

Q1 2020  
for the period ended June 30, 2019



## To Our Shareholders

Computer Modelling Group Ltd. announces its first quarter results for the three months ended June 30, 2019.

### First Quarter Highlights

Three months ended June 30, (\$ thousands, except per share data)	2019	2018 <sup>(1)</sup>	\$ change	% change
Annuity/maintenance software licenses	15,756	14,715	1,041	7%
Perpetual software licenses	1,159	326	833	256%
Total revenue	18,123	16,705	1,418	8%
Operating profit	7,068	5,374	1,694	32%
Net income	4,442	4,258	184	4%
Earnings per share - basic	0.06	0.05	0.01	20%
Funds flow from operations per share - basic	0.08	0.07	0.01	14%
Free cash flow per share - basic <sup>(2)</sup>	0.07	0.06	0.01	17%

(1) On April 1, 2019, the Company adopted IFRS 16 *Leases* using the modified retrospective approach, by adjusting opening retained earnings with no restatement of comparative figures. As such, comparative information continues to be reported under the previous lease standard.

(2) Non-IFRS financial measures are defined in the "Non-IFRS Financial Measures" section.

## Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") for Computer Modelling Group Ltd. ("CMG", the "Company", "we" or "our"), presented as at August 8, 2019, should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes of the Company for the three months ended June 30, 2019 and 2018. Additional information relating to CMG, including our Annual Information Form, can be found at [www.sedar.com](http://www.sedar.com). The financial data contained herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise indicated, all amounts in this report are expressed in Canadian dollars.*

### Impact of IFRS 16

Effective April 1, 2019, the Company adopted IFRS 16 *Leases*. This new standard replaces IAS 17 and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees. The Company adopted IFRS 16 using the modified retrospective approach, by adjusting opening retained earnings with no restatement of comparative figures. As such, comparative information continues to be reported under the previous lease standard. Upon IFRS 16 adoption, the Company:

- Recognized lease liability of \$43.1 million;
- Recognized right-of-use assets of \$39.8 million;
- Recognized the difference between the lease liability and the right-of-use assets in opening retained earnings. Deferred rent liability, which is not required under IFRS 16, and prepaid rent were also reversed against opening retained earnings, for a total impact of \$1.1 million.

The adoption of IFRS 16 resulted in a net decrease to operating expenses due to lower rent expense, partially offset by higher depreciation expense on the recognition of right-of-use assets, and an increase to finance costs due to interest expense on the lease liability. Overall, this standard had a negative impact of \$0.2 million on the Company's profit before income and other taxes for the three months ended June 30, 2019.

Further disclosure is provided in note 3 to the condensed consolidated interim financial statements.

The impact of adopting IFRS 16 on the Company's condensed consolidated interim financial statements is set out below:

### Condensed Consolidated Statement of Financial Position

(thousands of \$)	June 30, 2019 As reported	Adjustments	June 30, 2019 Balance without IFRS 16 adoption
<b>Assets</b>			
<b>Current assets:</b>			
Cash	50,753	-	50,753
Trade and other receivables	12,650	-	12,650
Prepaid expenses	1,180	67	1,247
Prepaid income taxes	666	-	666
	65,249	67	65,316
Property and equipment	14,142	-	14,142
Right-of-use assets	39,172	(39,172)	-
Deferred tax asset	1,139	(335)	804
<b>Total assets</b>	<b>119,702</b>	<b>(39,440)</b>	<b>80,262</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade payables and accrued liabilities	4,884	93	4,977
Deferred revenue	29,266	-	29,266
Lease liability	1,209	(1,209)	-
	35,359	(1,116)	34,243
Lease liability	41,591	(41,591)	-
Deferred rent liability	-	1,920	1,920
<b>Total liabilities</b>	<b>76,950</b>	<b>(40,787)</b>	<b>36,163</b>
<b>Shareholders' equity:</b>			
Share capital	79,711	-	79,711
Contributed surplus	13,024	-	13,024
Deficit	(49,983)	1,347	(48,636)
<b>Total shareholders' equity</b>	<b>42,752</b>	<b>1,347</b>	<b>44,099</b>
<b>Total liabilities and shareholders' equity</b>	<b>119,702</b>	<b>(39,440)</b>	<b>80,262</b>

**Condensed Consolidated Statement of Operations and Comprehensive Income**

(thousands of \$ except per share amounts)	Three months ended June 30, 2019 As reported	Adjustments	Three months ended June 30, 2019 Balance without IFRS 16 adoption
Revenue	18,123	-	18,123
Operating expenses			
Sales, marketing and professional services	4,630	66	4,696
Research and development	4,751	229	4,980
General and administrative	1,674	55	1,729
	11,055	350	11,405
Operating profit	7,068	(350)	6,718
Finance income	323	-	323
Finance costs	(952)	511	(441)
Profit before income and other taxes	6,439	161	6,600
Income and other taxes	1,997	(48)	1,949
Net and total comprehensive income	4,442	209	4,651
Earnings Per Share			
Basic	0.06	-	0.06
Diluted	0.06	-	0.06

The Company's actual cash flows are unaffected by IFRS 16. However, the principal reduction portion of lease payments is now classified as financing activities instead of operating activities:

**Condensed Consolidated Statement of Cash Flows**

(thousands of \$)	Three months ended June 30, 2019 As reported	Adjustments	Three months ended June 30, 2019 Balance without IFRS 16 adoption
Net cash provided by operating activities	4,875	(282)	4,593
Net cash used in financing activities	(8,304)	282	(8,022)

## Forward-looking Information

Certain information included in this MD&A is forward-looking. Forward-looking information includes statements that are not statements of historical fact and which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans and status of the Company's software development projects, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, research and development timetable, and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes that the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

With respect to forward-looking information contained in this MD&A, we have made assumptions regarding, among other things:

- Future software license sales
- The continued financing by and participation of the Company's CoFlow partner and it being completed in a timely manner
- Ability to enter into additional software license agreements
- Ability to continue current research and new product development
- Ability to recruit and retain qualified staff

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors, which are discussed in greater detail in the "Business Risks" section of CMG's MD&A for the year ended March 31, 2019:

- Economic conditions in the oil and gas industry
- Reliance on key customers
- Foreign exchange
- Economic and political risks in countries where the Company currently does or proposes to do business
- Increased competition
- Reliance on employees with specialized skills or knowledge
- Protection of proprietary rights

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of this MD&A. All subsequent forward-looking information attributable to the Company herein is expressly qualified in its entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to forward-looking information contained in this MD&A to reflect events or circumstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

## Corporate Profile

CMG is a computer software technology company serving the oil and gas industry. The Company is a leading supplier of advanced process reservoir modelling software with a blue chip customer base of international oil companies and technology centers in approximately 60 countries. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities. CMG has sales and technical support services based in Calgary, Houston, London, Dubai, Bogota and Kuala Lumpur. CMG's Common Shares are listed on the Toronto Stock Exchange ("TSX") and trade under the symbol "CMG".

## Quarterly Performance

(\$ thousands, unless otherwise stated)	Fiscal 2018 <sup>(1)(2)</sup>			Fiscal 2019 <sup>(1)(3)</sup>			Fiscal 2020 <sup>(4)</sup>	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Annuity/maintenance licenses	16,341	16,158	15,664	14,715	15,111	17,240	16,734	<b>15,756</b>
Perpetual licenses	290	743	2,053	326	1,172	611	2,891	<b>1,159</b>
Software licenses	16,631	16,901	17,717	15,041	16,283	17,851	19,625	<b>16,915</b>
Professional services	1,350	1,418	1,677	1,664	1,658	1,222	1,513	<b>1,208</b>
Total revenue	17,981	18,319	19,394	16,705	17,941	19,073	21,138	<b>18,123</b>
Operating profit	6,615	6,908	7,529	5,374	7,024	8,406	8,750	<b>7,068</b>
Operating profit (%)	37	38	39	32	39	44	41	<b>39</b>
Profit before income and other taxes	6,253	7,151	8,547	5,980	7,104	9,406	8,400	<b>6,439</b>
Income and other taxes	1,647	2,054	2,401	1,722	2,048	2,559	2,426	<b>1,997</b>
Net income for the period	4,606	5,097	6,146	4,258	5,056	6,847	5,974	<b>4,442</b>
EBITDA <sup>(5)</sup>	7,090	7,400	8,090	5,837	7,505	8,915	9,250	<b>8,118</b>
Cash dividends declared and paid	8,021	8,022	8,021	8,021	8,024	8,022	8,023	<b>8,022</b>
Funds flow from operations	5,788	6,225	7,285	5,242	5,777	7,550	7,024	<b>6,097</b>
Free cash flow <sup>(5)</sup>	5,372	5,595	6,904	4,909	5,697	7,297	6,948	<b>5,707</b>
Per share amounts - (\$/share)								
Earnings per share - basic	0.06	0.06	0.08	0.05	0.06	0.09	0.07	<b>0.06</b>
Earnings per share - diluted	0.06	0.06	0.08	0.05	0.06	0.09	0.07	<b>0.06</b>
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	<b>0.10</b>
Funds flow from operations per share - basic	0.07	0.08	0.09	0.07	0.07	0.09	0.09	<b>0.08</b>
Free cash flow per share - basic <sup>(5)</sup>	0.07	0.07	0.09	0.06	0.07	0.09	0.09	<b>0.07</b>

(1) On April 1, 2019, the Company adopted IFRS 16 *Leases* using the modified retrospective approach, by adjusting opening retained earnings with no restatement of comparative figures. As such, comparative information continues to be reported under the previous lease standard.

(2) Q2, Q3, and Q4 of fiscal 2018 include \$1.0 million, \$0.6 million and \$1.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1, Q2, Q3 and Q4 of fiscal 2019 include \$0.1 million, \$0.3 million, \$2.3 million and \$1.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(4) Q1 of fiscal 2020 includes \$0.2 million in revenue that pertains to usage of CMG's products in prior quarters.

(5) Non-IFRS financial measures are defined in the "Non-IFRS Financial Measures" section.

## Highlights

During the three months ended June 30, 2019, as compared to the same period of the previous fiscal year, we:

- Increased annuity/maintenance license revenue by 7%;
- Increased software license revenue by 12%;
- Increased net income by 4% (without the negative impact of IFRS 16 adoption, net income increased by 9%);
- Increased EBITDA by 39% (without the positive impact of IFRS 16 adoption, EBITDA increased by 23%).

During the three months ended June 30, 2019, we:

- Realized basic earnings per share of \$0.06;
- Declared and paid a regular dividend of \$0.10 per share.

## Revenue

Three months ended June 30, (\$ thousands)	2019	2018	\$ change	% change
Software license revenue	16,915	15,041	1,874	12%
Professional services	1,208	1,664	(456)	-27%
<b>Total revenue</b>	<b>18,123</b>	<b>16,705</b>	<b>1,418</b>	<b>8%</b>
Software license revenue as a % of total revenue	93%	90%		
Professional services as a % of total revenue	7%	10%		

CMG's revenue is comprised of software license sales, which provide the majority of the Company's revenue, and fees for professional services.

Total revenue for the three months ended June 30, 2019 increased by 8% compared to the same period of the previous fiscal year, due to an increase in software license revenue partially offset by a decrease in professional services revenue.

## Software License Revenue

Software license revenue is made up of annuity/maintenance license fees charged for the use of the Company's software products, which is generally for a term of one year or less, and perpetual software license sales, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. Annuity/maintenance license fees have historically had a high renewal rate and, accordingly, provide a reliable revenue stream, while perpetual license sales are more variable and unpredictable in nature as the purchase decision and its timing fluctuate with the customers' needs and budgets. The majority of CMG's customers who have acquired perpetual software licenses subsequently purchase our maintenance package to ensure ongoing product support and access to current versions of CMG's software.

Three months ended June 30, (\$ thousands)	2019	2018	\$ change	% change
Annuity/maintenance license revenue	15,756	14,715	1,041	7%
Perpetual license revenue	1,159	326	833	256%
<b>Total software license revenue</b>	<b>16,915</b>	<b>15,041</b>	<b>1,874</b>	<b>12%</b>
Annuity/maintenance as a % of total software license revenue	93%	98%		
Perpetual as a % of total software license revenue	7%	2%		

Total software license revenue for the three months ended June 30, 2019 increased by 12% compared to the same period of the previous fiscal year, due to increases both in annuity/maintenance license revenue and perpetual license revenue.

CMG's annuity/maintenance license revenue increased by 7% during the three months ended June 30, 2019, compared to the same period of the previous fiscal year, due to increases in all geographic regions, except Canada, due to increased licensing to both existing and new customers. In addition, the movement in the CAD/USD exchange rate had a positive impact on the quarterly annuity/maintenance license revenue.

Perpetual license revenue increased from \$0.3 million to \$1.2 million, due to an increase in perpetual sales in the United States and South America, partially offset by a decrease in the Eastern Hemisphere. Software licensing under perpetual sales may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of aggregate perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year.

We can observe from the tables below that the exchange rate between the US and Canadian dollars during the three months ended June 30, 2019, compared to the same period of the previous fiscal year, had a positive impact on reported software license revenue.

The following table summarizes the US dollar-denominated revenue and the weighted average exchange rate at which it was converted to Canadian dollars:

Three months ended June 30, (\$ thousands)		2019	2018	\$ change	% change
US dollar annuity/maintenance license revenue	US\$	9,286	8,970	316	4%
Weighted average conversion rate		1.335	1.275		
Canadian dollar equivalent	CDN\$	12,398	11,440	958	8%
US dollar perpetual license revenue	US\$	860	253	607	240%
Weighted average conversion rate		1.346	1.289		
Canadian dollar equivalent	CDN\$	1,159	326	833	256%

The following table quantifies the foreign exchange impact on our software license revenue:

Three months ended June 30, (\$ thousands)	2018	Incremental License Growth	Foreign Exchange Impact	2019
Annuity/maintenance license revenue	14,715	486	555	15,756
Perpetual license revenue	326	784	49	1,159
Total software license revenue	15,041	1,270	604	16,915

**Software Revenue by Geographic Segment**

Three months ended June 30, (\$ thousands)	2019	2018	\$ change	% change
<b>Annuity/maintenance license revenue</b>				
Canada	3,776	3,867	(91)	-2%
United States	4,934	4,553	381	8%
South America	1,945	1,681	264	16%
Eastern Hemisphere <sup>(1)</sup>	5,101	4,614	487	11%
	<b>15,756</b>	<b>14,715</b>	<b>1,041</b>	<b>7%</b>
<b>Perpetual license revenue</b>				
Canada	-	-	-	0%
United States	298	-	298	100%
South America	769	-	769	100%
Eastern Hemisphere	92	326	(234)	-72%
	<b>1,159</b>	<b>326</b>	<b>833</b>	<b>256%</b>
<b>Total software license revenue</b>				
Canada	3,776	3,867	(91)	-2%
United States	5,232	4,553	679	15%
South America	2,714	1,681	1,033	61%
Eastern Hemisphere	5,193	4,940	253	5%
	<b>16,915</b>	<b>15,041</b>	<b>1,874</b>	<b>12%</b>

(1) Includes Europe, Africa, Asia and Australia.

During the three months ended June 30, 2019, all regions, with the exception of Canada, experienced an increase in total software license revenue, as compared to the same period of the previous fiscal year.

The Canadian market (representing 22% of year-to-date software license revenue) experienced a slight 2% decrease in annuity/maintenance license revenue during the three months ended June 30, 2019, compared to the same period of the previous fiscal year, due to a reduction in licensing by some customers, most of which relates to short-term licenses.

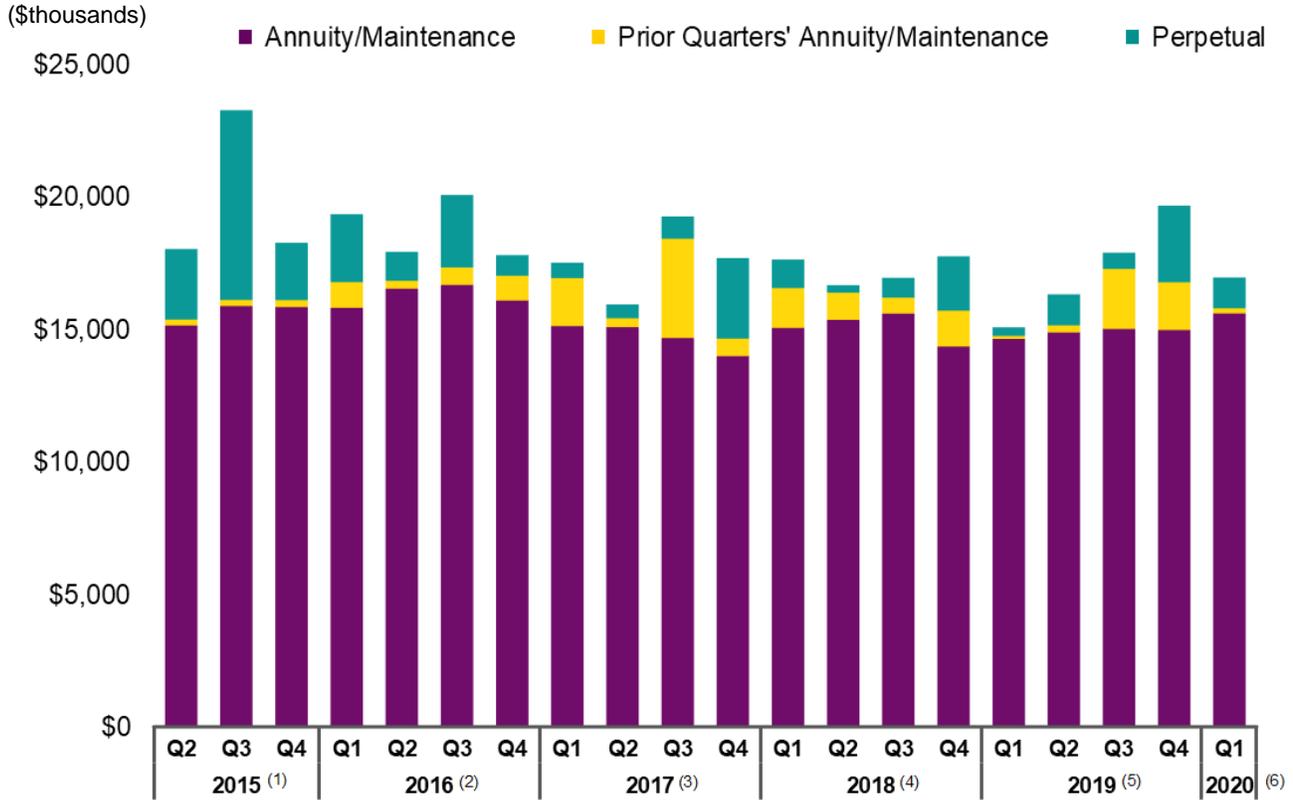
The United States market (representing 31% of year-to-date software license revenue) experienced an 8% increase in annuity/maintenance license revenue during the three months ended June 30, 2019, compared to the same period of the previous fiscal year, due to increased licensing by both existing and new customers. Almost half of the increase is a result of increased usage of our cloud-based offerings, as the number of customers who access our software on a cloud has been growing over the last year. Perpetual revenue increased in the current period, as there were no perpetual sales recognized in the comparative period.

South America (representing 16% of year-to-date software license revenue) experienced a 16% increase in annuity/maintenance license revenue during the three months ended June 30, 2019, compared to the same period of the previous fiscal year, mainly due to increased licensing by existing customers. Perpetual revenue increased in the current period, as there were no perpetual sales recognized in the comparative period.

The Eastern Hemisphere (representing 31% of year-to-date software license revenue) experienced an 11% increase in annuity/maintenance license revenue during the three months ended June 30, 2019, due to a combination of increased licensing from existing customers and addition of new customers. Modest perpetual sales were realized in the Eastern Hemisphere during the three months ended June 30, 2019, resulting in a 72% decrease compared to the same period of the previous fiscal year.

As footnoted in the Quarterly Performance table, in the normal course of business CMG may complete the negotiation of certain annuity/maintenance contracts and/or fulfill revenue recognition requirements within a current quarter that includes usage of CMG's products in prior quarters. This situation particularly affects contracts negotiated with countries that face increased economic and political risks leading to the revenue recognition criteria being satisfied only at the time of the receipt of cash. The dollar magnitude of such contracts may be significant to the quarterly comparatives of our annuity/maintenance license revenue stream. To provide a normalized comparison, we specifically identify the revenue component where revenue recognition is satisfied in the current period for products provided in previous quarters.

**Quarterly Software License Revenue**



- (1) Q2, Q3 and Q4 of fiscal 2015 include \$0.2 million, \$0.2 million, and \$0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (2) Q1, Q2, Q3 and Q4 of fiscal 2016 include \$1.0 million, \$0.3 million, \$0.7 million, and \$0.9 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (3) Q1, Q2, Q3 and Q4 of fiscal 2017 include \$1.8 million, \$0.3 million, \$3.7 million, and \$0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (4) Q1, Q2, Q3 and Q4 of fiscal 2018 include \$1.5 million, \$1.0 million, \$0.6 million, and \$1.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (5) Q1, Q2, Q3 and Q4 of fiscal 2019 include \$0.1 million, \$0.3 million, \$2.3 million, and \$1.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (6) Q1 of fiscal 2020 includes \$0.2 million in revenue that pertains to usage of CMG's products in prior quarters.

## Deferred Revenue

(\$ thousands)	Fiscal 2020	Fiscal 2019	Fiscal 2018	\$ change	% change
Deferred revenue at:					
Q1 (June 30)	29,266	29,350 <sup>(3)</sup>		(84)	0%
Q2 (September 30)		23,222 <sup>(4)</sup>	23,686 <sup>(1)</sup>	(464)	-2%
Q3 (December 31)		13,782	17,785	(4,003)	-23%
Q4 (March 31)		35,015 <sup>(5)</sup>	34,362 <sup>(2)</sup>	653	2%

(1) Includes current deferred revenue of \$23.0 million and long-term deferred revenue of \$0.6 million.

(2) Includes current deferred revenue of \$33.4 million and long-term deferred revenue of \$1.0 million.

(3) Includes current deferred revenue of \$28.8 million and long-term deferred revenue of \$0.6 million.

(4) Includes current deferred revenue of \$22.9 million and long-term deferred revenue of \$0.3 million.

(5) Includes current deferred revenue of \$34.7 million and long-term deferred revenue of \$0.3 million.

CMG's deferred revenue consists primarily of amounts for pre-sold licenses. With the exception of certain term-based software licenses that are recognized at the start of the license period, our annuity/maintenance revenue is deferred and recognized ratably over the license period, which is generally one year or less. Amounts are deferred for licenses that have been provided and revenue recognition reflects the passage of time.

The above table illustrates the normal trend in the deferred revenue balance from the beginning of the calendar year (which corresponds with Q4 of our fiscal year), when most renewals occur, to the end of the calendar year (which corresponds with Q3 of our fiscal year). Our fourth quarter corresponds with the beginning of the fiscal year for most oil and gas companies, representing a time when they enter a new budget year and sign/renew their contracts.

Deferred revenue as at Q1 of fiscal 2020 remained consistent compared to Q1 of fiscal 2019.

## Professional Services Revenue

Professional services revenue for the three months ended June 30, 2019 was \$1.2 million, down from \$1.7 million for the same period of the previous fiscal year, due to lower customer project activity levels during the quarter.

Professional services revenue consists of specialized consulting, training, and contract research activities. CMG performs consulting and contract research activities on an ongoing basis, but such activities are not considered to be a core part of our business and are primarily undertaken to increase our knowledge base and hence expand the technological abilities of our simulators in a funded manner, combined with servicing our customers' needs. In addition, these activities are undertaken to market the capabilities of our suite of software products with the ultimate objective to increase software license sales. Our experience is that consulting activities are variable in nature as both the timing and dollar magnitude of work are dependent on activities and budgets within customer companies.

To facilitate analysis and year-over-year comparison, current fiscal year's metrics and ratios affected by IFRS 16 have been presented under both IFRS 16 and the previous lease standard in the following sections.

## Expenses

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	<b>IFRS 16 2019</b>	2018	\$ change	% change
Sales, marketing and professional services	4,696	(66)	<b>4,630</b>	4,987	(357)	-7%
Research and development	4,980	(229)	<b>4,751</b>	4,775	(24)	-1%
General and administrative	1,729	(55)	<b>1,674</b>	1,569	105	7%
<b>Total operating expenses</b>	<b>11,405</b>	<b>(350)</b>	<b>11,055</b>	11,331	(276)	-2%
Direct employee costs <sup>(1)</sup>	8,664	-	<b>8,664</b>	8,715	(51)	-1%
Other corporate costs	2,741	(350)	<b>2,391</b>	2,616	(225)	-9%
	<b>11,405</b>	<b>(350)</b>	<b>11,055</b>	11,331	(276)	-2%

(1) Includes salaries, bonuses, stock-based compensation, benefits, commissions, and professional development. See "Non-IFRS Financial Measures".

Prior to applying IFRS 16, total operating expenses increased by 1% for the three months ended June 30, 2019 compared to the same period of the previous fiscal year, due to an increase in other corporate costs, partially offset by a decrease in direct employee costs.

IFRS 16 resulted in a net decrease of \$0.4 million to total operating expenses. This net decrease of \$0.4 million is a combination of \$1.0 million lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by \$0.6 million higher depreciation expense on the recognition of right-of-use assets.

### Direct Employee Costs

As a technology company, CMG's largest area of expenditure is its people. Approximately 78% of the total operating expenses for the three months ended June 30, 2019 related to direct employee costs. Staffing levels in the current fiscal year were slightly lower compared to the previous fiscal year. At June 30, 2019, CMG's full-time equivalent staff complement was 195 employees and consultants, down from 197 full-time equivalent employees and consultants at June 30, 2018. Direct employee costs decreased slightly during the three months ended June 30, 2019, compared to the same period of the previous fiscal year.

### Other Corporate Costs

Prior to IFRS 16 adoption, other corporate costs increased by 5% during the three months ended June 30, 2019 compared to the same period of the previous fiscal year, primarily due to an operating cost refund included in the comparative period.

## Research and Development

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	IFRS 16 2019	2018	\$ change	% change
Research and development (gross)	5,421	(229)	5,192	5,185	7	0%
SR&ED credits	(441)	-	(441)	(410)	(31)	8%
Research and development	4,980	(229)	4,751	4,775	(24)	-1%
Research and development as a % of total revenue	27%		26%	29%		

CMG maintains a belief that its strategy of growing long-term value for shareholders can only be achieved through continued investment in research and development. CMG works closely with its customers to provide solutions to complex problems related to proven and new advanced recovery processes.

The above research and development costs include \$1.7 million of costs for CoFlow for the three months ended June 30, 2019 (2018 – \$1.9 million). See discussion under “Commitments, Off Balance Sheet Items and Transactions with Related Parties”.

Prior to applying IFRS 16, research and development costs increased by 4% for the three months ended June 30, 2019 compared to the same period of the previous fiscal year, due to an operating cost refund included in the comparative period.

Under IFRS 16, research and development costs were \$0.2 million lower than prior to the application of IFRS 16. This net decrease of \$0.2 million is a combination of \$0.6 million lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by \$0.4 million higher depreciation expense on the recognition of right-of-use assets.

SR&ED credits increased by 8% for the three months ended June 30, 2019, compared to the same period of the previous fiscal year, mainly due to an increase in hours spent on SR&ED-eligible projects.

Research and development costs as a percentage of total revenue decreased to 26% from 29% in the comparative period, as a result of decreased expenses under IFRS 16 and increased revenue.

## Depreciation

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	IFRS 16 2019	2018	\$ change	% change
Depreciation of property and equipment, allocated to:						
Sales, marketing and professional services	113	146	259	105	154	147%
Research and development	299	353	652	302	350	116%
General and administrative	55	84	139	56	83	148%
Total depreciation	467	583	1,050	463	587	127%

Depreciation increased by 127% in the three months ended June 30, 2019 due to the additional depreciation associated with the right-of-use assets recognized on adoption of IFRS 16.

## Finance Income and Costs

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	<b>IFRS 16 2019</b>	2018	\$ change	% change
Interest income	323	-	<b>323</b>	303	20	7%
Net foreign exchange gain	-	-	<b>-</b>	303	(303)	-100%
<b>Total finance income</b>	<b>323</b>	<b>-</b>	<b>323</b>	<b>606</b>	<b>(283)</b>	<b>-47%</b>
Interest expense on lease liability	-	(534)	<b>(534)</b>	-	(534)	-100%
Net foreign exchange loss	(441)	23	<b>(418)</b>	-	(418)	-100%
<b>Total finance costs</b>	<b>(441)</b>	<b>(511)</b>	<b>(952)</b>	<b>-</b>	<b>(952)</b>	<b>-100%</b>

Interest income for the three months ended June 30, 2019 was higher compared to the same period of the previous fiscal year, due to higher interest rates. Interest expense on lease liability is the result of the adoption of IFRS 16, as explained earlier.

CMG is impacted by foreign exchange fluctuations as approximately 76% of CMG's revenue for the three months ended June 30, 2019 (2018 – 74%) is denominated in US dollars, whereas only approximately 25% (2018 – 26%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's US dollar-denominated working capital at June 30, 2019, 2018 and 2017 and the average exchange rates used to translate income statement items during the three months ended June 30, 2019, 2018 and 2017:

CDN\$ to US\$	At June 30	Three month trailing average
2017	0.7706	0.7411
2018	0.7594	0.7756
<b>2019</b>	<b>0.7641</b>	<b>0.7442</b>

CMG recorded a net foreign exchange loss of \$0.4 million for the three months ended June 30, 2019 due to a weakening of the US dollar, which negatively affected the valuation of the US-dollar denominated portion of the Company's working capital.

## Income and Other Taxes

CMG's effective tax rate for the three months ended June 30, 2019 is 31.0% (2018 – 28.8%), whereas the blended Canadian statutory tax rate for the Company's 2020 fiscal year is 26.0% (decreased from 27.0% in fiscal 2019, with further rate reductions legislated over the next two years). This difference between the effective rate and the statutory rate is primarily due to revaluing CMG's deferred tax assets at the lower tax rate and the non-tax deductibility of stock-based compensation expense.

The benefit recorded in CMG's books on the scientific research and experimental development ("SR&ED") investment tax credit program impacts deferred income taxes. The investment tax credit earned in the current fiscal year is utilized by CMG to reduce income taxes otherwise payable for the current fiscal year and the federal portion of this benefit bears an inherent tax liability as the amount of the credit is included in the subsequent year's taxable income for both federal and provincial purposes. The inherent tax liability on these investment tax credits is reflected in the year the credit is earned as a non-current deferred tax liability and then, in the following fiscal year, is transferred to income taxes payable.

## Operating Profit and Net Income

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	IFRS 16 2019	2018	\$ change	% change
Total revenue	18,123	-	<b>18,123</b>	16,705	1,418	8%
Operating expenses	(11,405)	350	<b>(11,055)</b>	(11,331)	276	-2%
Operating profit	6,718	350	<b>7,068</b>	5,374	1,694	32%
Operating profit as a % of revenue	37%		<b>39%</b>	32%		
Net income for the period	4,651	(209)	<b>4,442</b>	4,258	184	4%
Net income as a % of total revenue	26%		<b>25%</b>	25%	-1%	-4%
Basic earnings per share (\$/share)	0.06	0.00	<b>0.06</b>	0.05	0.01	20%

Prior to applying IFRS 16, operating profit as a percentage of total revenue was 37% for the three months ended June 30, 2019, an increase compared to 32% in the comparative period, due to higher revenue. Under IFRS 16, operating profit as a percentage of total revenue was 39%, because the adoption of IFRS 16 resulted in a decrease to operating expenses.

Net income as a percentage of revenue for the three months ended June 30, 2019 and June 30, 2018, remained consistent at 25%. The adoption of IFRS 16 had a nominal impact on net income as a percentage of revenue.

## EBITDA<sup>(1)</sup>

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	IFRS 16 2019	2018	\$ change	% change
Net income for the period	4,651	(209)	<b>4,442</b>	4,258	184	4%
Add (deduct):						
Depreciation	467	583	<b>1,050</b>	463	587	127%
Finance (income) costs	118	511	<b>629</b>	(606)	1,235	-204%
Income and other taxes	1,949	48	<b>1,997</b>	1,722	275	16%
EBITDA	7,185	933	<b>8,118</b>	5,837	2,281	39%
EBITDA as a % of total revenue	40%		<b>45%</b>	35%		

(1) Non-IFRS financial measures are defined in the "Non-IFRS Financial Measures" section.

Prior to applying IFRS 16, EBITDA as a percentage of total revenue for the three months ended June 30, 2018 increased to 40%, compared to 35% for the same period of the previous fiscal year, due to higher revenue. Under IFRS 16, EBITDA increased to 45%, because rent payments (which used to be included in EBITDA as rent expense) are now recorded as finance costs and repayment of lease liability (both of which are excluded from the calculation of EBITDA).

## Liquidity and Capital Resources

Three months ended June 30, (\$ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	IFRS 16 2019	2018	\$ change	% change
Cash, beginning of period	54,290	-	54,290	63,719	(9,429)	-15%
Cash flow provided by (used in):						
Operating activities	4,593	282	4,875	4,716	159	3%
Financing activities	(8,022)	(282)	(8,304)	(8,021)	(283)	-4%
Investing activities	(108)	-	(108)	(333)	225	68%
Cash, end of period	50,753	-	50,753	60,081	(9,328)	-16%

At June 30, 2019, CMG has \$50.8 million in cash, no borrowings and access to approximately \$1.0 million under a line of credit with its principal banker. The Company's primary non-operating use of cash is for paying dividends. Management believes that the Company has sufficient capital resources to meet its operating and planned capital expenditure needs.

During the three months ended June 30, 2019, 9.0 million shares of CMG's public float were traded on the TSX. As at June 30, 2019, CMG's market capitalization based upon its June 30, 2019 closing price of \$7.28 was \$584.1 million.

### Operating Activities

Prior to applying IFRS 16, cash flow from operating activities decreased by \$0.1 million in the three months ended June 30, 2019, compared to the same period of the previous fiscal year. This was mainly due to the increase in non-cash working capital, partially offset by higher net income. Under IFRS 16, cash flow from operating activities was \$0.3 million higher than prior to the application of IFRS 16, because the principal reduction portion of lease payments is now classified as financing activities instead of operating activities.

### Financing Activities

Prior to applying IFRS 16, cash used in financing activities has not changed in the three months ended June 30, 2019, compared to the same period of the previous fiscal year. Cash used in financing activities increased by \$0.3 million during the three months ended June 30, 2019, compared to the same period of the previous fiscal year. The increase was due to the adoption of IFRS 16, because the principal reduction portion of lease payments is classified as financing activities under IFRS 16 versus operating activities under the old standard.

In the three months ended June 30, 2019, CMG paid \$8.0 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1
Total dividends declared and paid	0.10

In the three months ended June 30, 2018 CMG paid \$8.0 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1
Total dividends declared and paid	0.10

On August 8, 2019, CMG announced the payment of a quarterly dividend of \$0.10 per share on CMG's Common Shares. The dividend will be paid on September 13, 2019 to shareholders of record at the close of business on September 5, 2019. Based on our expectation of profitability and cash-generating ability, we are cautiously optimistic that the Company is well positioned to continue paying quarterly dividends.

On August 8, 2019, the Board of Directors approved the issuance of 708,000 options, 222,000 share appreciation rights, 279,000 restricted share units and 19,000 deferred share units.

## Investing Activities

CMG's current needs for capital asset investment relate to office infrastructure costs and computer equipment, all of which are being funded internally. During the three months ended June 30, 2019, CMG's cash expenditures on property and equipment were \$0.1 million, primarily composed of computing equipment. CMG's capital budget for fiscal 2020 is \$1.5 million.

## Commitments, Off Balance Sheet Items and Transactions with Related Parties

CMG, in partnership with Shell Global Solutions International B.V. ("Shell"), is the developer of CoFlow, the newest generation of reservoir and production system simulation software. Under a five-year agreement entered into by Shell and CMG on January 1, 2017, CMG is responsible for the research and development costs of CoFlow, while Shell provides a fixed fee contribution for the continuing development of the software, estimated to be \$8.2 million and \$4.0 million, respectively, in fiscal 2020. CMG plans to continue funding project costs from internally generated cash flows.

Subsequent to quarter-end, CMG and Shell signed an amendment to the CoFlow agreement. In order to achieve specific development targets and deployments across a broader range of Shell's assets, CMG will allocate more resources to CoFlow over the next two years, while Shell will increase its financial contribution accordingly. The costs of additional resources allocated to CoFlow are expected to be in the range of \$4.5 – \$6.5 million on an annualized basis by the end of fiscal 2020.

CMG has very little in the way of other ongoing material contractual obligations other than pre-sold licenses, which are reflected as deferred revenue on the statement of financial position, and contractual obligations for office leases, which are estimated to be as follows as at June 30, 2019:

(thousands of \$)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,308	1,284	4,592
Between one and five years	13,733	4,976	18,709
More than five years	48,933	15,656	64,589
	65,974	21,916	87,890

## Business Risks and Critical Accounting Estimates

These remain unchanged from the factors detailed in CMG's 2019 Financial Report.

## Outstanding Share Data

The following table represents the number of Common Shares, stock options, restricted share units and performance share units outstanding:

### As at August 8, 2019

(thousands)	
Common Shares	80,227
Stock options	5,008
Restricted share units <sup>(1)</sup>	237
Performance share units <sup>(1)</sup>	20

(1) Upon vesting, restricted share units and performance share units can be exchanged for Common Shares of the Company or surrendered for cash.

The maximum number of Common Shares that may be reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding Common Shares. Based on this calculation, at August 8, 2019, CMG could reserve up to 8,022,000 Common Shares for issuance under its security-based compensation plans.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”) as defined under National Instrument 52-109. These controls and procedures were reviewed and the effectiveness of their design and operation was evaluated in fiscal 2019 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2019. During the 2020 fiscal year, we continue to monitor and review our controls and procedures. During the three months ended June 30, 2019, there have been no significant changes to the Company’s ICFR that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

## Additional IFRS Measure

Funds flow from operations is an additional IFRS measure that the Company presents in its consolidated statements of cash flows. Funds flow from operations is calculated as cash flows provided by operating activities adjusted for changes in non-cash working capital. Management believes that this measure provides useful supplemental information about operating performance and liquidity, as it represents cash generated during the period, regardless of the timing of collection of receivables and payment of payables, which may reduce comparability between periods.

## Non-IFRS Financial Measures

Certain financial measures in this MD&A – namely, direct employee costs, other corporate costs, EBITDA and free cash flow – do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other companies. Management believes that these indicators nevertheless provide useful measures in evaluating the Company’s performance.

Direct employee costs include salaries, bonuses, stock-based compensation, benefits, commission expenses, and professional development. Other corporate costs include facility-related expenses, corporate reporting, professional services, marketing and promotion, computer expenses, travel, and other office-related expenses. Direct employee costs and other corporate costs should not be considered an alternative to total operating expenses as determined in accordance with IFRS. People-related costs represent the Company’s largest area of expenditure; hence, management considers highlighting separately corporate and people-related costs to be important in evaluating the quantitative impact of cost management of these two major expenditure pools. See “Expenses” heading for a reconciliation of direct employee costs and other corporate costs to total operating expenses.

EBITDA refers to net income before adjusting for depreciation expense, finance income, finance costs, and income and other taxes. EBITDA should not be construed as an alternative to net income as determined by IFRS. The Company believes that EBITDA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to consideration of how those activities are amortized, financed or taxed. See “EBITDA” heading for a reconciliation of EBITDA to net income.

Free cash flow is a non-IFRS financial measure that is calculated as funds flow from operations less capital expenditures and repayment of lease liabilities. Management uses free cash flow to help measure the capacity of the Company to pay dividends and invest in business growth opportunities.

## Free Cash Flow Reconciliation to Funds Flow from Operations

(\$ thousands)	Fiscal 2018				Fiscal 2019		Fiscal 2020	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Funds flow from operations	5,788	6,225	7,285	5,242	5,777	7,550	7,024	<b>6,097</b>
Capital expenditures	(416)	(630)	(381)	(333)	(80)	(253)	(76)	<b>(108)</b>
Repayment of lease liabilities	-	-	-	-	-	-	-	<b>(282)</b>
Free cash flow	5,372	5,595	6,904	4,909	5,697	7,297	6,948	<b>5,707</b>

## Outlook

During the first quarter of fiscal 2020, annuity and maintenance license revenue increased by 7% compared to the first quarter of the previous fiscal year. The US region increased by 8%, supported by the growing use of our public cloud solution. South America and the Eastern Hemisphere showed double-digit increases – 16% and 11%, respectively – due to increased licensing by existing customers as well as the addition of new customers. The weakening of the Canadian dollar relative to the USD had a positive impact on revenue in these regions. Annuity and maintenance revenue from Canada remained relatively consistent for the second consecutive quarter, with a slight decrease of only 2% compared to the first quarter of the previous fiscal year. While we view this as an indication of an improved operating environment in Canada compared to previous years, we continue to monitor consolidation activity in the industry and any impact it might have on our contract renewals in the latter part of the year. We continue to demonstrate to our Canadian customers that our simulation tools are instrumental in achieving long-term sustainability through optimizing production and increasing operational efficiency.

Perpetual license revenue increased more than threefold compared to the first quarter of the previous fiscal year, due to several sales realized in South America and the US. Total revenue increased by 8%, supported by the increases in annuity and maintenance and perpetual revenue, partially offset by lower professional services revenue.

On April 1, 2019, CMG adopted IFRS 16 *Leases*. The new standard essentially moved most of the Company's office leases to the balance sheet, eliminating rent expense and replacing it with interest expense and repayment of lease liability, as well as depreciation of the right-of-use assets. The adoption of IFRS 16 resulted in a decrease to total operating expenses and an increase to finance costs, for a total negative impact of \$0.2 million on the Company's net income.

Despite the negative impact of the IFRS 16 adoption, the Company's net income increased by 4% because of the solid revenue achievement (without the negative impact of IFRS 16 adoption, net income increased by 9%). EBITDA increased by 39% to reach 45% of revenue, which is an impressive measure of the Company's performance (without the positive impact of IFRS 16 adoption, EBITDA increased by 23% or to 40% of revenue).

As messaged in our fiscal 2019 Financial Report, in the current quarter we signed two agreements with two new customers for short-term use of CoFlow, our newest integrated asset modelling product, on specific projects. Subsequent to quarter-end, CMG and Shell signed an amendment to our CoFlow development agreement. In order to achieve specific development targets and deployments across a broader range of Shell's assets, CMG will allocate more resources to CoFlow over the next two years, while Shell will increase its financial contribution accordingly. The costs of additional resources allocated to CoFlow are expected to be in the range of \$4.5 – \$6.5 million on an annualized basis by the end of fiscal 2020.

We continue pursuing our goal of increasing software license sales, particularly internationally, with the support of various R&D initiatives (such as our public cloud offering, CoFlow development, product feature and functionality enhancements, etc.), while exercising fiscal prudence.

We ended the first quarter of 2020 with a strong balance sheet, no borrowings and \$50.8 million in cash. Subsequent to quarter end, CMG's Board of Directors declared a quarterly dividend of \$0.10 per share.



Ryan N. Schneider  
President and Chief Executive Officer  
August 8, 2019

## Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian \$)	June 30, 2019	March 31, 2019*
<b>Assets</b>		
Current assets:		
Cash	50,753	54,290
Trade and other receivables	12,650	19,220
Prepaid expenses	1,180	1,332
Prepaid income taxes (note 11)	666	367
	<b>65,249</b>	<b>75,209</b>
Property and equipment	14,142	14,501
Right-of-use assets	39,172	-
Deferred tax asset (note 11)	1,139	595
<b>Total assets</b>	<b>119,702</b>	<b>90,305</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Trade payables and accrued liabilities	4,884	6,162
Income taxes payable (note 11)	-	60
Deferred revenue (note 5)	29,266	34,653
Lease liability (note 6)	1,209	-
	<b>35,359</b>	<b>40,875</b>
Deferred revenue (note 5)	-	362
Lease liability (note 6)	41,591	-
Deferred rent liability (note 7)	-	1,813
<b>Total liabilities</b>	<b>76,950</b>	<b>43,050</b>
Shareholders' equity:		
Share capital (note 12)	79,711	79,711
Contributed surplus	13,024	12,808
Deficit	(49,983)	(45,264)
<b>Total shareholders' equity</b>	<b>42,752</b>	<b>47,255</b>
<b>Total liabilities and shareholders' equity</b>	<b>119,702</b>	<b>90,305</b>

\*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 3.

Subsequent events (note 17)

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Operations and Comprehensive Income

Three months ended June 30, UNAUDITED (thousands of Canadian \$ except per share amounts)	2019	2018*
<b>Revenue</b> (note 8)	<b>18,123</b>	16,705
<b>Operating expenses</b>		
Sales, marketing and professional services	4,630	4,987
Research and development (note 9)	4,751	4,775
General and administrative	1,674	1,569
	<b>11,055</b>	11,331
<b>Operating profit</b>	<b>7,068</b>	5,374
Finance income (note 10)	323	606
Finance costs (note 10)	(952)	-
<b>Profit before income and other taxes</b>	<b>6,439</b>	5,980
Income and other taxes (note 11)	1,997	1,722
<b>Net and total comprehensive income</b>	<b>4,442</b>	4,258
<b>Earnings Per Share</b>		
Basic (note 12(d))	0.06	0.05
Diluted (note 12(d))	0.06	0.05

\*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Changes in Equity

UNAUDITED (thousands of Canadian \$)	Common Share Capital	Contributed Surplus	Deficit	Total Equity
<b>Balance, April 1, 2018</b>	79,598	11,775	(35,309)	56,064
Total comprehensive income for the year	-	-	4,258	4,258
Dividends paid	-	-	(8,021)	(8,021)
Stock-based compensation:				
Current period expense (note 12(c))	-	333	-	333
<b>Balance, June 30, 2018</b>	79,598	12,108	(39,072)	52,634
Balance, April 1, 2019	<b>79,711</b>	<b>12,808</b>	<b>(45,264)</b>	<b>47,255</b>
Impact of change in accounting policy*	-	-	(1,139)	(1,139)
<b>Adjusted balance, April 1, 2019</b>	<b>79,711</b>	<b>12,808</b>	<b>(46,403)</b>	<b>46,116</b>
Total comprehensive income for the period	-	-	4,442	4,442
Dividends paid	-	-	(8,022)	(8,022)
Stock-based compensation:				
Current period expense (note 12(c))	-	216	-	216
<b>Balance, June 30, 2019</b>	<b>79,711</b>	<b>13,024</b>	<b>(49,983)</b>	<b>42,752</b>

\*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Cash Flows

Three months ended June 30, UNAUDITED (thousands of Canadian \$)	2019	2018*
<b>Operating activities</b>		
Net income	4,442	4,258
Adjustments for:		
Depreciation	1,050	463
Deferred income tax recovery (note 11)	(160)	(346)
Stock-based compensation (note 12(c))	765	761
Deferred rent (note 7)	-	106
Funds flow from operations	6,097	5,242
Movement in non-cash working capital:		
Trade and other receivables	6,570	5,766
Trade payables and accrued liabilities	(1,734)	(1,770)
Prepaid expenses	50	128
Income taxes payable	(359)	(323)
Deferred revenue	(5,749)	(4,327)
Decrease in non-cash working capital	(1,222)	(526)
<b>Net cash provided by operating activities</b>	<b>4,875</b>	<b>4,716</b>
<b>Financing activities</b>		
Repayment of lease liability	(282)	-
Dividends paid	(8,022)	(8,021)
<b>Net cash used in financing activities</b>	<b>(8,304)</b>	<b>(8,021)</b>
<b>Investing activities</b>		
Property and equipment additions	(108)	(333)
<b>Decrease in cash</b>	<b>(3,537)</b>	<b>(3,638)</b>
Cash, beginning of period	54,290	63,719
<b>Cash, end of period</b>	<b>50,753</b>	<b>60,081</b>
<b>Supplementary cash flow information</b>		
Interest received (note 10)	333	302
Interest paid (notes 6 and 10)	534	-
Income taxes paid	(2,074)	(1,981)

\* The Company adopted IFRS 16 Leases effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 3.

See accompanying notes to condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018 (unaudited).

## 1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its Common Shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The condensed consolidated interim financial statements as at and for the three months ended June 30, 2019 comprise CMG and its subsidiaries (together referred to as the "Company"). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

## 2. Basis of Preparation:

### (a) Statement of Compliance:

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, they do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's most recent annual consolidated financial statements as at and for the year ended March 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This is the first set of financial statements where IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in note 3.

In the first quarter of 2020, the Company changed the presentation of interest received and income taxes paid on the statement of cash flows. The prior period has been revised to conform with the current period presentation.

These unaudited condensed consolidated interim financial statements as at and for the three months ended June 30, 2019 were authorized for issuance by the Board of Directors on August 8, 2019.

### (b) Basis of Measurement:

The condensed consolidated financial statements have been prepared on the historical cost basis, which is based on the fair value of the consideration at the time of the transaction.

### (c) Functional and Presentation Currency:

The condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of CMG and its subsidiaries. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### (d) Use of Estimates, Judgments and Assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from such estimates and it is possible that the differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates and judgments used in the preparation of these condensed consolidated financial statements were the same as those that applied to the consolidated financial statements for the year ended March 31, 2019, except for the Company's estimated incremental borrowing rate, as described in note 3.

### 3. Changes in Significant Accounting Policies:

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended March 31, 2019.

#### IFRS 16 Leases

Effective April 1, 2019, the Company adopted IFRS 16 *Leases*, which replaces IAS 17 *Leases* and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees, with optional exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains essentially unchanged, with the requirement to classify lease as either finance or operating.

The Company's only leases are office space leases. The Company's accounting policy for lease under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumptions of the future economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since the Company does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured whenever there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Cash payments for the principal portion of the lease liability are presented within the financing activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows. Short-term lease payments not included in the measurement of the lease liability are presented within the operating activities of the statement of cash flows.

The Company applies the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

#### *Under IAS 17*

In the comparative period, all of the Company's leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

#### *Impact on transition*

The Company adopted IFRS 16 using the modified retrospective approach, by adjusting opening retained earnings with no restatement of comparative figures. As such, comparative information continues to be reported under IAS 17 and related interpretations.

For the head office lease, the right-of-use asset was measured at its carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. Deferred rent liability, which was required under the previous lease standard and is not required under IFRS 16, and prepaid rent were reversed against opening retained earnings. For all other office leases, each right-of-use asset was measured at an amount equal to the corresponding lease liability on April 1, 2019.

Upon transition, the Company applied the following practical expedients available under IFRS 16:

- did not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases with a short-term remaining life as of the date of initial application. The lease payment associated with these leases will continue to be recognized as an expense on a straight-line basis over the lease term;
- excluded initial direct costs of the head office lease from the measurement of the right-of-use asset.

The following table reconciles the Company's operating lease commitments at March 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease liability recognized on initial application of IFRS 16 at April 1, 2019:

(thousands of \$)	
Operating lease commitments disclosed as at March 31, 2019	89,013
Operating cost commitments not recognized as a lease liability	(21,587)
Exemption for short-term leases	(634)
Discounting at the Company's incremental borrowing rate of 5%	(23,710)
<b>Lease liability recognized as at April 1, 2019</b>	<b>43,082</b>
Current	1,197
Long-term	41,885

The following table summarizes the impact of adopting IFRS 16 on the Company's consolidated statement of financial position at April 1, 2019:

(thousands of \$)	March 31, 2019	Adjustments due to IFRS 16	April 1, 2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash	54,290	-	54,290
Trade and other receivables	19,220	-	19,220
Prepaid expenses	1,332	(103)	1,229
Prepaid income taxes	367	-	367
	75,209	(103)	75,106
Property and equipment	14,501	-	14,501
Right-of-use assets	-	39,756	39,756
Deferred tax asset	595	384	979
<b>Total assets</b>	<b>90,305</b>	<b>40,037</b>	<b>130,342</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade payables and accrued liabilities	6,162	(93)	6,069
Income taxes payable	60	-	60
Deferred revenue	34,653	-	34,653
Lease liability	-	1,197	1,197
	40,875	1,104	41,979
Deferred revenue	362	-	362
Lease liability	-	41,885	41,885
Deferred rent liability	1,813	(1,813)	-
<b>Total liabilities</b>	<b>43,050</b>	<b>41,176</b>	<b>84,226</b>
<b>Shareholders' equity:</b>			
Share capital	79,711	-	79,711
Contributed surplus	12,808	-	12,808
Deficit	(45,264)	(1,139)	(46,403)
<b>Total shareholders' equity</b>	<b>47,255</b>	<b>(1,139)</b>	<b>46,116</b>
<b>Total liabilities and shareholders' equity</b>	<b>90,305</b>	<b>40,037</b>	<b>130,342</b>

*Impact for the period*

The following tables summarize the impact of adopting IFRS 16 on the Company's condensed consolidated interim financial statements as at and for the three months ended June 30, 2019:

**Condensed Consolidated Statement of Financial Position**

(thousands of \$)	June 30, 2019 As reported	Adjustments	June 30, 2019 Balance without IFRS 16 adoption
<b>Assets</b>			
<b>Current assets:</b>			
Cash	50,753	-	50,753
Trade and other receivables	12,650	-	12,650
Prepaid expenses	1,180	67	1,247
Prepaid income taxes	666	-	666
	<u>65,249</u>	<u>67</u>	<u>65,316</u>
Property and equipment	14,142	-	14,142
Right-of-use assets	39,172	(39,172)	-
Deferred tax asset	1,139	(335)	804
<b>Total assets</b>	<u>119,702</u>	<u>(39,440)</u>	<u>80,262</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade payables and accrued liabilities	4,884	93	4,977
Deferred revenue	29,266	-	29,266
Lease liability	1,209	(1,209)	-
	<u>35,359</u>	<u>(1,116)</u>	<u>34,243</u>
Lease liability	41,591	(41,591)	-
Deferred rent liability	-	1,920	1,920
<b>Total liabilities</b>	<u>76,950</u>	<u>(40,787)</u>	<u>36,163</u>
<b>Shareholders' equity:</b>			
Share capital	79,711	-	79,711
Contributed surplus	13,024	-	13,024
Deficit	(49,983)	1,347	(48,636)
<b>Total shareholders' equity</b>	<u>42,752</u>	<u>1,347</u>	<u>44,099</u>
<b>Total liabilities and shareholders' equity</b>	<u>119,702</u>	<u>(39,440)</u>	<u>80,262</u>

**Condensed Consolidated Statement of Operations and Comprehensive Income**

(thousands of \$ except per share amounts)	Three months ended June 30, 2019 As reported	Adjustments	Three months ended June 30, 2019 Balance without IFRS 16 adoption
Revenue	18,123	-	18,123
Operating expenses			
Sales, marketing and professional services	4,630	66	4,696
Research and development	4,751	229	4,980
General and administrative	1,674	55	1,729
	11,055	350	11,405
Operating profit	7,068	(350)	6,718
Finance income	323	-	323
Finance costs	(952)	511	(441)
Profit before income and other taxes	6,439	161	6,600
Income and other taxes	1,997	(48)	1,949
Net and total comprehensive income	4,442	209	4,651
Earnings Per Share			
Basic	0.06	-	0.06
Diluted	0.06	-	0.06

The Company's actual cash flows are unaffected by IFRS 16. However, the principal reduction portion of lease payments is now classified as financing activities instead of operating activities:

**Condensed Consolidated Statement of Cash Flows**

(thousands of \$)	Three months ended June 30, 2019 As reported	Adjustments	Three months ended June 30, 2019 Balance without IFRS 16 adoption
Net cash provided by operating activities	4,875	(282)	4,593
Net cash used in financing activities	(8,304)	282	(8,022)

**4. Segmented Information:**

The Company is organized into one operating segment represented by the development and licensing of reservoir simulation software. The Company provides professional services, consisting of support, training, consulting and contract research activities, to promote the use and development of its software; however, these activities are not evaluated as a separate business segment.

Property, equipment and right-of-use assets of the Company are located in the following geographic regions (for revenue by geographic region, refer to note 8):

(thousands of \$)	June 30, 2019	March 31, 2019
Canada	51,985	14,215
United States	1,151	152
South America	109	74
Eastern Hemisphere <sup>(1)</sup>	69	60
	<b>53,314</b>	<b>14,501</b>

(1) Includes Europe, Africa, Asia and Australia.

## 5. Deferred Revenue:

The following table presents changes in the deferred revenue balance for the three months ended June 30, 2019:

(thousands of \$)	
Balance, March 31, 2019	35,015
Invoiced during the period, excluding amount recognized as revenue during the period	6,941
Recognition of deferred revenue included in the adjusted balance at the beginning of the period	(12,690)
<b>Balance, June 30, 2019</b>	<b>29,266</b>
Current	29,266
Long-term	-

## 6. Lease Liability:

(thousands of \$)	
Balance, March 31, 2019	-
Adjustment on initial application of IFRS 16	43,082
Adjusted Balance, April 1, 2019	43,082
Interest on lease liability (note 10)	534
Lease payments	(816)
<b>Balance, June 30, 2019</b>	<b>42,800</b>
Current	1,209
Long-term	41,591

The following table presents contractual undiscounted payments for lease liability as at June 30, 2019:

(thousands of \$)	
Less than one year	3,308
Between one and five years	13,733
More than five years	48,933
<b>Total undiscounted payments</b>	<b>65,974</b>

## 7. Deferred Rent Liability:

The twenty-year lease agreement for the Company's headquarters contains a rent escalation clause. Under the previous lease standard, IAS 17, the Company recognized rent expense on a straight-line basis over the lease term. The difference between

rent expense and rent payable for the period was recorded as deferred rent within long-term liabilities in the consolidated statement of financial position.

## 8. Revenue:

In the following table, revenue is disaggregated by geographical segment and timing of revenue recognition:

Three months ended June 30, (thousands of \$)	2019	2018
<b>Annuity/maintenance license revenue</b>		
Canada	3,776	3,867
United States	4,934	4,553
South America	1,945	1,681
Eastern Hemisphere	5,101	4,614
	<b>15,756</b>	<b>14,715</b>
<b>Perpetual license revenue</b>		
Canada	-	-
United States	298	-
South America	769	-
Eastern Hemisphere	92	326
	<b>1,159</b>	<b>326</b>
<b>Total software license revenue</b>	<b>16,915</b>	<b>15,041</b>
<b>Professional services</b>		
Canada	1,025	1,087
United States	53	156
South America	43	170
Eastern Hemisphere	87	251
	<b>1,208</b>	<b>1,664</b>
<b>Total revenue</b>		
Canada	4,801	4,954
United States	5,285	4,709
South America	2,757	1,851
Eastern Hemisphere	5,280	5,191
	<b>18,123</b>	<b>16,705</b>

The amount of revenue recognized during the three months ended June 30, 2019 from performance obligations satisfied (or partially satisfied) in previous periods is \$0.2 million.

The Company applies the practical expedient available under IFRS 15 and does not disclose the amount of the transaction price allocated to unsatisfied performance obligations if the underlying contract has an expected duration of one year or less.

Receivables from contracts with customers were as follows:

(thousands of \$)	June 30, 2019	March 31, 2019
Receivables (included in "Trade and other receivables")	12,421	16,783

In the three months ended June 30, 2019 and 2018, no customer comprised more than 10% of the Company's total revenue.

## 9. Research and Development Costs:

Three months ended June 30, (thousands of \$)	2019	2018
Research and development	5,192	5,185
Scientific research and experimental development ("SR&ED") investment tax credits	(441)	(410)
	4,751	4,775

## 10. Finance Income and Finance Costs:

Three months ended June 30, (thousands of \$)	2019	2018
Interest income	323	303
Net foreign exchange gain	-	303
Finance income	323	606
Interest expense on lease liability (note 6)	(534)	-
Net foreign exchange loss	(418)	-
Finance costs	(952)	-

## 11. Income and Other Taxes:

The major components of income tax expense are as follows:

Three months ended June 30, (thousands of \$)	2019	2018
Current year income tax expense	2,109	2,016
Deferred tax recovery	(160)	(346)
Foreign withholding and other taxes	48	52
	1,997	1,722

The provision for income and other taxes reported differs from the amount computed by applying the combined Canadian Federal and Provincial statutory rate to the profit before income and other taxes. The reasons for this difference and the related tax effects are as follows:

Three months ended June 30, (thousands of \$, unless otherwise stated)	2019	2018
Combined statutory tax rate	26.00%	27.00%
Expected income tax	1,674	1,615
Effect of statutory tax rate reduction	243	-
Non-deductible costs	74	78
Effect of tax rates in foreign jurisdictions	(4)	2
Withholding taxes	11	34
Other	(1)	(7)
	1,997	1,722

The components of the Company's deferred tax asset are as follows:

(thousands of \$)	June 30, 2019	March 31, 2019
SR&ED investment tax credits	(63)	(247)
Property and equipment	99	116
Right-of-use assets	757	-
Deferred rent	-	489
Stock-based compensation liability	346	237
<b>Net deferred tax asset</b>	<b>1,139</b>	<b>595</b>

All movement in deferred tax assets and liabilities is recognized through net income of the respective period.

Prepaid income taxes and current income taxes payable have not been offset as the amounts relate to income taxes levied by different tax authorities on different taxable entities.

## 12. Share Capital:

### (a) Authorized:

An unlimited number of Common Shares, an unlimited number of Non-Voting Shares, and an unlimited number of Preferred Shares, issuable in series.

### (b) Issued:

(thousands of shares)	Common Shares
Balance, April 1, 2018	80,215
Issued for cash on exercise of stock options	-
Balance, June 30, 2018	80,215
Balance, April 1, 2019	<b>80,227</b>
Issued for cash on exercise of stock options	-
<b>Balance, June 30, 2019</b>	<b>80,227</b>

On May 23, 2018, the Board of Directors considered the merits of renewing the Company's shareholder rights plan on or before the third-year anniversary of shareholder approval of the plan and determined that it was in the best interest of the Company to continue to have a shareholder rights plan in place. The Board of Directors approved an amended and restated rights plan (the "Amended and Restated Rights Plan") between the Company and Computershare Trust Company of Canada. The Amended and Restated Rights Plan is similar in all respects to the existing shareholder rights plan, with the exception of certain minor amendments. The Amended and Restated Rights Plan was approved by the Company's shareholders on July 12, 2018.

### (c) Stock-Based Compensation:

#### Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Three months ended June 30, (thousands of \$)	2019	2018
Equity-settled plans	216	333
Cash-settled plans	549	428
<b>Total stock-based compensation expense</b>	<b>765</b>	<b>761</b>

**Liability Recognized for Stock-Based Compensation <sup>(1)</sup>**

The following table summarizes liabilities for the Company's cash-settled plans, recorded within trade payables and accrued liabilities:

(thousands of \$)	June 30, 2019	March 31, 2019
SARs	223	76
RSUs	1,009	654
PSUs	17	-
DSUs	175	145
<b>Total stock-based compensation liability</b>	<b>1,424</b>	<b>875</b>

(1) The intrinsic value of the vested awards at June 30, 2019 was \$0.2 million.

The Company has several stock-based compensation plans, including a stock option plan, a share appreciation rights plan, a performance share unit and restricted share unit plan, and a deferred share unit plan.

The maximum number of Common Shares reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding Common Shares. Based on this calculation, at June 30, 2019, the Company may reserve up to 8,022,000 Common Shares for issuance under its security-based compensation plans.

(i) *Stock Option Plan*

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 13, 2017. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. The outstanding stock options vest as to 50% after the first year anniversary from date of grant and then vest as to 25% of the total options granted after each of the second and third year anniversary dates.

The following table outlines changes in stock options:

	Three months ended June 30, 2019		Year ended March 31, 2019	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of period	5,108	11.34	6,787	11.78
Granted	-	-	524	9.12
Exercised	-	-	(2)	9.78
Forfeited/expired	(67)	12.14	(2,201)	12.17
Outstanding at end of period	5,041	11.33	5,108	11.34
Options exercisable at end of period	3,917	11.91	3,969	11.92

The range of exercise prices of stock options outstanding and exercisable at June 30, 2019 is as follows:

Exercise Price (\$/option)	Outstanding			Exercisable	
	Number of Options (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
6.60 to 9.20	506	4.1	9.11	-	-
9.21 to 9.33	847	3.1	9.33	426	9.33
9.34 to 9.78	795	2.1	9.78	598	9.78
9.79 to 12.31	1,103	1.1	12.28	1,103	12.28
12.32 to 13.98	1,790	0.1	13.00	1,790	13.00
	5,041	1.6	11.33	3,917	11.91

No stock options were granted during the three months ended June 30, 2019. The fair value of stock options granted during the year ended March 31, 2019 was estimated using the Black-Scholes option pricing model under the following assumptions:

	Year ended March 31, 2019
Fair value at grant date (\$/option)	0.83 to 1.63
Share price at grant date (\$/share)	6.60 to 9.20
Risk-free interest rate (%)	1.77 to 2.17
Estimated hold period prior to exercise (years)	3 to 4
Volatility in the price of common shares (%)	29 to 31
Dividend yield per common share (%)	4.33 to 6.16

*(ii) Share Appreciation Rights Plan*

The Company adopted a share appreciation rights plan (“SAR Plan”) in November 2015. A share appreciation right (“SAR”) entitles the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of the Company’s Common Shares on the date the SAR is exercised. The SARs are granted to executive officers and employees residing and working outside of Canada. The outstanding SARs vest as to 50% after the first year anniversary from date of grant and then vest as to 25% of the total awards granted after each of the second and third year anniversary dates. The SARs have a five-year life.

The following table outlines changes in SARs:

	Three months ended June 30, 2019		Year ended March 31, 2019	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of period	952	9.38	583	9.50
Granted	-	-	389	9.20
Exercised	-	-	-	-
Forfeited	-	-	(20)	9.35
Outstanding at end of period	952	9.38	952	9.38
SARs exercisable at end of period	339	9.54	339	9.54

*(iii) Share Unit Plans*

**Performance Share Units (PSUs) and Restricted Share Units (RSUs)**

The Performance Share Unit and Restricted Share Unit Plan (“PSU & RSU Plan”) is open to all employees and contractors of the Company. PSUs cliff-vest at the end of three years, with the vesting multiplier ranging from 0.0 to 2.0 contingent upon achieving certain corporate performance criteria. RSUs vest annually over a three-year period. Upon vesting PSUs and RSUs can be exchanged for Common Shares of the Company or surrendered for cash. As such, the Company accounts for PSUs and RSUs as cash-settled awards and recognizes a liability for potential cash settlements.

**Deferred Share Units (DSUs)**

The DSU Plan was adopted in May 2017 and is limited to non-employee members of the Board of Directors. DSUs vest immediately, but are redeemable for cash only after a director ceases Board membership.

The following table summarizes the activity related to the Company's share unit plans:

(thousands)	Three months ended June 30, 2019			Year ended March 31, 2019		
	RSUs	PSUs	DSUs	RSUs	PSUs	DSUs
Outstanding at beginning of period	237	-	24	108	-	11
Granted	3	28	-	173	-	13
Exercised	-	-	-	(36)	-	-
Forfeited	(3)	-	-	(8)	-	-
Outstanding at end of period	237	28	24	237	-	24

#### (d) Earnings Per Share:

The following table summarizes the earnings and weighted average number of Common Shares used in calculating basic and diluted earnings per share:

Three months ended June 30, (thousands except per share amounts)	2019			2018		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	4,442	80,227	0.06	4,258	80,215	0.05
Dilutive effect of stock options		101			46	
Diluted	4,442	80,328	0.06	4,258	80,261	0.05

During the three months ended June 30, 2019, 2,000 awards (three months ended June 30, 2018 – 24,000 awards), were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

### 13. Financial Instruments:

Financial assets include cash and trade and other receivables which are classified as and measured at amortized cost, which approximates their fair values.

Financial liabilities include trade payables and accrued liabilities which are classified as other financial liabilities and are measured at amortized cost, which approximates their fair values.

### 14. Commitments:

#### (a) Research Commitments:

CMG, in partnership with Shell Global Solutions International B.V. ("Shell"), is the developer of CoFlow, the newest generation of reservoir and production system simulation software. Under a five-year agreement entered into by Shell and CMG on January 1, 2017, CMG is responsible for the research and development costs of CoFlow, while Shell provides a fixed fee contribution for the continuing development of the software, estimated to be \$8.2 million and \$4.0 million, respectively, in fiscal 2020.

Subsequent to quarter-end, CMG and Shell signed an amendment to the CoFlow agreement. In order to achieve specific development targets and deployments across a broader range of Shell's assets, CMG will allocate more resources to CoFlow over the next two years, while Shell will increase its financial contribution accordingly. The costs of additional resources allocated to CoFlow are expected to be in the range of \$4.5 – \$6.5 million on an annualized basis by the end of fiscal 2020.

**(b) Commitments:**

Upon adoption of IFRS 16 *Leases* on April 1, 2019, lease commitments within the scope of that standard have been recognized as lease liabilities and are now disclosed in note 6. The following table reconciles the Company's operating lease commitments at March 31, 2019, as previously disclosed, to non-IFRS 16 commitments at April 1, 2019 and June 30, 2019:

(thousands of \$)	
Operating lease commitments disclosed as at March 31, 2019	89,013
Remove portion related to IFRS 16 <i>Leases</i>	(66,747)
Non-lease component of office leases, April 1, 2019	22,266
Payments made year to date	(350)
Non-lease component of office leases, June 30, 2019	21,916

The Company's non-IFRS 16 commitments include operating cost commitments and short-term office leases:

(thousands of \$)	As at June 30, 2019
Less than one year	1,284
Between one and five years	4,976
More than five years	15,656
	21,916

**15. Line Of Credit:**

The Company has arranged for a \$2.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility or may be used to support letters of credit. As at June 30, 2019, \$1.0 million (March 31, 2019 – \$1.1 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

**16. CoFlow Project:**

During the three months ended June 30, 2019, CoFlow revenue of \$1.0 million (three months ended June 30, 2018 – \$1.0 million) was recorded to professional services revenue and CoFlow costs of \$1.7 million (three months ended June 30, 2018 – \$1.9 million) were recorded to research and development expenses.

**17. Subsequent Events:**

On August 8, 2019, the Board of Directors declared a quarterly cash dividend of \$0.10 per share on its Common Shares, payable on September 13, 2019 to all shareholders of record at the close of business on September 5, 2019.

On August 8, 2019, the Board of Directors approved the issuance of 708,000 options, 222,000 SARs, 279,000 RSUs and 19,000 DSUs.

# CORPORATE INFORMATION

## Directors

**Judith J. Athaide** <sup>(4)</sup>

**Kenneth M. Dedeluk** <sup>(5)</sup>

**Christopher L. Fong** <sup>(2) (4)</sup>

**Patrick R. Jamieson** <sup>(3)</sup>

**Peter H. Kinash** <sup>(1)</sup>

**Ryan N. Schneider**

**Robert F. M. Smith** <sup>(2)</sup>

**John B. Zaozirny**  
*Chairman of the Board*

- (1) Chair, Audit Committee
- (2) Member, Audit Committee
- (3) Chair, Governance Committee
- (4) Member, Governance Committee
- (5) Vice Chairman of the Board

## Officers

**Ryan N. Schneider**  
*President and Chief Executive Officer*

**Sandra Balic**  
*Vice President,  
Finance and Chief Financial Officer*

**Jim C. Erdle**  
*Vice President,  
USA & Latin America*

**R. David Hicks**  
*Vice President,  
Eastern Hemisphere*

**Anjani Kumar**  
*Vice President,  
Engineering Solutions and Marketing*

**Long X. Nghiem**  
*Vice President,  
Research & Development and Chief  
Technology Officer*

**Kathy L. Krug**  
*Corporate Secretary*

## Head Office

3710 33 Street NW  
Calgary, Alberta T2L 2M1  
Canada  
Telephone: +1.403.531.1300  
Facsimile: +1.403.289.8502  
Email: [cmgl@cmgl.ca](mailto:cmgl@cmgl.ca)  
Website: [www.cmgl.ca](http://www.cmgl.ca)

## Regional Offices

Bogota, Colombia  
Dubai, UAE  
Houston, Texas, USA  
Kuala Lumpur, Malaysia  
London, England  
Rio de Janeiro, Brazil

## Transfer Agent

Computershare Trust Company of  
Canada

## Stock Exchange Listing

Toronto Stock Exchange: **CMG**