
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended FEBRUARY 28, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From _____ To _____

Commission File Number 0-16006

COGNOS INCORPORATED

(Exact Name Of Registrant As Specified In Its Charter)

CANADA

(State Or Other Jurisdiction Of
Incorporation Or Organization)

98-0119485

(IRS Employer Identification No.)

**3755 Riverside Drive,
P.O. Box 9707, Station T,
Ottawa, Ontario, Canada**

(Address Of Principal Executive Offices)

K1G 4K9

(Zip Code)

Registrant's Telephone Number, including Area Code: (613) 738-1440

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Shares Without Nominal Or Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of Common Shares held by non-affiliates of the registrant, based on the last reported sales price of the Common Shares on the Nasdaq National Market on May 3, 2002, was approximately US\$1,894,800,731.

As of May 3, 2002, 87,925,788 Common Shares, without nominal or par value, were outstanding.

continued....

REPORTING CURRENCY

All financial information contained in this document is expressed in United States dollars, unless otherwise stated.

TRADEMARKS

Cognos and the Cognos logo, Cognos Upfront, Axiant, DecisionStream, e^mPower, Impromptu, LEX2000, PowerHouse, and PowerPlay are trademarks or registered trademarks of Cognos Incorporated in the United States and/or elsewhere. All other trademarks or trade names referenced to in this Annual Report on Form 10-K are the property of their respective owners.

TABLE OF CONTENTS

	<u>PAGE</u>
PART I	
Item 1. Business	1-10
Item 2. Properties	10
Item 3. Legal Proceedings.....	10
Item 4. Submission of Matters to a Vote of Security Holders.....	11-12
PART II	
Item 5. Market for the Registrant’s Common Equity and Related Stockholder Matters.....	13-14
Item 6. Selected Financial Data	15-16
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	16-39
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40
Item 8. Financial Statements and Supplementary Data	41-64
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	65
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	66-67
Item 11. Executive Compensation	68-72
Item 12. Security Ownership of Certain Beneficial Owners and Management	73-74
Item 13. Certain Relationships and Related Transactions	74-75
PART IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	76-78
Signatures	79

PART I

ITEM 1. BUSINESS

Overview

Cognos Incorporated, a Canadian corporation founded in 1969, is a leading global provider of business intelligence software. Our solutions help companies improve business performance by enabling effective decision-making at all levels of the organization through the consistent analysis and reporting of data from multiple perspectives. Our software is designed to provide our customers with the ability to effectively use data to make faster, more informed decisions in order to improve operational effectiveness, increase customer satisfaction, accelerate corporate response times and ultimately, increase revenues and profits.

The strategic application of our business intelligence framework on an enterprise scale addresses the need for corporate performance management. CPM lets organizations measure execution against business strategy to ensure the two are aligned at all levels across the enterprise. We provide a framework for CPM that enables the complete management cycle with integrated software for planning, budgeting, reporting, analysis and scorecarding.

Our integrated solution consists of our business intelligence, financial management and analytical applications components. The component-based nature of our solution allows customers to purchase functionality that fits their particular needs and allows them to easily expand their capabilities as required. We provide a common business intelligence framework that is capable of collecting, organizing and combining information from all sources of data. Our integrated solution provides a scalable and secure web-based environment that is easy to use and deploy across the extended enterprise.

Products

Our integrated solution consists of our business intelligence, financial management and analytical applications components.

Business Intelligence Components

Our BI Solution is comprised of highly scalable business intelligence servers encapsulated by a robust layered architecture. We provide a single, common software framework to deliver a highly integrated and expandable business intelligence solution. The solution's architecture consists of the following five layers:

- common portal;
- business intelligence servers;
- modeling and business rules;
- data mart creation; and
- centralized security administration service.

These layers operate in a seamless, integrated environment due to their common framework. The scalability of the architecture allows organizations to deliver business intelligence applications to a large and broad user community, both inside and outside an organization.

Customers who purchase one of our business intelligence servers are also provided with the framework components for modeling and business rules, security and information delivery as integrated parts of their solution. With this framework, our customers are able to more quickly and easily deploy the server-based capabilities to end-users. In addition, this approach facilitates a customer's ability to add new capabilities because additional servers can be easily plugged into the existing framework. This flexibility is critical as a customer's requirements change and as we introduce new capabilities to our solution.

Common Portal. The portal service is delivered through a single component, Cognos Upfront, which can be customized to fit seamlessly in an existing company portal or intranet/extranet environment. For information technology professionals, the portal represents a single point of content delivery and management for end-users inside and outside of the organization. It is designed to ensure that each user views only the content they have authority to access. For end-users, the portal is a single, Web-based point of personalized access to business intelligence content that can be customized to present the user's content in a format that is familiar and appropriate to that user. The portal also allows for sharing and collaboration of information across many users.

Business Intelligence Servers. The business intelligence servers facilitate all end-user business intelligence activities, including reporting, analysis, query, scorecarding, dashboarding/visualizations and event detection for users inside and outside an organization. Our business intelligence servers are based on a suite of proprietary applications which offer:

Reporting. Our reporting server is packaged as the Impromptu Web Reports server. Reports can be rendered and viewed by users in a variety of outputs such as CSV, Excel, or Adobe PDF files. Customers can author, manage and broadcast sales results, inventory figures, financial updates and other regularly scheduled reports that are distributed to a large Web-based community of users.

Analysis. Our analysis server is packaged as the Cognos PowerPlay Enterprise Server which delivers on-line analytical process (OLAP) reporting and analysis. PowerPlay's single application server architecture allows organizations to deploy and manage on-line analytical processes from a central point of control. Through the Web, Windows, or Excel, users are able to access multidimensional data and use PowerPlay for analysis and reporting. Users can perform their own ad hoc analysis by investigating, in any combination and at any level, the critical success factors that drive their business. Users can manipulate information by "drilling down" through layers of summary information in successively greater levels of detail and can present the information in multiple graphical displays.

Query. Our query server is packaged as the Cognos Query server. This server presents users with a simple view of various databases, allowing them to quickly and easily navigate corporate data. This engine allows users to run predefined queries or build ad hoc queries. The software uses hyperlinks to allow the users to jump from query to query to see related information, such as customer details, sales orders or the detailed transactions.

Advanced Data Visualization. Our visualization server is packaged as Cognos Visualizer server. This web-based server delivers advanced visualization graphics, animation, mapping and scorecarding through multi-metric dashboards, all fully-integrated with the analysis and reporting servers. With Cognos

Visualizer, users can construct balanced scorecard systems to see complex business relationships and the interplay between factors that drive a company's business.

Scorecarding. Our scorecarding is packaged as KPI Business Pack. Using the KPI Business Pack, users can present key performance indicators in a scorecard view. Indicators of the same or different business metric are aggregated hierarchically using business rules, to give users a clear picture of the whole business at each level.

Event Detection. Our event detection server is packaged as Cognos NoticeCast server. With Cognos NoticeCast, users can monitor time critical content and then receive a notification through email when the content changes. User can monitor events such as changes in key performance indicators and operational data, and updates to reports. Along with the notification, users receive business intelligence content that gives context to decision-making.

Modeling and Business Rules. The modeling layer of our business intelligence solution drives the consistency and adaptability of our solution. This layer is packaged as Cognos Architect, which ensures that every manager has a common foundation for evaluating business performance and making key business decisions. This layer is designed to present information stored in corporate databases in a consistent format. In addition, common business rules, calculations and goals, such as the definitions of profitability, cashflow and return on investment, are visible and shared by all users, which ensures that every manager has a consistent view of the business. Each manager can be provided with a personalized view of information, as well as a common view of business performance that permits the rapid coordination of management decisions and actions.

Data Mart Creation. Unlike solutions provided by other business intelligence vendors, our BI Solution has the ability to create and manage a data mart from an existing database. This data mart creation capability is packaged as Cognos DecisionStream. Our solution is optimized for modeling, transforming and creating high-speed, scalable business intelligence data marts that have embedded knowledge of the business intelligence applications they will serve, thereby enabling faster deployment and user acceptance of these applications. Our data mart creation and business intelligence tools work together to ensure that many of the calculations and analytic operations can be performed at the database level, which can dramatically improve response time and network traffic loads. Companies can build a network of data marts that span the extended enterprise, using shared and common business models to ensure consistency and rapid adoption of change.

Centralized Security and Administration. The security server layer spans the other four layers of our BI Solution to provide common, centralized security. The security server is delivered by a single component called Access Manager that allows information technology (IT) managers to manage and maintain user profiles and classes for all servers from a single console. This service addresses both authentication security and authorization security, which determines what information users have the right to view. Access Manager uses open security standards which allows it to be easily integrated with other enterprise security systems. We also have centralized administration with common utilities for installation, configuration and application deployment.

Cognos Finance Components

Cognos Finance is a complete financial analytical applications suite that delivers a unified financial view of the entire organization, combining budgeting, planning, forecasting, closings, and financial reporting into one comprehensive and easy-to-use system. It enables finance professionals to perform day-to-day financial processes in a timely, user-friendly manner, such as closing books quickly for monthly, quarterly, and annual periods; making the budget process of gathering and distributing budget

information with all of the budgeting stakeholders easy to administer; and integrating up-to-date, actual data with user-supplied forecasts and the overall enterprise plan.

Cognos Analytic Application Components

An emerging trend in the market for business intelligence is the growing demand for pre-packaged solutions that shorten time to implementation and results. We have developed our Cognos Analytic Applications, an integrated set of applications to make it easy for customers to combine appropriate capabilities and to deploy them quickly.

Our Analytic Applications are flexible and extendible because they are built upon the foundation of our BI Solution. Customers are able to change models, create new reports and perform new analyses by using our business intelligence servers in conjunction with our Analytic Applications. These applications reduce the time, effort and cost required for an organization to gain a competitive advantage from business intelligence and can help them realize returns on investment from operational applications such as enterprise resource planning, customer relationship management and supply chain management implementations more quickly.

Application Development Tools

We have a legacy line of products based on application development products marketed under the PowerHouse and Axiant names, which represented approximately 8% of our total revenue for the year ended February 28, 2002. PowerHouse is an application development environment that enables customers to quickly develop complex business applications.

We believe there has been a fundamental shift over the past several years away from application development environments towards packaged solutions. The large majority of organizations now choose to buy their next generation of business systems, rather than attempt to build these corporate applications internally. Our strategy for this mature part of our business is focused solely on maintaining the product and supporting our existing customers. Product support is the largest source of revenue from these customers, and as a result, we expect to continue to update our application development products to reflect the changing requirements of our customers. We expect our revenue from application development tools to continue to decline as customers focus on the next generation of business intelligence solutions.

Support and Services

Support and services are a critical part of our business intelligence solution. We offer a wide variety of packaged and on-demand services to assist our customers with the installation, deployment and effective use of our BI Solution. These services include product support, education, and consulting and other services.

Product support services

Product support services consist primarily of implementation resolution, product configurations, documentation and support for product problem resolution. Telephone support and Web-based customer self-service support are also key to customer satisfaction and are available worldwide. These solutions provide our customers with online answers to their product questions, 24 hours a day.

Education

Customers typically require specific training when they purchase our BI Solution. In addition, we believe that customer education helps maximize the potential of productivity gains from our products. We provide courses at Cognos education centers and customer sites and also offer e-training for customers through the use of "virtual classrooms" over the Internet. In addition to varying levels of product training, we offer solutions based education fully utilizing our knowledge leadership in business intelligence.

Consulting and Other Services

We offer a variety of product consulting services to our customers, such as performance, design and deployment reviews. These services can take the form of consulting services that are billed on a daily basis at competitive rates, or pre-packaged services that are purchased for a particular project over a specific time frame. Generally our consulting is aimed at guiding our customers through the solution implementation process and coordinating development services, project management and education.

Customers

As of February 28, 2002, we had more than 19,000 customers located in over 120 countries around the world. Our primary customer focus is Global 2000 companies. We also license our products to a broad base of small and medium-size businesses through our more than 3000 partners and resellers.

Although our BI Solution is a complete solution for the extended enterprise, our customers typically purchase our solution in stages. The first stage typically involves the purchase of a component of our solution to address a particular departmental requirement. The second stage usually involves purchases by other departments within that organization, often for applications that are closely related to the initial purchase. In many cases, there are a number of purchases in several departments of an organization before a customer makes the decision to deploy our solution on an enterprise-wide basis. Throughout the sales cycle, we work closely with our customers in the design of new products and the evolution of existing solutions.

Sales and Marketing

We use an international, multi-tiered channel distribution system to reach customers on a cost-effective basis. We support these channels with an extensive organization of pre-sales and post-sales technical specialists. Our worldwide sales and marketing organizations are managed from our Burlington, Massachusetts location.

Sales Channels

We support our sales channels with lead generation and marketing programs, including direct mail, public relations, advertising, telemarketing, Web-based programs, promotional seminars and participation in trade shows and user group meetings. The principal elements of our distribution system are as follows:

Direct Sales

We use a direct sales force in all major markets as the primary channel for distribution. We believe our quota-carrying direct sales force increases our visibility and market penetration, ensures long-term

customer contact and facilitates sales of additional products. Because the demand from Global 2000 companies for enterprise-wide business intelligence solutions is growing, our sales force targets the senior executives of an organization. We believe that a direct sales force is more effective than third party sales in reaching this market because it is more relationship focused. As of February 28, 2002, we employed approximately 289 sales representatives in 51 sales offices located in 17 countries.

Third Parties

In order to extend our geographic coverage, we also market our products in selected regions through third-party channels, which include resellers, value-added resellers, original equipment manufacturers, system integrators and distributors. Examples include:

- original equipment manufacturers such as CODA, GEAC Solutions, GE Capital Information Solutions, NCR, Peregrine Systems and Tivoli;
- systems integrators such as PriceWaterhouseCoopers, Deloitte-Touche and Accenture; and
- application service providers such as Breakaway Solutions.

Telesales

We also use telesales representatives in certain areas to sell products and services, primarily to our installed customer base.

Marketing and Technology Relationships

Cooperative marketing arrangements with hardware and other software vendors provide us with additional visibility in the marketplace. These relationships permit our sales force to work closely with the sales representatives of these vendors, enabling prospective customers to evaluate software applications, services and, in certain instances, hardware together as a complete solution. Our marketing relationships can be classified into three broad categories:

Technology Partners

Our technology partners consist of industry-leading database, server, OLAP server, Internet, enterprise application and connectivity technology companies, including IBM, Microsoft, Teradata, a division of NCR, and Oracle.

Solutions Partners

Our solutions partners consist of third-party resellers, such as certified resellers, original equipment manufacturers, value-added resellers and geographic distributors, including: GEAC Solutions, Peregrine Systems, Onyx and Tivoli. These solutions partners combine their applications and business expertise with our products in order to market a more customized solution.

Services Partners

Our services partners consist of "Big 5" accounting firms, large consulting firms, system integrators, information technology consulting organizations and certified resellers, including: PwC Consulting,

Accenture, Deloitte & Touche, Cap Gemini, DMR, Anderson and KPMG. These companies implement business intelligence and data warehousing solutions.

These technology and marketing relationships also provide us with the opportunity to market our products together with packaged solutions. We believe that solution-selling can shorten sales cycles and increase our sales opportunities.

We also participate in cooperative technology and marketing programs with hardware, software and database vendors, including the following program roles: Compaq Solutions Alliance Partner, Hewlett-Packard Developer and Solution Partner Program, IBM PartnerWorld for Developers member, Microsoft Data Warehousing Alliance Partner, Oracle Partner Network, SAP Portals Partner, PeopleSoft Open Analytics Partner, Siebel Premier Software Partner, Plumtree Premier Partner, RIM Select Partner, Sun Developer Connection Partner Program and Sybase Open Solutions CODE Partner.

Marketing

We recognize the importance of a complete and focused marketing effort. We divide our marketing organization between corporate marketing and field marketing. These two groups are coordinated to provide a consistent market message and presence and effective market coverage for Cognos.

Our corporate marketing focuses on increasing "Cognos" brand awareness and visibility through advertising, events, sponsorship, our corporate Web site and sales collateral. This function is managed from our Burlington, Massachusetts office, with the majority of staff in Ottawa, Canada. We recently launched Cognos Series 7 the latest release of our BI solution to raise Cognos product awareness with business executives of Global 2000 companies.

We have deployed our field marketing organization throughout the world. This group is responsible for sales lead generation and local marketing programs, such as trade shows, seminars, direct mail programs and user group meetings and conferences, to help ensure local visibility and healthy sales pipelines.

Research and Development

We believe that our talented and experienced research and development staff is one of our core strengths. Our research and development efforts are aimed at enhancing and extending our existing business intelligence solution and creating new products. As of February 28, 2002, our research and development staff consisted of 752 employees. Research and development is undertaken primarily at our corporate headquarters and leased facilities in Ottawa, Canada.

We had research and development costs of \$74.6 million, \$67.3 million and \$53.5 million in fiscal 2002, 2001 and 2000, respectively. Research and development costs have continued to increase, in dollar terms, over the last three fiscal years, but have remained relatively constant as a percentage of total revenue.

Our business intelligence solution and application development tools were developed primarily through internal resources. In support of the development of our products, we have acquired or licensed specialized products and technologies from other software firms, and we have undertaken further development to integrate these products into our offerings. Most of the third-party licenses are non-exclusive and do not preclude third parties from entering into similar agreements with our competitors.

Competition

The business intelligence market is highly competitive. Our competitors include software vendors that operate independently of hardware vendors, but who may have marketing or technology agreements with these vendors; database vendors who offer application development, query and reporting products for their own databases; large diversified vendors who offer products in numerous market segments; and other companies that may in the future announce offerings of business intelligence products. Some of the key factors that affect our competitive position include the method of distribution, functionality, support and service, ease of use, price, training, vendor stability and experience.

Due to the all-encompassing nature of our BI Solution, we encounter many competitors who focus on a single area within our overall offering. Our products compete directly and indirectly against various tools, depending on user needs and computing environments.

There are several broad categories of competitors:

Vendors of Query and Reporting Tools

These vendors manufacture and sell tools that enable users to query and report against corporate databases, and include BusinessObjects, Crystal Decisions, and Oracle.

Vendors of Managed Reporting Environments

These vendors manufacture and sell products that are designed to execute and distribute large numbers of complex reports to many users. Competitors in this area include Actuate and Brio Software.

Vendors of Multidimensional Analysis Tools

These vendors manufacture and sell products that enable users to view, explore and analyze a summarized view of their business using OLAP technology, and include Hyperion Solutions, Oracle and MicroStrategy.

Database Vendors

Some database vendors have tools that are included with their database environment that can be used for query and reporting, as well as some OLAP functionality. These vendors include Oracle and Microsoft.

Analytical Application Vendors

Some application vendors manufacture and sell tools that are included with their application environment that can be used to create and deliver application-specific reports and analysis. Vendors who offer these tools with their applications include Oracle, SAP and Informatica.

Our products are complementary with the products of many of the above-named competitors, and as a result, we have cooperative marketing relationships with some of these vendors, including Oracle and Microsoft. We expect our current competitors and potentially new competitors to continue to improve the performance of their products and to introduce new products or new technologies that reduce costs and improve performance characteristics.

Employees

As of February 28, 2002, we had 2,598 full-time permanent employees. We believe that our future success will depend, in part, on our ability to continue to identify, hire, motivate and retain skilled and experienced personnel. In the software industry, there is a high demand for such employees. Historically, we have been successful in recruiting and retaining sufficient numbers of qualified personnel. None of our employees is represented by a labor union.

Copyright, Trademarks, Patents, and Licenses

In accordance with industry practice, we rely upon a combination of contract provisions and copyright, trademark, and trade secret laws to protect our proprietary rights in our products. We license the use of our products to our customers rather than transferring title to them. These licenses contain terms and conditions prohibiting the unauthorized reproduction, disclosure, or transfer of our products. In addition, we attempt to protect our trade secrets and other proprietary information through agreements with customers, suppliers, employees, and consultants. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

The source code versions of our products are protected as trade secrets and, in all major markets, as unpublished copyright works. However, effective copyright protection may not be available in some countries in which we license or market our products. We recognize that patent law may offer effective protection for our current and future products, and we have embarked on a program to identify and seek patent protection for appropriate elements of our products. There can be no assurance that any patentable elements will be identified or, if identified, that patent protection will be obtained. We have also obtained or applied for trademark registration of most of our product names, as well as the name Cognos, in all of our major markets. While the duration of trademark and copyright protections varies from country to country, we believe that the duration of this protection will be adequate to protect our products during the periods of their economic value.

However, we believe that, due to the rapid pace of innovation within our industry, technological and creative skills of our personnel are even more important to establishing and maintaining a technology and product leadership position within the industry than are the various legal protections of our technology.

ITEM 2. PROPERTIES

Cognos owns the building located at 3755 Riverside Drive, Ottawa, Canada, the Corporation's corporate headquarters. During fiscal 2001 the Corporation completed the construction of a new building at this location. The total square footage of the Riverside facility is 269,000. The facility is located on approximately six acres of land which also includes a 220,000 square foot parking garage.

The Corporation also conducts its operations from leased facilities totaling approximately 135,000 square feet in Canada, 188,000 square feet in the United States, 173,000 square feet in Europe, and 32,000 square feet in Asia/Pacific.

For financial information about geographic areas, see "Note 12. Segmented Information" in Notes to Consolidated Financial Statements contained in Item 8.

ITEM 3. LEGAL PROCEEDINGS

On May 5, 2000, an action was filed in the United States District Court for the Northern District of California against us by Business Objects S.A., for alleged patent infringement. The complaint alleged that our Impromptu product infringes Business Objects' United States Patent No. 5,555,403 entitled "Relational Database Access System using Semantically Dynamic Objects" (the "'403 Patent"). Although we have denied and continue to deny all claims asserted in the action, on May 24, 2002, subsequent to the balance sheet date, we reached an agreement to settle that action. Under the terms of the settlement agreement between ourselves and Business Objects, Business Objects has agreed to release us for any infringement of the '403 Patent (and any amendments or related patents) and to effect that release, has granted us a license under the '403 Patent for the term of that patent or any amendments or related patents. Both parties also agreed to release the other from all claims, liabilities, costs or expenses that either party hold against the other, on account of actions taken prior to the effective date. The parties have also entered into a covenant not to sue or assert any claim against the other for infringement of any patents for a period of 5 years from the effective date. As consideration for the settlement agreement, we have agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every quarter for the next eight quarters commencing on July 1, 2002.

In addition, the Corporation and its subsidiaries may, from time to time be involved in other legal proceedings, claims, and litigation that arise in the ordinary course of business which the Corporation believes would not reasonably be expected to have a material adverse effect on the financial condition of the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal 2002, no matter was submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

The following table sets out the name; age; position with the Corporation; and the principal occupation, business or employment during the last five years of each executive officer of the Corporation.

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
Renato (Ron) Zambonini	55	Chief Executive Officer, and Director
Robert G. Ashe	43	President and Chief Operating Officer
Tom Manley	43	Senior Vice President, Finance & Administration and Chief Financial Officer
Peter Griffiths	38	Senior Vice President, Products
Terry Hall	53	Senior Vice President
David Laverty	46	Senior Vice President, Global Marketing
Robert Minns	56	Senior Vice President, New Products
Alan Rottenberg	52	Senior Vice President, Strategy
Tony Sirianni	42	Senior Vice President, North American Field Operations
Ad Voogt	46	Senior Vice President, European Field Operations

Mr. Zambonini was appointed Chief Executive Officer of the Corporation in September 1995. Mr. Zambonini has also served as President from January 1993 until April 2002 and was elected to the Board of Directors in June 1994. Mr. Zambonini previously served as Chief Operating Officer of the Corporation from January 1993 to September 1995. Mr. Zambonini joined the Corporation in September 1989.

Mr. Ashe was appointed President and Chief Operating Officer on April 10, 2002. Mr. Ashe previously served as Senior Vice President, Chief Corporate Officer of the Corporation from May 2001 until April 2002; as Senior Vice President, Worldwide Customer Services from July 1999 to May 2001; as Senior Vice President, Products from May 1997 to July 1999; and as Senior Vice President, Application Development Tools from April 1996 to May 1997. Mr. Ashe joined the Corporation in September 1984.

Mr. Manley was appointed Senior Vice President, Finance & Administration and Chief Financial Officer in August 2001. Prior to joining the Corporation Mr. Manley was with Nortel Networks Corporation and served as Chief Financial Officer, High Performance Optical Component Solutions from April 2001 to August 2001; Senior Vice President, Finance and Vice President, Finance, Carrier Packet Solutions from 1998 to April 2001; and Vice President, Finance, Broadband Networks from 1997 to 1998.

Mr. Griffiths was appointed Senior Vice President, Products in April 2002. Mr. Griffiths served as Senior Vice, President Research and Development from February 2002 to April 2002; as Vice President, Research and Development from January 2001 to February 2002; and as Vice President, Decision Platform from June 2000 to January 2001. Prior to joining the Corporation in 1998 Mr. Griffiths was Chief Executive Officer of Relational Matters, a company acquired by the Corporation in 1998.

Mr. Lavery was appointed Senior Vice President, Global Marketing in February 2002. Prior to joining the Corporation Mr. Lavery was with Surebridge Inc. as Vice President, Marketing from May 2000 until February 2002. He was with Lotus Development Corporation (a subsidiary of IBM) from 1990 until 2000 in a number of senior marketing roles, most recently as Vice President, Marketing – North America from 1997 to 2000.

Mr. Hall became Senior Vice President in April 2002 after the announcement of his intention to retire from the Corporation. Mr. Hall served as Senior Vice President Operations and Chief Operating Officer from July 1999 to April 2002. He served as Senior Vice President, Worldwide Sales from March 1993 to July 1999. Mr. Hall joined the Corporation in September 1983.

Mr. Minns was appointed Senior Vice President, New Products in March 1998. He served as Vice President, New Products from May 1997 to March 1998; and as Vice President, Technology from 1986 to May 1997. Mr. Minns joined the Corporation in March 1973.

Mr. Rottenberg was appointed Senior Vice President, Strategy in April 2002. Mr. Rottenberg served as Senior Vice President, e-Business Intelligence Applications Unit from January 2000 to April 2002; Senior Vice President, Marketing and Business Strategy from May 1997 to January 2000; and as Senior Vice President, Business Intelligence Tools from June 1994 to May 1997. Mr. Rottenberg joined the Corporation in June 1989.

Mr. Sirianni was appointed Senior Vice President, North American Field Operations in June 2000. He served as Vice President, North American Field Operations from April 1999 to May 2000; as Area Vice President, North American Partner Channels from December 1997 to March 1999; and Director, Desktop Partner Channels from March 1995 to November 1997. Mr. Sirianni joined the Corporation in March 1994.

Mr. Voogt was appointed Senior Vice President, European Field Operations in September 2001. He served as Vice President, European Operations from July 2000 to September 2001; and Vice President, Northern Europe from September 1995 to July 2000. Mr. Voogt joined the Corporation in 1986.

Officers are appointed annually by, and serve at the discretion of, the Board of Directors.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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, on The Nasdaq Stock Market 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 COGN.

On April 6, 2000, the Board of Directors of the Corporation authorized a two-for-one stock split, effected in the form of a stock dividend. All historic information has been adjusted for the 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:

	<i>Nasdaq National Market</i>			<i>The Toronto Stock Exchange</i>		
	High (US\$)	Low (US\$)	Volume (000s)	High (Cdn\$)	Low (Cdn\$)	Volume (000s)
Fiscal 2001						
First Quarter	41.13	23.31	31,208	60.50	34.00	14,300
Second Quarter	46.50	35.38	24,729	67.00	52.60	11,639
Third Quarter	48.00	30.50	22,482	73.10	49.00	12,614
Fourth Quarter	40.88	16.00	34,771	62.90	25.25	20,858
Fiscal 2002						
First Quarter	24.77	13.94	24,600	38.30	22.00	20,492
Second Quarter	19.22	13.71	11,777	29.48	21.05	13,135
Third Quarter	20.39	11.60	15,561	32.70	17.70	21,152
Fourth Quarter	29.79	19.25	27,239	47.32	30.13	15,534
Fiscal 2003						
First Quarter (through April 19, 2002)	30.75	22.13	28,539	48.62	35.15	14,255

SHAREHOLDERS

As of April 19, 2002, there were approximately 1,950 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, and to otherwise reinvest in the Corporation.

OTHER MATTERS AFFECTING THE CORPORATION'S COMMON SHARES

On December 3, 1998, the Corporation acquired substantially all the assets of Relational Matters, including DecisionStream software. DecisionStream aggregates and integrates large volumes of transaction data with multidimensional data structures. The agreement stipulated that Relational Matters would receive approximately \$7,550,000 over three years and 250,980 shares of the Corporation's common stock valued at \$1,823,000 over the same time period. The shares, all of which were issued, were held in escrow by the Corporation and released on the second (40%) and third (60%) anniversaries of the closing of the transaction. The shares were issued in a private placement pursuant to Section 4(2) of the Securities Act of 1933.

On February 24, 1999, the Corporation acquired LEX2000 Inc., a developer of financial data mart and reporting software, for a combination of cash and the Corporation's common stock. The agreement stipulated that the shareholders of LEX2000 Inc. would receive approximately \$7,444,000 over three years and 252,118 shares of the Corporation's common stock valued at \$1,940,000 over the same time period. Approximately 14,200 shares were delivered at closing; the remainder, all of which were issued, were held in escrow by the Corporation and released equally on the second (50%) and third (50%) anniversaries of the closing of the transaction. The shares were issued in a private placement pursuant to Regulation D, promulgated under the Securities Act of 1933.

On September 21, 2000, the Corporation acquired NoticeCast Software Ltd., based in Twickenham, United Kingdom. NoticeCast's Enterprise Event Management Software monitors business processes and delivers timely business intelligence notifications to business users across the enterprise via e-mail on their personal computer, hand-held or wireless device. The agreement stipulated that the shareholders of NoticeCast Software Ltd. would receive approximately \$9,000,000 in cash on closing and would receive 148,468 shares of the Corporation's common stock valued at approximately \$4,820,000. The shares are being held in escrow by the Corporation and will be released on the second anniversary of the closing of the transaction.

On November 1, 2000, the Corporation completed the acquisition of Johnson & Michaels, Inc. (JAMI), a leading provider of business intelligence consulting services. The agreement stipulated that the shareholders of JAMI would receive total cash consideration of approximately \$3,915,000 over three years and 104,230 shares of the Corporation's common stock valued at \$4,250,000 over the same period. Approximately \$2,345,000 has been paid and 60,583 shares have been issued since closing; the remaining shares, all of which were issued, are being held in escrow by the Corporation and will be released on the second (33%), and third (34%) anniversaries of the closing of the transaction. The Corporation has conditioned a portion of the overall consideration on the continued tenure of certain employees.

ITEM 6. SELECTED FINANCIAL DATA

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 LLP, 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.

On April 6, 2000, the Board of Directors of the Corporation authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to shareholders of record at the close of business on April 20, 2000. All historic consolidated results have been restated for the split.

YEARS ENDED THE LAST DAY OF FEBRUARY

	2002	2001	2000	1999	1998
(US\$000s except share amounts, U.S. GAAP)					
Statement of Income Data					
Revenue	\$491,302	\$495,652	\$385,640	\$301,125	\$244,834
Operating expenses					
Cost of product license	3,609	7,315	5,235	5,738	3,828
Cost of product support	16,576	17,820	13,758	11,166	9,694
Selling, general, and administrative	343,276	320,535	238,147	172,482	140,882
Research and development	74,614	67,264	53,548	42,274	33,530
Acquired in-process technology	–	3,000	–	3,800	18,000
Special charges	33,440	–	–	–	–
Total operating expenses	471,515	415,934	310,688	235,460	205,934
Operating income	19,787	79,718	74,952	65,665	38,900
Interest expense	(540)	(786)	(718)	(527)	(481)
Interest income	8,922	12,386	7,454	6,430	5,340
Income before taxes	28,169	91,318	81,688	71,568	43,759
Income tax provision	8,761	27,058	22,873	13,134	11,117
Net income	\$ 19,408	\$ 64,260	\$ 58,815	\$ 58,434	\$ 32,642
Net income per share					
Basic	\$0.22	\$0.74	\$0.68	\$0.67	\$0.37
Diluted	\$0.21	\$0.70	\$0.67	\$0.66	\$0.36
Net income per share, excluding the effect of special charges and write-off of acquired in-process technology*					
Basic	\$0.49	\$0.77	\$0.68	\$0.71	\$0.57
Diluted	\$0.48	\$0.73	\$0.67	\$0.69	\$0.55
Weighted average number of shares (000s)					
Basic	87,807	87,324	85,972	87,416	88,414
Diluted	90,461	91,973	88,100	88,940	91,544

Balance Sheet Data (at end of period)

Working capital	\$227,573	\$197,673	\$166,455	\$123,343	\$ 112,846
Total assets	522,152	495,592	377,803	286,259	220,279
Total debt	—	32	2,176	2,612	2,457
Stockholders' equity	295,173	290,529	212,591	159,028	131,005

*This is a supplementary pro-forma measure included to enhance comparability

ITEM 7. 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. We prepare and file our consolidated financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in United States (U.S.) dollars and in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The consolidated financial statements and MD&A in accordance with Canadian GAAP, in U.S. dollars, are made available to all shareholders and filed with various regulatory authorities.

On April 6, 2000, our Board of Directors authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to stockholders of record at the close of business on April 20, 2000. Share and per-share amounts in this MD&A, and the audited consolidated financial statements and notes thereto included in this Annual Report, have been adjusted retroactively for this split.

OVERVIEW

Cognos Incorporated is a leading global provider of business intelligence software. Our solutions help companies improve business performance by enabling effective decision-making at all levels of the organization through the consistent analysis and reporting of data from multiple perspectives. Our software is designed to provide our customers with the ability to effectively use data to make faster, more informed decisions in order to improve operational effectiveness, increase customer satisfaction, accelerate corporate response times and ultimately, increase revenues and profits.

Our business intelligence solution (BI Solution) is uniquely positioned to take advantage of the accelerating demand for business intelligence solutions for the extended enterprise across all industries. Our BI Solution is an integrated software foundation that is designed to meet our customers' end-to-end business intelligence requirements, including reporting, analysis, query, scorecarding, and visualization, in a secure, Web-based environment that is easy to use and deploy across the extended enterprise. The information produced by our solution is distributed over a business intelligence portal that enables users, both inside and outside the organization, to access business intelligence content, such as reports and scorecards, through a secure, personalized Web-based interface. In addition, our event detection capability allows users to monitor changes in time-critical business intelligence content. If change occurs, the user receives a notification e-mail with relevant business intelligence content giving them context for decision-making. We have also developed an integrated set of analytic applications built upon the foundation of our BI Solution, which provide "out-of-the-box" functionality for reporting and analysis in functional areas such as finance, inventory, procurement, and sales. Additionally, our Cognos Finance product enables finance professionals to manage all core financial processes within one solution.

Revenue is derived from the licensing of software and the provision of related services, which include product support and education, consulting, and other services. We generally license software and provide services subject to terms and conditions consistent with industry standards. Our customers may elect to contract with us for telephone and Web-based customer self-service product support, by paying either an annual fee or fees based on their usage of support services.

We operate internationally with a substantial portion of our business conducted in foreign currencies. Accordingly, our 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.

Currently we derive our revenue from the licensing, support, and service of business intelligence solutions and application development tools. In the most recent fiscal year, revenue associated with our business intelligence solutions made up 92% of our total revenues; application development tools made up 8% of our total revenues. The percentage of revenue attributable to application development tools has declined over the last seven fiscal years and is expected to continue to decline in the future as the market moves away from proprietary systems and towards packaged application products. We are focused on maintaining our leadership position in the business intelligence market and believe that the application development tools market will continue to decrease in importance for our financial results.

The sales cycle for our products may span nine months or more. Historically, we have recognized a substantial portion of our revenues in the last month of a quarter, with these revenues frequently concentrated in the last two weeks of a quarter. Even minor delays in booking orders may have a significant adverse impact on revenues for a particular quarter. To the extent that delays are incurred in connection with orders of significant size, the impact will be correspondingly greater. As corporations move to enterprise-wide deployments, orders become larger and, hence, the impact of the sales cycle becomes increasingly harder to predict. We currently operate with virtually no order backlog because our software products typically are shipped shortly after orders are received. Product license revenues in any quarter are substantially dependent on orders booked and shipped in that quarter. As a result of these and other factors, our quarterly results have varied significantly in the past and are likely to fluctuate significantly in the future. Accordingly, we believe that quarter-to-quarter comparisons of our results of operations are not necessarily indicative of the results to be expected in any future period.

We license our software through our direct sales force and value-added resellers, system integrators, and original equipment manufacturers. Direct sales accounted for approximately 70%, 70%, and 69% of our license revenues for the years ended February 28, 2002 (fiscal 2002), February 28, 2001 (fiscal 2001), and February 29, 2000 (fiscal 2000), respectively. As enterprise-wide deployments become more important to our customers, we believe that the direct sales channel is the most effective method of penetrating the large enterprise market; however, in order to have adequate market coverage for smaller and mid-size companies, we continue to expend a significant amount of resources developing our indirect sales activities. We also continue to commit significant management time and financial resources to developing direct and indirect international sales and support channels.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, foreign

exchange risk management, investments, intangible assets, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We apply the following critical accounting policies in the preparation of our consolidated financial statements:

Revenue Recognition Policy - We recognize revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*. Substantially all of our product license revenue is earned from licenses of off-the-shelf software requiring no customization. Revenue from these licenses is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. If a license includes the right to return the product for refund or credit, revenue is recognized net of an allowance for estimated returns provided all the requirements of SOP 97-2 have been met. 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, and that would not have been incurred but for the acquisition of that contract, are deferred and expensed in the period the related revenue is recognized. These costs include commissions payable on sales of support contracts. Revenue from education, consulting, and other services is recognized at the time the services are rendered. For contracts with multiple obligations (e.g., deliverable and undeliverable products, support obligations, education, consulting, and other services), we allocate revenue to each element of the contract based on objective evidence of the fair value of the element.

Allowance for Doubtful Accounts - We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Foreign Currency Management - We operate internationally and therefore hold assets and liabilities in foreign currencies. These operations are translated to U.S. dollars at prevailing exchange rates as at period end in accordance with SFAS 52. Future adverse changes in a currency could cause a reduction in the carrying amount of these assets and liabilities that may not be reflected in the current carrying value.

Investments - We record an impairment charge when we believe an asset has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

Deferred Taxes - We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to subsequently determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Similarly, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would reduce income in the period such determination was made.

Impairment of Long-Lived Assets - We evaluate the recoverability of our identifiable intangible assets, goodwill, and other long-lived assets in accordance with SFAS No.121 that generally requires us to assess these assets for recoverability when events or circumstances indicate a potential impairment by

estimating the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. On March 1, 2002 we implemented SFAS No. 142 and SFAS 144. SFAS 142 requires us to use the fair value method to assess our goodwill on at least an annual basis and the undiscounted cash flows method will continue to be used for qualifying identifiable intangible assets. SFAS 144 requires us to use a similar method for other long-lived assets. The results of the initial assessment will have no material effects on our balance sheet or earnings from operations; however, subsequent impairment assessments could result in future impairment charges. Any impairment charge would result in reduction in the carrying values of these assets.

Contingencies and Litigation - We evaluate contingent liabilities including threatened or pending litigation in accordance with SFAS No. 5, *Accounting for Contingencies* and record accruals when the outcome of these matters is deemed probable and the liability is reasonably estimable. We make these assessments based on the facts and circumstances and in some instances based in part on the advice of outside legal counsel.

RESULTS OF OPERATIONS

Total revenue for fiscal 2002 was \$491.3 million, which was 1% less than the fiscal 2001 revenue of \$495.7 million which, in turn, was 29% more than the fiscal 2000 revenue of \$385.6 million. Net income for fiscal 2002 was \$19.4 million and diluted net income per share was \$0.21, compared to fiscal 2001 net income of \$64.3 million and diluted net income per share of \$0.70, and net income of \$58.8 million and diluted net income per share of \$0.67 for fiscal 2000.

The results for fiscal 2002 include special charges of \$33.4 million. These special charges include a net business restructuring charge of \$10.2 million and a \$23.2 million charge for settlement of a patent litigation action.

As reported in the first quarter of fiscal 2002, we recorded a restructuring charge of \$12.8 million in connection with a restructuring plan to align our cost structure and operations to the economic environment. In the fourth quarter of fiscal 2002 we reversed \$2.6 million of the restructuring charge into income. The reversal was the result of revisions to prior cost assumptions including salary continuance, office leases, and outplacement.

On May 24, 2002, subsequent to the balance sheet date, the Corporation and Business Objects reached an agreement to settle the action filed by Business Objects on May 5, 2000. As consideration for the settlement agreement, we have agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every quarter for the next eight quarters commencing on July 1, 2002. The Corporation has recorded a special charge of \$23,231,000, representing the present value of these payments, in fiscal 2002 in accordance with FASB Statement 5 *Contingent Liabilities*.

Excluding the effect of these items, net income and diluted net income per share for fiscal 2002 would have been \$43.4 million and \$0.48, respectively. The results for fiscal 2001 include the write-off of \$3.0 million related to the in-process technology acquired on the purchase of NoticeCast Software Ltd. during the third quarter of fiscal 2001. Excluding the effect of this item, net income and diluted net income per share for fiscal 2001 would have been \$67.3 million and \$0.73, respectively. Fiscal 2000 results did not include any unusual one-time charges. This pro-forma information is provided for greater comparability regarding our on-going operating performance and is unlikely to be comparable to any similar measures in the financial information filed by other issuers.

Basic net income per share was \$0.22, \$0.74, and \$0.68 in fiscal 2002, 2001, and 2000, respectively. Excluding the effect of special charges in fiscal 2002 and the write-offs of in-process technology in fiscal 2001 basic net income per share would have been \$0.49 and \$0.77, respectively.

We experienced decreases in net income as a percentage of revenue in each of fiscal 2002, and 2001. In fiscal 2002, we maintained our investment in our sales channels and product development through difficult economic times to ensure that we were appropriately positioned for revenue growth and expanded global market coverage as the economy recovered. During fiscal 2002 the decrease in net income as a percentage of revenue was the result of increases in both selling, general, and administration expenses, and research and development expenses as well as special charges for restructuring and settlement of a patent litigation action. As a result of this restructuring, and excluding the effect of the patent litigation settlement which occurred subsequent to the balance sheet date, our net income as a percentage of revenue has increased sequentially through the last three quarters of the fiscal year. During fiscal 2001 the decrease in net income as a percentage of revenue was the result of increases in selling, general, and administrative expenses and the write-off of in-process technology acquired on the purchase of NoticeCast Software Ltd. during the third quarter.

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 in the dollar amount of each item as compared to the prior fiscal year.

	Percentage of Revenue			Percentage Change from Fiscal	
	2002	2001	2000	2001 to 2002	2000 to 2001
Revenue	100.0%	100.0%	100.0%	(0.9)%	28.5%
Operating expenses					
Cost of product license	0.7	1.5	1.3	(50.7)	39.7
Cost of product support	3.4	3.6	3.5	(7.0)	29.5
Selling, general, and administrative	69.9	64.6	61.8	7.1	34.6
Research and development	15.2	13.6	13.9	10.9	25.6
Acquired in-process technology	0.0	0.6	0.0	*	*
Special charges	6.8	0.0	0.0	*	*
Total operating expenses	96.0	83.9	80.5	13.4	33.9
Operating income	4.0	16.1	19.5	(75.2)	6.4
Interest expense	(0.1)	(0.2)	(0.2)	(31.3)	9.5
Interest income	1.8	2.5	1.9	(28.0)	66.2
Income before taxes	5.7	18.4	21.2	(69.2)	11.8
Income tax provision	1.8	5.4	5.9	(67.6)	18.3
Net income	3.9%	13.0%	15.3%	(69.8)%	9.3%

* *not meaningful*

The following table sets out, for each fiscal year indicated, the percentage that specific items bear to revenue, and the percentage change in the dollar amount of each item as compared to the prior fiscal year, when the effect of special charges and write-offs of acquired in-process technology are excluded. This pro-forma information is provided for greater comparability regarding our on-going operating performance and is unlikely to be comparable to any similar measures in the financial information filed by other issuers.

	Percentage of Revenue			Percentage Change from Fiscal	
	2002	2001	2000	2001 to 2002	2000 to 2001
Revenue	100.0%	100.0%	100.0%	(0.9)%	28.5%
Total operating expenses	89.2	83.3	80.5	6.1	32.9
Operating income	10.8	16.7	19.5	(35.7)	10.4
Net income	8.8%	13.6%	15.3%	(35.4)%	14.4%

REVENUE

Our total revenue was \$491.3 million for fiscal 2002 as compared to \$495.7 million in fiscal 2001, and \$385.6 million in fiscal 2000. Our total revenue was derived primarily from our business intelligence products, principally Web versions of Impromptu® and PowerPlay®; contributing to the increase, but to a lesser extent, were Cognos Visualizer, DecisionStream™, Cognos Query, and Cognos Finance. In Q4 we released Cognos Series 7, a fully integrated enterprise business intelligence solution. We feel enterprise wide deployment of business intelligence products is the trend in the industry and believe it will continue to increase as a percentage of our total revenue. Total revenue for all business intelligence products was \$453.1 million, \$446.8 million, and \$328.0 million in fiscal 2002, 2001, and 2000, respectively, which resulted in year-over-year increases of 1% and 36%, respectively. Sequentially, within the year our total BI revenue has increased by 8%, 7%, and 17% in the quarters following our restructuring in the first quarter of fiscal 2002. Total revenue from our business intelligence products represented 92%, 90%, and 85% of total revenue in fiscal 2002, 2001, and 2000, respectively.

Total revenue from our application development tools, PowerHouse® and Axiant®, was \$38.2 million in fiscal 2002, compared to \$48.9 million in fiscal 2001, and \$57.6 million in fiscal 2000, which resulted in year-over-year decreases of 22% and 15%, respectively.

The change in total revenue from product license, product support, and services in fiscal 2002 from fiscal 2001 was as follows: a 13% decrease in product license revenue, a 19% increase in product support revenue, and a 2% increase in services revenue. This compares to an increase for the same categories for fiscal 2001 from fiscal 2000 as follows: 29%, 25%, and 33%, respectively.

Our 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 Far East). In fiscal 2002, the percentage of total revenue from North America, Europe, and Asia/Pacific was 62%, 31%, and 7%, respectively, compared to 64%, 30%, and 6%, respectively, in fiscal 2001 and 61%, 32%, and 7%, respectively, in fiscal 2000. In fiscal 2002, total revenue from North America decreased from fiscal 2001 by 4% while total revenue from Europe, and Asia/Pacific increased from fiscal 2001 by 5% and 7%, respectively, compared to increases of 35%,

19%, and 13%, respectively, in fiscal 2001 from fiscal 2000. The decrease in revenue growth for fiscal 2002 as compared to fiscal 2001 is attributable to the decline in information technology spending and the uncertain economic environment that existed through the majority of fiscal 2002. These conditions affected all of our principal markets and were especially pronounced in the U.S., our largest market. This affected the sales of our business intelligence products. Revenue growth in North America was also slowed by a decline in service revenue as a result of the events of September 11th. The disruption in the United States in the wake of these events including air travel and business closures affected our ability to offer services and our customers appetite to consume them. In addition to the above, growth rates for Europe and Asia/Pacific were affected by foreign exchange rate fluctuations. Excluding exchange rate fluctuations, revenue growth for Europe would have been 9% for fiscal 2002 as compared to revenue growth excluding exchange rate fluctuations of 32% for fiscal 2001. Revenue growth for Asia/Pacific would have been 17% for fiscal 2002 as compared to revenue growth excluding exchange rate fluctuations of 22% for fiscal 2001.

A substantial portion of our business is conducted in foreign currencies. Accordingly, our 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 two percentage points in fiscal 2002 from fiscal 2001 and by four percentage points in fiscal 2001 from fiscal 2000.

PRODUCT LICENSE REVENUE

Total product license revenue was \$228.3 million, \$262.8 million, and \$203.3 million in fiscal 2002, 2001, and 2000, respectively, and accounted for 46% of our revenue for fiscal 2002 as compared to 53% in both fiscal 2001 and 2000. The decrease in product license revenue for fiscal 2002 was predominantly due to the decline in information technology spending and the uncertain economic environment that was prevalent throughout the fiscal year in our principal markets and specifically in the U.S., which is our largest market. This affected the sales of our business intelligence products; which were the main reason for our increase in revenue in fiscal 2001. Product license revenue from our business intelligence products was \$219.2 million, \$248.7 million, and \$186.6 million, in fiscal 2002, 2001, and 2000, respectively, which resulted in a year-over-year decrease of 12% in fiscal 2002 compared to a year-over-year increase of 33% for fiscal 2001. Sequentially, within the year, our total BI license revenue has increased by 17%, 17%, and 29% in the three quarters following our restructuring in the first quarter of fiscal 2002. Product license revenue associated with the business intelligence products contributed approximately 96%, 95%, and 92% of total product license revenue in fiscal 2002, 2001, and 2000, respectively.

Product license revenue from our application development tools, PowerHouse and Axiant, was \$9.1 million, \$14.0 million, and \$16.7 million, in fiscal 2002, 2001, and 2000, respectively. We expect that, in both the short and long term, the trend of decreasing product license revenue from these products will continue.

Our sales and marketing strategy includes multi-tiered channels ranging from a direct sales force to various forms of third-party distributors, resellers, and original equipment manufacturers. We believe that a direct sales force is more effective than third-party sales in reaching Global 2000 companies because it is more relationship focused. We use third-party distributors in selected regions in order to extend our geographic coverage.

Total product license revenue from third-party channels represented 31% of total product license revenue in fiscal 2002 compared to 30% in fiscal 2001 and 31% in fiscal 2000. Within our business intelligence

market, product license revenue from third-party channels was \$66.5 million, compared to \$75.7 million in fiscal 2001, and \$57.3 million in fiscal 2000. Product license revenue within this market from third-party channels represented 30% of our business intelligence product license revenue in fiscal 2002 compared to 30% in fiscal 2001, and 31% in fiscal 2000.

PRODUCT SUPPORT REVENUE

Product support revenue was \$175.6 million, \$147.6 million, and \$118.1 million in fiscal 2002, 2001, and 2000, respectively. Product support revenue accounted for 36% of our total revenue for fiscal 2002, compared to 30% in fiscal 2001 and 31% for fiscal 2000. The increase in the dollar amounts was the result of new support contracts from the expansion of our customer base, as well as the renewal of existing support contracts.

Total product support revenue from the business intelligence products was \$147.5 million, \$114.2 million, and \$78.8 million in fiscal 2002, 2001, and 2000, respectively and constituted 84%, 77%, and 67% of the total product support revenue in fiscal 2002, 2001, and 2000, respectively. In fiscal 2002, total product support revenue from business intelligence products increased by 29% from fiscal 2001 and total product support revenue from application development tools decreased by 16% over the same period. In fiscal 2001, total product support revenue from the business intelligence products increased by 45% from fiscal 2000 and total product support revenue from the application development tools decreased by 15% over the same period.

SERVICES REVENUE

Revenue from education, consulting, and other services was \$87.4 million, \$85.3 million, and \$64.3 million in fiscal 2002, 2001, and 2000, respectively. Services revenue accounted for 18% of our total revenue for fiscal 2002, compared to 17% in fiscal 2001 and 2000. The increase in services revenue in fiscal 2002 was predominantly the result of an increase in consulting revenue that offset decreases in education revenue associated with the business intelligence products. Services revenue associated with the business intelligence products contributed approximately 99%, 98%, and 97%, of total service revenue in fiscal 2002, 2001, and 2000, respectively.

During fiscal 2002, we continued to increase the level of sales of our business intelligence solutions within global enterprises. Our business intelligence solutions were increasingly being deployed on an enterprise-wide, global basis within organizations for mission-critical applications. Successful installation and deployment of our solution has become critical to our customers' success. As a result, our customers have increasingly required services such as strategic planning, project management, analysis and design, technical advisory, and instruction to effectively deploy our solutions. This trend was slowed in fiscal 2002 by two factors. First the uncertain economic environment in our principal markets caused an increased level of scrutiny by customers with regard to enterprise scale software purchases. Second, the unfortunate events of September 11th caused a disruption in the United States including air travel and business closures. These and other factors that occurred in the wake of these tragic events affected our ability to offer services and our customer's appetite to consume them.

OPERATING EXPENSES

COST OF PRODUCT LICENSE

The cost of product license consists primarily of royalties for technology licensed from third-parties and the costs of materials and distribution related to licensed software. Product license costs in fiscal 2002 were \$3.6 million compared to \$7.3 million in fiscal 2001 and \$5.2 million in fiscal 2000. Product license costs represented 2% of product license revenue for fiscal 2002, compared to 3% for fiscal 2001 and 2000. The decrease, in dollar terms, in fiscal 2002 from fiscal 2001 is due to decreases in royalty costs; material and distribution costs remained relatively consistent with fiscal 2001 levels. The increase in fiscal 2001 from fiscal 2000 was due to increases in royalty costs; material and distribution costs remained relatively consistent with fiscal 2000 levels.

COST OF PRODUCT SUPPORT

The cost of product support includes the costs associated with resolving customer inquiries and other telesupport and websupport 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 \$16.6 million, \$17.8 million, and \$13.8 million in fiscal 2002, 2001, and 2000, respectively. These costs represented 9% of product support revenue in fiscal 2002 and 12% for fiscal 2001, and 2000. The decrease, in dollar terms, in fiscal 2002 from fiscal 2001 was associated predominantly with decreases in royalty costs. The increase in fiscal 2001 from fiscal 2000 was associated with telesupport and websupport activities.

SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses were \$343.3 million, \$320.5 million, and \$238.1 million in fiscal 2002, 2001, and 2000, respectively. These costs were 70% of revenue in fiscal 2002 compared to 65% and 62% in fiscal 2001 and 2000, respectively.

The increase in the selling, general, and administrative expenses in fiscal 2002 was primarily the result of increases in average staffing levels and related compensation expenses. Contributing to a lesser extent to the increase were increases in facilities costs, computer costs, communications, professional fees, and the amortization of the technology acquired on acquisitions of various companies over the last five fiscal years. During fiscal 2002, we continued our investment in our sales channels, to focus on opportunities for new revenue growth and expand global market coverage. Despite the weaker economic climate and staff reductions as a result of the restructuring charge in the first quarter of fiscal 2002, the average number of employees within the selling, general, and administrative areas grew by 2%, predominantly as the result of the retention of key sales and services staff.

The increase in the selling, general, and administrative expenses in fiscal 2001 was primarily the result of increases in staffing and related compensation expenses. Contributing to a lesser extent to the increase were facilities, marketing costs, and the amortization of the technology acquired on acquisitions of various companies over the last four fiscal years. The average number of employees within the selling, general, and administrative areas grew by 29% in fiscal 2001, predominantly as the result of additions to sales and services staff. The costs per employee increased 5% in fiscal 2002 and 4% in fiscal 2001.

RESEARCH AND DEVELOPMENT

Research and development costs were \$74.6 million, \$67.3 million, and \$53.5 million, for fiscal 2002, 2001, and 2000, respectively. Research and development costs have continued to increase, in dollar terms, over the last several fiscal years. In fiscal 2002 these costs increased slightly as a percentage of revenue to 15% after having remained constant at 14% of total revenue for each of fiscal 2001 and 2000. The growth in fiscal 2002 was primarily the result of increases associated with higher staffing levels in this area and increases in services purchased externally as we maintained our investment in product development through an uncertain economic landscape. The growth in fiscal 2001 was also primarily the result of increases associated with higher staffing levels in this area. Increases in services purchased externally and other costs associated with the development of our product lines to meet foreign market requirements also contributed to the increase for the fiscal year. The increase in the average number of employees in this area was 9% in fiscal 2002 from fiscal 2001 and was 15% in fiscal 2001 from fiscal 2000.

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. Costs were not deferred in any of fiscal 2002, 2001, or 2000 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.

During fiscal 2002, we made available a new version of all our core software products with the release of Cognos Series 7. Cognos Series 7 is a fully integrated enterprise business intelligence solution. In addition to new versions of Cognos on-line analytical processing and reporting and query, Cognos Series 7 also introduced enterprise event detection technology we acquired in fiscal 2001 through our purchase of NoticeCast Software Ltd. This technology monitors business intelligence content and automatically notifies users of key events such as changes in performance indicators via their personal computer, personal digital assistant or other wireless device, enabling them to take immediate action. This release offers an enterprise scale solution that will allow our customers to react rapidly to key business events and changes in business performance, as they will be able to leverage our business intelligence solution to quickly relate these events to overall enterprise business performance.

During fiscal 2002 we continued to invest in R&D activities for our e-Application packages including the release in the fourth quarter of Cognos Analytic Applications for Oracle eBusiness Suite. This release includes analysis of sales, general ledger, accounts receivable, accounts payable, inventory, and procurement. We also continued to develop our Analytic Applications for JD Edwards and plan to release Analytic Applications for SAP in fiscal 2003. Cognos Analytic Applications are pre-built business analysis and reporting content that extend the value of existing investments in Enterprise Resource Planning (ERP) and other operational systems. The result is a single, integrated, 360-degree view of business operations built upon a common foundation for enterprise-wide business performance management.

In fiscal 2002, we also continued investment in our existing enterprise business intelligence solution, including development and enhancement of DecisionStream, a data mart creation component of the BI platform that unites data from disparate sources and consolidates it into data marts. We also released version 5.1 of Cognos Finance, a solution that delivers integrated budgeting, forecasting, consolidation, and financial reporting and analysis in one comprehensive system. We continued to develop and enhance Cognos Visualizer, that allows for interactive multi-metric dashboards of key performance indicators. We also continued to develop Cognos KPI that creates scorecards of key performance indicators. This packaged application addresses a key requirement for enterprise business performance measurement.

ACQUISITIONS/ACQUIRED IN-PROCESS TECHNOLOGY

Fiscal 2002

On February 28, 2002, we exercised our option to purchase the 50% of the voting shares representing all of the outstanding voting interest in our subsidiary in Japan, Teijin Cognos Incorporated (TCI). We felt that TCI could more gainfully serve the Japanese market as a wholly owned subsidiary. We have always consolidated the results of TCI as we have had effective control over TCI. The former shareholders of TCI received approximately \$2,193,000 in cash upon completion of the purchase. We will also pay Teijin Limited the accumulated minority interest in TCI of approximately \$1,462,000 due March 30, 2002. We have also agreed to pay additional consideration at each period end for the next eight quarters, based on the net revenue of TCI. This additional purchase price has not been recorded as it cannot be reasonably estimated. The purchase of TCI did not involve the purchase of any in-process research and development. The acquisition was accounted for using the purchase method. The results of operations of TCI are already consolidated, and thus pro forma information has not been provided. Goodwill recorded as a result of this transaction will not be amortized in accordance with SFAS 142 but will be tested for impairment as of March 1, 2002.

Fiscal 2001

During the second quarter of fiscal 2001, we acquired Powerteam OY, our distributor in Finland. The agreement stipulated that the shareholders of Powerteam OY would receive approximately \$2,258,000 in cash in the two years subsequent to the date of acquisition and could also receive additional cash payments not to exceed \$500,000 in the three years subsequent to acquisition. We have paid \$2,073,000 of the amount due to shareholders and will pay \$185,000 in fiscal 2003. We have paid \$76,000 towards the contingent amount and could also pay cash payments not to exceed \$210,000 in fiscal 2003. The acquisition of Powerteam OY did not involve the purchase of acquired in-process technology. We have conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of the purchase price.

During the third quarter of fiscal 2001, we acquired NoticeCast Software Ltd., based in Twickenham, United Kingdom. NoticeCast's Enterprise Event Management Software monitors business processes and delivers timely business intelligence notifications to business users across the enterprise via e-mail on their personal computer, hand-held or wireless device. The agreement stipulated that the shareholders of NoticeCast Software Ltd. would receive approximately \$9,000,000 in cash on closing and would receive 148,468 shares of our common stock valued at approximately \$4,820,000. We are holding the shares in escrow and they will be released on the second anniversary of the closing of the transaction. For valuation purposes, the shares were appropriately discounted. An independent appraisal valued the in-process research and development at \$3,000,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, we recorded a special charge of \$3,000,000 (or \$0.03 per share on a diluted basis) in the third quarter ended November 30, 2000 to write off the in-process technology.

At the time of acquisition, the NoticeCast product required integration with our platform, enhancements to ensure that the scalability of the product would be consistent with the Cognos platform as a whole, and systems testing to ensure predictability of performance. The first Cognos version of the software was made available coincident with the Cognos Series 7 release during fiscal 2002. At the time of acquisition, we estimated that development efforts to complete this version of the software would cost approximately \$4 million.

For the acquisition of NoticeCast, the fair value of NoticeCast's one in-process research and technology project, e^mPower™, was assessed by independent business valuers at \$3,000,000. The valuers used the income forecast method, with the percentage completion approach to value the acquired in-process research and development. The adjusted discount rate applied by the valuers to the project's cash flows was 35%. We believe that e^mPower was approximately 40% complete at the time of purchase. Cash inflows from this project commenced in fiscal 2002.

With the integration of the NoticeCast technology into the Cognos solution, the average price of our products was expected to increase slightly. However, we have not experienced, and we do not expect, a material impact, from the integration of this project, on the margin rates experienced historically.

The risks and uncertainties associated with completing the development of the project at the time of acquisition were as follows:

- We might be unable to integrate the project with our platform on a timely basis.
- We might be unable to scale the project to align it with our platform.
- We might be unable to complete testing on a timely basis.
- Testing of the project may show that predictability of performance is not in line with our quality standards.

If the project was not completed on schedule, our competition could have introduced similar products before us. This could have resulted in a decline in our sales or a loss of market acceptance of our products.

Also during the third quarter of fiscal 2001, we completed the acquisition of Johnson & Michaels, Inc. (JAMI), a leading provider of business intelligence consulting services. The agreement stipulated that the shareholders of JAMI would receive total cash consideration of approximately \$3,915,000 over three years and 104,230 shares of our common stock valued at \$4,250,000 over the same period. Approximately \$2,345,000 has been paid and 60,583 shares have been issued; we held the remaining shares, all of which were issued, in escrow for release on the first (33%), second (33%), and third (34%) anniversaries of the closing of the transaction. We have conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of the purchase price. The deferred shares, valued at \$2,656,000, are accounted for as an offset to capital stock. The acquisition of JAMI did not involve the purchase of acquired in-process technology.

Fiscal 2000

During fiscal 2000, we completed two acquisitions. Neither the acquisition of Information Tools AG nor the acquisition of the minority interest in Cognos Far East Pte Limited involved the purchase of acquired in-process technology.

We acquired Information Tools AG, our distributor in Switzerland. The agreement stipulated that the shareholders of Information Tools AG were to receive total consideration of approximately \$657,000, of which \$458,000 was received in cash during fiscal 2000. The remainder of the consideration (\$199,000) was payable equally on the first and second anniversaries of the closing of the transaction. An amount, not to exceed \$500,000, could also be paid in contingent consideration. Of all those amounts, approximately \$60,000 was paid in fiscal 2002 relating to fiscal 2001 results and approximately \$120,000 was paid in fiscal 2001 relating to fiscal 2000 results. Approximately \$235,000 was paid in fiscal 2003 based on 2002 operating results. We have conditioned a portion of the overall consideration

on the continued tenure of certain employees. Under generally accepted accounting principles, these amounts are accounted for as compensation rather than as a component of purchase price.

We also purchased the entire outstanding minority interest in our subsidiary in Singapore, Cognos Far East Pte Limited. The former minority shareholders of Cognos Far East Pte Limited received approximately \$1,688,000 in cash upon completion of the purchase. No further consideration is due to the former minority shareholders of the subsidiary.

SPECIAL CHARGES

Business restructuring charge

During the quarter ended May 31, 2001, we implemented a restructuring plan to align our cost structure and operations to the prevailing economic environment, resulting in a pre-tax business restructuring charge to earnings of \$12.8 million. Business restructuring charges primarily related to involuntary employee separations for approximately 300 employees, as well as asset write-downs, and accruals for net costs of abandoning leases and related write-down of leasehold improvements. The employee separations impacted all functional groups and geographic regions.

Cost savings as a result of the restructuring plan affect compensation, amortization, and lease expenses. This decrease in costs primarily impacts selling, general, and administration expense and research and development expense. The expense reductions took effect in the second quarter of this fiscal year.

Cash outlays of \$8.2 million and fixed asset write-offs of \$1.6 million related to the restructuring activities were charged against the accrual in fiscal 2002. In the fourth quarter of fiscal 2002, \$2.6 million of the original accrual was reversed into income. The reversal was the result of revisions to prior cost assumptions including: subleases of closed sales offices, reversal of amounts accrued for salary and benefits as favorable arbitration rulings were pronounced and refinement of salary continuance amounts based on actual outcomes, and individual outplacement costs as many individuals refused the services and more affordable group alternatives were found. The balance of the charge will be paid early in fiscal 2003.

Patent Litigation Settlement

On May 5, 2000, an action was filed in the United States District Court for the Northern District of California against us by Business Objects S.A., for alleged patent infringement. The complaint alleged that our Impromptu product infringes Business Objects' United States Patent No. 5,555,403 entitled "Relational Database Access System using Semantically Dynamic Objects" (the "'403 Patent"). Although we have denied and continue to deny all claims asserted in the action, on May 24, 2002, subsequent to the balance sheet date, we reached an agreement to settle that action. Under the terms of the settlement agreement between ourselves and Business Objects, Business Objects has agreed to release us for any infringement of the '403 Patent (and any amendments or related patents) and to effect that release, has granted us a license under the '403 Patent for the term of that patent or any amendments or related patents. Both parties also agreed to release the other from all claims, liabilities, costs or expenses that either party hold against the other, on account of actions taken prior to the effective date. The parties have also entered into a covenant not to sue or assert any claim against the other for infringement of any patents for a period of 5 years from the effective date. As consideration for the settlement agreement, we have agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every quarter for the next eight quarters commencing on July 1, 2002. We have recorded a special charge of \$23,231,000, in fiscal 2002,

representing the present value of this payment stream discounted using an interest rate of 6%, in accordance with FASB Statement 5 *Contingent Liabilities*. The after-tax effect of this charge is \$16,827,000. The remaining balance of \$769,000 represents the interest to be recognized over the payment term. The principal amount is recorded in accrued charges and long-term liabilities on the balance sheet.

INTEREST INCOME AND EXPENSE

Interest income was earned on our cash, cash equivalents, and short-term investments and interest expense related primarily to interest incurred on various transactions occurring throughout the year. Net interest income was \$8.4 million, \$11.6 million, and \$6.7 million in fiscal 2002, 2001, and 2000, respectively. The decrease during fiscal 2002 was the result of a decrease in the average effective interest rates earned on investments offset by an increase in the average size of the investment portfolio. This decrease was amplified by the impact of unfavorable exchange rate fluctuations. The increase in fiscal 2001 was the result of an increase in the average size of the investment portfolio, and an increase in the average effective interest rates earned on investments. This increase was offset slightly by the impact of unfavorable exchange rate fluctuations.

TAX EXPENSE

Our tax rate is affected by the relative profitability of our operations in various geographic regions. In fiscal 2002, we recorded an income tax provision of \$8.8 million on \$28.2 million of pre-tax income, representing an effective income tax rate of 31%. In fiscal 2001, we recorded an income tax provision of \$27.1 million on \$91.3 million of pre-tax income, representing an effective income tax rate of 30%. In fiscal 2000, we recorded an income tax provision of \$22.9 million on \$81.7 million of pre-tax income. This tax expense represented an effective income tax rate of 28% for the year.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2002, we held \$314.5 million in cash, cash equivalents, and short-term investments, an increase of \$80.0 million from February 28, 2001. This increase was a result both of operating profits for the year of \$19.8 million and a substantial decrease in accounts receivable as we increased our billing and collection efforts. In addition, we have arranged an unsecured credit facility that includes an operating line and foreign exchange conversion facilities. The operating line permits us to borrow funds or issue letters of credit or guarantee up to Cdn\$15.0 (U.S.\$9.3) million, subject to certain covenants. As of February 28, 2002 and 2001, there were no direct borrowings under this operating line. As discussed further below, we have foreign exchange conversion facilities that allow us to hold foreign exchange contracts of approximately Cdn\$130.0 (U.S.\$81.0) million outstanding at any one time.

As of February 28, 2002, we had a total of \$9.1 million of long-term liabilities, an increase of \$7.6 million from February 28, 2001. The increase was the result of the long-term portion of the patent litigation settlement. As of February 28, 2002, working capital was \$227.6 million, an increase of \$29.9 million from February 28, 2001, primarily because of higher levels of cash, cash equivalents, and short-term investments which were partially offset by a decrease in accounts receivable and increases in accrued charges and deferred revenue. During fiscal 2002 we used \$29.0 million in cash for share repurchases and \$2.2 million for acquisitions.

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space, computer equipment, and vehicles. In accordance with GAAP, neither the lease

liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the thresholds for capitalization. Annual payments on these leases are approximately \$16.0 million. These amounts are disclosed in Note 6 of the Notes to the Consolidated Financial Statements.

Cash provided by operating activities (after changes in non-cash working capital items) for fiscal 2002 was \$103.7 million, an increase of \$4.7 million compared to the prior fiscal year. This fluctuation was due to a net decrease in non-cash working capital items as compared to fiscal 2001. This was offset by a decrease in net income after adjustments for depreciation, amortization, and other non-cash items.

Cash used in investing activities was \$20.0 million for fiscal 2002, a decrease in investment of \$99.2 million compared to the prior fiscal year. The majority of the fluctuation stems from a decrease in net investment in short-term investments and decreases in fixed asset additions and acquisition costs. In fiscal 2002, we spent \$5.2 million related to the activity in short-term investments compared to \$56.6 million (both net of maturities) in fiscal 2001. In addition, we spent \$2.2 million in fiscal 2002 on acquisitions, compared to \$11.4 million in fiscal 2001. (See Note 5 of the Notes to the Consolidated Financial Statements.) The decrease in fixed asset additions was primarily the result of the construction, during fiscal 2001, of a second building on the site of our corporate headquarters in Ottawa and a reduction in spending in fiscal 2002 due to the weakened economic environment prevalent through the majority of the year. We invested approximately \$17.8 million during fiscal 2001 in the expansion of our headquarters. This headquarter expansion was substantially complete in December 2000 and the building was fully occupied by the end of fiscal 2001. No costs relating to the construction of our headquarters were incurred in fiscal 2002.

Cash used in financing activities was \$5.1 million for fiscal 2002, compared to cash provided of \$4.5 million for financing activities during fiscal 2001. Our financing activities for both fiscal years involved the repurchase of our own shares in the open market, and the issuance of shares pursuant to our stock purchase plan and the exercise of stock options. Relating to financing activities, we issued 1,436,000 common shares for consideration of \$15.1 million during fiscal 2002, compared to 1,889,000 common shares for consideration of \$20.6 million during fiscal 2001. The issuance of shares in both periods was pursuant to our stock purchase plan and the exercise of stock options by employees, officers, and directors. During fiscal 2002 we repurchased 1,616,000 shares at a cost of \$29.0 million, compared to 580,000 shares at a cost of \$14.0 million in fiscal 2001.

The share repurchases made in the past two fiscal years were part of distinct open market share repurchase programs through the Nasdaq National Market. The share repurchases made in fiscal 2002 were part of two open market share repurchase programs. The program adopted in October 2000 expired on October 8, 2001. Under this program we repurchased 1,344,500 of our shares for \$24.9 million including repurchases of 816,000 shares for \$12.9 million in fiscal 2002; all repurchased shares were cancelled. In October 2001, we adopted a new program that enables us to purchase up to 4,400,943 common shares (not more than 5% of those issued and outstanding) between October 9, 2001 and October 8, 2002. Under the current program we have repurchased 800,257 shares for \$16.1 million during fiscal 2002; all repurchased shares were cancelled. This program does not commit us to make any share repurchases. Purchases will be made on the Nasdaq National Market or the Toronto Stock Exchange at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled. A copy of the *Notice of Intention to Make an Issuer Bid* is available from the Corporate Secretary. (See Note 10 of the Notes to the Consolidated Financial Statements.)

Our policy with respect to foreign currency exposure is to manage our 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, we enter into foreign exchange forward contracts to hedge portions of the net investment in our various subsidiaries. Typically these contracts are between

the United States dollar, the euro, the British pound, the Swiss franc, the Japanese yen, and the Australian dollar. We enter into these foreign exchange forward contracts with major Canadian chartered banks, and therefore we do 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, 2002, we had foreign exchange forward contracts, with maturity dates ranging from March 28, 2002 to July 25, 2002, to exchange various foreign currencies in the amount of \$18.7 million.

We have never declared or paid any cash dividends on our common shares. Our current policy is to retain our earnings to finance expansion and to develop, license, and acquire new software products, and to otherwise reinvest in Cognos.

We believe that our current cash, cash equivalents, and short-term investments balance and funds generated from operations, if any, will be adequate to finance operations and meet any capital requirements through fiscal 2003.

Inflation has not had a significant impact on our results of operations.

EUROPEAN ECONOMIC AND MONETARY UNION

The euro currency was introduced on January 1, 1999, and was fully implemented on January 1, 2002. The transition to this new currency has associated with it many potential implications for businesses operating in Europe including, but not limited to, products, information technology, pricing, currency exchange rate risk and derivatives exposure, continuity of material contracts, and potential tax consequences.

The new euro currency was introduced in stages over the course of a 3 year transition period. We believe the transition to the euro will have limited longer-term implications on our business. We have taken steps in the transition to the euro in the area of our internal processes and systems through identifying, modifying, and testing these processes and systems to handle transactions and reporting requirements involving the euro in accordance with the regulations. Our financial application systems represent the most significant internal systems that are affected by the transition to the euro. We earlier upgraded these systems to a version that enables us, together with certain process changes and modifications provided by the application vendor to their supported customers, to handle the initial requirements for transactions involving the euro. In the first quarter of fiscal 2002 we reassessed the need to further upgrade our financial applications system to handle the full requirements of the euro. We have experienced no significant impact and believe our current procedures and the modifications which have been made to the financial application system are adequate to handle the adoption of the euro, however, we continue to identify and, where necessary, modify our systems and processes in order to handle the various stages of the euro implementation. We are continuing to monitor our pricing in Europe, giving consideration to the transition to the euro.

We believe that the costs relating to the conversion of our internal systems and processes incurred to date, along with any future costs relating to such conversions, will not have a material adverse effect on our business, results of operations, or financial condition.

MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest

rates and foreign currency exchange rates. We do not hold or issue financial instruments for trading purposes.

Further discussion of our investment and foreign exchange policies can be found in Notes 1 and 8 of the Notes to the Consolidated Financial Statements.

INTEREST RATE RISK

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The investment of cash is regulated by our investment policy of which the primary objective is security of principal. Among other selection criteria, the investment policy states that the term to maturity of investments cannot exceed one year in length. We do not use derivative financial instruments in our investment portfolio.

Interest income on our cash, cash equivalents, and short-term investments is subject to interest rate fluctuations, but we believe that the impact of these fluctuations does not have a material effect on our financial position due to the short-term nature of these financial instruments. The amount of our long-term debt is immaterial. Our interest income and interest expense are most sensitive to the general level of interest rates in Canada and the United States. Sensitivity analysis is used to measure our interest rate risk. For the fiscal year ending February 28, 2002, a 100 basis-point adverse change in interest rates would not have had a material effect on our consolidated financial position, earnings, or cash flows.

FOREIGN CURRENCY RISK

We operate internationally; accordingly, a substantial portion of our financial instruments are held in currencies other than the United States dollar. Our policy with respect to foreign currency exposure is to manage 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, we enter into foreign exchange forward contracts to hedge portions of the net investment in various subsidiaries. The forward contracts are typically between the United States dollar, the euro, the British pound, the Swiss franc, the Japanese yen, and the Australian dollar. Sensitivity analysis is used to measure our foreign currency exchange rate risk. As of February 28, 2002, a 10% adverse change in foreign exchange rates versus the U.S. dollar would not have had a material effect on our reported cash, cash equivalents, and short-term investments.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

We make certain statements in this report that constitute forward-looking statements. These statements include, but are not limited to, statements relating to our expectations concerning future revenues and earnings, including future rates of growth, from the licensing of our business intelligence and application development products and related product support and services, and relating to the sufficiency of capital to meet our working capital and capital expenditure requirements. Forward-looking statements are neither promises nor guarantees, and are subject to risks and uncertainties that may cause future results to differ materially from those stated in the forward-looking statements. There can be no guarantee that future results will turn out as expected. Factors that may cause such differences include, but are not limited to, the factors discussed below. Additional risks and uncertainties that we are unaware of or currently deem immaterial may also adversely affect our business operations. We disclaim any obligation

to publicly update or revise any such statements to reflect any change in our expectations or events, conditions, or circumstances on which any such statement may be based.

RISKS RELATED TO OUR BUSINESS

Our revenue may not continue to grow at historical rates.

Although we have experienced significant license revenue growth with respect to our business intelligence products over the past few fiscal years, we cannot assure you that we will continue to grow. If we do grow, we cannot assure you that we will be able to maintain the historical rate or extent of such growth in the future. Our growth rate may be affected by global economic conditions generally, and the current economic slowdown, in particular.

Our quarterly and annual operating results are subject to fluctuations, which may cause our stock price to fluctuate or decline.

Historically, our quarterly operating results have varied from quarter to quarter, and we anticipate this pattern to continue. We typically realize a larger percentage of our 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. Our quarterly operating results may be adversely affected by a wide variety of factors, including:

- our ability to maintain revenue growth at current levels or anticipate a decline in revenue from any of our products;
- the impact of global economic conditions on the sales cycle;
- our ability to obtain and close large enterprise transactions;
- changes in product mix and our ability to anticipate changes in shipment patterns;
- our ability to identify and develop new technologies and to commercialize those technologies into new products;
- our ability to accurately select appropriate business models and strategies;
- our ability to make appropriate decisions which will position us to achieve further growth;
- our ability to identify, hire, train, motivate, and retain highly qualified personnel, and to achieve targeted productivity levels;
- our ability to identify, develop, deliver, and introduce in a timely manner new and enhanced versions of our products which anticipate market demand and address customer needs;
- market acceptance of business intelligence software generally and of new and enhanced versions of our products in particular;
- timing of new product announcements;
- our ability to establish and maintain a competitive advantage;
- changes in our pricing policies or those of our competitors and other competitive pressures on selling prices;
- size, timing, and execution of customer orders and shipments, including delays, deferrals, or cancellations of customer orders;
- number and significance of product enhancements and new product and technology announcements by our competitors;
- our reliance on third-party distribution channels as part of our sales and marketing strategy;
- the timing and provision of pricing protections and exchanges from certain distributors;
- changes in foreign currency exchange rates and issues relating to the conversion to the euro; and
- our ability to enforce our intellectual property rights.

These fluctuations could materially adversely affect our share price and our business, results of operations, and financial condition.

Our ability to adjust our expenses in the near term is limited, which could cause our profits to decrease.

In recent fiscal years, we have experienced an increase in our operating expenses as a result of decisions to invest in our sales channels, technical support, and research and development organizations. As a result of current economic conditions discretionary spending levels will be tempered; however, we will continue to selectively incur expenditures in areas that we view as strengthening our position in the marketplace. We base our operating expense budgets on expected revenue trends that are more difficult to predict in periods of economic uncertainty. If we do not meet revenue goals, we may not be able to meet reduced operating expense levels. It is possible that in one or more future quarters, our operating results may be below the expectations of public market analysts and investors. In that event, the price of our common shares may fall.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycles for our products, which would reduce our revenues.

Our customers typically invest substantial time, money, and other resources when deciding to license our software products, in particular in situations where we are making large enterprise-wide sales. As a result, we may wait many months after our first contact with a customer while that customer seeks internal approval for the purchase of our products. During this long sales cycle, events may occur that affect the size or timing of the order or even cause it to be canceled. For example, purchasing decisions may be postponed, or large purchases reduced, by periods of economic uncertainty, our competitors may introduce new products or the customer's own budget and purchasing priorities may change. The time required for implementation of our product varies among our customers and may last several months, depending on our customer's needs. It may be difficult to install our products if the customer has complicated operation requirements, such as integrating databases, hardware, and software from different vendors. Also, if a customer hires a third-party to install our products, we cannot be sure that our products will be installed successfully.

We rely, in part, on partners and other distribution channels to market and distribute our products, and any failure of these parties to do so could significantly harm our ability to expand our customer base, which would adversely affect our growth strategy.

Our sales and marketing strategy includes multi-tiered channels of third-party distributors, resellers, and original equipment manufacturers. We have developed a number of these relationships and intend to continue to develop new channel partner relationships. Our inability to attract effective channel partners, or these partners' inability to penetrate their respective market segments, or the loss of any of our channel partners as a result of competitive products offered by other companies or products developed internally by these channel partners or otherwise, could harm our ability to expand our customer base and, as a result, could cause our business to grow more slowly than forecasted or could result in additional, unanticipated expenses.

If we do not protect our intellectual property, we may not be competitive.

Our success depends in part on our ability to protect our proprietary rights in our intellectual property. We rely on certain intellectual property protections, including contractual provisions, patents, copyright, trademark and trade secret laws, to preserve our intellectual property rights. Despite our precautions, it may be possible for third-parties to obtain and use our intellectual property without our authorization. Policing unauthorized use of intellectual property is difficult and some foreign laws do not protect proprietary rights to the same extent as Canada or the United States.

To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses and materially disrupt the conduct of our business.

Intellectual property claims could be time consuming and costly to defend against, and, if we are unsuccessful, our ability to use intellectual property in the future could be limited or we may have to pay damages.

We may become increasingly subject to claims by third-parties that our technology infringes their proprietary rights due to the growth of software products in our target markets and the overlap in functionality of these products. Regardless of their merit, any such claims could:

- be time consuming;
- be expensive to defend;
- divert management's attention and focus away from the business;
- cause product shipment delays; and
- require us to enter into costly royalty or licensing agreements.

On May 5, 2000, an action was filed in the United States District Court for the Northern District of California against us by Business Objects S.A., for alleged patent infringement. The complaint alleged that our Impromptu product infringes Business Objects' United States Patent No. 5,555,403 entitled "Relational Database Access System using Semantically Dynamic Objects" (the "'403 Patent"). Although we have denied and continue to deny all claims asserted in the action, on May 24, 2002, subsequent to the balance sheet date, we reached an agreement to settle that action. Under the terms of the settlement agreement between ourselves and Business Objects, Business Objects has agreed to release us for any infringement of the '403 Patent (and any amendments or related patents) and to effect that release, has granted us a license under the '403 Patent for the term of that patent or any amendments or related patents. Both parties also agreed to release the other from all claims, liabilities, costs or expenses that either party hold against the other, on account of actions taken prior to the effective date. The parties have also entered into a covenant not to sue or assert any claim against the other for infringement of any patents for a period of 5 years from the effective date. As consideration for the settlement agreement, we have agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every quarter for the next eight quarters commencing on July 1, 2002.

The loss of our rights to use software licensed to us by third-parties could significantly increase our operating expenses by forcing us to seek alternative technology and adversely affect our ability to compete.

In order to provide a complete business intelligence solution, we license certain technologies used in our products from third-parties, generally on a non-exclusive basis. The termination of such licenses, or the failure of the third-party licensors to adequately maintain or update their products, could delay our ability to ship certain of our products while we seek to implement alternative technology offered by other

sources. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of our products or relating to current or future technologies to enhance our product offerings. We cannot assure you that we will be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

We face significant operational and financial risks associated with our international operations.

We derive a significant portion of our total revenues from international sales. International sales are subject to significant risks, including:

- unexpected changes in legal and regulatory requirements and policy changes affecting our markets;
- changes in tariffs and other trade barriers;
- fluctuations in currency exchange rates;
- political and economic instability;
- longer payment cycles and other difficulties in accounts receivable collection;
- difficulties in managing distributors and representatives;
- difficulties in staffing and managing foreign operations;
- difficulties in protecting our intellectual property; and
- potentially adverse tax consequences.

Each of these factors could materially impact our international operations and adversely affect our business as a whole.

Pursuing, completing, and integrating recent and potential acquisitions could divert management's attention and financial resources and may not produce the desired business results.

In the past we have made acquisitions of products and businesses. In the future, we may engage in additional selective acquisitions of other products or businesses that we believe are complementary to ours. We cannot assure you that we will be able to identify additional suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition, or successfully integrate any acquired product or business into our operations. Further, acquisitions may involve a number of special risks, including:

- diversion of management's attention;
- disruption to our ongoing business;
- failure to retain key acquired personnel;
- difficulties in assimilating acquired operations, technologies, products, and personnel;
- unanticipated expenses, events, or circumstances;
- assumption of legal and other undisclosed liabilities; and
- the risk that we will not be able to value the acquired in-process research and development appropriately.

If we do not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on our business, results of operations, and financial condition. Problems with an acquired business could have a material adverse effect on our performance as a whole. In addition, if we proceed with an acquisition, our available cash may be used to complete the transaction, or shares may be issued which could cause a dilution to existing shareholders.

Failure to manage our growth may impact our operating results.

We expect to continue to grow our business. The expansion of our business and customer base has placed, and will continue to place, increased demands on our management, operating systems, internal controls, and financial resources. If not managed effectively, these increased demands may adversely affect the services we provide to our existing clients. In addition, our personnel, systems, procedures, and controls may be inadequate to support our future operations. Consequently, in order to manage our growth effectively, we may be required to increase expenditures to expand, train, and manage our employee base, improve our management, financial, and information systems and controls, or make other capital expenditures. Our results of operations and financial condition could be harmed if we encounter difficulties in effectively managing our growth.

If our product contains material defects, our ability to attract and retain customers may be harmed.

Our software products are complex and may contain errors or defects, particularly when first introduced, when new versions or enhancements are released, or when configured to individual customer computing systems. We currently have known errors and defects in our products. Despite testing conducted by us, additional defects and errors found in current versions, new versions, or enhancements of our products after commencement of commercial shipment could result in the loss of revenues or a delay in market acceptance. The occurrence of any of these events could cause us to lose customers or require us to pay damages to existing customers and, therefore, could seriously harm our business, operating results, and financial condition.

If a successful product liability claim were made against us, our business would be seriously harmed.

Our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. Despite this, it is possible that such limitation of liability provisions may not be effective as a result of existing or future laws or unfavorable judicial decisions. We have not experienced any product liability claims to date. However, the sale and support of our products may entail the risk of such claims, which are likely to be substantial in light of the use of our products in business-critical applications. A successful product liability claim could result in significant monetary liability and could seriously disrupt our business.

Currency fluctuations may adversely affect us.

A substantial portion of our revenues are earned in currencies other than U.S. dollars, and, similarly, a substantial portion of our operating expenses are incurred in currencies other than U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar and the euro, may have a material adverse effect on our business, financial condition, and operating results. Our policy with respect to foreign currency exposure is to manage financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. We enter into foreign exchange forward contracts to hedge portions of the net investment in various subsidiaries, typically between the United States dollar, the euro, the British pound, the German mark, and the Australian dollar.

Our executive management and other key personnel are essential to our business, and if we are not able to recruit and retain qualified personnel, our ability to develop, market, and support our products and services could be harmed.

We depend on the services of our key technical and management personnel. The loss of the services of any of these persons could have a material adverse effect on our business, results of operations, and financial condition. Our success is highly dependent on our continuing ability to identify, hire, train,

motivate, and retain highly qualified management, technical, sales, and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be able to attract, assimilate, or retain highly qualified technical and managerial personnel in the future. Our inability to attract and retain the necessary management, technical, sales, and marketing personnel may adversely affect our future growth and profitability.

RISKS RELATED TO OUR INDUSTRY

We face intense competition and, if we fail to compete successfully, our business could be seriously harmed and our revenues could grow more slowly than expected.

We face substantial competition throughout the world, primarily from software companies located in the United States, Europe, and Canada. Some of our competitors have been in business longer than we have and have substantially greater financial and other resources with which to pursue research and development, manufacturing, marketing, and distribution of their products. We expect our existing competitors and potentially new 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 our competitors could cause a decline in sales, a reduction in the sales price, or a loss of market acceptance of our existing products. To the extent that we are unable to effectively compete against our current and future competitors, our ability to sell products could be harmed and our market share reduced. Any erosion of our competitiveness could have a material adverse effect on our business, results of operations, and financial condition.

If we do not respond effectively and on a timely basis to rapid technological change, our products and services may become obsolete and we could lose customers.

The markets for our products are characterized by:

- rapid and significant technological change;
- frequent new product introductions and enhancements;
- changing customer demands; and
- evolving industry standards.

We cannot assure you that our products will remain competitive; respond to market demands, developments, and new industry standards; and not become obsolete. If we are unable to identify a shift in the market demand quickly enough, we may not be able to develop products to meet those new demands, or bring them to market in a timely way. In addition, failure to respond successfully to technological change may harm our ability to attract and retain customers.

RISKS RELATED TO EXTERNAL CONDITIONS

Our stock price will fluctuate.

The market price of our common shares may be volatile and could be subject to wide fluctuations due to a number of factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of technological innovations or new products by us or our competitors;
- changes in estimates of our future results of operations by securities analysts;
- general industry changes in the business intelligence tools or solutions markets; or

- other events or factors, including the announcement of our settlement of the patent litigation matter with Business Objects.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high-technology companies and that often have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may adversely affect the market price of our common shares. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Similar litigation may occur in the future with respect to us, which could result in substantial costs, divert management's attention and other company resources, and have a material adverse effect upon our business, results of operations, and financial condition.

QUARTERLY RESULTS

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2002 and fiscal 2001.

On April 6, 2000 our Board of Directors authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to stockholders of record at the close of business on April 20, 2000. All historic consolidated results have been restated for the split.

	Fiscal 2001				Fiscal 2002			
	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	\$108,698	\$118,213	\$124,638	\$144,103	\$108,016	\$116,313	\$124,181	\$142,792
Operating expenses								
Cost of product license	1,729	1,713	1,925	1,948	1,106	962	847	694
Cost of product support	4,274	4,071	4,551	4,924	4,294	3,862	3,825	4,595
Selling, general, and administrative	72,625	75,931	81,339	90,640	88,873	85,311	84,943	84,149
Research and development	15,854	16,507	16,854	18,049	19,422	18,423	17,579	19,190
Acquired in-process technology	—	—	3,000	—	—	—	—	—
Special charges	—	—	—	—	12,798	—	—	20,642
Total operating expenses	94,482	98,222	107,669	115,561	126,493	108,558	107,194	129,270
Operating income (loss)	\$ 14,216	\$ 19,991	\$ 16,969	\$ 28,542	\$ (18,477)	\$ 7,755	\$ 16,987	\$ 13,522
Net income (loss)	\$ 11,984	\$ 16,511	\$ 13,627	\$ 22,138	\$ (11,102)	\$ 7,104	\$ 13,286	\$ 10,120
Net income (loss) per share								
Basic	\$0.14	\$0.19	\$0.15	\$0.25	\$(0.13)	\$0.08	\$0.15	\$0.12
Diluted *	\$0.13	\$0.18	\$0.15	\$0.24	\$(0.13)	\$0.08	\$0.15	\$0.11

* For the first quarter of fiscal year 2002 the effect of converting stock options was anti-dilutive as a result of net losses.

Our sales cycle may span nine months or more, depending on factors such as the size of the transaction, the product involved, the length of the customer relationship, the timing of our new product introductions and product introductions by 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 we take 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).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, reference is made to page 31 of this form 10-K, Item 7, **Management's Discussion and Analysis of Financial Condition and Results of Operations** and to page 55 of this form 10-K, Note 8 of the Notes to the Consolidated Financial Statements, Item 8, **Financial Statements and Supplementary Data**.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

The Corporation's management is responsible for preparing the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles. 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 LLP, the independent auditors appointed by the stockholders, have been engaged to conduct an examination of the consolidated financial statements in accordance with generally accepted auditing standards, and have expressed their opinion on these statements. During the course of their audit, Ernst & Young LLP reviewed the Corporation's system of internal controls 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 internal control, 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 stockholders, the engagement or reappointment of the external auditors. Ernst & Young LLP 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.

/s/ James M. Tory

/s/ Ron Zambonini

/s/ Tom Manley

James M. Tory
Chairman

Ron Zambonini
President and
Chief Executive Officer

Tom Manley
Senior Vice President,
Finance & Administration, and
Chief Financial Officer

March 28, 2002
(except note 14, as to which
the date is May 24, 2002)

AUDITORS' REPORT

To the Board of Directors and Stockholders of Cognos Incorporated:

We have audited the consolidated balance sheets of Cognos Incorporated as at February 28, 2002 and February 28, 2001 and the consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2002. 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 United States and Canadian 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, 2002 and February 28, 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2002, in accordance with United States generally accepted accounting principles.

On March 28, 2002 (except note 14, as to which the date is May 24, 2002), we reported separately to the Board of Directors and Stockholders of Cognos Incorporated on financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles.

/s/ Ernst & Young LLP

Ottawa, Canada
March 28, 2002
(except note 14, as to which
the date is May 24, 2002)

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED STATEMENTS OF INCOME
(US\$000s except share amounts, U.S. GAAP)

	Note	Years Ended the Last Day of February,		
		2002	2001	2000
Revenue				
Product license		\$228,255	\$262,766	\$203,299
Product support		175,636	147,589	118,061
Services		87,411	85,297	64,280
Total revenue		491,302	495,652	385,640
Operating expenses				
Cost of product license		3,609	7,315	5,235
Cost of product support		16,576	17,820	13,758
Selling, general, and administrative		343,276	320,535	238,147
Research and development		74,614	67,264	53,548
Acquired in-process technology	5	–	3,000	–
Special charges	7,14	33,440	–	–
Total operating expenses		471,515	415,934	310,688
Operating income		19,787	79,718	74,952
Interest expense		(540)	(786)	(718)
Interest income		8,922	12,386	7,454
Income before taxes		28,169	91,318	81,688
Income tax provision	9	8,761	27,058	22,873
Net income		\$ 19,408	\$ 64,260	\$ 58,815
Net income per share	10			
Basic		\$0.22	\$0.74	\$0.68
Diluted		\$0.21	\$0.70	\$0.67
Weighted average number of shares (000s)	10			
Basic		87,807	87,324	85,972
Diluted		90,461	91,973	88,100

(See accompanying notes)

CONSOLIDATED BALANCE SHEETS

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

	Note	February 28, 2002	February 28, 2001
Assets			
Current assets			
Cash and cash equivalents	8	\$192,900	\$115,293
Short-term investments	8	121,629	119,265
Accounts receivable	2	114,059	146,867
Inventories		537	730
Prepaid expenses		6,765	8,648
Deferred tax assets	9	6,404	–
		442,294	390,803
Fixed assets	3	59,008	74,208
Other assets	4	20,850	30,581
		\$522,152	\$495,592
Liabilities			
Current liabilities			
Accounts payable		\$ 26,387	\$ 28,256
Accrued charges	7,14	34,210	21,830
Salaries, commissions, and related items	7	37,453	28,822
Income taxes payable	9	6,167	17,548
Deferred revenue		110,504	96,674
		214,721	193,130
Long-term liabilities	5,14	9,131	1,539
Deferred income taxes	9	3,127	10,394
		226,979	205,063
Commitments and Contingencies	5, 6, 14		
Stockholders' Equity			
Capital stock			
Common shares			
(2002 – 87,997,220; 2001 – 87,885,161)	10	151,637	134,791
Retained earnings		158,762	165,755
Accumulated other comprehensive income		(15,226)	(10,017)
		295,173	290,529
		\$522,152	\$495,592

(See accompanying notes)

On behalf of the Board:

/s/ Douglas C. Cameron

Douglas C. Cameron, Director

/s/ James M. Tory

James M. Tory, Chairman

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

	Common Stock		Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Earnings	Income	
	(000s)				
Balances, February 28, 1999	86,362	\$ 88,579	\$ 79,341	\$ (8,712)	\$159,208
Issuance of stock					
Stock option plans	1,973	15,420			15,420
Stock purchase plans	120	1,095			1,095
Amortization of deferred stock-based compensation		693			693
Repurchase of shares	(2,286)	(2,458)	(23,555)		(26,013)
Income tax effect related to stock options		894			894
	86,169	104,223	55,786	(8,712)	151,297
Net income			58,815		58,815
Other comprehensive income					
Foreign currency translation adjustments				2,479	2,479
Comprehensive income			58,815	2,479	61,294
Balances, February 29, 2000	86,169	\$104,223	\$114,601	\$ (6,233)	\$212,591
Issuance of stock					
Stock option plans	1,816	18,574			18,574
Stock purchase plans	73	2,018			2,018
Business acquisitions	253	9,070			9,070
Deferred stock-based compensation	(65)	(2,656)			(2,656)
Amortization of deferred stock-based compensation	219	1,233			1,233
Repurchase of shares	(580)	(881)	(13,106)		(13,987)
Income tax effect related to stock options		3,210			3,210
	87,885	134,791	101,495	(6,233)	230,053
Net income			64,260		64,260
Other comprehensive income					
Foreign currency translation adjustments				(3,784)	(3,784)
Comprehensive income			64,260	(3,784)	60,476
Balances, February 28, 2001	87,885	\$134,791	\$165,755	\$ (10,017)	\$290,529
Issuance of stock					
Stock option plans	1,279	12,742			12,742
Stock purchase plans	157	2,337			2,337
Amortization of deferred stock-based compensation	292	3,341			3,341
Repurchase of shares	(1,616)	(2,638)	(26,401)		(29,039)
Income tax effect related to stock options		1,064			1,064
	87,997	151,637	139,354	(10,017)	280,974
Net income			19,408		19,408
Other comprehensive income					
Foreign currency translation adjustments				(5,209)	(5,209)
Comprehensive income			19,408	(5,209)	14,199
Balances, February 28, 2002	87,997	\$151,637	\$158,762	\$ (15,226)	\$295,173

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years Ended the Last Day of February		
	2002	2001	2000
Cash provided by (used in) operating activities			
Net income	\$ 19,408	\$ 64,260	\$ 58,815
Non-cash items			
Depreciation and amortization	31,031	23,657	17,546
Amortization of deferred stock-based compensation	3,341	1,233	693
Amortization of other deferred compensation	4,767	1,809	1,351
Write-off of acquired in-process technology	–	3,000	–
Deferred income taxes	(13,111)	(3,853)	7,165
Loss on disposal of fixed assets	1,114	561	148
	46,550	90,667	85,718
Change in non-cash working capital			
Decrease (increase) in accounts receivable	29,605	(39,824)	(32,818)
Decrease in inventories	165	37	31
Decrease (increase) in prepaid expenses	1,546	(731)	(1,422)
Increase (decrease) in accounts payable	(1,052)	4,320	3,930
Increase (decrease) in accrued charges	13,204	3,145	1,004
Increase in salaries, commissions, and related items	9,408	5,630	4,394
Increase (decrease) in income taxes payable	(11,218)	14,262	(3,993)
Increase in deferred revenue	15,481	21,467	26,374
	103,689	98,973	83,218
Cash provided by (used in) investing activities			
Maturity of short-term investments	235,743	138,803	138,796
Purchase of short-term investments	(240,974)	(195,386)	(146,238)
Additions to fixed assets	(12,588)	(51,963)	(28,096)
Acquisition costs	(2,193)	(11,377)	(2,146)
Proceeds from the sale of fixed assets	–	759	24
	(20,012)	(119,164)	(37,660)
Cash provided by (used in) financing activities			
Issue of common shares	16,143	23,802	17,409
Repurchase of shares	(29,039)	(13,987)	(26,013)
Increase in (repayment of) long-term debt and long-term liabilities	7,798	(5,293)	(467)
	(5,098)	4,522	(9,071)
Effect of exchange rate changes on cash	(972)	(1,473)	2,331
Net increase (decrease) in cash and cash equivalents	77,607	(17,142)	38,818
Cash and cash equivalents, beginning of period	115,293	132,435	93,617
Cash and cash equivalents, end of period	192,900	115,293	132,435
Short-term investments, end of period	121,629	119,265	64,284
Cash, cash equivalents, and short-term investments, end of period	\$314,529	\$234,558	\$196,719

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cognos Incorporated (the “Corporation”) is a global provider of business intelligence software solutions. The Corporation develops, markets, and supports an integrated business intelligence solution that allows customers, as well as their partners, customers, and suppliers, to analyze and report data from multiple perspectives. The Corporation markets and supports these solutions both directly and through resellers worldwide.

Basis of Presentation

These consolidated financial statements have been prepared by the Corporation in United States (U.S.) dollars and in accordance with United States generally accepted accounting principles (GAAP), applied on a consistent basis.

Consolidated financial statements prepared in accordance with Canadian GAAP, in U.S. dollars, are made available to all shareholders, and filed with various regulatory authorities.

Basis of Consolidation

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

Estimates

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 present fairly the results for the periods presented. Actual results could differ from these estimates.

Comprehensive Income

Comprehensive Income includes net income and other comprehensive income (OCI). OCI refers to changes in net assets from transactions and other events, and circumstances other than transactions with stockholders. These changes are recorded directly as a separate component of Stockholders’ Equity and excluded from net income. The only comprehensive income item for the Corporation relates to foreign currency translation adjustments pertaining to those subsidiaries not using the U.S. dollar as their functional currency net of derivative gains or losses.

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 Financial Accounting Standards Board’s (FASB) Statement No. 52, *Foreign Currency Translation*. The financial statements of the foreign subsidiaries are measured using local currency as the functional currency. 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 and losses are immaterial for all periods presented.

Revenue

The Corporation recognizes revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants.

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 when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. If a license includes the right to return the product for refund or credit, revenue is recognized net of an allowance for estimated returns provided all the requirements of SOP 97-2 have been met.

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, and that would not have been incurred but for the acquisition of that contract, are deferred and expensed in the period the related revenue is recognized. These costs include commissions payable on sales of support contracts.

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

For contracts with multiple obligations (e.g., deliverable and undeliverable products, support obligations, education, consulting, and other services), the Corporation allocates revenue to each element of the contract based on objective evidence, specific to the Corporation, of the fair value of the element.

Cash, Cash Equivalents, and Short-Term Investments

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

Derivative Financial Instruments

Effective March 1, 2001, the corporation adopted FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and the corresponding amendments under SFAS 138 *Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment to SFAS No. 133*. SFAS 133 requires that all derivatives, whether designated in hedging relationships or not, are to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in net income/loss. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCI and are recognized in net income/loss when the hedged item affects net income/loss. If the derivative is designated a hedge of net investment in foreign operations, the changes in fair value are reported in OCI as part of the cumulative translation adjustment to the extent that it is effective.

Inventories

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

Fixed Assets

Fixed assets are recorded at cost. Computer equipment and software, and the building, are depreciated using the straight line method. Office furniture is depreciated using the diminishing balance method. Building improvements are amortized using the straight line method over the life of the improvement. 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. Fixed assets are tested for impairment when evidence of a decline in value exists and are adjusted to estimated fair value if the asset is impaired.

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.

Other Assets

This category includes acquired technology, goodwill, and other deferred compensation associated with various acquisitions, and deferred software development costs.

Acquired technology is initially recorded at fair value based on the present value of the estimated net future income-producing capabilities of software products acquired on acquisitions. Acquired technology is amortized over five years on a straight line basis. The Corporation evaluates the expected future net cash flows of the acquired technology at each reporting date, and adjusts to estimated fair value if the value of the asset is impaired.

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill resulting from acquisitions prior to June 30, 2001 is amortized over five years on a straight line basis. Goodwill resulting from acquisitions subsequent to June 30, 2001 is not amortized in accordance with the transitional provisions of FASB Statement 142 (see Note 13). The Corporation evaluates the expected future net cash flows of the acquired businesses at each reporting date, and adjusts goodwill for any impairment.

Other deferred compensation includes cash consideration associated with acquisitions made by the Corporation. Other deferred compensation is recorded when its future payment is determinable and is payable contingent upon the continued tenure of the principals of the acquired companies who have become employees of the Corporation. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price.

Development costs incurred internally in creating computer software to be sold, licensed, or otherwise marketed, 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. Research costs 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. The Corporation did not capitalize any costs of internally-developed computer software to be sold, licensed or otherwise marketed, and recognized no amortization expense in each of fiscal 2002, 2001, and 2000.

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.

2. ACCOUNTS RECEIVABLE

Accounts receivable include an allowance for doubtful accounts of \$8,808,000 and \$11,521,000 as of February 28, 2002 and February 28, 2001, respectively.

3. FIXED ASSETS

	2002		2001		Depreciation / Amortization Rate
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization	
	(\$000s)		(\$000s)		
Computer equipment and software	\$62,500	\$48,496	\$72,100	\$47,991	33%
Office furniture	27,819	15,077	27,779	12,538	20%
Building and Leasehold improvements	18,945	7,213	18,182	5,350	Life of Improvement /Lease Term
Land	740	-	775	-	-
Building	21,897	2,107	22,754	1,503	2.5%
	131,901	\$72,893	141,590	\$67,382	
	(72,893)		(67,382)		
Net book value	<u>\$59,008</u>		<u>\$74,208</u>		

Depreciation and amortization of fixed assets was \$23,874,000, \$18,475,000, and \$13,898,000 in each of fiscal 2002, 2001, and 2000, respectively.

4. OTHER ASSETS

Other assets as at February 28, 2002, and February 28, 2001, include acquired technology, goodwill, and other deferred compensation, and are disclosed net of amortization.

The Corporation recorded \$2,193,000 of goodwill in fiscal 2002, \$18,421,000 of goodwill, workforce, and other deferred compensation in fiscal 2001, and \$2,352,000 of goodwill and other deferred compensation in fiscal 2000. Amortization of other assets was \$11,924,000, \$6,991,000, and \$4,999,000 in each of fiscal 2002, 2001, and 2000, respectively (see Note 5).

The Corporation did not capitalize any costs of internally-developed computer software to be sold, licensed, or otherwise marketed in each of fiscal 2002, 2001, and 2000, and did not record any amortization.

5. ACQUISITIONS

Fiscal 2002 Acquisitions

On February 28, 2002, the Corporation exercised its option to purchase 50% of the voting shares representing all of the outstanding voting interest in the Corporation's subsidiary in Japan, Teijin Cognos Incorporated (TCI). The Corporation felt that TCI could more gainfully serve the Japanese market as a wholly owned subsidiary. The Corporation has always consolidated the results of TCI as it has had effective control over TCI. The former shareholders of TCI received approximately \$2,193,000 in cash upon completion of the purchase. The Corporation will also pay Teijin Limited its accumulated minority interest in TCI of approximately \$1,462,000 due March 30, 2002. The Corporation has also agreed to pay additional consideration at each period end for the next 8 quarters, based on the net revenue of TCI. This additional purchase price has not been recorded as it cannot be reasonably estimated. The purchase of TCI did not involve the purchase of any in-process research and development. The acquisition was accounted for using the purchase method. The results of operations of TCI are already consolidated, and thus pro forma information has not been provided.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (\$000s)

	Teijin Cognos Incorporated
Assets acquired	\$ 3,712
Liabilities assumed	(2,250)
Net assets acquired	<u>1,462</u>
Goodwill	<u>2,193</u>
Purchase price	<u><u>\$ 3,655</u></u>
Purchase price consideration	
Cash	2,193
Deferred payment	<u>1,462</u>
	<u><u>\$ 3,655</u></u>

Goodwill recorded as a result of this transaction will not be amortized in accordance with SFAS 142 but will be tested for impairment as of March 1, 2002.

Fiscal 2001 Acquisitions

On June 1, 2000, the Corporation acquired Powerteam OY, the Corporation's distributor in Finland. The agreement stipulated that the shareholders of Powerteam OY would receive approximately \$2,258,000 in cash in the two years subsequent to the date of acquisition and could also receive cash payments not to exceed \$500,000 over the three years subsequent to the date of acquisition. The Corporation has conditioned a portion of the contingent consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price.

On September 21, 2000, the Corporation acquired NoticeCast Software Ltd., based in Twickenham, United Kingdom. NoticeCast's Enterprise Event Management Software monitors business processes and

delivers timely business intelligence notifications to business users across the enterprise via e-mail on their personal computer, hand-held or wireless device. The agreement stipulated that the shareholders of NoticeCast Software Ltd. would receive approximately \$9,000,000 in cash on closing and would receive 148,468 shares of the Corporation's common stock valued at approximately \$4,820,000. The shares are being held in escrow by the Corporation and will be released on the second anniversary of the closing of the transaction. An independent appraisal valued the in-process research and development at \$3,000,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of \$3,000,000 (or \$0.03 per share on a diluted basis) in the third quarter ended November 30, 2000, to write off the in-process technology.

On November 1, 2000, the Corporation completed the acquisition of Johnson & Michaels, Inc. (JAMI), a leading provider of business intelligence consulting services. The agreement stipulated that the shareholders of JAMI would receive total cash consideration of approximately \$3,915,000 over three years and 104,230 shares of the Corporation's common stock valued at \$4,250,000 over the same period. Approximately \$1,406,000 was paid and 39,085 shares were issued on closing; the remaining shares, all of which were issued, were held in escrow by the Corporation and were scheduled to be released on the first (33%), second (33%), and third (34%) anniversaries of the closing of the transaction. The Corporation has conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price. The deferred shares, valued at \$2,656,000, are accounted for as an offset to capital stock.

The scheduled aggregate annual payments for the long-term liabilities related to these acquisitions are \$921,000 and \$1,539,000 in fiscal 2002 and 2003, respectively. Amounts due within twelve months are included in accrued charges.

The acquisitions have been accounted for using the purchase method. The results of operations of all three acquired companies prior to the acquisitions were not material, and thus pro forma information has not been provided. The results of the acquired companies have been combined with those of the Corporation from the date of the acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (\$000s)

	Powerteam OY	NoticeCast Software Inc.	Johnson & Michaels Inc.	Total
Assets acquired				
In-process technology	\$ -	\$ 3,000	\$ -	\$ 3,000
Other assets	3,906	450	814	5,170
	3,906	3,450	814	8,170
Liabilities assumed	(2,502)	(1,580)	(922)	(5,004)
Net assets acquired	1,404	1,870	(108)	3,166
Goodwill	854	11,950	3,545	16,349
Purchase price	\$2,258	\$13,820	\$3,437	\$19,515
Purchase price consideration				
Cash	\$ 971	\$ 9,000	\$1,406	\$11,377
Deferred payment	1,287	-	437	1,724
Shares	-	4,820	1,594	6,414
	\$2,258	\$13,820	\$3,437	\$19,515

Other consideration				
Deferred cash	–	–	2,072	2,072
Deferred shares	–	–	2,656	2,656
Total consideration	<u>\$2,258</u>	<u>\$13,820</u>	<u>\$8,165</u>	<u>\$24,243</u>

Fiscal 2000 Acquisitions

On May 28, 1999, the Corporation completed the acquisition of Information Tools AG, the Corporation's distributor in Switzerland. The agreement stipulated that the shareholders of Information Tools AG were to receive total consideration of approximately \$657,000 of which \$458,000 was received in cash during fiscal 2000. The remainder of the consideration (\$199,000) was payable equally on the first and second anniversaries of the closing of the transaction. An amount not to exceed \$500,000 could also be paid in contingent consideration. Of that amount, approximately \$235,000 was paid in fiscal 2003 based on 2002 results, approximately \$60,000 was paid in fiscal 2002 relating to fiscal 2001 results, and approximately \$120,000 was paid in fiscal 2001 relating to fiscal 2000 results. The Corporation has conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles, these amounts are accounted for as compensation rather than as a component of purchase price.

On July 15, 1999, the Corporation completed the purchase of the entire outstanding minority interest in the Corporation's subsidiary in Singapore, Cognos Far East Pte Limited. The former minority shareholders of Cognos Far East Pte Limited received approximately \$1,688,000 in cash upon completion of the purchase. No further consideration is due to the former minority shareholders of the subsidiary.

Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisition were not material, and thus pro forma information has not been provided. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (\$000s)

	Information Tools AG	Cognos Far East Pte Limited	Total
Assets acquired	\$ 683	\$ –	\$ 683
Liabilities assumed	(570)	–	(570)
Net assets acquired	113	–	113
Goodwill	544	1,688	2,232
Purchase price	<u>\$ 657</u>	<u>\$1,688</u>	<u>\$2,345</u>
Purchase price consideration			
Cash	458	1,688	2,146
Deferred payment	199	–	199
	<u>\$ 657</u>	<u>\$1,688</u>	<u>\$2,345</u>
Other consideration			
Deferred cash	415	–	415
Total consideration	<u>\$1,072</u>	<u>\$1,688</u>	<u>\$2,760</u>

6. COMMITMENTS

Certain of the Corporation's offices, computer equipment, and vehicles are leased under various terms. The annual aggregate lease expense in each of fiscal 2002, 2001, and 2000, was \$15,959,000, \$14,715,000, and \$12,205,000, respectively.

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

2003	\$12,205
2004	8,231
2005	6,347
2006	4,372
2007	2,814
Thereafter	5,441

7. BUSINESS RESTRUCTURING CHARGES

In connection with a restructuring plan to align the Corporation's cost structure and operations to the prevailing economic environment, the Corporation recorded in the quarter ended May 31, 2001 a pre-tax business restructuring charge to earnings of \$12,798,000. Business restructuring charges primarily relate to involuntary employee separations for approximately 300 employees, as well as asset write-downs, and accruals for net costs of abandoning leased premises and related write-downs of leasehold improvements. The remaining accrual is included on the balance sheet as accrued charges and salaries, commissions and related items.

The employee separations impact all functional groups and geographic regions of the Corporation. All employee separations were completed within the fiscal year and substantially all amounts have been paid.

The adjustment of \$2,589,000 to the restructuring accrual includes reversals resulting from revisions to prior cost assumptions including: subleases of closed sales offices of \$504,000, reversal of employee severance and related costs of \$1,306,000, and outplacement costs of \$430,000.

The following table displays the status of the restructuring reserve at February 28, 2002: (\$000s)

	Employee Separations	Other Restructuring Costs	Total
Restructuring charges in Q1 fiscal 2002	\$ 9,660	\$ 3,138	\$12,798
Cash Payments	(7,203)	(1,040)	(8,243)
Asset write-downs	—	(1,557)	(1,557)
Adjustments to accrual	(2,306)	(283)	(2,589)
Balance as at February 28, 2002	<u>\$ 151</u>	<u>\$ 258</u>	<u>\$ 409</u>

8. FINANCIAL INSTRUMENTS

Foreign Exchange Forward Contracts

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. The corporation currently utilizes forward contracts to manage foreign currency translation exposure of net investment in foreign operations. As a result, the exchange gains and losses recorded on translation of the subsidiaries financial statements are partially offset by gains and losses attributable to the applicable foreign exchange forward contract. Realized and unrealized gains and losses from these hedges are not included in income but are shown in the cumulative translation adjustment account included in OCI. During the years ended February 28, 2002, 2001, and February 29, 2000, the amount recorded to the cumulative translation adjustment with respect to the forward exchange contracts was a net gain of \$973,000, \$383,000, and a net loss of \$123,000, respectively.

The Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of Cdn \$130,000,000 (US \$81,012,000) outstanding at any one time. 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, 2002, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 28, 2002 to July 25, 2002, to exchange various foreign currencies in the amount of \$18,733,000 (the estimated fair value was \$19,124,000). As of February 28, 2001, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 29, 2001 to July 26, 2001, to exchange various foreign currencies in the amount of \$15,173,000 (the estimated fair value was \$15,353,000).

Concentration of Credit Risk

The investment of 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) a selection of securities with an acceptable credit rating; (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.

Included in cash, cash equivalents, and short-term investments as of February 28, 2002 and February 28, 2001 were corporate debt amounts of \$40,000,000 and \$44,058,000, respectively. The corporate debt as of February 28, 2002 and February 28, 2001 was with one and three distinct issuers, respectively. These amounts were repaid, in full, at maturity in March of their respective years. All the Corporation's short-term investments as of February 28, 2002 and February 28, 2001 had maturity dates before the end of June of their respective years. The Corporation's cash, cash equivalents, and short-term investments are denominated predominantly in Canadian and U.S. dollars.

The Corporation has an unsecured credit facility, subject to annual renewal, that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to an aggregate of Cdn \$15,000,000 (US \$9,348,000), subject to certain covenants. As of February 28, 2002 and February 28, 2001, there were no direct borrowings under this operating line.

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 Corporation's large customer base and its geographical dispersion (see Note 12).

Fair Value of Financial Instruments

For certain of the Corporation's financial instruments, including accounts receivable, accounts payable, and other accrued charges, the carrying amounts approximate the fair value due to their short maturities. Cash and cash equivalents, short-term investments, long-term debt, and long-term liabilities are carried at cost, which approximates their fair value. Foreign exchange forward contracts are recorded at their estimated fair value.

9. INCOME TAXES

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current			
Canadian	\$11,490	\$18,242	\$ 4,909
Foreign	9,392	12,707	9,943
	<u>20,882</u>	<u>30,949</u>	<u>14,852</u>
Deferred			
Canadian	(11,510)	(2,463)	8,201
Foreign	(611)	(1,428)	(180)
	<u>(12,121)</u>	<u>(3,891)</u>	<u>8,021</u>
Income tax provision	<u>\$8,761</u>	<u>\$27,058</u>	<u>\$22,873</u>

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)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Expected Canadian tax rate	<u>41.0%</u>	<u>44.0%</u>	<u>44.0%</u>
Expected tax provision	\$ 11,549	\$ 40,180	\$ 35,943
Tax rate differences	(8,626)	(14,603)	(10,422)
Net change in valuation allowance and other income tax benefits earned	(3,364)	(5,787)	(6,688)
Non-deductible expenses and non-taxable income	7,288	4,121	2,876
Non-deductible in-process R&D write-off	-	900	-
Withholding tax on foreign income	1,759	1,774	1,179
Other	155	473	(15)
Reported income tax provision	<u>\$ 8,761</u>	<u>\$ 27,058</u>	<u>\$ 22,873</u>

Significant components of the Corporation's deferred tax assets and liabilities as of February 28, 2002 and February 28, 2001 are as follows: (\$000s)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Deferred tax assets			
Net operating tax loss carryforwards	\$ 3,257	\$ 3,822	\$ 4,460
Investment tax credits	-	-	1,404
Deferred revenue	2,213	2,811	2,490
Reserves	3,126	2,742	1,663
Book and tax differences on assets	1,155	681	469
Litigation settlement	6,404	-	-
Other	200	(14)	54
Total deferred tax assets	16,355	10,042	10,540
Valuation allowance for deferred tax assets	(2,357)	(3,022)	(4,460)
Net deferred tax assets	13,998	7,020	6,080
Deferred tax liabilities			
Book and tax differences on assets	3,643	8,729	9,489
Reserves and allowances	5,256	4,760	6,395
Investment tax credits	1,822	3,925	5,346
Total deferred tax liabilities	10,721	17,414	21,230
Net deferred income tax asset (liability)	\$ 3,277	\$(10,394)	\$(15,150)

The net change in the total valuation allowance for the years ended February 28, 2002 and February 28, 2001 was a decrease of \$665,000 and \$1,438,000, respectively.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, management believes it is more likely than not that the net amount of the deferred tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

As of February 28, 2002, the Corporation had tax loss carryforwards of approximately \$8,884,000 available to reduce future years' income for tax purposes. These losses expire as follows: (\$000s)

2005-2011	\$3,693
Indefinitely	<u>5,191</u>
	<u>\$8,884</u>

Income before taxes attributable to all foreign operations was \$29,323,000, \$45,565,000, and \$41,548,000, in each of fiscal 2002, 2001, and 2000, respectively.

The Corporation has provided for foreign withholding taxes on the portion of the undistributed earnings of foreign subsidiaries expected to be remitted.

Income taxes paid were \$29,368,000, \$13,537,000, and \$18,658,000, in each of fiscal 2002, 2001, and 2000, respectively.

10. 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.

On April 6, 2000, the Corporation's Board of Directors authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to stockholders of record at the close of business on April 20, 2000. Share and per-share amounts have been adjusted retroactively for this split.

Share Repurchase Programs

The share repurchases made in the past three fiscal years were part of distinct open market share repurchase programs through the Nasdaq National Market. The share repurchases made in fiscal 2002 were part of two open market share repurchase programs. The program adopted in October 2000 expired on October 8, 2001. Under this program the Corporation repurchased 1,344,500 of its shares; all repurchased shares were cancelled. In October 2001, the Corporation adopted a new program that will enable it to purchase up to 4,400,943 common shares (not more than 5% of those issued and outstanding) between October 9, 2001 and October 8, 2002. This program does not commit the Corporation to make any share repurchases. Purchases will be made on The Nasdaq National Market or the Toronto Stock Exchange at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled.

The details of the share repurchases were as follows:

	2002		2001		2000	
	Shares (000s)	Cost (\$000s)	Shares (000s)	Cost (\$000s)	Shares (000s)	Cost (\$000s)
October 1998 program	–	–	–	–	2,186	24,689
October 1999 program	–	–	50	2,041	100	1,324
October 2000 program	816	12,945	530	11,946	–	–
October 2001 program	800	16,094	–	–	–	–
	1,616	\$29,039	580	\$13,987	2,286	\$26,013

The amount paid to acquire the shares over and above the average carrying value has been charged to retained earnings.

Stock Option Plans

As of February 28, 2002, the Corporation had stock options outstanding under two plans: 9,567,000 pertain to the 1997–2002 Stock Option Plan and 987,000 pertain to the 1993–1998 Stock Option Plan.

There were 14,000,000 shares of common stock originally reserved by the Board of Directors for issuance under the Corporation's 1997–2002 Stock Option Plan ("the Plan"), which was approved by the Corporation's shareholders in June 1997 and replaced the 1993–1998 Stock Option Plan. Options may be granted to directors, officers, employees, and consultants at such times and under such terms as established by the Plan. Options may be fully exercisable on the date of grant or may be exercisable in installments. Options will expire not later than 10 years from the date of grant or any shorter period as may be determined. 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. Options were awarded to employees, executive officers and directors in each of April 1998, June 1999, 2000, and 2001. Substantially all options vest equally in April of the next four years after the date of grant and expire in April of the seventh year after the date of grant. There were 3,057,000 options available for grant under the Plan as of February 28, 2002.

Under the 1993–1998 Stock Option Plan, options were awarded to directors, officers, and employees. For the options outstanding as of February 28, 2002, the vesting dates have all passed and the expiry dates range from April 2003 to September 2005. In April 1996, options were awarded to certain key officers under an executive option award. These options vested equally in April 1999, April 2000, and April 2001, and expire in April 2003. All options were priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. The 1993–1998 Stock Option Plan expired on January 1, 1998.

Employee Stock Purchase Plan

This plan was approved by the Corporation's shareholders in July 1993 and was amended on May 19, 1999. The amended plan was approved by the Corporation's shareholders on June 22, 1999, and will terminate on November 30, 2002. Under the plan, 3,000,000 common shares were reserved for issuance. A participant in the Employee Stock Purchase Plan authorizes the Corporation to deduct an amount per pay period that cannot exceed five (5) percent of annual target salary divided by the number of pay periods per year. Deductions are accumulated during each of the Corporation's fiscal quarters ("Purchase Period") and on the first trading day following the end of any Purchase Period these deductions are applied toward the purchase of common shares. The purchase price per share is ninety (90) percent of the lesser of The Toronto Stock Exchange average closing price on (a) the first five trading days of the Purchase Period or (b) the last five trading days of the Purchase Period. All full-time and part-time permanent employees may participate in the plan.

Accounting for Stock Option and Stock Purchase Plans

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 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 No. 123), stock-based compensation costs would have reduced net income by \$25,467,000, \$20,106,000, and \$9,096,000, reduced basic net income per share by \$0.29, \$0.23, and \$0.11, and reduced diluted net income per share by \$0.28, \$0.22, and \$0.10 in fiscal 2002, 2001, and 2000, respectively.

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 fiscal 2002, 2001, and 2000, respectively: risk-free interest rates of 4.2%, 6.1%, and 5.8%, expected life of the options of 2.9 years, 3.0 years, and 2.8 years, expected volatility of 68%, 54%, and 55%, and for all years, a dividend yield of zero.

Activity in the stock option plans for fiscal 2002, 2001, and 2000 was as follows:

	2002		2001		2000	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding, beginning of year	7,569	\$17.81	7,270	\$11.17	6,769	\$ 9.72
Granted	4,835	16.71	2,537	34.02	2,772	11.18
Exercised	(1,279)	9.96	(1,816)	10.23	(1,973)	7.81
Cancelled	(571)	20.33	(422)	18.21	(298)	11.73
Outstanding, end of year	<u>10,554</u>	<u>17.35</u>	<u>7,569</u>	<u>17.81</u>	<u>7,270</u>	<u>11.17</u>
Options exercisable at year end	<u>3,002</u>		<u>1,607</u>		<u>1,234</u>	
Weighted average per share fair value of options granted during the year calculated using the Black-Scholes option pricing model		<u>\$ 7.48</u>		<u>\$14.07</u>		<u>\$ 4.59</u>

The following table summarizes significant ranges of outstanding and exercisable options held by directors, officers, and employees as of February 28, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options (000s)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
\$7.91 - \$9.51	552	2.2	8.13	536	8.11
\$9.84 - \$9.98	2,209	4.6	9.87	1,134	9.87
\$10.06 - \$14.28	1,274	5.2	12.68	556	12.10
\$14.55 - \$15.83	3,627	7.2	15.62	121	15.62
\$15.84 - \$18.39	375	7.0	16.90	42	17.43
\$18.69 - \$28.04	476	7.1	23.01	78	21.80
\$28.07 - \$44.19	2,041	6.2	32.73	535	32.69
	<u>10,554</u>	5.9	17.35	<u>3,002</u>	14.66

Deferred Stock-based Compensation

The Corporation recorded aggregate deferred stock-based compensation of \$0, \$2,656,000, and \$0 in fiscal 2002, 2001, and 2000, respectively. In each year deferred stock-based compensation was recorded in connection with acquisitions made by the Corporation in which stock was issued to principals of the acquired companies, but held in escrow to be released on condition of continued tenure. Under generally accepted accounting principles, these amounts are accounted for as compensation rather than as a component of purchase price.

Net Income per Share

The dilutive effect of stock options is excluded under the requirements of FASB Statement No. 128 for calculating net income per share, but is included in the calculation of diluted net income per share.

The reconciliation of the numerator and denominator for the calculation of net income per share and diluted net income per share is as follows: (000s, except per-share amounts)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net Income per Share			
Net income	<u>\$19,408</u>	<u>\$64,260</u>	<u>\$58,815</u>
Weighted average number of shares outstanding	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Net income per share	<u>\$0.22</u>	<u>\$0.74</u>	<u>\$0.68</u>
Diluted Net Income per Share			
Net income	<u>\$19,408</u>	<u>\$64,260</u>	<u>\$58,815</u>
Weighted average number of shares outstanding	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Dilutive effect of stock options* and deferred stock-based compensation	<u>2,654</u>	<u>4,649</u>	<u>2,128</u>
Adjusted weighted average number of shares outstanding	<u>90,461</u>	<u>91,973</u>	<u>88,100</u>
Diluted net income per share	<u>\$0.21</u>	<u>\$0.70</u>	<u>\$0.67</u>

* All anti-dilutive options have been excluded. The average number of anti-dilutive options was 3,327,000, 557,000, and 1,580,000 for fiscal 2002, 2001, and 2000, respectively.

11. PENSION PLANS

The Corporation operates a Retirement Savings Plan for the parent company and also operates various other defined contribution pension plans for its subsidiaries. The Corporation contributes amounts related to the level of employee contributions for both types of plans.

The pension costs in fiscal 2002, 2001, and 2000 were \$4,889,000, \$4,248,000, and \$3,839,000, respectively.

12. SEGMENTED INFORMATION

The Corporation operates in one business segment—computer software solutions. This segment engages in business activities from which it earns license, support, and services revenue, and incurs expenses. Within this business segment, the Corporation develops, markets, and supports two complementary lines of software solutions that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence software solutions allow customers, as well as their partners, customers, and suppliers, to analyze and report data from multiple perspectives. 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.

No single customer accounted for 10% or more of the Corporation's revenue during any of the last three fiscal years. In addition, the Corporation is not dependent on any single customer or group of customers, or supplier.

The accounting policies for the segment are the same as those described in the Summary of Significant Accounting Policies. The required financial information for segment profit and segment assets is the same as that presented in the Consolidated Financial Statements. Geographic information is as follows: (\$000s)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenue to external customers*			
U.S.A.	\$263,488	\$281,907	\$204,730
Canada	40,979	35,890	30,120
United Kingdom	45,759	44,381	44,972
Europe	107,278	101,888	77,778
Asia/Pacific	33,798	31,586	28,040
	<u>\$491,302</u>	<u>\$495,652</u>	<u>\$385,640</u>

* Revenues are attributed to countries based on location of customer

Fixed assets

Canada	\$46,813	\$55,466
U.S.A.	6,508	9,510
Other countries	5,687	9,232
	<u>\$59,008</u>	<u>\$74,208</u>

Other assets

Canada	\$13,183	\$16,655
U.S.A.	7,667	13,926
	<u>\$20,850</u>	<u>\$30,581</u>

13. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets* (“the pronouncements”), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncements. Other intangible assets will continue to be amortized over their useful lives.

The Corporation will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003. Application of the non-amortization provisions of the pronouncements is expected to result in an increase in net income of \$4,000,000 (\$0.04 per diluted share) for fiscal 2003. The Corporation performed the required impairment tests of goodwill and indefinite-lived intangible assets as of March 1, 2002. The effect of these tests was not material on the earnings and financial position of the Corporation.

In October 2001, FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS 121, and the accounting and reporting provisions of APB 30, for the disposal of a segment of a business. The provisions of SFAS 144 are required to be adopted by March 1, 2002. The Corporation believes that the adoption of SFAS 144 will not have a material effect on the business, results of operations, and financial condition.

14. LITIGATION

On May 5, 2000, an action was filed in the United States District Court for the Northern District of California against the Corporation and its subsidiary Cognos Corporation by Business Objects S.A., for alleged patent infringement. The complaint alleged that the Corporation’s Impromptu product infringes Business Objects’ United States Patent No. 5,555,403 entitled “Relational Database Access System using Semantically Dynamic Objects” (the “’403 Patent”). On May 24, 2002, subsequent to the balance sheet date, the Corporation and Business Objects reached an agreement to settle that action. Under the terms of the settlement agreement between the Corporation and Business Objects, Business Objects has agreed to release the Corporation for any infringement of the ‘403 Patent (and any amendments or related patents) and to effect that release, has granted the Corporation a license under the ‘403 Patent for the term of that patent or any amendments or related patents. Both parties agreed to release the other from all claims, liabilities, costs or expenses that either party hold against the other, on account of actions taken prior to the effective date. The Corporation and Business Objects have also entered into a covenant not to sue or assert any claim against the other for infringement of any patents for a period of 5 years from the effective date. As consideration for the settlement agreement, the Corporation has agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every quarter for the next eight quarters commencing on July 1, 2002. The Corporation has recorded a special charge of \$23,231,000, in fiscal 2002, representing the present value of this payment stream discounted using an interest rate of 6%, in accordance with FASB Statement 5 *Contingent Liabilities*. The after-tax effect of this charge is \$16,827,000. The remaining balance of \$769,000 represents the interest to be recognized over the payment term. The principal amount is recorded in accrued charges and long-term liabilities on the balance sheet as follows (\$000’s):

Accrued charges	\$14,861
Long-term liabilities	8,370

Payments in respect of this settlement are as follows (\$000's):

2003	\$15,250
2004	7,000
2005	1,750

In addition, the Corporation and its subsidiaries may, from time to time, be involved in other legal proceedings, claims, and litigation that arise in the ordinary course of business which the Corporation believes would not reasonably be expected to have a material adverse effect on the financial condition of the Corporation.

15. COMPARATIVE RESULTS

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

1. (a) Identification of Directors

The following table sets out the name and age of each director and person nominated for election as a director at the Annual Meeting of Shareholders ("Meeting") to be held on July 2, 2002; the period of service as a director; the principal occupation, business or employment of the nominee during the last five years; all other positions with the Corporation (or its significant subsidiaries) now held by the nominee, if any; and the name of any publicly-traded corporation of which the nominee is a director.

Name and Age	Director Since	Principal Occupation During Past Five Years
John E. Caldwell (52) †	2000	Consultant since December 2001. Chief Executive Officer of Geac Computer Corporation Limited, from November 2000 to December 2001. Private Investor from October 1999 to October 2000, and President and Chief Executive Officer, CAE Inc., from June 1993 to October 1999. Director of Mosaic Group and Stelco Inc.
Douglas C. Cameron (63) *†	1983	Private Investor since November 2001. Investment Advisor, RBC Dominion Securities Inc., from October 1993 to November 2001.
Pierre Y. Ducros (63) ‡	1986	Private Investor since June 1996. Chairman and Chief Executive Officer, DMR Group Inc., from February 1973 to June 1996. Director of BCE Emergis, National Bank Financial, Manulife Financial, and Stein Technologies.
Douglas J. Erwin (49) ‡	1998	President and Chief Executive Officer, PentaSafe Security Technologies, Inc., an auditing and security software company, since April 1998. Chief Operating Officer, BMC Software, Inc. from April 1994 to October 1997.
Robert W. Korthals (68) ‡	1997	Chairman, Ontario Teachers Pension Plan Board since January 2000 and Chairman, Co-Steel Inc., since June 1997. Director of Global Telecom Split Shares Corp., Jannock Properties Limited, MCM Split Shares Corp., Premium Income Corporation, Rogers Communications Inc., RTO Enterprises Inc., and Suncor Energy Inc.

Name and Age	Director Since	Principal Occupation During Past Five Years
Candy M. Obourn (52) †	1999	President, Document Imaging and Senior Vice President, Eastman Kodak Company, a photographic products and imaging company, since January 2000. President, Document Imaging and Vice President of Kodak from October 1995 to December 1999.
William Russell (50) †	2002	Vice President, Hewlett-Packard Company since 1998 and General Manager, Global Alliances Organization, Hewlett-Packard Company since September 1999. Vice President and General Manager, Enterprise Systems Group, from May 1997 to September 1999. Since 1980, Mr. Russell has held a number of sales and management positions in different Hewlett-Packard sales and business units, with worldwide responsibilities.
James M. Tory, Q.C. (72) *	1982	Chairman of the Board of Directors of Cognos Incorporated since September 1995. Chair Emeritus and Counsel, Torys LLP, Barristers & Solicitors, since March 1995 and prior thereto as a partner in that firm. Director of Inmet Mining Corporation.
Renato (Ron) Zambonini (55)	1994	Chief Executive Officer of Cognos Incorporated since September 1995 and President from January 1993 to April 2002.

* Member of the Corporate Governance Committee.

† Member of the Audit Committee.

‡ Member of the Human Resources & Compensation Committee.

(b) Identification of Executive Officers

Information regarding executive officers of the Company is set forth under Part I of this Form 10-K.

2. Compliance with Section 16(a) of the Exchange Act

As a foreign private issuer, the Corporation is not subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934.

ITEM 11. EXECUTIVE COMPENSATION

On April 6, 2000, the Board of Directors of the Corporation authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to shareholders of record at the close of business on April 20, 2000. Share and per-share amounts have been adjusted retroactively for this split.

The following Summary Compensation Table sets out the compensation received for each of the last three fiscal years for Mr. Zambonini, the Chief Executive Officer of the Corporation, and those persons who were, at February 28, 2002, the other four most highly compensated executive officers of the Corporation.

Summary Compensation Table

(All dollar amounts are in U.S. dollars)

Name and Principal Position	Fiscal Year	Annual Compensation			Long-term Compensation Awards ⁽³⁾	All Other Compensation ⁽⁴⁾
		Salary ⁽¹⁾	Bonus ⁽²⁾	Other Annual Compensation	Securities Underlying Options/SARs (#)	
Renato Zambonini ⁽⁵⁾ <i>Chief Executive Officer</i>	2002	\$297,038	\$150,000	—	150,000	\$3,756
	2001	\$267,148	\$420,757	—	100,000	\$3,718
	2000	\$254,585	\$375,938	—	150,000	\$4,583
Terry Hall ⁽⁶⁾ <i>Senior Vice President</i>	2002	\$365,000	\$267,880	—	100,000	\$597,768
	2001	\$315,000	\$336,000	—	80,000	\$1,500
	2000	\$281,250	\$518,036	—	200,000	\$1,708
Tony Sirianni <i>Senior Vice President, North American Field Operations</i>	2002	\$180,000	\$276,814	—	110,000	\$3,466
	2001	\$180,000	\$222,265	—	60,000	\$2,130
	2000	—	—	—	—	—
Ad Voogt ⁽⁷⁾ <i>Senior Vice President, European Field Operations</i>	2002	\$185,744	\$216,501	\$126,126	125,000	\$25,565
	2001	—	—	—	—	—
	2000	—	—	—	—	—
Robert G. Ashe ⁽⁵⁾⁽⁸⁾ <i>President and Chief Operating Officer</i>	2002	\$239,671	\$55,923	—	150,000	\$4,793
	2001	\$156,949	\$118,994	—	50,000	\$3,651
	2000	—	—	—	—	—

(1) Salary is base salary earned for the current year.

(2) Bonuses for each year include amounts earned for that year, even if paid in the subsequent year, and exclude bonuses paid during that year but earned for a prior year. Bonuses for Messrs. Sirianni and Voogt were based on the attainment of specific sales and operational objectives. Those of Messrs. Zambonini, Ashe, and Hall were based on a bonus payout authorized by the Human Resources & Compensation Committee (see “**Human Resources & Compensation Committee Report on Executive Compensation — Cash Compensation**”).

(3) As of the Record Date, the Corporation has not granted any restricted shares, or stock appreciation rights (“SARs”), as compensation.

(4) The amounts in this column pertain to the Corporation's annual contribution to each individual's savings plan. The Corporation contributes to a Retirement Savings Plan on behalf of Messrs. Zambonini and Ashe. Cognos Corporation (U.S.A.) contributes to a 401(k) savings plan for Messrs. Hall and Sirianni. Cognos GmbH (Germany) contributes to Retirement Savings Plan on behalf of Mr. Voogt. The amount of contribution for Mr. Hall was \$3,618; the balance of \$594,150 is explained in note (6).

(5) These individuals are employed in Canada and paid in Canadian dollars. The amounts shown in the above table are expressed in U.S. dollars using the following weighted annual exchange rate for the Corporation's fiscal years ending on the last day of February:

2002 — C\$1.00 = US\$0.6391

2001 — C\$1.00 = US\$0.6679

2000 — C\$1.00 = US\$0.6789

(6) On April 10, 2002, Mr. Hall, who held the offices of Chief Operating Officer and Senior Vice President, Worldwide Field Operations, relinquished his executive positions. The amount indicated in the column for "All Other Compensation" includes \$594,150 paid to him by the Corporation in respect of the amendment of his employment agreement (see "**Employment Agreements**" below). On the same date, Mr. Rob Ashe was appointed his successor as Chief Operating Officer.

(7) Mr. Voogt was employed in Europe and paid in Netherland Guilders. The amounts shown in the above table are expressed in U.S. dollars using the following weighted annual exchange rate for the Corporation's fiscal year ending on the last day of February:

2002 — NLG = US\$0.3994

The amount indicated in the column for "Other Annual Compensation" consists primarily of expatriate allowances.

(8) Mr. Ashe was appointed President and Chief Operating Officer on April 10, 2002, succeeding Mr. Zambonini who had been President of the Corporation since 1993. Mr. Zambonini continues as Chief Executive Officer of the Corporation. Mr. Ashe previously held the position of Senior Vice President, Chief Corporate Officer.

Option/SAR Grants in Last Fiscal Year

The following table provides information with respect to stock option grants by the Corporation to the named executive officers for the fiscal year ended February 28, 2002.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽³⁾	
	Number of Securities Underlying Options Granted ⁽¹⁾	% of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share ⁽²⁾	Expiration Date (mm/dd/yy)	5%	10%
	Renato Zambonini	150,000	3.1%	\$15.44	06/28/09	\$1,105,857
Terry Hall	100,000	2.1%	\$14.18	09/25/09	\$677,050	\$1,621,639
Tony Sirianni ⁽⁴⁾	60,000	1.2%	\$16.32	04/10/09	\$467,581	\$1,119,927
	50,000	1.0%	\$14.18	09/25/09	\$338,525	\$810,819
Ad Voogt ⁽⁴⁾	50,000	1.0%	\$16.32	04/10/09	\$389,651	\$933,273
	75,000	1.6%	\$14.18	09/25/09	\$507,787	\$1,216,229
Robert G. Ashe	150,000	3.1%	\$15.44	06/28/09	\$1,105,857	\$2,648,698

- (1) Option awards are typically made following the release of the Corporation's year-end results. During the course of the year other awards may be granted in special circumstances. In all cases, option awards are approved by the Human Resources & Compensation Committee, the administrator of the Corporation's Stock Option Plans. Option awards to employees typically vest on each of the successive four anniversaries of the date of grant and expire on the eighth anniversary of the date of grant.
- (2) Exercise Price is equivalent to the market value, on The Toronto Stock Exchange, of securities underlying options on the day preceding the date of grant.
- (3) These amounts represent the gain that may be realized upon exercise of the options immediately prior to the expiration of their term (net of the option exercise price but before taxes associated with the exercise) assuming the specified compound rates of appreciation (5% and 10%) of the Corporation's shares over the term of the options. These amounts are calculated based on rules promulgated by the United States Securities and Exchange Commission and do not reflect the Corporation's estimate of future stock price increases. Actual gains, if any, on any stock option exercises and resultant shareholdings are dependent on the timing of each exercise and the future share performance. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected would be received by the individuals.
- (4) The circumstances giving rise to the second award granted to Messrs. Sirianni and Voogt are described in "Human Resources & Compensation Committee Report on Executive Compensation – Long-Term Incentives".

Aggregated Option Exercises and Fiscal Year-End Option Values

(All dollar amounts are in U.S. dollars)

The following table provides information on stock option exercises in the fiscal year ended February 28, 2002, by the named executive officers and the number and value of such officers' outstanding options as at February 28, 2002. Dollar values indicated represent the net of market value less exercise price.

Name	Shares Acquired on Exercise (#)	Aggregate Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year End ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Renato Zambonini	—	—	340,000	300,000	\$4,956,803	\$2,608,103
Terry Hall	175,008	\$2,361,698	20,000	260,000	Nil	\$2,267,820
Tony Sirianni	19,626	\$127,968	15,000	181,000	Nil	\$1,477,624
Ad Voogt	—	—	103,502	174,000	\$1,360,273	\$1,565,951
Robert G. Ashe	140,000	\$2,312,282	89,167	237,500	\$1,162,207	\$2,241,235

(1) Value of unexercised in-the-money options is calculated based on the fair market value of the underlying shares on the Nasdaq, minus the exercise price, and assumes sale of the underlying shares on February 28, 2002, the last trading day in fiscal 2002, at a price of \$25.49, being the fair market value of the Corporation's shares on such date.

Employment Agreements

The employment agreement of Mr. Zambonini provides, among other things, that if his employment is terminated without cause, the Corporation will pay severance in an amount equal to one year's salary at the time of termination and if he is subsequently employed by another party for any portion of the year following termination, the severance payment will be reduced on a pro-rata basis for that portion. The employment agreement of Mr. Sirianni was amended during the fiscal year to provide for a severance payment of eighteen months at his current target compensation should his employment be terminated without cause.

In December 2001, Mr. Terry Hall and the Corporation reached an agreement regarding the relinquishment of his executive positions on or before May 1, 2002. After May 1, 2002, Mr. Hall will remain as an employee of the Corporation through December 10, 2003 and will be assigned responsibilities relating to strategic corporate initiatives. Mr. Hall has announced his intention to retire after that date. He will be subject to post-employment non-competition and non-solicitation covenants for a period of one year following his departure from the Corporation. As consideration for the foregoing, Mr. Hall was paid a lump sum equivalent to one year's salary at his current target earnings (\$594,150) and, subject to certain conditions, he will earn an equivalent amount over the period May 1, 2002 to the date of his departure. In addition, the Corporation agreed to award Mr. Hall 100,000 stock options in 2001 as part of his regular executive officer option grant, vesting equally in 2002 and 2003. Mr. Hall's current benefits package will be maintained and he will be entitled to expense reimbursement should he relocate to Canada prior to December 2003.

Long-Term Incentives

Long-term incentives are provided through stock options awarded under the 1997–2002 Stock Option Plan (“1997 Option Plan”), which was adopted by the Board on April 9, 1997 and approved by shareholders on June 25, 1997. Directors, officers, employees, and consultants of the Corporation are eligible to participate in the 1997 Option Plan. Through the award of stock options, the Corporation seeks to attract, reward and retain employees by providing them with a means of sharing in the financial success created by their combined efforts. In particular, the award of stock options to executive officers seeks to provide them with an incentive to enhance shareholder value. Options are granted on the basis of an individual's level of responsibility and potential to contribute to the Corporation's future success.

Options to employees are awarded at the discretion of management and typically vest equally on each of the successive four anniversaries of the date of grant and expire on the eighth anniversary of the date of grant. Options to directors typically vest in their entirety on 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.

On April 10, 2001, following the release of the Corporation's year-end results, and on June 28, 2001, following the completion of the Committee's annual review of executive compensation, the Committee awarded option grants to certain key employees of the Corporation and its subsidiaries, including certain of its executive officers, as set out in **“Option/SAR Grants in Last Fiscal Year”**.

Mr. Rob Ashe was appointed Chief Corporate Officer on April 5, 2001. In recognition of the importance of his appointment and the additional responsibilities associated with the position, Mr. Ashe was awarded an option to acquire 150,000 shares under the 1997 Option Plan on June 28, 2001. One-half of that option award vests on the second anniversary of the date of grant, and the balance vests equally on the third and fourth anniversaries, and expires on the eighth anniversary of that date.

On September 25, 2001, in recognition of his promotion to Senior Vice President, Mr. Ad Voogt was awarded an option to acquire 25,000 shares, vesting equally on each of the next four anniversaries of the date of grant, and expiring on the eighth anniversary of that date. On the same date, Messrs. Voogt and Sirianni were each awarded an option to acquire 50,000 shares. The Committee based this latter award on the importance of maintaining executive stability in the North American and European sales organizations during a period of economic challenges and executive change. These options vest equally on each of the next four anniversaries of the date of grant and expire on the eighth anniversary of that date.

As of the Record Date, options to purchase 13,590,576 shares under the 1997 Option Plan, and predecessor plans, were outstanding at a weighted average exercise price of \$19.23.

Share Ownership

To promote better alignment of management and shareholder interests, in May 1999 the Corporation adopted share ownership guidelines for the Chief Executive Officer, Senior Vice Presidents and Vice Presidents of the Corporation (“Executives”). Executives are expected to accumulate and hold shares having a market value at least equal to a multiple of their annual base salary. That multiple increases with the level of responsibility of the executive. Executives generally have three years from the time they become subject to the guidelines to achieve the designated level of stock ownership. Compliance with the guidelines, while voluntary, is strongly recommended. Failure to comply could result in the reduction or suspension from participation in the Corporation's incentive programs.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets out information, as at May 3, 2002, with respect to (a) all shareholders known by the Corporation to be beneficial owners of more than 5% of its outstanding shares, and (b) share ownership, including the right to acquire shares by exercise of stock options on or before July 3, 2002, by each nominee for director, each executive officer named in the Summary Compensation Table, and all directors and executive officers as a group.

Name and Address of Beneficial Owner ⁽¹⁾	Shares Beneficially Owned	Percentage ⁽²⁾
Michael U. Potter ⁽³⁾ Sixty-Two John Street, Ottawa, Ontario, Canada, K1M 1M3	9,582,594	10.75%
The Windsor Trust ⁽⁴⁾ Royal Bank House, The Garrison, St. Michael, Barbados	9,546,290	10.71%
McLean Budden Ltd. 145 King Street, Suite 225 Toronto, Ontario, Canada, M5H 1J8	6,447,326	7.23%
Private Capital Management 8889 Pelican Bay Boulevard Naples, Florida, U.S.A. 34108	5,636,124	6.32%
John E. Caldwell ⁽⁵⁾	800	*
Douglas C. Cameron ⁽⁶⁾	12,000	*
Pierre Y. Ducros ⁽⁷⁾	20,000	*
Robert W. Korthals ⁽⁸⁾	2,000	*
William Russell ⁽⁹⁾	Nil	—
James M. Tory ⁽¹⁰⁾	86,000	*
Renato Zambonini ⁽¹¹⁾	184,097	*
Terry Hall ⁽¹²⁾	90,246	*
Tony Sirianni ⁽¹³⁾	20,000	*
Ad Voogt ⁽¹⁴⁾	Nil	—
Robert G. Ashe ⁽¹⁵⁾	76,000	*
Directors and Executive Officers as a group (19 persons) ^{(2) (16)}	1,735,579	1.95%

* Indicates less than 1%

- (1) Unless otherwise indicated, the address for each beneficial owner is care of Cognos Incorporated, 3755 Riverside Drive, Ottawa, Ontario, Canada, K1G 4K9
- (2) Percentage ownership is calculated using as the denominator total shares outstanding as of the Record Date plus the number of shares which the person, entity, or group indicated has a right to purchase pursuant to options currently exercisable or exercisable within 60 days, or on or before July 3, 2002. Reference to shares

that the persons named below have the right to acquire through options includes options currently exercisable or exercisable on or before July 3, 2002.

- (3) Mr. Potter has sole voting power and sole investment power over 36,304 shares and, through his wholly-owned entities, has shared voting power and shared investment power with The Windsor Trust over 9,546,290 shares. Mr. Potter is neither the settlor, the trustee, nor a beneficiary of The Windsor Trust. Mr. Potter and The Windsor Trust each hold 50% of the voting power of 3497704 Canada Inc. (Canada 2), 3539202 Canada Inc. (Canada 3), 3539211 Canada, Inc. (Canada 4), 3539229 Canada, Inc. (Canada 5), 3539334 Canada, Inc. (Canada 6), 3539393 Canada, Inc. (Canada 7), 3539423 Canada, Inc. (Canada 8), 3539130 Canada, Inc. (Canada 10), 3497801 Canada Inc. (Canada 13), 3539504 Canada Inc. (Canada 14), 3539555 Canada Inc. (Canada 15), and 3539571 Canada Inc. (Canada 16). Canada 2 through Canada 16 directly own, in the aggregate, 9,546,290 shares. Accordingly, Mr. Potter may be deemed to beneficially own the common shares held by these corporations. Mr. Potter has the right to acquire nil shares through options.
- (4) The Windsor Trust holds 50% of the voting power of Canada 2 through Canada 16. Canada 2 through Canada 16 directly own, in the aggregate, 9,546,290 shares. Therefore, The Windsor Trust may be deemed to beneficially own the common shares held by these corporations. Since, Mr. Potter may also be deemed to beneficially own these same shares (see note (3)), the 9,546,290 shares appear in the above table as beneficially owned by both The Windsor Trust and Mr. Potter. Mr. Potter is neither the settlor, the trustee, nor a beneficiary of The Windsor Trust.
- (5) Mr. Caldwell has the right to acquire 25,000 shares through options.
- (6) Mr. Cameron has the right to acquire 9,000 shares through options.
- (7) Mr. Ducros has the right to acquire 15,000 shares through options.
- (8) Mr. Korthals has the right to acquire 35,000 shares through options.
- (9) Mr. Russell has the right to acquire 10,000 shares through options.
- (10) Mr. Tory has the right to acquire 24,000 shares through options.
- (11) Mr. Zambonini has the right to acquire 452,500 shares through options.
- (12) Mr. Hall has the right to acquire 65,000 shares through options.
- (13) Mr. Sirianni has the right to acquire 55,000 shares through options.
- (14) Mr. Voogt has the right to acquire 134,752 shares through options.
- (15) Mr. Ashe has the right to acquire 126,667 shares through options.
- (16) The group is comprised of the individuals named in the Summary Compensation Table on page 67, the remaining executive officers of the Corporation, and those persons who were directors of the Corporation on the Record Date. The amount shown includes 1,206,419 shares which the directors and executive officers as a group have the right to acquire by exercise of stock options granted under the Corporation's stock option plans through July 3, 2002.

Statements contained in the table as to securities beneficially owned or controlled by directors, officers, and 5% beneficial owners are, in each instance, based upon information obtained from such directors, officers, and beneficial owners.

ITEM 13. Certain Relationships and Other Transactions

Until November 2001, Mr. Cameron was an Investment Advisor with RBC Dominion Securities, a subsidiary of the Royal Bank of Canada, the Corporation's principal banker. From time to time, Mr. Cameron acted on behalf of various executives and other employees of the Corporation in his capacity as an Investment Advisor. The Board had been apprised by Mr. Cameron of these relationships and was of the view that neither their nature nor the amounts involved are significant. Mr. Cameron retired from his occupation in November 2001.

While the law firm of Torys LLP, of which Mr. Tory is Chair Emeritus and Counsel, provides legal services to the Corporation, neither the amount nor dollar value of these services is significant when compared to the overall amount or dollar value of legal services obtained by the Corporation. Mr. Tory

himself provides no legal services to the Corporation and has no direct or indirect responsibility for any legal services provided by Torys LLP to the Corporation. The Board does not consider that the amount paid to Mr. Tory in respect of additional duties carried out as Chairman of the Board (see “**Compensation of Directors**”) impairs his status as an unrelated director as that amount is payable in respect of his additional responsibilities and duties as Chairman of the Board.

The Corporation may license its products and sell its services in the ordinary course of business to companies for which members of the Corporation’s Board serve as executive officers. In fiscal 2002, the Corporation did business with Geac Computer Corporation Limited, of which company Mr. Caldwell, a member of the Audit Committee, was the Chief Executive Officer until December 2001. The Corporation also did business with Hewlett-Packard Company, of which Mr. Russell, also a member of the Audit Committee, is a Vice President, and the General Manager of its Software and Solutions Organization division. The amount received from either of Geac and Hewlett-Packard with respect to the license of products and the purchase of services is not considered sufficient to impair the independence of either Messrs. Caldwell or Russell.

It is the Corporation's policy that all transactions with related parties must be approved by a majority of the independent and disinterested directors considering a particular transaction and that a transaction be subject to terms no less favorable to the Corporation than can be obtained at arm's length.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this Report:

- (a) 1. *Financial Statement Schedule* The Schedule supporting the Consolidated Financial Statements that is filed as part of this report are is follows:

Schedule II Valuation and qualifying accounts

Note: *Schedules other than those listed are omitted as they are not applicable, not required, or the information is included in the consolidated financial statements or the notes thereto.*

- (a) 2. *Exhibits*

EXHIBIT NUMBER	DESCRIPTION
3.0	Articles of Incorporation and Bylaws
3.1	—Articles of Incorporation and amendments thereto (filed as Exhibit 3.1 to Form 10-K filed for the year ended February 28, 1997)
3.2	—By-laws of the Corporation (filed as Exhibit 3.2 to Form 10-K filed for the year ended February 28, 1997)
3.3	—Amended By-law of the Corporation
4.0	Instruments defining the rights of security holders, including indentures
4.1	—Form of Share Certificate (filed as Exhibit 4.0 to Amendment No. 2 to Registration Statement No. 33-14245 on Form S-1 filed on July 1, 1987)
4.2	—Description of Common Shares contained in the Articles of Incorporation and amendments thereto, (filed as Exhibit 3.1 to Amendment No. 2 to Registration Statement No. 33-14245 on Form S-1, filed on July 1, 1987)
10.0	Material Contracts
10.1	—Charge/Mortgage of Land between the Company and Campeau Corporation, as tenants in common, and London Life Insurance Company dated September 16, 1985 (filed as Exhibit 10.16 to Registration Statement No. 33-14245 on Form S-1, filed on May 13, 1987)
10.2	—1988–1993 Stock Option Plan (Incentive and Non-Qualified), as amended (filed as Exhibit 10.2 on Form 10-K, filed for year ended February 28, 1989)
10.3	—Form of Incentive Stock Option Agreement under 1988–1993 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.4 to Registration Statement No. 33-39892 on Form S-2 filed on April 9, 1991)
10.4	—Form of Non-Qualified Stock Option Agreement under 1988–1993 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.5 to Registration Statement No. 33-39892 on Form S-2 filed on April 9, 1991)

continued...

EXHIBIT NUMBER	DESCRIPTION (continued)
10.5	—Letter Agreement between the Company and The Royal Bank of Canada, dated July 5, 1990 (filed as Exhibit 10.8 to Registration Statement No. 33-39892 on Form S-2 filed on April 9, 1991)
10.6	—1993–1998 Employee Stock Purchase Plan (filed as Exhibit 10.6 of Form 10-K filed for the year ended February 29, 2000)
10.7	—1993–1998 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.7 of Form 10-K filed for the year ended February 29, 2000)
10.8	—Form of Incentive Stock Option Agreement under 1993–1998 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.8 of Form 10-K filed for the year ended February 29, 2000)
10.9	—Form of Non-Qualified Stock Option Agreement under 1993–1998 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.9 of Form 10-K filed for the year ended February 29, 2000)
10.10	—Amended and Restated 1988–1993 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.12 of Form 10-Q filed for the quarter ended August 31, 1996)
10.11	—Amended and Restated 1993–1998 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.13 of Form 10-Q filed for the quarter ended August 31, 1996)
10.12	—1997–2002 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 4.1 to Registration Statement No. 333-8552 on Form S-8, filed on March 31, 1998)
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10.16	—Amended and Restated Cognos Employee Stock Purchase Plan (filed as Exhibit 10.16 of Form 10-Q filed for the quarter ended August 31, 1999)
10.17	—2002-2003 Stock Option Plan (Incentive and Non-Qualified)
10.18	—Amended and Restated Cognos Employee Stock Purchase Plan
10.19	—Amended Employee agreement - Terry Hall.
10.20	—Employee release agreement - Terry Hall.
11.0	Statements regarding Computation of Earnings Per Share
11.1	—Computation of Earnings Per Share in accordance with Canadian Generally Accepted Accounting Principles
11.2	—Computation of Earnings Per Share in accordance with United States Generally Accepted Accounting Principles

continued...

EXHIBIT NUMBER	DESCRIPTION (continued)
21.0	Subsidiaries of the Company
23.0	Consent of Ernst & Young LLP, Independent Chartered Accountants
99.0	Consolidated Financial Information in accordance with Canadian Generally Accepted Accounting Principles
99.1	Management's Discussion and Analysis of the Corporation's Financial Condition and Results of Operations- Canadian Supplement
99.2	Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles

(b) *Reports on Form 8-K*

The Company did not file any reports on Form 8-K during the last quarter of the fiscal year ended February 28, 2002.

(c) The Company hereby files as part of this Form 10-K, the exhibits listed in Item 14(a)3, as set forth above.

(d) The Company hereby files as part of this Form 10-K, the schedules listed in Item 14(a)2, as set forth above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGNOS INCORPORATED
(Registrant)

/s/ Tom Manley
Tom Manley

May 24, 2002

Senior Vice President, Finance and Administration
and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Renato Zambonini

Renato Zambonini

Chief Executive Officer, and Director

May 24, 2002

/s/ Tom Manley

Tom Manley

Senior Vice President, Finance and Administration
and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 24, 2002

/s/ James M. Tory

James M. Tory, Q.C.

Chairman of the Board

May 24, 2002

/s/ John E. Caldwell

John E. Caldwell

Director

May 24, 2002

/s/ Douglas C. Cameron

Douglas C. Cameron

Director

May 24, 2002

/s/ Pierre Y. Ducros

Pierre Y. Ducros

Director

May 24, 2002

/s/ Douglas J. Erwin

Douglas J. Erwin

Director

May 24, 2002

/s/ Robert W. Korthals

Robert W. Korthals

Director

May 24, 2002

/s/ Candy M. Obourn

Candy M. Obourn

Director

May 24, 2002

/s/ William Russell

William Russell

Director

May 24, 2002

COGNOS INCORPORATED

Valuation and Qualifying Accounts

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

	<u>Balance, beginning of period</u>	<u>Additions charged to income</u>	<u>Deductions ⁽¹⁾</u>	<u>Balance, end of period</u>
Allowance for Doubtful Accounts				
Fiscal Year Ended				
February 29, 2000	<u>\$7,637</u>	<u>\$1,885</u>	<u>\$(788)</u>	<u>\$8,734</u>
February 28, 2001	<u>\$8,734</u>	<u>\$5,166</u>	<u>\$(2,379)</u>	<u>\$11,521</u>
February 28, 2002	<u>\$11,521</u>	<u>\$3,373</u>	<u>\$(6,086)</u>	<u>\$8,808</u>
Allowance for Inventory Obsolescence				
Fiscal Year Ended				
February 29, 2000	<u>\$ 164</u>	<u>\$ 59</u>	<u>\$(64)</u>	<u>\$ 159</u>
February 28, 2001	<u>\$ 159</u>	<u>\$ 163</u>	<u>\$(202)</u>	<u>\$ 119</u>
February 28, 2002	<u>\$ 119</u>	<u>\$ 99</u>	<u>\$(66)</u>	<u>\$ 152</u>

(1) Represents amounts written off against the reserve, net of recoveries.

EXHIBIT INDEX

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3.2	—By-laws of the Corporation (filed as Exhibit 3.2 to Form 10-K filed for the year ended February 28, 1997)	*
3.3	—Amended By-law of the Corporation	83
4.0	Instruments defining the rights of security holders, including indentures	*
4.1	—Form of Share Certificate (filed as Exhibit 4.0 to Amendment No. 2 to Registration Statement No. 33-14245 on Form S-1 filed on July 1, 1987)	*
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EXHIBIT INDEX (continued)

EXHIBIT NUMBER	DESCRIPTION	<u>PAGE</u>
10.11	—Amended and Restated 1993–1998 Stock Option Plan (Incentive and Non-Qualified) (filed as Exhibit 10.13 of Form 10-Q filed for the quarter ended August 31, 1996)	*
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10.17	—2002-2003 Stock Option Plan (Incentive and Non-Qualified)	95
10.18	—Amended and Restated Cognos Employee Stock Purchase Plan	104
10.19	—Amended Employee agreement -Terry Hall.	107
10.20	— Employee release agreement -Terry Hall.	113
11.0	Statements regarding Computation of Earnings Per Share	
11.1	—Computation of Earnings Per Share in accordance with Canadian Generally Accepted Accounting Principles	117
11.2	—Computation of Earnings Per Share in accordance with United States Generally Accepted Accounting Principles	118
21.0	Subsidiaries of the Company	119
23.0	Consent of Ernst & Young LLP, Independent Chartered Accountants	120
99.0	Consolidated Financial Information in accordance with Canadian Generally Accepted Accounting Principles	
99.1	Management’s Discussion and Analysis of the Corporation’s Financial Condition and Results of Operations- Canadian Supplement	123
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* Incorporated by reference to document identified, which has been previously filed.

BY-LAW NO. 1
of
COGNOS INCORPORATED
(the "Corporation")

(as amended by the Board of Directors on April 10, 2002)

1. REGISTERED OFFICE

1.1. The registered office of the Corporation shall be in the province or territory of Canada specified in the articles of the Corporation and at such location in the province or territory as the directors may from time to time determine.

2. CORPORATE SEAL

2.1. Until changed by the directors the corporate seal of the Corporation shall be in the form impressed in the margin hereof.

3. DIRECTORS

3.1. Number and Quorum. The number of directors shall be determined by the directors but shall be not fewer than the minimum and not more than the maximum provided in the articles. A majority of directors or such greater or lesser number as the directors may from time to time determine shall constitute a quorum for the transaction of business at any meeting of directors.

3.2. Qualification. No person shall be qualified to be a director if that person is less than eighteen years of age; is of unsound mind and has been so found by a court in Canada or elsewhere; or has the status of a bankrupt. At least twenty-five percent of the directors shall be resident Canadians.

3.3. Election and Term of Office. The directors shall be elected at each annual meeting of shareholders of the Corporation and each director shall hold office until the close of the first annual meeting following that director's election. If an election of directors is not held at an annual meeting of shareholders, the directors then in office shall continue in office until their successors are elected. Retiring directors are eligible for re-election.

3.4. Vacation of Office. A director ceases to hold office if the director dies while holding office, is removed from office by the shareholders, ceases to be qualified for election as a director or resigns by a written resignation received by the Corporation. A written resignation of a director becomes effective at the time it is received by the Corporation, or at the time specified in the resignation, whichever is later.

3.5. Removal of Directors. The shareholders may by ordinary resolution at a special meeting of shareholders remove any director or directors from office provided that where the holders of any class or series of shares have an exclusive right to elect one or more directors, a director so elected may only be removed by an ordinary resolution at a meeting of the shareholders of that class or series. A vacancy created by the removal of a director may be filled at the meeting of the shareholders at which the director is removed.

- 3.6. Vacancies. Subject to the Act, a quorum of directors may fill a vacancy among the directors. A director appointed or elected to fill a vacancy holds office for the unexpired term of the director's predecessor.
- 3.7. Action by Directors. The directors shall manage, or supervise the management of, the business and affairs of the Corporation. Subject to sections 3.8 and 3.9 the powers of the directors may be exercised at a meeting at which a quorum is present or by resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the directors. Where there is a vacancy in the board of directors the remaining directors may exercise all the powers of the board so long as a quorum remains in office.
- 3.8. Canadian Residents Required at Meetings. The directors shall not transact business at a meeting other than filling a vacancy in the board unless at least twenty-five percent of the directors present are resident Canadians or if a resident Canadian director who is unable to be present approves in writing or by telephonic, electronic or other communication facility the business transacted at the meeting and the required number of resident Canadian directors would have been present had that director been present at the meeting.
- 3.9. Telephonic or Electronic Meetings. If all the directors of the Corporation present at or participating in the meeting consent, a meeting of directors or of a committee of directors may be held by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting, and a director participating in such a meeting by such means is deemed to be present at that meeting.
- 3.10. Place of Meetings. Meetings of directors may be held at any place within or outside of Canada.
- 3.11. Calling of Meetings. Meetings of the directors shall be held at such time and place as the Chair of the Board or any two directors may determine.
- 3.12. Notice of Meeting. Notice of the time and place of each meeting of directors shall be given to each director by telephone not less than 48 hours before the time of the meeting or by written notice not less than four days before the day of the meeting and, subject to the Act, need not specify the purpose of or the business to be transacted at the meeting. Meetings of the directors may be held at any time without notice if all the directors have waived or are deemed to have waived notice.
- 3.13. First Meeting of New Board. No notice shall be necessary for the first meeting of newly-elected directors held immediately following their election at a meeting of shareholders.
- 3.14. Adjourned Meeting. Notice of an adjourned meeting of directors is not required if the time and place of the adjourned meeting is announced at the original meeting.
- 3.15. Regular Meetings. The directors may appoint a day or days in any month or months for regular meetings and shall designate the place and time at which such meetings are to be held. A copy of any resolution of directors fixing the place and time of regular meetings of the board shall be sent to each director forthwith after being passed, and no other notice shall be required for any such regular meeting.
- 3.16. Chair. The Chair of the Board, or in that person's absence the Vice-Chair (if one be appointed), or in that person's absence, the President (if a director), or in that person's absence a director chosen by the directors at the meeting shall be the chair of any meeting of directors.
- 3.17. Voting at Meetings. Questions arising at any meeting of directors shall be decided by a majority of votes. In the case of an equality of votes, the chair of the meeting, in addition to an original vote, shall have a second or casting vote.

3.18. Conflict of Interest. A director or officer, or any individual acting in a similar capacity, who is a party to, or who is a director or officer of or has a material interest in, any person who is a party to a material contract or material transaction, whether entered into or proposed with the Corporation shall disclose the nature and extent of that interest at the time and in the manner provided by the Act.

3.19. Remuneration and Expenses. The directors shall be paid such remuneration as the directors may from time to time by resolution determine. The directors are also be entitled to be paid their traveling and other expenses properly incurred by them in going to, attending and returning from meetings of directors or committees of directors. A director or officer of the Corporation may be employed by or perform services for the Corporation otherwise than as a director or officer, and may be a member of a firm or a shareholder, director or officer of a body corporate which is employed by or performs services for the Corporation, and such director, officer, firm or body corporate may receive proper remuneration for this employment or services.

4. COMMITTEES

4.1. Committees of Directors. The directors may appoint from among their number one or more committees of directors, establish their duties and responsibilities, and delegate to them any of the powers of the directors except those which under the Act a committee of directors has no authority to exercise.

4.2. Audit Committee. The directors shall appoint from among their number an audit committee composed of not fewer than three directors. No director who is also an officer of the Corporation, or who is otherwise related to the Corporation, except by reason of being a director or shareholder, may be a member of the audit committee. In addition to such other duties as directors may establish, the audit committee shall review the interim and annual financial statements of the Corporation and shall report thereon to the directors of the Corporation before such financial statements are approved by the directors. In addition, the audit committee shall have such other duties, responsibilities and powers as the directors may determine. The auditor of the Corporation is entitled to receive notice of every meeting of the audit committee and, at the expense of the Corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, shall attend every meeting of the committee held during the term of office of the auditor. The auditor of the Corporation or any member of the audit committee may call a meeting of the committee.

4.3. Transaction of Business. Subject to section 3.9, the powers of a committee appointed by the directors may be exercised at a meeting at which a quorum is present or by resolution in writing signed by all members of the committee entitled to vote on that resolution at a meeting of the committee. Meetings of a committee may be held at any place in or outside Canada.

4.4. Procedure. Unless otherwise determined by the directors each committee has the power to fix its quorum and to regulate its procedure.

5. OFFICERS

5.1. General. The directors may from time to time appoint a Chair of the Board, a vice-Chair, a President, one or more Vice-Presidents, a Secretary, a Treasurer and such other officers as the directors may determine, including one or more assistants to any of the officers so appointed. The officers so appointed may but need not be members of the board of directors except as provided in sections 5.3 and 5.4.

5.2. Term of Office. Any officer may be removed by the directors at any time but such removal shall not affect the rights of that officer under any contract of employment with the Corporation. Otherwise, each officer shall hold office until the officer's successor is appointed.

5.3. The Chair of the Board. The Chair of the Board, if any, shall be appointed from among the directors and shall, when present, be chair of meetings of shareholders and directors and otherwise manage the processes of the board of directors and be responsible for ensuring that it discharges its responsibilities. If the Chair of the Board is a full-time employee of the Corporation, that person may also perform such of the powers and duties assigned to the President, including those of chief executive officer, as the directors may determine.

5.4. Vice-Chair of the Board. The Vice-Chair of the Board, if any, shall be appointed from among the directors and shall act in the absence or incapacity of the Chair and shall have such other powers and duties as the directors may determine.

5.5. The President. Unless the directors otherwise determine, the President shall be the chief executive officer of the Corporation and shall have general supervision of its business and affairs and, if a director and in the absence of the Chair or the Vice-Chair of the Board, shall be chair at meetings of shareholders and directors when present.

5.6. Vice-President. A Vice-President shall have such powers and duties as the directors or the President may determine.

5.7. Secretary. The Secretary shall give, or cause to be given, all notices required to be given to shareholders, directors, auditors and members of committees; shall attend and be secretary of all meetings of shareholders, directors and committees appointed by the directors and shall enter or cause to be entered in books kept for that purpose minutes of all proceedings at such meetings; shall be the custodian of the corporate seal of the Corporation and of all records, books, documents and other instruments belonging to the Corporation; and shall have such other powers and duties as the directors or the President may determine.

5.8. Treasurer. The Treasurer shall keep proper books of account and accounting records with respect to all financial and other transactions of the Corporation; shall be responsible for the deposit of money, the safe-keeping of securities and the disbursement of the funds of the Corporation; shall render to the directors when required an account of all the Treasurer's transactions and of the financial position of the Corporation; and the Treasurer shall have such other powers and duties as the directors or the President may determine.

5.9. Other Officers. The powers and duties of all other officers shall be such as the directors or the President may determine. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the directors or the President otherwise direct.

5.10. Variation of Duties. The directors may, from time to time, vary, add to or limit the powers and duties of any officer.

5.11. Conflict of Interest. An officer shall disclose the officer's interest in any material contract or proposed material contract in accordance with section 3.18.

5.12. Agents and Attorneys. The directors shall have power from time to time to appoint agents or attorneys for the Corporation within or outside of Canada with such powers (including the power to sub-delegate) of management, administration or otherwise as the directors may specify.

6. PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

6.1. Indemnification of Directors and Officers. The Corporation shall indemnify a director or officer, a former director or officer or a person who acts or acted at the Corporation's request as a director or officer, or an individual acting in a similar capacity, of another entity, and the heirs and legal representatives of such a person to the extent permitted by the Act.

6.2. Insurance. The Corporation may purchase and maintain insurance for the benefit of any person referred to in section 6.1 to the extent permitted by the Act.

7. MEETINGS OF SHAREHOLDERS

7.1. Annual Meetings. The annual meeting of the shareholders shall be held at the registered office of the Corporation or at such other place within Canada as the directors may determine, or any place outside Canada specified in the Articles or agreed to by all the shareholders entitled to vote at that meeting, at such time in each year as the directors may determine, for the purpose of receiving the reports and statements required to be placed before the shareholders at an annual meeting, electing directors, appointing an auditor or auditors, and for the transaction of such other business as may properly be brought before the meeting.

7.2. Other Meetings. The directors shall have power at any time to call a special meeting of shareholders to be held at such time and at such place within Canada as the directors may determine, or any place outside Canada specified in the Articles or agreed to by all the shareholders entitled to vote at the meeting, as may be determined by the board of directors.

7.3. Notice of Meetings. Notice of the time and place of a meeting of shareholders shall be given not less than twenty-one days nor more than sixty days before the meeting to each holder of shares carrying voting rights at the close of business on the record date for notice, to each director and to the auditor of the Corporation. Notice of a meeting of shareholders at which special business is to be transacted shall state the nature of that business in sufficient detail to permit the shareholder to form a reasoned judgement thereon and shall include the text of any special resolution to be submitted to the meeting. All business transacted at a special meeting of shareholders and all business transacted at an Annual meeting of shareholders, except consideration of the financial statements, auditor's report, election of directors and reappointment of the incumbent auditor, shall be deemed to be special business.

7.4. Record Date for Notice. For the purpose of determining shareholders entitled to receive notice of a meeting of shareholders, the directors may fix in advance a date as the record date for such determination of shareholders, but the record date shall not precede by more than sixty days or by less than twenty-one days the date on which the meeting is to be held. Where no record date is fixed, the record date for the determination of shareholders entitled to receive notice of a meeting of shareholders shall be at the close of business on the day immediately preceding the day on which the notice is given, or, if no notice is given, shall be the day on which the meeting is held. Subject to the provisions of the Act, if a record date is fixed, unless notice of the record date is waived in writing by every holder of a share of the class of shares or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice thereof shall be given, not less than seven days before the date so fixed, by advertisement in a newspaper published or distributed in the place where the Corporation has its registered office and in each place in Canada where it has a transfer agent or where a transfer of its shares may be recorded and by written notice to each stock exchange in Canada on which the shares of the Corporation are listed for trading.

7.5. Record Date for Voting. For the purpose of determining shareholders entitled to vote at a meeting of shareholders, the directors may fix in advance a date as the record date for such determination of shareholders, but the record date shall not precede by more than sixty days or by less than twenty-one days the date on which the meeting is to be held. If a record date is fixed, unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice thereof shall be given, not less than seven days before the date so fixed, by advertisement in a newspaper published or distributed in the place where the Corporation has its registered office and in each place in Canada where the transfer agent or where a transfer of its shares may be recorded and by written notice to each stock exchange on which the shares of the Corporation are listed for trading.

7.6. Persons Entitled to be Present. The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors, the auditor and other persons who are entitled or required under any

provision of the Act or the articles or by-laws of the Corporation to attend a meeting of shareholders of the Corporation. Any other person may be admitted only on the invitation of the chair of the meeting or with the consent of the meeting.

7.7. Chair. The Chair of the Board, or in the Chair's absence the Vice-Chair (if one be appointed), or in the Vice-Chair's absence, the President (if a director), or in the President's absence a person chosen by a vote at the meeting shall be chair of meetings of shareholders.

7.8. Scrutineers. At each meeting of shareholders one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chair with the consent of the meeting.

7.9. Quorum. A quorum of shareholders shall be the holders of thirty three and one-third (33 1/3%) per cent of shares issued, either present in person or as the duly appointed representative or proxy of a shareholder. A quorum must be present at the opening of the meeting for the transaction of business but need not be sustained throughout the meeting.

7.10. Right to Receive Notice. The Corporation shall prepare an alphabetical list of its shareholders entitled to receive notice of a meeting, showing the number of shares held by each shareholder, which list shall be prepared,

7.10.1. if a record date for notice is fixed under section 7.4, not later than ten days after that record date; and

7.10.2. if no record date for notice is fixed under section 7.4, on the record date for notice established under section 7.4.

7.11. Right to Vote. The Corporation shall prepare a list of shareholders entitled to vote at a meeting, arranged in alphabetical order and showing the number of shares held by each shareholder, which list shall be prepared,

7.11.1. if a record date for voting is fixed under section 7.5, not later than ten days after that record date; and

7.11.2. if no record date for voting is fixed, not later than ten days after the record date for notice fixed under section 7.4 or, if no record date for notice was so fixed, then not later than the record date for notice established under section 7.4, and in both cases the list shall be prepared as of the record date for notice.

A shareholder whose name appears in the list prepared under this section 7.11 is entitled to vote the shares shown opposite that shareholder's name at the meeting to which the list relates.

7.12. Joint Shareholders. Where two or more persons hold shares jointly, one of those holders present at a meeting of shareholders may in the absence of the others vote the shares, but if two or more of those persons are present, in person or by proxy, they shall vote as one on the shares jointly held by them.

7.13. Representatives. Where a body corporate or association is a shareholder of the Corporation, the Corporation shall recognise any individual authorised by a resolution of the directors or governing body of the body corporate or association to represent it at meetings of shareholders of the Corporation. An individual so authorised may exercise on behalf of the body corporate or association the individual represents all the powers it could exercise if it were an individual shareholder.

7.14. Executors and Others. An executor, administrator, committee of a mentally incompetent person, guardian or trustee and, where a corporation is such executor, administrator, committee, guardian or trustee of a testator, intestate, mentally incompetent person, ward or cestui que trust, any duly appointed representative of such

corporation, upon filing with the secretary of the meeting sufficient proof of the person's appointment, shall represent the shares in the person's or its hands at all meetings of shareholders of the Corporation and may vote accordingly as a shareholder in the same manner and to the same extent as the shareholder of record. If there be more than one executor, administrator, committee, guardian or trustee, the provisions of this by-law respecting joint shareholders shall apply.

7.15. Proxyholders. Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder or one or more alternate proxyholders, who need not be shareholders, as the shareholder's nominee to attend and act at the meeting in the manner, to the extent and with the authority conferred by the proxy. A proxyholder or an alternative proxyholder has the same rights as the shareholder who appointed the proxyholder to speak at a meeting of shareholders in respect of any matter, to vote by way of ballot at the meeting and, except where a proxyholder or an alternative proxyholder has conflicting instructions from more than one shareholder, to vote at such meeting in respect of any matter by way of any show of hands. A proxy shall be executed by the shareholder or the shareholder's attorney authorised in writing or, if the shareholder is a body corporate, by an officer or attorney thereof duly authorised and shall be valid only at the meeting in respect of which it is given or any adjournment thereof. A proxy shall be in such form as may be prescribed from time to time by the directors or in such other form as the chair of the meeting may accept and as complies with all applicable laws and regulations.

7.16. Time for Deposit of Proxies. The directors may by resolution fix a time not exceeding forty-eight hours, excluding Saturdays and holidays, preceding any meeting or adjourned meeting of shareholders before which time proxies to be used at that meeting must be deposited with the Corporation or an agent thereof, and any period of time so fixed shall be specified in the notice calling the meeting.

7.17. Votes to Govern. Subject to the Act and the articles of the Corporation, at all meetings of shareholders every question shall be decided, either on a show of hands or by ballot, by a majority of the votes cast on the question. In case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

7.18. Electronic Meetings and Voting. If the directors or shareholders call a meeting of shareholders, the directors or shareholders, as the case may be, may determine that the meeting of shareholders shall be held entirely by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting (a "communication facility"), and any vote at that meeting of shareholders shall be held entirely by means of that communication facility. A meeting of shareholders may also be held at which some, but not all, persons entitled to attend may participate and vote by means of a communication facility, if the Corporation makes one available. A person participating in a meeting by such means is deemed to be present at the meeting. Any vote at a meeting of shareholders may be held entirely by means of a communication facility, if the Corporation makes one available, even if none of the persons entitled to attend otherwise participates in the meeting by means of a communication facility. For the purpose of voting, a communication facility that is made available by the Corporation must enable votes to be gathered in a manner that permits their subsequent verification and permits the tallied votes to be presented to the Corporation without it being possible for the Corporation to identify how each shareholder or group of shareholders voted.

7.19 Show of Hands. Voting at a meeting of shareholders shall be by show of hands, or the functional equivalent of a show of hands by means of electronic, telephonic or other communication facility, except where a ballot is demanded by a shareholder or proxyholder entitled to vote at the meeting or where required by the chair. A ballot may be demanded either before or after any vote by show of hands or its functional equivalent. Upon a show of hands or its functional equivalent, every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands or its functional equivalent shall have been taken upon a question, unless a ballot thereon be required or demanded, an entry in the minutes of a meeting of shareholders to the effect that the chair declared a resolution to be carried or defeated, in the absence of evidence to the contrary, is proof of the number or proportion of the votes recorded in favour of or against the resolution. A demand for a ballot may be withdrawn at any time prior to taking of a poll on the ballot.

7.20. Ballots. If a ballot is demanded or required, the vote upon the question shall be taken in such manner as the

chair of the meeting shall direct, or as provided by the electronic, telephonic or other communication facility through which votes may be cast. Each person present and entitled to vote at the meeting shall, unless the articles of the Corporation otherwise provide, be entitled to one vote for each share in respect of which that person is entitled to vote at the meeting.

7.21. Adjournment. The chair of any meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the same from time to time and from place to place. If a meeting of shareholders is adjourned for less than thirty days it is not necessary to give notice of the adjourned meeting other than by announcement at the earliest meeting that is adjourned. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of thirty days or more, notice of the adjourned meeting shall be given as for an original meeting. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling such original meeting.

7.22. Resolution in Lieu of Meeting. A resolution in writing signed by all the shareholders entitled to vote on that resolution at a meeting of shareholders is as valid as if it had been passed at a meeting of shareholders except where a written statement in respect thereof has been submitted by a director or where representations in writing are submitted by the auditor of the Corporation, in either case, in accordance with the Act.

8. SHARES

8.1. Issue. Subject to the Act and the articles of the Corporation, shares of the Corporation may be issued at such times and to such persons and for such consideration as the directors may determine, provided that no shares may be issued until it is fully paid as provided in the Act.

8.2. Commissions. The directors may authorize the Corporation to pay a reasonable commission to any person in consideration of the person purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

8.3. Share Certificate. Every shareholder is entitled to receive a share certificate in respect of the shares held by that shareholder that complies with the Act or to a non-transferable written acknowledgement (“written acknowledgement”) of the shareholder’s right to obtain a share certificate from the Corporation in respect of the shares of the Corporation held by that shareholder, but the Corporation is not bound to issue more than one share certificate or written acknowledgement in respect of a share or shares held jointly by several persons and delivery of a share certificate or written acknowledgement to one of several joint holders is sufficient delivery to all. Written acknowledgements shall be in such form or forms as the directors shall from time to time by resolution determine. The Corporation may charge a fee not exceeding the amount prescribed by the Act for a share certificate issued in respect of a transfer. Subject to the provisions of the Act and to the requirements of any stock exchange on which shares of the Corporation may be listed, share certificates shall be in such form or forms as the directors shall from time to time approve. Unless otherwise determined by the directors, share certificates shall be signed by the Chair of the Board, the President, or a Vice-President or a director and by the Secretary or an Assistant Secretary and need not be under the corporate seal and certificates for shares in respect of which a transfer agent or registrar has been appointed shall not be valid unless countersigned on behalf of such transfer agent or registrar. Share certificates shall be signed manually, or signatures shall be printed or otherwise mechanically reproduced on the certificate, and shall include the signature of, at least one director or officer of the Corporation or by or on behalf of a registrar, transfer agent or branch transfer agent of the Corporation. If a share certificate contains a printed or mechanically reproduced signature of a person, the Corporation may issue the share certificate, even though the person has ceased to be a director or an officer of the Corporation, and the share certificate is as valid as if the person were a director or an officer at the date of its issue.

8.4. Transfer Agents and Registrars. For each class of shares issued by it, the Corporation may appoint one or more agents to keep the securities register and the register of transfers and one or more branch registers. Such an agent may be designated as a transfer agent or registrar according to functions and one agent may be designated both transfer agent and registrar. The securities register, the register of transfers and the branch register or registers shall

be kept at the registered office of the Corporation or at such other place designated by the directors as long as, if kept outside of Canada,

- 8.4.1 the records are available for inspection, by means of a computer terminal or other technology, during regular office hours at the registered office or any other place in Canada designated by the directors; and
- 8.4.2 the Corporation provided the technical assistance to facilitate an inspection referred in section 8.4.1.

8.5. Transfer of Shares. Subject to the Act, no transfer of a share shall be registered except upon presentation of the certificate representing such share with an endorsement which complies with the Act, together with such reasonable assurance that the endorsement is genuine and effective as the directors may prescribe, upon payment of all applicable taxes and fees and upon compliance with the articles of the Corporation.

8.6. Non-Recognition of Trust. Subject to the Act, the Corporation may treat the registered holder of any share as the person exclusively entitled to vote, to receive notices, to receive any dividend or other payment in respect of the share, and to exercise all the rights and powers of an owner of the share.

8.7. Replacement of Share Certificates. Where the owner of a share certificate claims that the share certificate has been lost, apparently destroyed or wrongfully taken, the Corporation shall issue or cause to be issued a new certificate in place of the original certificate if the owner (i) so requests before the Corporation has notice that the share certificate has been acquired by a *bona fide* purchaser; (ii) files with the Corporation an indemnity bond sufficient in the Corporation's opinion to protect the Corporation and any transfer agent, registrar or other agent of the Corporation from any loss that it or any of them may suffer by complying with the request to issue a new share certificate; and (iii) satisfies any other reasonable requirements imposed from time to time by the Corporation.

9. DIVIDENDS AND RIGHTS

9.1. Declaration of Dividends. Subject to the Act, the directors may from time to time declare dividends payable to the shareholders according to their respective rights and interest in the Corporation.

9.2. Cheques. A dividend payable in money shall be paid by cheque to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such registered holder at the address of such holder in the Corporation's securities register, unless such holder otherwise directs. In the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all such joint holders and mailed to them at their address in the Corporation's securities register. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

9.3. Non-Receipt of Cheques. In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the directors may from time to time prescribe, whether generally or in any particular case.

9.4. Record Date for Dividends and Rights. The directors may fix in advance a date, preceding by not more than fifty days the date for payment of any dividend or the date for the issue of any warrant or other evidence of the right to subscribe for securities of the Corporation, as a record date for the determination of the persons entitled to receive payment of such dividend or to exercise the right to subscribe for such securities, and notice of any such record date shall be given not less than seven days before such record date in the manner provided by the Act. If no record date is so fixed, the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for securities of the Corporation shall be at the close of business on the day on which the resolution relating to such dividend or right to subscribe is passed by the directors.

9.5. Unclaimed Dividends. Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

10. NOTICES

10.1. General. A notice or document required by the Act, the regulations thereunder, the articles or the by-laws of the Corporation to be sent to a shareholder or director of the Corporation may be sent by prepaid mail addressed to, or may be delivered personally to, the shareholder or director at the latest address of the shareholder or director as shown in the records of the Corporation. A notice or document if mailed to a shareholder or director of the Corporation shall be deemed to have been received at the time it would be delivered in the ordinary course of mail unless there are reasonable grounds for believing that the shareholder or director did not receive the notice or document at that time or at all. If the Corporation sends a notice or document to a shareholder in accordance with this section and the notice or document is returned on two consecutive occasions because the shareholder cannot be found, the Corporation is not required to send any further notices or documents to the shareholder until the shareholder informs the Corporation in writing of the shareholder's new address. An electronic document is deemed to have been received when it enters the information system designated by the addressee or, if the document is posted on or made available through a generally accessible electronic source, when the addressee receives notice in writing of the availability and location of that electronic document, or, if such notice is sent electronically, when it enters the information system designated by the addressee.

10.2. Electronic Delivery. Provided the addressee has consented in writing, or electronically in accordance with the provisions of the Act and the regulations thereunder, the Corporation may satisfy the requirement to send any notice or document referred to in section 10.1 by providing an electronic document in accordance with the Act and the regulations thereunder, unless the notice or document is one that, as prescribed in the regulations under the Act, may not be provided in electronic form.

10.3. Computation of Time. In computing the time when a notice or document must be given or sent under any provision requiring a specified number of days' notice of any meeting or other event, the day on which the notice or document is given or sent shall be excluded and the day on which the meeting or other event occurs shall be included.

10.4. Omission and Errors. The accidental omission to give any notice or send any document to any shareholder, director or other person or the non-receipt of any notice or document by any shareholder, director or other person or any error in any notice or document not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded on such notice or document.

10.5. Notice to Joint Shareholders. All notices or documents with respect to any shares registered in more than one name may, if more than one address appears on the securities register of the Corporation in respect of such joint holding, be given to such joint shareholders at the first address so appearing, and all notices so given or documents so sent shall be sufficient notice to all the holders of such shares.

10.6. Proof of Service. A certificate of the Secretary or other duly authorised officer of the Corporation, or of any agent of the Corporation, as to facts in relation to the mailing or delivery or sending of any notice or document to any shareholder or director of the Corporation or to any other person or publication of any such notice or document, shall be conclusive evidence thereof and shall be binding on every shareholder or director or other person as the case may be.

10.7. Signature to Notice. The signature to any notice or document given by the Corporation, if not in electronic form, may be printed or otherwise mechanically reproduced thereon or partly printed or otherwise mechanically reproduced thereon.

10.8. Waiver of Notice. Notice may be waived or the time for the sending of a notice or document may be waived or abridged at any time with the consent in writing of the person entitled thereto. Attendance of any director at a meeting of the directors or of any shareholder at a meeting of shareholders is a waiver of notice of such meeting, except where the director or shareholder attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. BUSINESS OF THE CORPORATION

11.1. Voting Shares and Securities in Other Corporations. All of the shares or other securities carrying voting rights of any other body corporate or bodies corporate held from time to time by the Corporation may be voted at any and all meetings of holders of such securities of such other body corporate or bodies corporate in such manner and by such person or persons as the directors of the Corporation shall from time to time determine or failing such determination the proper signing officers of the Corporation may also from time to time execute and deliver for and on behalf of the Corporation instruments of proxy and arrange for the issue of voting certificates and other evidence of the right to vote in such names as they may determine.

11.2. Bank Accounts, Cheques, Drafts and Notes. The Corporation's bank accounts shall be kept in such chartered bank or banks, trust company or trust companies or other firm or corporation carrying on a banking business as the directors may by resolution from time to time determine. Cheques on bank accounts, drafts drawn or accepted by the Corporation, promissory notes given by it, acceptances, bills of exchange, orders for the payment of money and other instruments of a like nature may be made, signed, drawn, accepted or endorsed, as the case may be, by such officer or officers, person or persons as the directors may by resolution from time to time name for that purpose. Cheques, promissory notes, bills of exchange, orders for the payment of money and other negotiable paper may be endorsed for deposit to the credit of any one of the Corporation's bank accounts by such officer or officers, person or persons, as the directors may by resolution from time to time name for that purpose, or they may be endorsed for such deposit by means of a stamp bearing the Corporation's name.

11.3. Execution of Instruments. The Chair of the Board, the Vice-Chair, the President, a Vice-President or any director, together with the Secretary, the Treasurer, Assistant Secretary, Assistant Treasurer or any other director, shall have authority to sign in the name and on behalf of the Corporation all instruments in writing and any instruments in writing so signed shall be binding upon the Corporation without any further authorisation or formality. The board of directors shall have power from time to time by resolution to appoint any other officer or officers or any person or persons on behalf of the Corporation either to sign instruments in writing generally or to sign specific instruments in writing. Any signing officer may affix the corporate seal to any instrument requiring the same. The term "instruments in writing" as used herein shall, without limiting the generality thereof, include contracts, documents, powers of attorney, deeds, mortgages, hypothecs, charges, conveyances, transfers and assignments of property (real or personal, immovable or movable), agreements, tenders, releases, receipts and discharges for the payment of money or other obligations, conveyances, transfers and assignments of shares, stocks, bonds, debentures or other securities, instruments of proxy and all paper writing.

11.4. Fiscal Year. Until changed by resolution of the directors, the fiscal year of the Corporation shall terminate on the last day of February in each year.

12. INTERPRETATION, REPEAL OF FORMER BY-LAWS & EFFECTIVE DATE

12.1 Interpretation. In this by-law, wherever the context requires or permits, the singular shall include the plural and the plural the singular; the word "person" shall include firms and corporations, and masculine gender shall include the feminine and neuter genders. Wherever reference is made to any determination or other action by the directors such shall mean determination or other action by or pursuant to a resolution passed at a meeting of the directors, or by or pursuant to a resolution consented to by all the directors as evidenced by their signatures thereto. Wherever reference is made to the "*Canada Business Corporations Act*" or the "Act", it shall mean the *Canada*

Business Corporations Act, R.S.C. 1985, c. C-44, as amended, and every other act or statute incorporated therewith or amending the same, or any act or statute substituted therefor. Reference to the “Act”, in the absence of words to the contrary, includes all Regulations promulgated under the provisions of the Act. Unless the context otherwise requires, all words used in this by-law shall have the meanings given to such words in the Act. If there is any conflict between the provisions of this by-law and the Act, the provisions of the Act will prevail to the extent of such conflict.

12.2 Repeal of Former By-laws. All by-laws in force immediately prior to the coming into force of this by-law are hereby repealed. The foregoing repeal does not affect the previous operation of any by-law so repealed or affect the validity of any action under or pursuant to such prior by-law. All officers and persons acting under any by-law so repealed shall continue to act as if appointed pursuant to the provisions of this by-law and all resolutions of shareholders or of directors (including any committee of directors) with continuing effect shall continue in full force and effect except to the extent inconsistent with this by-law and until amended or repealed.

12.3 Effective Date. This by-law comes into force on the day it is adopted as a by-law by the directors, subject to confirmation by an ordinary resolution of shareholders at the next meeting of shareholders.

COGNOS INCORPORATED**2002-2003 STOCK OPTION PLAN**

(Adopted by the Cognos Board of Directors on April 10, 2002, by its Shareholders on XXXX XX, 2002,
and approved by the TSE on XXXXX, 2002)

1. PURPOSE

This 2002-2003 Stock Option Plan (the "Plan") is intended to provide incentives to officers directors, employees and consultants of Cognos Incorporated and any present or future subsidiary of the Corporation wherever located (the "Corporation"), by providing them with opportunities to purchase stock in the Corporation pursuant to options, with or without stock appreciation rights ("Options"). Options may qualify as "incentive stock options", or ISO's, under Section 422(b) of the United States Internal Revenue Code of 1986, as amended (the "Code"). Options that are not ISO's are "non-qualified stock options" or NQO's.

2. ADMINISTRATION OF THE PLAN

A. The Plan shall be administered by the Human Resources & Compensation Committee (the "Committee") of the Board of Directors of the Corporation (the "Board").

B. Subject to the terms of the Plan, the Committee shall have the authority to (a) determine the employees of the Corporation and any Subsidiary (from among the class of employees eligible under paragraph 3) to whom Options may be granted; (b) determine the time or times at which Options may be granted; (c) determine (subject to paragraph 6) the option price of shares subject to each Option; (d) determine the limitations, restrictions, and conditions of any grant of Options, including whether any Option granted is an ISO or a NQO or whether it will have stock appreciation rights attached to it (subject to paragraph 19); (e) determine (subject to paragraph 8) the time or times when each Option shall become exercisable and the duration of the exercise period; and (f) interpret the Plan and prescribe and rescind rules and regulations relating to it. The interpretation and construction by the Committee of any provisions of the Plan or of any Option granted under it is final unless otherwise determined by the Board. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may consider appropriate. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

C. The date of grant of an Option under the Plan will be the date specified by the Committee at the time it awards the Option.

D. Options may be granted to members of the Board, including members of the Committee. All grants of Options to members of the Board shall be made in accordance with the provisions of this Plan applicable to other eligible persons. Members of the Board who either (a) are eligible to receive grants of Options pursuant to the Plan or (b) have been granted Options may vote on any matters affecting the administration of the Plan or the grant of any Options pursuant to the Plan, except that no such member shall act upon the granting to himself of Options, but any such member may be counted in determining the existence of a quorum at any meeting of the Board during which such action is taken with respect to the granting of Options to such member.

E. The Board in its discretion may take such action as may be necessary to ensure that Options granted under the Plan qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Code and applicable regulations promulgated thereunder ("Performance-Based Compensation"). Options may be subject to such other terms and conditions as are necessary to constitute compensation arising from their exercise or disposition (or the disposition of any shares acquired thereunder) as Performance-Based Compensation.

3. PARTICIPATION

A. Options may be granted to any officer, director (whether or not an employee), employee or consultant of the Corporation or any Subsidiary (each recipient of an award a "Participant"). ISO's may only be awarded to Employees of the Corporation. All other Participants will be awarded NQO's.

B. Participation in the Plan is voluntary and is not a condition of employment. No employee of the Corporation shall have any claim or right to be granted Options or SARs pursuant to the Plan.

C. Neither the Corporation nor any Subsidiary assumes any liability for the income or other tax consequences arising from participation in the Plan. Participants should consult their own tax advisors in that respect.

4. STOCK

A. All stock issued under the Plan shall be authorized but unissued common shares of capital stock of the Corporation without par value (the "Common Shares").

B. The aggregate number of Common Shares which may be issued under the Plan is 3,800,000 subject to adjustment as provided in paragraph 16.

C. If any Option expires or terminates for any reason without having been exercised in full or ceases for any reason to be exercisable in whole or in part, the unpurchased Common Shares subject to that Option shall again be available for grants of Options.

D. No officer, director (whether or not an employee), employee or consultant of the Corporation or any Subsidiary may be granted Options that, together with all of the Corporation's previously established or proposed share compensation arrangements, could result, at any time, in:

(a) the number of Common Shares reserved for issuance to such persons exceeding ten per cent (10%) of the number of Common Shares outstanding on a non-diluted basis at such time ("outstanding issue");

(b) the issue to such persons, within a one-year period, of more than ten per cent (10%) of the outstanding issue of Common Shares; or

(c) the issue to any one of such persons, within a one-year period, of more than five per cent of the outstanding issue of Common Shares or, if less, 450,000 shares.

The foregoing limits will be adjusted to reflect any adjustments in the capital of the Corporation as contemplated in paragraph 16.

5. TERM & EFFECTIVE DATE

A. This Plan was adopted by the Board on April 10, 2002. Options may be granted under the Plan prior to the date of shareholder approval of the Plan. No option may be exercised prior to shareholder approval of the Plan.

B. If the approval of shareholders is not obtained prior to July 1, 2002, any Options granted under the Plan made prior to that date will be rescinded.

C. The Plan shall expire on May 1, 2003 (except as to Options outstanding on that date).

6. MINIMUM OPTION PRICE

A. The price per Common Share specified in the agreement relating to each Option granted under the Plan shall not be lower than 100% of the fair market value of Common Shares on the date of grant, subject to adjustment in accordance with the provisions of paragraph 16 and paragraph 21.

B. In the case of an ISO to be granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any Subsidiary, the price per Common Share specified in the agreement relating to each ISO shall not be less than one hundred and ten percent (110%) of the fair market value of Common Shares on the date of grant. For purposes of determining stock ownership under this paragraph, the rules of Section 424(d) of the Code shall apply.

C. Each eligible employee may be granted Options treated as ISOs only to the extent that, in the aggregate under this Plan and all incentive stock option plans of the Corporation and any Subsidiary, ISOs do not become exercisable for the first time by such employee during any calendar year with respect to stock having a fair market value (determined at the time the ISOs were granted) in excess of US\$100,000. The Corporation intends to designate any Options granted in excess of such limitation as NQOs. (To make this calculation the conversion rate used shall be the purchase rate for U.S. dollars on the date of grant as published by the Bank of Canada). The foregoing shall be applied by taking Options into account in the order in which they were granted. If the Committee determines to issue an NQO, it shall take whatever actions it deems necessary, under Section 422 of the Code and the regulations promulgated thereunder, to ensure that such Option is not treated as an ISO.

D. For the purposes of the Plan, except for SAR's awarded pursuant to paragraph 19, "fair market value" on any particular day shall be determined at the close of business on the last trading day preceding the date an Option is granted and shall mean, (a) the closing price of the Common Shares on The Toronto Stock Exchange, or if none is available then (b) the average of the closing bid and asked prices on the NASDAQ Stock Market. If the Common Shares are not publicly traded at the time an Option is granted, "fair market value" shall be deemed to be the fair value of the Common Shares as determined by the Board after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Shares in private transactions negotiated at arm's length.

7. OPTION DURATION

Each Option shall expire on the date specified by the Committee, but not more than (a) ten (10) years from the date of grant in the case of Options generally and (b) five (5) years from the date of grant in the case of ISOs contemplated in paragraph 6(B), except as provided in paragraph 21. The term of each Option shall be set out in the instrument granting the Option ("Option Agreement"), except with respect to any part of such ISO that is converted into a NQO pursuant to paragraph 21.

8. WHEN OPTION BECOMES EXERCISABLE

Each Option shall be exercisable as follows:

A. The Option shall either be fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the Committee may specify. Any reference to an Option in this Plan includes any installment of that Option.

B. Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the Option.

C. Subject to such trading restrictions as may be imposed by the Corporation from time to time, each Option may be exercised at any time or from time to time for up to the total number of Common Shares with respect to which it is then exercisable.

D. The Committee shall have the right to accelerate the date of exercise of any Option or installment thereof. The date of exercise of any ISO (which has not previously been converted to an NQO pursuant to paragraph 21) may be accelerated only if that acceleration does not violate the annual vesting limitation set out in paragraph 6(C).

9. TERMINATION OF EMPLOYMENT

A. If a Participant ceases to be employed by the Corporation or any Subsidiary, other than by reason of "retirement" as defined in paragraph 10, death or disability or for "cause" as defined in this paragraph 9, then, effective on the date that termination becomes effective ("Without Cause Termination Date"), no further installments of an Option will become exercisable, and the Participant may exercise the Option to the extent the Participant could have exercised, except to the extent the Committee accelerates the right of the Participant to exercise an Option (in its sole and absolute discretion) on the Without Cause Termination Date, at any time on or before the earlier of: thirty (30) days from the Without Cause Termination Date or on the specified expiration date of the Option.

B. Employment shall be considered as continuing uninterrupted during any bona fide leave of absence (such as governmental service) on the condition that the period of such leave does not exceed ninety (90) days or, if longer, any period during which such Participant's right to re-employment is guaranteed by statute or contract. A bona fide leave of absence with the written approval of the Committee shall not be considered an interruption of employment under the Plan, provided that such written approval contractually obligates the Corporation or any Subsidiary to continue the employment of the Participant after the approved period of absence.

C. Nothing in the Plan shall give any Participant the right to be retained in employment by the Corporation for any period of time, nor shall it interfere with the right of the Corporation to terminate the employment of any Participant, with or without cause. Options granted under the Plan shall not be affected by any change of employment within or among the Corporation, so long as the Participant continues to be an employee of the Corporation.

D. If the employment of a Participant is terminated for "cause", any Option or installment thereof shall terminate the last day of employment with the Corporation and shall thereafter not be exercisable, except to the extent the Committee accelerates the right of the Participant to exercise an Option (in its sole and absolute discretion). "Cause" shall mean conduct recognized by the laws applicable to the Participant as constituting just or proper cause for dismissal without compensation. In granting any Option (including any NQO), the Committee may specify that the Option shall be subject to the restrictions set forth herein, or to such other termination or cancellation provisions as it may determine.

E. In this paragraph 9, reference to the termination or cessation of employment of a Participant who is (a) a director, shall mean the termination or cessation of the appointment of that director as a member of the Board, and (b) a consultant, shall mean the termination or cessation of the contract retaining the consultant.

10. RETIREMENT

If a Participant whose age and aggregate number of years of service with the Corporation totals 75 or greater, ceases to be employed by the Corporation without cause and with the intent of ceasing full-time employment with any party (the combination of the foregoing factors and such additional factors as the Committee in its sole discretion may from time to time determine constituting "Retirement" for purposes of this Plan), except to the extent the Committee accelerates the right of the Participant to exercise an Option

(in its sole and absolute discretion), no further installments of an Option will become exercisable, and the Participant may exercise the Option to the extent the Participant could have exercised it on the date employment ceases, at any time on or before the earlier of: (i) the second (2nd) anniversary of that date, and (ii) the date that the Option expires pursuant to Paragraph 7. If the Participant dies or is incapacitated during that period, then the personal representatives of the Participant may exercise the foregoing rights.

11. CEASING TO BE A DIRECTOR

If a Participant who is a Director ceases to be a member of the Board, the Participant may exercise Options to the extent the Participant could have exercised it on the date such appointment ceases, at any time on or before the earlier of: the second (2nd) anniversary of that date and the specified expiration date of the Options.

12. DEATH

If a Participant ceases to be employed by the Corporation or any Subsidiary by reason of death, (i) all Options shall immediately become exercisable with effect immediately prior to death, and (ii) the estate, personal representative or beneficiary of the Participant who has acquired the Options by will or by the laws of the descent and distribution, may exercise the Options to the extent the Participant could have exercised them, at any time on or before the earlier of: the second (2nd) anniversary of the date of the Participant's death or the specified expiration date of the Option.

13. DISABILITY

If a Participant ceases to be employed by the Corporation or its Subsidiaries by reason of disability, (i) all Options shall immediately become exercisable with effect immediately prior to the date of termination of employment, and (ii) the Participant or the personal representative of the Participant, may exercise the Options to the extent the Participant could have exercised them, at any time on or before the earlier of: the second (2nd) anniversary of the date of the Participant's termination of employment or the specified expiration date of the Option.

14. ASSIGNABILITY

No Option shall be assignable or transferable by the Participant except by will or by the laws of descent and distribution, and Options shall be exercisable during the lifetime of the Participant only by the Participant.

15. TERMS AND CONDITIONS OF OPTIONS

A. Options shall be evidenced by instruments (which need not be identical) in such forms as the Committee may from time to time approve. Such instruments shall conform to the terms and conditions set forth in paragraphs 6 through 14 and may contain such other provisions, as the Committee deems advisable, which are not inconsistent with the Plan, including restrictions applicable to Common Shares issuable upon exercise of Options.

B. The Committee may from time to time confer authority and responsibility on one or more of its members or one or more officers of the Corporation to execute and deliver such instruments. The proper officers of the Corporation are authorized and directed to take any and all action necessary or advisable from time to time to carry out the terms of such instruments.

16. ADJUSTMENTS

Upon the happening of any of the following described events, a Participant's rights with respect to Options granted hereunder shall be adjusted as follows:

A. If there is any subdivision or subdivisions of the Common Shares into a greater number of shares at any time, or in the case of the issue of shares of the Corporation to the holders of its outstanding Common Shares by way of stock dividend or stock dividends (other than an issue of shares to shareholders pursuant to their exercise of a right to receive dividends in the form of shares of the Corporation in lieu of cash dividends declared payable in the ordinary course by the Corporation on its Common Shares), the number of Common Shares deliverable upon the exercise of Options shall be increased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision or stock dividend.

B. If there is any consolidation or consolidations of the Common Shares into a lesser number of shares at any time, the number of Common Shares deliverable upon the exercise of Options shall be decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such consolidation.

C. If there is any reclassification of the Common Shares, at any time a Participant shall accept, at the time of purchase of shares pursuant to the exercise of an Option, in lieu of the number of Common Shares in respect of which the Option to purchase is being exercised, the number of shares of the Corporation of the appropriate class or classes as the Participant would have been entitled as a result of such reclassification or reclassifications had the Option been exercised before such reclassification or reclassifications.

D. If the Corporation is to be amalgamated or consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Corporation's assets or otherwise (an "Acquisition"), the Committee or the board of directors of any entity assuming the obligations of the Corporation under the Plan (the "Successor Board"), shall, as to outstanding Options, either (a) make appropriate provision for the continuation of such Options by substituting on an equitable basis for the shares then subject to such Options the consideration payable with respect to the outstanding Common Shares in connection with the Acquisition; or (b) upon written notice to participants, provide that all Options must be exercised, to the extent then exercisable, within a specified number of days of the date of such notice, at the end of which period the Options shall terminate; or (c) terminate all Options in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such Options (to the extent then exercisable) over the exercise price thereof.

E. Despite the foregoing, any adjustments made pursuant to subparagraphs A, B, C or D with respect to ISO's shall be made only after the Committee, after consulting with counsel for the Corporation, determines whether such adjustments would constitute a "modification" of those ISO's (as that term is defined in Section 424 of the Code) or would cause any adverse tax consequences for their holders. If the Committee determines that those adjustments would constitute a "modification" of those ISO's, it may refrain from making such adjustments.

F. If there is any proposed winding up, dissolution or liquidation of the Corporation, each Option will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Committee.

G. Except as expressly provided herein, no issuance by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Options. No adjustments shall be made for dividends paid in cash or in property other than securities of the Corporation.

H. No fractional shares shall be issued under the Plan. A Participant will receive cash in lieu of fractional shares.

I. Upon the happening of any of the foregoing events described in subparagraphs A, B, C or D above, the class and aggregate number of shares set forth in paragraph 4 hereof that are subject to Options which previously have been or subsequently may be granted under the Plan shall also be appropriately adjusted to reflect the events described in such subparagraphs. The Committee or the Successor Board shall determine the specific adjustments to be made under this paragraph 16 and, subject to paragraph 2, its determination shall be conclusive.

17. EXERCISE OF OPTIONS

A. An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company at its principal office address, or to such transfer agent as the Company shall designate. The notice shall identify the Option being exercised, specify the number of shares as to which such Option is being exercised, and be accompanied by full payment of the purchase price therefor either (a) in Canadian dollars in cash or by certified cheque, (b) at the discretion of the Committee and consistent with applicable law, through the delivery of an assignment to the Company of a sufficient amount of the proceeds from the sale of the Common Shares acquired upon exercise of the Option and an authorization to the broker or selling agent to pay that amount to the Company, which sale shall be at the Participant's direction at the time of exercise, or (c) at the discretion of the Committee, by such other method as it deems appropriate, subject to such regulatory approval as may be required. If the Committee exercises its discretion to permit payment of the exercise price of an Option by means of the methods set forth in clauses (b) or (c) above, that discretion shall be exercised in writing at the time of the grant of the Option in question.

B. The holder of an Option shall not have the rights of a shareholder with respect to the Common Shares subject to Option until the date of issuance of a stock certificate to the Participant for such Common Shares. Except as expressly provided above in paragraph 16 with respect to changes in capitalization and stock dividends, no adjustment shall be made for dividends or similar rights for which the record date is before the date such stock certificate is issued.

18. CONDITIONS OF EXERCISE

Each Option shall be subject to the requirement that, if at any time the Committee or counsel for the Corporation shall determine, in its reasonable discretion, that the listing, registration or qualification of the Common Shares subject to such Option upon any stock exchange or under any applicable law, or the consent or approval of any governmental body, is necessary or desirable, as a condition of, or in connection with, the granting of such Option or the issue or purchase of shares thereunder, no such Option may be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee and counsel for the Corporation.

19. STOCK APPRECIATION RIGHTS

A. Subject to the provisions of the Plan, the Board may grant stock appreciation rights in connection with the grant of any Option. A Stock Appreciation Right ("SAR") means the right to surrender to the Corporation all or a portion of an Option in exchange for an amount equal to the excess of (i) the SAR fair market value, as of the date such Option or portion thereof is transferred and surrendered, of the Common Shares subject to that Option, and (ii) the SAR fair market value of those Common Shares as of the day the Option was granted. Each SAR shall be subject to such other terms and conditions as the Board shall determine. Any SARs shall be granted in the instrument referred to in paragraph 15A.

B. SARs shall be exercisable: (a) at the sole discretion of the Committee, (b) otherwise only at the same time, by the same persons and to the same extent that the Option related thereto is exercisable. Upon

exercise of any SAR, the corresponding portion of the related Option shall be deemed to be surrendered to the Corporation and canceled.

C. A SAR shall be transferable only in the manner and to the extent that the related Option is transferable.

D. Payment of the amount to which a Participant is entitled upon the exercise of a SAR shall be made in cash.

E. "SAR fair market value" on any particular day shall mean the average of either, (a) the average of the high and low trading prices of the Common Shares on The Toronto Stock Exchange, or, if not available then (b) the averages of the closing bid and asked prices on the NASDAQ Stock Market, on the five trading days immediately prior to that day. If the Common Shares are not publicly traded at the time an Option is granted, "fair market value" shall be deemed to be the fair value of the Common Shares as determined by the Board after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Shares in private transactions negotiated at arm's length. Any reference elsewhere in this Plan to "fair market value" shall mean "SAR fair market value" when used in reference to a SAR.

20. TERM AND AMENDMENT OF THE PLAN

The Board may terminate or amend the Plan in any respect at any time, in accordance with applicable legislation and subject to regulatory approval, if any is required, except that the approval of shareholders is required: (a) if such approval is required by applicable law or the rules or policies of any stock exchange or inter-dealer quotation system on which the Common Shares are then listed, or (b) if such approval is required for Option awards to qualify for favorable treatment under Sections 162(m) or 422 of the Code, or any successor provisions. No action of the Committee, Board or shareholders shall alter or impair the rights of a Participant, without the consent of that Participant, under any Option previously granted to him.

21. CONVERSION OF ISO'S INTO NQO'S

The Committee, at the written request of any Participant, may, in its discretion and subject to such regulatory approval as may be required, take such actions as may be necessary to convert that Participant's ISOs that have not been exercised on the date of conversion into NQOs at any time prior to the expiration of such ISOs, regardless of whether the Participant is an employee of the Corporation or a Subsidiary at the time of such conversion. Such actions may include, but are not limited to, extending the exercise period or reducing the exercise price of the appropriate installments of such ISO. At the time of conversion, the Committee (with the consent of the Participant) may impose such conditions on the exercise of the resulting NQOs as the Committee in its discretion may determine, on the condition that those conditions shall not be inconsistent with this Plan. Nothing in the Plan shall be deemed to give any Participant the right to have ISOs converted into NQOs, and no conversion shall occur until and unless the Committee takes appropriate action.

22. APPLICATION OF FUNDS

The proceeds received by the Corporation from the sale of Common Shares pursuant to Options granted under the Plan shall be used for general corporate purposes.

23. GOVERNMENTAL REGULATION

A. The Corporation's obligations to sell and deliver Common Shares under this Plan are subject to the approval of any governmental or regulatory authority required in connection with the authorization, issuance or sale of such shares.

B. Government regulations may impose reporting or other obligations on the Corporation with respect to the Plan. For example, the Corporation may be required to send tax information statements to employees and former employees that exercise Options, and the Corporation may be required to file tax information returns reporting the income received by participants in connection with the Plan.

24. WITHHOLDING OF ADDITIONAL INCOME TAXES

Upon the exercise of an Option, the making of a Disqualifying Disposition (as defined in paragraph 25) or the vesting or transfer of restricted Common Shares acquired on the exercise of an Option, or the making of a distribution or other payment with respect to such Common Shares, the Corporation may withhold taxes in respect of amounts that constitute compensation included in gross income. The Committee in its discretion may condition (a) the exercise of an Option or (b) the vesting of restricted Common Shares acquired by exercising an Option, on the Participant's making satisfactory arrangement for withholding. Such arrangement may include payment by the Participant in cash or by cheque (certified in its discretion) of the amount of the withholding taxes or, at the discretion of the Committee, by the Participant's delivery of previously held Common Shares or the withholding of Common Shares otherwise deliverable upon exercise of an Option having an aggregate fair market value equal to the amount of such withholding taxes.

25. NOTICE TO CORPORATION OF DISQUALIFYING DISPOSITION

By accepting an ISO granted under the Plan, each Participant agrees to notify the Corporation in writing immediately after the Participant makes a disqualifying disposition of any Common Shares received pursuant to the exercise of an ISO (a "Disqualifying Disposition"). Disqualifying Disposition means any disposition (including any sale) of such stock on or before the later of (a) two years from the date the employee was granted the ISO under which he acquired such stock, or (b) one year after the employee acquired such stock by exercising such ISO. If the employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition will thereafter occur.

26. GOVERNING LAW

The validity and construction of the Plan and the instruments evidencing Options shall be governed by the laws of the Province of Ontario, Canada.

COGNOS
EMPLOYEE STOCK PURCHASE PLAN
TERMS AND CONDITIONS

(as amended by the Cognos Board of Directors on May 10, 2002)

1. PURPOSE

Participation in the Cognos Employee Stock Purchase Plan (the "Plan") is being extended to all full-time and part-time permanent employees of the Cognos group of companies (the "Corporation"). An employee can enroll in the Plan at any time between December 1, 1993 and November 30, 2005. The Plan is intended to provide a further incentive for employees to promote the best interests of the Corporation and an additional opportunity to participate in its economic progress. The stock subject to this Plan shall be shares of the Corporation's authorized but unissued common stock, no par value. The aggregate number of shares which may be issued pursuant to the Plan is 3,000,000.

2. PAYROLL DEDUCTION

Under the Plan each participating employee (the "Employee") can elect to have the Corporation deduct an amount per pay period not to exceed 5% of his/her annual target salary divided by the number of pay periods per year provided such amount is greater than \$10.00 per month. Commencing on December 1, 1993, the Corporation shall accumulate in its general fund on behalf of each Employee the deductions made in each of the Corporation's fiscal quarters (a "Purchase Period"). An Employee may elect to change the amount deducted at any time to become effective at the beginning of the next Purchase Period.

3. DATE OF ACQUISITION

On the first trading day after the end of each Purchase Period (the "Date of Acquisition") (i.e., March 1, 1994, June 1, 1994, September 1, 1994 and December 1, 1994 etc. through to November 30, 2005) each Employee's cumulative deductions shall be applied towards the purchase of common shares of Cognos Incorporated (the "Common Shares").

4. PRICE OF ACQUISITION

The purchase price per share shall be at a 10% discount from the lesser of the simple average of the average of the high and low prices of the Common Shares on The Toronto Stock Exchange (T.S.E.) on each of (a) the first five trading days of the Purchase Period or (b) the last five trading days of the Purchase Period.

5. RECORD OF ACQUISITION

Within one month after each Date of Acquisition, each Employee shall be furnished with a record of the shares purchased, the purchase price per share, and the balance remaining in his/her account along with the stock certificate covering the shares purchased. No partial shares shall be issued. Amounts remaining in an Employee's account which are insufficient to purchase a whole share shall form the opening balance for the subsequent Purchase Period.

6. TAX CONSEQUENCES

Because the Plan is available to employees of all of the Cognos group of companies worldwide, no attempt has been made to determine the many special provisions which could be applicable to a particular situation. Employees should consult their own tax advisors to determine the specific tax consequences to them.

7. TRANSFERABILITY OF SHARES

The Common Shares issued will be freely transferable on the T.S.E. and in the over-the-counter market in the United States, subject to the requirement that any resales by "affiliates" of the Corporation must be made pursuant to Rule 144 of the United States Securities Act.

8. WITHDRAWAL AND TERMINATION

An employee may withdraw from the Plan at any time by providing written notice to the attention of:

The Corporate Secretary
Cognos Incorporated
P.O. Box 9707
3755 Riverside Drive
Ottawa, Ontario
K1G 4K9

Upon withdrawal all deducted amounts which have not been applied to the purchase of shares shall be returned to the Employee. No interest will be payable to any Employee in respect of deductions made under the Plan.

Termination of employment for whatever cause shall constitute withdrawal from the Plan. On termination all outstanding deductions which have not been applied to the purchase of shares shall be immediately returned to the Employee.

9. ADMINISTRATION

Rights under the Plan are not transferable by an Employee to any other person. All funds received by the Corporation under the Plan shall be included in the general fund of the Corporation. This Plan will be administered by the Corporate Secretary whose decisions with regard thereto shall be final and conclusive. The Plan shall be governed by the laws of the Province of Ontario.

10. ELECTION TO PARTICIPATE

In order to participate in the Plan an employee must complete the attached **Election to Participate** form by filling in the date deductions are to commence and the amount of money per pay period which he/she desires to have withheld. The form must then be dated, signed and returned to the Corporate Secretary.

If you have any questions, please contact the Coordinator Shareholder Relations at the Ottawa-Riverside office (738-1338 ext. 3392).

11. RESTRICTION ON PURCHASES

No employee of the Corporation may purchase Common Shares under the Plan that, together with all of the Corporation's previously established or proposed share compensation arrangements, could result, at any time, in:

- (a) the number of Common Shares purchased or reserved for issuance to such persons exceeding ten per cent (10%) of the number of Common Shares outstanding on a non-diluted basis at such time ("outstanding issue");
- (b) the purchase or issue to such persons, within a one-year period, of more than ten per cent (10%) of the outstanding issue of Common Shares; or
- (c) the purchase or issue to any one of such persons, within a one-year period, of more than five per cent of the outstanding issue of Common Shares.

The foregoing limits will be adjusted to reflect any adjustments in the capital the of the Corporation.

ELECTION TO PARTICIPATE

TO: COGNOS INCORPORATED and its subsidiaries and affiliates (the "Corporation")

I, the undersigned, acknowledge having received and read the Cognos Employee Stock Purchase Plan (the "Plan") and agree to the terms contained therein. I hereby authorize the Corporation in accordance with the terms of the Plan commencing _____, 200__ to withhold by way of payroll deduction: _____ per pay period

(NOTE: The amount indicated may not exceed 5% of your target salary divided by the number of pay periods per year).

Unless given notice of any withdrawal from the Plan, I further authorize and direct the Corporation on my behalf to apply the proceeds from such deductions towards purchase of Common Shares of Cognos Incorporated on the first trading day after the end of each Purchase Period.

I recognize and agree that purchase of such shares is conditional upon my being a full-time employee of the Corporation at the time of purchase. I acknowledge and agree that termination of employment for whatever cause shall render my participation in the Plan null and void and all deductions made on my behalf since the end of the fiscal quarter which preceded my termination shall be returned to me in full.

Signature: _____

Name: _____
(Please Print)

Date: _____

Home Address: _____

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), dated December 3, 2001, is hereby entered into by and between Cognos Corporation (the "Company") and Terry Hall ("Employee" or "you"), for good and sufficient consideration as more fully described below, that:

1. Employment Status.

(a) Your employment with the Company will cease on December 10, 2003, unless terminated earlier by either party in accordance with this Agreement (this date shall hereafter be referred to as the "Termination Date"). Any entitlement you have or might have under any Company-provided benefit plan, incentive program or practice will terminate as of the Termination Date except as required by federal or state law or as otherwise described below.

(b) You will continue in your present position as the Company's Chief Operating Officer ("COO") until May 1, 2002 at which time you shall cease to be employed in that position and shall be designated as a Vice President of the Company. At that time you shall thereafter perform, as a full-time employee, such special corporate projects, as may be required from time to time, by and under the direction of the Chief Executive Officer, Chief Corporate Officer, or the COO of the Company, provided that such assignments shall be similar in nature to the tasks performed by or assigned to other Vice Presidents of the Company.

(c) Upon the Termination Date and provided the Company has complied with all material terms of the Agreement, you shall execute a severance agreement in a form substantially similar to the Release Agreement attached as Exhibit A to this Agreement. The Company shall provide you with such an agreement upon your termination from employment.

2. Compensation.

(a) During your continued employment as COO, you shall be entitled to your current base salary and shall be eligible for bonuses based upon criteria determined solely by the Company. For the period beginning May 1, 2002 and ending December 10, 2003, you will be paid a base salary in the aggregate of Five Hundred and Ninety Four Thousand, One Hundred and Fifty U.S. Dollars (\$594,150.00). Such base salary shall be paid, to the maximum extent possible, in monthly uniform payments in accordance with the Company's normal payroll practices. Further, payment of such base salary shall be and is subject to the terms and conditions of Section 3 of this Agreement. Your salary, both prior to and after May 1, 2002, and any bonus to which you may be entitled, in addition to being paid pursuant to the Company's normal payroll practices, shall be subject to all applicable federal, state and/or local taxes and/or withholdings. You shall also be eligible to participate in all employee health and benefit plans, as may be from time to time adopted by the Company and in effect for employees of the Company in similar positions and paid such perquisites as are currently generally paid to you. Your participation in health and benefit plans shall be subject to (i) the terms of the applicable plan documents; (ii) generally applicable Company policies; and (iii) the discretion of the Company's Board of Directors or any administrative or other committee provided for in, or contemplated by, such plan. You acknowledge that the foregoing amounts and benefits for which you are eligible are full and fair compensation for the type and nature of the duties you will or may perform.

(b) The Company also agrees that, should you decide to relocate from Massachusetts to Canada during the period from May 1, 2002 to the Termination Date, the Company shall pay your relocation expenses and/or disbursements pursuant to the procedures and/or limitations set forth in the Company's applicable

relocation policy. If you do not relocate to Canada prior to the Termination Date, the Company shall have no obligation to pay for any future relocation expenses.

(c) Lump Sum Payment. In further consideration for your entering into this Agreement, including your agreement to enter into a Release Agreement in a form substantially similar to the Release Agreement attached as Exhibit A hereto, the Company shall pay you a lump sum payment of Fifty Thousand U.S. Dollars (\$50,000.00). This payment will be subject to all applicable federal, state and/or local taxes and/or withholdings.

(d) In consideration for your entering into this Agreement and upon your executing this Agreement, Cognos will deliver to you an agreement setting out a grant of options to purchase 100,000 shares of Cognos, Inc. common stock, in accordance with the terms and conditions specified in the 1997-2002 Cognos Employee Stock Option Plan. The exercise price for such 100,000 shares shall be the price in effect on the Toronto Stock Exchange at the close of business on September 25, 2001, as determined in accordance with the foregoing Stock Option Plan. Vesting of such 100,000 shares shall be as follows: 50,000 shares to vest on September 25, 2002 and 50,000 shares to vest on September 25, 2003. Any exercise of options shall be in accordance with the terms and conditions set forth in the Stock Option Plan and the terms of this Agreement.

(e) The Company agrees that it will use good faith efforts to obtain and maintain during your employment with the Company a life insurance policy, or life insurance policies, for your benefit in the cumulative amount of Two Million Five Hundred Thousand Dollars (\$2,500,000.00). The Company's obtaining and maintenance of any such insurance policy or policies shall be subject to your eligibility and/or qualification for such insurance coverage pursuant to all applicable requirements and/or procedures. The Company shall have no obligation to maintain or continue the above-referenced insurance policy or policies upon the termination of your employment with the Company for any reason.

3. Termination of Employment. Your employment may be terminated at any time, with or without prior notice, subject to the terms set forth below.

(a) By the Company for Cause.

(1) If you are terminated for "Cause," the Company shall have no further obligation or liability to you relating to your employment or this Agreement, other than any base salary earned but unpaid and accrued but unused vacation through the date of termination.

(2) The following events or conditions shall constitute "Cause" for termination of Employee's employment and this Agreement: any material breach of employment duties, if Employee fails to remedy such a breach within 30 days of receiving notice of the breach if such a remedy is possible, including but not limited to: (i) embezzlement, misappropriation of assets or property (tangible or intangible) of the Company, theft, fraud, or breach of fiduciary duty to the Company; (ii) violation of federal or state securities laws; (iii) the unauthorized disclosure of any trade secret or confidential information of the Company; (iv) the commission of an act which constitutes unfair competition with the Company or which induces any customer or supplier to breach a contract with the Company; or (v) the commission of any felony, including a plea of guilty or nolo contendere.

(b) By the Company other than for Cause. The Company may terminate your employment other than for Cause at any time. In the event of such termination, you will be entitled to an immediate lump sum payment equivalent to the amount of salary, if any, that would be due to you from the Termination Date to December 10, 2003 ("Acceleration Period"). In addition, within thirty (30) days of December 10, 2003, if you are terminated before December 10, 2003, the Company shall provide you a lump sum payment equivalent to any positive difference between (i) the exercise price for any of the unvested options issued under any Cognos Stock Option Plan, which would have vested had you remained employed through December 10, 2003, and (ii) the market price of Cognos common stock on December 10, 2003. Such market price shall be the closing price for Cognos common stock on the Toronto Stock Exchange on December 10, 2003 (or if there is no such price, the closing price on the immediately preceding trading day on that exchange). This lump sum payment shall be subject to all applicable federal, state and/or local taxes and/or withholdings. The Company shall have no other obligations to you upon termination of employment other than for Cause. The Company's obligation to provide any of the amounts and benefits hereunder shall be subject to, and conditioned upon, Employee's execution of the Release Agreement referenced in Section 1(c).

(c) By the Employee. If you choose to terminate your employment with the Company after May 1, 2002, for any reason, the Company shall have no further obligation or liability to you relating to your employment or this Agreement, except you will be entitled to be paid an immediate lump sum payment equivalent to the amount of salary that would be due to you from the Termination Date to December 10, 2003, and to be paid for accrued but unused vacation through the Termination Date. The Company's obligation to provide any amounts hereunder shall be subject to, and conditioned upon, Employee's execution of the Release Agreement referenced in Section 1(c).

4. Effect of Termination. The provisions of this Section 4 shall apply in the event of termination of your employment.

(a) Payment in Full. Payment by the Company to the Employee of any base salary and other compensation amounts as specified in Section 3 shall constitute the entire obligation of the Company to the Employee, except that nothing in this Section 4 is intended or shall be construed to affect the rights and obligation of the Company, on the one hand, and the Employee on the other, with respect to any loans, stock warrants, stock pledge arrangements, option plans or other agreements to the extent said rights or obligations survive the Employee's termination of employment under the provisions of documents relating thereto.

(b) Termination of Benefits. Except for any right of continuation of benefits coverage to the extent provided by this Agreement and/or COBRA, or other applicable law, benefits shall terminate pursuant to the terms of the applicable benefit plans as of the Termination Date.

5. Proprietary and Company Materials. Upon the Termination Date, you will return to the Company all proprietary and Company information and materials, including but not limited to, documents, financial reports, memoranda, sales brochures, manuals, building keys and passes, courtesy parking passes, names and addresses of all Company customers and potential customers, customer lists, customer contacts, customer information and/or data, sales information, employee information, diskettes, intangible information stored on diskettes, business or marketing plans, reports, projections, software programs and data compiled with the use of those programs, tangible copies of trade secrets and confidential information, and any and all other information or property previously or currently held or used by you that is or was related to your employment with the Company. You agree that in the event that you discover any other Company or proprietary materials in your possession after the Termination Date, you will immediately return such materials to the Company.

6. Non-Disparagement and Confidentiality of Agreement. You agree not to disparage the business, operations, technologies, products, services, marketing strategies, pricing policies, management, affairs and financial condition of the Company. You also agree that you shall not divulge or publish, directly or indirectly, any information whatsoever regarding the substance, terms or existence of this Agreement and/or any discussions or negotiations relating to this Agreement, to any person or organization other than your attorneys, accountants, financial advisors or members of your immediate family or persons at the Company with the Company's permission. Nothing herein shall prohibit or bar you from providing truthful testimony in any legal proceeding or in communicating with any governmental agency or representative or from making any truthful disclosure required, authorized or permitted under law; provided however, that in providing such testimony or making such disclosures or communications, you will use your best efforts to ensure that this Section is complied with to the maximum extent possible.

7. Non-Solicitation of Employees/Contractors.

(a) Employee agrees that during the course of his employment with the Company, and for the period of twelve (12) months following the Termination Date (the "Restriction Term"), regardless of the reason for the termination, Employee will not, in any manner, hire or engage, or assist any company or business organization by which Employee is employed or which is directly or indirectly controlled by Employee to hire or engage, any person who is or was employed by the Company (or is or was an agent, representative, contractor or consultant of the Company) at any time after May 1, 2001 or during the twelve (12) months following the Termination Date.

(b) Employee further agrees that during the Restriction Term, regardless of the reason for Employee's termination from employment, Employee will not solicit, recruit or induce, in any manner, any person who is or was employed by the Company (or is or was an agent, representative, contractor or consultant of the Company) at any time after May 1, 2001 or during the twelve (12) months following the Termination Date to leave his or her employment or engagement with the Company.

8. Non-Solicitation of Clients. Employee agrees that during the Restriction Term, regardless of the reason for Employee's termination from employment, Employee will not (except for ad hoc consulting assignments and/or Board of Director assignment[s], with the consent of the Company):

(a) Solicit, do business with or interfere in any way with the Company's relationship with, any client of the Company with whom Employee had contact or for whom Employee performed services during the period of five years prior to the end of Employee's employment with the Company; or

(b) Solicit, do business with or interfere in any way with the Company's relationship with, any client of the Company about whom Employee obtained Confidential Information, or became familiar with through Confidential Information (as defined in Section 10(b)), during Employee's employment with the Company.

9. Noncompetition.

(a) Employee agrees that during the Restriction Term, regardless of the reasons for his termination, he shall not, directly or indirectly, alone or as a consultant, partner, officer, director, employee, joint venturer, lender or stockholder of any entity (a) accept employment or establish any other relationship with any business within the world that is in competition with the products or services created, developed or under development, manufactured or planning to be manufactured, marketed or planning to be marketed, distributed or planning to be distributed, sold or planning to be sold, by the Company at the time of his termination (collectively, the "Products And Services"), or (b) engage in any business or activity within the world that is in competition with the Products And Services, provided, however, that the record or beneficial ownership of one (1) percent or less of the outstanding publicly traded capital stock of any entity shall not be deemed, in and of itself, to be in violation of this Section.

(b) Employee acknowledges and agrees that the Company conducts business operations throughout the world and that given the Company's worldwide scope of operations, the geographic restriction contained in Section 9(a) is reasonable.

10. Confidentiality.

(a) During Employee's employment with the Company and at any time thereafter, Employee shall not disclose or use or otherwise exploit, for his own benefit, or for the benefit of any other person or entity, any Confidential Information (as defined in Section 10(b)). Employee acknowledges that all Confidential Information, together with all notes and records relating thereto and all copies, electronic versions and facsimiles thereof, are the exclusive property of the Company. Employee shall return all such Confidential Information to the Company promptly upon request by the Company and, in any event, promptly upon any termination or expiration of this Agreement.

(b) "Confidential Information" shall mean any of the trade secrets or confidential information concerning the organization, business or finances of the Company or of any third party, including, but not limited to, clients and vendors, which the Company is under an obligation to keep confidential. Such Confidential Information shall include, but is not limited to, trade secrets or confidential information respecting existing and future products and services, designs, methods, formulas, drafts of publications, research, know-how, techniques, systems, databases, processes, software programs or code, developments or experimental work, works of authorship, customer lists and/or customer information, business plans, marketing plans, sales techniques, projects, the Company's salary and/or pay rates, other Company personnel information, and all other plans and proposals.

(c) Employee agrees that during Employee's employment, Employee shall not make, use or permit to be used any Company Documentation (as defined in Section 10(d)) otherwise than for the benefit of the Company. Employee further agrees that Employee shall not, after the termination of Employee's employment for any reason, use or permit others to use any such Company Documentation, it being agreed that all Company documentation shall be and remain the sole and exclusive property of the Company. Immediately upon the

termination of Employee's employment for any reason, Employee shall deliver all Company Documentation, and all copies thereof, to the Company, at its main office.

(d) The term "Company Documentation" shall mean notes, drafts, research, memoranda, manuscript, reports, proposals, business plans, marketing plans, lists, correspondence, records, drawings, sketches, blueprints, specifications, software programs, data, documentation or other materials of any nature and in any form, whether written, printed, or in digital format or otherwise, relating to any matter within the scope of the business of the Company or concerning any of its dealings or affairs.

(e) Employee recognizes that the Company has received and in the future will receive from third parties, including, but not limited to, clients and vendors, their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees that Employee owes the Company and such third parties, during the term of Employee's employment and thereafter, regardless of the reason for Employee's termination of employment, a duty to hold all such confidential or proprietary information in the strictest of confidence and not to disclose it to any person, entity or corporation (except as necessary in carrying out Employee's work for the Company consistent with the Company's agreement with such third party) or to use it for the benefit of anyone other than for the Company or such third party (consistent with the Company's agreement with such third party) without the express written authorization of the Company.

(f) Employee agrees that Employee will not, during Employee's employment with the Company, use or disclose any proprietary information or trade secrets of Employee's former employers or of any other third parties, and that Employee will not bring onto the premises of the Company any unpublished document or any property belonging to Employee's former employers or of any other third party, unless consented to in writing by said employers or third parties.

11. Ownership of Information and Documents. For purposes of this Agreement, "Work Product" shall mean all information, including but not limited to, data, materials, text, drawings, specifications, reports, notes, documentation, computer programs, inventions (whether or not patentable), records, business information, trade secrets and all works of authorship (including, without limitation, all copyrights and trademarks existing therein), conceived and/or reduced to practice, created or developed by Employee, alone or jointly with others, related to the business of Company or any client or conceived during work hours. Employee shall promptly and fully disclose to the Company any and all of such Work Product. All Work Product, whether preliminary or final, tangible or intangible, shall be and remain the sole property of Company (unless assigned or licensed by the Company), and shall not be photocopied, reproduced or removed from the premises of Company or client except as required to perform duties under this Agreement or with the written permission of client. All Work Product shall be delivered either to Company, or to client upon request and, in any event, upon any termination or expiration of this Agreement. Employee hereby releases any right, title and interest Employee may have to any Work Product during the term of this Agreement. To the extent the Work Product is not, by operation of law, considered work for hire for the Company, or ownership of all right, title and interest of the intellectual property rights in the Work Product has not otherwise vested exclusively in Company, Employee hereby irrevocably assigns to Company, without further consideration, Employee's entire right, title, and interest in and to such Work Product. Employee agrees to execute documents reasonable or necessary to vest all right, title, and interest in and to any Work Product, including, but not limited to, patents, patent applications and trademark, and copyright filings. Employee shall maintain backup procedures during his employment with the Company to ensure that no data, documentation, program, text, specifications, notes, texts, drawings or other information prepared by Employee on behalf of Company or client are lost or destroyed.

12. Representations.

(a) This Agreement represents the complete and sole understanding between the parties concerning the subject matter hereof, and supersedes any and all other agreements and understandings, whether oral or written, concerning the subject matter hereof.

(b) This Agreement may not be modified, altered or rescinded except upon written consent of the Company and you. If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against the public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions, and parts thereof, of this Agreement are declared to be severable. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity, subject or otherwise so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear. Any waiver of any provision of this Agreement shall not constitute a waiver of any other provision of this Agreement unless expressly so indicated otherwise.

(c) You may not assign any of your rights or delegate any of your duties under this Agreement. The rights and obligations of the Company under this Agreement shall inure to the benefit of the successors and assigns of the Company.

13. Cessation and/or Forfeiture of Payments and/or Benefits. If Employee breaches his obligations under this Agreement to enter into a Release Agreement as specified in Section 1(c), he shall be obligated to repay to the Company the Lump Sum Payment referenced in Section 2(c). The above-referenced repayment of the Lump Sum Payment shall be in addition to, and not as an alternative to, any other remedies at law or in equity available to the Company, including the right to seek specific performance or an injunction.

14. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

YOU REPRESENT THAT YOU HAVE READ THE FOREGOING AGREEMENT, FULLY UNDERSTAND THE TERMS AND CONDITIONS OF SUCH AGREEMENT, AND ARE VOLUNTARILY EXECUTING THE SAME. IN ENTERING INTO THIS AGREEMENT, YOU DO NOT RELY ON ANY REPRESENTATION, PROMISE OR INDUCEMENT MADE BY THE COMPANY, WITH THE EXCEPTION OF THE CONSIDERATION DESCRIBED IN THIS DOCUMENT. YOU FURTHER ACKNOWLEDGE THAT YOU HAVE HAD THE OPPORTUNITY TO AND DID CONSULT WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THIS AGREEMENT.

Terry Hall

Cognos Corporation
By:
Title:

Dated:_____

Dated:_____

RELEASE AGREEMENT

This Release Agreement (the "Agreement") is hereby entered into by and between Cognos Corporation (the "Company") and Terry Hall ("Employee" or "you"), for good and sufficient consideration as more fully described below, that:

1. Employment Status. Your employment with the Company ceased as of December 10, 2003 (the "Termination Date"). Your regular salary also ceased as of the Termination Date. You will be paid for any earned but unused vacation days as of that date. Any entitlement you had or might have had under any Company-provided benefit plan, incentive program or practice terminated on the Termination Date, except as required by federal or state law or as otherwise described below.

2. Mutual Release.

(a) Employee Release. In exchange for the consideration described herein, which is in addition to anything of value to which you are already entitled, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, you, on behalf of yourself and your representatives, agents, estate, heirs, successors and assigns, absolutely and unconditionally hereby release, remise and forever discharge the Company Releasees (defined as the Company, its parent(s), affiliates, divisions, subsidiaries, successors and assigns, and its and their respective shareholders, officers, directors, employees, agents, representatives, and attorneys, in both their individual and official capacities) from any and all actions or causes of action, charges, suits, claims, complaints, obligations, contracts, liabilities, agreements, promises, debts and damages, of any kind or nature whatsoever, whether existing or contingent, known or unknown, suspected or unsuspected, in law or in equity, which arise out of, and/or are related to, your employment with or separation from employment with the Company. You agree that this Release is all-encompassing and shall act as a full and total release of any claims that you have, may have, or ever had against the Company Releasees from the beginning of the world to the Effective Date of this Agreement, including, but not limited to, claims under any federal, state or local constitution, statute, ordinance, bylaw or regulation dealing with either employment or employment discrimination such as those laws or regulations concerning discrimination on the basis of age, race, color, creed, religion, sex, sexual harassment, sexual orientation, national origin, ancestry, marital status, pregnancy, childbirth or related medical conditions, disability, veteran status, military service or application for military service; any contract, whether oral or written, express or implied; any tort; and any common law.

(b) You further agree to release and discharge the Company Releasees from any and all claims which might be made by any other person or organization on your behalf, and you specifically waive any right to become, and promise not to become, a member of any class in a case in which a claim or claims against the Company are made involving any matters subject to release pursuant to Section 2(a).

(c) Company Release. In exchange for the Employee Release contained in this Section 2, the Company and its parent(s), affiliates, divisions, subsidiaries, successors and assigns absolutely and unconditionally hereby release, remise and forever discharge you and your representatives, agents, estate, heirs, successors and assigns from any and all actions or causes of action, charges, suits, claims, complaints, obligations, contracts, liabilities, agreements, promises, debts and damages, of any kind or nature whatsoever, whether existing or contingent, known or unknown, suspected or unsuspected, in law or in equity, from the beginning of the world to the Effective Date of this Agreement, which arise out of your employment with or separation from employment with the Company. Notwithstanding the foregoing, the Company may bring an action to enforce the terms of your Employment Agreement, dated December 3, 2001.

3. Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967.

Since you are 40 years of age or older, you have been informed that you have or might have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 ("ADEA") and you agree that:

(a) In consideration of the Company Release described in Section 2 hereof, which is in addition to anything of value to which you already may be entitled, you specifically waive such rights and/or claims to the extent that such rights and/or claims arose prior to or on the date this Agreement was executed;

(b) You understand that rights or claims under the ADEA that may arise after the date this Agreement is executed are not waived by you;

(c) You hereby are and were advised of your right to consult with your counsel of choice prior to executing this Agreement and you acknowledge that you have not been subject to any undue or improper influence interfering with the exercise of your free will in executing this Agreement;

(d) You have carefully read and fully understand all of the provisions of this Agreement, and you knowingly and voluntarily agree to all of the terms set forth in this Agreement;

(e) In entering into this Agreement, you are not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this document;

(f) When the Company presented you with this Agreement, you were informed that you have at least 21 days to review this Agreement and consider its terms before signing it; and

(g) The 21-day period will not be affected or extended by any revisions, whether material or immaterial, that might be made to this Agreement.

4. Proprietary and Company Materials. By Termination Date, you will return to the Company all proprietary and Company information and materials, including but not limited to, documents, financial reports, memoranda, sales brochures, manuals, building keys and passes, courtesy parking passes, names and addresses of all Company customers and potential customers, customer lists, customer contacts, customer information and/or data, sales information, diskettes, intangible information stored on diskettes, business or marketing plans, reports, projections, software programs and data compiled with the use of those programs, tangible copies of trade secrets and confidential information, and any and all other information or property previously or currently held or used by you that is or was related to your employment with the Company. You agree that in the event that you discover any other Company or proprietary materials in your possession after the Termination Date, you will immediately return such materials to the Company.

5. Non-Disparagement and Confidentiality. You agree not to misappropriate, divulge or communicate, directly or indirectly, any confidential and/or proprietary information, including trade secret information, of the Company or any third party associated with the Company. You further agree not to disparage the business, operations, technologies, products, services, marketing strategies, pricing policies, management, affairs and financial condition of the Company. You also agree that you shall not divulge or publish, directly or indirectly, any information whatsoever regarding the substance, terms or existence of this Agreement and/or any discussions or negotiations relating to this Agreement, to any person or organization other than your attorneys, accountants, financial advisors or members of your immediate family or persons at the Company with the Company's permission. Nothing herein shall prohibit or bar you from providing truthful testimony in any legal proceeding or in communicating with any governmental agency or representative or from making any truthful disclosure required, authorized or permitted under law; provided however, that in providing such testimony or making such disclosures or communications, you will use your best efforts to ensure that this Section is complied with to the maximum extent possible.

6. Representations.

(a) This Agreement represents the complete and sole understanding between the parties concerning the subject matter hereof, and supersedes any and all other agreements and understandings, whether oral or written, concerning the subject matter hereof; provided that [the Employment Agreement between you and the Company, dated December 3, 2001, shall remain in effect pursuant to its respective terms. Nothing in this

Agreement shall bar or prohibit you from contacting, seeking assistance from or participating in any proceeding before any federal or state administrative agency to the extent permitted by applicable federal, state and/or local law. However, notwithstanding this provision, you will be prohibited to the fullest extent authorized by law from obtaining monetary damages in any agency proceeding in which you do so participate.

(b) This Agreement may not be modified, altered or rescinded except upon written consent of the Company and you. If any provision of this Agreement, or part thereof, is held invalid, void or voidable as against the public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions, and parts thereof, of this Agreement are declared to be severable. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity, subject or otherwise so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear. Any waiver of any provision of this Agreement shall not constitute a waiver of any other provision of this Agreement unless expressly so indicated otherwise.

(c) You may not assign any of your rights or delegate any of your duties under this Agreement. The rights and obligations of the Company under this Agreement shall inure to the benefit of the successors and assigns of the Company.

7. Effective Date. For a period of seven (7) days following your execution of this Agreement, you may revoke the Agreement and the Agreement shall not become effective or enforceable until the revocation period has expired.

8. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

YOU REPRESENT THAT YOU HAVE READ THE FOREGOING AGREEMENT, FULLY UNDERSTAND THE TERMS AND CONDITIONS OF SUCH AGREEMENT, AND ARE VOLUNTARILY EXECUTING THE SAME. IN ENTERING INTO THIS AGREEMENT, YOU DO NOT RELY ON ANY REPRESENTATION, PROMISE OR INDUCEMENT MADE BY THE COMPANY, WITH THE EXCEPTION OF THE CONSIDERATION DESCRIBED IN THIS DOCUMENT.

Terry Hall

Cognos Corporation

By:

Title:

Dated:_____

Dated:_____

Waiver of 21-Day Review Period

I, Terry Hall, acknowledge that I was informed and understand that I have 21 days within which to consider the attached Release Agreement, have had the opportunity to consult with an attorney regarding such Agreement and have considered carefully every provision of the Agreement, and that after having engaged in those actions, I prefer to and have requested that I enter into the Agreement prior to the expiration of the 21-day period.

Dated: _____

Terry Hall

Dated: _____

Witness

COGNOS INCORPORATED

Computation of Earnings Per Share
in accordance with Canadian Generally Accepted Accounting Principles
(US\$000s, except share amounts)

	Year Ended		
	February 28, 2002	February 28, 2001	February 29, 2000
Basic			
Net income	<u>\$14,599</u>	<u>\$62,736</u>	<u>\$54,542</u>
Weighted average number of shares outstanding ⁽¹⁾	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Net income per share ⁽¹⁾	<u>\$0.17</u>	<u>\$0.72</u>	<u>\$0.63</u>
Diluted Net Income per Share			
Net income	<u>\$14,599</u>	<u>\$62,736</u>	<u>\$54,542</u>
Weighted average number of shares ⁽¹⁾	<u>87,807</u>	87,324	85,972
Dilutive effect of stock options ⁽¹⁾	<u>2,654</u>	<u>4,649</u>	<u>2,128</u>
Adjusted weighted average number of shares ⁽¹⁾	<u>90,461</u>	<u>91,973</u>	<u>88,100</u>
Diluted net income per share ⁽¹⁾	<u>\$0.16</u>	<u>\$0.68</u>	<u>\$0.62</u>

⁽¹⁾ Reflects the two-for-one stock split authorized April 6, 2000.

COGNOS INCORPORATED

Computation of Earnings Per Share
in accordance with United States Generally Accepted Accounting Principles
(US\$000s, except share amounts)

	Year Ended		
	February 28, 2002	February 28, 2001	February 29, 2000
Basic			
Net income	<u>\$19,408</u>	<u>\$64,260</u>	<u>\$58,815</u>
Weighted average number of shares outstanding ⁽¹⁾	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Net income per share ⁽¹⁾	<u>\$0.22</u>	<u>\$0.74</u>	<u>\$0.68</u>
Diluted Net Income per Share			
Net income	<u>\$19,408</u>	<u>\$64,260</u>	<u>\$58,815</u>
Weighted average number of shares ⁽¹⁾	<u>87,807</u>	87,324	85,972
Dilutive effect of stock options ⁽¹⁾	<u>2,654</u>	<u>4,649</u>	<u>2,128</u>
Adjusted weighted average number of shares ⁽¹⁾	<u>90,461</u>	<u>91,973</u>	<u>88,100</u>
Diluted net income per share ⁽¹⁾	<u>\$0.21</u>	<u>\$0.70</u>	<u>\$0.67</u>

⁽¹⁾ Reflects the two-for-one stock split authorized April 6, 2000.

COGNOS INCORPORATED

<u>SUBSIDIARIES</u>	<u>JURISDICTION OF INCORPORATION</u>
Cognos AB	Sweden
Cognos A/S	Denmark
Cognos Austria GmbH	Austria
Cognos (Barbados) Limited	Barbados
Cognos B.V.	The Netherlands
Cognos Corporation	United States
Cognos do Brasil Ltda.	Brazil
Cognos Far East Pte Limited	Singapore
Cognos France S.A.	France
Cognos GmbH	Germany
Cognos Limited	United Kingdom
Cognos N.V./S.A.	Belgium
Cognos OY	Finland
Cognos PTY Limited	Australia
Cognos South Africa (PTY) Limited	South Africa
Cognos S.p.A.	Italy
Cognos (Switzerland) Ltd.	Switzerland
APL2000 Inc.	United States
Interweave Software, Inc.	United States
LEX2000 Inc.	United States
NoticeCast Software Ltd.	United Kingdom
Right Information Systems Limited	England and Wales
Cognos K.K.	Japan

All subsidiaries are 100% owned by Cognos Incorporated, and APL2000 Inc. which is wholly-owned by LEX2000 Inc.

CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

We consent to the use in this Annual Report (Form 10-K) of Cognos Incorporated of our report dated March 28, 2002 (except note 14, as to which the date is May 24, 2002) with respect to the consolidated financial statements included in the 2002 Annual Report to Shareholders of Cognos Incorporated.

Our audits also included the financial statement schedule of Cognos Incorporated listed in Item 14(a)1. This schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 33-39562, 33-72402, 33-72404 and 333-8552) pertaining to the 1988-1993 Stock Option Plan, 1993-1998 Cognos Employee Stock Purchase Plan, the 1993-1998 Stock Option Plan, and the 1997-2002 Stock Option Plan, respectively, of our report dated March 28, 2002 (except note 14, as to which the date is May 24, 2002) with respect to the consolidated financial statements of Cognos Incorporated included in the Annual Report (Form 10-K) for the year ended February 28, 2002.

Ottawa, Canada
May 24, 2002

/s/ Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants

COGNOS INCORPORATED

FINANCIAL INFORMATION
IN ACCORDANCE WITH CANADIAN GAAP
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2002

The consolidated financial information as set out in the Corporation's 2002 Annual Report is in United States (U.S.) dollars and in accordance with U.S. generally accepted accounting principles (GAAP). In keeping with the requirements of Canadian legislation, the Corporation is also providing its shareholders with consolidated financial information in accordance with Canadian GAAP (in United States dollars).

The generally accepted accounting principles in Canada differ in some respects from those applicable in the U.S. The most significant differences in fiscal 2002 are discussed in exhibit 99.1 Management Discussion of Results of Operations and Financial Condition- Canadian Supplement.

COGNOS INCORPORATED

CANADIAN GAAP FINANCIAL INFORMATION

Table of Contents

The information appearing in this document consists of the following information for the fiscal year ended February 28, 2002:

	<u>PAGE</u>
Management's Discussion and Analysis of Financial Condition and Results of Operations- Canadian Supplement	123-124
Report of Management.....	125
Auditors' Report	126
Consolidated Financial Statements and Notes	127-149
Five-Year Summary	<u>150</u>

COGNOS INCORPORATED**Management's Discussion and Analysis of
Financial Condition and Results of Operations- Canadian Supplement***(in United States dollars, unless otherwise indicated, and in accordance with Canadian GAAP)*

The following Management's Discussion and Analysis of Financial Condition and Results of Operations-Canadian Supplement ("Canadian Supplement") should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included in our annual report on form 10-K as filed with the United States Securities and Exchange Commission (10-K). The Canadian Supplement should also be read in conjunction with the audited Consolidated Financial Statements and Notes prepared in accordance with U.S. GAAP (included in our 10-K), and the audited Consolidated Financial Statements and Notes prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") included in the Corporation's Annual Information Form for the fiscal year ended February 28, 2002.

The following contains forward-looking statements and should be read in conjunction with the factors set forth in the "Certain Factors That May Affect Future Results" section of the MD&A in our 10-K. All dollar amounts in this Canadian Supplement are in thousands of United States dollars unless otherwise stated. The Canadian Supplement has been prepared by management to provide an analysis of the material differences between Canadian GAAP and U.S. GAAP on Cognos Incorporated financial condition and results of operations.

RESULTS OF OPERATIONS

	Year ended		
	2002	2001	2000
Income before taxes-U.S. GAAP	\$28,169	\$91,318	\$81,688
Income before taxes -Canadian GAAP	\$25,337	\$93,911	\$81,215
Income tax provision -U.S. GAAP	\$8,761	\$27,058	\$22,873
Income tax provision -Canadian GAAP	\$10,738	\$31,175	\$26,673
Net Income per share diluted- U.S. GAAP	\$0.21	\$0.70	\$0.67
Net Income per share diluted- Canadian GAAP	\$0.16	\$0.68	\$0.62

Acquired in-process technology

Canadian GAAP requires capitalization of the value assigned to acquired in-process technology and amortization of this value over its estimated useful life. Under U.S. GAAP, this value is written off immediately. The impact of this difference was to decrease net income before taxes by \$7.6 million, \$4.1 million and \$6.7 million in fiscal 2002, 2001 and 2000, respectively, compared to U.S. GAAP.

Investment tax credits

Canadian GAAP requires that investment tax credits be deducted from operating expense. Under U.S. GAAP, these amounts are to be deducted from the income tax provision. The impact of this difference was to increase net income before taxes and the income tax provision by \$4.8 million, \$6.7 million and \$6.2 million in fiscal 2002, 2001 and 2000, respectively, compared to U.S. GAAP.

Deferred income taxes related to acquired in-process technology

The above noted difference related to the capitalization of in-process technology created an additional deferred income tax liability on the Canadian GAAP balance sheet as the capitalization of the in-process technology created a temporary difference. The amortization of this balance decreased the income tax provision by \$2.9 million, \$2.6 million and \$2.4 million in fiscal 2002, 2001 and 2000, respectively, compared to U.S. GAAP.

COGNOS INCORPORATED**REPORT OF MANAGEMENT**

The Corporation's management is responsible for preparing the accompanying consolidated financial statements in conformity with Canadian generally accepted accounting principles. 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 LLP, the independent auditors appointed by the stockholders, have been engaged to conduct an examination of the consolidated financial statements in accordance with generally accepted auditing standards, and have expressed their opinion on these statements. During the course of their audit, Ernst & Young LLP reviewed the Corporation's system of internal controls 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 internal control, 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 stockholders, the engagement or reappointment of the external auditors. Ernst & Young LLP 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.

/s/ James M. Tory

/s/ Ron Zambonini

/s/ Tom Manley

James M. Tory
ChairmanRon Zambonini
President and
Chief Executive OfficerTom Manley
Senior Vice President,
Finance & Administration, and
Chief Financial Officer

March 28, 2002
(except note 14, as to which
the date is May 24, 2002)

AUDITORS' REPORT

To the Board of Directors and Stockholders of Cognos Incorporated:

We have audited the consolidated balance sheets of Cognos Incorporated as at February 28, 2002 and February 28, 2001 and the consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2002. 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 Canadian and United States 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, 2002 and February 28, 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2002, in accordance with Canadian generally accepted accounting principles.

On March 28, 2002 (except note 14, as to which the date is May 24, 2002), we reported separately to the Board of Directors and Stockholders of Cognos Incorporated on financial statements for the same periods, prepared in accordance with United States generally accepted accounting principles.

/s/ Ernst & Young LLP

Ottawa, Canada
March 28, 2002
(except note 14, as to which
the date is May 24, 2002)

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(US\$000s except share amounts, CDN GAAP)

	Note	Years Ended the Last Day of February		
		2002	2001	2000
Revenue				
Product license		\$228,255	\$262,766	\$203,299
Product support		175,636	147,589	118,061
Services		87,411	85,297	64,280
Total revenue		491,302	495,652	385,640
Operating expenses				
Cost of product license		3,609	7,315	5,235
Cost of product support		16,576	17,820	13,758
Selling, general, and administrative		350,892	327,632	244,827
Research and development		74,614	67,264	53,548
Investment tax credits		(4,784)	(6,690)	(6,207)
Special charges	7,14	33,440	—	—
Total operating expenses		474,347	413,341	311,161
Operating income		16,955	82,311	74,479
Interest expense		(540)	(786)	(718)
Interest income		8,922	12,386	7,454
Income before taxes		25,337	93,911	81,215
Income tax provision	9	10,738	31,175	26,673
Net income		\$14,599	\$ 62,736	\$ 54,542
Retained earnings at beginning of the period		175,946	126,316	95,329
Repurchase of shares		(26,401)	(13,106)	(23,555)
Retained earnings at end of the period		\$164,144	\$175,946	\$126,316
Net income per share	10			
Basic		\$0.17	\$0.72	\$0.63
Diluted		\$0.16	\$0.68	\$0.62
Weighted average number of shares (000s)	10			
Basic		87,807	87,324	85,972
Diluted		90,461	91,973	88,100

(See accompanying notes)

CONSOLIDATED BALANCE SHEETS
(US\$000s, CDN GAAP)

	Note	February 28, 2002	February 28, 2001
Assets			
Current assets			
Cash and cash equivalents	8	\$192,900	\$115,293
Short-term investments	8	121,629	119,265
Accounts receivable	2	114,059	146,867
Inventories		537	730
Prepaid expenses		6,765	8,648
Deferred tax assets	9	6,404	–
		442,294	390,803
Fixed assets	3	59,008	74,208
Other assets	4	29,433	46,780
		\$530,735	\$511,791
Liabilities			
Current liabilities			
Accounts payable		\$ 26,387	\$ 28,256
Accrued charges	7,14	34,210	21,830
Salaries, commissions, and related items	7	37,453	28,822
Income taxes payable	9	6,167	17,548
Deferred revenue		110,504	96,674
		214,721	193,130
Long-term liabilities	5,14	9,131	1,539
Deferred income taxes	9	6,328	16,402
		230,180	211,071
Commitments and Contingencies	5, 6, 14		
Stockholders' Equity			
Capital stock			
Common shares			
(2002 – 87,997,220; 2001 – 87,885,161)	10	151,637	134,791
Retained earnings		164,144	175,946
Accumulated other comprehensive income		(15,226)	(10,017)
		300,555	300,720
		\$530,735	\$511,791

(See accompanying notes)

On behalf of the Board:

/s/ Douglas C. Cameron

Douglas C. Cameron, Director

/s/ James M. Tory

James M. Tory, Chairman

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(US\$000s except share amounts, CDN GAAP)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount			
	(000s)				
Balances, February 28, 1999	86,362	\$ 88,579	\$ 95,329	\$ (8,712)	\$175,196
Issuance of stock					
Stock option plans	1,973	15,420			15,420
Stock purchase plans	120	1,095			1,095
Amortization of deferred stock-based compensation		693			693
Repurchase of shares	(2,286)	(2,458)	(23,555)		(26,013)
Income tax effect related to stock options		894			894
	86,169	104,223	71,774	(8,712)	167,285
Net income			54,542		54,542
Other comprehensive income					
Foreign currency translation adjustments				2,479	2,479
Comprehensive income			54,542	2,479	57,021
Balances, February 29, 2000	86,169	\$104,223	\$126,316	\$ (6,233)	\$224,306
Issuance of stock					
Stock option plans	1,816	18,574			18,574
Stock purchase plans	73	2,018			2,018
Business acquisitions	253	9,070			9,070
Deferred stock-based compensation	(65)	(2,656)			(2,656)
Amortization of deferred stock-based compensation	219	1,233			1,233
Repurchase of shares	(580)	(881)	(13,106)		(13,987)
Income tax effect related to stock options		3,210			3,210
	87,885	134,791	113,210	(6,233)	241,768
Net income			62,736		62,736
Other comprehensive income					
Foreign currency translation adjustments				(3,784)	(3,784)
Comprehensive income			62,736	(3,784)	58,952
Balances, February 28, 2001	87,885	\$134,791	\$175,946	\$(10,017)	\$300,720
Issuance of stock					
Stock option plans	1,279	12,742			12,742
Stock purchase plans	157	2,337			2,337
Amortization of deferred stock-based compensation	292	3,341			3,341
Repurchase of shares	(1,616)	(2,638)	(26,401)		(29,039)
Income tax effect related to stock options		1,064			1,064
	87,997	151,637	149,545	\$(10,017)	291,165
Net income			14,599		14,599
Other comprehensive income					
Foreign currency translation adjustments				(5,209)	(5,209)
Comprehensive income			14,599	(5,209)	9,390
Balances, February 28, 2002	87,997	\$151,637	\$164,144	\$(15,226)	\$300,555

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US\$000s, CDN GAAP)

	Years Ended the Last Day of February		
	2002	2001	2000
Cash provided by (used in) operating activities			
Net income	\$ 14,599	\$ 62,736	\$ 54,542
Non-cash items			
Depreciation and amortization	38,646	30,754	24,228
Amortization of deferred stock-based compensation	3,341	1,233	693
Amortization of other deferred compensation	4,767	1,809	1,351
Deferred income taxes	(15,917)	(6,426)	4,756
Loss on disposal of fixed assets	1,114	561	148
	46,550	90,667	85,718
Change in non-cash working capital			
Decrease (increase) in accounts receivable	29,605	(39,824)	(32,818)
Decrease in inventories	165	37	31
Decrease (increase) in prepaid expenses	1,546	(731)	(1,422)
Increase (decrease) in accounts payable	(1,052)	4,320	3,930
Increase (decrease) in accrued charges	13,204	3,145	1,004
Increase in salaries, commissions, and related items	9,408	5,630	4,394
Increase (decrease) in income taxes payable	(11,218)	14,262	(3,993)
Increase in deferred revenue	15,481	21,467	26,374
	103,689	98,973	83,218
Cash provided by (used in) investing activities			
Maturity of short-term investments	235,743	138,803	138,796
Purchase of short-term investments	(240,974)	(195,386)	(146,238)
Additions to fixed assets	(12,588)	(51,963)	(28,096)
Acquisition costs	(2,193)	(11,377)	(2,146)
Proceeds from the sale of fixed assets	–	759	24
	(20,012)	(119,164)	(37,660)
Cash provided by (used in) financing activities			
Issue of common shares	16,143	23,802	17,409
Repurchase of shares	(29,039)	(13,987)	(26,013)
Increase in (repayment of) long-term debt and long-term liabilities	7,798	(5,293)	(467)
	(5,098)	4,522	(9,071)
Effect of exchange rate changes on cash	(972)	(1,473)	2,331
Net increase (decrease) in cash and cash equivalents	77,607	(17,142)	38,818
Cash and cash equivalents, beginning of period	115,293	132,435	93,617
Cash and cash equivalents, end of period	192,900	115,293	132,435
Short-term investments, end of period	121,629	119,265	64,284
Cash, cash equivalents, and short-term investments, end of period	\$314,529	\$234,558	\$196,719

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cognos Incorporated (the “Corporation”) is a global provider of business intelligence software solutions. The Corporation develops, markets, and supports an integrated business intelligence solution that allows customers, as well as their partners, customers, and suppliers, to analyze and report data from multiple perspectives. The Corporation markets and supports these solutions both directly and through resellers worldwide.

Basis of Presentation

These consolidated financial statements have been prepared by the Corporation in United States (U.S.) dollars and in accordance with Canadian generally accepted accounting principles (GAAP), applied on a consistent basis.

Consolidated financial statements prepared in accordance with United States GAAP, in U.S. dollars, are made available to all shareholders, and filed with various regulatory authorities.

Basis of Consolidation

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

Estimates

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 present fairly the results for the periods presented. Actual results could differ from these estimates.

Comprehensive Income

Comprehensive Income includes net income and other comprehensive income (OCI). OCI refers to changes in net assets from transactions and other events, and circumstances other than transactions with stockholders. These changes are recorded directly as a separate component of Stockholders’ Equity and excluded from net income. The only comprehensive income item for the Corporation relates to foreign currency translation adjustments pertaining to those subsidiaries not using the U.S. dollar as their functional currency net of derivative gains or losses.

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 Canadian Institute of Chartered Accountants (CICA) Handbook, Section 1650, *Foreign Currency Translation*. The financial statements of the foreign subsidiaries are measured using

local currency as the functional currency. 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 and losses are immaterial for all periods presented.

Revenue

The Corporation recognizes revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, issued by the American Institute of Certified Public Accountants.

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 when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. If a license includes the right to return the product for refund or credit, revenue is recognized net of an allowance for estimated returns provided all the requirements of SOP 97-2 have been met.

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, and that would not have been incurred but for the acquisition of that contract, are deferred and expensed in the period the related revenue is recognized. These costs include commissions payable on sales of support contracts.

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

For contracts with multiple obligations (e.g., deliverable and undeliverable products, support obligations, education, consulting, and other services), the Corporation allocates revenue to each element of the contract based on objective evidence, specific to the Corporation, of the fair value of the element.

Cash, Cash Equivalents, and Short-Term Investments

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

Derivative Financial Instruments

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in net income/loss. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCI and are recognized in net income/loss when the hedged item affects net income/loss. If the derivative is designated a hedge of net investment in foreign operations, the changes in fair value are reported in OCI as part of the cumulative translation adjustment to the extent that it is effective.

Inventories

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

Fixed Assets

Fixed assets are recorded at cost. Computer equipment and software, and the building, are depreciated using the straight line method. Office furniture is depreciated using the diminishing balance method. Building improvements are amortized using the straight line method over the life of the improvement. 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. Fixed assets are tested for impairment when evidence of a decline in value exists and are adjusted to estimated fair value if the asset is impaired.

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.

Other Assets

This category includes acquired technology, goodwill, and other deferred compensation associated with various acquisitions, and deferred software development costs.

Acquired technology is initially recorded at fair value based on the present value of the estimated net future income-producing capabilities of software products acquired on acquisitions. Acquired technology is amortized over five years on a straight line basis. The Corporation evaluates the expected future net cash flows of the acquired technology at each reporting date, and adjusts to estimated fair value if the value of the asset is impaired.

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill resulting from acquisitions prior to June 30, 2001 is amortized over five years on a straight line basis. Goodwill resulting from acquisitions subsequent to June 30, 2001 is not amortized in accordance with the transitional provisions of the Canadian Institute of Chartered Accountants Handbook section 3062 (see Note 13). The Corporation evaluates the expected future net cash flows of the acquired businesses at each reporting date, and adjusts goodwill for any impairment.

Other deferred compensation includes cash consideration associated with acquisitions made by the Corporation. Other deferred compensation is recorded when its future payment is determinable and is payable contingent upon the continued tenure of the principals of the acquired companies who have become employees of the Corporation. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price.

Development costs incurred internally in creating computer software to be sold, licensed, or otherwise marketed, 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. Research costs 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. The Corporation did not capitalize any costs of internally-developed computer software to be sold, licensed or otherwise marketed, and recognized no amortization expense in each of fiscal 2002, 2001, and 2000.

Income Taxes

The liability method is used in accounting for income taxes. Under this method, future 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 tax rates and laws that are expected to be in effect when the differences reverse.

2. ACCOUNTS RECEIVABLE

Accounts receivable include an allowance for doubtful accounts of \$8,808,000 and \$11,521,000 as of February 28, 2002 and February 28, 2001, respectively.

3. FIXED ASSETS

	2002		2001		
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization	Depreciation / Amortization Rate
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	
Computer equipment and software	\$62,500	\$48,496	\$72,100	\$47,991	33%
Office furniture	27,819	15,077	27,779	12,538	20%
Building and Leasehold improvements	18,945	7,213	18,182	5,350	Life of Improvement /Lease Term
Land	740	-	775	-	-
Building	21,897	2,107	22,754	1,503	2.5%
	131,901	\$72,893	141,590	\$67,382	
	(72,893)		(67,382)		
Net book value	<u>\$59,008</u>		<u>\$74,208</u>		

Depreciation and amortization of fixed assets was \$23,874,000, \$18,475,000, and \$13,898,000 in each of fiscal 2002, 2001, and 2000, respectively.

4. OTHER ASSETS

Other assets as at February 28, 2002, and February 28, 2001, include acquired technology, goodwill, and other deferred compensation, and are disclosed net of amortization.

The Corporation recorded \$2,193,000 of goodwill in fiscal 2002, \$23,421,000 of acquired technology, goodwill, workforce, and other deferred compensation in fiscal 2001, and \$2,352,000 of goodwill and other deferred compensation in fiscal 2000. Amortization of other assets was \$19,540,000, \$14,088,000, and \$11,681,000 in each of fiscal 2002, 2001, and 2000, respectively (see Note 5).

The Corporation did not capitalize any costs of internally-developed computer software to be sold, licensed, or otherwise marketed in each of fiscal 2002, 2001, and 2000, and did not record any amortization.

5. ACQUISITIONS

Fiscal 2002 Acquisition

On February 28, 2002, the Corporation exercised its option to purchase 50% of the voting shares representing all of the outstanding voting interest in the Corporation's subsidiary in Japan, Teijin Cognos Incorporated (TCI). The Corporation felt that TCI could more gainfully serve the Japanese market as a wholly owned subsidiary. The Corporation has always consolidated the results of TCI as it has had effective control over TCI. The former shareholders of TCI received approximately \$2,193,000 in cash upon completion of the purchase. The Corporation will also pay Teijin Limited its accumulated minority interest in TCI of approximately \$1,462,000 due March 30, 2002. The Corporation has also agreed to pay additional consideration at each period end for the next 8 quarters, based on the net revenue of TCI. This additional purchase price has not been recorded as it cannot be reasonably estimated. The purchase of TCI did not involve the purchase of any in-process research and development. The acquisition was accounted for using the purchase method. The results of operations of TCI are already consolidated and thus pro forma information has not been provided.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (\$000s)

	Teijin Cognos Incorporated
Assets acquired	\$3,712
Liabilities assumed	(2,250)
Net assets acquired	<u>1,462</u>
Goodwill	<u>2,193</u>
Purchase price	<u><u>\$3,655</u></u>
Purchase price consideration	
Cash	2,193
Deferred payment	<u>1,462</u>
	<u><u>\$3,655</u></u>

Goodwill recorded as a result of this transaction will not be amortized in accordance with CICA Handbook section 3062 but will be tested for impairment as of March 1, 2002.

Fiscal 2001 Acquisitions

On June 1, 2000, the Corporation acquired Powerteam OY, the Corporation's distributor in Finland. The agreement stipulated that the shareholders of Powerteam OY would receive approximately \$2,258,000 in

cash in the two years subsequent to the date of acquisition and could also receive cash payments not to exceed \$500,000 over the three years subsequent to the date of acquisition. The Corporation has conditioned a portion of the consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price.

On September 21, 2000, the Corporation acquired NoticeCast Software Ltd., based in Twickenham, United Kingdom. NoticeCast's Enterprise Event Management Software monitors business processes and delivers timely business intelligence notifications to business users across the enterprise via e-mail on their personal computer, hand-held or wireless device. The agreement stipulated that the shareholders of NoticeCast Software Ltd. would receive approximately \$9,000,000 in cash on closing and would receive 148,468 shares of the Corporation's common stock valued at approximately \$4,820,000. The shares are being held in escrow by the Corporation and will be released on the second anniversary of the closing of the transaction.

On November 1, 2000, the Corporation completed the acquisition of Johnson & Michaels, Inc. (JAMI), a leading provider of business intelligence consulting services. The agreement stipulated that the shareholders of JAMI would receive total cash consideration of approximately \$3,915,000 over three years and 104,230 shares of the Corporation's common stock valued at \$4,250,000 over the same period. Approximately \$1,406,000 was paid and 39,085 shares were issued on closing; the remaining shares, all of which were issued, were held in escrow by the Corporation and were scheduled to be released on the first (33%), second (33%), and third (34%) anniversaries of the closing of the transaction. The Corporation has conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles these amounts are accounted for as compensation rather than as a component of purchase price. The deferred shares, valued at \$2,656,000, are accounted for as an offset to capital stock.

The scheduled aggregate annual payments for the long-term liabilities related to these acquisitions are \$921,000 and \$1,539,000 in fiscal 2002 and 2003, respectively. Amounts due within twelve months are included in accrued charges.

The acquisitions have been accounted for using the purchase method. The results of operations of all three acquired companies prior to the acquisitions were not material, and thus pro forma information has not been provided. The results of the acquired companies have been combined with those of the Corporation from the date of the acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (000s)

	Powerteam OY	NoticeCast Software Inc.	Johnson & Michaels Inc.	Total
Assets acquired				
Acquired technology	\$ –	\$ 5,000	\$ –	\$ 5,000
Other assets	3,906	450	814	5,170
	3,906	5,450	814	10,170
Liabilities assumed	(2,502)	(1,580)	(922)	(5,004)
Deferred tax credits	–	(2,000)	–	(2,000)
Net assets acquired	1,404	1,870	(108)	3,166
Goodwill	854	11,950	3,545	16,349
Purchase price	<u>\$2,258</u>	<u>\$13,820</u>	<u>\$3,437</u>	<u>\$19,515</u>
Purchase price consideration				
Cash	\$ 971	\$ 9,000	\$1,406	\$11,377
Deferred payment	1,287	–	437	1,724
Shares	–	4,820	1,594	6,414
	<u>\$2,258</u>	<u>\$13,820</u>	<u>\$3,437</u>	<u>\$19,515</u>
Other consideration				
Deferred cash	–	–	2,072	2,072
Deferred shares	–	–	2,656	2,656
Total consideration	<u>\$2,258</u>	<u>\$13,820</u>	<u>\$8,165</u>	<u>\$24,243</u>

Fiscal 2000 Acquisitions

On May 28, 1999, the Corporation completed the acquisition of Information Tools AG, the Corporation's distributor in Switzerland. The agreement stipulated that the shareholders of Information Tools AG were to receive total consideration of approximately \$657,000 of which \$458,000 was received in cash during fiscal 2000. The remainder of the consideration (\$199,000) was payable equally on the first and second anniversaries of the closing of the transaction. An amount not to exceed \$500,000 could also be paid in contingent consideration. Of that amount, approximately \$235,000 was paid in fiscal 2003 based on fiscal 2002 results, approximately \$60,000 was paid in fiscal 2002 relating to fiscal 2001 results, and approximately \$120,000 was paid in fiscal 2001 relating to fiscal 2000 results. The Corporation has conditioned a portion of the overall consideration on the continued tenure of certain employees. Under generally accepted accounting principles, these amounts are accounted for as compensation rather than as a component of purchase price.

On July 15, 1999, the Corporation completed the purchase of the entire outstanding minority interest in the Corporation's subsidiary in Singapore, Cognos Far East Pte Limited. The former minority shareholders of Cognos Far East Pte Limited received approximately \$1,688,000 in cash upon completion of the purchase. No further consideration is due to the former minority shareholders of the subsidiary.

Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisition were not material, and thus pro forma information has not been provided. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date as follows: (\$000s)

	Information Tools AG	Cognos Far East Pte Limited	Total
Assets acquired	\$ 683	\$ –	\$ 683
Liabilities assumed	(570)	–	(570)
Net assets acquired	113	–	113
Goodwill	544	1,688	2,232
Purchase price	<u>\$ 657</u>	<u>\$1,688</u>	<u>\$2,345</u>
Purchase price consideration			
Cash	458	1,688	2,146
Deferred payment	199	–	199
	<u>\$ 657</u>	<u>\$1,688</u>	<u>\$2,345</u>
Other consideration			
Deferred cash	415	–	415
Total consideration	<u>\$1,072</u>	<u>\$1,688</u>	<u>\$2,760</u>

6. COMMITMENTS

Certain of the Corporation's offices, computer equipment, and vehicles are leased under various terms. The annual aggregate lease expense in each of fiscal 2002, 2001, and 2000, was \$15,959,000, \$14,715,000, and \$12,205,000, respectively.

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

2003	\$12,205
2004	8,231
2005	6,347
2006	4,372
2007	2,814
Thereafter	5,441

7. BUSINESS RESTRUCTURING CHARGES

In connection with a restructuring plan to align the Corporation's cost structure and operations to the prevailing economic environment, the Corporation recorded in the quarter ended May 31, 2001 a pre-tax business restructuring charge to earnings of \$12,798,000. Business restructuring charges primarily relate to involuntary employee separations for approximately 300 employees, as well as asset write-downs, and accruals for net costs of abandoning leases and related write-downs of leasehold improvements. The remaining accrual is included on the balance sheet as accrued charges and salaries, commissions and related items.

The employee separations impact all functional groups and geographic regions of the Corporation. All employee separations were completed within the fiscal year and substantially all amounts have been paid.

The adjustment of \$2,589,000 to the restructuring accrual includes reversals resulting from revisions to prior cost assumptions including: subleases of closed sales offices of \$504,000, reversal of employee severance and related costs of \$1,306,000, and outplacement costs of \$430,000.

The following table displays the status of the restructuring reserve at February 28, 2002: (\$000s)

	Employee Separations	Other Restructuring Costs	Total
Restructuring charges in Q1 fiscal 2002	\$ 9,660	\$ 3,138	\$12,798
Cash Payments	(7,203)	(1,040)	(8,243)
Asset write-downs	-	(1,557)	(1,557)
Adjustments to accrual	(2,306)	(283)	(2,589)
Balance as at February 28, 2002	<u>\$ 151</u>	<u>\$ 258</u>	<u>\$ 409</u>

8. FINANCIAL INSTRUMENTS

Foreign Exchange Forward Contracts

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. The corporation currently utilizes forward contracts to manage foreign currency translation exposure of net investment in foreign operations. As a result, the exchange gains and losses recorded on translation of the subsidiaries financial statements are partially offset by gains and losses attributable to the applicable foreign exchange forward contract. Realized and unrealized gains and losses from these hedges are not included in income but are shown in the cumulative translation adjustment account included in OCI. During the years ended February 28, 2002, 2001, and February 29, 2000, the amount recorded to the cumulative translation adjustment with respect to the forward exchange contracts was a net gain of \$973,000, \$383,000, and a net loss of \$123,000, respectively.

The Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of Cdn \$130,000,000 (US \$81,012,000) outstanding at any one time. 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, 2002, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 28, 2002 to July 25, 2002, to exchange various foreign currencies in the amount of \$18,733,000 (the estimated fair value was \$19,124,000). As of February 28, 2001, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 29, 2001 to July 26, 2001, to exchange various foreign currencies in the amount of \$15,173,000 (the estimated fair value was \$15,353,000).

Concentration of Credit Risk

The investment of 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) a selection of securities with an acceptable credit rating; (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.

Included in cash, cash equivalents, and short-term investments as of February 28, 2002 and February 28, 2001 were corporate debt amounts of \$40,000,000 and \$44,058,000, respectively. The corporate debt as of February 28, 2002 and February 28, 2001 was with one and three distinct issuers, respectively. These amounts were repaid, in full, at maturity in March of their respective years. All the Corporation's short-term investments as of February 28, 2002 and February 28, 2001 had maturity dates before the end of June of their respective years. The Corporation's cash, cash equivalents, and short-term investments are denominated predominantly in Canadian and U.S. dollars.

The Corporation has an unsecured credit facility, subject to annual renewal, that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to an aggregate of Cdn \$15,000,000 (US \$9,348,000), subject to certain covenants. As of February 28, 2002 and February 28, 2001, there were no direct borrowings under this operating line.

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 Corporation's large customer base and its geographical dispersion (see Note 12).

Fair Value of Financial Instruments

For certain of the Corporation's financial instruments, including accounts receivable, accounts payable, and other accrued charges, the carrying amounts approximate the fair value due to their short maturities. Cash and cash equivalents, short-term investments, long-term debt, and long-term liabilities are carried at cost, which approximates their fair value. Foreign exchange forward contracts are recorded at their estimated fair value.

9. INCOME TAXES

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current			
Canadian	\$16,274	\$27,357	\$16,880
Foreign	9,392	12,707	9,943
	<u>25,666</u>	<u>40,064</u>	<u>26,823</u>
Deferred			
Canadian	(12,584)	(5,727)	1,765
Foreign	(2,344)	(3,162)	(1,915)
	<u>(14,928)</u>	<u>(8,889)</u>	<u>(150)</u>
Income tax provision	<u>\$10,738</u>	<u>\$31,175</u>	<u>\$26,673</u>

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)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Expected Canadian tax rate	<u>41.0%</u>	<u>44.0%</u>	<u>44.0%</u>
Expected tax provision	\$ 10,388	\$ 41,320	\$ 35,735
Tax rate differences	(8,622)	(14,603)	(10,422)
Net change in valuation allowance and other income tax benefits earned	(544)	110	(2,680)
Non-deductible expenses and non-taxable income	7,607	2,101	2,876
Withholding tax on foreign income	1,759	1,774	1,179
Other	150	473	(15)
Reported income tax provision	<u>\$ 10,738</u>	<u>\$ 31,175</u>	<u>\$ 26,673</u>

Significant components of the Corporation's deferred tax assets and liabilities as of February 28, 2002 and February 28, 2001 are as follows: (\$000s)

	<u>2002</u>	<u>2001</u>
Deferred tax assets		
Net operating tax loss carryforwards	\$ 3,257	\$ 3,822
Investment tax credits	-	-
Deferred revenue	2,213	2,811
Reserves	3,126	2,742
Book and tax differences on assets	1,155	681
Litigation settlement	6,404	-
Other	200	(14)
Total deferred tax assets	<u>16,355</u>	<u>10,042</u>
Valuation allowance for deferred tax assets	<u>(2,357)</u>	<u>(3,022)</u>
Net deferred tax assets	<u>13,998</u>	<u>7,020</u>
Deferred tax liabilities		
Book and tax differences on assets	6,758	14,737
Reserves and allowances	5,342	4,760
Investment tax credits	1,822	3,925
Total deferred tax liabilities	<u>13,922</u>	<u>23,422</u>
Net deferred income tax asset (liability)	<u>\$ 76</u>	<u>\$ (16,402)</u>

The net change in the total valuation allowance for the years ended February 28, 2002 and February 28, 2001 was a decrease of \$665,000 and \$1,438,000, respectively.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, management believes it is more likely than not that the net amount of the future tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

As of February 28, 2002, the Corporation had tax loss carryforwards of approximately \$8,884,000 available to reduce future years' income for tax purposes. These losses expire as follows: (\$000s)

2005-2011	\$3,693
Indefinitely	<u>5,191</u>
	<u>\$8,884</u>

Income before taxes attributable to all foreign operations was \$24,990,000, \$41,232,000, and \$37,215,000, in each of fiscal 2002, 2001, and 2000, respectively.

The Corporation has provided for foreign withholding taxes on the portion of the undistributed earnings of foreign subsidiaries expected to be remitted.

Income taxes paid were \$29,368,000, \$13,537,000, and \$18,658,000, in each of fiscal 2002, 2001, and 2000, respectively.

10. 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.

On April 6, 2000, the Corporation's Board of Directors authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to stockholders of record at the close of business on April 20, 2000. Share and per-share amounts have been adjusted retroactively for this split.

Share Repurchase Programs

The share repurchases made in the past three fiscal years were part of distinct open market share repurchase programs through the Nasdaq National Market. The share repurchases made in fiscal 2002 were part of two open market share repurchase programs. The program adopted in October 2000 expired on October 8, 2001. Under this program the Corporation repurchased 1,344,500 of its shares; all repurchased shares were cancelled. In October 2001, the Corporation adopted a new program that will enable it to purchase up to 4,400,943 common shares (not more than 5% of those issued and outstanding) between October 9, 2001 and October 8, 2002. This program does not commit the Corporation to make any share repurchases. Purchases will be made on The Nasdaq National Market or the Toronto Stock Exchange at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled.

The details of the share repurchases were as follows:

	2002		2001		2000	
	Shares (000s)	Cost (\$000s)	Shares (000s)	Cost (\$000s)	Shares (000s)	Cost (\$000s)
October 1998 program	–	–	–	–	2,186	24,689
October 1999 program	–	–	50	2,041	100	1,324
October 2000 program	816	12,945	530	11,946	–	–
October 2001 program	800	16,094	–	–	–	–
	<u>1,616</u>	<u>\$29,039</u>	<u>580</u>	<u>\$13,987</u>	<u>2,286</u>	<u>\$26,013</u>

The amount paid to acquire the shares over and above the average carrying value has been charged to retained earnings.

Stock Option Plans

As of February 28, 2002, the Corporation had stock options outstanding under two plans: 9,567,000 pertain to the 1997–2002 Stock Option Plan and 987,000 pertain to the 1993–1998 Stock Option Plan.

There were 14,000,000 shares of common stock originally reserved by the Board of Directors for issuance under the Corporation's 1997–2002 Stock Option Plan ("the Plan"), which was approved by the Corporation's shareholders in June 1997 and replaced the 1993–1998 Stock Option Plan. Options may be granted to directors, officers, employees, and consultants at such times and under such terms as established by the Plan. Options may be fully exercisable on the date of grant or may be exercisable in installments. Options will expire not later than 10 years from the date of grant or any shorter period as may be

determined. 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. Options were awarded to employees, executive officers and directors in each of April 1998, June 1999, 2000, and 2001. Substantially all options vest equally in April of the next four years after the date of grant and expire in April of the seventh year after the date of grant. There were 3,057,000 options available for grant under the Plan as of February 28, 2002.

Under the 1993–1998 Stock Option Plan, options were awarded to directors, officers, and employees. For the options outstanding as of February 28, 2002, the vesting dates have all passed and the expiry dates range from April 2003 to September 2005. In April 1996, options were awarded to certain key officers under an executive option award. These options vested equally in April 1999, April 2000, and April 2001, and expire in April 2003. All options were priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. The 1993–1998 Stock Option Plan expired on January 1, 1998.

Employee Stock Purchase Plan

This plan was approved by the Corporation's shareholders in July 1993 and was amended on May 19, 1999. The amended plan was approved by the Corporation's shareholders on June 22, 1999, and will terminate on November 30, 2002. Under the plan, 3,000,000 common shares were reserved for issuance. A participant in the Employee Stock Purchase Plan authorizes the Corporation to deduct an amount per pay period that cannot exceed five (5) percent of annual target salary divided by the number of pay periods per year. Deductions are accumulated during each of the Corporation's fiscal quarters ("Purchase Period") and on the first trading day following the end of any Purchase Period these deductions are applied toward the purchase of common shares. The purchase price per share is ninety (90) percent of the lesser of The Toronto Stock Exchange average closing price on (a) the first five trading days of the Purchase Period or (b) the last five trading days of the Purchase Period. All full-time and part-time permanent employees may participate in the plan.

Accounting for Stock Option and Stock Purchase Plans

Under Canadian GAAP, the benefits of the Corporation's stock option and purchase plans are not recognized as compensation expense. If the fair values of the options granted 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 No. 123), stock-based compensation costs would have reduced net income by \$25,467,000, \$20,106,000, and \$9,096,000, reduced basic net income per share by \$0.29, \$0.23, and \$0.11, and reduced diluted net income per share by \$0.28, \$0.22, and \$0.10 in fiscal 2002, 2001, and 2000, respectively.

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 fiscal 2002, 2001, and 2000, respectively: risk-free interest rates of 4.2%, 6.1%, and 5.8%, expected life of the options of 2.9 years, 3.0 years, and 2.8 years, expected volatility of 68%, 54%, and 55%, and for all years, a dividend yield of zero.

Activity in the stock option plans for fiscal 2002, 2001, and 2000 was as follows:

	2002		2001		2000	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding, beginning of year	7,569	\$17.81	7,270	\$11.17	6,769	\$ 9.72
Granted	4,835	16.71	2,537	34.02	2,772	11.18
Exercised	(1,279)	9.96	(1,816)	10.23	(1,973)	7.81
Cancelled	(571)	20.33	(422)	18.21	(298)	11.73
Outstanding, end of year	<u>10,554</u>	<u>17.35</u>	<u>7,569</u>	<u>17.81</u>	<u>7,270</u>	<u>11.17</u>
Options exercisable at year end	<u>3,002</u>		<u>1,607</u>		<u>1,234</u>	
Weighted average per share fair value of options granted during the year calculated using the Black-Scholes option pricing model		<u>\$ 7.48</u>		<u>\$14.07</u>		<u>\$ 4.59</u>

The following table summarizes significant ranges of outstanding and exercisable options held by directors, officers, and employees as of February 28, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options (000s)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
\$7.91 - \$9.51	552	2.2	8.13	536	8.11
\$9.84 - \$9.98	2,209	4.6	9.87	1,134	9.87
\$10.06 - \$14.28	1,274	5.2	12.68	556	12.10
\$14.55 - \$15.83	3,627	7.2	15.62	121	15.62
\$15.84 - \$18.39	375	7.0	16.90	42	17.43
\$18.69 - \$28.04	476	7.1	23.01	78	21.80
\$28.07 - \$44.19	2,041	6.2	32.73	535	32.69
	<u>10,554</u>	5.9	17.35	<u>3,002</u>	14.66

Deferred Stock-based Compensation

The Corporation recorded aggregate deferred stock-based compensation of \$0, \$2,656,000, and \$0 in fiscal 2002, 2001, and 2000, respectively. In each year deferred stock-based compensation was recorded in connection with acquisitions made by the Corporation in which stock was issued to principals of the acquired companies, but held in escrow to be released on condition of continued tenure. Under generally accepted accounting principles, these amounts are accounted for as compensation rather than as a component of purchase price.

Net Income per Share

On March 1, 2001 the Corporation adopted the recommendations issued by the Canadian Institute of Chartered Accountants with respect to earnings per share (Handbook section 3500). The section specifies the method of calculation, presentation and disclosure for basic and diluted earnings per share. The comparative financial statements have been restated to reflect these changes. The effect of this change was not material in fiscal 2002. Diluted EPS for the years ended February 28, 2001 and February 29, 2000 were restated to \$0.68 and \$0.62, respectively.

The dilutive effect of stock options is excluded under the requirements of Handbook section 3500 for calculating basic net income per share, but is included in the calculation of diluted net income per share

The reconciliation of the numerator and denominator for the calculation of net income per share and diluted net income per share is as follows: (000s, except per-share amounts)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Basic net Income per Share			
Net income	<u>\$14,599</u>	<u>\$62,736</u>	<u>\$54,542</u>
Weighted average number of shares outstanding	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Basic net income per share	<u>\$0.17</u>	<u>\$0.72</u>	<u>\$0.63</u>
Diluted Net Income per Share			
Net income	<u>\$14,599</u>	<u>\$62,736</u>	<u>\$54,542</u>
Weighted average number of shares outstanding	<u>87,807</u>	<u>87,324</u>	<u>85,972</u>
Dilutive effect of stock options* and deferred stock-based compensation	<u>2,654</u>	<u>4,649</u>	<u>2,128</u>
Adjusted weighted average number of shares outstanding	<u>90,461</u>	<u>91,973</u>	<u>88,100</u>
Diluted net income per share	<u>\$0.16</u>	<u>\$0.68</u>	<u>\$0.62</u>

* All anti-dilutive options have been excluded. The average number of anti-dilutive options was 3,327,000, 557,000, and 1,580,000 for fiscal 2002, 2001, and 2000, respectively.

11. PENSION PLANS

The Corporation operates a Retirement Savings Plan for the parent company and also operates various other defined contribution pension plans for its subsidiaries. The Corporation contributes amounts related to the level of employee contributions for both types of plans.

The pension costs in fiscal 2002, 2001, and 2000 were \$4,889,000, \$4,248,000, and \$3,839,000, respectively.

12. SEGMENTED INFORMATION

The Corporation operates in one business segment—computer software solutions. This segment engages in business activities from which it earns license, support, and services revenue, and incurs expenses. Within this business segment, the Corporation develops, markets, and supports two complementary lines of software solutions that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence software solutions allow customers, as well as their partners, customers, and suppliers, to analyze and report data from multiple perspectives. 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.

No single customer accounted for 10% or more of the Corporation's revenue during any of the last three fiscal years. In addition, the Corporation is not dependent on any single customer or group of customers, or supplier.

The accounting policies for the segment are the same as those described in the Summary of Significant Accounting Policies. The required financial information for segment profit and segment assets is the same as that presented in the Consolidated Financial Statements. Geographic information is as follows: (\$000s)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenue to external customers*			
U.S.A.	\$263,488	\$281,907	\$204,730
Canada	40,979	35,890	30,120
United Kingdom	45,759	44,381	44,972
Europe	107,278	101,888	77,778
Asia/Pacific	33,798	31,586	28,040
	<u>\$491,302</u>	<u>\$495,652</u>	<u>\$385,640</u>

* Revenues are attributed to countries based on location of customer

	<u>2002</u>	<u>2001</u>
Fixed assets		
Canada	\$46,813	\$55,466
U.S.A.	6,508	9,510
Other countries	5,687	9,232
	<u>\$59,008</u>	<u>\$74,208</u>

Other assets

Canada	\$17,944	\$24,232
U.S.A.	11,489	22,548
	<u>\$29,433</u>	<u>\$46,780</u>

13. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Canadian Institute of Chartered Accountants issued new Handbook sections 1581, *Business Combinations* and 3062, *Goodwill and Other Intangible Assets* (“the pronouncements”), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncements. Other intangible assets will continue to be amortized over their useful lives.

The Corporation will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003. Application of the non-amortization provisions of the pronouncements is expected to result in an increase in net income of \$4,000,000 (\$0.04 per diluted share) for fiscal 2003. The Corporation performed the required impairment tests of goodwill and indefinite-lived intangible assets as of March 1, 2002. The effect of these tests was not material on the earnings and financial position of the Corporation.

In October 2001, FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS 121, and the accounting and reporting provisions of APB 30, for the disposal of a segment of a business. The provisions of SFAS 144 are required to be adopted by March 1, 2002. The Corporation believes that the adoption of SFAS 144 will not have a material effect on the business, results of operations, and financial condition. The principles implied within SFAS 144 are consistent with Canadian GAAP.

14. LITIGATION

On May 5, 2000, an action was filed in the United States District Court for the Northern District of California against the Corporation and its subsidiary Cognos Corporation by Business Objects S.A., for alleged patent infringement. The complaint alleged that the Corporation’s Impromptu product infringes Business Objects’ United States Patent No. 5,555,403 entitled “Relational Database Access System using Semantically Dynamic Objects” (the “’403 Patent”). On May 24, 2002, subsequent to the balance sheet date, the Corporation and Business Objects reached an agreement to settle that action. Under the terms of the settlement agreement between the Corporation and Business Objects, Business Objects has agreed to release the Corporation for any infringement of the ‘403 Patent (and any amendments or related patents) and to effect that release, has granted the Corporation a license under the ‘403 Patent for the term of that patent or any amendments or related patents. Both parties agreed to release the other from all claims, liabilities, costs or expenses that either party hold against the other, on account of actions taken prior to the effective date. The Corporation and Business Objects have also entered into a covenant not to sue or assert any claim against the other for infringement of any patents for a period of 5 years from the effective date. As consideration for the settlement agreement, the Corporation has agreed to pay Business Objects the sum of \$24,000,000 in the following installments: \$10,000,000 on or before June 10, 2002, and \$1,750,000 every

quarter for the next eight quarters commencing on July 1, 2002. The Corporation has recorded a special charge of \$23,231,000, in fiscal 2002, representing the present value of this payment stream discounted using an interest rate of 6%, in accordance with FASB Statement 5 *Contingent Liabilities*. The after-tax effect of this charge is \$16,827,000. The remaining balance of \$769,000 represents the interest to be recognized over the payment term. The principal amount is recorded in accrued charges and long-term liabilities on the balance sheet as follows (\$000's):

Accrued charges	\$14,861
Long-term liabilities	8,370

Payments in respect of this settlement are as follows (\$000's):

2003	\$15,250
2004	7,000
2005	1,750

In addition, the Corporation and its subsidiaries may, from time to time, be involved in other legal proceedings, claims, and litigation that arise in the ordinary course of business which the Corporation believes would not reasonably be expected to have a material adverse effect on the financial condition of the Corporation.

15. COMPARATIVE RESULTS

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

SELECTED CONSOLIDATED FINANCIAL DATA

FIVE-YEAR SUMMARY

The following Selected Consolidated Financial Data has been derived from the Corporation's consolidated financial statements, in accordance with Canadian GAAP, that have been audited by Ernst & Young LLP, 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.

On April 6, 2000, the Board of Directors of the Corporation authorized a two-for-one stock split, effected in the form of a stock dividend, payable on or about April 27, 2000 to shareholders of record at the close of business on April 20, 2000. All historic consolidated results have been restated for the split.

	Years Ended the Last Day of February				
	2002	2001	2000	1999	1998
	(US\$000s except share amounts, Canadian GAAP)				
Statement of Income Data					
Revenue	\$491,302	\$495,652	\$385,640	\$301,125	\$244,834
Operating expenses					
Cost of product license	3,609	7,315	5,235	5,738	3,828
Cost of product support	16,576	17,820	13,758	11,166	9,694
Selling, general, and administrative	350,892	327,632	244,827	178,295	143,493
Research and development	74,614	67,264	53,548	42,274	33,530
Investment tax credits	(4,784)	(6,690)	(6,207)	(14,880)	(9,432)
Special charges	33,440	-	-	-	-
Total operating expenses	474,347	413,341	311,161	222,593	181,113
Operating income	16,955	82,311	74,479	78,532	63,721
Interest expense	(540)	(786)	(718)	(527)	(481)
Interest income	8,922	12,386	7,454	6,430	5,340
Income before taxes	25,337	93,911	81,215	84,435	68,580
Income tax provision	10,738	31,175	26,673	26,313	19,638
Net income	\$ 14,599	\$ 62,736	\$ 54,542	\$ 58,122	\$ 48,942
Net income per share					
Basic	\$0.17	\$0.72	\$0.63	\$0.66	\$0.55
Diluted	\$0.16	\$0.68	\$0.62	\$0.65	\$0.53
Weighted average number of shares (000s)					
Basic	87,807	87,324	85,972	87,416	88,414
Diluted	90,461	91,973	88,100	88,940	91,544
Balance Sheet Data (at end of period)					
Working capital	\$227,573	\$197,673	\$166,455	\$123,343	\$112,846
Total assets	530,735	511,791	396,098	311,235	246,334
Total debt	0	32	2,176	2,612	2,457
Stockholders' equity	300,555	300,720	224,306	175,196	147,305