1997 ANNUAL REPORT

Call it momentum

COGNOS®

TOOLS THAT BUILD BUSINESS™

A Farewell

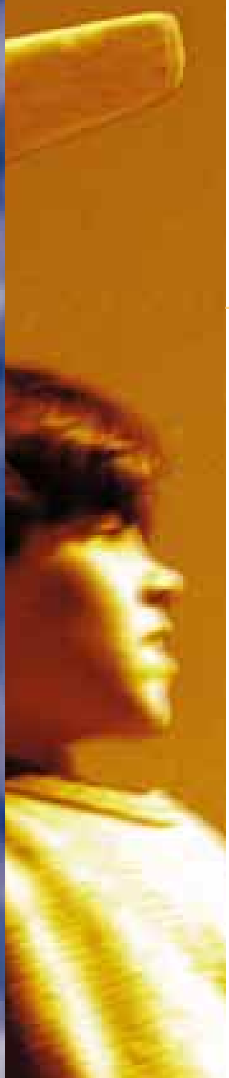
The election in June of the new Board of Directors will end the 25-year active association of Mike Potter with this Company.

After joining Cognos in 1972, Mike became its Chairman and Chief Executive Officer in 1975 and held these positions until 1995. He remains its largest shareholder. Mike led Cognos through its transition from a custom software provider to a programming tools company in the early 1980s, he encouraged the early development of its business intelligence products in the late 1980s, and he has been resolute in his vision of a BI-focused strategy in recent years. The success of the Company in these years can be traced to Mike's vision and his anticipation of market needs.

Mike remains a respected friend of the directors and the many Cognos employees with whom he has worked so closely for a long time. We will miss his business judgment and we will miss him as an individual.

We wish him well.

James M. Tory
Chairman



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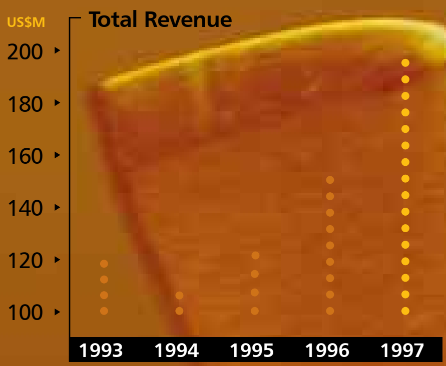
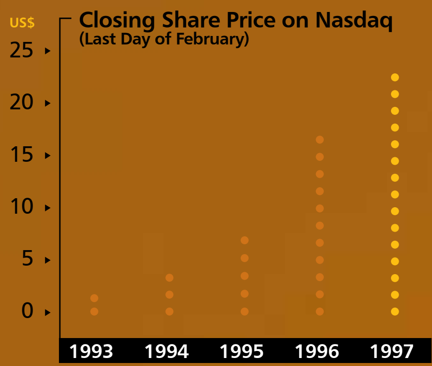
Financial Highlights

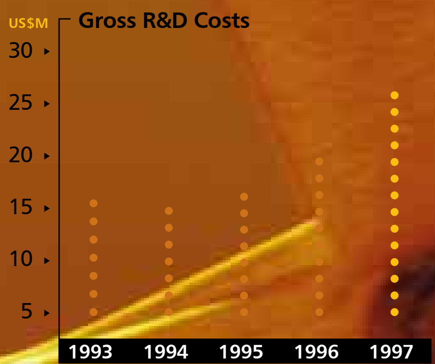
Years Ended the Last Day of February

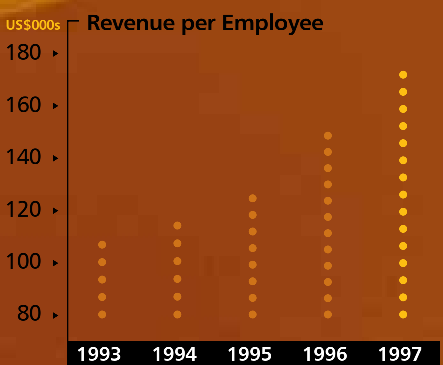
	1997	1996	1995	1994	1993
	(US$000s, except per share amounts; U.S. GAAP)				
Revenue	$198,185	$152,186	$121,817	$114,832	$120,269
Gross research and development costs	26,003	19,715	16,697	15,567	16,344
Income (loss) before taxes	45,814	23,526	11,569	5,041	(4,866)
Net income (loss) per common and common equivalent share[1]	0.80	0.40	0.20	0.08	(0.17)
Working capital	103,727	66,149	38,376	27,971	26,949
Total assets	189,152	140,010	108,174	93,273	91,427
Total debt	2,655	2,744	2,823	2,974	3,653
Stockholders' equity	115,912	78,297	55,156	45,249	45,270

(1) Reflects the three-for-one stock split in May 1996.









It's something earned through hard work, doing your homework, and responding quickly to opportunities. Call it momentum. It's the reason Cognos® widened its lead in the business intelligence software market in fiscal 1997.

This report describes our achievements. And it presents our plans for new business intelligence tools that will help our customers create a momentum all their own.

To Our Shareholders,

I am very pleased with the progress we made in fiscal 1997. Our PowerPlay® and Impromptu® products took a commanding lead in the business intelligence market, with sales surpassing those of their nearest competitors. We are now the number one supplier of business intelligence software in the North American market. We have seen substantial gains in Europe, and our investments in the Asia/Pacific market are showing promise. Industry analysts have commended our strategic vision. The financial indicators—revenues, earnings, return-on-investment—were all strong, demonstrating our ability to profit during a period of substantial growth.

The momentum we see today can be traced back to a strategic business decision made several years ago. We believed we could help our customers become more productive, more effective, and more reactive to market forces by using information more intelligently. And so we decided to focus on building software tools that would help our customers do just that.

In short, we claimed the business intelligence turf.

This single-minded focus continued to fuel our growth in fiscal 1997.

Ron Zambonini and his management team, left to right: Rob Ashe, Donnie Moore, Hans Galldin, Ron Zambonini, Donna Sparks, Terry Hall, Alan Rottenberg, Jane Baird.

As the business intelligence market picked up steam, we increased not only our sales but also our market share. Furthermore, we see new areas of potential in business intelligence: data mining, business modeling and forecasting, and new object-oriented application development tools. We intend to exploit these opportunities to the fullest.

None of this success would be possible without a strong management team and the dedicated efforts of our employees. In an industry known for high turnover, our ability to attract and retain some of the brightest minds in the business has allowed us to develop an unequaled core of knowledge in the business intelligence arena. Our software development teams have enhanced our product portfolio with new product releases as well as new products. For example, they made PowerPlay—already a great product—even better, with an ability to handle much larger data files. They anticipated market needs with the development of Scenario™, a product that knowledge workers will use to discover hidden relationships in corporate data. And they were able to breathe new life into our PowerHouse® product with the development of Axiant® 4GL 2.0, a powerful visual environment that allows developers to bring their tried-and-true PowerHouse applications into new distributed computing environments.

Developing best-of-breed products is a critical part of our story. The other part is how we support our customers. I would particularly like to commend our customer support team. Their effort to improve the quality of our response to customer needs by adopting the latest customer support technologies is living proof that technology can make a real difference in helping businesses succeed. I continue to be impressed with the effectiveness of our marketing and sales organizations in positioning Cognos as the leader, not only in sales, but also in its vision of our market. The launch of the 24 Ways™ Program is a case in point. It demonstrates to our clients the many ways in which business intelligence technology can enhance decision making. Through the 24 Ways initiative, we have once again demonstrated our ability to see beyond technology to the real issues that businesses need to address. The hard work over the past several years is paying off. Yet we know that our future success depends upon our ability to continue to respond to our customers' needs with new software products based on new ideas. This annual report details our accomplishments, and our vision.

Yes, we have the momentum. Our objective is to sustain it.

R. Zambonini

Ron Zambonini
President and CEO

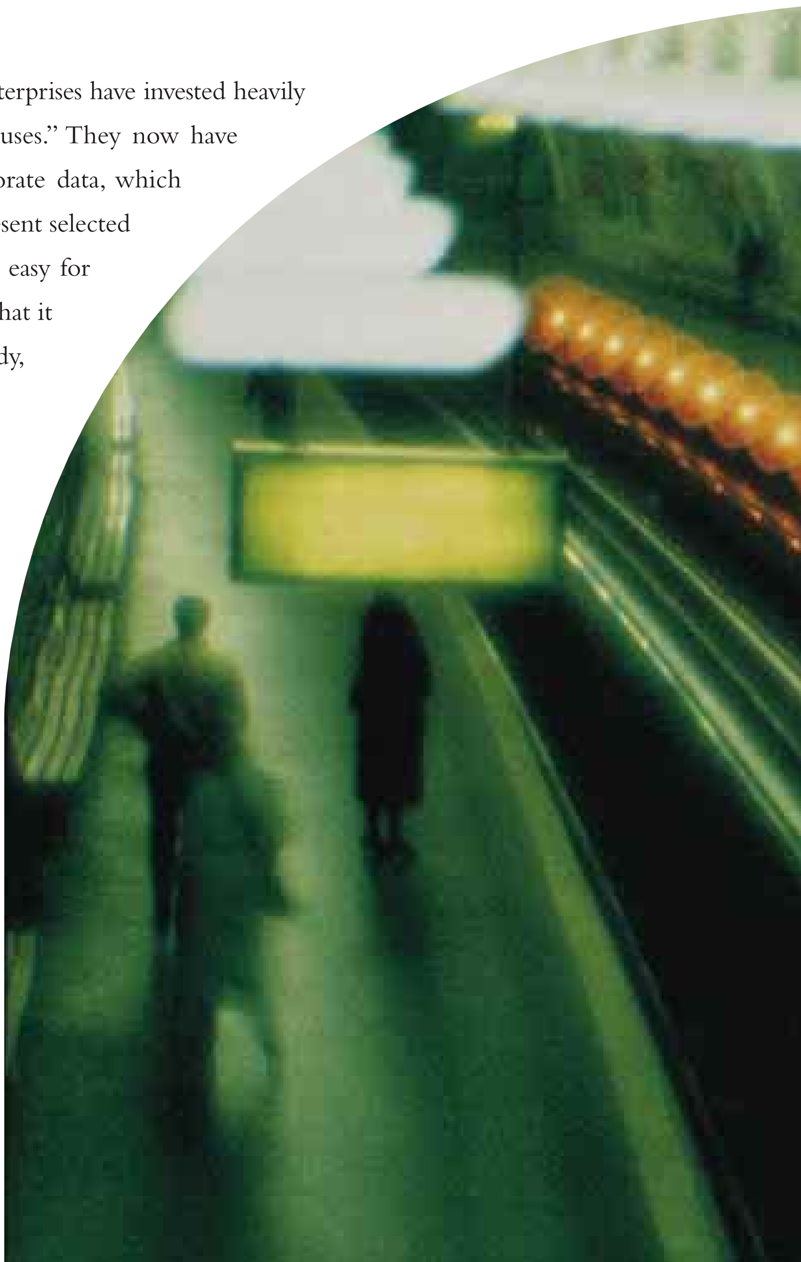
Building the Momentum: Fiscal 1997

In the current business climate of intense competition, shorter product cycles, and constant market change, success is tied increasingly to reaction time. Who can react fastest? Who can transform their business practices to improve performance? This is the fiscal 1997 Cognos story.

Building **Best-of-Breed** Products

Over the past few years, business enterprises have invested heavily in the design and construction of "data warehouses." They now have centralized storage of massive amounts of corporate data, which leads to the next challenge: how to extract and present selected data from the data warehouse in formats that are easy for virtually any manager to use. Cognos has shown that it can do this task better than anyone else. Already, over 10,000 organizations worldwide are extending the value of their data warehouses with Cognos' best-of-breed business intelligence tools. They are using our products to respond with speed, understanding, and precision to changing market forces.

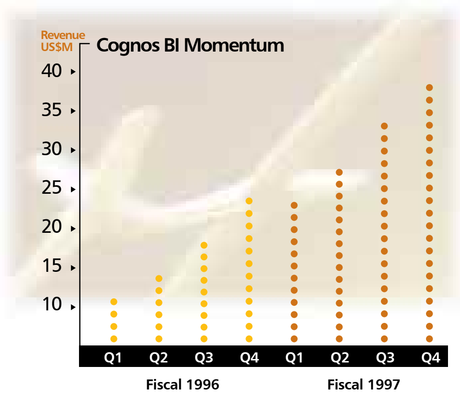
With award-winning decision-support tools such as PowerPlay and Impromptu, managers and knowledge workers across the enterprise can now access, explore, and analyze corporate data in an easy-to-use, intuitive way.



RATP, *the agency that runs the Paris transit system, uses Cognos products to keep track of operational and financial information. With immediate plans to double the number of employees using Impromptu and roll out PowerPlay as well, RATP is committed to making business intelligence software a key part of its decision-making process. Smart thinking.*

The Market Opportunity

As the market moves from early adopters to the mainstream, we see a bright future for the business intelligence market. We believe we are well positioned to continue to succeed in this marketplace.



PowerPlay and Impromptu are capturing an ever larger share of a rapidly growing market.

Year-over-year revenue growth for Cognos business intelligence products was 81 percent in fiscal 1997. By the third quarter of the fiscal year, our North American sales were two and one-half times those of our nearest competitor. And while fiscal 1997 North American sales made up 60 percent of total business intelligence revenue, gains in Germany, the United Kingdom, and France ensured considerable market penetration in Europe, accounting for 35 percent of our total business intelligence revenue.

New Releases of PowerPlay and Impromptu

PowerPlay, our online analytical processing (OLAP) tool, and Impromptu, our database query and reporting tool, have both been recognized by industry analysts as best of breed in their respective product categories. This fiscal year, they became even better. The new releases of PowerPlay 5.0 and Impromptu 3.5 incorporate features that dramatically increase the ability to use these products effectively with very large databases. And they now support processing on the desktop, on the server, or both. This capability is particularly well suited for enterprise-wide data warehouse initiatives, and reinforces our commitment to corporations that have either embarked on data warehousing projects or are considering doing so.

Another significant step has been seamless drill-through integration between PowerPlay and Impromptu. At any time during PowerPlay explorations, users wishing to gain a more in-depth understanding of the details behind the summary can “drill through” to the underlying Impromptu report. Likewise, an Impromptu user can quickly create a PowerPlay PowerCube™— the multidimensional data model necessary for online analytical processing. These refinements demonstrate our continuing commitment to make our business intelligence tools as accessible and easy to use as word processing and spreadsheet software.

The PowerHouse One-Two Punch

After 16 years and over US$1.1 billion in total sales to over 13,500 customers, PowerHouse 4GL, Cognos' fourth-generation application development language, continues to represent an important source of revenue for the company. As part of our strategy to retain PowerHouse customers, two significant product releases were developed for introduction in the first quarter of fiscal 1998. Marketed as the PowerHouse "one-two punch," the strategy includes PowerHouse Power2000™ which helps PowerHouse users address Year 2000 date issues, and Axiant 4GL 2.0, which allows developers to bring their tried-and-true PowerHouse applications into newer client/server and distributed computing environments. These initiatives send a strong message to PowerHouse clients that Cognos is committed to their ongoing success with this product. As well, these tools have extended the life of a product line that continues to generate significant profits and cash flow for Cognos, and deliver high value to our customers.

Cognos Enters the "Component" Arena with RealObjects™

Cognos believes that businesses can achieve greater competitive advantage through applications that not only give knowledge workers easy access to corporate information, but also empower them to take direct action on that information—all within a single environment. But to truly hone an organization's competitive advantage, these new applications must be delivered quickly. And they must adapt easily to exploit rapidly evolving market opportunities and enabling technologies such as intranets and the Internet.

Cognos' RealObjects meets these requirements. A component-based development tool for rapidly building reusable, high-level components that can be assembled into sophisticated, information-based applications, RealObjects insulates developers from complex "object-oriented" implementation details—allowing them to focus on creating better applications, faster.

Analysts anticipate that by the Year 2000, a large proportion of new applications will be deployed over the Internet, with "components" being the enabling technology. While component technology has the potential to address a range of business needs, our intent is to focus first on what we know best: business intelligence. With the launch of RealObjects 1.1, we will position RealObjects as a value-added complement to our business intelligence product suite.

Out-Marketing the Competition

Cognos is first and foremost a software tools company. Developing the finest business intelligence software tools has been the cornerstone of our recent success. But equally important has been how our marketing efforts have brought our products to the attention of a broader market. The use of print- and Web-based advertising and special promotions, a coordinated public relations effort, and the repackaging of all product materials to present a highly polished image have all played a role. So have innovative thinking and execution through less traditional (and more ambitious) marketing initiatives.

***Yorkshire Water,** a British utility company, uses PowerPlay to track and control a multi-million pound sterling capital works program. From their desktops, managers can now explore relationships between the critical drivers of business performance, presented in quick-read formats. Armed with PowerPlay, they are making better decisions, reacting faster to areas of concern, and identifying inefficiencies.*

Introducing "The 24 Ways"

As a supplier of business intelligence software, we have had a unique opportunity to observe how our customers use our products to impact their bottom line in very short periods of time. In our observations, we discovered patterns of implementation—patterns that have given our customers insights that enhance their revenue and market share, drive down costs, and increase productivity.

Our 24 Ways Program presents these patterns for the benefit of other business intelligence customers. Through a comprehensive program of books, CD-ROM demonstrations, and tutorials, the 24 Ways Program demonstrates how enterprises can take advantage of proven methods of using Cognos tools to bring fast results. And it comes with a remarkable promise: any corporation can reap the benefits of at least one of the 24 Ways within 90 days.

The 24 Ways initiative serves our customers well by showing them how to use business intelligence technology in new ways to improve their decision making. Its benefit to Cognos is also significant since it promotes the use of our products for a broader range of business applications. It has established our intellectual leadership in the business intelligence field. It has led to new partnerships and strategic alliances with companies such as Informix Software, Inc., Digital Equipment Corporation, and O/E Systems, Inc. Ultimately, it will increase our sales by opening new avenues for the application of our business intelligence products.

The 24 Ways Program helps customers deploy Cognos tools where they will add the greatest competitive value.

From Perception to Reality

More than half of our business intelligence license sales came from new customers in fiscal 1997. We believe that this significant growth in new customer accounts has been driven by the strength of our market position. There are two main reasons for this strength. The first is brand awareness. Cognos was actually the leading business intelligence provider in fiscal 1996, but it wasn't until fiscal 1997 that recognition of this fact became widespread. In turn, widespread recognition has made it more likely that organizations looking for business intelligence tools will look first to Cognos.

The second reason for that strength is the increasing market coverage and value of third-party sales channels, through a series of marketing alliances with major database and data warehousing companies such as Sybase, Inc., Hewlett-Packard Company, Informix Software, Inc., Digital Equipment Corporation, and IBM Corporation. As well, some of the world's largest application developers, such as PeopleSoft, Inc., Hyperion Software Corporation, CODA, Systems Union Group Limited, and VMARK Software Inc., all integrate Cognos tools into their product offerings. These companies have turned to Cognos because our tools are recognized as best of breed, because they are easily integrated with other applications and data warehouse components, and because they offer the best value equation to their customers.

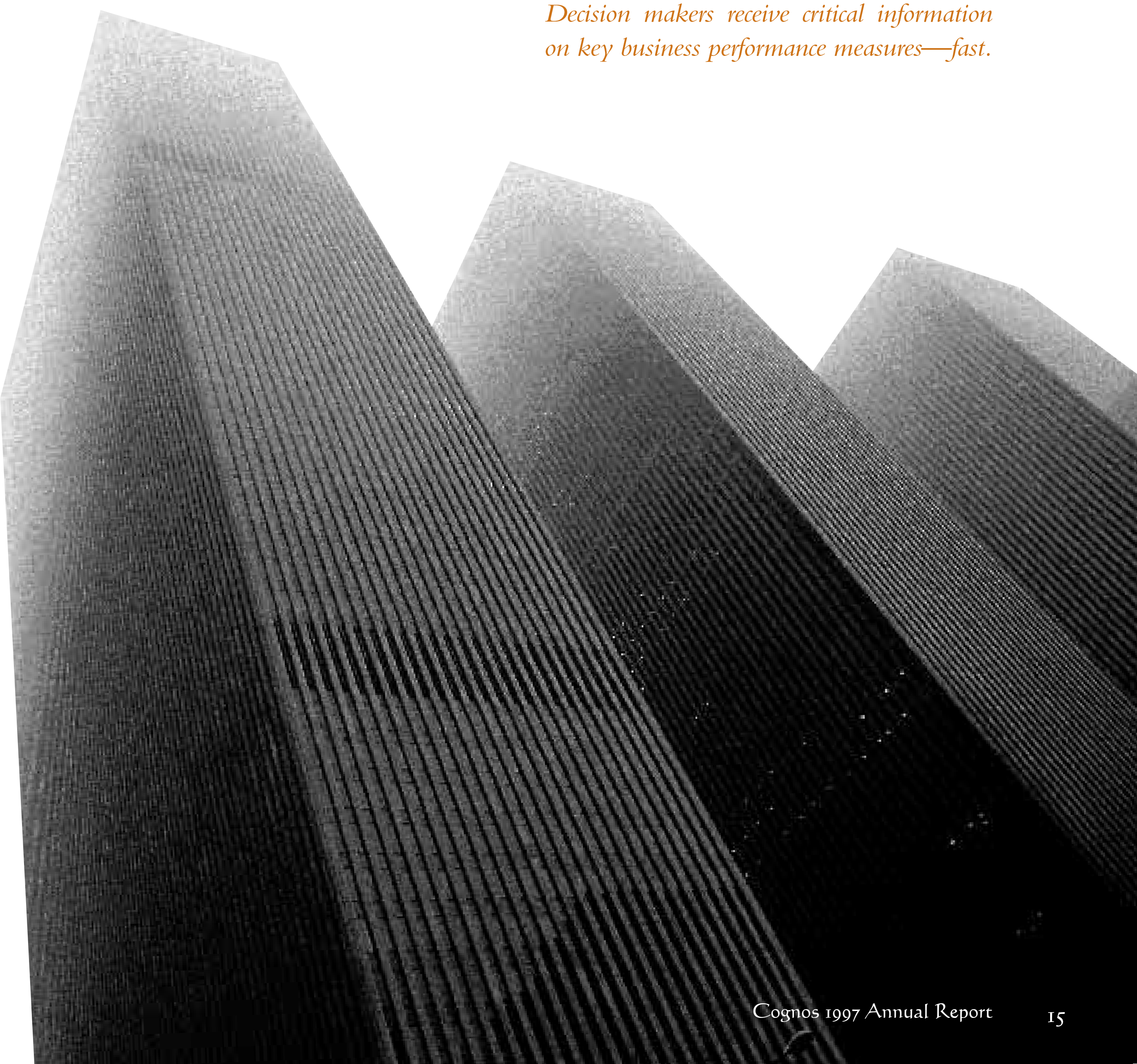
The Potential of Partnerships

With each successful partnership comes the opportunity to generate more revenues, with less involvement from our dedicated Cognos sales force. By year-end, third-party sales channels accounted for almost one-third of our business intelligence license revenues. Our objective is to increase that percentage as the more than 350 new partnerships formalized in fiscal 1997 move projects currently in the planning stage to full implementation.

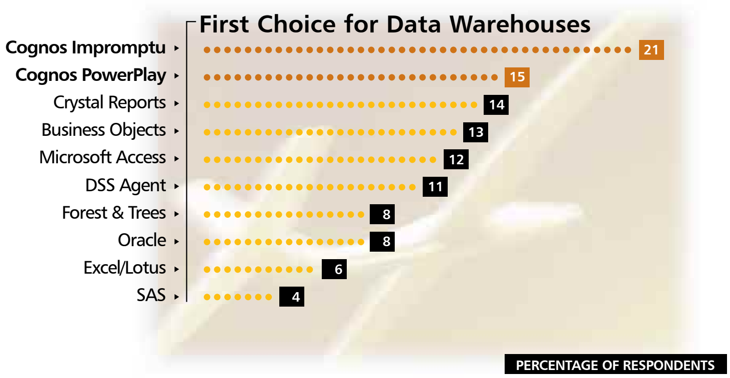
Pushing the Envelope on Customer Support

The software we sell is only as good as the support that backs it up. By providing our customers with exceptional support, we ensure that they get every ounce of value from our products. "Customers" become "satisfied customers"… they become internal champions of our products, persuading colleagues of their value … and they become our most receptive prospects for new products.

Price Waterhouse, *one of the leading global data warehouse systems integration firms, uses PowerPlay as part of its data warehouse Knowledge Management Architecture. The result: clients in financial services, consumer products, retail, and telecommunications have a complete knowledge management solution that maximizes the strategic business value of enterprise information. Decision makers receive critical information on key business performance measures—fast.*



Impromptu and PowerPlay are the most commonly chosen end-user tools for data warehousing pilot projects.



Source: META Group Data Warehousing Survey, April 1996

The tremendous growth in business intelligence product sales we have experienced, coupled with many more product releases than in the past, has increased the number of calls coming into our customer call centers significantly. From fiscal 1996 to 1997, calls increased from 34,000 to 52,000. Despite this increase, our customer support team was able to enhance the overall level of customer satisfaction.

To maintain high standards of customer support in the face of significantly higher call loads, Cognos has adopted several technologies. A new interactive voice recognition system for North America was installed during the fiscal year and is now fully operational. It allows customers to be routed directly to the support technician most familiar with their account. Furthermore, "screen pop" software immediately displays the customer's file so that the technician can handle the call more effectively. In the coming fiscal year, we intend to expand this capability from our North American operations to our global support network.

Another example of how we use innovative technology to support our customers is found on the Cognos Web site. New search technologies and case-based reasoning tools are planned for the coming fiscal year—tools that will transform the customer support element of the Web site from presenting primarily static information, to offering highly personalized, interactive support. In this way, customers will often be able to find answers to their questions quickly and easily, without needing to place a call to our customer support personnel.

By using innovative technologies, Cognos has responded to an increased demand for telesupport and improved customer satisfaction.

Clearly, customer support plays a vital role in the Cognos organization. In fact, in fiscal 1997, support and service revenue almost equaled the revenue generated by product sales. We know that customer satisfaction leads to increased sales. As we move ahead with new products, the need for efficient support mechanisms can only increase. With the application of value-added technology and knowledgeable support technicians, our goal is to continue to increase customer satisfaction levels and to tailor our support and service offerings to match customers' individual needs.

Sustaining the Momentum: Our Strategy

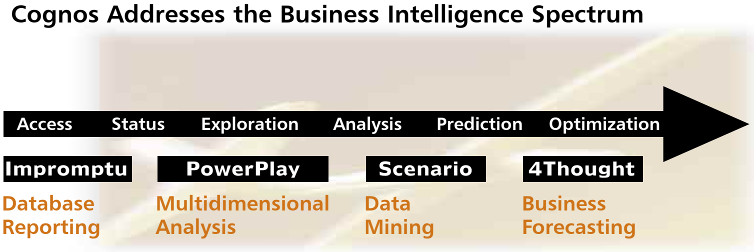
Cognos has emerged as the market leader. The marketplace has acknowledged that the products we offer are best of breed. Yet just as we have extended the capabilities of Impromptu, PowerPlay, and PowerHouse to address changes in the market, we are taking concrete steps to broaden our product suite across the entire business intelligence spectrum.

Helping Our Customers Reach the Next Level

Moen Incorporated, a $700 million manufacturer of bathroom fixtures, uses Cognos' business intelligence software to tap into critical sales data. The results have been wider user access to sales data, the ability to spot business trends faster, and higher productivity.

Cognos views product development as an evolutionary process. Our first business intelligence product, PowerPlay, allowed our customers to explore the multidimensional relationships within corporate data. Impromptu brought the ability to customize and automate end-user reports. During fiscal 1997, development continued on a new data mining product called "Scenario," which will be introduced early in fiscal 1998. Scenario gives managers new insights by searching for hidden relationships within corporate data that might otherwise remain undetected.

Cognos Addresses the Business Intelligence Spectrum



Further strengthening our position in this market is the acquisition of Right Information Systems Limited (RIS) of London, England—provider of 4Thought, business modeling and forecasting software. Cognos signed an agreement to acquire RIS in February 1997, which will close in the first quarter of fiscal 1998. The acquisition will augment our existing business intelligence product line and open the door to additional product development based on RIS' leading-edge neural network technology.

Embracing the World Wide Web

Sustaining momentum means anticipating change and quickly translating opportunities into products—products that open up capabilities for existing customers, while attracting new customers into the Cognos fold. Clearly, the emerging opportunity of the Internet holds great promise for Cognos.

How will we exploit this new way for business to communicate? Just as we have exploited the client/server arena: with best-of-breed tools that give customers what they need to fully realize the business potential of Internet technologies. The foundation of our strategy is to market ground-breaking products that will enable organizations to deploy a complete range of business intelligence capabilities on client/server networks and corporate intranets—the high-speed, high-performance networks that use the low-cost distribution technology of the World Wide Web. Indeed, we anticipate releasing, in fiscal 1998, Web-enabled versions of PowerPlay and Impromptu that will allow the transfer of PowerPlay cubes and Impromptu reports via the Internet.

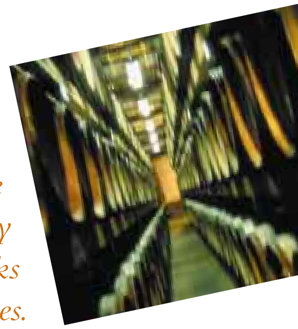
But our product design goes well beyond the simple "publish and read" approach to Web-based report distribution. With Cognos' Web-enabled business intelligence products, customers will be able to navigate, interact with, and explore data—as opposed to reading static Web pages. Working from within PowerPlay or Impromptu, users will create and distribute reports on either existing LANs or new intranets. Using only a Web browser, other users will be able to open and view the reports, interact freely with the data through ad hoc queries, and save reports to and from Web addresses.

These capabilities will give organizations a powerful new means of achieving the ultimate goal of business intelligence—putting fast, comprehensive decision-support capabilities on every employee's computer.

We see the Internet as a significant opportunity. A case in point is our vision for RealObjects, which we believe will extend our reach into the realm of highly distributed, information-based applications. Future versions of RealObjects will enable developers, using easily assembled components, to deliver Web-based information applications throughout the enterprise more easily and cost-effectively than present local area networks allow.

The Internet, the World Wide Web, corporate intranets—all are developing technologies that present a familiar challenge: How can organizations use new and evolving information technology to transform the business? We have successfully answered this question for many years: our Web-based products will help ensure that we continue to do so.

Thriving in a World of Shifting Paradigms

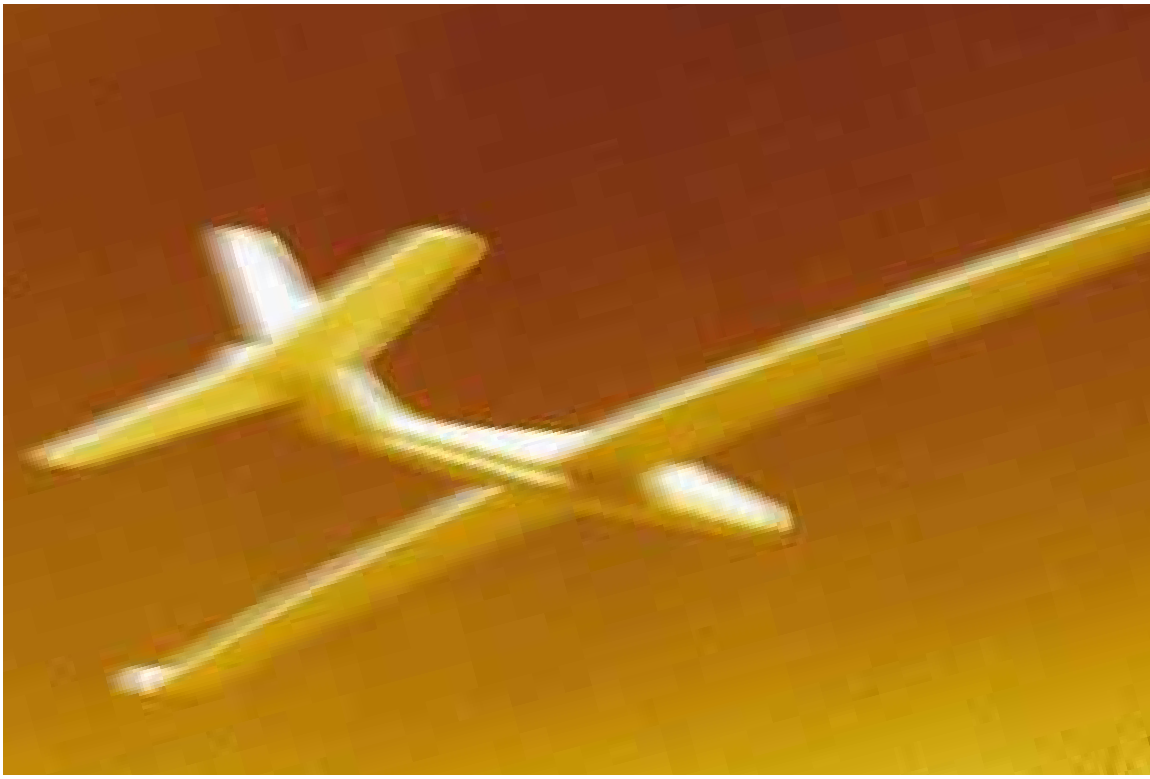


Fifteen years ago, California's Sutter Home Winery was a small family business. Now it ranks fourth in U.S. wine sales. By accumulating information from over 150 different distributors, PowerPlay allows Sutter Home to synthesize a complex web of sales, profits, and distribution information into easy-to-understand formats. And that has helped put Sutter Home Winery in firm control of its growth. Cheers!

At the onset of the 1990s, as the term "client/server" entered the vocabulary of the mainstream computing press, who could have predicted the profound impact of Internet technologies on business activity? The introduction of new technology can have a significant effect on how the world does business. Technology paradigm shifts are occurring more frequently than ever before. For companies that are wedded to a specific technology, these shifts can be disastrous. For us, and for our customers, they represent tremendous opportunity.

With each shift, we see an opportunity to apply new thinking to familiar business problems. And with each shift—whether from mainframe to mini computing, or from client/server to multi-tier and distributed computing—we have shown our ability to identify the opportunity and respond with new tools that help companies remain competitive. Throughout the 1990s, we have proven our ability to be among the very best at developing feature-rich software tools that allow businesses to take advantage of these paradigm shifts to improve the way they operate.

That is our strength. That is our future.



Financial Information

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

(in United States dollars, unless otherwise indicated, and in accordance with U.S. GAAP)

The following discussion should be read in conjunction with the audited consolidated financial statements and notes included in this Annual Report.

The Corporation has historically prepared and filed its consolidated financial statements in Canadian dollars and in accordance with Canadian Generally Accepted Accounting Principles (GAAP) with a reconciliation to United States (U.S.) GAAP. During fiscal 1997, the Corporation adopted the U.S. dollar as its reporting currency for presentation of its consolidated financial statements and, at the same time, began preparing and reporting complete financial statements in accordance with U.S. GAAP, in addition to reporting in Canadian GAAP. This change was made to enhance communications with the majority of our shareholders and customers, using the currency and accounting rules that are more familiar to these groups. The presentation is also more consistent with the presentation of the financial results of our industry counterparts and competitors.

On April 8, 1996, the Board of Directors declared a three-for-one stock split, effected in the form of a stock dividend, payable on May 15, 1996. The financial results in this Management's Discussion and Analysis are reported, on a consistent basis for all periods presented, in U.S. dollars, our reporting currency; in accordance with U.S. GAAP; and reflect this stock split.

OVERVIEW

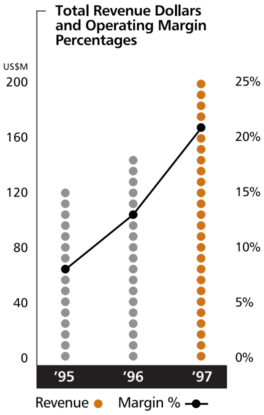
The Corporation develops, markets, and supports complementary lines of software tools that are designed to meet complex business-critical needs, while protecting the training and technology investments customers have made in their existing technologies. The Corporation's business intelligence tools give individual users the ability to independently access, explore, analyze, and report corporate data. The Corporation's client/server application development tools are designed to increase the productivity of system analysts and developers. Cognos products are distributed both directly and through resellers worldwide.

Revenue is derived from the licensing of software and the provision of related services, which include product support and education, consulting, and other services. The Corporation generally licenses software and provides services subject to terms and conditions consistent with industry standards. Customers may elect to contract with the Corporation for product support, which includes product and documentation enhancements, as well as telephone support, by paying either an annual fee or fees based on usage of support services.

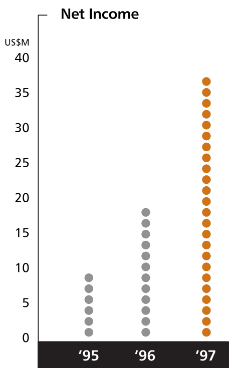
The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies.

RESULTS OF OPERATIONS

(in United States dollars, unless otherwise indicated, and in accordance with U.S. GAAP)



Total revenue for the year ended February 28, 1997 (fiscal 1997) was $198.2 million, which was 30% more than fiscal 1996 revenue of $152.2 million, which in turn was 25% higher than the $121.8 million revenue recorded in fiscal 1995. Net income for fiscal 1997 was $36.8 million, 110% more than the $17.5 million reported in fiscal 1996, which was more than double the fiscal 1995 net income of $8.2 million. Net income per common and common equivalent share for fiscal 1997 was $0.80, compared to $0.40 and $0.20 in fiscal 1996 and fiscal 1995, respectively. The Corporation had $119.2 million in cash, cash equivalents, and short-term investments as of February 28, 1997, an increase of $39.8 million from February 29, 1996.



The improvement in the financial performance over the past two fiscal years was primarily because of the Corporation's growth in revenue, which more than offset the increase in total operating expenses. The growth in revenue in both fiscal years was derived primarily from the increased revenue attributable to the licensing, servicing, and supporting of the Corporation's business intelligence tools. Total operating expenses increased by 18% in fiscal 1997 from fiscal 1996, and 18% in fiscal 1996 from fiscal 1995. However, total operating expenses over the last two fiscal years have continued to decrease as a percentage of total revenue, resulting in operating margin improvements from 8% in fiscal 1995 to 13% in fiscal 1996, and 21% in fiscal 1997. As a result, operating income in fiscal 1997 was $41.7 million, compared to $20.0 million and $9.8 million in fiscal 1996 and 1995, respectively.

The following table sets out, for each fiscal year indicated, the percentage that each income and expense item bears to revenue, and the percentage change of each item as compared to the prior fiscal year.

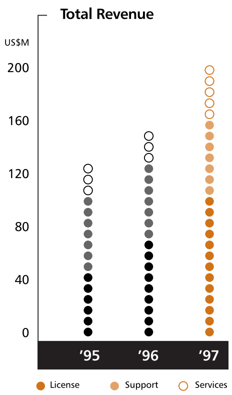
	PERCENTAGE OF REVENUE			PERCENTAGE CHANGE FROM FISCAL	
	1997	1996	1995	1996 TO 1997	1995 TO 1996
Revenue	100.0%	100.0%	100.0%	30.2%	24.9%
Operating expenses					
Cost of product license	1.7	2.3	2.8	(4.9)	1.2
Cost of product support	4.9	4.9	6.6	28.7	(7.2)
Selling, general, and administrative	57.8	65.0	69.3	15.9	17.3
Research and development	14.6	14.7	13.3	29.4	37.9
Total operating expenses	79.0	86.9	92.0	18.4	18.0
Operating income	21.0	13.1	8.0	108.9	104.2
Interest expense	(0.2)	(0.3)	(0.3)	(8.8)	6.9
Interest income	2.3	2.6	1.8	12.6	80.7
Income before taxes	23.1	15.4	9.5	94.7	103.4
Income tax provision	4.5	3.9	2.8	50.5	78.5
Net income	18.6%	11.5%	6.7%	109.9%	113.6%

Revenue

The Corporation's total revenue (consisting of product license, product support, and services revenue) was $198.2 million in fiscal 1997, an increase of 30% from the $152.2 million in fiscal 1996. The fiscal 1996 revenue was 25% higher than the $121.8 million recorded in fiscal 1995. The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies. The effect of foreign exchange rate fluctuations decreased the overall revenue growth by one percentage point in fiscal 1997 from fiscal 1996 and increased the overall revenue growth by two percentage points in fiscal 1996 from fiscal 1995.

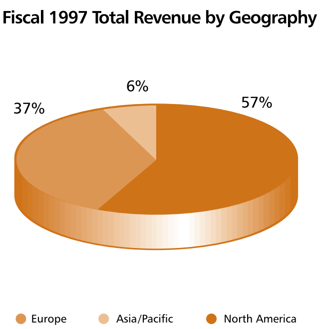
The Corporation's significant growth in total revenue was derived primarily from the increase in revenue from the Corporation's business intelligence tools, PowerPlay and Impromptu. Total revenue for these two products was $122.5 million, $67.8 million, and $30.3 million in fiscal 1997, 1996, and 1995, respectively, which was 62%, 45%, and 25% of total revenue for these same periods. The increase in fiscal 1997 total revenue for PowerPlay and Impromptu was 81% from fiscal 1996; total revenue for these products in fiscal 1996 was 124% higher than fiscal 1995. The Corporation believes that these tools address the current market environment of client/server networks and the growing need for distributing corporate information to the end-user's desktop.

The revenue derived from the Corporation's application development tools, PowerHouse, Axiant, and RealObjects was $75.7 million in fiscal 1997, compared to $84.4 million in fiscal 1996, and $91.5 million in fiscal 1995. The decline in revenue in this market was consistent with the trend that the Corporation has been experiencing over the past four fiscal years and was consistent, in the Corporation's view, with the market trend away from proprietary systems and host-based computing toward industry-standard systems and client/server technology.



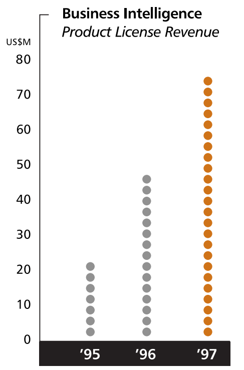
The growth in total revenue from the three revenue categories in fiscal 1997 from fiscal 1996 was as follows: a 34% increase in product license revenue, a 13% increase in product support revenue, and a 64% increase in services revenue. This compares to an increase in fiscal 1996 from fiscal 1995 as follows: a 34% increase in product license revenue, an 8% increase in product support revenue, and a 53% increase in services revenue.

The Corporation's operations are divided into three main geographic regions: (1) North America (includes Latin America), (2) Europe (consists of the U.K. and Continental Europe), and (3) Asia/Pacific (consists of Australia and countries in the Asia/Pacific region). In fiscal 1997, total revenue from North America, Europe, and Asia/Pacific increased from fiscal 1996 by 32%, 29%, and 26%, respectively, compared to increases of 26%, 27%, and 6%, respectively, in fiscal 1996 from fiscal 1995. The increase for all regions in both periods was attributable to the increase in revenue from the business intelligence tools. The significant growth in fiscal 1997 compared to the growth in fiscal 1996 in the Asia/Pacific region was the result of the adoption of new software technology, as well as the increased availability of product customized by the Corporation for the local markets. (See Note 11 of the Notes to the Consolidated Financial Statements.)



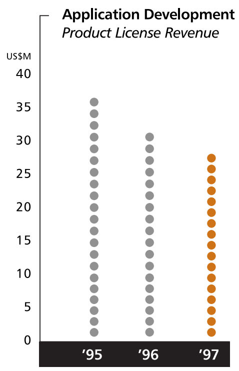
Product License Revenue

Total product license revenue was $101.6 million, $76.0 million, and $56.8 million in fiscal 1997, 1996, and 1995, respectively, and accounted for 51%, 50%, and 47% of the Corporation's revenue for the respective time periods.



The increases were predominantly because of the performance of the Corporation's business intelligence tools. Product license revenue from these products was $74.7 million, $45.0 million, and $21.2 million in fiscal 1997, 1996, and 1995, respectively. The Corporation derived approximately 74% of its product license revenue in fiscal 1997 from these tools, compared to 59% in fiscal 1996, and 37% in fiscal 1995.

Product license revenue from the Corporation's application development tools, PowerHouse, Axiant, and RealObjects was $26.9 million, $31.0 million, and $35.5 million in fiscal 1997, 1996, and 1995, respectively. The decline in percentage terms from the immediately preceding fiscal year was 13% for both fiscal years. The decline was consistent, in the Corporation's view, with the market trends toward industry-standard systems and client/server technologies. The Corporation expects a continuation of decreasing product license revenue from these products.



The Corporation's approach, with respect to the sales and marketing strategy, is to utilize a multi-tiered channel strategy ranging from a direct sales force to various forms of resellers/original equipment manufacturers. In fiscal 1997, the Corporation increased product license revenue derived from third-party distributors and value-added resellers to $33.8 million from $21.1 million in fiscal 1996, and from $17.5 million in fiscal 1995. Total product license revenue from third-party channels represented 33%, 28%, and 31% of total product license revenue in fiscal 1997, 1996, and 1995, respectively. The increase in fiscal 1997 from fiscal 1996 was attributable to an increase in revenue derived from third parties in both Europe and North America. The decline, in percentage terms, in fiscal 1996 from fiscal 1995 was because the Corporation experienced a larger increase in product license revenue from the direct sales channel than from the third-party channel.

Within the Corporation's business intelligence market, product license revenue from third-party channels represented 33% of its product license revenue in fiscal 1997, and 27% in both fiscal 1996 and 1995. Product license revenue from third-party channels increased by 105% in fiscal 1997 from 1996, and by 108% in fiscal 1996 from fiscal 1995. The relative rate of growth in fiscal 1997 from fiscal 1996 was consistent with the rate of growth in total product license revenue for these products.

The Corporation expects to continue to enhance its combined sales and marketing strategies to further develop the full potential within the business intelligence tools market. The Corporation expects to continue to utilize a multi-tiered channel strategy, as outlined above. With respect to the marketing strategy, the Corporation intends to continue to form and enhance alliance programs with system integrators, the larger accounting and consulting firms, packaged application providers, and various other strategic partners.

Product Support Revenue

Product support revenue was $63.7 million, $56.1 million, and $51.9 million in fiscal 1997, 1996, and 1995, respectively. Product support revenue accounted for 32%, 37%, and 43% of the Corporation's total revenue for the same time periods.

The increase in the dollar amounts was the result of the expansion of the Corporation's customer base as well as the renewal of support contracts. To date, expansion of the Corporation's customer base has exceeded both the rate of cancellations of support contracts and the rate of declining license sales in the Corporation's more traditional application development tools markets.

Total product support revenue from the business intelligence tools comprised 31%, 16%, and 8% of the total product support revenue in fiscal 1997, 1996, and 1995, respectively. In fiscal 1997, total product support revenue from the business intelligence tools increased by 112% from fiscal 1996, whereas total product support revenue from the application development tools decreased by 6% over the same period. In fiscal 1996, total product support revenue from the business intelligence tools increased by 131% from fiscal 1995, whereas total product support revenue from the application development tools decreased by 2% over the same period.

There can be no assurance that increases in total product support revenue will continue to occur at the rates at which they have historically occurred, or at all.

Services Revenue

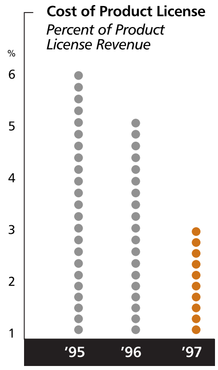
Revenue from education, consulting, and other services was $32.9 million, $20.0 million, and $13.1 million in fiscal 1997, 1996, and 1995, respectively. Services revenue accounted for 17%, 13%, and 11% of the Corporation's total revenue for the same time periods.

The increase in both fiscal 1997 and 1996 was predominantly because of a significant increase in education and consulting revenue associated with the business intelligence tools, consistent with the trend in product license revenue in this market. Services revenue associated with the business intelligence tools contributed approximately 86%, 68%, and 38% to this revenue category in fiscal 1997, 1996, and 1995, respectively.

In fiscal 1997, total services revenue from the business intelligence tools increased by 108% from fiscal 1996, whereas total services revenue from the application development tools decreased by 27% over the same period. In fiscal 1996, total services revenue from the business intelligence tools increased by 169% from fiscal 1995, whereas total services revenue from the application development tools decreased by 20% over the same period.

Cost of Product License

The cost of product license consists primarily of royalties for technology licensed from third parties, as well as the costs of materials and distribution related to licensed software.



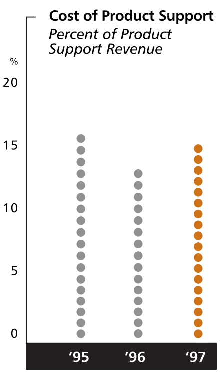
Product license costs in fiscal 1997 of $3.3 million decreased by $0.2 million from fiscal 1996. The costs in fiscal 1996 were unchanged from fiscal 1995. Product license costs represented 3%, 5%, and 6% of product license revenue for fiscal 1997, 1996, and 1995, respectively.

The decrease in fiscal 1997 from fiscal 1996 was primarily the result of a decline in royalties, which was offset by an increase in manufacturing and distribution costs. Product license costs in fiscal 1996 remained flat with fiscal 1995, despite the 34% increase in product license revenue over the same periods. This was partially the result of a decline in product license revenue attributable to the technology licensed from third parties. The Corporation has maintained the manufacturing and distribution costs at recent historic levels because of the efficiencies of manufacturing and packaging. These costs have also been favorably affected by the mix of products in product license revenue.

Cost of Product Support

The cost of product support includes the costs associated with resolving customer telephone inquiries and other telesupport activities, royalties in respect of technological support received from third parties, and the cost of materials delivered in connection with enhancement releases.

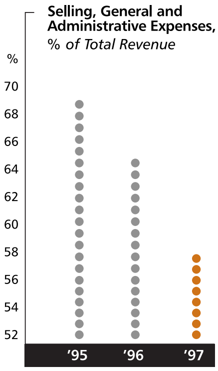
The cost of product support was $9.6 million, $7.5 million, and $8.1 million in fiscal 1997, 1996, and 1995, respectively. These costs represented 15%, 13%, and 16% of product support revenue for fiscal 1997, 1996, and 1995, respectively.



The increase in fiscal 1997 from fiscal 1996 was predominantly because of increases in telesupport costs to support customers using the Corporation's business intelligence tools, and to a lesser extent, increases in the volume-related enhancement release costs and royalties. The decrease in fiscal 1996 from fiscal 1995 was predominantly because of lower volume-related enhancement release costs, which were partially offset by increases in telesupport costs to support customers using the Corporation's business intelligence tools.

Selling, General, and Administrative

Selling, general, and administrative expenses were $114.6 million, $98.9 million, and $84.3 million in fiscal 1997, 1996, and 1995, respectively. These costs decreased as a percentage of revenue to 58% in fiscal 1997 from 65% in fiscal 1996, and from 69% in fiscal 1995.



The Corporation has continued, over this time period, to review and evolve its internal organizational structures, and sales and marketing strategies in response to changes in its markets in order to maximize the efficiency and effectiveness of its business models. As a result of this ongoing review and the relatively larger percentage increase in total revenue, total selling, general, and administrative expenses have decreased as a percentage of total revenue.

The increase in the selling, general, and administrative expenses in both fiscal periods was predominantly because of increased compensation-related expenses and, to a lesser extent, subcontracting and marketing costs. The average number of employees within this area for fiscal 1997 was approximately 10% higher than the average for fiscal 1996, while costs per employee increased 5%. The average number of employees within this area for fiscal 1996 was approximately 1% higher compared to the average for fiscal 1995.

Foreign exchange rate fluctuations had a minimal impact on total selling, general, and administrative costs in fiscal 1997 and fiscal 1996.

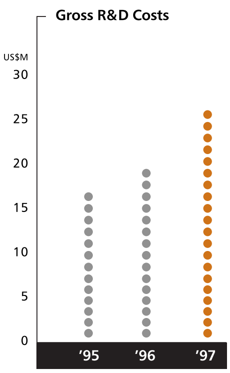
Research and Development

The following table sets out the Corporation's gross research and development costs, government allowances, and the amounts of software development costs capitalized and amortized, resulting in the net research and development expenses for the periods indicated.

	1997	1996	1995
		($000s)	
Gross research and development costs	$26,003	$19,715	$16,697
Government allowances	(733)	–	(8)
Amounts: Capitalized	–	(862)	(3,793)
Amortized	3,681	3,529	3,339
Research and development expenses	$28,951	$22,382	$16,235
Percentage of total revenue			
Gross research and development	13%	13%	14%
Research and development	15%	15%	13%

Gross research and development costs have continued to increase, in dollar terms, over the last two fiscal years but have remained relatively constant as a percentage of total revenue. The growth was predominantly the result of increases associated with higher employee levels in this area and other costs associated with the development of the Corporation's product lines to meet various market requirements. The increase in the average number of employees in this area was 17% in fiscal 1997 from fiscal 1996, and was 15% in fiscal 1996 from fiscal 1995.

Research and development efforts during fiscal 1997 were focused on PowerPlay, Impromptu, RealObjects, and Axiant. New versions of PowerPlay and Impromptu were released late in the second and third quarter, respectively. In addition, RealObjects, a new component-based development tool, was released in the third quarter. With RealObjects, modular "components" of application code are developed, which can then be saved, reused, and easily modified.



The increase in the fiscal 1997 research and development expenses from 1996 was the result of (i) the increased gross research and development costs as outlined above, and (ii) the writedown, of $1.2 million, of certain previously capitalized software development costs. These increases were partially offset by the recording of government allowances in the amount of $0.7 million.

Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs are amortized over a period not exceeding 36 months. Costs were not deferred in fiscal 1997 because either no projects met the criteria for deferral or the period between (i) achieving technological feasibility and (ii) the general availability of the product was short, and the associated costs were immaterial.

In fiscal 1998, the Corporation expects to continue its investments in research and development activities for PowerPlay, Impromptu, RealObjects, and Axiant. In fiscal 1998, the Corporation intends to deliver Web-enabled versions of PowerPlay and Impromptu. In addition, the Corporation expects to release new versions of Scenario, RealObjects, and Axiant. RealObjects is expected to support Microsoft client, Microsoft BackOffice, intranet, and Internet environments. The Corporation is also expending research and development efforts on other Internet products.

To support the existing PowerHouse customer base, the Corporation released PowerHouse Power2000, a new product, early in the first quarter of fiscal 1998. Power2000 will help PowerHouse customers identify and resolve their Year 2000 issues. In addition, the Corporation intends to release PowerHouse 8.0 which will provide an upgrade path for existing users of PowerHouse.

Interest Income and Expense

Interest income is earned on the Corporation's cash, cash equivalents, and short-term investments, and interest expense relates primarily to the interest on the Corporation's mortgage and capital leases.

Net interest income was $4.1 million, $3.6 million, and $1.8 million in fiscal 1997, 1996, and 1995, respectively. The increase in fiscal 1997 from fiscal 1996 was primarily attributable to higher average investment levels, which was offset by a decline in the average interest rates. The increase in fiscal 1996 was also primarily attributable to higher average investment levels and, to a lesser extent, to higher average interest rates compared to fiscal 1995.

Tax Expense

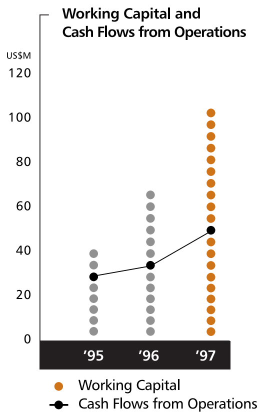
The Corporation's tax rate is affected by the relative profitability of its operations in various geographic regions. In fiscal 1997, the Corporation's effective tax rate was 20%, compared to 25% in fiscal 1996, and 29% in fiscal 1995. (See Note 8 of the Notes to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 1997, the Corporation held $119.2 million in cash, cash equivalents, and short-term investments, an increase of $39.8 million from February 29, 1996. In addition, the Corporation had a Cdn$15.0 million (US$11.0) operating line under which the Corporation can borrow funds or issue letters of credit or guarantee, subject to certain covenants. The Corporation's credit facility is unsecured. As of February 28, 1997, there were no direct borrowings under this operating line. As discussed further below, the Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of approximately Cdn$130.0 million (US$95.1) outstanding at any one time. As of February 28, 1997, the Corporation had foreign exchange forward contracts—with maturity dates ranging from March 27, 1997 to February 28, 1998—to exchange various foreign currencies in the amount of $2.2 million.

As of February 28, 1997, the Corporation had a total of $2.7 million of long-term indebtedness (including the current portion of long-term debt), consisting of a mortgage and certain capital leases. As of February 28, 1997, working capital was $103.7 million, an increase of $37.6 million from February 29, 1996, primarily because of higher levels of cash and cash equivalents, short-term investments, and accounts receivable, which were partially offset by increases in current liabilities.

Cash provided by operating activities for fiscal 1997 was $48.8 million, a $21.0 million increase compared to the prior fiscal year. This improvement was due primarily to the year-over-year increase in net income.



Cash used in investing activities was $15.4 million for fiscal 1997, an increase in spending of $17.1 million compared to the prior fiscal year. This increase was due primarily to the higher levels of investing in short-term financial instruments (net of maturities) and, to a lesser extent, increased capital equipment purchases.

Cash provided by financing activities was $0.4 million for fiscal 1997. During fiscal 1997, $6.0 million was generated from the issuance of common shares pursuant to the Corporation's stock purchase plan and the exercise of stock options by employees, officers, and directors. This activity was offset by the repurchase in the fourth quarter of 292,750 shares in the open market, at a cost of $6.8 million. The share purchases were part of an open market share repurchase program through the Nasdaq National Market announced in July 1996, under which the Corporation may repurchase a maximum of 2,100,000 of its shares. This repurchase program is authorized to be in effect until July 30, 1997; the program does not commit the Corporation to make any share repurchases. A copy of the *Notice of Intention to Make an Issuer Bid* is available from the Corporate Secretary.

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge certain non-local currency receivables and payables, and to hedge portions of the net investment in its various subsidiaries. The Corporation enters into foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1997, the Corporation had foreign exchange forward contracts—with maturity dates ranging from March 27, 1997 to February 28, 1998—to exchange various foreign currencies in the amount of $2.2 million.

The Corporation has never declared or paid any cash dividends on its common shares. The Corporation's current policy is to retain its earnings to finance expansion and to develop, license, and acquire new software products.

In February 1997, the Corporation announced its intention to acquire Right Information Systems Limited (RIS) of London, England; the transaction closed on April 9, 1997. The shareholders of RIS received US$4.5 million in cash and 90,000 shares of the Corporation's common stock. These shares will be held in escrow by the Corporation until April 9, 2000. The Corporation had previously established a licensing arrangement with RIS late in fiscal 1996. (See Note 13 of the Notes to the Consolidated Financial Statements.)

The Corporation anticipates that through fiscal 1998 its operations will be financed by current cash balances and funds from operations. If the Corporation were to require funds in excess of its current cash position to finance its longer-term operations, the Corporation would expect to obtain such funds from one or a combination of the expansion of its existing credit facilities, or from public or private sales of equity or debt securities.

Inflation has not had a significant impact on the Corporation's results of operations.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Corporation, statements made by its employees, or information included in its filings with various regulatory authorities may contain statements that are not historical facts (so-called "forward-looking statements"), which involve risks and uncertainties. In particular, statements relating to the Corporation's expectations concerning its business intelligence and application development tools and relating to the sufficiency of capital to meet working capital and capital expenditure requirements may be forward-looking statements. The Corporation's actual future results may differ significantly from those stated in any forward-looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed below. Each of these factors, and others, are discussed from time to time in the Corporation's filings with various regulatory authorities.

The Corporation's future results are subject to substantial risks and uncertainties.

Revenue

Although the Corporation has experienced significant license revenue growth with respect to its business intelligence tools over the past three fiscal years, there can be no assurance that such growth will continue in the future. In addition, the Corporation has been experiencing a decline in product license revenue from its application development tools over the past several years. The Corporation expects this trend toward declining revenues in its more established proprietary markets to continue.

Technological Change

The market for the Corporation's products is characterized by rapid and significant technological change. The development of new technologies, commercialization of those technologies into products, and market acceptance and customer demand for those products is critical to the Corporation's success. Successful product development and introduction depends upon a number of factors, including new product selection, timely and efficient completion of product design, product performance at customer locations, and development of products by competitors. There can be no assurance that the Corporation's products will remain competitive or not become obsolete, and there can be no assurance that the decline in the established proprietary markets will be coincident with, or matched by, a corresponding growth in revenue from the Corporation's business intelligence tools, or other new products.

Intellectual Property

Also, the Corporation relies on certain intellectual property protections to preserve its intellectual property rights. Any invalidation of the Corporation's intellectual property rights or lengthy and expensive defense of those rights could have a material adverse affect on the Corporation.

Competitors

The Corporation faces substantial competition throughout the world, primarily from software companies located in the United States, Europe, and Canada. Some of the Corporation's competitors have substantially greater financial and other resources with which to pursue research and development, manufacturing, marketing, and distribution of their products. The Corporation expects its competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by the Corporation's competitors could cause a decline in sales or loss of market acceptance of the Corporation's existing products.

International Operations

The Corporation derives a significant portion of its total revenues from international sales. International sales are subject to significant risks, including unexpected changes in legal and regulatory requirements and policy changes affecting the Corporation's markets; changes in tariffs, currency exchange rates and other barriers; political and economic instability; difficulties in accounts receivable collection; difficulties in managing distributors and representatives; difficulties in staffing and managing foreign operations; difficulties in protecting the Corporation's intellectual property; and potentially adverse tax consequences.

Dependence on Key Personnel

The highly competitive market for qualified personnel could adversely affect the Corporation's ability to attract and retain competent, qualified technical (especially software engineers and developers), managerial, sales, and marketing personnel.

Fluctuations in Quarterly Financial Results

The Corporation's quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including competitive pressures on selling prices, the timing and cancellation of customer orders, the timing and provision of pricing protections and exchanges from certain distributors, changes in product mix, the Corporation's ability to introduce new products and technologies on a timely basis, introduction of products and technologies by the Corporation's competitors, market acceptance of the Corporation's and its competitors' products, and the timing of investments in research and development. As a result of the foregoing and other factors, the Corporation may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, financial condition, operating results, and stock price. The Corporation typically realizes a larger percentage of its annual revenue and earnings in the fourth quarter of each fiscal year, and lower revenue and earnings in the first quarter of the next fiscal year.

QUARTERLY RESULTS

The following table sets out selected unaudited consolidated financial information for the fourth quarter of fiscal 1995 and for each quarter in fiscal 1996 and fiscal 1997. The net income per common and common equivalent share reflects the three-for-one stock split in May 1996.

	FISCAL 1995	FISCAL 1996				FISCAL 1997			
	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	($000s, EXCEPT PER SHARE AMOUNTS, U.S. GAAP)								
Revenue	$ 33,898	$33,730	$35,628	$38,347	$ 44,481	$ 42,508	$ 46,109	$ 51,287	$ 58,281
Operating expenses									
Cost of product license	820	709	775	987	962	729	828	815	894
Cost of product support	1,982	1,523	1,896	2,038	2,031	2,487	2,327	2,377	2,443
Selling, general, and administrative	22,239	24,132	23,559	24,724	26,493	26,960	27,024	29,071	31,562
Research and development	4,373	4,932	5,882	5,639	5,929	6,262	6,817	8,013	7,859
Total operating expenses	29,414	31,296	32,112	33,388	35,415	36,438	36,996	40,276	42,758
Operating income	4,484	2,434	3,516	4,959	9,066	6,070	9,113	11,011	15,523
Net income	$ 3,847	$ 2,332	$ 3,411	$ 4,373	$ 7,414	$ 5,207	$ 7,515	$10,806	$13,261
Net income per common and common equivalent share	$0.09	$0.05	$0.08	$0.10	$0.16	$0.11	$0.16	$0.23	$0.29

The Corporation's sales cycle typically ranges from a few days up to twelve months, depending on factors such as the size of the transaction, the product involved, the length of the customer relationship, the timing of new product introductions by the Corporation and others, the level of sales management activity, and general economic conditions. Delays in closing product licensing transactions at or near the end of any quarter may have a materially adverse effect on the financial results for that quarter. While the Corporation takes steps to minimize the impact of such delays, there can be no assurance that such delays will not occur. See Certain Factors That May Affect Future Results.

REPORT OF MANAGEMENT

The Corporation's management is responsible for preparing the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded and that transactions are executed and recorded in accordance with the Corporation's policies for doing business. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff; and by a continuous planning and monitoring program.

Ernst & Young has been engaged by the Corporation's shareholders to audit the consolidated financial statements. During the course of their audit, Ernst & Young reviewed the Corporation's system of internal control to the extent necessary to render their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee; all members are outside Directors. The Committee meets four times annually to review audited and unaudited financial information prior to its public release. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors. Ernst & Young has full and free access to the Audit Committee.

Management acknowledges its responsibility to provide financial information that is representative of the Corporation's operations, is consistent and reliable, and is relevant for the informed evaluation of the Corporation's activities.

James M. Tory
Chairman

Ron Zambonini
President and
Chief Executive Officer

Donnie M. Moore
Senior Vice President,
Finance and Administration,
and Chief Financial Officer

AUDITORS' REPORT

To the Board of Directors and Shareholders of Cognos Incorporated:

We have audited the consolidated balance sheets of Cognos Incorporated as at February 28, 1997 and February 29, 1996 and the consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 1997 and February 29, 1996, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended February 28, 1997, in accordance with accounting principles generally accepted in the United States of America.

Ernst + Young

Ottawa, Canada
April 3, 1997

Ernst & Young
Chartered Accountants

CONSOLIDATED STATEMENTS OF INCOME

(US$000s except share amounts, U.S. GAAP)

	YEARS ENDED THE LAST DAY OF FEBRUARY		
	1997	1996	1995
Revenue			
Product license	$101,575	$ 75,996	$ 56,766
Product support	63,681	56,146	51,913
Services	32,929	20,044	13,138
Total revenue	198,185	152,186	121,817
Operating expenses			
Cost of product license	3,266	3,433	3,391
Cost of product support	9,634	7,488	8,066
Selling, general, and administrative	114,617	98,908	84,342
Research and development (Note 4)	28,951	22,382	16,235
Total operating expenses	156,468	132,211	112,034
Operating income	41,717	19,975	9,783
Interest expense (Note 5)	(427)	(468)	(438)
Interest income	4,524	4,019	2,224
Income before taxes	45,814	23,526	11,569
Income tax provision (Note 8)	9,025	5,996	3,360
Net income	$ 36,789	$ 17,530	$ 8,209
Net income per common and common equivalent share (Note 9)	$0.80	$0.40	$0.20
Weighted average number of common and common equivalent shares (000s) (Note 9)	46,052	44,301	41,695

(See accompanying notes)

CONSOLIDATED BALANCE SHEETS

(US$000s, U.S. GAAP)

	February 28, 1997	February 29, 1996
ASSETS		
Current assets		
Cash and cash equivalents	$101,153	$ 67,330
Short-term investments	18,075	12,051
Accounts receivable (Note 2)	47,029	36,837
Inventory	697	908
Prepaid expenses	2,863	3,193
	169,817	120,319
Fixed assets (Note 3)	18,836	15,549
Deferred software development costs (Note 4)	499	4,142
	$189,152	$140,010
LIABILITIES		
Current liabilities		
Accounts payable	$ 12,754	$ 9,570
Accrued charges	5,025	4,056
Salaries, commissions, and related items	11,311	9,510
Income taxes payable	4,351	1,944
Current portion of long-term debt (Note 5)	175	131
Deferred product support revenue	32,474	28,959
	66,090	54,170
Long-term debt (Note 5)	2,480	2,613
Deferred income taxes (Note 8)	4,670	4,930
	73,240	61,713
Commitments (Notes 6 and 13)		
STOCKHOLDERS' EQUITY (Note 9)		
Capital stock		
Common shares (1997–43,589,119; 1996–42,261,474)	74,739	67,891
Retained earnings	46,122	15,640
Cumulative translation adjustment	(4,949)	(5,234)
	115,912	78,297
	$189,152	$140,010

(See accompanying notes)

On behalf of the Board:

Douglas C. Cameron,
Director

James M. Tory,
Chairman

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(US$000s except share amounts, U.S. GAAP)

	COMMON STOCK SHARES (000s)	COMMON STOCK AMOUNT	RETAINED EARNINGS	CUMULATIVE TRANSLATION ADJUSTMENT	TOTAL
Balances, February 28, 1994	38,729	$59,795	$ (10,099)	$ (4,447)	$45,249
Issuance of stock					
Stock option plans	1,535	3,102			3,102
Stock purchase plans	67	206			206
Net income			8,209		8,209
Foreign currency translation adjustments				(1,610)	(1,610)
Balances, February 28, 1995	40,331	$63,103	$ (1,890)	$ (6,057)	$55,156
Issuance of stock					
Stock option plans	1,882	4,467			4,467
Stock purchase plans	48	321			321
Net income			17,530		17,530
Foreign currency translation adjustments				823	823
Balances, February 29, 1996	42,261	$67,891	$ 15,640	$ (5,234)	$78,297
Issuance of stock					
Stock option plans	1,590	5,492			5,492
Stock purchase plans	30	519			519
Income tax effect related to stock options		1,326			1,326
Net income			36,789		36,789
Foreign currency translation adjustments				285	285
Repurchase of shares	(292)	(489)	(6,307)		(6,796)
Balances, February 28, 1997	43,589	$ 74,739	$ 46,122	$ (4,949)	$115,912

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US$000s, U.S. GAAP)

	YEARS ENDED THE LAST DAY OF FEBRUARY		
	1997	1996	1995
Cash provided by (used in) operating activities			
Net income	$ 36,789	$ 17,530	$ 8,209
Non-cash items			
Depreciation and amortization	10,058	8,675	7,574
Deferred income taxes	(291)	3,457	1,205
Loss on disposal of fixed assets	298	591	216
	46,854	30,253	17,204
Change in non-cash working capital			
Decrease (increase) in accounts receivable	(10,799)	(7,151)	5,044
Decrease (increase) in inventory	235	(233)	185
Decrease (increase) in prepaid expenses	345	(457)	549
Increase in accounts payable	2,866	1,035	844
Increase (decrease) in accrued charges	1,106	(1,100)	(801)
Increase in salaries, commissions, and related items	1,958	1,856	637
Increase in income taxes payable	2,352	403	463
Increase in deferred product support revenue	3,853	3,202	1,042
	48,770	27,808	25,167
Cash provided by (used in) investing activities			
Additions to fixed assets	(9,696)	(6,857)	(4,536)
Maturity of short-term investments	162,812	107,861	71,039
Purchase of short-term investments	(168,592)	(98,433)	(81,675)
Deferred software development costs	–	(862)	(3,793)
Proceeds from the sale of fixed assets	126	64	66
	(15,350)	1,773	(18,899)
Cash provided by (used in) financing activities			
Issue of common shares (net)	7,337	4,788	3,308
Repurchase of shares	(6,796)	–	–
Repayment of long-term debt	(102)	(126)	(76)
	439	4,662	3,232
Effect of exchange rate changes on cash	(36)	170	(562)
Net increase in cash and cash equivalents	33,823	34,413	8,938
Cash and cash equivalents, beginning of period	67,330	32,917	23,979
Cash and cash equivalents, end of period	101,153	67,330	32,917
Short-term investments, end of period	18,075	12,051	20,893
Cash, cash equivalents, and short-term investments, end of period	$ 119,228	$ 79,381	$53,810

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Reporting Currency

The Corporation has historically prepared and filed its consolidated financial statements in Canadian dollars and in accordance with Canadian Generally Accepted Accounting Principles (GAAP) with a reconciliation to United States (U.S.) GAAP. During fiscal 1997, the Corporation adopted the U.S. dollar as its reporting currency for presentation of its consolidated financial statements. Historical consolidated results were restated. In addition, the Corporation also began preparing and reporting complete financial statements in accordance with U.S. GAAP.

The Corporation made this change to enhance its communication with the majority of its shareholders and customers, using the currency and accounting rules that are more familiar to these groups. This presentation is also more consistent with the presentation of the financial results of its industry counterparts and competitors. The consolidated financial statements in accordance with Canadian GAAP (in U.S. dollars) are made available to all shareholders, and filed with the Canadian regulatory authorities.

Basis of Presentation

These consolidated financial statements have been prepared by the Corporation in accordance with accounting principles generally accepted in the United States, applied on a consistent basis.

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of Management, these consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could differ from these estimates.

All information is presented in U.S. dollars, unless otherwise stated.

Basis of Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. All but two of the subsidiaries are wholly owned. Intercompany transactions and balances have been eliminated.

Foreign Currency Translation

The financial statements of the parent company and its non-U.S. subsidiaries have been translated into U.S. dollars in accordance with the FASB Statement No. 52, *Foreign Currency Translation*. All balance sheet amounts have been translated using the exchange rates in effect at the applicable year end. Income statement amounts have been translated using the weighted average exchange rate for the applicable year. The gains and losses resulting from the changes in exchange rates from year to year have been reported as a separate component of Stockholders' Equity. Currency transaction gains or losses are immaterial for all periods presented.

Revenue

Substantially all of the Corporation's product license revenue is earned from licenses of off-the-shelf software requiring no customization. Revenue from these licenses is recognized upon delivery of the software if collectibility is probable. If the Corporation's obligations after delivery of the software are significant, then no revenue is recognized until those obligations become insignificant or are fulfilled.

Revenue from product support contracts is recognized ratably over the life of the contract. Incremental costs directly attributable to the acquisition of product support contracts are deferred and expensed in the period the related revenue is recognized.

Revenue from education, consulting, and other services is recognized at the time such services are rendered.

Cash, Cash Equivalents, and Short-Term Investments

Cash includes cash equivalents, which are investments that are generally held to maturity and have terms of three months or less at the time of acquisition. Cash equivalents consist principally of commercial paper, banker's acceptances and bearer deposit notes issued by major North American banks, and corporate debt. The carrying amounts of cash and cash equivalents are stated at cost, which approximates their fair value.

Short-term investments are investments that are generally held to maturity and have terms greater than three months at the time of acquisition. Short-term investments consist principally of Government of Canada Treasury Bills, banker's acceptances, and commercial paper. Short-term investments are carried at cost, which approximates their fair value.

Inventories

Inventories are comprised principally of finished goods and are stated at the lower of cost, on an average cost basis, or net realizable value.

Fixed Assets

Fixed assets are recorded at cost. Office furniture is depreciated using the diminishing balance method. Computer equipment and software, and the building, are depreciated using the straight line method. Leasehold improvements are amortized using the straight line method over either the life of the improvement or the term of the lease, whichever is shorter. Other assets are depreciated using either the diminishing balance method or the straight line method, depending upon the asset category.

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for as capital leases, as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Research and Software Development Costs

Research costs are expensed as incurred. Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. For costs that are capitalized, the amortization is the greater of the amount calculated using either (i) the ratio that the appropriate product's current gross revenues bear to the total of current and anticipated future gross revenues for that product, or (ii) the straight line method over the remaining economic life of the product. Such amortization is recorded over a period not exceeding three years. The Corporation reassesses whether it has met the relevant criteria for continued deferral and amortization at each reporting date.

Income Taxes

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. ACCOUNTS RECEIVABLE

Accounts receivable include an allowance for doubtful accounts of $3,026,000 and $2,289,000 as of February 28, 1997 and February 29, 1996, respectively.

3. FIXED ASSETS ($000s)

	1997		1996		
	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	DEPRECIATION/ AMORTIZATION RATE
Computer equipment and software	$33,160	$ 22,142	$ 29,354	$ 19,752	33%
Office furniture	11,615	7,690	9,549	6,914	20%
Leasehold improvements	3,360	1,971	2,457	1,754	Lease Term
Land	239	–	238	–	–
Building	2,816	836	2,804	762	2.5%
Other assets	663	378	584	255	20% – 33%
	51,853	$ 33,017	44,986	$ 29,437	
	(33,017)		(29,437)		
Net book value	$18,836		$ 15,549		

Depreciation and amortization of fixed assets was $6,377,000, $5,146,000, and $4,235,000 in each of fiscal 1997, 1996, and 1995, respectively.

4. RESEARCH AND SOFTWARE DEVELOPMENT COSTS

During fiscal 1997, 1996, and 1995, the Corporation capitalized $0, $862,000, and $3,793,000 of software development costs, and recorded $3,681,000, $3,529,000, and $3,339,000 of corresponding amortization, respectively.

5. LONG-TERM DEBT ($000s)

	1997	1996
Mortgage at 12.5% per annum, repayable in blended monthly installments of principal and interest of Cdn $45,200 to October 2000	$ 2,571	$ 2,639
Other	84	105
	2,655	2,744
Less current portion	(175)	(131)
	$ 2,480	$ 2,613

Interest expense on long-term debt was $320,000, $327,000, and $358,000 in each of fiscal 1997, 1996, and 1995, respectively.

Scheduled aggregate annual payments of long-term debt are $431,000 in each of fiscal 1998 and 1999, $415,000 in fiscal 2000, and $2,462,000 in fiscal 2001.

6. COMMITMENTS

The Corporation's offices, certain computer equipment, and some vehicles are leased under various terms. The annual aggregate lease expense in each of fiscal 1997, 1996, and 1995 was $7,455,000, $6,667,000, and $6,419,000, respectively.

The aggregate amount of payments for these leases in each of the next five fiscal years and thereafter, is approximately as follows: ($000s)

1998	$6,915
1999	5,570
2000	4,478
2001	2,707
2002	2,017
Thereafter	9,147

7. FINANCIAL INSTRUMENTS

Off-Balance-Sheet Risk

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge certain non-local currency receivables and payables, and to hedge portions of the net investment in its various subsidiaries. As a result, the exchange gains and losses recorded on translation of the subsidiaries' financial statements are partially offset by the gains and losses attributable to the applicable foreign exchange forward contracts. Realized and unrealized gains and losses from the applicable foreign exchange forward contracts are recorded as part of the Cumulative Translation Adjustment included in Stockholders' Equity. The Corporation enters into foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1997, the Corporation had foreign exchange forward contracts—with maturity dates ranging from March 27, 1997 to February 28, 1998—to exchange various foreign currencies in the amount of $2,245,000. As of February 29, 1996, the Corporation had foreign exchange forward contracts—with maturity dates ranging from March 28, 1996 to February 28, 1997—to exchange various foreign currencies in the amount of $2,069,000.

Concentration of Credit Risk

The investment of surplus cash is regulated by the Corporation's investment policy, which is periodically reviewed and approved by the Audit Committee of the Board of Directors. The primary objective of the Corporation's investment policy is security of principal. The Corporation manages its investment credit risk through a combination of (i) limitation on the grade of securities; (ii) selection of term to maturity, which in no event exceeds one year in length; and (iii) diversification of debt issuers, both individually and by industry grouping.

Of the total cash equivalents at February 28, 1997, the Corporation's primary investment credit risk was $42,954,000 of corporate debt which was repaid in March 1997. All of the Corporation's short-term investments as of February 28, 1997 had maturity dates before the end of May 1997.

During fiscal 1997 and fiscal 1996, the Corporation had a Cdn$15,000,000 (US$10,977,000) operating line under which the Corporation could borrow funds or issue letters of credit or guarantee, subject to certain covenants. The Corporation's credit facility is unsecured. As of February 28, 1997 and February 29, 1996, there were no direct borrowings under this operating line.

The Corporation operates internationally in one business segment. The Corporation develops, markets, and supports computer software tools for data access, exploring, reporting, and analysis, and for application development on a wide range of open and proprietary platforms. The Corporation markets and supports these products both directly and through resellers worldwide. The Corporation is not dependent on any single customer, group of customers, or supplier.

There is no concentration of credit risk related to the Corporation's position in trade accounts receivable. Credit risk, with respect to trade receivables, is minimized because of the diversification of the Corporation's operations, as well as its large customer base and its geographical dispersion (see Note 11).

Fair Value of Financial Instruments

For certain of the Corporation's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and other accrued charges, the carrying amounts approximate the fair value due to their short maturities. The carrying value of long-term debt approximates the fair value.

8. INCOME TAXES

Details of the income tax provision are as follows: ($000s)

	1997	1996	1995
Current			
Canadian	$ 860	$ 822	$ 402
Foreign	8,150	1,970	1,671
	9,010	2,792	2,073
Deferred			
Canadian	3,117	3,270	1,479
Foreign	(3,102)	(66)	(192)
	15	3,204	1,287
Income tax provision	$ 9,025	$ 5,996	$ 3,360

The reported income tax provision differs from the amount computed by applying the Canadian rate to income before income taxes. The reasons for this difference and the related tax effects are as follows: ($000s)

	1997	1996	1995
Expected Canadian tax rate	44.0%	44.0%	44.0%
Expected tax provision	$20,158	$ 10,351	$ 5,090
Foreign tax rate differences	(4,669)	(2,840)	(354)
Losses not recognized	606	1,087	2,598
Recognition of income tax benefits	(8,255)	(3,837)	(4,418)
Non-deductible expenses and non-taxable income	483	707	(267)
Withholding tax on foreign royalties	509	461	626
Other	193	67	85
Reported income tax provision	$ 9,025	$ 5,996	$ 3,360

Deferred income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and tax reporting purposes. Significant components of the Corporation's deferred tax assets and liabilities as of February 28, 1997 and February 29, 1996 are as follows: (000s)

	FEBRUARY 28, 1997	FEBRUARY 29, 1996
Deferred tax assets		
Net operating tax loss carryforwards	$ 9,241	$ 11,000
Investment tax credits	18,067	16,008
Deferred revenue	2,584	2,754
Research and development expenses	3,337	1,793
Other	1,406	143
Total deferred tax assets	34,635	31,698
Valuation allowance for deferred tax assets	(31,381)	(31,438)
Net deferred tax assets	3,254	260
Deferred tax liabilities		
Book and tax differences on assets	12	–
Reserves and allowances	7,898	5,173
Other	14	17
Total deferred tax liabilities	7,924	5,190
Net deferred income tax liability	$ 4,670	$ 4,930

The net change in the total valuation allowance for the years ended February 28, 1997 and February 29, 1996 was a decrease of $57,000 and $7,779,000, respectively.

As of February 28, 1997, the Corporation had tax loss carryforwards in certain foreign subsidiaries of approximately $35,296,000 available to reduce future years' income for tax purposes in these subsidiaries. These losses expire as follows: ($000s)

1998	$ 4,701
1999	3,904
2000	1,128
2001	1,585
2002	3,779
2003 and future specific years	6,807
Indefinitely	13,392
Total	$35,296

Income before taxes attributable to all foreign operations was $30,210,000, $15,297,000, and $4,046,000 in each of fiscal 1997, 1996, and 1995, respectively.

Income taxes paid were $5,119,000, $2,165,000, and $1,856,000 in each of fiscal 1997, 1996, and 1995, respectively.

9. STOCKHOLDERS' EQUITY

Capital Stock

The authorized capital of the Corporation consists of an unlimited number of common shares, without nominal or par value, and an unlimited number of preferred shares, issuable in series. No series of preferred shares has been created or issued.

Stock Split

On April 8, 1996, the Board of Directors of the Corporation declared a three-for-one stock split, effected in the form of a stock dividend, payable on May 15, 1996. All historic share amounts have been restated to reflect this stock split.

Share Repurchase Programs

In July 1996, the Corporation announced an open market share repurchase program for up to 2,100,000 of its shares. This repurchase program is authorized to be in effect until July 30, 1997. This program does not commit the Corporation to make any share repurchases; a total of 292,750 shares were repurchased in fiscal 1997, at a cost of $6,796,000.

Shareholder Rights Plan

The Corporation has adopted a Shareholder Rights Plan ("Rights Plan") to ensure that any takeover bid made for the shares of the Corporation would be made to all shareholders, treat all shareholders fairly and equally, and provide the Board of Directors with sufficient time to consider any such offer. The Rights Plan was ratified at the Annual and Special Meeting of Shareholders held on June 23, 1994. The Rights Plan grants shareholders the right to acquire, under certain circumstances, additional common shares (within a specified dollar maximum) at a 50% discount from its then current market price. The Corporation, at its option, may redeem each right at a nominal price or waive application of the Rights Plan. The Rights Plan, and any rights issued under it, will expire on December 7, 1998.

Stock Option Plan

There were 7,500,000 shares of common stock originally reserved by the Board of Directors for issuance under the Corporation's stock option plan, which was approved by the Corporation's shareholders in July 1993. There were 866,000 and 2,332,000 shares available for grant under the plan as of February 28, 1997 and February 29, 1996, respectively.

Directors, officers, employees, and consultants of the Corporation may participate in the plan. Options are generally awarded annually and typically vest equally on the first two or three anniversaries of the date of grant and expire on the fourth or fifth anniversaries of the date of grant. All options are priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. In April 1996, options were awarded to certain key officers under an executive option award. These options vest equally on the third, fourth, and fifth anniversaries of the date of grant and expire on the eighth anniversary of that date.

Employee Stock Purchase Plan

This plan was approved by the Corporation's shareholders in July 1993. All full-time employees may participate in the Plan.

Accounting for Stock-Based Compensation

The Corporation applies APB Opinion 25 in accounting for its stock option and purchase plans. The exercise price of all stock options is equal to the market price of the stock on the trading day preceding the date of grant. Accordingly, no compensation cost has been recognized in the financial statements for its stock option and stock purchase plans. If the fair values of the options granted in fiscal 1997 and fiscal 1996 had been recognized as compensation expense on a straight line basis over the vesting period of the grant (consistent with the method prescribed by FASB Statement 123), stock-based compensation costs would have reduced net income by $4,757,000 and $1,534,000, and net income per common and common equivalent share by $0.10 and $0.03, in fiscal 1997 and fiscal 1996, respectively.

Because Statement 123 is applicable only to options granted subsequent to February 28, 1995, the above pro forma disclosure is not indicative of pro forma amounts that will be reported in future years. It is expected that all nonvested awards will be included in the proforma disclosure in fiscal 1999.

The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997 and 1996, respectively: risk-free interest rates of 6.2% and 6.4%; expected life of the options of 3.8 years and 2.4 years; and, for both years, expected volatility of 45% and a dividend yield of zero.

Activity in the stock option plans for fiscal 1997 and fiscal 1996 was as follows:

	1997		1996	
	OPTIONS (000s)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000s)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	4,094	$ 4.62	4,820	$ 3.02
Granted	1,594	18.88	1,297	7.76
Exercised	(1,590)	3.41	(1,873)	2.20
Cancelled	(128)	8.36	(150)	3.39
Outstanding, end of year	3,970	10.67	4,094	4.62
Options exercisable at year-end	1,185		807	
Weighted average per share fair value of options granted during the year calculated using the Black-Scholes option pricing model		$ 7.69		$ 2.51

As of February 28, 1996, of the 4,094,000 options outstanding, 807,402 options were exercisable at a weighted average exercise price of $2.92. The following table summarizes significant ranges of outstanding and exercisable options as of February 28, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS (000s)	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000s)	WEIGHTED AVERAGE EXERCISE PRICE
$ 2.03 to $ 4.00	1,244	0.9 years	$ 3.48	896	$ 3.45
4.01 to 8.50	1,062	1.4	6.90	244	6.82
9.01 to 19.00	1,651	3.6	18.37	45	14.59
26.00 to 32.23	13	6.6	28.65	–	–
	3,970		10.67	1,185	4.57

Net Income per Common and Common Equivalent Share

Net income per common and common equivalent share is based on the weighted average number of common and dilutive common equivalent shares outstanding during each year. All stock options are considered common stock equivalents and are included in the weighted average computations when the effect is dilutive.

Fully diluted net income per share was the same as net income per common and common equivalent share for each of fiscal 1997, 1996, and 1995, respectively.

All historic share and per share amounts have been adjusted to reflect the three-for-one stock split in May 1996.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, *Earnings per Share*, which is required to be adopted on February 28, 1998. At that time, the Corporation will be required to change the method currently used to compute net income per share and to restate all prior periods. Under the new requirements for calculating net income per share, the dilutive effect of stock options will be excluded. The impact is expected to result in an increase in net income per share compared to net income per common and common equivalent share as reported under the current method.

10. PENSION PLANS

The majority of the Corporation's subsidiaries operate defined contribution pension plans. In fiscal 1997, the Corporation introduced a company-sponsored Retirement Savings Plan for the parent company; participation in the Plan is optional. The Corporation contributes amounts related to the level of employee contributions for both types of plans.

The pension costs in fiscal 1997, 1996, and 1995 were $1,958,000, $983,000, and $833,000, respectively.

11. SEGMENTED INFORMATION

The Corporation develops, markets, and supports computer software tools for data access, exploring, reporting, and analysis, and application development on a wide range of open and proprietary platforms. The Corporation markets and supports these products both directly and through resellers worldwide.

Various reasonable methodologies have been used to allocate specific corporate expenses and corporate assets to match the expenses and asset utilization with the geographic revenues earned.

The following is a summary of operations by geographic region: ($000s)

	1997	1996	1995
Revenue from external customers			
Domestic			
Canada	$ 17,893	$ 14,509	$ 13,930
Export	2,069	1,847	1,488
United States	93,706	69,912	52,888
Europe	72,417	56,280	44,446
Asia/Pacific	12,100	9,638	9,065
Consolidated revenue	$198,185	$152,186	$121,817
Operating profit (loss)			
Domestic			
Canada	$ 3,975	$ 876	$ 606
Export	1,329	799	719
United States	27,114	16,251	7,670
Europe	15,422	8,196	4,943
Asia/Pacific	1,450	158	(179)
Consolidated operating profit	49,290	26,280	13,759
General corporate expenses	(3,476)	(2,754)	(2,190)
Income taxes	(9,025)	(5,996)	(3,360)
Net income	$ 36,789	$ 17,530	$ 8,209
Identifiable assets			
Domestic			
Canada	$ 5,564	$ 6,230	$ 6,707
Export	568	710	801
United States	32,550	27,596	24,779
Europe	34,667	29,433	27,159
Asia/Pacific	6,476	4,813	6,070
Corporate assets	109,327	71,228	42,658
Total assets	$189,152	$140,010	$108,174

12. COMPARATIVE RESULTS

Certain of the prior years' figures have been reclassified in order to conform to the presentation adopted in the current year.

13. SUBSEQUENT EVENT

On April 9, 1997, the Corporation will conclude the purchase of Right Information Systems Limited (RIS) of London, England, a provider of business modeling and forecasting technology. The shareholders of RIS will receive $4,500,000 and 90,000 shares of Cognos common stock. The Corporation expects to record, in the first quarter ended May 31, 1997, a write-off of $5,000,000 as in-process research and development.

SELECTED CONSOLIDATED FINANCIAL DATA

FIVE-YEAR SUMMARY

The following Selected Consolidated Financial Data has been derived from the Corporation's consolidated financial statements that have been audited by Ernst & Young, independent chartered accountants. The Selected Consolidated Financial Data should be read in conjunction with the Consolidated Financial Statements and related Notes, and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

During fiscal 1997, the Corporation adopted the U.S. dollar as its reporting currency for presentation of its consolidated financial statements and, at the same time, began preparing and reporting complete financial statements in accordance with U.S. GAAP. In addition, the Board of Directors of the Corporation declared a three-for-one stock split, effected in the form of a stock dividend, payable on May 15, 1996. All historic consolidated results have been restated for these items.

	YEARS ENDED THE LAST DAY OF FEBRUARY				
	1997	1996	1995	1994	1993
	($000s, EXCEPT SHARE AMOUNTS, IN ACCORDANCE WITH U.S. GAAP)				
Statement of Income Data					
Revenue	$198,185	$152,186	$121,817	$114,832	$120,269
Operating expenses					
Cost of product license	3,266	3,433	3,391	4,275	5,559
Cost of product support	9,634	7,488	8,066	6,509	7,591
Selling, general, and administrative	114,617	98,908	84,342	84,490	95,326
Research and development	28,951	22,382	16,235	14,460	15,394
Restructuring charges	–	–	–	1,159	3,155
Total operating expenses	156,468	132,211	112,034	110,893	127,025
Operating income (loss)	41,717	19,975	9,783	3,939	(6,756)
Interest expense	(427)	(468)	(438)	(475)	(563)
Interest income	4,524	4,019	2,224	1,577	2,453
Income (loss) before taxes	45,814	23,526	11,569	5,041	(4,866)
Income tax provision	9,025	5,996	3,360	2,030	1,472
Net income (loss)	$ 36,789	$ 17,530	$ 8,209	$ 3,011	$ (6,338)
Net income (loss) per common and common equivalent share	$0.80	$0.40	$0.20	$0.08	$(0.17)
Weighted average number of common and common equivalent shares (000s)	46,052	44,301	41,695	39,466	38,277
Balance Sheet Data (at end of period)					
Working capital	$103,727	$ 66,149	$ 38,376	$27,971	$26,949
Total assets	189,152	140,010	108,174	93,273	91,427
Total debt	2,655	2,744	2,823	2,974	3,653
Stockholders' equity	115,912	78,297	55,156	45,249	45,270

COMMON SHARE INFORMATION

PRINCIPAL MARKETS

The Toronto Stock Exchange and the Nasdaq National Market are the principal markets on which the Corporation's shares are traded.

The Corporation's common shares were first listed on The Toronto Stock Exchange on August 21, 1986, and included on Nasdaq on July 1, 1987, and on Nasdaq's National Market on September 15, 1987. The stock symbol of the Corporation's common shares on The Toronto Stock Exchange is CSN and on Nasdaq is COGNF.

In April 1996, the Board of Directors of the Corporation declared a three-for-one stock split, effected in the form of a stock dividend. All historic information has been restated to reflect this stock split. The following table sets forth the high and low sale prices, as well as the trading volume, for the common shares for the fiscal periods shown below:

	NASDAQ NATIONAL MARKET			THE TORONTO STOCK EXCHANGE		
	HIGH	LOW	VOLUME	HIGH	LOW	VOLUME
	US$	US$	(000s)	CDN$	CDN$	(000s)
Fiscal 1996						
First quarter	8¾	6¼	25,179	11.92	8.92	2,371
Second quarter	10 23/24	8 5/24	23,169	15.00	11.33	1,434
Third quarter	13⅜	9⅔	27,752	18.17	12.83	2,396
Fourth quarter	17½	11⅛	30,278	24.33	15.33	1,296
Fiscal 1997						
First quarter	27⅜	15 11/12	21,773	36.70	22.00	1,623
Second quarter	26½	18¼	14,133	36.00	25.00	1,202
Third quarter	38½	22½	22,769	51.50	31.00	1,767
Fourth quarter	39½	21¾	40,545	53.50	29.75	4,163
Fiscal 1998						
First quarter (through April 18, 1997)	30¼	21½	16,193	42.00	29.00	1,788

SHAREHOLDERS

As of April 18, 1997, there were approximately 780 registered shareholders.

DIVIDEND POLICY

The Corporation has never declared or paid any cash dividends on its common shares. The Corporation's current policy is to retain its earnings to finance expansion and to develop, license, and acquire new software products.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

James M. Tory, Q.C. [1]
Chairman of the Board
Chair Emeritus,
Tory Tory DesLauriers
& Binnington

Stephen R. Scotchmer [1][2][3]
Vice-Chairman of the Board
Private Investor

Douglas C. Cameron [1][2][3]
Investment Advisor,
RBC Dominion
Securities Inc.

Pierre Y. Ducros [2][3]
Private Investor

Michael U. Potter [1]
Private Investor

Renato Zambonini
President and
Chief Executive Officer

[1] Member of the Corporate Governance Committee

[2] Member of the Audit Committee

[3] Member of the Human Resources & Compensation Committee

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Chief Executive Officer

Robert G. Ashe
Senior Vice President,
Application
Development Tools

Robert Engels
Senior Vice President,
European Operations

Terry Hall
Senior Vice President,
Worldwide Sales

Donnie M. Moore
Senior Vice President,
Finance & Administration
and Chief Financial Officer

Alan Rottenberg
Senior Vice President,
Business Intelligence Tools

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Corporate Communications

Margaret Dacey
Vice President,
Corporate Human Resources

Hans Galldin
Vice President,
Business Development

W. John Jussup
Vice President,
General Counsel and Secretary

Denis Makepeace
Vice President,
Administration, Production,
and Distribution

Robin McNeill
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Product Marketing
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Robert Minns
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Paul Renaud
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Cognos GmbH, (Germany)
Cognos Limited, (U.K.)
Cognos N.V./S.A., (Belgium)
Impromptu Software (PTY) Ltd.
(South Africa)

Asia/Pacific

Cognos Far East Pte Limited
(Singapore)
Cognos PTY Limited,
(Australia)
Teijin Cognos Incorporated
(Japan)

All subsidiaries are 100% owned except Cognos Far East Pte Limited (62.5% owned) and Teijin Cognos Incorporated (50% owned).

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Publications of interest to current and potential Cognos investors are available, without charge. These include the Annual Report, and the Form 10-K and Form 10-Q filings with the Securities and Exchange Commission. Requests should be made to: Investor Relations, Cognos Incorporated, 3755 Riverside Drive, P.O. Box 9707, Station T, Ottawa, Ontario, K1G 4K9; fax: 613 738 7442; e-mail: investor.relations@cognos.com. General company information is also available on the World Wide Web at: www.cognos.com.

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