Q1 2022
for the period ended June 30, 2021

COMPUTER MODELLING GROUP LTD.

To Our Shareholders:

Computer Modelling Group Ltd. announces its first quarter results for the three months ended June 30, 2021.

First Quarter Highlights

Three months ended June 30, ($ thousands, except per share data)	2021	2020	$ change	% change
Annuity/maintenance software licenses	**12,286**	14,523	(2,237)	-15%
Perpetual software licenses	**125**	-	125	100%
Total revenue	**14,414**	16,672	(2,258)	-14%
Operating profit	**5,573**	5,711	(138)	-2%
Net income	**3,733**	3,262	471	14%
Earnings per share - basic	**0.05**	0.04	0.01	25%
Funds flow from operations per share - basic	**0.06**	0.06	-	0%
Free cash flow per share - basic (1)	**0.06**	0.05	0.01	20%

(1) 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 10, 2021, 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, 2021 and 2020. Additional information relating to CMG, including our Annual Information Form, can be found at 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.

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, associated costs and future revenue;
- the Company's ability to increase or sustain its revenue in a volatile oil price environment;
- the Company's ability to pay dividends;
- ability to enter into additional software license agreements;
- ability to continue current research and new product development;
- ability to recruit and retain qualified staff;
- the impact of the ongoing COVID-19 pandemic on the global economy and the Company; and
- the Company's eligibility for the federal government's Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs.

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 this MD&A:

- Economic conditions in the energy 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 energy industry. The Company is a leading supplier of advanced process reservoir modelling software, with a diverse customer base of international oil companies and technology centers in approximately 60 countries. CMG's existing technology has differentiating capabilities built into its software products that can also be directly applied to the energy transition needs of its customers. 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 2020[2] Q2	Fiscal 2020[2] Q3	Fiscal 2020[2] Q4	Fiscal 2021[3] Q1	Fiscal 2021[3] Q2	Fiscal 2021[3] Q3	Fiscal 2021[3] Q4	**Fiscal 2022[4] Q1**
Annuity/maintenance licenses	16,373	16,612	15,233	14,523	14,144	13,477	13,790	**12,286**
Perpetual licenses	1,146	964	1,403	-	1,775	660	1,184	**125**
Software licenses	17,519	17,576	16,636	14,523	15,919	14,137	14,974	**12,411**
Professional services	2,354	1,699	1,879	2,149	1,933	1,901	1,827	**2,003**
Total revenue	19,873	19,275	18,515	16,672	17,852	16,038	16,801	**14,414**
Operating profit	9,343	7,538	7,802	5,711	9,861	8,437	6,556	**5,573**
Operating profit (%)	47	39	42	34	55	53	39	**39**
Profit before income and other taxes	9,350	7,054	9,613	4,405	9,360	7,410	5,747	**4,827**
Income and other taxes	2,482	1,942	2,550	1,143	2,600	1,535	1,454	**1,094**
Net income for the period	6,868	5,112	7,063	3,262	6,760	5,875	4,293	**3,733**
EBITDA[1]	10,426	8,644	8,923	6,767	10,933	9,509	7,627	**6,596**
Cash dividends declared and paid	8,026	8,025	8,024	4,013	4,013	4,015	4,014	**4,015**
Funds flow from operations	7,787	7,366	7,515	4,703	7,991	7,322	6,267	**4,811**
Free cash flow[1]	7,274	6,726	6,840	4,239	7,474	7,005	5,755	**4,478**
Per share amounts – ($/share)								
Earnings per share (EPS) – basic and diluted	0.09	0.06	0.09	0.04	0.08	0.07	0.05	**0.05**
Cash dividends declared and paid	0.10	0.10	0.10	0.05	0.05	0.05	0.05	**0.05**
Funds flow from operations per share - basic	0.10	0.09	0.09	0.06	0.10	0.09	0.08	**0.06**
Free cash flow per share – basic[1]	0.09	0.08	0.09	0.05	0.09	0.09	0.07	**0.06**

(1) Non-IFRS financial measures are defined in the "Non-IFRS Financial Measures" section.
(2) Q2, Q3 and Q4 of fiscal 2020 include $0.3 million, $0.2 million and $0.5 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
(3) Q1, Q2, Q3 and Q4 of fiscal 2021 include $0.2 million, $0.2 million, $nil and $1.1 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
(4) Q1 of fiscal 2022 includes no revenue that pertains to usage of CMG's products in prior quarters.

Commentary on Quarterly Performance

For the Three Months Ended

June 30, 2021 and compared to the same period of the previous fiscal year:

- Annuity/maintenance license revenue decreased by 15%;
- Total revenue decreased by 14%, due to decreases in both software revenue and professional services revenue;
- Total operating expenses decreased by 19%, due to compensation reductions, receipt of the CEWS and CERS benefits and lower stock-based compensation expense as a result of the share price decrease during the current quarter;
- Operating profit margin of 39% was up from the comparative quarter's figure of 34%. Without the impact of the CEWS and CERS benefits, the operating profit margin was 36%, above the comparative quarter's figure (which did not include any CEWS or CERS benefits), but below the pre-COVID average for fiscal 2019 and fiscal 2020 of 40%;
- Basic EPS of $0.05 was slightly higher than the comparative quarter;
- Free cash of $0.06 per share was slightly higher than the comparative quarter;
- Declared and paid a dividend of $0.05 per share.

Revenue

Three months ended June 30, ($ thousands)	2021	2020	$ change	% change
Software license revenue	**12,411**	14,523	(2,112)	-15%
Professional services	**2,003**	2,149	(146)	-7%
Total revenue	**14,414**	16,672	(2,258)	-14%
Software license revenue as a % of total revenue	**86%**	87%		
Professional services as a % of total revenue	**14%**	13%		

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, 2021 decreased by 14%, due to decreases in both software license revenue and 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 recurring 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)	2021	2020	$ change	% change
Annuity/maintenance license revenue	**12,286**	14,523	(2,237)	-15%
Perpetual license revenue	**125**	-	125	100%
Total software license revenue	**12,411**	14,523	(2,112)	-15%
Annuity/maintenance as a % of total software license revenue	**99%**	100%		
Perpetual as a % of total software license revenue	**1%**	0%		

Total software license revenue for the three months ended June 30, 2021 decreased by 15%, compared to the same period of the previous fiscal year, due to decreases in annuity/maintenance license revenue, slightly offset by an increase in perpetual license revenue.

During the three months ended June 30, 2021, CMG's annuity/maintenance license revenue decreased by 15%, compared to the same period of the previous fiscal year. Canada, the US and the Eastern Hemisphere saw decreases in licensing, while South America increased by 7% due to new and returning customers.

Perpetual license revenue increased 100% during the three months ended June 30, 2021, as there was no perpetual revenue in the comparative quarter. Volatility in commodity prices and the resulting unpredictability of cash flows reduced our customers' budgets for perpetual licenses in the near term. Sales of perpetual licenses 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 perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers usually prefer annuity leases to perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollar had a negative impact on reported software license revenue during the three months ended June 30, 2021, compared to the same period of the previous fiscal year.

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)		**2021**	2020	$ change	% change
US dollar annuity/maintenance license revenue	**US$**	**7,231**	8,569	(1,338)	-16%
Weighted average conversion rate		**1.280**	1.334		
Canadian dollar equivalent	**CDN$**	**9,253**	11,432	(2,179)	-19%
US dollar perpetual license revenue	**US$**	**104**	-	104	100%
Weighted average conversion rate		**1.207**	-		
Canadian dollar equivalent	**CDN$**	**125**	-	125	100%

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

Three months ended June 30, ($ thousands)	2020	Incremental License Growth/(Decrease)	Foreign Exchange Impact	**2021**
Annuity/maintenance license revenue	14,523	(1,844)	(393)	**12,286**
Perpetual license revenue	-	125	-	**125**
Total software license revenue	14,523	(1,719)	(393)	**12,411**

Software Revenue by Geographic Region

Three months ended June 30, ($ thousands)	2021	2020	$ change	% change
Annuity/maintenance license revenue				
Canada	**3,034**	3,212	(178)	-6%
United States	**2,984**	4,235	(1,251)	-30%
South America	**1,494**	1,390	104	7%
Eastern Hemisphere[1]	**4,774**	5,686	(912)	-16%
	12,286	14,523	(2,237)	-15%
Perpetual license revenue				
Canada	**-**	-	-	-
United States	**125**	-	125	100%
South America	**-**	-	-	-
Eastern Hemisphere	**-**	-	-	-
	125	-	125	100%
Total software license revenue				
Canada	**3,034**	3,212	(178)	-6%
United States	**3,109**	4,235	(1,126)	-27%
South America	**1,494**	1,390	104	7%
Eastern Hemisphere	**4,774**	5,686	(912)	-16%
	12,411	14,523	(2,112)	-15%

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

During the three months ended June 30, 2021, compared to the same period of the previous fiscal year, total software license revenue decreased in all geographic regions except for South America, which experienced a 7% increase.

The Canadian region (representing 24% of year-to-date total software license revenue) experienced a decrease of 6% in annuity/maintenance license revenue during the three months ended June 30, 2021, due to the effect of two customers not renewing being only partially offset by increases in licensing by some customers.

The United States (representing 25% of year-to-date total software license revenue) experienced a decrease of 30% in annuity/maintenance license revenue during the three months ended June 30, 2021, compared to the same period of the previous fiscal year. The decrease was largely due to the same factors that affected the region's revenue in the previous fiscal year: consolidation in the industry and ongoing challenges experienced by US unconventional shale plays. One perpetual sale to an existing customer was realized in the United States during the three months ended June 30, 2021.

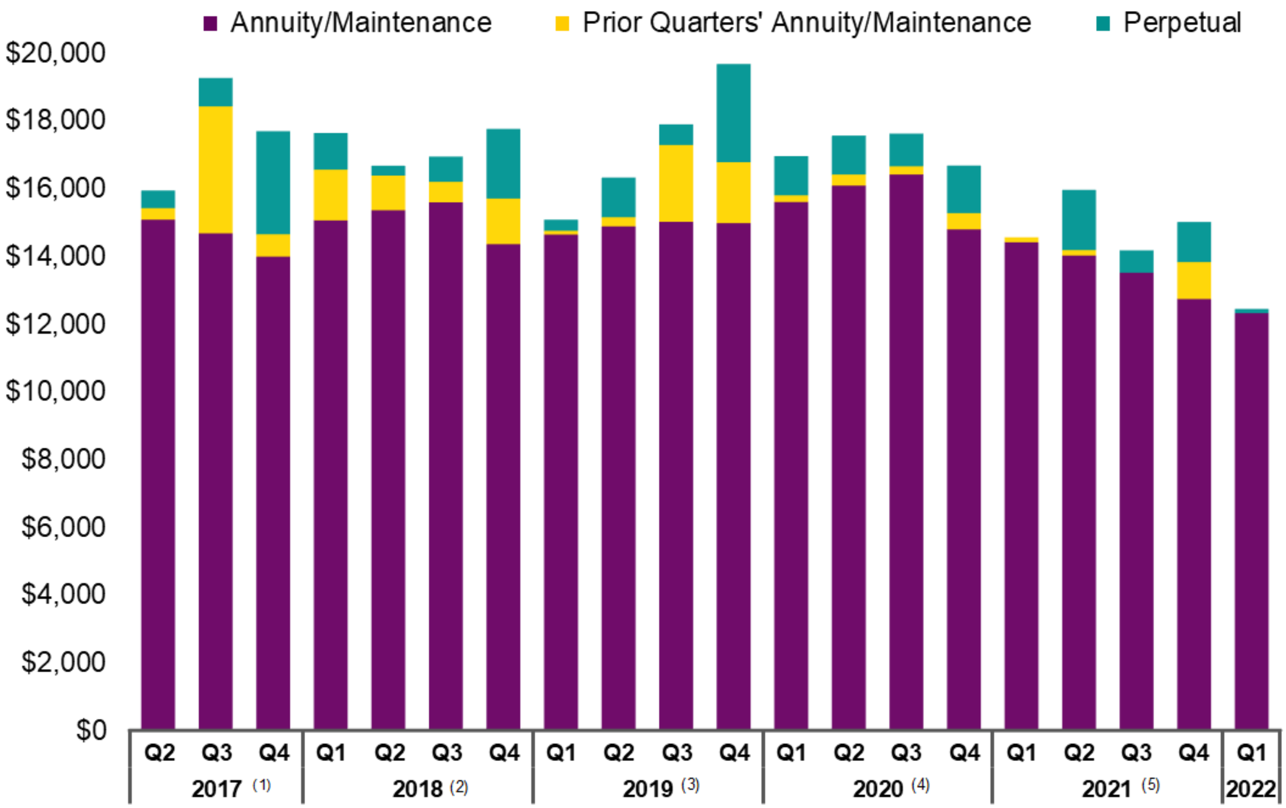
South America (representing 12% of year-to-date total software license revenue) experienced an increase of 7% in annuity/maintenance license revenue during the three months ended June 30, 2021, as we grew our customer base in the region with new and returning customers.

The Eastern Hemisphere (representing 39% of year-to-date total software license revenue) experienced a decrease of 16% in annuity/maintenance license revenue during the three months ended June 30, 2021, compared to the same period of the previous fiscal year, due to reduced licensing by some customers.

As footnoted in the Quarterly Software License Revenue graph, 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. Please refer to the yellow bars and the footnotes in the following graph:

Quarterly Software License Revenue

($ thousands)



(1) Q2, Q3 and Q4 of fiscal 2017 include $0.3 million, $3.7 million, and $0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
(2) 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.
(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, Q2, Q3 and Q4 of fiscal 2020 include $0.2 million, $0.3 million, $0.2 million and $0.5 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
(5) Q1, Q2, Q3 and Q4 of fiscal 2021 include $0.2 million, $0.2 million, $nil and $1.1 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Deferred Revenue

($ thousands)	**Fiscal 2022**	Fiscal 2021	Fiscal 2020	$ change	% change
Deferred revenue at:					
Q1 (June 30)	**23,451**	25,492		(2,041)	-8%
Q2 (September 30)		19,549	23,849	(4,300)	-18%
Q3 (December 31)		15,347	15,679	(332)	-2%
Q4 (March 31)		30,461	33,838	(3,377)	-10%

CMG's deferred revenue consists primarily of amounts for prepaid licenses. 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.

The deferred revenue balance at the end of Q1 of fiscal 2022 decreased by 8% compared to Q1 of fiscal 2021.

Professional Services Revenue

Professional services revenue for the three months ended June 30, 2021 was $2.0 million, a slight decrease of $0.1 million compared to the same period of the previous fiscal year, mainly due to fluctuations in development funding from Shell Global Solutions International B.V. ("Shell") for CoFlow development and support (see "Commitments, Off Balance Sheet Items and Transactions with Related Parties").

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 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.

Expenses

Three months ended June 30, ($ thousands)	**2021**	2020	$ change	% change
Sales, marketing and professional services	**3,412**	4,284	(872)	-20%
Research and development	**4,017**	4,959	(942)	-19%
General and administrative	**1,412**	1,718	(306)	-18%
Total operating expenses	**8,841**	10,961	(2,120)	-19%
Direct employee costs(1)	**7,070**	8,953	(1,883)	-21%
Other corporate costs	**1,771**	2,008	(237)	-12%
	8,841	10,961	(2,120)	-19%

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

Total operating expenses for the three months ended June 30, 2021 decreased by 19%, compared to the same period of the previous fiscal year, due to decreases in both direct employee costs and other corporate costs.

Direct Employee Costs

As a technology company, CMG's largest investment is its people. Approximately 80% of the total operating expenses for the three months ended June 30, 2021 related to direct employee costs. Direct employee costs for the three months ended June 30, 2021 decreased by 21%, compared to the same period of the previous fiscal year. The decrease was due to salary reductions implemented on July 1, 2020, a $0.3 million CEWS benefit recorded during the current quarter and lower stock-based compensation expense as a result of the share price decrease during the current quarter.

At June 30, 2021, CMG's full-time equivalent staff complement was 201 employees and consultants, slightly down from 204 full-time equivalent employees and consultants at June 30, 2020.

Other Corporate Costs

Other corporate costs for the three months ended June 30, 2021 decreased by 12%, compared to the same period of the previous fiscal year, due to a refund of office operating costs and the CERS benefit received during the current quarter. These decreases were partially offset by lower SR&ED credits, as explained in the next section.

Research and Development

Three months ended June 30, ($ thousands)	**2021**	2020	$ change	% change
Research and development, net of government grants	**4,255**	5,303	(1,048)	-20%
SR&ED credits	**(238)**	(344)	106	31%
Research and development	**4,017**	4,959	(942)	-19%
Research and development as a % of total revenue	**28%**	30%		

CMG works closely with its customers to provide solutions to complex problems related to proven and new advanced recovery processes through investment in research and development.

The above research and development costs include $1.8 million of costs for CoFlow for the three months ended June 30, 2021, down from $2.2 million in the same period of the previous fiscal year, primarily due to salary reductions and the application of the CEWS benefit against CoFlow salaries and wages. See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Research and development costs for the three months ended June 30, 2021 decreased by 20%, compared to the same period of the previous fiscal year, mainly due to salary reductions and the CEWS benefit. This decrease was partially offset by lower SR&ED credits.

SR&ED credits decreased by 31% for the three months ended June 30, 2021, compared to the same period of the previous fiscal year, mainly due to a decrease in hours spent on SR&ED-eligible projects.

Depreciation

Three months ended June 30, ($ thousands)	**2021**	2020	$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	**218**	250	(32)	-13%
Research and development	**668**	668	-	0%
General and administrative	**137**	138	(1)	-1%
Total depreciation	**1,023**	1,056	(33)	-3%

Depreciation for the three months ended June 30, 2021 remained consistent with the same period of the previous fiscal year.

Finance Income and Costs

Three months ended June 30, ($ thousands)	**2021**	2020	$ change	% change
Interest income	**98**	99	(1)	-1%
Total finance income	**98**	99	(1)	-1%
Interest expense on lease liability	**(507)**	(525)	(18)	-3%
Net foreign exchange loss	**(337)**	(880)	(543)	-62%
Total finance costs	**(844)**	(1,405)	(561)	-40%

Interest income and interest expense on lease liability were consistent with the comparative period.

CMG is impacted by foreign exchange fluctuations, as approximately 66% of CMG's revenue for the three months ended June 30, 2021 (2020 – 71%) is denominated in US dollars, whereas only approximately 24% (2020 – 27%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's USD-denominated working capital at June 30, 2021, 2020 and 2019 and the average exchange rates used to translate income statement items during the three months ended June 30, 2021, 2020 and 2019:

CDN$ to US$	At June 30	Three month trailing average
2019	0.7641	0.7442
2020	0.7338	0.7164
2021	**0.8068**	**0.8125**

CMG recorded a net foreign exchange loss of $0.3 million for the three months ended June 30, 2021, due to a weakening of the US dollar during the quarter, which negatively affected the valuation of the USD-denominated portion of the Company's working capital.

Income and Other Taxes

CMG's effective tax rate for the three months ended June 30, 2021 is 22.7% (2020 – 25.9%), whereas the blended Canadian statutory tax rate for the Company's 2021 fiscal year is 23% (down from 23.5% in fiscal 2021, due to a reduction in the Alberta provincial tax rate). The difference between the effective rate and the statutory rate is primarily due to a credit recorded to withholding tax expense during the quarter.

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 reduces income taxes otherwise payable for the current fiscal year, but 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)	2021	2020	$ change	% change
Total revenue	**14,414**	16,672	(2,258)	-14%
Operating expenses	**(8,841)**	(10,961)	2,120	19%
Operating profit	**5,573**	5,711	(138)	-2%
Operating profit as a % of revenue	**39%**	34%		
Net income for the period	**3,733**	3,262	471	14%
Net income as a % of total revenue	**26%**	20%		
Basic earnings per share ($/share)	**0.05**	0.04	0.01	25%

Operating profit as a percentage of total revenue for the three months ended June 30, 2021 was 39%, up from 34% in the prior year's quarter, because while both revenue and operating expenses decreased, operating expenses decreased by a higher percentage, due to the CEWS and CERS benefits and salary reductions. Without the impact of the CEWS and CERS benefits, operating profit as a percentage of total revenue was 36% for the three months ended June 30, 2021.

Net income as a percentage of total revenue was 26% for the three months ended June 30, 2021, up from 20% in the prior year quarter, mainly due to a higher foreign exchange loss in the comparative quarter.

EBITDA[1]

Three months ended June 30, ($ thousands)	2021	2020	$ change	% change
Net income for the period	**3,733**	3,262	471	14%
Add (deduct):				
Depreciation	**1,023**	1,056	(33)	-3%
Finance (income) costs	**746**	1,306	(560)	-43%
Income and other taxes	**1,094**	1,143	(49)	-4%
EBITDA	**6,596**	6,767	(171)	-3%
EBITDA as a % of total revenue	**46%**	41%		

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

For the three months ended June 30, 2021, EBITDA as a percentage of total revenue was 46%, up from 41% in the comparative period, because while both revenue and operating expenses decreased, operating expenses decreased by a higher percentage, due to the CEWS and CERS benefits and salary reductions. Without the impact of the CEWS and CERS benefits, EBITDA as a percentage of total revenue was 43% for the three months ended June 30, 2021.

Liquidity and Capital Resources

Three months ended June 30, ($ thousands)	2021	2020	$ change	% change
Cash, beginning of period	**49,068**	40,505	8,563	21%
Cash flow provided by (used in):				
Operating activities	**9,725**	15,167	(5,442)	-36%
Financing activities	**(4,321)**	(4,328)	7	0%
Investing activities	**(27)**	(149)	122	82%
Cash, end of period	**54,445**	51,195	3,250	6%

At June 30, 2021, CMG had $54.4 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 dividend payments. Management believes that the Company has sufficient capital resources to meet its operating and capital expenditure needs.

During the quarter ended June 30, 2021, 2.9 million shares of CMG's public float were traded on the TSX. As at June 30, 2021, CMG's market capitalization based upon its June 30, 2021 closing price of $5.11 was $410.3 million.

Operating Activities

Cash provided by operating activities decreased by $5.4 million during the three months ended June 30, 2021. Funds flow from operations was consistent with the comparative period, and the decrease in cash provided by operating activities was a result of the movement in the non-cash working capital, the main factor being the timing difference of when sales are made and when the resulting receivables are collected.

Financing Activities

Cash used in financing activities in the three months ended June 30, 2021 was consistent with the same period of the previous fiscal year.

In the three months ended June 30, 2021, CMG paid $4.0 million in dividends, representing the following quarterly dividends:

($ per share)	Q1
Total dividends declared and paid	0.05

In the three months ended June 30, 2020, CMG paid $4.0 million in dividends, representing the following quarterly dividends:

($ per share)	Q1
Total dividends declared and paid	0.05

On August 10, 2021, CMG announced the payment of a quarterly dividend of $0.05 per share on CMG's common shares. The dividend will be paid on September 15, 2021 to shareholders of record at the close of business on September 7, 2021. Decisions with respect to dividend payments are made by the Board of Directors on a quarterly basis and take into account market conditions and the financial performance of the Company.

Investing Activities

CMG's investing activities consist of capital asset additions, all of which are being funded internally. During the three months ended June 30, 2021, CMG's capital asset additions were composed of computer equipment and decreased by $0.1 million, compared to the same period of the previous fiscal year. CMG is deferring replacing certain equipment in anticipation of the release of newer and more efficient models later in the year. CMG's capital budget for fiscal 2022 is $1.7 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

CMG, in partnership with Shell Global Solutions International B.V. ("Shell") at present, and also in partnership with Petroleo Brasileiro S.A. historically, is the developer of CoFlow, the newest generation of reservoir and production system simulation software.

On January 1, 2017, Shell and CMG entered into an agreement (the "CoFlow Agreement") with an initial five-year term whereby CMG would be responsible for the research and development costs of CoFlow (estimated to be $8.3 million in fiscal 2022) and Shell would be responsible for providing a contribution for the continuing development of the software (estimated to be $6.7 million in fiscal 2022).

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term.

CMG has very little in the way of other ongoing material contractual obligations other than prepaid 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, 2021:

(thousands of $)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,349	1,103	4,452
Between one and five years	14,075	4,522	18,597
More than five years	42,317	12,553	54,870
	59,741	18,178	77,919

Business Risks and Critical Accounting Estimates

These remain unchanged from the factors detailed in CMG's 2021 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 10, 2021 (thousands)	
Common shares	80,286
Stock options	3,446
Restricted share units(1)	470
Performance share units(1)	119

(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 10, 2021, CMG could reserve up to 8,028,000 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 2020 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2021. During the 2022 fiscal year, we continue to monitor and review our controls and procedures. During the three months ended June 30, 2021 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 direct employee 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

	Fiscal 2020			Fiscal 2021				**Fiscal 2022**
($ thousands)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Funds flow from operations	7,787	7,366	7,515	4,703	7,991	7,322	6,267	**4,811**
Capital expenditures	(235)	(351)	(296)	(149)	(200)	(7)	(41)	**(27)**
Repayment of lease liabilities	(278)	(289)	(379)	(315)	(317)	(310)	(471)	**(306)**
Free cash flow	7,274	6,726	6,840	4,239	7,474	7,005	5,755	**4,478**

Outlook

During the quarter ended June 30, 2021, CMG's annuity/maintenance license revenue decreased by 15%, compared to the same quarter of the previous fiscal year, as our customer spend continues to be affected by the ongoing COVID-19 pandemic and the production policy decisions of the OPEC+ nations, lower unconventional shale activity and, to a lesser extent, corporate consolidations in North America. While commodity prices have improved so far into calendar 2021, annual spending budgets were set by our customers at the end of calendar 2020, in the midst of COVID-related cautions and uncertainties, so any positive effects on CMG's revenue may be lagged because of the annual nature of our customers' budgets.

Geographically, Canada, the US and the Eastern Hemisphere contributed to the decrease in revenue, while South America increased by 7%, as we were able to expand our customer base with new and returning customers.

Total operating expenses decreased by 19%, due to salary reductions implemented on July 1, 2020, the CEWS/CERS benefits and lower stock-based compensation expense as a result of the share price decrease during the current quarter.

As a result of the decease in expenses, CMG was able to achieve an operating profit margin of 39%, up from 34% in the prior year quarter. Without the impact of the CEWS and CERS benefits, the operating profit margin was 36%, below our pre-COVID fiscal 2019 and fiscal 2020 historic average of 40%.

We continue to maintain a strong financial position. We closed the quarter with $54.4 million of cash, no debt and no significant accounts receivable collectability concerns. Basic earnings per share were $0.05 per share, slightly up from $0.04 in the comparative quarter. We generated $0.06 per share of free cash flow, compared to $0.05 per share in the comparative quarter. During the three months ended June 30, 2021, we declared and paid dividends totaling $0.05 per share.

Staff compensation, which has been reduced since July 1, 2020, will be reviewed in the upcoming quarter ending September 30, 2021, based on corporate and individual performance and with the view of optimizing our cost structure. Directors' cash compensation reductions and officers' salary reductions implemented on July 1, 2020 will remain unchanged for the current fiscal year. As with our actions since the start of the COVID-19 pandemic, the goal is to continue to defend our margins, while making sure we deliver reliable and accurate reservoir simulation solutions to our customers.

Energy transition-related modelling (carbon capture/sequestration and EOR, hydrogen, geothermal and other processes/mechanisms) has been a bright spot for CMG in the past twelve months. The current macro focus on energy transition has generated increased interest in our related courses and has also created a number of opportunities that CMG has been able to capture or pursue. CMG's existing software has had the technical capabilities to support energy transition-related modelling for, in some instances, decades, and we believe that CMG is the experienced, go-to partner for all of our existing customers, as well as new entrants that are focused on this area.

As market sentiment fluctuates from optimism to distress over the continued impact of COVID-19, we are being reminded that the situation is still far from normal. However, economic uncertainty and price volatility are becoming the new normal. We are not in a position to predict the future, so we choose to focus on matters within our control: maintaining liquidity and protecting our bottom line by adjusting our cost structure. We are working closely with our customers to address their needs while acknowledging their ongoing challenges. As the market focuses on energy transition, capital discipline, operational efficiencies and debt reduction, CMG will be responsive and proactive to our customers' needs and will support them in improving the value of their assets by optimizing production and realizing operational cost efficiencies.

Ryan N. Schneider
President and Chief Executive Officer
August 10, 2021

Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian $)	June 30, 2021	March 31, 2021
Assets		
Current assets:		
Cash	**54,445**	49,068
Trade and other receivables	**8,817**	23,239
Prepaid expenses	**867**	820
Prepaid income taxes (note 10)	**682**	8
	64,811	73,135
Property and equipment	**11,624**	12,025
Right-of-use assets	**34,886**	35,509
Deferred tax asset (note 10)	**2,034**	1,822
Total assets	**113,355**	122,491
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities	**4,570**	6,316
Income taxes payable (note 10)	**63**	49
Deferred revenue (note 4)	**23,451**	30,461
Lease liability (note 5)	**1,362**	1,356
	29,446	38,182
Long-term stock-based compensation liability (note 11(c))	**1,310**	1,281
Long-term lease liability (note 5)	**39,265**	39,606
Total liabilities	**70,021**	79,069
Shareholders' equity:		
Share capital (note 11)	**80,051**	80,051
Contributed surplus	**14,445**	14,251
Deficit	**(51,162)**	(50,880)
Total shareholders' equity	**43,334**	43,422
Total liabilities and shareholders' equity	**113,355**	122,491

Subsequent event (note 15)

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)	**2021**	2020
Revenue (note 6)	**14,414**	16,672
Operating expenses (note 7)		
Sales, marketing and professional services	**3,412**	4,284
Research and development (note 8)	**4,017**	4,959
General and administrative	**1,412**	1,718
	8,841	10,961
Operating profit	**5,573**	5,711
Finance income (note 9)	**98**	99
Finance costs (note 9)	**(844)**	(1,405)
Profit before income and other taxes	**4,827**	4,405
Income and other taxes (note 10)	**1,094**	1,143
Net and total comprehensive income	**3,733**	3,262
Earnings per share		
Basic and diluted (note 11(d))	**0.05**	0.04

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

UNAUDITED (thousands of Canadian $)	Share capital	Contributed surplus	Deficit	Total equity
Balance, April 1, 2020	**79,851**	**13,533**	**(55,015)**	**38,369**
Total comprehensive income for the year	**-**	**-**	**3,262**	**3,262**
Dividends paid	**-**	**-**	**(4,013)**	**(4,013)**
Stock-based compensation:				
Current period expense (note 11(c))	**-**	**166**	**-**	**166**
Balance, June 30, 2020	**79,851**	**13,699**	**(55,766)**	**37,784**
Balance, April 1, 2021	**80,051**	**14,251**	**(50,880)**	**43,422**
Total comprehensive income for the year	**-**	**-**	**3,733**	**3,733**
Dividends paid	**-**	**-**	**(4,015)**	**(4,015)**
Stock-based compensation:				
Current period expense (note 11(c))	**-**	**194**	**-**	**194**
Balance, June 30, 2021	**80,051**	**14,445**	**(51,162)**	**43,334**

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

Three months ended June 30, UNAUDITED (thousands of Canadian $)	**2021**	2020
Operating activities		
Net income	**3,733**	3,262
Adjustments for:		
Depreciation	**1,023**	1,056
Deferred income tax recovery (note 10)	**(212)**	(427)
Stock-based compensation (note 11(c))	**267**	812
Funds flow from operations	**4,811**	4,703
Movement in non-cash working capital:		
Trade and other receivables	**14,422**	18,585
Trade payables and accrued liabilities	**(1,791)**	(765)
Prepaid expenses	**(47)**	(40)
Income taxes payable	**(660)**	1,030
Deferred revenue	**(7,010)**	(8,346)
Decrease in non-cash working capital	**4,914**	10,464
Net cash provided by operating activities	**9,725**	15,167
Financing activities		
Repayment of lease liability (note 5)	**(306)**	(315)
Dividends paid	**(4,015)**	(4,013)
Net cash used in financing activities	**(4,321)**	(4,328)
Investing activities		
Property and equipment additions	**(27)**	(149)
Increase in cash	**5,377**	10,690
Cash, beginning of period	**49,068**	40,505
Cash, end of period	**54,445**	51,195
Supplementary cash flow information		
Interest received (note 9)	**98**	99
Interest paid (notes 5 and 9)	**507**	525
Income taxes paid	**1,728**	184

See accompanying notes to condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2021 and 2020.

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, 2021 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, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed consolidated interim financial statements as at and for the three months ended June 30, 2021 were authorized for issuance by the Board of Directors on August 10, 2021.

(b) Basis of Measurement:

The condensed consolidated interim 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 interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. 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 interim financial statements were the same as those that applied to the consolidated financial statements for the year ended March 31, 2021.

(e) Impact of the COVID-19 Pandemic:

In March 2020, the World Health Organization declared coronavirus outbreak a pandemic. Responses to the spread of COVID-19 resulted in a partial shutdown of the global economy leading to significant disruption to business operations and a significant increase in economic uncertainty with volatile commodity prices and currency exchange rates. In addition, fluctuating demand for crude oil resulting from world economies emerging from and then entering into subsequent COVID-19 waves has resulted in significant volatility in global energy prices. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A potential adverse impact to the Company includes reductions in revenues and cash flows and increased risk of non-payment from customers. Estimates made during this period of extreme volatility are subject to a higher level of uncertainty and as a result, there may be a further prospective impact in future periods.

3. 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 6):

(thousands of $)	**June 30, 2021**	March 31, 2021
Canada	**45,485**	46,393
United States	**699**	755
South America	**278**	325
Eastern Hemisphere[(1)]	**48**	61
	46,510	47,534

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

4. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

(thousands of $)	
Balance, March 31, 2021	30,461
Invoiced during the period, excluding amounts recognized as revenue during the period	3,731
Recognition of deferred revenue included in the balance at the beginning of the period	(10,741)
Balance, June 30, 2021	**23,451**

5. Lease Liability:

The Company's leases are for office space, the most significant of which is the twenty-year head office lease that commenced in 2017. These leases contain renewal options for additional terms, but since the Company is not reasonably certain it will exercise the renewal options, they have not been included in the measurement of the lease obligations.

(thousands of $)	
Balance, March 31, 2021	40,962
Interest on lease liability (note 9)	507
Lease payments	(813)
Remeasurement due to renegotiated lease payments	(29)
Balance, June 30, 2021	**40,627**
Current	**1,362**
Long-term	**39,265**

The following table presents contractual undiscounted payments for lease liability as at June 30, 2021:

(thousands of $)	
Less than one year	3,349
Between one and five years	14,075
More than five years	42,317
Total undiscounted payments	**59,741**

6. Revenue:

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

Three months ended June 30 (thousands of $)	**2021**	2020
Annuity/maintenance license revenue		
Canada	**3,034**	3,212
United States	**2,984**	4,235
South America	**1,494**	1,390
Eastern Hemisphere	**4,774**	5,686
	12,286	14,523
Perpetual license revenue		
Canada	**-**	-
United States	**125**	-
South America	**-**	-
Eastern Hemisphere	**-**	-
	125	-
Total software license revenue	**12,411**	14,523
Professional services		
Canada	**1,835**	1,817
United States	**32**	237
South America	**-**	26
Eastern Hemisphere	**136**	69
	2,003	2,149
Total revenue		
Canada	**4,869**	5,029
United States	**3,141**	4,472
South America	**1,494**	1,416
Eastern Hemisphere	**4,910**	5,755
	14,414	16,672

During the three months ended June 30, 2021, there was no revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods (2020 – $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, 2021**	March 31, 2021
Receivables (included in "Trade and other receivables")	**8,178**	22,812

During the three months ended June 30, 2021, one customer comprised 13.3% of the Company's total revenue (2020 – two customers, 13.5% and 10.4%).

7. Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy

As a result of the decline in revenue, CMG became eligible for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs and during the three months ended June 30, 2021 recorded CEWS and CERS benefits of $0.4 million. The CEWS and CERS benefits were recorded against the financial statement line items that they are intended to compensate, resulting in the following credits to the operating expense categories:

Three months ended June 30, (thousands of $)	**2021**	2020
Sales, marketing and professional services	**(62)**	-
Research and development	**(246)**	-
General and administrative	**(59)**	-
	(367)	-

8. Research and Development Costs:

Three months ended June 30, (thousands of $)	**2021**	2020
Research and development, net of government grants	**4,255**	5,303
Scientific research and experimental development (SR&ED) investment tax credits	**(238)**	(344)
	4,017	4,959

9. Finance Income and Finance Costs:

Three months ended June 30, (thousands of $)	**2021**	2020
Interest income	**98**	99
Finance income	**98**	99
Interest expense on lease liability (note 5)	**(507)**	(525)
Net foreign exchange loss	**(337)**	(880)
Finance costs	**(844)**	(1,405)

10. Income and Other Taxes:

The major components of income tax expense are as follows:

Three months ended June 30, (thousands of $)	**2021**	2020
Current year income tax expense	**1,273**	1,449
Deferred tax recovery	**(212)**	(427)
Foreign withholding and other taxes	**33**	121
	1,094	1,143

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)	**2021**	2020
Combined statutory tax rate	**23.00%**	24.75%
Expected income tax	**1,110**	1,090
Non-deductible costs	**43**	31
Withholding taxes	**(63)**	6
Effect of tax rates in foreign jurisdictions	**(2)**	(7)
Effect of statutory tax rate reduction	**-**	14
Other	**6**	9
	1,094	1,143

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

(thousands of $)	**June 30, 2021**	March 31, 2021
Right-of-use assets	**1,303**	1,245
Stock-based compensation liability	**633**	616
Property and equipment	**148**	115
SR&ED investment tax credits	**(50)**	(154)
Net deferred tax asset	**2,034**	1,822

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.

11. 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, 2020	80,249
Balance, June 30, 2020	80,249
Balance, April 1, 2021	**80,286**
Balance, June 30, 2021	**80,286**

(c) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Three months ended June 30, (thousands of $)	**2021**	2020
Equity-settled plans	**194**	166
Cash-settled plans	**73**	646
Total stock-based compensation expense	**267**	812

Liability Recognized for Stock-Based Compensation (1)

The following table summarizes liabilities for the Company's cash-settled plans:

(thousands of $)	**June 30, 2021**	March 31, 2021
SARs	**283**	407
RSUs	**1,838**	1,641
PSUs	**249**	204
DSUs	**382**	426
Total stock-based compensation liability	**2,752**	2,678
Current, recorded within trade payables and accrued liabilities	**1,442**	1,397
Long-term, recorded in long-term stock-based compensation liability	**1,310**	1,281

(1) The intrinsic value of the vested awards at June 30, 2021 was $0.4 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, 2021, the Company may reserve up to 8,028,000 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 16, 2020. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. Fifty percent of stock options vest on the first anniversary from the grant date and then 25% vest on each of the second and third anniversary dates. Stock options have a five-year life.

The following table outlines changes in stock options:

	Three months ended June 30, 2021		Year ended March 31, 2021	
	Number of Options (thousands)	**Weighted Average Exercise Price ($/share)**	Number of Options (thousands)	Weighted Average Exercise Price ($/share)
Outstanding at beginning of period	**3,524**	**7.82**	3,900	9.64
Granted	**-**	**-**	796	5.10
Forfeited/expired	**(21)**	**9.91**	(1,172)	12.03
Outstanding at end of period	**3,503**	**7.80**	3,524	7.82
Options exercisable at end of period	**2,213**	**8.94**	2,234	8.95

The range of exercise prices of stock options outstanding and exercisable at June 30, 2021 is as follows:

	Outstanding			Exercisable	
Exercise Price ($/option)	Number of Options (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($/option)	Number of Options (thousands)	Weighted Average Exercise Price ($/option)
5.08 to 6.30	786	4.1	5.08	-	-
6.31 to 6.60	748	3.1	6.32	373	6.32
6.61 to 9.20	497	2.2	9.18	368	9.19
9.21 to 9.33	767	1.1	9.33	767	9.33
9.34 to 9.78	705	0.1	9.78	705	9.78
	3,503	2.2	7.80	2,213	8.94

The fair value of stock options was estimated using the Black-Scholes option pricing model under the following assumptions:

	Year ended March 31, 2021
Fair value at grant date ($/option)	1.00 to 1.50
Share price at grant date ($/share)	5.08 to 6.59
Risk-free interest rate (%)	0.22 to 0.37
Estimated hold period prior to exercise (years)	3 to 4
Volatility in the price of common shares (%)	35 to 41
Dividend yield per common share (%)	3.06 to 3.71

(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. SARs are granted to executive officers and employees residing and working outside of Canada. Fifty percent of SARs vest on the first year anniversary from the grant date and then 25% vest on each of the second and third year anniversary dates. SARs have a five-year life.

The following table outlines changes in SARs:

	Three months ended June 30, 2021		Year ended March 31, 2021	
	Number of SARs (thousands)	**Weighted Average Exercise Price ($/SAR)**	Number of SARs (thousands)	Weighted Average Exercise Price ($/SAR)
Outstanding at beginning of period	**1,373**	**8.19**	1,152	8.80
Granted	**-**	**-**	221	5.08
Outstanding at end of period	**1,373**	**8.19**	1,373	8.19
SARs exercisable at end of period	**948**	**9.04**	948	9.04

(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 at the option of the holder. As such, the Company accounts for PSUs and RSUs as cash-settled awards and recognizes a liability for potential cash settlements.

The International Employees PSU & RSU Plan includes substantially the same terms, conditions and PSU performance criteria as the PSU & RSU Plan, with the main two exceptions being that (i) it is available only to employees and contractors residing and working outside of Canada and (ii) PSUs and RSUs under this plan can be redeemed for cash only. As such, the Company accounts for PSUs and RSUs issued under the International Employees PSU & RSU Plan 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, 2021**			Year ended March 31, 2021		
	RSUs	**PSUs**	**DSUs**	RSUs	PSUs	DSUs
Outstanding at beginning of period	**589**	**93**	**74**	421	30	48
Granted	**5**	**67**	**1**	379	63	33
Exercised	**-**	**-**	**-**	(181)	-	(7)
Forfeited	**(12)**	**-**	**-**	(30)	-	-
Outstanding at end of period	**582**	**160**	**75**	589	93	74

(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)	**2021**			2020		
	Earnings ($)	**Weighted average shares outstanding**	**Earnings per share ($/share)**	Earnings ($)	Weighted average shares outstanding	Earnings per share ($/share)
Basic	**3,733**	**80,286**	**0.05**	3,262	80,249	0.04
Dilutive effect of share-based awards		**337**			182	
Diluted	**3,733**	**80,623**	**0.05**	3,262	80,431	0.04

During the three months ended June 30, 2021, no awards (three months ended June 30, 2020 – no awards) were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

12. 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.

13. Commitments:

(a) Research Commitment:

CMG, in partnership with Shell Global Solutions International B.V. ("Shell") at present, and also in partnership with Petroleo Brasileiro S.A. historically, is the developer of CoFlow, the newest generation of reservoir and production system simulation software.

On January 1, 2017, Shell and CMG entered into an agreement (the "CoFlow Agreement") with an initial five-year term whereby CMG would be responsible for the research and development costs of CoFlow (estimated to be $8.3 million in fiscal 2022) and Shell would be responsible for providing a contribution for the continuing development of the software (estimated to be $6.7 million in fiscal 2022).

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term.

During the three months ended June 30, 2021, the Company recorded professional services revenue of $1.7 million (three months ended June 30, 2020 – $1.8 million) and CoFlow costs of $1.8 million to research and development expenses (three months ended June 30, 2020 – $2.2 million).

(b) Commitments:

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

(thousands of $)	**June 30, 2021**
Less than one year	**1,103**
Between one and five years	**4,522**
More than five years	**12,553**
	18,178

14. 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, 2021, $1.0 million (March 31, 2021 – $0.9 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

15. Subsequent Event:

On August 10, 2021, the Board of Directors declared a quarterly cash dividend of $0.05 per share on its common shares, payable on September 15, 2021 to all shareholders of record at the close of business on September 7, 2021.

CORPORATE INFORMATION

Directors

Judith J. Athaide (4)

John E. Billowits (4)

Kenneth M. Dedeluk (5)

Christopher L. Fong (2) (4)

Patrick R. Jamieson (3)

Peter H. Kinash (1)

Mark R. Miller (2)

Ryan N. Schneider

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

Kelly A. Tomyn
Interim Vice President,
Finance and Chief Financial Officer

Jason C. Close
Vice President,
CoFlow Commercialization

Jim C. Erdle
Vice President,
USA & Latin America

R. David Hicks
Vice President,
Eastern Hemisphere

Anjani Kumar
Vice President,
Engineering Solutions

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

Kathy L. Krug
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Transfer Agent

Computershare Trust Company of Canada

Stock Exchange Listing

Toronto Stock Exchange: **CMG**