivables

	<u>As at March 31,</u>	<u>As at December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(thousands of dollars)		
Trade and other receivables (net)	\$6,729	\$6,961	\$5,831
Days sales outstanding (“DSO”)	54 days	50 days	50 days

As at March 31, 2013, our trade receivables balance was \$6.7 million, which is down 3% from the beginning of the quarter. The change in accounts receivable is mainly attributable to the timing of customer renewals throughout the year. Our Days Sales Outstanding (“DSO”) changed from 50 days at December 31, 2012 to 54 days at March 31, 2013, which was also affected by the timing of renewals. The increase in the DSO in the quarter is consistent with the increase in the first quarter of 2012 when our DSO increased from 50 days to 55 days.

Our business model requires a significant amount of our bookings to be recorded as deferred revenue; therefore, a traditional DSO calculation is not representative of our true collections strength. As a result, we calculate DSO by dividing our receivables balance by our bookings for the previous quarter. We have a diverse group of customers, not one of whom represents greater than 5% of the total receivables balance and, as a result, we feel that our collections risk is relatively low.

As a result of the growth in sales in 2012, our trade receivables balance increased by 19% to \$7.0 million as at December 31, 2012. Although the balance increased year over year, we were able to hold our DSO constant at 50 days.

Investment tax credits receivable

	As at March 31, 2013	As at December 31,	
		2012	2011
	(thousands of dollars)		
Investment tax credit receivable	\$1,531	\$1,206	\$1,180

Investment tax credits receivable are estimated refunds we anticipate receiving as a result of R&D work performed. We have a history of receiving refundable tax credits each year for which we reduce our R&D expenditures on our statements of operations. As a public company following the Offering, we will no longer be eligible for this refundability; however, we will still be eligible for a non-refundable tax credit. This non-refundable tax credit can only be used to reduce taxes owing. The impact of losing the refundable tax credits is that it will reduce cash flows and result in higher R&D expenses going forward.

Deferred revenue

	As at March 31, 2013	As at December 31,	
		2012	2011
	(thousands of dollars)		
Deferred revenue	\$22,660	\$22,931	\$18,761

Our business model results in us billing our customers in advance of providing the service and, as a result, the majority of business is first recorded in deferred revenue and then recognized into revenue over time.

As at March 31, 2013, we had \$22.7 million of deferred revenue, which was down 1% from the December 31, 2012 balance of \$22.9 million and up 22% from March 31, 2012. The decrease in first quarter of 2013 in the deferred revenue balance is primarily attributable to the amount of payments received in advance of renewal dates. We have a lower dollar value of customer contracts renewing in the first quarter which can result in deferred revenue being lower at March 31 than December 31. On March 31, 2012, deferred revenue was also down 1% from the December 31, 2011 balance.

As at December 31, 2012, we had \$22.9 million of deferred revenue, which was up 22% from the December 31, 2011 balance of \$18.8 million. The increase in the deferred revenue balance is attributable to new sales bookings and consistent renewal billings in 2012.

Redeemable preferred shares

	As at March 31, 2013	As at December 31,	
		2012	2011
	(thousands of dollars)		
Redeemable preferred shares	\$47,095	\$40,996	\$26,667

The Company has redeemable preferred shares that have a component designated as financial liabilities in accordance with IFRS. The increase in long-term liabilities is due to the change in the fair value of the redeemable preferred shares. The change in fair value of the redeemable preferred shares resulted in an increase in the liability by \$6.1 million in the quarter (2012 – \$14.3 million), bringing the balance to \$47.1 million as at March 31, 2013. Immediately before the completion of the Offering and the share consolidation, all of our outstanding preferred shares will be converted into

common shares on a one-for-one basis. See “Reorganization”. Therefore, upon completion of the Offering, the Company will no longer have redeemable preferred shares classified as financial liabilities or the associated change in fair value charges to income (loss). As a result, the corresponding \$47.1 million long term liability as at March 31, 2013 will be reduced to \$Nil on the Closing Date.

Summary of Quarterly Results

The following table sets out a selected summary of quarterly results for the eight most recently completed quarters to March 31, 2013. This information has been prepared on the same basis as the annual financial statements appearing elsewhere in this prospectus.

In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Three months ended							
	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011
	(thousands of dollars except per share amounts)							
Revenue								
Recurring	\$10,007	\$ 8,810	\$ 8,235	\$ 8,072	\$ 7,544	\$ 6,966	\$ 6,529	\$ 5,933
Professional service	1,283	1,162	1,262	979	1,114	934	1,418	1,042
License	296	219	239	240	127	454	410	422
Total revenue	11,586	10,191	9,736	9,291	8,785	8,354	8,357	7,397
Gross margin	8,851	7,477	6,847	6,768	6,289	5,950	5,829	5,170
Expenses	10,064	9,284	7,753	8,797	6,891	6,276	7,170	10,175
Income (loss) from operations	(1,213)	(1,807)	(906)	(2,029)	(602)	(326)	(1,341)	(5,005)
Net income (loss)	(7,306)	(6,351)	(1,881)	(3,376)	(7,970)	(1,289)	(1,502)	(6,342)
Earnings (loss) per share (pre-consolidation)	(0.40)	(0.35)	(0.10)	(0.19)	(0.44)	(0.07)	(0.08)	(0.35)

Our expenses have increased steadily over the last eight quarters, which is indicative not only of our focus on revenue growth but also of our efforts to grow our various departments in order to ensure that we have an appropriate infrastructure in the business to support our existing and future customers’ needs. Our expenses fluctuate from period to period depending on the timing of expenditures, including the timing of when marketing programs occur and when any one-time expenditures are incurred.

We have recorded losses in each of the last eight quarters and are anticipating continuing to have losses for the foreseeable future as we continue to focus on growth in revenue and not profitability.

Liquidity and capital resources

	Three months ended March 31, 2013	Year ended December 31,		
		2012	2011	2010
	(thousands of dollars)			
Total cash, cash equivalents and investments	\$8,040	\$8,893	\$10,714	\$14,997

Halogen’s primary source of cash flow has come from the sales of our software and services. We have also increased liquidity through some debt financing at various times in our history. The decrease in cash, cash equivalents and investments is primarily the result of our investment in property, equipment and intangible assets, which is indicative of our focus on cash from operations.

Our approach to managing liquidity is to ensure, to the extent possible, that we will always have sufficient liquidity to meet liabilities as they come due. We do so by continuously monitoring cash flow and actual and budgeted expenses. Furthermore, the Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. At March 31, 2013, the Company had cash and investments totaling \$8.0 million, and we had access to more than \$2.0 million in credit facilities, of which \$182,000 (2012 – \$223,000, 2011 – \$382,000) had been drawn on. As a result, we believe there is sufficient liquidity in order to meet our current and planned financial obligations. The net proceeds from the Treasury Offering will also help in ensuring we have sufficient liquidity, and will also serve to allow the Company to expand and accelerate its growth plans.

The following is a summary of our cash flows provided by (used in) operating activities, investing activities and financial activities for the years indicated:

	Three months ended March 31,		Year ended December 31,		
	2013	2012	2012	2011	2010
	(thousands of dollars)				
Operating activities	\$ (412)	\$ 252	\$ 1,329	\$(1,477)	\$ 2,727
Investing activities	1,491	(1,138)	(1,304)	3,383	(6,705)
Financing activities	(11)	(158)	(431)	(272)	(1,129)
Effect of exchange rates on cash and cash equivalents	(34)	2	8	(92)	34
Increase (decrease) in cash and cash equivalents	1,034	(1,042)	(398)	1,542	(5,073)
Beginning cash and cash equivalents	3,683	4,081	4,081	2,539	7,612
Ending cash and cash equivalents	<u>\$4,717</u>	<u>\$ 3,039</u>	<u>\$ 3,683</u>	<u>\$ 4,081</u>	<u>\$ 2,539</u>

Cash provided by (used in) operating activities

Cash flow provided by (used in) operations, which is generally the net income or loss adjusted for non-cash items, such as the loss related to the change in fair value of the redeemable preferred shares, depreciation and changes in non-cash working capital items, was \$412,000 in the first quarter of 2013, as compared to cash generated of \$252,000 for the same period in 2012. The losses incurred in the quarter were the main driver for the use in cash from operations. The change from a net cash in-flow from operations in the first quarter of 2012 to the net cash out-flow in the first quarter of 2013 is the result of foreign exchange gains and losses and the timing of when receivables were collected and when payments were made in each of the respective periods. For the three-month period ended March 31, 2012, the change in accounts payable and receivable generated \$1.7 million in cash from operations; however, for the same period in 2013, we only saw cash generated of \$0.9 million from these accounts.

Cash flow provided by operations for the full year in 2012 was \$1.3 million as opposed to cash used in 2011 of \$1.5 million and cash provided of \$2.7 million in 2010. The primary driver of the year-over-year change was the litigation costs incurred in 2011. The timing of payments, including payroll, has also had a significant impact on the cash balance at year-end. The change in trade payables and accrued liabilities in 2011 resulted in a use of cash of \$314,000 as compared to cash provided of \$1.8 million in 2012 and \$0.9 million in 2010.

Cash provided by (used in) investing activities

Cash generated by investment activities was \$1.5 million in the first quarter of 2013 as compared to an outflow of \$1.1 million in the first quarter of 2012. The increase in cash from investing activities in the first quarter of 2013 was due to the maturity of some of our investments. The first quarter of 2012 was impacted by the purchase of investments and property, equipment and software, all of which were relatively small in the first quarter of 2013.

Cash used by investment activities was \$1.3 million in fiscal 2012 compared to an inflow of \$3.4 million in 2011 and a cash outflow of \$6.7 million in 2010. The main use of cash related to investing activities is the purchase equipment and software, which in 2012 amounted to \$2.7 million as opposed to \$2.2 million and \$2.7 million in 2011 and 2010, respectively. The year-over-year fluctuations in investing activities also relates to the timing of when our

investments mature and when we invest excess cash. In 2012 and 2011, we have been using our investments to partially fund our operations; therefore, the decrease in our investment holding has resulted in a net increase in cash on our statement of cash flow.

Cash provided by (used in) financing activities

Cash used in financing activities reflects the repayment on long-term debt in all periods. In the first quarter of 2013 we had debt repayments of \$47,000 (2012 – \$161,000). In 2011, debt repayments of \$950,000 were offset by debt financing of \$518,000. We are expecting to have all the existing debt repaid within the next 24 months or earlier.

Contractual obligations

The following table sets forth contractual obligations as of December 31, 2012 and 2011:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(thousands of dollars)	
Less than 1 year	\$1,492	\$1,295
1 year to 5 years	1,674	2,519
More than 5 years	—	—
	<u>\$3,166</u>	<u>\$3,814</u>

We have operating leases related to the computer equipment and building facilities with terms of not more than 5 years. Obligations under operating leases mature between March 2013 and November 2017. In 2012, we incurred expenses of \$1.5 million related to operating leases (2011 – \$1.2 million, 2010 – \$0.9 million). We also expect to secure additional space in Canada in the near future in order to support our planned growth.

Off-balance sheet arrangements

We enter into agreements with customers that include limited intellectual property indemnifications that are customary in our industry. These guarantees generally require that we compensate the other party for certain damages and costs incurred as a result of third-party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to our customers. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Transactions with related parties

We did not have any transactions during the first quarter of 2013 or the years ended December 31, 2012, 2011 and 2010 that would be considered to be between the Company and a related party.

Financial Instruments and Other Instruments

Halogen recognizes financial assets and liabilities when it becomes a party to the contractual provisions of the instrument. On initial recognition, financial assets and liabilities are measured at fair value plus transaction costs directly attributable to the financial asset and liabilities, except for financial assets or liabilities at fair value through profit or loss, whereby the transaction costs are expensed as incurred.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Our credit risk is primarily attributable to our trade receivables, short-term investments and foreign exchange contracts.

The nature of our subscription-based business results in payments being received in advance of the majority of the services being delivered; as a result, our credit risk exposure is very low. In addition, our diverse customer base ensures that there is no concentration of credit risk as no customer represents more than 5% of the total trade receivables balance as at December 31, 2012. As the majority of our revenue is amortized into income over a period of time, the impact on our operating results is low as any uncollectible amounts tend to affect trade receivables and deferred revenue as opposed to revenue.

Foreign exchange risk

A portion of our revenue and operating costs is realized in currencies other than our functional currency, such as the Canadian dollar, Euro, Pound Sterling and Australian dollar. As a result, we are exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the Consolidated Statements of Financial Position, the impact of which is reported as foreign exchange gain or loss in general and administrative expenses.

Our objective in managing currency risk is to minimize the exposure to currencies other than our functional currency. We do so by matching foreign denominated assets with foreign denominated liabilities. We utilize derivative financial instruments, principally in the form of foreign exchange forward contracts, to hedge the balance of our exposure to foreign currency cash flows, thereby reducing but not eliminating the impact of changes in exchange rates. All forward contracts have a maturity of less than one year and are not used for speculative purposes. As we do not account for these forward contracts using hedge accounting, these instruments are measured at fair value, with changes recognized in earnings at each reporting date.

We are mainly exposed to fluctuations between the US dollar and the Canadian dollar. At December 31, 2012, if the Canadian dollar had strengthened 5% against the US dollar with all other variables held constant, pre-tax income for the year would have been \$600,000 higher. Conversely, if the Canadian dollar had weakened 5% against the US dollar with all other variables held constant, there would be an equal, and opposite, impact on pre-tax income.

For the three-month period ended March 31, 2013, the Consolidated Statements of Operations and Comprehensive Income (Loss) includes a foreign exchange loss of \$402,000 (2012 – gain of \$631,000) and for the year ended December 31, 2012, a gain of \$380,000 (2011 – loss of \$218,000 and 2010 – gain of \$1.3 million). These gains or losses are included within general and administrative expenses.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. We believe that interest rate risk is low as the majority of investments are made in short-term fixed rate instruments.

Capital management

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy, to fund research and development to enhance existing product offerings as well as to develop new offerings, and to provide sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk. In managing the capital structure, we take into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The officers and senior management of the Company are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. We manage capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

Critical Accounting Estimates

Halogen adopted IFRS effective January 1, 2009.

The application of IFRS requires that Halogen make estimates that affect its reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the period. Halogen bases its estimates on historical experience and on various other assumptions that Halogen believes to be reasonable in the circumstances. The Company evaluates its estimates and assumptions on an ongoing basis. Halogen's actual results may differ significantly from these estimates.

The significant accounting policies and estimates are discussed below:

Revenue

We report our revenue under three categories, namely, recurring revenue, professional services revenue and license revenue. Recurring revenue is derived primarily from annual subscription fees from customers using our talent management solution. Recurring revenue also includes maintenance, support and hosting charges from legacy perpetual license customers. Also included in recurring revenue are additional annual support and training services customers may purchase beyond the standard support that is included in the basic subscription fees. Professional services are comprised of one-time consulting services, including implementation services, conversion services, billable expenses, technical services and training. License revenue relates only to our legacy perpetual license customers who are purchasing additional licenses for software they have previously purchased.

The majority of our transactions relate to the rendering of services and, as such, we only recognize revenue when the following conditions are met:

1. the amount of revenue can be measured reliably;
2. it is probable that the economic benefits associated with the transaction will flow to the entity;
3. the stage of completion of the transaction at the end of the reporting period can be measured reliably;
and
4. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

We sell our software and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where we enter into an agreement involving a bundled transaction, we record each of the separate components at their relative fair value and recognize the revenue on an appropriate basis for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. We determine the fair value of each of the components sold based on the selling price when they are sold separately. When the fair value cannot be determined based on when it was sold separately, we determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Recurring revenue

Recurring revenue involves the performance of an indeterminate number of acts over the contract period and, as a result, the revenue from these services is recognized ratably over the contract term. The contract term begins when the service is made available to the customer.

Professional services revenue

The majority of our professional services contracts are on a time and material basis. This revenue is recognized by the stage of completion of the arrangement as the services are rendered using the percentage of completion method or when the milestones are achieved. Training revenue is recognized as the services are performed. The services are separate units of accounting because they have stand-alone value to the customer and are sold separately by us.

License revenue

License revenue involves the delivery of perpetual licenses to our customers; therefore, once we have transferred the significant risks and rewards of ownership to the customer, we recognize the associated revenue.

Redeemable preferred share fair value

The fair market value of the preferred shares can be derived from valuation reports prepared by management to arrive at a value for the Company. The fair value of the redeemable preferred shares is then inferred from the valuation through the use of an option pricing model which considers the legal rights of all security classes and the respective claims of each security class on the value of the Company.

Valuation of deferred income tax assets

As at December 31, 2012 and 2011, we have not recorded any of the potential deferred income tax asset totaling \$7.4 million (2011 – \$4.8 million). Following the completion of the Offering, we will only record a deferred income tax asset to the extent it is probable we will be able to utilize the components of the deferred tax asset to reduce taxes otherwise owing within a reasonable time frame. Due to the fact that the Company has a history of losses, we do not expect to record these deferred tax assets in the near future.

Share-based compensation

We have a share-based compensation plan, which is described in Note 13 to the annual financial statements contained in this prospectus. We account for all share-based payments using the fair value-based method. We use a Black-Scholes option pricing model to determine fair value of share options at the grant date, electing to use the minimum value valuation model. This pricing model requires management to make highly subjective assumptions with respect to volatility, dividend yield, expected life and risk-free interest rate. Changes in the input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of our share options. Each part of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each partial award is recorded on a straight-line basis over the vesting period based on the Company's estimate of share options that will ultimately vest. On exercise of share options, the related amount in reserves is transferred to capital stock.

Adoption of New Accounting Standards

There have been no significant changes in our accounting policies in the current year.

Changes to standards and interpretations

IFRS 9: Financial instruments

Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the International Accounting Standards Board's project to replace IAS 39 Financial instruments: recognition and measurement ("IAS 39"). IFRS 9 simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications that were permitted under IAS 39. IFRS 9 also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also adds guidance on the classification and measurement of financial liabilities. IFRS 9, which is to be applied retrospectively, is currently proposed to be effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. We are in the process of assessing the impact of this standard on our financial statements.

IFRS 13: Fair value measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard on January 1, 2013 did not have a material impact on our financial statements.

DESCRIPTION OF SHARE CAPITAL

Immediately before the completion of the Offering, all of the outstanding Class B Preferred Shares will automatically convert into Class A Common shares on a one-for-one basis. After giving effect to such conversion and the filing of articles of amendment to delete the Class B Preferred Shares as an authorized class of shares, to consolidate the Class A Common shares on a 1.5 to 1 basis and to redesignate the Class A Common shares as Common Shares, our authorized capital will consist of an unlimited number of Common Shares.

Immediately following the Closing, the Company's authorized share capital will consist of an unlimited number of Common Shares, of which

- Common Shares will be issued and outstanding.

Common Shares

The holders of the Common Shares are entitled to one vote in respect of each Common Share held at all meetings of holders of shares. The holders of the Common Shares are entitled to receive any dividend declared by the Company in respect of the Common Shares. The holders of the Common Shares will be entitled to receive the remaining property and assets of the Company available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. For a description of the Company's dividend policy, see "Dividend Policy".

CAPITALIZATION

The Company's share capital has changed as follows since December 31, 2012:

- We have issued 52,000 Common Shares at prices ranging from Cdn\$0.60 to Cdn\$1.05 per share in connection with the exercise of stock options.
- Immediately before the completion of the Offering, our existing Class B Preferred Shares will be converted into an equal number of Class A Common shares, all Class A Common shares will be consolidated on a 1.5 to 1 basis, and the Class A Common shares will be redesignated as Common Shares. See "Reorganization".

OPTIONS TO PURCHASE SECURITIES

The Board of Directors has established two incentive stock option plans, the Current Option Plan and the Old Option Plan (together, the "Stock Option Plans"), under which options may be granted to the Company's directors, officers, employees and consultants. For a summary of the terms of the Stock Option Plans, see "Executive Compensation – Equity Incentive Plans". As of the Closing Date, an aggregate of 1,768,720 Common Shares will be reserved for issuance under the Stock Option Plans.

As of the date of this prospectus, 1,393,924 options are granted and outstanding under the Stock Option Plans. The following table sets out information regarding the outstanding options to purchase Common Shares as of the date of this prospectus.

<u>Holder of Options</u>	<u>Number of Optionees</u>	<u>Common Shares Underlying Options</u>	<u>Exercise Price (Cdn\$)</u>	<u>Expiry Date</u>
Executive Officers	7	13,334	\$0.15	December 31, 2013
		13,334	\$0.15	January 1, 2015
		111,734	\$0.60	August 31, 2016
		158,402	\$1.05	May 27, 2019
		26,667	\$1.95	August 29, 2020
		333,334	\$2.85	December 8, 2020
		16,667	\$4.72	February 14, 2022
		40,000	\$4.72	September 6, 2022
		266,667 ⁽¹⁾	(⁽²⁾)	10 years from Closing
		Subtotal: 980,139		
Directors (other than those who are also executive officers)	3	33,334	\$0.15	December 31, 2013
		9,334	\$0.15	January 1, 2015
		3,334	\$1.42	December 10, 2019
		43,734	\$2.85	February 23, 2021
		43,734	\$9.75	February 14, 2023
		32,800 ⁽¹⁾	(⁽²⁾)	10 years from Closing
		Subtotal: 166,270		
Other Current and Former Employees	22	25,334	\$0.15	December 31, 2013
		21,169	\$0.15	January 1, 2015
		20,000	\$0.60	December 31, 2017
		3,335	\$0.60	February 12, 2018
		72,671	\$1.05	May 27, 2019
		26,668	\$1.95	August 18, 2020
		8,334	\$2.85	February 23, 2021
		10,000	\$3.22	September 7, 2021
		8,334	\$3.22	September 25, 2021
		13,334	\$3.22	January 17, 2022
		5,000	\$4.72	February 14, 2022
		8,334	\$4.72	May 23, 2022
		16,668	\$4.72	September 6, 2022
8,334	\$7.65	November 14, 2022		
		Subtotal: 247,515		
Total		1,393,924		

Notes:

- (1) These options are conditionally granted to certain executive officers and directors subject to successful completion of the Offering.
- (2) The exercise price of these options will be equal to the price at which Common Shares are sold pursuant to the Offering.

PRIOR SALES

Since January 1, 2012, we have issued 195,867 Common Shares at prices ranging from Cdn\$0.15 to Cdn\$1.95 per share in connection with the exercise of stock options. Immediately before the completion of the Offering, all of our Class B Preferred Shares will be converted into Class A Common shares on a one-for-one basis. See “Reorganization”.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table shows the names of the persons or companies who, as at the Closing Date, will own of record, or who, to our knowledge, will own beneficially, directly or indirectly, more than 10% of the Common Shares, and the Selling Shareholder.

<u>Name</u>	<u>Number of Common Shares Owned before the Offering</u>	<u>Number of Common Shares Sold in the Secondary Offering</u>	<u>Number of Common Shares Owned after the Offering</u>	<u>Percentage of Outstanding Common Shares after the Offering ⁽³⁾⁽⁴⁾</u>
Michael Slaunwhite ⁽¹⁾	7,311,112 ⁽¹⁾	—	7,311,112 ⁽¹⁾	● %
JMI Equity Fund VI, L.P. ⁽²⁾	4,668,930	●	●	● %

Notes:

- (1) The amount comprises 4,644,445 Common Shares held of record by Michael Slaunwhite and 2,666,667 Common Shares held by 6883621 Canada Inc., a corporation controlled by Michael Slaunwhite.
- (2) Harry Gruner, a director of the Company, is a managing member of JMI Associates VI, L.L.C., the general partner of JMI Equity Fund VI, L.P.
- (3) On a fully-diluted basis, the percentage of outstanding common shares held by Michael Slaunwhite and JMI Equity Fund VI, L.P. are ● % and ● %, respectively.
- (4) The amounts do not give effect to the exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the percentage of outstanding common shares held by Michael Slaunwhite and JMI Equity Fund VI, L.P. would be ● % and ● %, respectively, or, ● % and ● %, respectively, on a fully-diluted basis.

MANAGEMENT

The following table sets out, for each of our directors and executive officers, the person's name, age, province or state and country of residence, position with us, principal occupation and, if a director, the date on which the person became a director. Our directors are expected to hold office until our next annual general meeting of shareholders. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders. As a group, the directors and executive officers beneficially own, or control or direct, directly or indirectly, a total of 8,883,969 Common Shares, representing ● % of the Common Shares outstanding immediately following the Offering.

Directors and Executive Officers

<u>Name and Province or State and Country of Residence</u>	<u>Age</u>	<u>Position with the Company</u>	<u>Director Since</u>	<u>Principal Occupation</u>
Michael Slaunwhite ^{(2) (3)} Ottawa, Ontario, Canada	52	Director and Executive Chairman	1996	Executive Chairman of Halogen
Paul Loucks Kanata, Ontario, Canada	48	Director, Chief Executive Officer and President	2007	Chief Executive Officer and President of Halogen
Harry Gruner ⁽²⁾⁽³⁾ Stevenson, Maryland, U.S.A.	53	Director	2008	General Partner of JMI Equity
Timothy Williams ^{(1) (3)} Greenville, South Carolina, U.S.A.	64	Director	2011	Professional Director and Consultant
Peter Hoult ^{(1) (2)} Hillsborough, North Carolina, U.S.A.	69	Director	2001	Business Consultant
Robert Ashe ^{(1) (2) (3)} Ottawa, Ontario, Canada	54	Director	2013	Professional Director and Consultant
Pete Low Ottawa, Ontario, Canada	44	Chief Financial Officer		Chief Financial Officer of Halogen
Marc Brûlé Orleans, Ontario, Canada	46	Vice President, Client Services		Vice President, Client Services of Halogen
Donna Ronayne Ottawa, Ontario, Canada	54	Vice President, Marketing and Business Development		Vice President, Marketing and Business Development of Halogen
Graham Brown Ottawa, Ontario, Canada	49	Vice President, Product Development		Vice President, Product Development of Halogen
Dawn MacKay Ottawa, Ontario, Canada	51	Vice President, Product Management		Vice President, Product Management of Halogen
Dominique Jones Pakenham, Ontario, Canada	45	Vice President, Human Resources		Vice President, Human Resources of Halogen

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance and Nominating Committee

Biographies

The following are brief profiles of our executive officers and directors, including a description of each individual's principal occupation within the past five years.

Michael Slaunwhite, Director and Executive Chairman

Mike Slaunwhite co-founded Halogen in 1996, becoming President and Chief Executive Officer, and later Executive Chairman. Under his leadership, Halogen's talent management business evolved from a small division within Manta Corporation, primarily a consulting firm at that time, into its primary business. Prior to joining Halogen, Mike was a member of the executive team at Corel Corporation, holding the position of chief financial officer and corporate secretary. In that role, he was involved in Corel's initial public offering in 1989 and a secondary offering and concurrent NASDAQ listing in 1992. Mike is currently a director of Open Text Corporation, a public company. Mike has a Bachelor of Commerce, Honours, with majors in accounting, finance and computer science, from Carleton University in Ottawa.

Paul Loucks, Director, Chief Executive Officer and President

Paul Loucks joined Halogen and became its president in 2000. He became the Company's chief executive officer in 2006. Prior to joining Halogen, Paul was founder and President of NeoDyne Consulting Ltd., a custom software development firm, which was acquired by a subsidiary of Compaq Computer Corporation in 1997. Paul holds a Bachelor of Computer Science, with Distinction, from the Technical University of Nova Scotia.

Harry Gruner, Director

Harry Gruner is the co-founder and managing general partner of JMI Equity, a growth equity firm focused on investing in software, internet, business services and healthcare IT companies. Harry also serves on the boards of directors of several private companies. Prior to co-founding JMI in 1992, Harry was a principal in the Technology Group at Deutsche Bank Alex. Brown Inc. Prior to joining Deutsche Bank Alex. Brown Inc., he worked in marketing at Sigma Design, Inc. and in investment banking in the Technology Group of Blyth Eastman PaineWebber, Inc. Harry received a BA from Yale University and an MBA from the Harvard Business School.

Timothy Williams, Director

Tim Williams is the former chief financial officer and senior vice president of Blackbaud Inc., a leading global provider of software and services for nonprofits, where he served for 11 years. Before joining Blackbaud, Tim was the executive vice president and chief financial officer of Mynd, Inc. (now a subsidiary of Computer Sciences Corporation), a provider of software and services to the insurance industry. Prior to Mynd, Inc., he was the executive vice president and chief financial officer for Holiday Inn Worldwide, and prior to that he worked for Price Waterhouse & Co. Tim also serves on the boards of directors of PROS Holdings, Inc. a publicly-traded software and services company, and two other private software firms. Tim holds a BA from the University of Northern Iowa.

Peter Hoult, Director

Peter Hoult is an international business consultant helping organizations expand into global markets and navigate the complexities of the international marketplace. Prior to starting his consultancy in 1995, Peter was a visiting professor of marketing for the MBA programs at Wake Forest University and Duke University, both based in North Carolina. Before that, Peter was the senior vice president for NorthWest Airlines. From 1972 to 1988, he served in various senior leadership roles with R.J. Reynolds Tobacco International, Inc., including president and CEO of RJR-MacDonald Inc., before becoming the executive vice president of R.J. Reynolds Tobacco International Inc. in 1988. Prior to joining R.J. Reynolds Tobacco International Inc., Peter was the international research director for Wm Shlackman Ltd., a London-based international market research group. He also served as a research psychologist for Unilever in the United Kingdom. Peter holds a BA from Reading University in the United Kingdom.

Robert Ashe, Director

Rob Ashe is the former chief executive officer, president and chief operating officer of Cognos Inc. and general manager of Business Analytics for International Business Machines Corporation. Following the acquisition of Cognos Inc. by IBM Corporation in 2008, Rob led IBM Corporation's growing Business Analytics division as General Manager, where he served until April of 2012. In his tenure of close to 24 years with Cognos, Rob held several leadership positions across key departments including chief financial officer, senior vice president of research and development, senior vice president of services and support, chief corporate officer and president and chief operating officer. Rob is currently a director on the board of ServiceSource. Rob received a Bachelor of Commerce from the University of Ottawa and is a Chartered Accountant.

Pete Low, Chief Financial Officer

Pete Low joined Halogen as chief financial officer and corporate secretary in September 2006. As Chief Financial Officer, Pete is directly responsible for the Company's finance and administration, legal, information technology, and security, risk and compliance functions. Prior to joining Halogen, Pete was a managing partner and chief financial officer at Axis Capital Corporation, investing in early stage technology companies. He was actively involved in the

strategic direction of many of the firm's portfolio companies, serving as a director of several of them. In 2001, Pete was recognized for his leadership and contributions as a recipient of the Ottawa Business Journal's "Top Forty under 40" award. Prior to founding Axis, Pete was a Senior Tax Manager at Deloitte & Touche LLP, servicing its high technology clients. Pete is currently a member of the Leadership Council of the Canadian Advanced Technology Association (CATA) and previously served on a number of boards and committees of non-profit organizations. Pete is a Chartered Accountant and holds a Bachelor of Commerce degree from Mount Allison University.

Marc Brûlé, Vice President, Client Services

Marc Brûlé has more than 20 years experience in software development and professional services, and has been with Halogen and its predecessor, Manta Corporation, for the past 16 years. As Vice President of Client Services, Marc oversees the customer support, implementation consulting, training and technical services teams. Marc holds a Bachelor of Science (Honours) in Information and Management Systems from the University of Ottawa.

Donna Ronayne, Vice President, Marketing and Business Development

Donna Ronayne oversees the Company's marketing and business development activities. Prior to joining Halogen in 2004, Donna was vice president of business development at BitFlash for three years, where she was involved in developing market strategy and securing strategic partnership agreements with leading companies worldwide. Prior to that time, Donna acted as Director of Marketing with QNX Software Systems. Donna holds a Bachelor of Commerce, High Honours, from Carleton University in Ottawa.

Graham Brown, Vice President, Product Development

Graham Brown joined Halogen in August 2012 to assume the role of Vice President, Product Development. As the executive lead for product development, Graham oversees Halogen's product development strategy, as well as the software development and delivery of the Halogen Talent Management Suite. Prior to joining Halogen, Graham was the Chief Technology Officer and executive vice president for Corel Corporation and had also been running the Product Development group for Corel's Digital Media business unit. Graham holds a Bachelor of Environmental Studies (Computer Science Minor) from the University of Waterloo.

Dawn MacKay – Vice President, Product Management

As Vice President of product management for Halogen, Dawn MacKay oversees the Company's market-driven product direction. Dawn joined the Company in 2005. With more than 25 years of software development and product management experience, Dawn held key management positions as Product Manager and Research and Development Manager, roles as Software Developer and Supervisor, and coordinator of special projects with software company STS Systems and NSB Group (formerly STS systems). Dawn earned a Bachelor of Commerce in Management Information Systems with Great Distinction from McGill University in Montreal.

Dominique Jones – Vice President, Human Resources

Dominique Jones joined Halogen in 2010. Prior to joining Halogen Software Inc., Dominique spent six year at Right Management Inc., a global talent management consulting firm, including as a regional vice president. Before that, she held senior human resources positions with AMEC, MBNA Canada Bank and MBNA International Bank, JCB Transmissions, Safeway Stores Plc, and Marks and Spencer Group Plc, as well as established her own HR consulting business. Dominique holds an M.A. Honours degree from the University of St. Andrews in Scotland, as well as the Institute of Personnel and Development (IPD) certification from the University College Salford in the United Kingdom.

Corporate Cease Trade Orders

None of our directors or executive officers has, within the 10 years prior to the date of this prospectus, been a director, chief executive officer or chief financial officer of any company (including us) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity) was the subject of a cease trade order, an order similar to a cease trade order, or an order that denied the company access to any exemption under securities legislation, in each case for a period of more than 30 consecutive days.

Corporate Bankruptcies

None of our directors or executive officers has, within the 10 years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

With the exception of a fine imposed (and subsequently lifted) on Graham Brown in connection with the failure to make individual filings indicating that holdings in Corel Corporation were reduced to zero, no director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

To the best of our knowledge, there are no known existing or potential conflicts of interest among us and our directors, officers or other members of management as a result of their outside business interests except that certain of our directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies.

CORPORATE GOVERNANCE

Board of Directors

Overview

The Board of Directors is responsible for supervising the management of our business and affairs. The Board has responsibility for the stewardship of the Company and has adopted a formal charter setting out the Board's stewardship responsibilities, including the Board's responsibilities for the appointment of management, management of the Board, strategic and business planning, monitoring of financial performance, financial reporting, risk management and oversight of the Company's policies and procedures, communications and reporting and compliance. A copy of the charter of our Board of Directors is attached as Appendix A to this prospectus.

Members of our Board of Directors are also members of the boards of other public companies. See "Management – Biographies".

Independence

As of the Closing, the Board of Directors will be comprised of six directors, four of whom are independent. Under National Instrument 52-110 – Audit Committees ("NI 52-110"), an independent director is one who is free from any direct or indirect relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with a director's exercise of independent judgment. The Board of Directors has determined that Michael Slaunwhite and Paul Loucks, executive officers of Halogen, are not considered independent. Michael Slaunwhite is the Executive Chairman of the Board of Directors and a principal shareholder of Halogen. See "Principal and Selling Shareholders". Although he is not considered independent, the Board of Directors has determined that he is a non-management director, and has therefore determined not to appoint an independent lead director at this time.

Orientation and Continuing Education

New directors of the Company will participate in an initial information session on the Company in the presence of its senior executive officers to learn about, among other things, the business of the Company, its financial situation and its strategic planning. In addition, new directors will be furnished with appropriate documentation, providing them with information about, among other matters, the corporate governance practices of the Company, the structure of the Board and its committees, the Company's history, its commercial activities, its corporate organization, the charters of the Board and its committees, the Company's articles and by-laws, the Company's Code of Conduct and other relevant corporate policies.

The Company will encourage all directors to attend continuing education programs and intends to facilitate such continuing education of its directors by providing them with information on upcoming courses and seminars that may be relevant to their role as directors or hosting brief information sessions during Board meetings by invited external advisors. In addition, the Company's management will periodically make presentations to the directors on various topics, trends and issues related to the Company's activities during meetings of the Board or its committees, which will be intended to help the directors to constantly improve their knowledge about the Company and its business.

Code of Conduct

The Board of Directors has a written Code of Conduct that governs the behaviour of directors, officers and employees of the Company. The objective of the Code of Conduct is to provide guidelines for enhancing Halogen's reputation for honesty, integrity and the faithful performance of undertakings and obligations. The Board of Directors has delegated day-to-day administration of the Code of Conduct to the Corporate Governance and Nominating Committee.

The Code of Conduct addresses conflicts of interest, insider trading, use of company assets, confidentiality, health and safety, record-keeping, competition and fair dealing and compliance with laws. As part of our Code of Conduct, any person subject to the Code of Conduct is required to avoid any activity, interest (financial or otherwise) or relationship that would create or appear to create a conflict of interest. The Board has developed written position descriptions for the chair of the Board and the chair of each of the standing committees of the Board.

A copy of the Code of Conduct may be obtained by contacting the Company and will be available for review at the website maintained by the Canadian Securities Administrators at www.sedar.com upon the completion of the Offering.

Board of Directors Committees

Audit Committee

The Company's Audit Committee consists of three directors, all of whom are independent. They are also all financially literate in accordance with NI 52-110. The members of the Audit Committee are Timothy Williams (Chair), Robert Ashe and Peter Hoult.

The Board of Directors has adopted a written charter for the Audit Committee. The mandate of the Audit Committee is to assist the Board in fulfilling its financial oversight obligations, including the responsibility: (1) to oversee the integrity of Halogen's financial statements and financial reporting process, including the audit process and Halogen's internal accounting controls and procedures and compliance with related legal and regulatory requirements; (2) to oversee the qualifications and independence of Halogen's external auditor; (3) to oversee the work of Halogen's financial management and external auditor; and (4) to provide an open avenue of communication between the Company's external auditors, the Board of Directors and management of the Company.

A copy of the charter of the Audit Committee is attached as Appendix B to this prospectus.

In 2012 and 2011, the Company was billed the following fees by its external auditor, Deloitte LLP:

	<u>Year ended</u> <u>December 31, 2012</u>	<u>Year ended</u> <u>December 31, 2011</u>
	(Cdn\$)	
Audit Fees ⁽¹⁾	\$ 97,000	\$ 97,000
Audit Related Fees ⁽²⁾	\$ 5,000	\$ 7,500
Tax Fees ⁽³⁾	\$ 44,500	\$ 77,000
All Other Fees ⁽⁴⁾	\$ 85,700	\$ 1,000
Total Fees Paid	\$232,200	\$182,500

(1) Fees for audit services.

(2) Fees for assurance and related services not included in audit services above.

(3) Fees for tax compliance, tax advice and tax planning not included in audit services and audit-related services above.

(4) All other fees not included above.

Compensation Committee

The Board has appointed a Compensation Committee comprising four directors, three of whom are independent. The members of the Compensation Committee are Peter Hoult (Chair), Harry Gruner, Robert Ashe and Michael Slaunwhite. Although Michael Slaunwhite is not an independent director, the Board has determined that his participation as a member of the compensation committee is appropriate in light of his position as a non-management executive officer and his experience in matters relating to management compensation, including his role on the compensation committee of another publicly traded company.

Pursuant to the charter of the Compensation Committee, the mandate of the Committee is to assist the Board in discharging the Board's oversight responsibilities relating to the compensation and retention of key senior management employees with the skills and expertise needed to enable Halogen to achieve its goals and strategies at fair and competitive compensation, including appropriate performance incentives. The Compensation Committee is responsible for reviewing compensation payable to the Chief Executive Officer and other executives, reviewing the compensation payable to directors and overseeing the administration of compensation plans. The Compensation Committee is also responsible for reviewing executive and director compensation disclosure to be made in the proxy circular prepared in connection with Halogen's annual meeting of shareholders, as well as reviewing Company compensation standards, along with management's annual recommendations, to ensure each are consistent with each other and appropriate.

Corporate Governance and Nominating Committee

The Board has appointed a corporate governance and nominating committee comprising four directors, three of whom are independent. The members of the Corporate Governance and Nominating Committee are Robert Ashe (Chair), Harry Gruner, Timothy Williams and Michael Slaunwhite.

The Corporate Governance and Nominating Committee is responsible for overseeing and assessing the functioning of the Board of Directors and the committees of the Board and for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles. The Committee is also responsible for identifying candidates for directorship and recommending that the Board select qualified director candidates for election to the Board. There is no formal assessment process. Rather, the Corporate Governance and Nominating Committee is responsible for determining the appropriate assessment process. Responsibility for reviewing the Company's approach to its corporate governance guidelines, as well as the Code of Conduct, also rests with the Corporate Governance and Nominating Committee.

The process by which the Board of Directors identifies new candidates for board nomination is set out in the Board's Corporate Governance Guidelines and the Corporate Governance and Nominating Committee Charter. The Company does not have a separate nominating committee comprising entirely of independent directors. The Corporate Governance and Nominating Committee is responsible for identifying individuals believed to be qualified to become board members and recommending to the Board of Directors for its approval the candidates to be nominated for election as directors at the annual meeting of shareholders.

EXECUTIVE COMPENSATION

Introduction

The following discussion describes the significant elements of our executive compensation program, with particular emphasis on the process for determining compensation payable to the Company's CEO and CFO and, other than the CEO and the CFO, each of the Company's three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity (collectively, the "Named Executive Officers" or "NEOs"). The NEOs are:

- Paul Loucks, Chief Executive Officer
- Pete Low, Chief Financial Officer
- Marc Brûlé, Vice President, Client Services
- Donna Ronayne, Vice President, Marketing and Business Development
- Graham Brown, Vice President, Product Development

Overview

Based on recommendations made by the Compensation Committee, our Board of Directors makes decisions regarding all forms of compensation, including salaries, bonuses and equity incentive compensation for our executive officers, as well as approves corporate goals and objectives relevant to the compensation of the Chief Executive Officer and our other executive officers. Our Board of Directors solicits input from our Chief Executive Officer and the Compensation Committee regarding the performance of the Company's other executive officers. Finally, the Board of Directors also administers our incentive compensation and benefit plans with the assistance of the Compensation Committee.

Compensation Discussion and Analysis

Our Compensation Objectives

Our compensation practices are designed to retain, motivate and reward our executive officers for their performance and contribution to our long-term success. The Board of Directors seeks to compensate executive officers by combining short-term and long-term cash and equity incentives. It also seeks to reward the achievement of corporate and individual performance objectives, and to align executive officers' incentives with the Company's performance. The Company seeks to tie individual goals to the area of the senior executive officer's primary responsibility. These goals may include the achievement of specific financial or business development goals. Company performance goals are based on our financial performance during the applicable financial year.

Elements of Compensation Program

Our executive compensation consists primarily of three elements: base salary, quarterly and annual bonuses and long-term equity incentives.

Base Salary

Base salaries for executive officers are established based on the scope of their responsibilities and their prior relevant experience, taking into account compensation paid by other companies in the industry for similar positions and the overall market demand for such executives at the time of hire. An executive officer's base salary is determined by reviewing the executive officer's other compensation to ensure that the executive officer's total compensation is in line with the Company's overall compensation philosophy.

Base salaries are reviewed annually and increased for merit reasons, based on the executive's success in meeting or exceeding individual objectives. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, as well as for market competitiveness.

Bonus Plans

Our compensation program includes eligibility for quarterly and annual incentive cash bonuses. The quarterly bonuses are primarily based on revenue targets and, in some cases, achievement of individual objectives. Annual bonuses are based on revenue and earnings targets. The target amounts for which each NEO is entitled under the quarterly and annual bonus plans are recommended by the Compensation Committee and approved by the Board of Directors.

Long-Term Equity Incentive Plans

Equity-based awards are a variable element of compensation that allow us to reward our executive officers for their sustained contributions to the Company. Equity awards reward performance and continued employment by an executive officer, with associated benefits to us of attracting and retaining employees. We believe that stock options provide management with a strong link to long-term corporate performance and the creation of shareholder value. The Board of Directors does not award options according to a prescribed formula or target. The Chief Executive Officer recommends to the Compensation Committee the proposed recipients of such grants from among the eligible participants and the proposed grant size, taking into consideration such factors as their position, scope of responsibility and historic and recent performance, previous grants, the value of the awards in relation to other elements of the individual's total compensation and shareholdings, and market information. In determining the size of the grants that the Compensation Committee recommends to the Board of Directors, the Compensation Committee considers their payout and the competitiveness of the Company's total compensation relative to comparable companies in addition to the recommendation of the Chief Executive Officer. The Compensation Committee determines the grant size and terms to be recommended to the Board of directors in respect of the Chief Executive Officer.

Equity Incentive Plans

We currently have options outstanding under a stock option plan established in 2009 (the "Current Option Plan") as well as options outstanding under a stock option plan established in 1996 (the "Old Option Plan"). The Board of Directors intends to increase the number of options that may be granted under the Current Option Plan, effective as of the Closing. The Board of Directors also intends to establish a performance stock unit plan (the "PSU Plan") prior to or following completion of the Offering. Details of the Current Option Plan, the Old Option Plan and the PSU Plan are set out below.

Current Option Plan

The Current Option Plan allows for the grant of incentive stock options to the Company's employees, directors, officers and consultants. Our Board of Directors is responsible for administering the Current Option Plan, and the Compensation Committee makes recommendations to the Board of Directors in respect of matters relating to the Current Option Plan.

The aggregate number of Common Shares reserved for issuance under the Current Option Plan as of the Closing Date will be 1,517,812 plus the number of any Common Shares underlying options granted pursuant to the Old Option Plan that terminate or are cancelled prior to being exercised in full.

Unless otherwise determined by the Board of Directors, options granted under the Current Option Plan vest at a rate of 20% per year over five years at each anniversary of the date of the grant. Options granted under the Current Option Plan may be exercised during the period specified in the Current Option Plan, which is generally ten years from the date of grant. The Current Option Plan also provides that, unless otherwise determined by the Board, options terminate within a specified time period following the termination of employment, directorship or engagement as a consultant with the Company or affiliates entities. The exercise price for options granted under the Current Option Plan is determined by the Board of Directors, but may not be less than the market value of the Common Shares.

The Company intends to amend the Current Option Plan prior to the Closing so that it provides that if options granted under the Current Option Plan would otherwise expire during a trading black-out period or within ten business days following the end of such period, the expiry date of such options are extended to the tenth business day following the end of the black-out period. The amendments will also provide that the aggregate number of Common Shares issued upon exercise of options granted under the Current Option Plan and any other share compensation arrangements

to insiders of the Company within a one-year period may not exceed 10% of the Common Shares then outstanding. Options granted under the Current Option Plan are not transferable, subject to limited exceptions. The Board of Directors has overall authority for interpreting, applying, amending and terminating the Current Option Plan.

Old Option Plan

Incentive stock options were granted under the Old Option Plan to the Company's employees, directors, officers and consultants. Our Board of Directors is responsible for administering the Old Option Plan, and the Compensation Committee makes recommendations to the Board of Directors in respect of matters relating to the Old Option Plan. Since 2009, no options have been granted or are permitted to be granted under the Old Option Plan. The aggregate number of Common Shares reserved for issuance upon exercise of outstanding options granted under the Old Option Plan is 250,908.

All outstanding options granted under the Old Option Plan are vested. Options granted under the Old Option Plan may be exercised within ten years from the date of grant. The Old Option Plan also provides that, unless otherwise determined by the Board, options terminate following the termination of employment, directorship or engagement as a consultant with the Company or its subsidiaries. The Company intends to amend the Old Option Plan prior to the Closing so that it provides that if options granted under the Old Option Plan would otherwise expire during a trading black-out period or within ten business days following the end of such period, the expiry date of such options are extended to the tenth business day following the end of the black-out period. Options granted under the Old Option Plan are not transferable, subject to limited exceptions. The Board of Directors has overall authority for interpreting, applying, amending and terminating the Old Option Plan.

PSU Plan

The Board of Directors intends to establish the PSU Plan to be adopted prior to or following the Closing, which will form part of our long-term incentive compensation arrangements available for our executive officers. The PSU Plan will be administered by the Board of Directors, which may delegate this responsibility to a committee of the Board of Directors.

Performance Share Units ("PSUs") are units representing notional shares to be granted to executive officers that aim to reward superior performance and which can be settled in cash or Common Shares acquired on the market for such purpose, at the election of the Company. The first granting of PSUs is anticipated to occur shortly following the Closing. The ultimate number of PSUs that vest will be dependent on pre-established revenue targets, with 50% of the PSUs vesting on achievement of the first revenue target and the remainder vesting on achievement of the second revenue target. If a revenue target is not met by December 31 of the third year following the date of grant, the PSUs whose vesting is contingent on meeting that target terminate. The value of the PSUs to the executive officers will reflect the actual share price at the time of settlement. Consequently, this form of compensation promotes the alignment of the interests of the shareholders and the executives.

PSUs are currently anticipated to have the following features:

- cliff-vesting contingent on achievement of revenue targets;
- payout will occur no later than December 31 of the third year following the grant date and may be in the form of Common Shares purchased on the open market or the cash equivalent of the value of such shares at the date of payout; and
- the value of units fluctuates with share price.

The grant of PSUs will not entitle the participant to exercise any voting rights, receive any dividends or exercise any other right that attaches to ownership of Common Shares. PSUs granted to a participant that do not vest in accordance with the PSU Plan will be forfeited by the participant and cancelled without payment, and the participant will have no further right in such PSUs.

Upon any change of control transaction in which there is an acquiring or surviving entity, the Board of Directors may provide for substitute or replacement units of similar value from the acquiring or surviving entity or one or more of its subsidiaries. The assignment or transfer of PSUs, or any other benefits under the PSU Plan, will not be permitted other than by operation of law or the other terms of the PSU Plan.

The Board of Directors will retain the right, in its sole discretion, to amend, suspend or terminate the PSU Plan, any PSUs granted pursuant to the PSU Plan, or any portion of those PSUs at any time, in accordance with applicable legislation.

Compensation of Named Executive Officers

The following table sets out information concerning the compensation paid by the Company to the Named Executive Officers during the year ended December 31, 2012.

Name and Principal Position	Salary (Cdn\$)	Share-based Awards (Cdn\$)	Option-based Awards (Cdn\$)	Non-equity Incentive Plan Compensation (Cdn\$)		All Other Compensation (Cdn\$)	Total Compensation (Cdn\$)
				Quarterly and Annual incentive plans	Long-term incentive plans		
Paul Loucks Chief Executive Officer ⁽¹⁾	270,000	N/A	—	41,953	N/A	4,943	316,896
Pete Low Chief Financial Officer	195,000	N/A	—	11,469	N/A	3,264	209,733
Marc Brûlé Vice President, Client Services	174,000	N/A	—	16,294	N/A	3,019	193,313
Donna Ronayne Vice President, Marketing	171,500	N/A	—	17,294	N/A	2,999	191,793
Graham Brown, Vice President, Product Development	71,865 ⁽²⁾	N/A	55,384 ⁽³⁾	7,597	N/A	—	79,462

Notes:

- (1) Mr. Loucks did not receive any compensation for his services as a director.
- (2) Mr. Brown joined the Company in July 2012. He received a salary of \$71,865 in 2012, which would be \$185,000 on an annualized basis.
- (3) The value is based on the grant date fair value of such options using the Black-Scholes model. The assumptions used in the model are disclosed in the Company's financial statements included elsewhere in this prospectus.

Incentive Plan Awards

The following table sets out information concerning the all options outstanding as of December 31, 2012 held by the Named Executive Officers.

Name	Option-Based Awards			
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (Cdn\$)	Option Expiration Date	Value of Unexercised In-the-Money Options (Cdn\$) ⁽¹⁾
Paul Loucks Chief Executive Officer	66,667	1.05	May 27, 2019	—
	333,334	2.85	December 8, 2020	—
Pete Low Chief Financial Officer	111,734	0.60	August 31, 2016	—
	30,000	1.05	May 27, 2019	—
Marc Brûlé Vice President, Client Services	13,334	0.15	December 31, 2013	—
	13,334	0.15	January 1, 2015	—
	26,667	1.05	May 27, 2019	—
Donna Ronayne Vice President, Marketing	23,334	1.05	May 27, 2019	—
Graham Brown Vice President, Product Development	40,000	4.72	September 6, 2022	—

Note:

- (1) The value of unexercised in-the-money options is calculated based on the difference between the market value of the underlying Common Shares as of December 31, 2012, and the exercise price of the options. As there was no market for the Common Shares on December 31, 2012, the value of unexercised in-the-money options cannot be calculated.

Employee Agreements and Termination and Change of Control Benefits

Each of the Named Executive Officers has entered into an employment agreement with the Company (which, in the case of Mr. Loucks, is conditional upon completion of the Offering). Those employment agreements include provisions regarding base salary, annual bonuses, eligibility for benefits, confidentiality and ownership of intellectual property, among other things. Each employment agreement includes non-competition covenants with terms of twelve months (in the case of Messrs. Loucks, Low and Brûlé and Ms Ronayne) or six months (in the case of Mr. Brown) following termination of employment. Upon termination of employment without cause, Mr. Low and Mr. Brown are entitled to six months' notice or pay in lieu of notice, calculated on base salary, and benefits during that period, and Messrs. Loucks and Brûlé are entitled to eighteen months' salary continuance, calculated on base salary and an average of their variable compensation over the prior two years, and benefits during that period. The employment agreement of Ms Ronayne does not address payments in connection with a termination without cause or a change in control. Accordingly, any such payments would be determined in accordance with applicable law.

Director Compensation

The directors' compensation program is designed to attract and retain qualified individuals to serve on the Board of Directors. Each independent director is paid an annual retainer fee of \$13,000. Each such director who serves on any committee also receives an additional fee of \$4,000 per year (or \$7,000 in the case of each chair of a committee). All directors are entitled to reimbursement for expenses incurred by them in their capacity as directors.

Indemnification and Insurance

The Company maintains director and officer liability insurance. In addition, the Company has entered into indemnification agreements with each of its non-executive directors. The indemnification agreements require that the Company indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, provided that the indemnitees acted honestly and in good faith and in a manner the indemnitees reasonably believed to be in or not opposed to the Company's best interests and, with respect to criminal and administrative actions or proceedings that are enforced by monetary penalty, the indemnitees had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

PLAN OF DISTRIBUTION

General

Pursuant to the Underwriting Agreement dated ●, 2013 between the Company, the Selling Shareholder and the Underwriters, the Company and the Selling Shareholder have agreed to sell and the Underwriters have agreed to severally purchase on ●, 2013 (or such later date as the Company, the Selling Shareholder and the Underwriters agree, but not later than ●, 2013) ● Treasury Shares and ● Secondary Shares, each at a price of Cdn\$ ● per Common Share, for aggregate gross consideration of Cdn\$ ● payable in cash to the Company against delivery of the Treasury Shares and Cdn\$ ● in cash to the Selling Shareholder against delivery of the Secondary Shares. The Offering Price of the Common Shares has been determined by negotiation between the Company, the Selling Shareholder and the Underwriters. Canaccord Genuity Corp. and Stifel Nicolaus Canada Inc. are lead managers and book-runners for the Offering.

Pursuant to the Underwriting Agreement, the Company has granted the Underwriters an Over-Allotment Option to cover over-allotments, if any. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30 day period following the Closing and entitles the Underwriters to purchase from the Company up to ● Common Shares at the Offering Price (being 15% of the aggregate number of Common Shares offered under this prospectus). If the Over-Allotment Option is exercised in full, the total price to the public will be Cdn\$ ●, the Underwriters' commissions will be Cdn\$ ● and the net proceeds to the Company will be Cdn\$ ●.

The Offering is being made in each of the provinces and territories of Canada. The Common Shares will be offered in each of the provinces and territories of Canada through those Underwriters or their affiliates who are registered to offer the Common Shares for sale in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law, the Underwriters may offer the Common Shares outside of Canada.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. One or more certificates representing the Common Shares to be sold in the Offering will be issued in registered form to CDS Clearing and Depository Services Inc., or to its nominee ("CDS"), and deposited with CDS on the Closing Date. A purchaser of Common Shares will receive only a customer confirmation from the registered dealer from or through which the Common Shares are purchased.

The Common Shares offered hereby have not been and will not be registered under the US Securities Act or any state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, a US person (within the meaning of Regulation S under the US Securities Act) except pursuant to an exemption from the registration requirements of the US Securities Act and applicable state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement, the Common Shares may not be offered or sold in the United States or to, or for the account or benefit of, US persons. The Underwriting Agreement provides that the Underwriters may offer and sell the Common Shares that they have acquired pursuant to the Underwriting Agreement to qualified institutional buyers in the United States in accordance with Rule 144A under the US Securities Act and in compliance with applicable state securities laws. The Underwriting Agreement also provides that the Underwriters will offer and sell the Common Shares outside the United States only in accordance with Regulation S under the US Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in reliance on Rule 144A under the US Securities Act.

In connection with the Offering, certain of the Underwriters or securities dealers may distribute the prospectus electronically.

Upon completion of the Offering, assuming there has been no exercise of the Over-Allotment Option, the Company expects to have a total of ● outstanding Common Shares issued and outstanding on a non-diluted basis, and if the Over-Allotment Option is exercised in full, a total of ● Common Shares issued and outstanding on a non-diluted basis.

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several), are subject to certain closing conditions and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Common Shares if any Common Shares are purchased under the Underwriting Agreement. In consideration for their agreement to purchase the Common Shares, the Company and the Selling Shareholder have agreed to pay the Underwriters a fee equal to Cdn\$ ● per Common Share sold in the Offering. The Selling Shareholder will pay the Underwriters' commissions in respect of Common Shares sold by the Selling Shareholder under the Secondary Offering. The Company and the Selling Shareholder have agreed to indemnify the Underwriters against certain liabilities under applicable securities laws, and to contribute to payments that the Underwriters may be required to make in respect of applicable securities laws.

Pricing of the Offering

Prior to the Offering, there was no public market for the Common Shares. The Offering Price has been negotiated between the Company, the Selling Shareholder and the Underwriters. Among the factors considered in determining the Offering Price of the Common Shares were the following:

- prevailing market conditions;
- historical performance and capital structure of the Company;
- estimates of the business potential and earnings prospects of the Company;
- availability of comparable investments;
- an overall assessment of the Company's management; and
- the consideration of these factors in relation to market valuation of companies in related businesses.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may over-allocate or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those that otherwise might prevail on the open market, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transaction.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares through the Over-Allotment Option.

The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market that could adversely affect investors who purchase in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the applicable stock exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

Over-Allotment Option

The Company has granted to the Underwriters an Over-Allotment Option, exercisable, in whole or in part, at the sole discretion of the Underwriters (subject to the condition that the Common Shares subject to the Over-Allotment Option are listed on the TSX at the time of closing the Over-Allotment Option), for a period of 30 days from the Closing Date, to purchase from the Company up to ● additional Common Shares (representing 15% of the Common Shares offered hereunder), at the Offering Price, payable in cash against delivery of such additional shares. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, made by the Underwriters in connection with the Offering. The Company will pay the Underwriters' Commission in respect of Common Shares sold under the Over-Allotment Option if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public, Underwriters' Commission and net proceeds to the Company before deducting other expenses of the Offering will be Cdn\$ ● , Cdn\$ ● and Cdn\$ ● ,

respectively. This prospectus qualifies the grant of the Over-Allotment Option and up to ● Common Shares to be sold by the Company upon exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Over-Allotment Option acquires those shares under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Lock-Up Arrangements

In connection with completion of the Offering, the Company, each security holder of the Company holding, directly or indirectly (together with such security holder’s associates and affiliates), more than 1% of the Common Shares outstanding before the completion of the Offering and each of the Company’s directors, officers, senior management and employees holding more than ● Common Shares have agreed not to, directly or indirectly, without the prior written consent of the Joint Bookrunners, issue, sell, grant any option, right or warrant for the sale of, lend, secure, pledge or otherwise dispose or monetize, or make any short sale, engage in any hedging transaction, or enter into any form of arrangement the consequence of which is to directly or indirectly transfer to someone else, in whole or in part, any of the economic consequences of ownership of, or offer or announce any intention to do so, in a public offering or by way of private placement or otherwise, any Common Shares (except for Common Shares purchased on or following Closing) or any securities convertible or exchangeable into Common Shares or any other securities of the Company, cause to be filed any prospectus in connection therewith, for a period of 180 days after Closing Date, other than the issuance of securities by the Company pursuant to or in connection with the Stock Option Plans and the other equity incentive plans described under “Executive Compensation” or the issuance of Common Shares upon the exercise of Options granted under the Stock Option Plans. The holders of ● Common Shares, representing a ● % equity and voting interest in the Company (● % on a fully diluted basis), have entered into such agreements.

Commissions and Expenses

The following table shows the per Common Share and total Underwriters’ commission the Company and the Selling Shareholder will pay to the Underwriters, assuming both no exercise and full exercise of the Underwriters’ Over-Allotment Option:

	<u>Over-Allotment Not Exercised</u>	<u>Over-Allotment Fully Exercised</u>
Per Common Share	●	●
Total	●	●

The Underwriters propose to offer the Common Shares initially at the Offering Price stated on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Common Shares offered by this prospectus at that price, the initially stated Offering Price may be decreased, and further changed from time to time, by the Underwriters to an amount not greater than the initially stated Offering Price and, in such case, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Common Shares is less than the gross proceeds paid by the Underwriters to the Company.

It is estimated that the total expenses of the Offering, not including the Underwriters’ Commission, will be approximately \$ ● .

Book Entry Systems

Subscriptions for the Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates representing the Common Shares sold under the Offering in Canada will be issued in registered form to CDS or its nominee on the Closing Date. Transfers of ownership of Common Shares in Canada will be effected through records maintained by participants in the CDS depository service (“CDS Participants”), which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Common Shares in Canada will receive a customer confirmation of purchase from the CDS Participant from or through which such Common Shares are purchased in accordance with the practices and procedures of such CDS Participant.

RISK FACTORS

Investing in our Common Shares involves significant risks. You should carefully consider the risks and uncertainties described below and the other information in this prospectus, including our annual financial statements and related notes, before deciding to buy our Common Shares. If any of the following risks occur, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. In that event, the trading price of our Common Shares could decline and you could lose part or even all of your investment.

Risk Related to Our Business and Industry

History of Losses

We have incurred significant losses in each of the last five years. We incurred net losses of \$7.8 million in 2010, \$9.9 million in 2011 and \$19.6 million in 2012. At December 31, 2012, we had an accumulated deficit of \$48.9 million. These losses and accumulated deficit were due to the substantial investments we made to grow our business and acquire customers. For example, our sales and marketing expenses were 43% of revenue in 2010, 45% in 2011 and 49% in 2012. We expect our operating expenses to increase in the future due to our expected increase in sales and marketing expenses, product development costs and general and administrative costs and therefore we expect our losses to continue for the foreseeable future. You should not consider our recent revenue growth as indicative of our future performance. Accordingly, we cannot assure you that we will achieve profitability in the future, nor that, if we do become profitable, we will sustain profitability.

Dependence on Customer Retention and Renewals

In order for us to improve our operating results, it is important that our customers renew their agreements with us when their initial subscription terms expire. Our customers have no obligation to renew their subscriptions after the initial subscription term, and we cannot assure you that our customers will renew their subscriptions at the same or higher levels of service, if at all. Although our retention rates have been high historically, some of our customers have elected not to renew their agreements with us or only to renew their annual subscription and not their entitlement to receive annual professional services. Moreover, under some circumstances, some of our customers have the right to cancel their agreements prior to expiration of the initial subscription term. Our customers' retention rates may decline or fluctuate as a result of a number of factors, including a reduction in our customers' spending levels, mergers and acquisitions affecting our customer base, their satisfaction or dissatisfaction with our solution, pricing, or the availability and prices of competing solutions. If our customers do not renew their subscriptions, or renew on less favourable terms, our revenue may decline, and our operating results from our customer base may suffer.

Managing Growth

We have recently experienced a period of rapid growth in our headcount and operations. For example, we grew from 196 employees at December 31, 2010 to 297 employees at December 31, 2012. We anticipate that we will further expand our operations. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure, as well as our SaaS hosting infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures, and to grow our hosting infrastructure. Failure to effectively manage growth could result in difficulty in implementing products or securing customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

Failure to Expand Marketing and Sales

We will need to continue to expand our marketing and sales infrastructure in order to grow our customer base and our business. We plan to continue to expand and increase our marketing spend as well as our sales force, both domestically and internationally. Identifying and recruiting sales people and training them in the use of our solution requires significant time, expense and attention. This expansion will require us to invest significant financial and other resources. Our business will be seriously harmed if our efforts to expand our marketing and sales efforts do not generate a corresponding significant increase in revenue. In addition, if we are unable to hire, develop and retain talented sales personnel, we may not be able to significantly increase our revenue and grow our business.

Risks Related to International Expansion

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. To date, we have not realized a material portion of our revenue from customers outside of the United States and Canada. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States and Canada. Because of our limited experience with international operations, we cannot assure you that our international expansion efforts will be successful. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- our ability to comply with differing technical and certification requirements outside of the United States and Canada;
- difficulties and costs associated with staffing and managing foreign operations;
- difficulties in integrating foreign operations and maintaining an enterprise-wide consistent corporate culture;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- unexpected changes in regulatory requirements;
- the need to adapt our solution for specific countries and languages;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- tariffs, export controls and other non-tariff barriers such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- restrictions on the transfer of funds; and
- new and different sources of competition.

Our failure to manage any of these risks successfully could harm our existing and future international operations and seriously impair our overall business.

Risks Related to Security of Customer Information

Our operations involve the storage and transmission of the confidential information of many of our customers, and security breaches could expose us to a risk of loss of this information, litigation, indemnity obligations and other liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers' data, including personally identifiable information regarding users, damage to our reputation is likely, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to prevent these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing customers. Further, an actual or perceived security breach affecting one of our competitors or any other company that provides hosting services or delivers applications under a SaaS model occurs, even if no confidential information of our customers is compromised, may adversely affect the market perception of our security measures and we could lose potential sales and existing customers.

Competition

The market for talent management solutions is rapidly evolving and highly competitive, with relatively low barriers to entry in some segments. Many of our competitors and potential competitors are larger and have greater name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do, and with the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their

products or services at a lower price, which has resulted in pricing pressures. If we are unable to achieve our target pricing levels, our operating results would be negatively affected. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our solution to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from desktop software tools. We also face competition from software vendors that include, without limitation, Automatic Data Processing, Inc., Cornerstone OnDemand, Inc., HealthStream, Inc., International Business Machines Corporation (incl. Kenexa Corporation), Oracle Corporation (incl. Taleo Corporation), SAP AG (incl. SuccessFactors, Inc.), SilkRoad Technology, Inc., The Ultimate Software Group, Inc. and Workday, Inc.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. In addition, many of our competitors have greater brand awareness, established marketing relationships and access to larger customer bases. Moreover, many software vendors could bundle human resources products or offer them at a low price as part of a larger product sale. In addition, some competitors may offer software that addresses one or a limited number of talent management functions at lower prices or with greater depth than our solution. As a result, our competitors might be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Risks Relating to Adoption of Talent Management Software Solutions

Widespread adoption of our solution depends on the widespread adoption of talent management software by mid-sized organizations. Because we believe that most organizations have not adopted automated talent management solutions, it is uncertain whether they will purchase software or on-demand applications for their talent management matters. Accordingly, we cannot assure you that the demand for talent management software will achieve and sustain the high level of market acceptance that is critical for the success of our business.

Risks Related to Privacy Concerns

Many US, Canadian and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information. Because many of the features of our solution collect, store and report on personal information, any inability to adequately address privacy concerns, even if unfounded, or to comply with applicable privacy laws, regulations and policies, could result in liability to us and damage to our reputation, and may inhibit sales and harm our business.

Furthermore, the costs of compliance with, and other burdens imposed by, such laws, regulations and policies applicable to the businesses of our customers may limit the use and adoption of our solution and reduce overall demand for it. Privacy concerns, whether or not valid, may inhibit market adoption of our solution in certain industries.

Revenue Recognized Over Term of Customer Agreements

We recognize revenue rateably over the subscription term of our customer agreements, which are typically one year (with initial contracts having two year terms). We typically invoice annually in advance and recognize revenue over a one-year period or a pro-rated portion of a one-year period. As a result, most of our quarterly revenue results from agreements entered into during previous quarters. Consequently, a shortfall in demand for our solution in any quarter may not adversely affect our revenue for that quarter, but is likely to negatively affect revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect reduced revenue. Accordingly, the effect of significant downturns in sales of our solution may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

Fluctuations in Quarterly Operating Results

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our Common Shares, the price of our Common Shares could decline substantially. Fluctuations in our quarterly financial results may be caused by a number of factors, including, but not limited to, those listed below:

- our ability to attract new customers;

- customer retention rates;
- the extent to which customers increase or decrease the number of modules or seats upon any renewal of their agreements;
- the level of new customers as compared to renewal customers in a particular period;
- changes in our pricing policies or those of our competitors;
- seasonal variations in the demand for our solution, which has historically been highest in the fourth quarter of a year;
- the amount and timing of operating expenses, particularly sales and marketing, related to the maintenance and expansion of our business, operations and infrastructure;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors or customers;
- network outages or security breaches; and
- general economic, industry and market conditions.

We believe that our quarterly results of operations, including the levels of our revenue, may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of any one quarter as an indication of future performance.

Reliance on Key Personnel

Our success depends largely upon the continued services of our executive officers, particularly our Chief Executive Officer, and other key employees. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not maintain key person life insurance policies on any of our employees other than our Chief Executive Officer. The loss of one or more of our executive officers or key employees could negatively affect our business. In addition, the employment agreement of Ms Ronayne does not address payments by the Company in connection with a termination without cause or a change in control. Accordingly, any such payments are unknown and would be determined in accordance with applicable law.

Reliance on Third-Party Service Providers

We currently host our solution from a single data centre located in Calgary, Canada. We do not control the operation of this facility, and we do not currently have a backup hosting facility in case this facility ceases to operate. This facility is vulnerable to damage or interruption from natural disasters, fires, power loss, telecommunications failures, water damage and similar events. It could also be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the facility without adequate notice or other unanticipated problems could result in lengthy interruptions, which would have a serious adverse impact on our business. Additionally, our data centre agreement is of limited duration and is subject to early termination rights in certain circumstances, and the provider of our data centre is under no obligation to renew their agreement with us on commercially reasonable terms, or at all.

We also depend on access to the Internet through third-party bandwidth providers to operate our business. If we lose the services of one or more of our bandwidth providers for any reason, we could experience disruption in delivering our solution or we could be required to retain the services of a replacement bandwidth provider.

Exchange Rate Fluctuations

We are subject to fluctuations in currency exchange rates. We report our financial results in US dollars as a significant portion of our business is conducted and invoiced in US dollars. However, as we anticipate our international business will grow, the percentage of our revenue received in foreign currencies will likely increase. Accordingly, we are subject to, and may increasingly be subject to, currency fluctuations that may, from time to time, affect our financial position and performance. Further, a significant amount of our expenses are paid in Canadian dollars. As a

result, we are exposed to currency risk on these transactions. Any fluctuation in the exchange rate of these currencies may negatively impact our business, financial condition and operating results. We currently engage in a basic hedging program in which we sell future US dollars and buy Canadian dollars by purchasing basic forward contracts. We do not currently engage in hedging transactions in respect of currencies other than the Canadian dollar. However, we may significantly change our hedging practices as the business requires. We can provide no assurance that our current or future hedging activities will be effective.

Risks Related to Global Economic Conditions

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our customers. The revenue growth and potential profitability of our business depends on demand for application software and services generally and for talent management solutions in particular. We sell our solution primarily to mid-sized and small business organizations whose businesses fluctuate based on general economic and business conditions. In addition, a portion of our revenue is attributable to the number of end users of our solution at each of our customers, which in turn is influenced by the employment and hiring patterns of our customers and potential customers. To the extent that weak economic conditions cause our customers and potential customers to freeze or reduce their headcount, demand for our solutions may be negatively affected. Historically, economic downturns have resulted in overall reductions in spending on information technology or talent management solutions as well as pressure for extended billing terms. If economic conditions deteriorate or do not materially improve, our customers and potential customers may elect to decrease their information technology and talent management budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

Software Defects

Our software solution is complex and sophisticated and, from time to time, may contain design defects, security vulnerabilities or software “bugs” or failures that are difficult to detect and correct. Errors or defects may be found in software after commercial implementation, and we may be unable to successfully correct such errors or defects in a timely manner or at all. The occurrence of errors and defects in our software could result in loss of, or delay in, market acceptance of our software, and correcting such errors and failures in our software could require significant expenditure of capital. We typically provide warranties on our software solutions and the failure of our solutions to operate as described may cause loss of customers, damage to our reputation for delivering high-quality products, delay in or loss of market acceptance and additional warranty expenses. The consequences of such errors, failures and other defects and claims could have a material adverse effect on our business, financial condition and results of operations.

Reliance on Third-Party Computer Hardware and Software

We rely on computer hardware, purchased or leased, and software licensed from third parties in order to deliver our solution. This hardware and software may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in our ability to provide our solution until equivalent technology is either developed by us or, if available, identified, obtained and integrated, which could harm our business. In addition, errors or defects in third-party hardware or software used in delivering our solution to our customers could result in errors or a failure of our solution, which could harm our business.

Failure to Innovate

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing solution and to introduce new features. The success of any enhancement or new product depends on several factors, including timely completion, introduction and market acceptance. While most of our new features and enhancements are optional for customers, some new features are mandatory, which may result in customer dissatisfaction or require customers to modify their use of our solution. Any new feature or module that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. If we are unable to successfully develop or acquire new features or modules or to enhance our existing solution to meet customer requirements, our business and operating results could be adversely affected.

Because we designed our solution to operate on a variety of network, hardware and software platforms using standard Internet tools and protocols, we need to continuously modify and enhance our solution to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. If we are unable to respond in a timely manner to these rapid technological developments in a cost-effective manner, our solution may become less marketable and less competitive or obsolete and our operating results may be negatively affected.

Employee Retention

If we are not able to attract and retain top employees, our ability to compete may be harmed. Our success is also highly dependent on our continuing ability to identify, hire, train, retain and motivate highly qualified personnel. Competition for such people is intense, and we may not be successful in attracting and retaining such personnel. If we fail to attract and retain qualified employees, our ability to grow our business could be harmed.

Failure to Protect our Intellectual Property

Our success and ability to compete depend in part upon our intellectual property. We primarily rely on copyright, trade secret and trade-mark laws, trade secret protection and confidentiality or license agreements with our employees, customers and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. We currently do not have any issued patents.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defences, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could seriously harm our brand and adversely affect our business.

Intellectual Property Infringement

Our competitors, as well as a number of other entities and individuals, may claim that we infringe their intellectual property rights. Claims of infringement are becoming increasingly common as the software industry develops and third parties may assert infringement claims against us in the future. Although we have developed most of our software solution, we do include third-party software in our products. In these cases, this software is licensed from the entity holding the intellectual property rights. Although we believe that we have secured proper licenses for all third-party software that is integrated into our products, third parties may assert infringement claims against us in the future. Any such assertion may result in litigation or may require us to obtain a license for the intellectual property rights of third parties. Such licenses may not be available, or they may not be available on reasonable terms. In addition, such litigation could be disruptive to our ability to generate revenue or enter into new market opportunities and may result in significantly increased costs as a result of our defence against those claims or our attempt to license the intellectual property rights or rework our products to ensure they comply with judicial decisions. Even if we were to prevail, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. Further, our license agreements with our customers include provisions that would require us to indemnify our customers if they are subject to third-party claims that our solution infringes their intellectual property rights. Any of the foregoing could have a significant adverse affect on our business and operating results as well as our ability to generate future revenue.

Open Source Software

We use open source software in our solution. Although we try to monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our solution. In such event, we could be required to seek licenses from third parties in order to continue offering our solution, to re-engineer our technology or to discontinue offering our solution in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition. We also incorporate certain third-party technologies into our solution and may desire to incorporate additional third-party technologies in the future. Licenses to new third-party technology may not be available to us on commercially reasonable terms, or at all.

Managing Acquisitions

We currently do not have any agreement or commitment to acquire any businesses. However, we might in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our solution, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

In addition, we do not have any experience in acquiring other businesses. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

Any or all of the above factors could harm our business.

Additional Capital Requirements

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to expand sales and marketing activities; develop new features and modules to enhance our existing solution; enhance our operating infrastructure; and acquire complementary businesses and technologies. Further, we have incurred annual losses over a number of years. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of 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 might make it more difficult for us to obtain additional capital and to pursue business opportunities. We can provide no assurance that sufficient debt or equity financing will be available for necessary or desirable infrastructure expenditures or acquisitions or to cover losses, and accordingly, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Risks Related to Tax Matters

With operations and sales in various countries, we are subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and results of operations. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, which could have a material impact on us and the results of our operations.

We conduct operations worldwide through subsidiaries in various tax jurisdictions pursuant to transfer pricing arrangements with our subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arms' length. While we believe that we operate in compliance with applicable transfer pricing

laws and intend to continue to do so, our transfer pricing procedures are not binding on applicable tax authorities. If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arm's length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which could result in a higher tax liability to us.

Risks Related to this Offering

No Prior Public Market for Common Shares

Prior to the Offering, no public market existed for the Common Shares. An active and liquid market for the Common Shares might not develop following the completion of the Offering or, if developed, might not be maintained. If an active public market does not develop or is not maintained, investors might have difficulty selling their Common Shares.

The initial public offering price of Common Shares will be determined by negotiations between us and the Underwriters for the Offering and may not be indicative of the price at which the Common Shares will trade following the completion of the Offering. We cannot assure investors that the market price of Common Shares will not materially decline below the initial public offering price.

Additional Regulatory Burden

Prior to the Offering, we have not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the TSX. We are working with our legal, accounting and financial advisors to identify those areas in which changes should be made to our financial management control systems to manage our obligations as a public company. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal controls over financial reporting. However, we cannot assure purchasers of Common Shares that these and other measures that we might take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. We cannot predict the amount of the additional costs that we might incur, the timing of such costs or the impact that management's attention to these matters will have on our business.

Volatile Market Price for Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which we operate;
- addition or departure of our executive officers and other key personnel;
- release or expiration of lock-up or other transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- operating and share price performance of other companies that investors deem comparable to us; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common

Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which might result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely affected and the trading price of the Common Shares might be materially adversely affected.

No Dividends

Our current policy is to retain earnings to finance the development and enhancement of our solution and to otherwise reinvest in the Company. Therefore, we do not anticipate paying cash dividends on the Common Shares in the foreseeable future. Our dividend policy will be reviewed from time to time by our Board of Directors in the context of our earnings, financial condition and other relevant factors. Until the time that we do pay dividends, which we might never do, our shareholders will not be able to receive a return on their Common Shares unless they sell them. See “Dividend Policy”.

Future Sales of Common Shares by Existing Shareholders

Sales of a substantial number of Common Shares in the public market could occur at any time before or after the expiration of the lock-up agreements described in “Plan of Distribution”. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of our Common Shares. In addition, the Underwriters might waive the provisions of these lock-up agreements and allow the subject shareholders to sell their Common Shares at any time. There are no pre-established conditions for the grant of such a waiver by the Underwriters, and any decision by them to waive those conditions may depend on a number of factors, which might include market conditions, the performance of our Common Shares in the market and our financial condition at that time. If the restrictions in such lock-up agreements are waived, additional Common Shares will be available for sale into the public market, subject to applicable securities laws, which could reduce the market price for Common Shares. Holders of Options will have an immediate income inclusion for tax purposes when they exercise their Options (that is, tax is not deferred until they sell the underlying Common Shares). As a result, these holders may need to sell Common Shares purchased on the exercise of Options in the same year that they exercise their Options. This might result in a greater number of Common Shares being sold in the public market, and fewer long-term holds of Common Shares by our management and employees.

Use of Proceeds

We cannot specify with certainty the particular uses of the net proceeds we will receive from this Offering. Our management will have broad discretion in the application of the net proceeds, including for any of the purposes described in “Use of Proceeds”. Accordingly, a purchaser of Common Shares will have to rely upon the judgment of our management with respect to the use of the proceeds, with only limited information concerning management’s specific intentions. Our management may spend a portion or all of the net proceeds from this Offering in ways that our shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser’s investment. The failure by our management to apply these funds effectively could harm our business. Pending use of such funds, we might invest the net proceeds from this Offering in a manner that does not produce income or that loses value.

Dilution of Investment

The initial offering price of our Common Shares will significantly exceed the net tangible book value per share of our Common Shares. Accordingly, if an investor purchases Common Shares under the Offering, the investor will incur immediate and substantial dilution of its investment. If the outstanding options to purchase our Common Shares are exercised, an investor will incur additional dilution. See “Options to Purchase Securities”.

Concentration of Ownership

Immediately after the Closing, our existing shareholders will own ● % (● % if the Over-Allotment Option is exercised in full) of the outstanding Common Shares, of which ● % (● % if the Over-Allotment Option is exercised in full) will be owned or controlled by one shareholder. See “Principal and Selling Shareholders”. Our

existing shareholders will be in a position to exercise significant influence over matters requiring shareholder approval, including the election of directors and the determination of significant corporate actions, after the Closing. As well, these shareholders could delay or prevent a change in control of our Company, including a change of control resulting from a take-over bid, that could otherwise be beneficial to our shareholders.

LEGAL MATTERS

We are from time to time involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

Certain Canadian legal matters relating to the Offering will be passed upon on our behalf by Osler, Hoskin & Harcourt LLP, and on behalf of the Underwriters by LaBarge Weinstein LLP. The partners and associates of Osler, Hoskin & Harcourt LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding Common Shares. The partners and associates of LaBarge Weinstein LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding Common Shares.

EXPERTS

No person or company whose profession or business who is named as having prepared or certified a report, valuation, statement or opinion described or included in the prospectus, or whose profession or business gives authority to a report, valuation, statement or opinion described or included in the prospectus, holds any registered or beneficial interest, direct or indirect, in any of our securities or other property of our company or one of our associates or affiliates and no such person or company, or a director, officer or employee of such person or company, is expected to be elected, appointed or employed as one of our directors, officers or employees or as a director, officer or employee of any of our associates or affiliates and no such person is one of our promoters or the promoter of one of our associates or affiliates. Our current auditors are Deloitte LLP. Deloitte LLP has informed us that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are Deloitte LLP, 100 Queen Street, Ottawa, Ontario K1P 5B4.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

The only material contract, other than those contracts entered into in the ordinary course of business, that the Company has entered into during the two years before the date of this prospectus to which the Company is or will become a party on or prior to the Closing is the Underwriting Agreement, which is described in "Plan of Distribution".

A copy of the Underwriting Agreement, once executed, may be inspected during ordinary business hours at our offices located at 495 March Road, Ottawa, Ontario, Canada K2K 3G1 and at <http://www.sedar.com>.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TERMS

“**Board of Directors**” or “**Board**” means the board of directors of the Company.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CDS Participants**” has the meaning set out under the heading “Plan of Distribution”.

“**CEO**” means chief executive officer.

“**CFO**” means chief financial officer.

“**Closing**” means the closing of the Offering.

“**Closing Date**” means the date of the Closing.

“**Common Shares**” means the common shares of the Company.

“**Connected Issuer**” means the term defined in securities legislation.

“**Current Option Plan**” means the Halogen stock option plan established in 2009.

“**CRA**” means Canada Revenue Agency.

“**Halogen**” means Halogen Software Inc. and, unless otherwise notes or the context indicates otherwise, its subsidiaries.

“**IFRS**” means International Financial Reporting Standards.

“**Named Executive Officers**” or “**NEOs**” means the Company’s CEO and CFO and the next three next most highly compensated executive officers of the Company who are currently serving as executive officers.

“**NI 52-110**” has the meaning set out under the heading “Corporate Governance – Board of Directors”.

“**Offering**” means this initial public offering of Common Shares.

“**Offering Price**” means the price of each common share that will be issued pursuant to the Offering.

“**Old Option Plan**” means the Halogen stock option plan established in 1996.

“**Over-Allotment Option**” means the option granted by the Company to the Underwriters to purchase up to • additional Common Shares at the Offering Price, exercisable for a period of 30 days from the Closing.

“**Over-Allotment Shares**” means Common Shares issuable under the Over-Allotment Option.

“**Reorganization**” means a share capital reorganization pursuant to which our existing outstanding Class B Preferred Shares will be converted into Class A Common shares, and the Class A Common shares will be consolidated on a 1.5 to 1 basis and redesignated as Common Shares, as described under “Reorganization”.

“**Secondary Shares**” means the Common Shares sold by the Selling Shareholder pursuant to the Offering.

“**Tax Act**” means the *Income Tax Act* (Canada).

“**Treasury Shares**” means the Common Shares issued by the Company pursuant to the Offering.

“**TSX**” means the Toronto Stock Exchange.

“**US**” means the United States of America.

“**Underwriting Agreement**” means the underwriting agreement dated • , 2013 between the Company and the Underwriters.

INDEX TO FINANCIAL STATEMENTS

The following financial statements of Halogen are included in this prospectus:

Consolidated Financial Statements for the year ends ended December 31, 2012, 2011 and 2010	F-2
Unaudited Condensed Consolidated Financial Statements for the quarters ended March 31, 2013 and 2012	F-28

Consolidated Financial Statements

HALOGEN SOFTWARE INC.

*Years ended December 31, 2012, 2011 and 2010
(in United States dollars)*

Deloitte LLP
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Kanata ON K2K 3G4
Canada

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Independent Auditor's Report

To the Directors of Halogen Software Inc.

We have audited the accompanying consolidated financial statements of Halogen Software Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of operations and comprehensive income (loss), statements of changes in shareholders' equity (deficiency) and statements of cash flows for the years ended December 31, 2012, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Halogen Software Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years ended December 31, 2012, 2011 and 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(signed) Deloitte LLP
Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
April 16, 2013

HALOGEN SOFTWARE INC.
Consolidated Financial Statements
Years ended December 31, 2012, 2011 and 2010

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HALOGEN SOFTWARE INC.
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands, except share and per share data)

	Note	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue				
Recurring		\$ 32,661	\$ 25,001	\$ 18,181
Professional services		4,517	4,482	3,780
License		825	1,534	781
		<u>38,003</u>	<u>31,017</u>	<u>22,742</u>
Cost of revenue				
Recurring		7,199	5,740	4,756
Professional services		3,404	3,365	2,337
License		19	56	100
	17	<u>10,622</u>	<u>9,161</u>	<u>7,193</u>
Gross margin		<u>27,381</u>	<u>21,856</u>	<u>15,549</u>
Expenses				
Sales and marketing	17	18,515	13,892	9,712
Research and development	17	7,759	6,274	4,912
General and administrative	17	6,451	8,877	3,657
		<u>32,725</u>	<u>29,043</u>	<u>18,281</u>
Operating income (loss)		(5,344)	(7,187)	(2,732)
Loss related to change in fair value of redeemable preferred shares	11	(14,329)	(2,891)	(5,092)
Interest and other income		120	198	121
Interest expense		(20)	(45)	(64)
Income (loss) before income taxes		(19,573)	(9,925)	(7,767)
Income tax expense (recovery)		5	9	—
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		<u>\$ (19,578)</u>	<u>\$ (9,934)</u>	<u>\$ (7,767)</u>
Basic and diluted earnings (loss) per share	15	<u>\$ (1.07)</u>	<u>\$ (0.55)</u>	<u>\$ (0.43)</u>
Weighted average number of basic and diluted common shares outstanding	15	18,218,472	17,964,211	18,054,587

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

HALOGEN SOFTWARE INC.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands)

	<u>Share capital</u>	<u>Share compensation reserve</u>	<u>Retained earnings (deficit)</u>	<u>Total shareholders' equity (deficiency)</u>
Balance, December 31, 2009	\$2,230	\$ 51	\$(11,623)	\$ (9,342)
Share options exercised	41	(9)	—	32
Share-based compensation	—	37	—	37
Class A common shares repurchased	(34)	—	—	(34)
Employee share purchase loans	(140)	—	—	(140)
Net income (loss)	—	—	(7,767)	(7,767)
Balance, December 31, 2010	<u>2,097</u>	<u>79</u>	<u>(19,390)</u>	<u>(17,214)</u>
Share options exercised	34	(7)	—	27
Share-based compensation	—	165	—	165
Class A common shares repurchased	(7)	—	—	(7)
Employee share purchase loans	140	—	—	140
Net income (loss)	—	—	(9,934)	(9,934)
Balance, December 31, 2011	<u>2,264</u>	<u>237</u>	<u>(29,324)</u>	<u>(26,823)</u>
Share options exercised	37	(8)	—	29
Share-based compensation	—	189	—	189
Net income (loss)	—	—	(19,578)	(19,578)
Balance, December 31, 2012	<u>\$2,301</u>	<u>\$418</u>	<u>\$(48,902)</u>	<u>\$(46,183)</u>

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

HALOGEN SOFTWARE INC.
Consolidated Statements of Financial Position
As at December 31, 2012 and 2011
(in United States dollars, tabular amounts in thousands)

	Notes	<u>2012</u>	<u>2011</u>
ASSETS			
Current assets			
Cash and cash equivalents		\$ 3,683	\$ 4,081
Short-term investments	5	5,210	6,356
Trade and other receivables (net)	6	6,961	5,831
Investment tax credits receivable	24	1,206	1,180
Prepaid expenses		1,198	1,164
		<u>18,258</u>	<u>18,612</u>
Non-current assets			
Long-term investments	5	—	277
Property and equipment	7	3,091	2,627
Intangible assets	8	1,403	1,116
		<u>\$ 22,752</u>	<u>\$ 22,632</u>
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	9	\$ 4,360	\$ 2,529
Derivative liabilities	16	8	319
Deferred revenue		22,931	18,761
Deferred leasehold inducement		180	163
Current portion of long-term debt	10	173	465
		<u>27,652</u>	<u>22,237</u>
Non-current liabilities			
Deferred leasehold inducement		231	327
Redeemable preferred shares	11	40,996	26,667
Long-term debt	10	56	224
		<u>68,935</u>	<u>49,455</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	2,301	2,264
Share compensation reserve	14	418	237
Retained earnings (deficit)		(48,902)	(29,324)
		<u>(46,183)</u>	<u>(26,823)</u>
		<u>\$ 22,752</u>	<u>\$ 22,632</u>

Approved by the Board of Directors

(signed) Michael Slaunwhite
Director

(signed) Timothy Williams
Director

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

HALOGEN SOFTWARE INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands)

	Note	<u>2012</u>	<u>2011</u>	<u>2010</u>
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income (loss)		\$(19,578)	\$(9,934)	\$(7,767)
Items not affecting cash:				
Depreciation and amortization	7,8	2,007	1,744	1,109
Loss related to change in fair value of redeemable preferred shares	11	14,329	2,891	5,092
Share-based compensation	13	189	165	37
Unrealized foreign exchange (gain) loss		(34)	316	(591)
Deferred leasehold inducement		(79)	(169)	357
Net changes in non-cash items	22	4,495	3,510	4,490
		<u>1,329</u>	<u>(1,477)</u>	<u>2,727</u>
INVESTING ACTIVITIES				
Purchase of property and equipment	7	(1,853)	(1,441)	(1,932)
Purchase of intangibles	8	(905)	(787)	(818)
Maturity of investments		6,387	8,031	5,793
Purchase of investments		(4,933)	(2,420)	(9,748)
		<u>(1,304)</u>	<u>3,383</u>	<u>(6,705)</u>
FINANCING ACTIVITIES				
Issuance of share capital	12	29	27	32
Employee share purchase loans		—	140	(140)
Proceeds from issuance of long-term debt		—	518	—
Repayment of long-term debt	10	(460)	(950)	(765)
Repurchase of Class A common shares	11	—	(7)	(256)
		<u>(431)</u>	<u>(272)</u>	<u>(1,129)</u>
Effect of exchange rate changes on cash and cash equivalents		8	(92)	34
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(398)	1,542	(5,073)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		4,081	2,539	7,612
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 3,683</u>	<u>\$ 4,081</u>	<u>\$ 2,539</u>
Cash and cash equivalents consist of:				
Cash		\$ 1,899	\$ 3,294	\$ 1,799
Cash equivalents		1,784	787	740
Total		<u>\$ 3,683</u>	<u>\$ 4,081</u>	<u>\$ 2,539</u>

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

HALOGEN SOFTWARE INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands, except share and per share data)

1. CORPORATE INFORMATION

Halogen Software Inc. (the “Company”) is incorporated and domiciled in Ontario, Canada. The registered office is located at 495 March Road, Suite 500, Ottawa, Ontario Canada.

The Company was incorporated on January 9, 1996 under the laws of the Province of Ontario, Canada. The Company develops, markets and sells SaaS-based talent management software solutions and provides associated services.

2. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements of the Company were authorized for issue in accordance with a resolution of the board of directors on April 16, 2013.

3. BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principle accounting policies are set out in Note 4.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Presentation currency

All amounts presented in these financial statements are in United States dollars (“USD”) unless otherwise stated. Tabular amounts are presented in thousands of USD.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are fully consolidated from the date of incorporation or acquisition. The acquisition date is the date on which the Company obtains control and the acquired company continues to be consolidated until the date that such control ceases. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions, balances, revenues and expenses between the Company and its subsidiaries have been eliminated.

Standards and interpretations in issue not yet adopted

The following is a list of standards and amendments that have been issued but not yet adopted by the Company.

IFRS 9: Financial Instruments

Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the IASB’s project to replace IAS 39 Financial Instruments: recognition and measurement (“IAS 39”). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. This IFRS, which is to be applied retrospectively, is currently proposed to be effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

IFRS 13: Fair value measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

HALOGEN SOFTWARE INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands, except share and per share data)

4. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Company reports its revenues under three categories namely, recurring revenue, professional services revenue and license revenue. Recurring revenues are derived primarily from annual subscription fees from customers using its talent management solutions. Recurring revenues also includes maintenance, support and hosting charges from legacy perpetual license customers. Also included in recurring revenue is additional annual support and training services customers may purchase beyond the standard support that is included in the basic subscription fees. Professional services are comprised of one-time consulting services, including implementation services, technical services and training. License revenue relates only to the Company's legacy perpetual license customers who are purchasing additional licenses for software they have previously purchased.

The majority of the Company's transactions relate to the rendering of services and as such, the Company only recognizes revenue when the following conditions are met:

1. the amount of revenue can be measured reliably;
2. it is probable that the economic benefits associated with the transaction will flow to the entity;
3. the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
4. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Company sells its software and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where the Company enters into an agreement involving a bundled transaction, the Company records each of the separate components at their relative fair value and recognizes the revenue on an appropriate basis for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. The Company determines the fair value of each of the components sold based on the selling price when they are sold separately. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Recurring

Recurring revenue involves the performance of an indeterminate number of acts over the contract period and as a result the revenue from these services is recognized ratably over the contract term. The contract term begins when the service is made available to the customer.

Professional services

The majority of the Company's professional services contracts are on a time and material basis. These revenues are recognized by the stage of completion of the arrangement as the services are rendered using the percentage of completion method or when the milestones are achieved. Training revenues are recognized as the services are performed. The services are separate units of accounting because they have stand-alone value to the customer and are sold separately by the Company.

License

License revenue involves the delivery of perpetual licenses to the Company's customers. Therefore once the Company has transferred the significant risks and rewards of ownership to the customer, the Company recognizes the associated revenue.

Critical judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS requires the Company's management to make judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented.

Estimates are used for, but not limited to, the determination of the value of redeemable preferred shares, recognition of deferred tax assets, and the valuation of share options. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Redeemable preferred share fair value

The fair market value of the preferred shares can be derived from valuation reports prepared by management to arrive at a value for the Company. The fair value of the redeemable preferred shares is then inferred from the valuation through the use of an option pricing model which considers the legal rights of all security classes and the respective claims of each security class on the value of the Company.

HALOGEN SOFTWARE INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands, except share and per share data)

Income taxes

The recognition of deferred tax assets requires the Company to perform an evaluation of the nature and the amount of deferred income tax assets related to deductible temporary or taxable temporary differences and their carry-forward period, the Company's recent earnings history, the Company's cumulative profit or loss in recent years and the Company's forecast of sufficient future earnings. As described in Note 24, the Company has not recorded a deferred tax asset at this time.

Share options fair value

The valuation of the Company's share options involves the use of the Black-Scholes valuation model which requires the Company to estimate factors such as risk free interest rate, expected life in years, expected dividend yield and volatility. The valuations of these share options and the assumptions used are further outlined in Note 13.

Cash and cash equivalents

Cash and cash equivalents include cash investments in interest-bearing accounts which can readily be redeemed for cash without penalty or are issued for terms of ninety days or less from the date of acquisition.

Investments

Investments are highly liquid assets that are not required to meet short-term cash commitments. Where an investment has a maturity greater than one year, the Company classifies it as long-term investment otherwise it is recorded as a short-term investment. Investments typically consist of government notes, guaranteed investment certificates and bonds, debentures and similar instruments issued by certain Canadian financial institutions. Short-term investments are classified as held-to-maturity and are recorded at amortized cost.

Financial assets

All financial assets are recognized and de-recognized on trade date and are initially recorded at fair value plus transaction costs, except for those financial assets classified as fair value through profit or loss ("FVTPL") whose transaction costs are expensed as incurred.

The Company determines the classification of its financial assets at initial recognition. Financial instruments are classified as follows:

Financial asset

Classification under IAS 39

Cash and cash equivalents	Loans and receivables – amortized cost
Investments	Held to maturity – amortized cost
Foreign exchange forward contracts	Held for trading – FVTPL
Trade and other receivables	Loans and receivables – amortized cost
Investment tax credits receivable	Loans and receivables – amortized cost

Financial assets at fair value through profit and loss

Financial assets recorded as FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets that are purchased and incurred with the intention of selling it in the near term, are designated as held for trading which is the case for all financial instruments classified as assets at FVTPL. In order to be designated as held for trading, the instrument must have been acquired principally for the purpose of selling it in the near term or it must be part of a portfolio with a recent actual pattern of short-term profit taking, or it must be a derivative that is not designated and effective as a hedging instrument. These instruments are accounted for at fair value with the change in the fair value recognized in earnings during the period.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as available-for-sale ("AFS") or as held-for-trading, or designated as at FVTPL. Loans and receivables are accounted for at amortized cost by using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial.

HALOGEN SOFTWARE INC.
Notes to the Consolidated Financial Statements
Years ended December 31, 2012, 2011 and 2010
(in United States dollars, tabular amounts in thousands, except share and per share data)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt or asset instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those categorized as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Certain categories of financial assets, such as trade and other receivables, are assessed for impairment individually and on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

The Company determines the classification of its financial liabilities at initial recognition. Financial instruments are classified as follows:

Financial liability

Trade payables and accrued liabilities
Foreign exchange forward contracts
Redeemable preferred shares
Long-term debt

Classification under IAS 39

Other financial liabilities – amortized cost
Held for trading – FVTPL
Other financial liabilities – FVTPL
Other financial liabilities – amortized cost

Other financial liabilities

Other financial liabilities are accounted for at amortized cost by using the effective interest method.

De-recognition of financial liabilities

The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is greater than 12 months and it is not expected to be realized or settled within 12 months.

Research and development

Research and development costs are expensed as incurred.

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Income taxes

Current and deferred income taxes are recognized as an expense or recovery in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside of profit or loss.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Deferred Income tax

Deferred income tax assets and liabilities are recorded for the temporary differences between transactions that have been included in the financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Investment tax credits

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation in the Income Tax Act of Canada. Credits are recorded provided there is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the Canada Revenue Agency.

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of net income as a reduction of the research and development expenses.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is calculated over the estimated remaining useful life of the assets on a straight-line basis as follows:

<u>Property and equipment</u>	<u>Rate</u>
Computer equipment	2 – 5 years
Office equipment	5 years
Leasehold improvements	Term of lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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Amortization is calculated over the estimated remaining useful life of the assets on a straight-line basis as follows:

<u>Intangible assets</u>	<u>Rate</u>
Computer software	1 – 5 years

Impairment of non-financial assets

The Company has determined it has only one cash generating unit (“CGU”) which is the Company as a whole. Therefore any impairment analysis would be conducted at that level.

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any impairment losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s recoverable amount. The recoverable amount is the higher of the fair value less transaction costs and its value in-use. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Foreign currency translation

The Company’s consolidated financial statements are presented in USD, which is also the functional currency of the parent company and its subsidiaries.

Transactions in foreign currencies are initially translated into an entity’s functional currency using rates prevailing at the date of the transaction. Monetary assets and liabilities are translated using the exchange rates in effect at the date of the Consolidated Statement of Financial Position and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items are translated using average exchange rates prevailing during the year. Foreign exchange gains and losses are included in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Earnings (loss) per common share

Basic earnings (loss) per common share are computed using the weighted average number of class A common shares outstanding during the period. Diluted earnings per share is computed in accordance with the treasury stock method and based on the average number of common shares and dilutive common share equivalents. Common share equivalents take into consideration share options and redeemable preferred shares outstanding. The treasury stock method assumes that when calculating diluted earnings (loss) per share that all dilutive instruments had been exercised at the later of the beginning of the period and the security issue date.

Share-based compensation

The Company uses the fair-value based method to measure share-based compensation for all share-based awards made to employees and directors. Awards that the Company has the ability to settle in shares are recorded as equity.

The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company’s estimate of share options that will ultimately vest. The Company adjusts the amount of expense recorded for the actual equity instruments that vest compared to what was originally estimated in its forfeiture rate.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified and if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Preferred shares

The Company has conditionally redeemable, convertible Class B preferred shares outstanding. The holders of the shares have the option to convert the Class B preferred shares, at any time, into shares of Class A common shares.

The redemption component and conversion component of the preferred shares are classified separately as financial liabilities and equity, respectively, in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. IFRS requires that a conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments to be treated as an equity instrument.

At the date of issue, the fair value of the liability was estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability and is measured at fair value at the end of each reporting period as the liability has been classified as Fair Value through Profit or Loss ("FVTPL").

The conversion option classified as equity is determined by deducting the amount of the liability from the fair value of the compound instrument as a whole. The Company has determined that the value of the conversion option was nominal and full proceeds should be allocated to the liability.

Transaction costs relating to the liability have been expensed as incurred as the liability has been classified FVTPL.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. The corresponding liability is recorded as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amounts recognized as provision are the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation. Where the Company expects reimbursement associated with a provision, the reimbursement is recognized as an asset if and when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statements of Operations and Comprehensive Income (Loss) net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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5. INVESTMENTS

The following table summarizes the estimated amortized cost of the bonds and debentures designated as held-to-maturity and classified by the contractual maturity date of the security:

December 31, 2012			December 31, 2011		
Due within 1 year	Due within 1 year to 5 years	Total Investments	Due within 1 year	Due within 1 year to 5 years	Total Investments
<u>\$5,210</u>	<u>\$—</u>	<u>\$5,210</u>	<u>\$6,356</u>	<u>\$277</u>	<u>\$6,633</u>

6. TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
Trade and other receivables	\$7,011	\$5,981
Allowance for doubtful accounts	(50)	(150)
	<u>\$6,961</u>	<u>\$5,831</u>

Movement in the allowance for doubtful accounts is as follows:

	December 31, 2012	December 31, 2011
Balance at the beginning of the year	\$(150)	\$(140)
Change in provision	61	(97)
Receivable balances written-off	39	87
Balance at the end of the year	<u>\$ (50)</u>	<u>\$(150)</u>

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Cost				
As at December 31, 2010	\$4,235	\$1,098	\$1,040	\$6,373
Additions	1,074	128	239	1,441
As at December 31, 2011	5,309	1,226	1,279	7,814
Additions	1,274	285	294	1,853
As at December 31, 2012	<u>\$6,583</u>	<u>\$1,511</u>	<u>\$1,573</u>	<u>\$9,667</u>
Accumulated depreciation				
As at December 31, 2010	\$3,003	\$432	\$431	\$3,866
Depreciation expense	907	156	258	1,321
As at December 31, 2011	3,910	588	689	5,187
Depreciation expense	932	168	289	1,389
As at December 31, 2012	<u>\$4,842</u>	<u>\$756</u>	<u>\$978</u>	<u>\$6,576</u>
Carrying Amount				
As at December 31, 2011	\$1,399	\$638	\$590	\$2,627
As at December 31, 2012	<u>\$1,741</u>	<u>\$755</u>	<u>\$595</u>	<u>\$3,091</u>

Depreciation expense for assets under finance leases for the year ended December 31, 2012 was \$41,500 (2011 – \$53,000, 2010 – \$133,000). Included in the categories above are items under finance lease, which had a net carrying amount of \$65,000 as at December 31, 2012 (2011 – \$106,000).

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8. INTANGIBLE ASSETS

Intangibles assets consist of software acquired.

	Total
Cost	
As at December 31, 2010	\$1,892
Additions	787
As at December 31, 2011	2,679
Additions	905
As at December 31, 2012	\$3,584
	Total
Accumulated amortization	
As at December 31, 2010	\$1,140
Amortization expense	423
As at December 31, 2011	1,563
Amortization expense	618
As at December 31, 2012	\$2,181
	Total
Carrying Amount	
As at December 31, 2011	\$1,116
As at December 31, 2012	\$1,403

Amortization expense for assets under finance leases for the year ended December 31, 2012 was \$3,000 (2011 – \$7,000, 2010 – \$9,000). Included in the categories above are items under finance lease, which had a net carrying amount of \$2,000 as at December 31, 2012 (2011 – \$5,000).

9. TRADE PAYABLE AND ACCRUED LIABILITIES

Trade payables and accrued liabilities consist of the following:

	December 31, 2012	December 31, 2011
Trade payables	\$ 720	\$ 251
Accrued liabilities	1,484	1,095
Payroll liabilities	2,156	1,183
	\$4,360	\$2,529

10. LONG-TERM DEBT

	December 31, 2012	December 31, 2011
Obligations under finance leases, payable in monthly installments plus applicable taxes, bearing interest at rates between 6.38% to 7.83%, secured by the equipment, maturing by April 2013	\$ 6	\$ 307
Obligation under credit facility, payable in monthly installments of \$13,889, bearing interest at Prime + 1.75%, secured under a General Security Agreement, maturing April 2014	223	382
	229	689
Less current portion	(173)	(465)
	\$ 56	\$ 224

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The future payments on long-term debt are as follows:

2013	\$181
2014	<u>56</u>
	237
Less future finance charges	<u>(8)</u>
Total minimum payments	<u>\$229</u>

The Company has a revolving demand facility totalling \$100,000 subject to certain restrictions. None of this facility was used at December 31, 2012 (2011 – \$Nil). The Company has a non-revolving term facility that is fully drawn in the amount of \$223,000 at December 31, 2012 (2011 – \$382,000). The Company has a second non-revolving term facility of \$2,000,000 of which \$Nil was used at December 31, 2012 (2011 – \$Nil). In 2012, the Company negotiated a new revolving demand facility of \$500,000 that secures the Company’s corporate credit cards. These facilities are subject to annual renewal.

The Company is not required to meet any financial covenants under the terms of its credit facility agreements. As collateral for its bank indebtedness, the Company has given the bank a general security agreement representing a first charge over all of the Company’s assets. Interest is charged on indebtedness at prime plus 1.75%.

11. REDEEMABLE PREFERRED SHARES

The Company has issued 6,366,723 Class B preferred shares. The shares mandatorily convert to Class A common shares in the event of a qualifying initial public offering.

The holders of the Class B preferred shares are entitled to one vote for each Class A common share into which the Class B preferred shares may be converted and are entitled to participate pro-rata in any dividends paid on the common shares on an as-if-converted basis. Upon a liquidation event, the holders of Class B preferred shares are entitled to receive \$2.356 per share in priority to any amounts distributed to holders of Class A common shares. After such distribution and a distribution in the aggregate amount of \$15,000,000 to holders of Class A common shares, holders of Class B preferred shares are entitled to receive an additional \$0.858 per share in priority to any additional amounts distributed to holders of Class A common shares. Any remaining proceeds from the liquidation event are to be distributed pro-rata to holders of Class A common shares and Class B preferred shares, calculated on an as-if-converted basis. However, the maximum amount to which holders of Class B preferred shares are entitled is the greater of \$5.89 or the amount that would have been distributed to holders of Class B preferred shares if all Class B preferred shares had been converted into Class A common shares immediately prior to the liquidation event.

The holders of the shares have the option to convert the Class B preferred shares, at any time, into Class A common shares at an initial conversion ratio of 1:1. This conversion ratio is subject to adjustment based upon the issuance of equity or equity-related securities at a price lower than the initial issue price (subject to certain exceptions) as well as in connection with share splits, share consolidations and similar events.

At any time on or after the 6th anniversary of issuance, being June 27, 2014, the holders of the majority of the then outstanding Class B preferred shares may request the Company to redeem all of the outstanding Class B preferred shares. The redemption price shall equal the greater of: a) the Class B preferred share original share price (\$2.356) plus 8% per annum, compounded annually, from the date of issuance to the date of payment; and b) the fair market value of a Class B preferred share determined by the Company as of the redemption date.

12. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Class A common shares with no stated par value and 6,366,723 Class B preferred shares.

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The following is a continuity of the Class A common shares:

	<u>Number of shares</u>	<u>Share capital</u>
Issued		
Shares outstanding at January 1, 2010	17,884,279	\$2,230
Shares issued from exercised options	292,000	32
Transfer from share compensation reserve relating to options exercised	—	9
Employee share purchase loans	—	(140)
Shares repurchased	<u>(272,723)</u>	<u>(34)</u>
Shares outstanding at December 31, 2010	17,903,556	2,097
Shares issued from exercised options	220,970	27
Transfer from share compensation reserve relating to options exercised	—	7
Employee share purchase loans	—	140
Shares repurchased	<u>(11,748)</u>	<u>(7)</u>
Shares outstanding at December 31, 2011	18,112,778	2,264
Shares issued from exercised options	215,800	29
Transfer from share compensation reserve relating to options exercised	—	8
Shares outstanding at December 31, 2012	<u>18,328,578</u>	<u>\$2,301</u>

The holders of the Class A common shares are entitled to dividends when and if declared by the Board of Directors of the Company and are entitled to one vote per share. No dividends may be paid on Class A common shares unless approved by holders of a majority of the Class B preferred shares and an equal or greater dividend is paid on the Class B preferred shares.

The Board of Directors authorized a share repurchase program and subsequent retirement for its Class A common shares on September 30, 2010. The Company repurchased 272,723 shares in 2010 and 11,748 shares in 2011 for a total consideration of \$256,000 and \$7,000, respectively. The repurchased shares had a cost basis of \$34,000 in 2010 and \$7,000 in 2011. The excess of the purchase price over stated value of \$221,000 in 2010 was charged to retained earnings (deficit) in the same period.

As part of a share repurchase in 2010, employees were offered an opportunity to acquire shares for either a lump sum cash payment and/or a Company loan. Shares purchased using Company loans were secured by the underlying shares, repayable by means of payroll deduction over a maximum one-year period and were non-interest-bearing. The loans and related repayments were recorded within shareholders' equity. As of December 31, 2011, all employee share purchase loans had been repaid.

13. SHARE- BASED PAYMENTS

Employee share option plan

The Company has two share option plans approved by the Board of Directors, the 1996 Share Option Plan and the 2009 Share Option Plan.

The options to purchase the Company's common shares granted to employees and directors under the 1996 Share Option Plan vest as determined by the Board of Directors, generally over four years with a contractual term of ten years. Since the introduction of the 2009 Share Option Plan, no options to purchase shares under the 1996 Share Option Plan have been granted and all shares that remained available for future grant under this plan became available for issuance under the 2009 Share Option Plan, as described below.

The 2009 Share Option Plan was approved by the Board of Directors on May 27, 2009. Options to purchase shares granted to employees and directors under the 2009 Share Option Plan vest as determined by the Board of Directors, generally over five years with a contractual term of ten years.

In December 2010, the Board of Directors authorized the Company to reserve an additional 500,000 Class A common shares for issuance upon the exercise of options granted pursuant to the 2009 Share Option Plan. This increased the aggregate number of Class A common shares reserved for issuance under the 2009 plan to 4,500,000, less the number of Class A common shares previously issued on exercise of options granted under the 1996 and 2009 Share Option Plans. As at December 31, 2012 there are 65,030 options available for issuance under the 2009 plan.

Performance-based share options

In December 2010, the Board of Directors approved a grant of 500,000 options to acquire 500,000 Class A common shares under the 2009 Share Option Plan. Half of the options granted vest contingent on the achievement of certain performance targets, while the remaining half vest on

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December 31, 2015. The options are also subject to accelerated vesting following an initial public offering of the Company's Class A common shares where the market capitalization of the Company is equal to or greater than US\$200 million, or upon closing of a Liquidation Event where the consideration payable to the Company or to the shareholders is equal to or greater than US\$200 million.

Under this grant, a Liquidation Event is defined as a merger or consolidation of the Company, a substantial disposition of the Company's assets, or on disposition of a majority of the voting rights attached to the Company's share capital as determined on a fully diluted basis.

The compensation cost associated with these options will be recognized over the service period. Recognition of compensation cost may be affected by management's periodic assessment of the probability the performance conditions will be achieved. Should the performance-based options not be earned due to performance targets not being met, the Company will reverse any previously recognized compensation cost.

Movement in share options during the year

The following table summarizes information about the share option plans and the performance based share options as of December 31, 2012 and 2011:

	2012		2011	
	Number of Options	Weighted Average Exercise Price CDN\$	Number of Options	Weighted Average Exercise Price CDN\$
Options outstanding, beginning of year	1,746,550	\$0.97	1,867,350	\$0.81
Granted	162,500	\$3.18	105,600	\$1.97
Forfeited	(27,200)	\$0.55	(5,430)	\$0.26
Exercised	(215,800)	\$0.13	(220,970)	\$0.12
Options outstanding, end of year	<u>1,666,050</u>	<u>\$1.30</u>	<u>1,746,550</u>	<u>\$0.97</u>

The weighted average grant date calculated value of the share options granted in 2012 was CDN\$3.18 (2011 – CDN\$1.97). During the year, cash received on the exercise of share options was CDN\$28,660 (2011 – CDN\$27,179).

The following table summarizes information about the Company's share options outstanding and exercisable at December 31, 2012.

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price CDN\$	Number of Options	Weighted Average Exercise Price CDN\$
CDN\$			CDN\$		CDN\$
\$0.10 – \$0.95	817,950	4.6 years	\$0.48	665,550	\$0.43
\$1.30 – \$2.15	705,600	8.0 years	\$1.85	53,120	\$1.55
\$3.15	130,000	9.5 years	\$3.15	—	—
\$5.10	12,500	9.9 years	\$5.10	—	—
\$0.10 – \$5.10	<u>1,666,050</u>	<u>6.4 years</u>	<u>\$1.30</u>	<u>718,670</u>	<u>\$0.51</u>

The fair values for the options granted in 2012 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.51% (2011 – 1.85%, 2010 – 2.78%); dividend yield of Nil% (2011 – Nil%, 2010 – Nil%); volatility of 40% (2011 - 60%, 2010 – 40%); and an expected life of six years (2011 – six years, 2010 – six years). Volatility was estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (2011 – 10%, 2010 – 10%).

The Company recorded share-based compensation expense related to the employee share option plans of \$189,000 for 2012 (2011 – \$165,000, 2010 – \$37,000). The Company has total unrecognized compensation expense of \$381,000 that will be recorded over the next five years.

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14. SHARE COMPENSATION RESERVE

The share compensation reserve relates to share options granted to employees under the employee share option plans. Further information about share-based payments to employees is set out in Note 13.

	<u>Amount</u>
Balance at December 31, 2009	\$ 51
Arising from share-based compensation expense	37
Arising on exercise of share options	<u>(9)</u>
Balance at December 31, 2010	79
Arising from share-based compensation expense	165
Arising on exercise of share options	<u>(7)</u>
Balance at December 31, 2011	237
Arising from share-based compensation expense	189
Arising on exercise of share options	<u>(8)</u>
Balance at December 31, 2012	<u>\$418</u>

15. EARNINGS (LOSS) PER SHARE

In periods where the Company has a net loss, all options are considered anti-dilutive; therefore basic and diluted number of shares is the same for the years ended December 31, 2012, 2011 and 2010. As a result of net losses incurred, the following potentially dilutive securities have been excluded from the calculation of diluted earnings (loss) per share because to do so would be anti-dilutive: 1,666,050 (2011 – 1,746,550, 2010 – 1,867,350) share options and 6,366,723 (2011 and 2010 – 6,366,723) redeemable preferred shares.

16. FINANCIAL INSTRUMENTS

(a) Carrying values and fair values:

The fair value of financial assets and liabilities, together with their carrying amounts are as follows:

	December 31, 2012		December 31, 2011	
	Carrying	Fair Value	Carrying	Fair Value
Financial assets:				
Held to maturity – amortized cost:				
Investments (Note 5)	\$ 5,210	\$ 5,207	\$ 6,633	\$ 6,635
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 3,683	\$ 3,683	\$ 4,081	\$ 4,081
Trade and other receivables	6,961	6,961	5,831	5,831
Investment tax credits receivable	1,206	1,206	1,180	1,180
	<u>\$11,850</u>	<u>\$11,850</u>	<u>\$11,092</u>	<u>\$11,092</u>
Financial liabilities:				
Held for trading – measured at FVTPL:				
Foreign exchange forward contracts	\$ 8	\$ 8	\$ 319	\$ 319
Liabilities, measured at FVTPL:				
Redeemable preferred shares	\$40,996	\$40,996	\$26,667	\$26,667
Other financial liabilities, measured at amortized cost:				
Trade payables and accrued liabilities	\$ 4,360	\$ 4,360	\$ 2,529	\$ 2,529
Long-term debt	229	229	689	689
	<u>\$ 4,589</u>	<u>\$ 4,589</u>	<u>\$ 3,218</u>	<u>\$ 3,218</u>

The listing below analyzes financial instruments carried at fair value, by valuation method.

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The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets and financial liabilities are determined as follows:

- I. The carrying amounts of investments, trade and other receivables, investment tax credits receivable and trade payables and accrued liabilities approximate fair market value due to the short term maturity of these instruments;
- II. The redeemable preferred shares are measured at fair value (Level 3).
- III. Foreign exchange forward contracts reflect the cash flows due to or from the Company if settlement had taken place on the reporting date (Level 2).

(b) Financial risk management

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2012.

i. Credit risk:

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its trade and other receivables, short and long-term investments, and foreign exchange contracts.

The nature of the Company's subscription based business results in payments being received in advance of the majority of the services being delivered; as a result, the Company's credit risk exposure is very low. In addition, the Company's diverse customer base ensures that there is no concentration of credit risk as no customer represents more than 5% of the total trade receivables balance as at December 31, 2012. As the majority of the Company's revenues are amortized into income over a period of time, the impact on the Company's operating results is low as any uncollectible amounts tend to affect trade and other receivables and deferred revenue as opposed to revenue.

The aging of the trade and other receivables at the reporting date was as follows:

	December 31, 2012	December 31, 2011
Current to 30 days past due	\$5,967	\$4,908
Past due (31-60 days)	747	503
Past due (> 61 days)	297	570
	7,011	5,981
Allowance for doubtful accounts	(50)	(150)
	\$6,961	\$5,831

The Company establishes an allowance for doubtful accounts based on amounts which are past due, historical trends, and any available information indicating that a customer could be experiencing liquidity or going concern problems. These write-offs are charged to sales and marketing expenses. During the year ended December 31, 2012, the Company wrote off \$39,000 (2011 – \$87,000, 2010 – \$110,000) of trade receivables that were deemed not collectible (see Note 6).

The Company invests its excess cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures with the secondary objective of maximizing the overall yield of the investment portfolio. The Company manages its credit risk on investments by dealing only with major Canadian banks and investing only in instruments having high credit ratings. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations. Similarly the Company limits its credit risk on derivative financial instruments by dealing only with major Canadian banks.

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The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of Consolidated Statement of Financial Position, as summarized below:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Cash and cash equivalents	\$ 3,683	\$ 4,081
Investments	5,210	6,633
Trade and other receivables	6,961	5,831
	<u>\$15,854</u>	<u>\$16,545</u>

ii. Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company also manages liquidity risk by continuously monitoring actual and budgeted expenses. Furthermore, the Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including acquisitions or other major investments or divestitures.

At December 31, 2012, the Company had cash and short-term investments totaling \$8.9 million. Further, the Company has an unsecured credit facility and a non-revolving term facility as disclosed in Note 10.

At December 31, 2012, all of the Company's trade payables and accrued liabilities had contractual terms of less than one year. The Company also has long-term debt of \$229,000 (2011 – \$689,000) which matures within two years and preferred shares of \$40.1 million (2011 – \$26.7 million) which mature in 2014.

iii. Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

A. *Currency risk:*

A portion of the Company's revenues and operating costs are realized in currencies other than its functional currency, such as the Canadian dollar, Euro, Pound Sterling and Australian dollar. As a result, the Company is exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the Consolidated Statements of Financial Position; the impact of which is reported as a foreign exchange gain or loss in general and administrative expenses.

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities. The Company also utilizes derivative financial instruments, principally in the form of foreign exchange forward contracts, to hedge the balance of the exposure of the Company's foreign currency cash flows, thereby reducing but not eliminating the impact of changes in exchange rates. All forward contracts have a maturity of less than one year and are not used for speculative purposes. As the Company does not account for these forward contracts using hedge accounting, these instruments are measured at fair value with changes recognized in earnings at each reporting date.

The Company has recorded a liability for the foreign exchange forward contracts outstanding as at December 31, 2012 in the amount of \$8,000 (2011 – \$319,000). As of December 31, 2012, the Company had outstanding forward foreign currency exchange contracts requiring it to exchange USD for CAD with an aggregate notional amount of \$7.5 million (2011 – \$14.0 million). The foreign exchange forward contracts have an average USD to CAD contract rate of 0.9978.

The Company is mainly exposed to fluctuations between the U.S. dollar and the Canadian dollar. At December 31, 2012, if the Canadian dollar had strengthened 5% against the U.S. dollar with all other variables held constant, pre-tax income for the year would have been \$600,000 higher. Conversely, if the Canadian dollar had weakened 5% against the U.S. dollar with all other variables held constant, there would be an equal, and opposite impact, on pre-tax income.

For the period ended December 31, 2012, the Consolidated Statements of Operations and Comprehensive Income (Loss) includes a foreign exchange gain of \$380,000 (2011 – loss of \$218,000 and 2010 – gain of \$1.3 million). These gains or losses are included within general and administrative expenses.

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B. *Interest rate risk:*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as the majority of investments are made in fixed rate instruments. The Company does have some interest rate risk related to its credit facilities; however the obligations are small enough that any exposure is not material at this time.

17. NATURE OF EXPENSES

The following table shows the breakdown of expenses by nature of each function on the Consolidated Statements of Operations and Comprehensive Income (Loss):

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Cost of revenue			
Employee related expenses	\$ 5,788	\$ 4,851	\$ 3,586
Depreciation and amortization	898	802	558
Other	<u>3,936</u>	<u>3,508</u>	<u>3,049</u>
	<u>\$10,622</u>	<u>\$ 9,161</u>	<u>\$ 7,193</u>
Sales and marketing			
Employee related expenses	\$ 8,426	\$ 7,698	\$ 5,090
Depreciation and amortization	421	357	208
Other	<u>9,668</u>	<u>5,837</u>	<u>4,414</u>
	<u>\$18,515</u>	<u>\$13,892</u>	<u>\$ 9,712</u>
Research and development			
Employee related expenses	\$ 8,090	\$ 6,967	\$ 5,423
Depreciation and amortization	399	351	226
Other	825	579	597
Scientific research & experimental development tax credits	<u>(1,555)</u>	<u>(1,623)</u>	<u>(1,334)</u>
	<u>\$ 7,759</u>	<u>\$ 6,274</u>	<u>\$ 4,912</u>
General and administrative			
Employee related expenses	4,998	3,913	2,598
Depreciation and amortization	289	234	117
Other	<u>1,164</u>	<u>4,730</u>	<u>942</u>
	<u>\$ 6,451</u>	<u>\$ 8,877</u>	<u>\$ 3,657</u>

18. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Trading transactions

The Company did not have any transactions during the fiscal years ended December 31, 2012, 2011 and 2010 which would be considered to be between the Company and a related party.

Compensation of key management personnel

The remuneration of key management personnel was as follows:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Salary and other short-term benefits	\$1,638	\$1,876	\$1,870
Share-based payments	138	129	25
Severance	<u>66</u>	<u>—</u>	<u>114</u>
	<u>\$1,842</u>	<u>\$2,005</u>	<u>\$2,009</u>

The Company defines key management personnel as being the President and CEO and his direct reports. The remuneration of key management is determined by the compensation committee having regard to the performance of individuals and market trends.

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19. CAPITAL MANAGEMENT

The Company views its debt facilities, redeemable preferred shares and shareholders' equity to be its capital for the purposes of capital management. The Company's objective in managing capital is to ensure sufficient liquidity to pursue a growth strategy, fund research and development to enhance existing product offerings as well as develop new ones and provide sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk. In managing the capital structure, the Company takes into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. The Company manages capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

20. OPERATING LEASE ARRANGEMENTS

Non-cancellable minimum operating lease rentals are payable as follows:

	December 31, 2012	December 31, 2011
Not later than 1 year	\$1,492	\$1,295
Later than 1 year and not later than 5 years	1,674	2,519
Later than 5 years	<u>—</u>	<u>—</u>
	<u>\$3,166</u>	<u>\$3,814</u>

The Company has operating leases related to the computer equipment and building facilities with terms of between 1 and 5 years. Obligations under operating leases mature between March 2013 and November 2017. In 2012 the Company incurred expenses of \$1.5 million related to operating leases (2011 – \$1.2 million, 2010 – \$871,000).

21. COMMITMENTS AND CONTINGENCIES

Intellectual property indemnification obligations

The Company enters on a regular basis into agreements with customers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. The nature of these intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these guarantees.

Legal matters

One of the Company's competitors filed suit against the Company in the United States on December 2, 2010. On June 24, 2011, the parties entered into a comprehensive confidential Settlement Agreement and a few days later filed with the Court, a Stipulated Judgment which included a permanent injunction and a dismissal of all remaining claims against the Company with prejudice. The Company's undisclosed settlement payment to this competitor has been expensed in general and administrative expense net of insurance recoveries in the Consolidated Statements of Operations and Comprehensive Income (Loss).

In addition to the matters described, from time to time, the Company may be subject to various claims and legal proceedings that arise in the ordinary course of its business, such as actions with respect to breach of contract claims, labor and employment claims, and other business matters. The Company accrues for estimated losses for matters where the likelihood of an adverse outcome is considered probable and the amount of the loss is reasonably estimable. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, the Company believes that the resolution of current pending matters will not have a material adverse effect on the business, financial position, results of operations and/or cash flow. However, litigation is subject to inherent uncertainties and the Company's view on these matters may change in the future. Were an unfavorable outcome to occur in any one or more of those matters or the matters described above, over and above the amount, if any, that has been estimated and accrued in our consolidated financial statements, it could have a material adverse effect on the business, financial condition, results of operations and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

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22. SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION

The changes in the Company's non-cash operating working capital balances are presented in the table below.

Cash provided by (used in):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Trade and other receivables	\$(1,122)	\$(1,005)	\$ (797)
Derivative asset	—	514	404
Investment tax credits receivable	(19)	(112)	(105)
Prepaid expenses	(34)	(375)	(265)
Trade payables and accrued liabilities	1,811	(314)	874
Derivative liability	(311)	319	—
Deferred revenue	4,170	4,483	4,379
	<u>\$ 4,495</u>	<u>\$ 3,510</u>	<u>\$4,490</u>
Interest paid	\$ 27	\$ 71	\$ 100
Taxes paid	\$ 5	\$ 9	\$ —

23. SUBSIDIARIES

Details of the Company's subsidiaries at December 31, 2012 and 2011 are as follows:

<u>Name of subsidiary</u>	<u>Principle activity</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest and voting power held</u>	
			<u>December 31, 2012</u>	<u>December 31, 2011</u>
Halogen Software (US) Inc.	Sales	State of Delaware, USA	100%	100%
Halogen Software Australia PTY LTD	Sales	Australia	100%	N/A*
Halogen Software Limited	Sales	England and Wales	100%	100%

* Subsidiary was incorporated in 2012

24. INCOME TAXES

Deferred tax assets are recognized only to the extent it is probable that sufficient future taxable income will be available for their realization. Assessments as to the recoverability of deferred tax assets require the use of judgment regarding assumptions related to estimated future taxable profits. This includes the estimation of the character and amounts of taxable future profits as well as the periods in which those profits are expected to occur. The Company concluded that it is not probable that future taxable profit will be available against which unused tax loss carry forwards and temporary differences can be utilized in the foreseeable future.

Deferred tax assets have not been recognized at December 31, 2012 and 2011 in respect of the following items:

	<u>2012</u>	<u>2011</u>
Deferred tax assets		
Tax value in excess of book value of property and equipment	\$ 437	\$ 370
Research and development expenditures deducted for accounting purposes in excess of tax, net of tax effect of investment tax credits	3,541	1,955
Deferred revenue	2,582	1,621
Loss carry forwards and non-refundable investment tax credits	460	460
Harmonization credit	413	426
	<u>\$7,433</u>	<u>\$4,832</u>

As at December 31, 2012, the Company has non-capital losses of \$1.8 million (2011 – \$1.8 million) eligible to be carried forward, which expire in 2029.

The Company claims research and development deductions and related investment tax credits for income tax purposes, based on management's interpretation of applicable legislation in the Income Tax Act of Canada. These claims are subject to review by the Canada Revenue Agency. During the year, the Company recognized refundable investment tax credits of \$1.5 million (2011 – \$1.5 million, 2010 – \$1.3 million) as a reduction of research and development expenses, which are primarily salaries and related benefits.

The Company has unclaimed scientific research and experimental development expenditures of \$9.4 million (2011 – \$7.8 million, 2010 – \$5.5 million) that are available to reduce future years' taxable income. These unclaimed expenditures can be carried forward indefinitely.

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The Company has unused investment tax credits of \$760,000 (2011 – \$580,000) to offset against future federal income taxes. The credits begin to expire in 2020.

The Company claims deductible reserves for income tax purposes, based on management’s interpretation of applicable legislation in the Income Tax Act of Canada. These claims are subject to review by the Canada Revenue Agency for any open taxation year going back to 2006.

Effective for tax years ending after December 31, 2008, all provincial tax balances converted to the federal balance. As the Company’s provincial tax balances exceed the federal tax balances, the difference generates a non-refundable tax credit that can be applied against Ontario provincial corporate taxes over the subsequent five-year period. This credit of \$413,000 (2011 – \$426,000) is referred to as the Harmonization credit and expires in 2013.

25. SEGMENT INFORMATION

General description

The Company’s President and Chief Executive Officer (“CEO”) has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on information provided by the Company’s internal management system. The Company has determined that it only has one operating segment.

Geographic information

Revenue from external customers are all attributed to the Company’s Canadian entity.

Revenue from external customers are attributed to geographic areas based on the location of the customers. The following table sets forth external revenue by geographic areas:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
United States	\$31,142	\$25,838	\$19,119
Canada	4,694	3,837	2,674
Europe, Middle East and Africa	1,601	959	707
Other	566	383	242
	<u>\$38,003</u>	<u>\$31,017</u>	<u>\$22,742</u>

The following table sets forth total assets by geographic areas excluding investments in subsidiaries:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Canada	\$22,335	\$22,310
Europe, Middle East and Africa	417	322
	<u>\$22,752</u>	<u>\$22,632</u>

Concentrations

The Company sells its products and services to a broad set of mid-market enterprises operating in a variety of business sectors. The Company did not have any customer that accounted for greater than three percent of revenue in the last three fiscal years.

26. EVENTS AFTER THE REPORTING PERIOD

In May 2013, the Company intends to file a final prospectus for the sale to the public of common shares with the price per share and number of shares offered to be determined subject to the terms of an underwriting agreement. The Company has also granted to the underwriters of the offering an over-allotment option, exercisable, in whole or in part, at the sole discretion of the underwriters, for a period of 30 days from the closing of the Offering to purchase up to an additional 15% of the common shares offered under the prospectus.

On April 16, 2013 the Board of Directors of Halogen Software, Inc. approved an increase in the aggregate number of stock options that may be issued under the 2009 Share Option Plan by 1,000,000 options.

Unaudited Condensed Consolidated Financial Statements

HALOGEN SOFTWARE INC.

*Quarter ended March 31, 2013 and 2012
(in United States dollars)*

HALOGEN SOFTWARE INC.
Condensed Consolidated Financial Statements
Quarter ended March 31, 2013 and 2012
(Unaudited)

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HALOGEN SOFTWARE INC.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
Quarter ended March 31, 2013 and 2012
(in United States dollars, tabular amounts in thousands, except share and per share data)
(Unaudited)

	Note	<u>Three Months Ended March 31,</u>	
		<u>2013</u>	<u>2012</u>
Revenue			
Recurring		\$ 10,007	\$ 7,544
Professional services		1,283	1,114
License		296	127
		<u>11,586</u>	<u>8,785</u>
Cost of revenue			
Recurring		1,955	1,714
Professional services		776	779
License		4	3
	9	<u>2,735</u>	<u>2,496</u>
Gross margin		<u>8,851</u>	<u>6,289</u>
Expenses			
Sales and marketing	9	5,362	4,081
Research and development	9	2,382	1,908
General and administrative	9	2,320	902
		<u>10,064</u>	<u>6,891</u>
Operating income (loss)		<u>(1,213)</u>	(602)
Loss related to change in fair value of redeemable preferred shares		<u>(6,099)</u>	(7,389)
Interest and other income		22	28
Interest expense		<u>(3)</u>	<u>(7)</u>
Income (loss) before income taxes		<u>(7,293)</u>	(7,970)
Income tax expense (recovery)		13	—
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		<u>\$ (7,306)</u>	<u>\$ (7,970)</u>
Basic and diluted earnings (loss) per share		<u>\$ (0.40)</u>	<u>\$ (0.44)</u>
Weighted average number of basic and diluted common shares outstanding		<u>18,333,778</u>	18,127,943

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

HALOGEN SOFTWARE INC.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
Quarter ended March 31, 2013 and 2012
(in United States dollars, tabular amounts in thousands)
(Unaudited)

	<u>Share capital</u>	<u>Share compensation reserve</u>	<u>Retained earnings (deficit)</u>	<u>Total shareholders' equity (deficiency)</u>
Balance, December 31, 2012	\$2,301	\$418	\$(48,902)	\$(46,183)
Share options exercised	53	(17)	—	36
Share-based compensation	—	52	—	52
Net income (loss)	—	—	(7,306)	(7,306)
Balance, March 31, 2013	<u>\$2,354</u>	<u>\$453</u>	<u>\$(56,208)</u>	<u>\$(53,401)</u>

	<u>Share capital</u>	<u>Share compensation reserve</u>	<u>Retained earnings (deficit)</u>	<u>Total shareholders' equity (deficiency)</u>
Balance, December 31, 2011	\$2,264	\$237	\$(29,324)	\$(26,823)
Share options exercised	3	—	—	3
Share-based compensation	—	45	—	45
Net income (loss)	—	—	(7,970)	(7,970)
Balance, March 31, 2012	<u>\$2,267</u>	<u>\$282</u>	<u>\$(37,294)</u>	<u>\$(34,745)</u>

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

HALOGEN SOFTWARE INC.
Condensed Consolidated Statements of Financial Position
As at March 31, 2013 and December 31, 2012
(in United States dollars, tabular amounts in thousands)
(Unaudited)

	Notes	March 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		\$ 4,717	\$ 3,683
Short-term investments		3,323	5,210
Trade and other receivables (net)		6,729	6,961
Investment tax credits receivable		1,531	1,206
Prepaid expenses		<u>1,605</u>	<u>1,198</u>
		17,905	18,258
Non-current assets			
Property and equipment	4	2,924	3,091
Intangible assets	4	<u>1,315</u>	<u>1,403</u>
		<u>\$ 22,144</u>	<u>\$ 22,752</u>
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities		\$ 5,032	\$ 4,360
Derivative liabilities		212	8
Deferred revenue		22,660	22,931
Deferred leasehold inducement		179	180
Current portion of long-term debt		<u>168</u>	<u>173</u>
		28,251	27,652
Non-current liabilities			
Deferred leasehold inducement		185	231
Redeemable preferred shares		47,095	40,996
Long-term debt		<u>14</u>	<u>56</u>
		75,545	68,935
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	5	2,354	2,301
Share compensation reserve	6	453	418
Retained earnings (deficit)		<u>(56,208)</u>	<u>(48,902)</u>
		<u>(53,401)</u>	<u>(46,183)</u>
		<u>\$ 22,144</u>	<u>\$ 22,752</u>

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

HALOGEN SOFTWARE INC.
Condensed Consolidated Statements of Cash Flows
Quarter ended March 31, 2013 and 2012
(in United States dollars, tabular amounts in thousands)
(Unaudited)

	Note	<u>Three Months Ended March 31,</u>	
		<u>2013</u>	<u>2012</u>
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net income (loss)		\$(7,306)	\$(7,970)
Items not affecting cash:			
Depreciation and amortization		524	479
Loss related to change in fair value of redeemable preferred shares		6,099	7,389
Share-based compensation	6	52	45
Unrealized foreign exchange (gain) loss		376	63
Deferred leasehold inducement		(47)	(42)
Net changes in non-cash working capital items	10	<u>(110)</u>	<u>288</u>
		<u>(412)</u>	<u>252</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(72)	(513)
Purchase of intangible assets		(197)	—
Maturity of investments		1,777	53
Purchase of investments		(17)	(678)
		<u>1,491</u>	<u>(1,138)</u>
FINANCING ACTIVITIES			
Issuance of share capital	5	36	3
Repayment of long-term debt		(47)	(161)
		<u>(11)</u>	<u>(158)</u>
Effect of exchange rate changes on cash and cash equivalents		(34)	2
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,034	(1,042)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		<u>3,683</u>	<u>4,081</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD		<u>\$ 4,717</u>	<u>\$ 3,039</u>
Cash and cash equivalents consist of:			
Cash		\$ 1,967	\$ 2,989
Cash equivalents		<u>2,750</u>	<u>50</u>
Total		<u>\$ 4,717</u>	<u>\$ 3,039</u>

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

HALOGEN SOFTWARE INC.
Notes to the Condensed Consolidated Financial Statements
Quarter ended March 31, 2013 and 2012
(in United States dollars, tabular amounts in thousands, except share and per share data)
(Unaudited)

1. CORPORATE INFORMATION

Halogen Software Inc. (the “Company”) is incorporated and domiciled in Ontario, Canada. The registered office is located at 495 March Road, Suite 500, Ottawa, Ontario Canada.

The Company was incorporated on January 9, 1996 under the laws of the Province of Ontario, Canada. The Company develops, markets and sells SaaS-based talent management software solutions and provides associated services.

2. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated financial statements of the Company were authorized for issue in accordance with a resolution of the board of directors on April 9, 2013.

3. BASIS OF PREPARATION

These Condensed Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”).

The interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2012 as they do not include all of the information required in annual financial statements.

The accounting policies as defined in the Company’s year ended December 31, 2012 audited consolidated financial statements have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

Presentation currency

All amounts presented in these financial statements are in United States dollars (“USD”) unless otherwise stated. Tabular amounts are presented in thousands of USD.

Seasonality

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company’s revenues and earnings have historically been subject to some quarterly seasonality.

Changes to standards and interpretations

IFRS 9: Financial Instruments

Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the IASB’s project to replace IAS 39 Financial Instruments: recognition and measurement (“IAS 39”). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. This IFRS, which is to be applied retrospectively, is currently proposed to be effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

IFRS 13: Fair value measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The adoption of this standard on January 1, 2013 did not have a material impact on the Company’s financial statements.

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4. PURCHASE OF PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

The Company acquired \$269,000 of property, equipment and intangible assets during the first quarter of fiscal 2013 as compared to \$513,000 for the three month period ended March 31, 2012. The purchases in the first quarter of 2013 consisted mainly of computer hardware and software for internal use. The Company began to amortize these assets in the quarter.

5. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Class A common shares with no stated par value and 6,366,723 Class B preferred shares.

The following is a continuity of the Class A common shares:

	Number of shares	Share capital
<i>Issued</i>		
Shares outstanding at December 31, 2012	18,328,578	\$2,301
Shares issued from exercised options	78,000	36
Transfer from share compensation reserve relating to options exercised	—	17
Shares outstanding at March 31, 2013	18,406,578	\$2,354
	Number of shares	Share capital
Shares outstanding at December 31, 2011	18,112,778	\$2,264
Shares issued from exercised options	30,000	3
Transfer from share compensation reserve relating to options exercised	—	—
Shares outstanding at March 31, 2012	18,142,778	\$2,267

6. SHARE- BASED PAYMENTS

The following table summarizes information about the share option plans and the performance based share options as of March 31, 2013 and 2012:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		CDN\$		CDN\$
Options outstanding, beginning of period	1,666,050	\$1.30	1,746,550	\$0.97
Granted	65,600	\$6.50	52,500	\$2.77
Forfeited	(12,000)	\$0.70	—	—
Exercised	(78,000)	\$0.47	(30,000)	\$0.10
Options outstanding, end of period	1,641,650	\$1.55	1,769,050	\$1.04

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The following table summarizes information about the Company's share options outstanding and exercisable at March 31, 2013.

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
CDN\$			CDN\$		CDN\$
\$0.10 – \$0.95	727,950	4.3 years	\$0.48	587,550	\$0.42
\$1.30 – \$2.15	705,600	7.8 years	\$1.85	72,740	\$1.67
\$3.15	130,000	9.3 years	\$3.15	6,500	\$3.15
\$5.10 – \$6.50	78,100	9.8 years	\$6.28	—	—
\$0.10 – \$6.50	1,641,650	6.4 years	\$1.55	666,790	\$0.58

The fair values for the options granted in 2013 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.50% (2012 – 1.58%); dividend yield of Nil% (2012 – Nil%); volatility of 34% (2012 – 60%); and an expected life of six years (2012 – six years). Volatility was estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (2012 – 10%).

The Company recorded share-based compensation expense related to the employee share option plans of \$53,000 for the three month period ended March 31, 2013 (March 31, 2012 – \$45,000). The Company has total unrecognized compensation expense of \$436,000 that will be recorded over the next five years.

7. EARNINGS (LOSS) PER SHARE

In periods where the Company has a net loss, all options are considered anti-dilutive; therefore basic and diluted number of shares is the same for the periods ended March 31, 2013 and 2012. As a result of net losses incurred, the following potentially dilutive securities have been excluded from the calculation of diluted earnings (loss) per share because to do so would be anti-dilutive: 1,641,650 (2011 – 1,769,050) share options and 6,366,723 (2011 – 6,366,723) redeemable preferred shares.

8. FINANCIAL INSTRUMENTS

(a) Carrying values and fair values:

The fair value of financial assets and liabilities, together with their carrying amounts are as follows:

	March 31, 2013		December 31, 2012	
	Carrying	Fair Value	Carrying	Fair Value
Financial assets:				
Held to maturity – amortized cost:				
Investments	\$ 3,323	\$ 3,323	\$ 5,210	\$ 5,210
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 4,717	\$ 4,717	\$ 3,683	\$ 3,683
Trade and other receivables	6,729	6,729	6,961	6,961
Investment tax credits receivable	1,531	1,531	1,206	1,206
	<u>\$12,977</u>	<u>\$12,977</u>	<u>\$11,850</u>	<u>\$11,850</u>
Financial liabilities:				
Held for trading – measured at FVTPL:				
Foreign exchange forward contracts	\$ 212	\$ 212	\$ 8	\$ 8
Liabilities, measured at FVTPL:				
Redeemable preferred shares	\$47,095	\$47,095	\$40,996	\$40,996
Other financial liabilities, measured at amortized cost:				
Trade payables and accrued liabilities	\$ 5,032	\$ 5,032	\$ 4,360	\$ 4,360
Long-term debt	182	182	229	229
	<u>\$ 5,214</u>	<u>\$ 5,214</u>	<u>\$ 4,589</u>	<u>\$ 4,589</u>

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(b) Currency risk:

A portion of the Company's revenue and operating costs are realized in currencies other than its functional currency, such as the Canadian dollar, Euro, Pound Sterling and Australian dollar. As a result, the Company is exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the Consolidated Statements of Financial Position; the impact of which is reported as a foreign exchange gain or loss in general and administrative expenses.

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities. The Company also utilizes derivative financial instruments, principally in the form of foreign exchange forward contracts, to hedge the balance of the exposure of the Company's foreign currency cash flows, thereby reducing but not eliminating the impact of changes in exchange rates. All forward contracts have a maturity of less than one year and are not used for speculative purposes. As the Company does not account for these forward contracts using hedge accounting, these instruments are measured at fair value with changes recognized in earnings at each reporting date.

The Company has recorded a liability for the foreign exchange forward contracts outstanding as at March 31, 2013 in the amount of \$212,000 (December 31, 2012 – \$8,000). As of March 31, 2013, the Company had outstanding forward foreign currency exchange contracts requiring it to exchange USD for CAD with an aggregate notional amount of \$19.0 million (December 31, 2012 – \$7.5 million). The foreign exchange forward contracts have an average USD to CAD contract rate of 1.0083.

For the period ended March 31, 2013, the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) includes a foreign exchange loss of \$402,000 (2012 – gain of \$631,000). These gains and losses are included within general and administrative expenses.

9. NATURE OF EXPENSES

The following table shows the breakdown of expenses by nature of each function on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):

	March 31, 2013	March 31, 2012
Cost of revenue		
Employee related expenses	\$1,754	\$1,598
Depreciation and amortization	225	238
Other	756	660
	\$2,735	\$2,496
Sales and marketing		
Employee related expenses	\$2,819	\$2,126
Depreciation and amortization	123	97
Other	2,420	1,858
	\$5,362	\$4,081
Research and development		
Employee related expenses	\$2,218	\$1,829
Depreciation and amortization	112	88
Other	377	291
Scientific research & experimental development tax credits	(325)	(300)
	\$2,382	\$1,908
General and administrative		
Employee related expenses	\$1,490	1,236
Depreciation and amortization	64	55
Foreign exchange	402	(631)
Other	364	242
	\$2,320	\$ 902

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10. SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION

The changes in the Company's non-cash operating working capital balances are presented in the table below.

Cash provided by (used in):		
	2013	2012
Trade and other receivables	\$ 226	\$ 674
Derivative asset	—	(154)
Investment tax credits receivable	(324)	(338)
Prepaid expenses	(408)	(300)
Trade payables and accrued liabilities	666	988
Derivative liability	—	(319)
Deferred revenue	(270)	(263)
	<u>\$(110)</u>	<u>\$ 288</u>
Interest paid	\$ 3	\$ 29
Taxes paid	\$ —	\$ —

11. SEGMENT INFORMATION

General description

The Company's President and Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on information provided by the Company's internal management system. The Company has determined that it only has one operating segment.

Geographic information

Revenue from external customers are all attributed to the Company's Canadian entity.

Revenue from external customers are attributed to geographic areas based on the location of the customers. The following table sets forth external revenue by geographic areas:

	March 31,	March 31,
	2013	2012
United States	\$ 9,540	\$7,220
Canada	1,368	1,102
Europe, Middle East and Africa	478	346
Other	200	117
	<u>\$11,586</u>	<u>\$8,785</u>

The following table sets forth total assets by geographic areas excluding investments in subsidiaries:

	March 31,	December 31,
	2013	2012
Canada	\$21,657	\$22,335
Europe, Middle East and Africa	487	417
	<u>\$22,144</u>	<u>\$22,752</u>

Concentrations

The Company sells its products and services to a broad set of mid-market enterprises operating in a variety of business sectors. The Company did not have any customer that accounted for greater than two percent of revenue in the last three fiscal years.

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12. EVENTS AFTER THE REPORTING PERIOD

In May 2013, the Company intends to file a final prospectus for the sale to the public of common shares with the price per share and number of shares offered to be determined subject to the terms of an underwriting agreement (the "Offering"). The Company has also granted to the underwriters of the offering an over-allotment option, exercisable, in whole or in part, at the sole discretion of the underwriters, for a period of 30 days from the closing of the Offering to purchase up to an additional 15% of the common shares offered under the prospectus. Immediately prior to the completion of the Offering, all of the redeemable preferred shares will be converted into Class A common shares on a one-for-one basis.

On April 16, 2013 the Board of Directors of Halogen Software, Inc. approved an increase in the aggregate number of stock options that may be issued under the 2009 Share Option Plan by 1,000,000 options.

On May ●, 2013 the shareholders of Halogen Software, Inc. approved a special resolution to amend the articles of incorporation to change Halogen's issued and outstanding common shares into a smaller amount of common shares through a reverse split of the Company's common shares with one (1) post-split common share for one and half (1.5) pre-split Class A common shares.

On May ●, 2013 a shareholders' resolution was put forth and subsequently passed to reduce the stated share capital of the common shares to a value more representative of the value of the Company's net realizable assets. The amount of the reduction was the portion of the Company's deficit that was created as a result of any fair market value adjustments related to the redeemable preferred shares, which amounted to \$32.3 million over the life of those shares. The intention of the reduction of the share capital is to better align the stated value of share capital with that of the realizable value of the Company's assets.

APPENDIX A CHARTER OF THE BOARD OF DIRECTORS

PURPOSE

The Board of Directors of Halogen Software Inc. (the “Company”) is ultimately responsible for the business and affairs of the Company including its stewardship and the supervision of management. The Board will discharge its responsibilities directly and through its committees, currently consisting of the following:

- an Audit Committee
- a Compensation Committee
- a Corporate Governance and Nominating Committee.

The Board will meet regularly to review the business operations, corporate governance and financial results of Halogen. Meetings of the Board will include regular meetings with management to discuss specific aspects of the operations of Halogen. Non-management board members will also hold separate, regularly scheduled meetings at which management is not in attendance. The Board will at all times conduct itself in accordance with the Company’s Code of Conduct.

COMPOSITION

The Board will be constituted at all times of a majority of individuals who are “independent” in accordance with National Instrument 58-101 and all rules, regulations and requirements published by the Canadian Securities Administrators, as amended or replaced from time to time. At least three of the independent directors must be independent in accordance with applicable legal requirements for service on an audit committee.

RESPONSIBILITIES

The Board’s responsibilities include, without limitation to its general mandate, the following specific responsibilities:

1. Reviewing and approving all quarterly and annual financial statements and related footnotes, each annual management’s discussion and analysis and the annual information form.
2. Approving the declaration of dividends, the purchase and redemption of securities.
3. Approving acquisitions and dispositions of material capital assets and material capital expenditures in accordance with the Company’s delegation of authority guidelines.
4. Appointing a Chair of the Board who will be responsible for the leadership of the Board.
5. The assignment to committees of directors of the general responsibility for developing Halogen’s approach to: (i) corporate governance issues, (ii) nomination of board members; (iii) financial reporting and internal controls; (iv) health and safety compliance; (v) risk management; and (vi) issues relating to compensation of officers and employees.
6. Succession planning, including the selection, appointment, training, monitoring, evaluation and, if necessary, the replacement of the Chief Executive Officer (CEO) and other executives, and assisting in the process so that management succession is, to the extent possible, effected in a manner so as not to be disruptive to Halogen’s operations. The Board will, as part of this function, satisfy itself as to the integrity of the CEO and other executives and that such CEO and executives create and maintain a culture of integrity throughout Halogen’s organization.
7. With the assistance of the Compensation Committee:
 - (a) approving the compensation of the executive team, establishing compensation for directors, considering shareholding requirements for directors and disclosing such compensation and shareholdings;
 - (b) approving long-term incentive plans for the executive team; and
 - (c) reviewing succession plans for the CEO and other executive officers.

8. With the assistance of the Corporate Governance and Nominating Committee:
 - (a) developing Halogen's approach to corporate governance;
 - (b) overseeing the provision of appropriate orientation and education to new recruits to the Board and ongoing continuing education to existing directors;
 - (c) reviewing the composition of the Board and considering if an appropriate number of independent directors sit on the Board;
 - (d) overseeing that an appropriate selection process for new nominees to the Board is in place;
 - (e) appointing directors or recommending nominees for election to the Board at the annual and general meeting of shareholders, on the recommendation of the Corporate Governance and Nominating Committee;
 - (f) assessing, at least annually, of the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors, including consideration of the appropriate size of the Board;
 - (g) supervising the development and implementation of policies and practices of Halogen relating to safety, health and positive community relationships; and
 - (h) supervising management's performance on safety, health, environmental stewardship and corporate responsibility.
9. With the assistance of the Audit Committee:
 - (a) reviewing the integrity of Halogen's internal control and management information systems;
 - (b) overseeing compliance with laws, regulations, audit and accounting principles and Halogen's own governing documents;
 - (c) selecting, appointing, and determining the remuneration of and, if necessary, replacing the independent auditors;
 - (d) assessing the independence of the auditors;
 - (e) identifying the principal financial and controls risks facing Halogen and reviewing management's systems and practices for managing these risks;
 - (f) reviewing and approving significant accounting and financial matters and providing direction to management on these matters;
 - (g) without limitation to the Board's overall responsibility to oversee the management of the principal business risks, identifying the principal business risks facing Halogen and reviewing management's systems and processes for managing such risks; and
 - (h) reviewing all interim financial statements and related footnotes and interim management's discussion and analysis.
10. With the assistance of the officer responsible for investor relations, monitor and review feedback provided by Halogen's shareholders and other stakeholders.
11. Approving securities compliance policies, including communications and disclosure policies, of Halogen and reviewing these policies at least annually.
12. Overseeing the accurate reporting of Halogen's financial performance to shareholders on a timely and regular basis and taking steps to enhance the timely disclosure of any other developments that have a significant and material impact on Halogen.
13. Adopting a strategic planning process and approval and review, on an annual basis, of a strategic plan and an annual operating plan and budget that take into account business opportunities and business risks identified by the Audit Committee and monitoring performance against the plans.
14. Reviewing and approving corporate objectives, goals and expectations applicable to senior management personnel of Halogen.

15. Assessing the directors and officers insurance policy of Halogen and considering its renewal or amendment or the replacement of the insurer.
16. Defining major corporate decisions that require Board approval and approving such decisions as they arise from time to time.
17. Obtaining periodic reports from management on Halogen's operations.
18. Ensuring that this Charter is disclosed on a yearly basis to the shareholders in Halogen's management information circular prepared for the annual and general meeting of shareholders or other disclosure documents or on Halogen website.
19. Performing such other functions as prescribed by law or assigned to the Board in Halogen's constating documents and by-laws.

APPENDIX B AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee is a standing committee appointed by the Board of Directors of Halogen Software Inc. The Committee is established to fulfill applicable public company obligations respecting audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting, including responsibility to:

- oversee the integrity of Halogen’s financial statements and financial reporting process, including the audit process and Halogen’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the independent auditor;
- oversee the work of Halogen’s financial management and independent auditor in these areas; and
- provide an open avenue of communication between the independent auditor, the Board and management.

In addition, the Committee will prepare, if required, an audit committee report for inclusion in Halogen’s annual management proxy circular, in accordance with applicable rules and regulations.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members (i) to plan or conduct audits, (ii) to determine that Halogen’s financial statements are complete and accurate and are in accordance with applicable accounting principles or (iii) to conduct other types of auditing or accounting reviews or similar procedures or investigations. The Committee and its Chair are members of the Board of Halogen, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of Halogen, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities.

Management is responsible for the preparation, presentation and integrity of Halogen’s financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurances that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations. The Committee is responsible for monitoring and reporting on the adequacy and effectiveness of the system of internal controls. The independent auditors are responsible for planning and carrying out an audit of Halogen’s annual financial statements in accordance with applicable auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with applicable accounting principles.

PROCEDURES

1. **Composition.** The Committee will be comprised of at least three members. None of the members of the Committee may be an officer or employee of Halogen or any of its subsidiaries, and each member of the Committee must be an “independent” director (as defined from time to time under the requirements or guidelines for audit committee service under applicable securities laws), and none of the members may have participated in the preparation of the financial statements of Halogen or any current subsidiaries of Halogen at any time over the past three years.

All members of the Committee must be “financially literate” (as that term is defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which Halogen’s securities are listed for trading) or must become “financially literate” within a reasonable period of time after his or her appointment to the Committee. At least one member of the Committee must also have accounting or related financial expertise.

2. **Appointment and Replacement of Committee Members.** Any member of the Committee may be removed or replaced at any time by the Board and automatically ceases to be a member of the Committee upon ceasing to be a director.

The Board may fill vacancies on the Committee by appointing another director to the Committee. The Board will fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on

the Committee, the remaining members may exercise all of the Committee's powers as long as a quorum remains in office. Subject to the foregoing, the members of the Committee will be appointed by the Board annually, and each member of the Committee will remain on the Committee until the next annual meeting of shareholders after his or her appointment or until his or her successor is duly appointed and qualified.

3. **Committee Chair.** The members of the Committee will designate a Chair (the "**Committee Chair**") by majority vote of the full Committee. The Committee Chair will be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the Board.
4. **Conflicts of Interest.** If a Committee member faces a potential or actual conflict of interest relating to a matter before the Committee, other than matters relating to the compensation of directors, that member will be responsible for alerting the Committee Chair. If the Committee Chair faces a potential or actual conflict of interest, the Committee Chair will advise the Chair of the Board. If the Committee Chair, or the Chair of the Board, as the case may be, concurs that a potential or actual conflict of interest exists, the member faced with such conflict will disclose to the Committee his or her interest and may not participate in consideration of the matter and may not vote on the matter.
5. **Service on Multiple Audit Committees.** If a Committee member serves on the audit committees of more than three publicly-held entities, including Halogen, the Board must determine that such service would not impair the ability of the member to effectively serve on the Committee and disclose such determination in the annual proxy circular.
6. **Compensation of Committee Members.** The members of the Committee are entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.
7. **Meetings.** The Committee will meet regularly at times necessary to perform the duties described in this Charter in a timely manner, but not less than four times a year and any time Halogen proposes to issue a press release with its quarterly or annual earnings information. Meetings may be held at any time deemed appropriate by the Committee. The Committee may meet in person and/or by telephone or electronic means and, other than with respect to the review of the audited financial statements and the notes and Management's Discussion and Analysis relating to such financial statements with management and the independent auditor, may act by means of a written resolution signed by all members entitled to vote on the matter.
8. **Calling of Meetings.** Any member of the Committee or the independent auditor may call a meeting of the Committee. Notice of the time and place of every meeting will be given in writing, by any means of transmitted or recorded communication, including electronic means that produces a written copy, to each member of a Committee at least 24 hours prior to the time fixed for such meeting. However, a member may in any manner waive a notice of a meeting. The attendance of a director at a meeting constitutes a waiver of notice of such meeting except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened. Whenever practicable, the agenda for the meeting and the meeting materials will be provided to members before each Committee meeting in sufficient time to provide adequate opportunity for their review.
9. **Quorum.** A majority of the members of the Committee constitute quorum.
10. **Chair of Meetings.** If the Committee Chair is not present at any meeting of the Committee, one of the other members of the Committee who is present will be chosen by the Committee to preside at the meeting.
11. **Secretary of Meeting.** The Committee Chair will designate a person who need not be a member of the Committee to act as secretary or, if the Committee Chair fails to designate such a person, the secretary of Halogen will be secretary of the Committee. The agenda of the Committee meeting will be prepared by the Committee Chair, working with the secretary of the Committee and, whenever reasonably practicable, circulated to each member prior to each meeting.
12. **Minutes.** Minutes of the proceedings of the Committee will be kept in a minute book provided for that purpose. The minutes of the Committee meetings will accurately record the discussions of and decisions made by the Committee, including all recommendations to be made by the Committee to the Board and will be distributed to all Committee members.
13. **Separate Executive Meetings.** The Committee will meet periodically in separate executive sessions with management (including the Chief Financial Officer) and the independent auditor, and will meet without

management present at every regular meeting. The Committee will have such other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate. The Committee may request any officer or employee of Halogen or Halogen's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The independent auditor will have direct access to the Committee at their own initiative.

- 14. Professional Assistance.** The Committee may require the independent auditor to perform such supplemental reviews or audits as the Committee may deem desirable. In addition, the Committee may retain such special legal, accounting, financial or other consultants as the Committee may determine to be necessary to carry out the Committee's duties at Halogen's expense.
- 15. Reliance.** Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee will be entitled to rely on (i) the integrity of those persons or organizations within and outside Halogen from which the Committee receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by management and the independent auditor as to any information technology, internal audit and other non-audit services provided by the independent auditor to Halogen and its subsidiaries.
- 16. Reporting to the Board.** The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.
- 17. Committee Chair Responsibilities.** The primary responsibility of the Committee Chair is to provide leadership to the Committee to enhance its effectiveness. In such capacity, the Committee Chair will schedule meetings of the Committee, organize and present agendas for Committee meetings, oversee the distribution of information to the Committee sufficiently in advance of the meeting, preside over Committee meetings and report to the Board on Committee matters.

POWERS

- 1. Access.** The Committee is entitled to full access to all books, records, facilities, and personnel of Halogen and its subsidiaries. The Committee may require such officers, directors and employees of Halogen and its subsidiaries and others as it may see fit from time to time to provide any information about Halogen and its subsidiaries it may deem appropriate and to attend and assist at meetings of the Committee.
- 2. Delegation.** The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.
- 3. Adoption of Policies and Procedures.** The Committee may adopt policies and procedures for carrying out its responsibilities.

RESPONSIBILITIES OF THE COMMITTEE

1. Selection and Oversight of the Independent Auditor

- (a) The independent auditor is ultimately accountable to the Committee and the Board as the representatives of the shareholders of Halogen and will report directly to the Committee, and the Committee will so instruct the independent auditor. The Committee will evaluate the performance of the independent auditor and make recommendations to the Board on the reappointment or replacement of the independent auditor of Halogen to be proposed in Halogen's proxy circular for shareholder approval. If a change in the independent auditor is proposed, the Committee will review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board.
- (b) The Committee will approve in advance the terms of engagement and, if the shareholders authorize the Board to do so, the compensation to be paid by Halogen to the independent auditor with respect to the conduct of the annual audit. The Committee may approve policies and procedures for the pre-approval of services to be rendered by the independent auditor including any de minimus exceptions, which policies and procedures will include reasonable detail with respect to the services covered. All non-audit services to be provided to Halogen or any of its affiliates by the independent auditor or any of their affiliates that are not

covered by pre-approval policies and procedures approved by the Committee will be subject to pre-approval by the Committee. The Committee will review disclosure respecting fees paid to the independent auditor for audit and non-audit services.

- (c) The Committee will review the independence of the independent auditor and will make recommendations to the Board on appropriate actions to be taken that the Committee deems necessary to protect and enhance the independence of the independent auditor. In connection with such review, the Committee will:
 - (i) actively engage in a dialogue with the independent auditor about all relationships or services that may impact the objectivity and independence of the independent auditor;
 - (ii) require that the independent auditor submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between Halogen and its subsidiaries, on the one hand, and the independent auditor and their affiliates on the other hand;
 - (iii) consider whether there should be a regular rotation of the external audit firm itself; and
 - (iv) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.
- (d) The Committee will prohibit the independent auditor and its affiliates from providing certain non-audit services to Halogen and its affiliates.
- (e) The Committee will establish and monitor clear policies for the hiring by Halogen of employees or former employees of the independent auditor.
- (f) The Committee will require the independent auditor to provide to the Committee, and the Committee will review and discuss with the independent auditor, all reports that the independent auditor is required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the independent auditor, and any other reports that the Committee may require.

2. Oversight and Monitoring of Audits

- (a) The Committee will review with the independent auditor and management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon management and internal audit and general audit approach and scope of proposed audits of the financial statements of Halogen and its subsidiaries, the overall audit plans, the responsibilities of management and the independent auditor, the audit procedures to be used and the timing and estimated budgets of the audits.
- (b) The Committee will review the interim review engagement report of the independent auditor before the release of interim financial statements.
- (c) The Committee will discuss with the independent auditor any difficulties that arose with management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of management's responses in correcting audit-related deficiencies.
- (d) The Committee will review with management the results of external audits.
- (e) The Committee will take such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

3. Oversight and Review of Accounting Principles and Practices

- (a) The Committee will, as it deems necessary, oversee, review and discuss with management and the independent auditor:
 - (i) the quality, appropriateness and acceptability of Halogen's accounting principles and practices used in its financial reporting, changes in Halogen's accounting principles or practices and the application of particular accounting principles and disclosure practices by management to new transactions or events;
 - (ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within applicable accounting principles on the financial statements and any "second opinions" sought by management from another audit firm or advisor with respect to the accounting treatment of a particular item;

- (iii) disagreements between management and the independent auditor regarding the application of any accounting principles or practices;
 - (iv) any material change to Halogen’s accounting principles and practices as recommended by management or the independent auditor or that may result from proposed changes to applicable accounting principles;
 - (v) the effect of regulatory and accounting initiatives on Halogen’s financial statements and other financial disclosures;
 - (vi) any reserves, accruals, provisions or estimates that may have a material effect upon the financial statements of Halogen;
 - (vii) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of Halogen and their impact on the reported financial results of Halogen;
 - (viii) any legal matter, claim or contingency that could have a significant impact on the financial statements or Halogen’s compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in Halogen’s financial statements;
 - (ix) the treatment for financial reporting purposes of any significant transactions that are not a normal part of Halogen’s operations;
 - (x) the use of any “pro forma” or “adjusted” information not in accordance with applicable accounting principles; and
 - (xi) management’s determination of goodwill impairment, if any, as required by applicable accounting standards.
- (b) The Committee will review and resolve disagreements between management and the independent auditor regarding financial reporting or the application of any accounting principles or practices.
- 4. Oversight and Monitoring of Internal Controls.** The Committee will, as it deems necessary, exercise oversight of, review and discuss with management and the independent auditor:
- (a) the adequacy and effectiveness of Halogen’s internal accounting and financial controls and the recommendations of management and the independent auditor for the improvement of accounting practices and internal controls;
 - (b) any significant deficiencies or material weaknesses in the internal control environment, including with respect to computerized information system controls and security;
 - (c) any fraud that involves personnel who have a significant role in Halogen’s internal control over financial reporting; and
 - (d) management’s compliance with Halogen’s processes, procedures and internal controls.
- 5. Communications with Others.** The Committee establishes and monitors procedures for the receipt and treatment of complaints received by Halogen regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and periodically reviews with management and the internal auditors these procedures and any significant complaints received on such issues and other business practices.
- 6. Oversight and Monitoring of Halogen’s Financial Disclosures.**
- (a) The Committee will:
 - (i) review with the independent auditor and management and recommend to the Board for approval the audited financial statements and the notes and Managements’ Discussion and Analysis accompanying such financial statements, Halogen’s annual report and any financial information of Halogen contained in any prospectus or information circular of Halogen;

- (ii) review with the independent auditor and management each set of interim financial statements and the notes and Managements' Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of Halogen containing or accompanying financial information of Halogen; and
- (iii) approve all earnings releases and scripts for earnings conference calls.

Such reviews will be conducted prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.

- (b) The Committee will periodically assess procedures for the review of disclosure of financial information extracted or derived from the financial statements, other than the disclosure referred to above.
- (c) Prior to their distribution, the Committee will review and approve earnings press releases and scripts for earnings conference calls, including financial information and any earnings guidance provided to analysts and ratings agencies, it being understood that subsequent references to such financial information and guidance need not be reviewed or approved by the Committee so long as they are consistent with approved disclosures.
- (d) As part of the process by which the Committee satisfies itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee will require each of the Chief Executive Officer and the Chief Financial Officer of Halogen to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.
- (e) The Committee will review with management and assess Halogen's disclosure controls and procedures and material changes to the design of Halogen's disclosure controls and procedures.
- (f) The Committee will review disclosures made respecting the design and operation of internal controls over financial reporting and disclosure controls and procedures, including any disclosure of limitations on their assessment by the Chief Executive Officer and Chief Financial Officer and deficiencies in their design or operating effectiveness and any fraud involving persons who have a significant role in Halogen's internal controls.
- (g) The Committee will review the disclosure with respect to its pre-approval of audit and non-audit services provided by the independent auditor.

7. Oversight of Finance and Financial Risk Matters

- (a) Appointments of the key financial executives involved in the financial reporting process of Halogen, including the Chief Financial Officer, will require the prior review of the Committee.
- (b) The Committee will receive and review:
 - (i) periodic reports on compliance with requirements regarding statutory deductions and remittances and, in the event of any non-compliance, the nature and extent of non-compliance, the reasons therefor and management's plan and timetable to correct any deficiencies;
 - (ii) material policies and practices of Halogen respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of Halogen; and
 - (iii) material tax policies and tax planning initiatives, tax payments and reporting and any pending tax audits or assessments.
- (c) The Committee will meet periodically with management to review and discuss Halogen's major financial risk exposures and the policy steps management has taken to monitor and control such exposures, including the use of financial derivatives and hedging activities and Halogen's insurance programs.
- (d) The Committee will receive and review the financial statements and other financial information of material subsidiaries of Halogen and any auditor recommendations concerning such subsidiaries.
- (e) The Committee will review Halogen's delegation of financial authority.
- (f) The Committee will make recommendations to the Board respecting the declaration of dividends and the purchase of Halogen securities.

8. Additional Responsibilities

- (a) The Committee will review and make recommendations to the Board concerning the financial structure, condition and strategy of Halogen and its subsidiaries, including with respect to annual budgets, long-term financial plans, corporate borrowings, investments, capital expenditures, long term commitments and the issuance and/or repurchase of stock.
- (b) The Committee will review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting and Halogen's financial obligations.

THE CHARTER

- 1. Review.** The Committee will review and reassess the adequacy of this Charter periodically as it deems appropriate and recommend changes to the Board. The performance of the Committee will be evaluated with reference to this Charter annually.
- 2. Disclosure.** The Committee will ensure that this Charter is disclosed on Halogen's website and that this Charter or a summary of it that has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements.

CERTIFICATE OF HALOGEN SOFTWARE INC.

Dated April 17, 2013

This amended and restated prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) Paul Loucks
Chief Executive Officer

(Signed) Peter Low
Chief Financial Officer

On behalf of the Board of Directors

(Signed) Michael Slaunwhite
Director

(Signed) Timothy Williams
Director

CERTIFICATE OF THE UNDERWRITERS

Dated April 17, 2013

To the best of our knowledge, information and belief, this amended and restated prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces and territories of Canada.

CANACCORD GENUITY CORP.

STIFEL NICOLAUS CANADA INC.

(Signed) Benjamin Gibson

(Signed) Marwan Kubursi

RAYMOND JAMES LTD.

(Signed) Jimmy Leung

CANTOR FITZGERALD CANADA CORPORATION

NATIONAL BANK FINANCIAL INC.

(Signed) Laurence Rose

(Signed) Rob Sainsbury



Our vision is
to help our
customers

- Build their world class workforce
- Get better results through a high-performing, aligned and engaged workforce
- Establish talent as a lasting competitive advantage



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