Q3 2020
for the period ended December 31, 2019

COMPUTER MODELLING GROUP LTD.

To Our Shareholders

Computer Modelling Group Ltd. is pleased to announce its third quarter results for the three and nine months ended December 31, 2019.

Third Quarter Highlights

Three months ended December 31, ($ thousands, except per share data)	2019	2018[1]	$ change	% change
Annuity/maintenance software licenses	**16,612**	17,240	(628)	-4%
Perpetual software licenses	**964**	611	353	58%
Total revenue	**19,275**	19,073	202	1%
Operating profit	**7,538**	8,406	(868)	-10%
Net income	**5,112**	6,847	(1,735)	-25%
Earnings per share - basic	**0.06**	0.09	(0.03)	-33%
Funds flow from operations per share - basic	**0.09**	0.09	-	0%
Free cash flow per share - basic [2]	**0.08**	0.09	(0.01)	-11%

Nine months ended December 31, ($ thousands, except per share data)	2019	2018[1]	$ change	% change
Annuity/maintenance software licenses	**48,741**	47,066	1,675	4%
Perpetual software licenses	**3,269**	2,109	1,160	55%
Total revenue	**57,271**	53,719	3,552	7%
Operating profit	**23,949**	20,804	3,145	15%
Net income	**16,422**	16,161	261	2%
Earnings per share - basic	**0.20**	0.20	-	0%
Funds flow from operations per share - basic	**0.26**	0.23	0.03	13%
Free cash flow per share - basic [2]	**0.25**	0.22	0.03	14%

(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 February 11, 2020, should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes of the Company for the three and nine months ended December 31, 2019 and 2018. 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.

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 $0.4 million on the Company's profit before income and other taxes for the nine months ended December 31, 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 $)	December 31, 2019 As reported	Adjustments	December 31, 2019 Balance without IFRS 16 adoption
Assets			
Current assets:			
Cash	36,773	-	36,773
Trade and other receivables	11,772	-	11,772
Prepaid expenses	1,019	-	1,019
Prepaid income taxes	457	-	457
	50,021	-	50,021
Property and equipment	13,737	-	13,737
Right-of-use assets	38,348	(38,348)	-
Deferred tax asset	1,327	(446)	881
Total assets	103,433	(38,794)	64,639
Liabilities and shareholders' equity			
Current liabilities:			
Trade payables and accrued liabilities	5,882	95	5,977
Income taxes payable	90	-	90
Deferred revenue	15,679	-	15,679
Lease liability	1,298	(1,298)	-
	22,949	(1,203)	21,746
Lease liability	41,308	(41,308)	-
Deferred rent liability	-	2,131	2,131
Total liabilities	64,257	(40,380)	23,877
Shareholders' equity:			
Share capital	79,851	-	79,851
Contributed surplus	13,379	-	13,379
Deficit	(54,054)	1,586	(52,468)
Total shareholders' equity	39,176	1,586	40,762
Total liabilities and shareholders' equity	103,433	(38,794)	64,639

Condensed Consolidated Statements of Operations and Comprehensive Income

(thousands of $ except per share amounts)	Three months ended December 31, 2019 As reported	Adjustments	Three months ended December 31, 2019 without IFRS 16 adoption
Revenue	19,275	-	19,275
Operating expenses			
Sales, marketing and professional services	4,744	66	4,810
Research and development	5,171	229	5,400
General and administrative	1,822	55	1,877
	11,737	350	12,087
Operating profit	7,538	(350)	7,188
Finance income	278	-	278
Finance costs	(762)	523	(239)
Profit before income and other taxes	7,054	173	7,227
Income and other taxes	1,942	40	1,982
Net and total comprehensive income	5,112	133	5,245
Earnings per share, basic and diluted	0.06	0.01	0.07

(thousands of $ except per share amounts)	Nine months ended December 31, 2019 As reported	Adjustments	Nine months ended December 31, 2019 without IFRS 16 adoption
Revenue	57,271	-	57,271
Operating expenses			
Sales, marketing and professional services	13,728	199	13,927
Research and development	14,461	687	15,148
General and administrative	5,133	165	5,298
	33,322	1,051	34,373
Operating profit	23,949	(1,051)	22,898
Finance income	922	-	922
Finance costs	(2,028)	1,562	(466)
Profit before income and other taxes	22,843	511	23,354
Income and other taxes	6,421	63	6,484
Net and total comprehensive income	16,422	448	16,870
Earnings per share, basic and diluted	0.20	0.01	0.21

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 December 31, 2019 As reported	Adjustments	Three months ended December 31, 2019 without IFRS 16 adoption
Net cash used in operating activities	(1,612)	(289)	(1,901)
Net cash used in financing activities	(8,314)	289	(8,025)

(thousands of $)	Nine months ended December 31, 2019 As reported	Adjustments	Nine months ended December 31, 2019 without IFRS 16 adoption
Net cash provided by operating activities	8,099	(849)	7,250
Net cash used in financing activities	(24,922)	849	(24,073)

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

	Fiscal 2018[1][2]	Fiscal 2019[1][3]				Fiscal 2020[4]		
($ thousands, unless otherwise stated)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Annuity/maintenance licenses	15,664	14,715	15,111	17,240	16,734	15,756	16,373	**16,612**
Perpetual licenses	2,053	326	1,172	611	2,891	1,159	1,146	**964**
Software licenses	17,717	15,041	16,283	17,851	19,625	16,915	17,519	**17,576**
Professional services	1,677	1,664	1,658	1,222	1,513	1,208	2,354	**1,699**
Total revenue	19,394	16,705	17,941	19,073	21,138	18,123	19,873	**19,275**
Operating profit	7,529	5,374	7,024	8,406	8,750	7,068	9,343	**7,538**
Operating profit (%)	39	32	39	44	41	39	47	**39**
Profit before income and other taxes	8,547	5,980	7,104	9,406	8,400	6,439	9,350	**7,054**
Income and other taxes	2,401	1,722	2,048	2,559	2,426	1,997	2,482	**1,942**
Net income for the period	6,146	4,258	5,056	6,847	5,974	4,442	6,868	**5,112**
EBITDA[5]	8,090	5,837	7,505	8,915	9,250	8,118	10,426	**8,644**
Cash dividends declared and paid	8,021	8,021	8,024	8,022	8,023	8,022	8,026	**8,025**
Funds flow from operations	7,285	5,242	5,777	7,550	7,024	6,097	7,787	**7,366**
Free cash flow[5]	6,904	4,909	5,697	7,297	6,948	5,707	7,274	**6,726**
Per share amounts - ($/share)								
Earnings per share - basic	0.08	0.05	0.06	0.09	0.07	0.06	0.09	**0.06**
Earnings per share - diluted	0.08	0.05	0.06	0.09	0.07	0.06	0.09	**0.06**
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	**0.10**
Funds flow from operations per share - basic	0.09	0.07	0.07	0.09	0.09	0.08	0.10	**0.09**
Free cash flow per share - basic[5]	0.09	0.06	0.07	0.09	0.09	0.07	0.09	**0.08**

(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) Q4 of fiscal 2018 include $1.3 million 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 and Q3 of fiscal 2020 include $0.2 million, $0.3 million and $0.2 million, respectively, 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 / ***During the nine months***

ended December 31, 2019, compared to the same period of the previous fiscal year:

During the three months

- Annuity/maintenance license revenue decreased by 4%. After adjusting for revenue from a customer for whom revenue is recognized only when payment is received, annuity/maintenance license revenue increased by 7%;
- Perpetual license revenue increased by 58%;
- Direct employee costs increased by 17% due to higher stock-based compensation resulting from the higher share price;
- EBITDA decreased by 3% (without the positive impact of IFRS 16 adoption, EBITDA decreased by 14%).

During the nine months

- Annuity/maintenance license revenue increased by 4%. After adjusting for revenue from a customer for whom revenue is recognized only when payment is received, annuity/maintenance license revenue increased by 7%;
- Perpetual license revenue increased by 55%;
- Direct employee costs increased by 6% due to higher stock-based compensation resulting from the higher share price;
- EBITDA increased by 22% (without the positive impact of IFRS 16 adoption, EBITDA increased by 9%).

During the three months
ended December 31, 2019, CMG:

- Realized basic EPS of $0.06;
- Achieved free cash flow per share of $0.08;
- Declared and paid a dividend of $0.10 per share.

During the nine months
ended December 31, 2019, CMG:

- Realized basic EPS of $0.20;
- Achieved free cash flow per share of $0.25;
- Declared and paid dividends of $0.30 per share.

Revenue

Three months ended December 31, ($ thousands)	**2019**	2018	$ change	% change
Software license revenue	**17,576**	17,851	(275)	-2%
Professional services	**1,699**	1,222	477	39%
Total revenue	**19,275**	19,073	202	1%
Software license revenue as a % of total revenue	**91%**	94%		
Professional services as a % of total revenue	**9%**	6%		

Nine months ended December 31, ($ thousands)	**2019**	2018	$ change	% change
Software license revenue	**52,010**	49,175	2,835	6%
Professional services	**5,261**	4,544	717	16%
Total revenue	**57,271**	53,719	3,552	7%
Software license revenue as a % of total revenue	**91%**	92%		
Professional services as a % of total revenue	**9%**	8%		

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 December 31, 2019 increased by 1%, compared to the same period of the previous fiscal year, due to an increase in professional services revenue, which was partially offset by a decrease in software license revenue.

Total revenue for the nine months ended December 31, 2019 increased by 7%, compared to the same period of the previous fiscal year, due to increases 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 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 December 31, ($ thousands)	**2019**	2018	$ change	% change
Annuity/maintenance license revenue	**16,612**	17,240	(628)	-4%
Perpetual license revenue	**964**	611	353	58%
Total software license revenue	**17,576**	17,851	(275)	-2%
Annuity/maintenance as a % of total software license revenue	**95%**	97%		
Perpetual as a % of total software license revenue	**5%**	3%		

Nine months ended December 31, ($ thousands)	**2019**	2018	$ change	% change
Annuity/maintenance license revenue	**48,741**	47,066	1,675	4%
Perpetual license revenue	**3,269**	2,109	1,160	55%
Total software license revenue	**52,010**	49,175	2,835	6%
Annuity/maintenance as a % of total software license revenue	**94%**	96%		
Perpetual as a % of total software license revenue	**6%**	4%		

Total software license revenue for the three months ended December 31, 2019 decreased by 2% compared to the same period of the previous fiscal year, due to a decrease in annuity/maintenance license revenue, partially offset by an increase in perpetual license revenue.

Total software license revenue for the nine months ended December 31, 2019 increased by 6% compared to the same period of the previous fiscal year, due to increases in both annuity/maintenance license revenue and perpetual license revenue.

CMG's annuity/maintenance license revenue for the three months ended December 31, 2019 decreased by 4%. While Canada, the United States and the Eastern Hemisphere experienced growth, South America was negatively affected due to the fact that the comparative period included a payment from a South American customer for whom revenue is recognized only when payment is received (as explained in more detail in the paragraph below). Annuity/maintenance license revenue for the nine months ended December 31, 2019 increased by 4%, because, even though South America experienced a decrease due to the above-mentioned reason, that decrease was offset by growth in all the other geographic regions.

Our annuity/maintenance license revenue can be significantly impacted by the variability of the amounts recorded from a long-standing South American customer and its affiliates for whom revenue recognition criteria are fulfilled only at the time of the receipt of funds (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters before the "Quarterly Software License Revenue" graph). Due to the economic conditions in the country where this customer and its affiliates are located, revenue from them will continue to be recognized on a cash basis. The timing of such payments may skew the comparison of annuity/maintenance license revenue between periods. We received payment from this customer in the third quarter of the previous fiscal year, but not during the current quarter. Normalized for this receipt, annuity/maintenance license revenue for the three months ended December 31, 2019, compared to the same period of the previous fiscal year, increased by 7% instead of decreasing by 4% and annuity/maintenance license revenue for the nine months increased by 7% instead of 4%.

This normalized increase of 7% for the quarter and year to date was due to increased licensing by existing and new customers. In addition, the movement in the CAD/USD exchange rate had a positive impact on annuity/maintenance license revenue in the current quarter and year to date.

Perpetual license revenue for the three and nine months ended December 31, 2019 increased by 58% and 55% compared to the same periods of the previous fiscal year, due to higher sales in South America and 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. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers prefer annuity leases over perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollars during the three and nine months ended December 31, 2019 had a positive impact on reported software license revenue, compared to the same periods of the previous fiscal year, with the exception of perpetual revenue for the three months ended December 31, 2019, which experienced a small negative impact.

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 December 31, ($ thousands)		**2019**	2018	$ change	% change
US dollar annuity/maintenance license revenue	**US$**	**9,796**	10,956	(1,160)	-11%
Weighted average conversion rate		**1.337**	1.287		
Canadian dollar equivalent	**CDN$**	**13,094**	14,106	(1,012)	-7%
US dollar perpetual license revenue	**US$**	**732**	462	270	58%
Weighted average conversion rate		**1.318**	1.324		
Canadian dollar equivalent	**CDN$**	**964**	611	353	58%

Nine months ended September 30, ($ thousands)		**2019**	2018	$ change	% change
US dollar annuity/maintenance license revenue	**US$**	**28,724**	29,280	(556)	-2%
Weighted average conversion rate		**1.336**	1.281		
Canadian dollar equivalent	**CDN$**	**38,375**	37,496	879	2%
US dollar perpetual license revenue	**US$**	**2,461**	1,613	848	53%
Weighted average conversion rate		**1.328**	1.308		
Canadian dollar equivalent	**CDN$**	**3,269**	2,109	1,160	55%

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

Three months ended December 31, ($ thousands)	2018	Incremental License Growth	Foreign Exchange Impact	**2019**
Annuity/maintenance license revenue	17,240	(1,110)	482	**16,612**
Perpetual license revenue	611	357	(4)	**964**
Total software license revenue	17,851	(753)	478	**17,576**

Nine months ended December 31, ($ thousands)	2018	Incremental License Growth	Foreign Exchange Impact	**2019**
Annuity/maintenance license revenue	47,066	85	1,590	**48,741**
Perpetual license revenue	2,109	1,109	51	**3,269**
Total software license revenue	49,175	1,194	1,641	**52,010**

As discussed previously, our annuity/maintenance license revenue can be significantly impacted by the variability of the amounts recorded from a long-standing customer and its affiliates for whom revenue recognition criteria are fulfilled only at the time of the receipt of funds. If we were to normalize for such receipts, incremental license growth in the tables above would be $0.5 million and $1.7 million for the three and nine months ended December 31, 2019, respectively.

Software Revenue by Geographic Region

Three months ended December 31, ($ thousands)	**2019**	2018	$ change	% change
Annuity/maintenance license revenue				
Canada	**3,950**	3,767	183	5%
United States	**5,147**	4,777	370	8%
South America	**2,015**	3,397	(1,382)	-41%
Eastern Hemisphere[1]	**5,500**	5,299	201	4%
	16,612	17,240	(628)	-4%
Perpetual license revenue				
Canada	**-**	-	-	0%
United States	**-**	362	(362)	-100%
South America	**511**	6	505	8417%
Eastern Hemisphere	**453**	243	210	86%
	964	611	353	58%
Total software license revenue				
Canada	**3,950**	3,767	183	5%
United States	**5,147**	5,139	8	0%
South America	**2,526**	3,403	(877)	-26%
Eastern Hemisphere	**5,953**	5,542	411	7%
	17,576	17,851	(275)	-2%

Nine months ended December 31, ($ thousands)	2019	2018	$ change	% change
Annuity/maintenance license revenue				
Canada	**11,653**	11,426	227	2%
United States	**15,131**	13,956	1,175	8%
South America	**5,931**	6,810	(879)	-13%
Eastern Hemisphere[1]	**16,026**	14,874	1,152	8%
	48,741	47,066	1,675	4%
Perpetual license revenue				
Canada	**-**	156	(156)	-100%
United States	**298**	514	(216)	-42%
South America	**1,280**	6	1,274	21233%
Eastern Hemisphere	**1,691**	1,433	258	18%
	3,269	2,109	1,160	55%
Total software license revenue				
Canada	**11,653**	11,582	71	1%
United States	**15,429**	14,470	959	7%
South America	**7,211**	6,816	395	6%
Eastern Hemisphere	**17,717**	16,307	1,410	9%
	52,010	49,175	2,835	6%

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

During the three months ended December 31, 2019, total software license revenue increased in Canada and the Eastern Hemisphere, while South America decreased and the United States stayed flat.

During the nine months ended December 31, 2019, all regions experienced increases in total software license revenue.

The Canadian region (representing 22% of year-to-date software license revenue) experienced increases of 5% and 2% in annuity/maintenance license revenue during the three and nine months ended December 31, 2019, respectively, compared to the same periods of the previous fiscal year, due to an increase in licensing by existing customers. No perpetual sales were realized in Canada during the three and nine months ended December 31, 2019.

The United States (representing 30% of year-to-date software license revenue) experienced an 8% increase in annuity/maintenance license revenue during the three and nine months ended December 31, 2019, compared to the same periods of the previous fiscal year, due to increased licensing by both existing and new customers. A small portion of the year-to-date increase was due to increased usage of our cloud-based offerings, as the number of customers who access our software via the cloud has been growing since it was introduced at the beginning of fiscal 2019. There were no perpetual sales in the United States during the current three-month period, and perpetual sales during the current nine-month period were lower than in the comparative period.

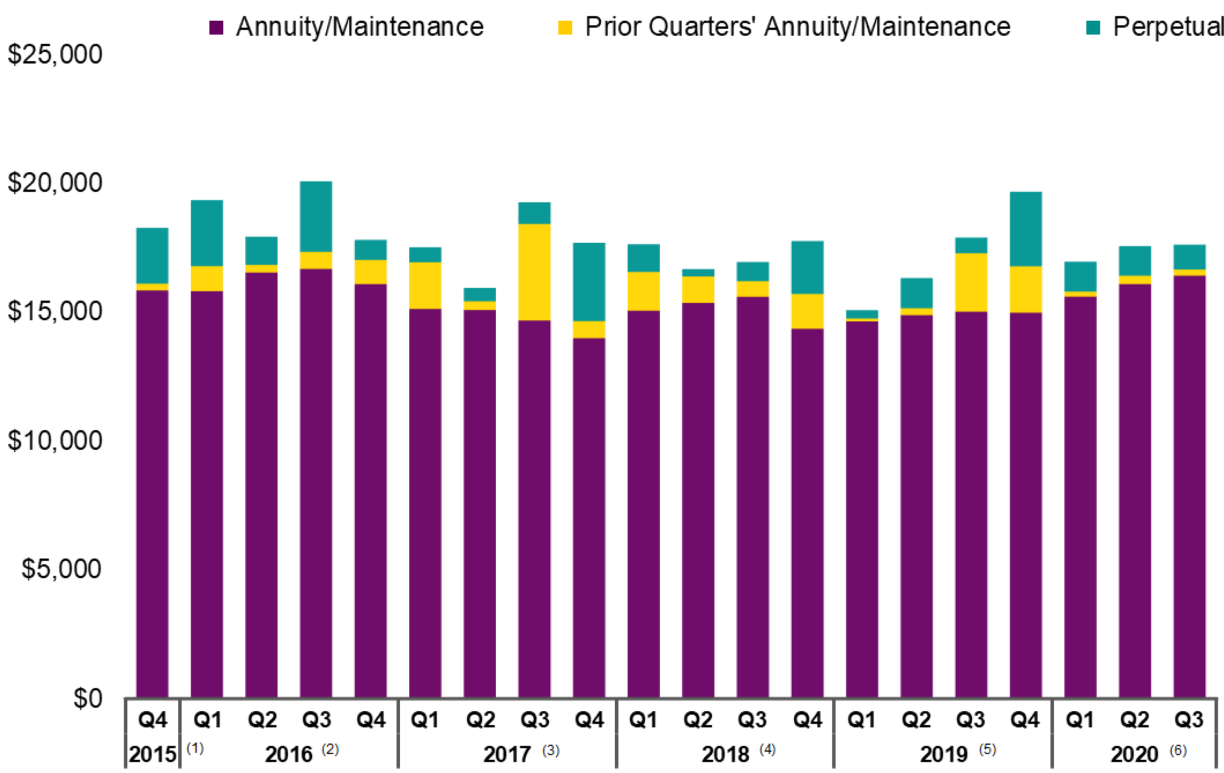
South America (representing 14% of year-to-date software license revenue) experienced decreases of 41% and 13% in annuity/maintenance license revenue during the three and nine months ended December 31, 2019, respectively. Our revenue in South America can be significantly impacted by the variability of the amounts recorded from a customer and its affiliates for whom revenue is recognized only when cash is received (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters on the next page, above the "Quarterly Software License Revenue" graph). We received payment from this customer in the third quarter of the previous fiscal year, but not during the current quarter. To provide a normalized comparison, if we exclude revenue from this customer from the three- and nine-month periods ended December 31, 2018, we note that South American annuity/maintenance license revenue increased by 16% and 15%, respectively, instead of decreasing by 41% and 13%. These increases were mainly due to increased licensing by existing customers. There were more perpetual sales realized in South America in the current three- and nine-month periods than in the comparative periods.

The Eastern Hemisphere (representing 34% of year-to-date software license revenue) experienced increases of 4% and 8% in annuity/maintenance license revenue during the three and nine months ended December 31, 2019, respectively, compared to the same periods of the previous fiscal year, due to a combination of increased licensing by existing customers and the addition of new customers. Perpetual license revenue increased by 86% during the three months ended December 31, 2019, due to higher perpetual sales in Europe and by 18% during the nine months ended December 31, 2019, due to higher perpetual sales in Europe and Asia.

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. Please refer to the yellow bars and the footnotes in the graph below:

Quarterly Software License Revenue

($ thousands)



(1) Q4 of fiscal 2015 include $0.3 million 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, Q2 and Q3 of fiscal 2020 include $0.2 million, $0.3 million and $0.2 million respectively, 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 (2)		(84)	0%
Q2 (September 30)	**23,849**	23,222 (3)		627	3%
Q3 (December 31)	**15,679**	13,782		1,897	14%
Q4 (March 31)		35,015 (4)	34,362 (1)	653	2%

(1) Includes current deferred revenue of $33.4 million and long-term deferred revenue of $1.0 million.
(2) Includes current deferred revenue of $28.8 million and long-term deferred revenue of $0.6 million.
(3) Includes current deferred revenue of $22.9 million and long-term deferred revenue of $0.3 million.
(4) 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 the end of Q3 of fiscal 2020 increased by 14% compared to Q3 of fiscal 2019. This was mainly due to one significant contract that was renewed earlier this year and thus included in the deferred revenue balance at December 31, 2019, whereas last year this contract was not renewed until Q4, and the remainder of the deferred revenue increase was due to increased licensing.

Professional Services Revenue

Professional services revenue was $1.7 million and $5.3 million for the three and nine months ended December 31, 2019, respectively, up by $0.5 million and $0.7 million from the same periods of the previous fiscal year. The increase was due to the amendment to the CoFlow agreement with Shell Global Solutions International B.V. ("Shell"), pursuant to which CMG received development funding for additional resources allocated to CoFlow development and support (see "Commitments, Off Balance Sheet Items and Transactions with Related Parties"). The year-to-date increase was partially offset by lower consulting revenue due to lower customer project activity.

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 December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Sales, marketing and professional services	4,810	(66)	**4,744**	4,109	635	15%
Research and development	5,400	(229)	**5,171**	4,976	195	4%
General and administrative	1,877	(55)	**1,822**	1,582	240	15%
Total operating expenses	12,087	(350)	**11,737**	10,667	1,070	10%
Direct employee costs(1)	9,202	-	**9,202**	7,727	1,475	19%
Other corporate costs	2,885	(350)	**2,535**	2,940	(405)	-14%
	12,087	(350)	**11,737**	10,667	1,070	10%

Nine months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Sales, marketing and professional services	13,927	(199)	**13,728**	13,474	254	2%
Research and development	15,148	(687)	**14,461**	14,613	(152)	-1%
General and administrative	5,298	(165)	**5,133**	4,828	305	6%
Total operating expenses	34,373	(1,051)	**33,322**	32,915	407	1%
Direct employee costs(1)	25,752	-	**25,752**	24,244	1,508	6%
Other corporate costs	8,621	(1,051)	**7,570**	8,671	(1,101)	-13%
	34,373	(1,051)	**33,322**	32,915	407	1%

(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 for the three and nine months ended December 31, 2019 increased by 13% and 4%, primarily due to higher stock-based compensation on cash-settled awards as a result of an increased share price.

The application of IFRS 16 decreased total operating expenses by $0.4 million in the three-month period and by $1.1 million in the nine month period ended December 31. This net decrease is a combination of lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by 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 77% of the total operating expenses for the nine months ended December 31, 2019 related to direct employee costs. Staffing levels in the current fiscal year to date were comparable to the previous fiscal year. At December 31, 2019, CMG's full-time equivalent staff complement was 193 employees and consultants, slightly up from 189 full-time equivalent employees and consultants at December 31, 2018. Direct employee costs for the three and nine months ended December 31, 2019 increased compared to the same periods of the previous fiscal year, due to higher stock-based compensation.

Other Corporate Costs

Prior to the application of IFRS 16, other corporate costs for the three months ended December 31, 2019 decreased slightly by 2%. Prior to the application of IFRS 16, other corporate costs for the nine months ended December 31, 2019 remained consistent with the same period of the previous fiscal year.

Research and Development

Three months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Research and development (gross)	5,709	(229)	**5,480**	5,269	211	4%
SR&ED credits	(309)	-	**(309)**	(293)	(16)	5%
Research and development	5,400	(229)	**5,171**	4,976	195	4%
Research and development as a % of total revenue	28%		**27%**	26%		

Nine months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Research and development (gross)	16,329	(687)	**15,642**	15,693	(51)	0%
SR&ED credits	(1,181)	-	**(1,181)**	(1,080)	(101)	9%
Research and development	15,148	(687)	**14,461**	14,613	(152)	-1%
Research and development as a % of total revenue	26%		**25%**	27%		

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 $1.9 million and $5.2 million of costs for CoFlow for the three and nine months ended December 31, 2019, respectively (2018 – $1.9 million and $5.6 million). See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Prior to applying IFRS 16, research and development costs for the three and nine months ended December 31, 2019 increased by 9% and 4%, primarily due to higher stock-based compensation and, for the nine-month period, also due to an operating cost refund included in the comparative period.

The application of IFRS 16 decreased research and development costs by $0.2 million in the three-month period and by $0.7 million in the nine-month period ended December 31, 2019. This net decrease is a combination of lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by higher depreciation expense on the recognition of right-of-use assets.

SR&ED credits increased by 5% and 9% for the three and nine months ended December 31, 2019, compared to the same periods 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 for the three and nine months ended December 31, 2019 was comparable to the same periods of the previous year.

Depreciation

Three months ended December 31, ($ 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	106	165	**271**	112	159	142%
Research and development	343	353	**696**	340	356	105%
General and administrative	55	84	**139**	57	82	144%
Total depreciation	504	602	**1,106**	509	597	117%

Nine months ended December 31, ($ 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	337	469	**806**	330	476	144%
Research and development	956	1,059	**2,015**	952	1,063	112%
General and administrative	166	252	**418**	171	247	144%
Total depreciation	1,459	1,780	**3,239**	1,453	1,786	123%

Depreciation increased by 117% and 123% in the three and nine months ended December 31, 2019 due to the additional depreciation associated with the right-of-use assets recognized under IFRS 16.

Finance Income and Costs

Three months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Interest income	278	-	**278**	306	(28)	-9%
Net foreign exchange gain	-	-	**-**	694	(694)	-100%
Total finance income	278	-	**278**	1,000	(722)	-72%
Interest expense on lease liability	-	(532)	**(532)**	-	(532)	-100%
Net foreign exchange loss	(239)	9	**(230)**	-	(230)	-100%
Total finance costs	(239)	(523)	**(762)**	-	(762)	-100%

Nine months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Interest income	922	-	**922**	921	1	0%
Net foreign exchange gain	-	-	**-**	765	(765)	-100%
Total finance income	922	-	**922**	1,686	(764)	-45%
Interest expense on lease liability	-	(1,600)	**(1,600)**	-	(1,600)	-100%
Net foreign exchange loss	(466)	38	**(428)**	-	(428)	-100%
Total finance costs	(466)	(1,562)	**(2,028)**	-	(2,028)	-100%

Interest income for the three months ended December 31, 2019 was lower compared to the same period of the previous fiscal year, due to lower cash balances during the quarter. Interest income for the nine months ended December 31, 2019 was comparable to the same period of the previous fiscal year. 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 74% of CMG's revenue for the nine months ended December 31, 2019 (2018 – 76%) is denominated in US dollars, whereas only approximately 24% (2018 – 25%) 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 December 31, 2019, 2018 and 2017 and the average exchange rates used to translate income statement items during the nine months ended December 31, 2019, 2018 and 2017:

CDN$ to US$	At June 30	At September 30	At December 31	Nine month trailing average
2017	0.7706	0.8013	0.7971	0.7717
2018	0.7594	0.7725	0.7330	0.7673
2019	**0.7641**	**0.7551**	**0.7699**	**0.7530**

CMG recorded net foreign exchange losses of $0.2 million and $0.5 million for the three and nine months ended December 31, 2019, due to a weakening of the US dollar at period end, 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 nine months ended December 31, 2019 is 28.1% (2018 – 28.1%), 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 December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Total revenue	19,275	-	**19,275**	19,073	202	1%
Operating expenses	(12,087)	350	**(11,737)**	(10,667)	(1,070)	10%
Operating profit	7,188	350	**7,538**	8,406	(868)	-10%
Operating profit as a % of revenue	37%		**39%**	44%		
Net income for the period	5,245	(133)	**5,112**	6,847	(1,735)	-25%
Net income as a % of total revenue	27%		**27%**	36%		
Basic earnings per share ($/share)	0.07	(0.01)	**0.06**	0.09	(0.03)	-33%

Nine months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Total revenue	57,271	-	**57,271**	53,719	3,552	7%
Operating expenses	(34,373)	1,051	**(33,322)**	(32,915)	(407)	1%
Operating profit	22,898	1,051	**23,949**	20,804	3,145	15%
Operating profit as a % of revenue	40%		**42%**	39%		
Net income for the period	16,870	(448)	**16,422**	16,161	261	2%
Net income as a % of total revenue	29%		**29%**	30%		
Basic earnings per share ($/share)	0.21	(0.01)	**0.20**	0.20	-	0%

Prior to applying IFRS 16, operating profit as a percentage of total revenue was 37% for the three months ended December 31, 2019, down from 44% in the comparative period, primarily due to higher stock-based compensation on cash-settled awards as a result of the higher share price. Under IFRS 16, operating profit as a percentage of total revenue was 39% for the three months ended December 31, 2019, because the adoption of IFRS 16 decreased operating expenses.

For the nine months ended December 31, 2019, operating profit as a percentage of total revenue increased both prior to and after IFRS 16 adoption – 40% and 42%, respectively, compared to 39% in the comparative period, primarily due to higher revenue.

Net income as a percentage of total revenue was 27% for the three months ended December 31, 2019, a decrease compared to 36% in the comparative period, due to higher stock-based compensation on cash-settled awards and a foreign exchange loss recorded in the current quarter (versus a foreign exchange gain recorded in the comparative quarter).

Net income as a percentage of total revenue for the nine months ended December 31, 2019 was 29%, a slight decrease from 30% for the same period of the previous fiscal year.

The adoption of IFRS 16 had a nominal impact on net income as a percentage of revenue.

EBITDA[1]

Three months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Net income for the period	5,245	(133)	**5,112**	6,847	(1,735)	-25%
Add (deduct):						
Depreciation	504	602	**1,106**	509	597	117%
Finance (income) costs	(39)	523	**484**	(1,000)	1,484	-148%
Income and other taxes	1,982	(40)	**1,942**	2,559	(617)	-24%
EBITDA	7,692	952	**8,644**	8,915	(271)	-3%
EBITDA as a % of total revenue	40%		**45%**	47%		

Nine months ended December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Net income for the period	16,870	(448)	**16,422**	16,161	261	2%
Add (deduct):						
Depreciation	1,459	1,780	**3,239**	1,453	1,786	123%
Finance (income) costs	(456)	1,562	**1,106**	(1,686)	2,792	-166%
Income and other taxes	6,484	(63)	**6,421**	6,329	92	1%
EBITDA	24,357	2,831	**27,188**	22,257	4,931	22%
EBITDA as a % of total revenue	43%		**47%**	41%		

(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 December 31, 2019 was 40%, down from 47% in the same period of the previous fiscal year, mainly due to higher operating expenses.

Prior to applying IFRS 16, EBITDA as a percentage of total revenue for the nine months ended December 31, 2019 was 43%, slightly up from 41% in the same period of the previous fiscal year, due to higher revenue, partially offset by higher operating expenses.

EBITDA is higher under IFRS 16 than prior to applying IFRS 16 – 45% and 47% for the three and nine months ended December 31, 2019, respectively – 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 December 31, ($ thousands, except per share data)	Previous lease standard 2019	IFRS 16 impact	**IFRS 16 2019**	2018	$ change	% change
Cash, beginning of period	47,050	-	**47,050**	52,271	(5,221)	-10%
Cash flow provided by (used in):						
Operating activities	(1,901)	289	**(1,612)**	1,607	(3,219)	-200%
Financing activities	(8,025)	(289)	**(8,314)**	(8,022)	(292)	-4%
Investing activities	(351)	-	**(351)**	(253)	(98)	-39%
Cash, end of period	36,773	-	**36,773**	45,603	(8,830)	-19%

Nine months ended December 31, ($ 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	7,250	849	**8,099**	6,600	1,499	23%
Financing activities	(24,073)	(849)	**(24,922)**	(24,050)	(872)	-4%
Investing activities	(694)	-	**(694)**	(666)	(28)	-4%
Cash, end of period	36,773	-	**36,773**	45,603	(8,830)	-19%

At December 31, 2019, CMG had $36.8 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 nine months ended December 31, 2019, 18.5 million shares of CMG's public float were traded on the TSX. As at December 31, 2019, CMG's market capitalization based upon its December 31, 2019 closing price of $8.22 was $659.6 million.

Operating Activities

Prior to applying IFRS 16, cash flow from operating activities decreased by $3.5 million in the three months ended December 31, 2019, compared to the same period of the previous fiscal year. This was mainly due the negative impact of the timing difference of when sales are made and when the resulting receivables are collected.

Prior to applying IFRS 16, cash flow from operating activities increased by $0.7 million in the nine months ended December 31, 2019, compared to the same period of the previous fiscal year. This was mainly due to higher revenue, partially offset by the negative impact of the timing difference of when sales are made and when the resulting receivables are collected and also when expenses are incurred and when the resulting payables are paid.

The application of IFRS 16 increased cash flow from operating activities for the three and nine months ended December 31, 2019 by $0.3 million and $0.8 million, respectively, because the principal reduction portion of lease payments is classified as financing activities under IFRS 16 versus operating activities under the old standard.

Financing Activities

Prior to applying IFRS 16, cash used in financing activities has not changed in the three and nine months ended December 31, 2019, compared to the same periods of the previous fiscal year. The application of IFRS 16 increased cash used in financing activities for the three and nine months ended December 31, 2019 by $0.3 million and $0.8 million, respectively, 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 nine months ended December 31, 2019, CMG paid $24.1 million in dividends, representing the following quarterly dividends:

($ per share)	Q1	Q2	Q3
Total dividends declared and paid	0.10	0.10	0.10

In the nine months ended December 31, 2018 CMG paid $24.1 million in dividends, representing the following quarterly dividends:

($ per share)	Q1	Q2	Q3
Total dividends declared and paid	0.10	0.10	0.10

On February 11, 2020, CMG announced the payment of a quarterly dividend of $0.10 per share on CMG's Common Shares. The dividend will be paid on March 13, 2020 to shareholders of record at the close of business on March 5, 2020. Based on our expectation of profitability and cash-generating ability, we are cautiously optimistic that the Company will continue to pay quarterly dividends.

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 nine months ended December 31, 2019, CMG's cash expenditures on property and equipment were $0.7 million, primarily composed of computer equipment. CMG's capital budget for fiscal 2020 is $1.0 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

CMG, in partnership with Shell currently and historically also with Petroleo Brasileiro S.A., 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 (the "CoFlow Agreement"), CMG is responsible for the research and development costs of CoFlow (estimated to be $7.2 million in fiscal 2020), while Shell provides a fixed fee contribution for the continuing development of the software (estimated to be $4.0 million in fiscal 2020). CMG plans to continue funding CoFlow research and development costs from internally generated cash flows.

In July of 2019, 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 cost of additional resources allocated to CoFlow is 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 December 31, 2019:

(thousands of $)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,382	1,172	4,554
Between one and five years	14,115	4,350	18,465
More than five years	47,265	13,958	61,223
	64,762	19,480	84,242

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 February 11, 2020 (thousands)	
Common Shares	80,249
Stock options	3,964
Restricted share units(1)	377
Performance share units(1)	21

(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 February 11, 2020, CMG could reserve up to 8,024,000 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 December 31, 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

	Fiscal 2018			Fiscal 2019				**Fiscal 2020**
($ thousands)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Funds flow from operations	7,285	5,242	5,777	7,550	7,024	6,097	7,787	**7,366**
Capital expenditures	(381)	(333)	(80)	(253)	(76)	(108)	(235)	**(351)**
Repayment of lease liabilities	-	-	-	-	-	(282)	(278)	**(289)**
Free cash flow	6,904	4,909	5,697	7,297	6,948	5,707	7,274	**6,726**

Outlook

Our annuity and maintenance revenue decreased by 4% during the third quarter and increased by 4% year to date, compared to the same periods of the previous fiscal year. However, the third quarter of the previous fiscal year included revenue from a customer for whom revenue is recognized only when payment is received. After normalizing the comparative periods for this revenue, annuity and maintenance revenue increased by 7% during both the three and nine months ended December 31, 2019.

All regions contributed to this normalized growth. The US region increased by 8% in the third quarter and year to date, supported by increased licensing by both existing and new customers. While Canadian software revenue has shown improvement this fiscal year to date, we are cautious of the impact the consolidation activity in the industry might have on our contract renewals in the fourth quarter of fiscal 2020 and in fiscal 2021. South America achieved double-digit growth for the third quarter in a row, resulting in a 15% year-to-date increase (without normalizing the prior periods for revenue from a cash-basis customer as explained above, South American annuity and maintenance decreased by 41% during the third quarter and by 13% year to date). The Eastern Hemisphere grew by 4% in the third quarter and 8% year to date. The growth in both of these regions was due to increased licensing by existing customers, as well as the addition of new customers. The strengthening of the average US dollar exchange rate relative to the Canadian dollar had a positive impact on revenue in these international regions.

Third quarter perpetual license revenue was up 58%, compared to third quarter of the previous fiscal year, due to strong perpetual sales in South America and Europe. Year-to-date perpetual license revenue was up 55%, due to strong perpetual sales in South America, Europe and Asia.

In July, 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. Pursuant to this amendment, during the three and nine months ended December 31, 2019, CMG recorded higher professional services revenue for additional resources allocated to CoFlow development. To date, CMG has added and/or internally reallocated 12 full-time equivalent positions (out of the 26 allowed by the amendment) to CoFlow development and support.

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 $0.1 million and $0.4 million on the Company's quarterly and year-to-date net income.

The decrease in operating expenses due to IFRS 16 was offset by increased Q3 stock-based compensation expense due to the higher share price, which resulted in overall operating expense increases of 10% for the quarter and 1% year to date. Nevertheless, our EBITDA was strong at 45% and 47% of revenue for the quarter and year to date, respectively (without the positive impact of applying IFRS 16, EBITDA was 40% and 43% of revenue, respectively).

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). In December 2019, we implemented organizational changes in order to focus on the usability of our software, improved workflow and positive customer experience. Anjani Kumar, formerly Vice President, Engineering Solutions and Marketing, retains the role of Vice President, Engineering Solutions and, in addition to leading our consulting, support and training group, will oversee the ongoing development of Builder and Results, our data import, model build and visualization applications, with the objective of improving customer workflows and bringing more user perspective to our software development. The marketing team, with renewed emphasis on customer experience, will report directly to myself.

Effective February 11, 2020, Jason Close, General Manager, CoFlow was promoted to Vice President, CoFlow Commercialization. Jason holds a Bachelor of Petroleum Engineering degree from the Colorado School of Mines. Jason started with CMG over 15 years ago, with our engineering support team, progressed into a sales role and for the past six years was responsible for Canadian sales and then added strategic relationships. In December 2019, we appointed Jason to the role of General Manager, CoFlow to focus on its commercial success. With Jason's extensive experience building relationships with CMG's customers, in combination with his technical acumen and leadership skills, Jason is well-suited to lead the CoFlow team and foster business growth opportunities.

Long Nghiem, in his role of Vice President, Research and Development and Chief Technology Officer, retains oversight of the entire research and development team.

We ended the third quarter of 2020 with a strong balance sheet, no borrowings and $36.8 million in cash. During the quarter, we achieved free cash flow of $0.08 per share. 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
February 11, 2020

Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian $)	**December 31, 2019**	March 31, 2019*
Assets		
Current assets:		
Cash	**36,773**	54,290
Trade and other receivables	**11,772**	19,220
Prepaid expenses	**1,019**	1,332
Prepaid income taxes (note 10)	**457**	367
	50,021	75,209
Property and equipment	**13,737**	14,501
Right-of-use assets (note 3)	**38,348**	-
Deferred tax asset (note 10)	**1,327**	595
Total assets	**103,433**	90,305
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities	**5,882**	6,162
Income taxes payable (note 10)	**90**	60
Deferred revenue (note 5)	**15,679**	34,653
Lease liability (note 6)	**1,298**	-
	22,949	40,875
Deferred revenue (note 5)	**-**	362
Lease liability (note 6)	**41,308**	-
Deferred rent liability	**-**	1,813
Total liabilities	**64,257**	43,050
Shareholders' equity:		
Share capital (note 11)	**79,851**	79,711
Contributed surplus	**13,379**	12,808
Deficit	**(54,054)**	(45,264)
Total shareholders' equity	**39,176**	47,255
Total liabilities and shareholders' equity	**103,433**	90,305

*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 event (note 15)

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income

UNAUDITED (thousands of Canadian $ except per share amounts)	Three months ended December 31 2019	Three months ended December 31 2018*	Nine months ended December 31 2019	Nine months ended December 31 2018*
Revenue (note 7)	**19,275**	19,073	**57,271**	53,719
Operating expenses				
Sales, marketing and professional services	**4,744**	4,109	**13,728**	13,474
Research and development (note 8)	**5,171**	4,976	**14,461**	14,613
General and administrative	**1,822**	1,582	**5,133**	4,828
	11,737	10,667	**33,322**	32,915
Operating profit	**7,538**	8,406	**23,949**	20,804
Finance income (note 9)	**278**	1,000	**922**	1,686
Finance costs (note 9)	**(762)**	-	**(2,028)**	-
Profit before income and other taxes	**7,054**	9,406	**22,843**	22,490
Income and other taxes (note 10)	**1,942**	2,559	**6,421**	6,329
Net and total comprehensive income	**5,112**	6,847	**16,422**	16,161
Earnings per share				
Basic and diluted (note 11(d))	**0.06**	0.09	**0.20**	0.20

*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
Balance, April 1, 2018	79,598	11,775	(35,309)	56,064
Total comprehensive income for the year	-	-	16,161	16,161
Dividends paid	-	-	(24,067)	(24,067)
Shares issued on redemption of restricted share units (note 11(b))	93	-	-	93
Shares issued for cash on exercise of stock options (note 11(b))	17	-	-	17
Stock-based compensation:				
Current period expense (note 11(c))	-	816	-	816
Stock options exercised (note 11(b))	3	(3)	-	-
Balance, December 31, 2018	79,711	12,588	(43,215)	49,084
Balance, April 1, 2019	**79,711**	**12,808**	**(45,264)**	**47,255**
Impact of change in accounting policy*	**-**	**-**	**(1,139)**	**(1,139)**
Adjusted balance, April 1, 2019	**79,711**	**12,808**	**(46,403)**	**46,116**
Total comprehensive income for the period	**-**	**-**	**16,422**	**16,422**
Dividends paid	**-**	**-**	**(24,073)**	**(24,073)**
Shares issued on redemption of restricted share units (note 11(b))	**140**	**-**	**-**	**140**
Stock-based compensation:				
Current period expense (note 11(c))	**-**	**571**	**-**	**571**
Balance, December 31, 2019	**79,851**	**13,379**	**(54,054)**	**39,176**

*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

UNAUDITED (thousands of Canadian $)	Three months ended December 31 2019	2018*	Nine months ended December 31 2019	2018*
Operating activities				
Net income	**5,112**	6,847	**16,422**	16,161
Adjustments for:				
Depreciation	**1,106**	509	**3,239**	1,453
Deferred income tax expense (recovery) (note 10)	**(246)**	107	**(348)**	(76)
Stock-based compensation (note 11(c))	**1,394**	(19)	**1,937**	713
Deferred rent	**-**	106	**-**	318
Funds flow from operations	**7,366**	7,550	**21,250**	18,569
Movement in non-cash working capital:				
Trade and other receivables	**(1,419)**	2,694	**7,448**	8,875
Trade payables and accrued liabilities	**325**	635	**(1,414)**	(558)
Prepaid expenses	**301**	(263)	**211**	(122)
Income taxes payable	**(15)**	431	**(60)**	(269)
Deferred revenue	**(8,170)**	(9,440)	**(19,336)**	(19,895)
Increase in non-cash working capital	**(8,978)**	(5,943)	**(13,151)**	(11,969)
Net cash (used in) provided by operating activities	**(1,612)**	1,607	**8,099**	6,600
Financing activities				
Proceeds from the issue of common shares	**-**	-	**-**	17
Repayment of lease liability	**(289)**	-	**(849)**	-
Dividends paid	**(8,025)**	(8,022)	**(24,073)**	(24,067)
Net cash used in financing activities	**(8,314)**	(8,022)	**(24,922)**	(24,050)
Investing activities				
Property and equipment additions	**(351)**	(253)	**(694)**	(666)
Decrease in cash	**(10,277)**	(6,668)	**(17,517)**	(18,116)
Cash, beginning of period	**47,050**	52,271	**54,290**	63,719
Cash, end of period	**36,773**	**45,603**	**36,773**	**45,603**
Supplementary cash flow information				
Interest received (note 9)	**277**	306	**931**	932
Interest paid (notes 6 and 9)	**532**	-	**1,600**	-
Income taxes paid	**(1,663)**	(1,728)	**(5,723)**	(5,594)

* 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 Interim Financial Statements

For the three and nine months ended December 31, 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 and nine months ended December 31, 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 interim 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").

The Company adopted IFRS 16 *Leases* effective April 1, 2019. 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. Prior periods have been revised to conform with the current period presentation.

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended December 31, 2019 were authorized for issuance by the Board of Directors on February 11, 2020.

(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 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 interim 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 leases as either finance or operating.

The Company's only leases are office space leases, the most significant of which is the twenty-year head office lease that commenced in 2017. The Company's accounting policy for leases 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 patterns of consumption 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. Since the lease agreement for the Company's head office contains a rent escalation clause, 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.

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)
Lease liability recognized as at April 1, 2019	**43,082**
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
Assets			
Current assets:			
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
Total assets	90,305	40,037	130,342
Liabilities and shareholders' equity			
Current liabilities:			
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)	-
Total liabilities	43,050	41,176	84,226
Shareholders' equity:			
Share capital	79,711	-	79,711
Contributed surplus	12,808	-	12,808
Deficit	(45,264)	(1,139)	(46,403)
Total shareholders' equity	47,255	(1,139)	46,116
Total liabilities and shareholders' equity	90,305	40,037	130,342

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 and nine months ended December 31, 2019:

Condensed Consolidated Statement of Financial Position

(thousands of $)	December 31, 2019 As reported	Adjustments	December 31, 2019 Balance without IFRS 16 adoption
Assets			
Current assets:			
Cash	36,773	-	36,773
Trade and other receivables	11,772	-	11,772
Prepaid expenses	1,019	-	1,019
Prepaid income taxes	457	-	457
	50,021	-	50,021
Property and equipment	13,737	-	13,737
Right-of-use assets	38,348	(38,348)	-
Deferred tax asset	1,327	(446)	881
Total assets	103,433	(38,794)	64,639
Liabilities and shareholders' equity			
Current liabilities:			
Trade payables and accrued liabilities	5,882	95	5,977
Income taxes payable	90	-	90
Deferred revenue	15,679	-	15,679
Lease liability	1,298	(1,298)	-
	22,949	(1,203)	21,746
Lease liability	41,308	(41,308)	-
Deferred rent liability	-	2,131	2,131
Total liabilities	64,257	(40,380)	23,877
Shareholders' equity:			
Share capital	79,851	-	79,851
Contributed surplus	13,379	-	13,379
Deficit	(54,054)	1,586	(52,468)
Total shareholders' equity	39,176	1,586	40,762
Total liabilities and shareholders' equity	103,433	(38,794)	64,639

Condensed Consolidated Statement of Operations and Comprehensive Income

(thousands of $ except per share amounts)	Three months ended December 31, 2019 As reported	Adjustments	Three months ended December 31, 2019 without IFRS 16 adoption
Revenue	19,275	-	19,275
Operating expenses			
Sales, marketing and professional services	4,744	66	4,810
Research and development	5,171	229	5,400
General and administrative	1,822	55	1,877
	11,737	350	12,087
Operating profit	7,538	(350)	7,188
Finance income	278	-	278
Finance costs	(762)	523	(239)
Profit before income and other taxes	7,054	173	7,227
Income and other taxes	1,942	40	1,982
Net and total comprehensive income	5,112	133	5,245
Earnings per share, basic and diluted	0.06	0.01	0.07

(thousands of $ except per share amounts)	Nine months ended December 31, 2019 As reported	Adjustments	Nine months ended December 31, 2019 without IFRS 16 adoption
Revenue	57,271	-	57,271
Operating expenses			
Sales, marketing and professional services	13,728	199	13,927
Research and development	14,461	687	15,148
General and administrative	5,133	165	5,298
	33,322	1,051	34,373
Operating profit	23,949	(1,051)	22,898
Finance income	922	-	922
Finance costs	(2,028)	1,562	(466)
Profit before income and other taxes	22,843	511	23,354
Income and other taxes	6,421	63	6,484
Net and total comprehensive income	16,422	448	16,870
Earnings per share, basic and diluted	0.20	0.01	0.21

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 December 31, 2019 As reported	Adjustments	Three months ended December 31, 2019 without IFRS 16 adoption
Net cash used in operating activities	(1,612)	(289)	(1,901)
Net cash used in financing activities	(8,314)	289	(8,025)

(thousands of $)	Nine months ended December 31, 2019 As reported	Adjustments	Nine months ended December 31, 2019 without IFRS 16 adoption
Net cash provided by operating activities	8,099	(849)	7,250
Net cash used in financing activities	(24,922)	849	(24,073)

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 7):

(thousands of $)	**December 31, 2019**	March 31, 2019
Canada	**50,530**	14,215
United States	**1,030**	152
South America	**467**	74
Eastern Hemisphere[(1)]	**58**	60
	52,085	14,501

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

5. Deferred Revenue:

The following table presents changes in the deferred revenue balance for the nine months ended December 31, 2019:

(thousands of $)	
Balance, March 31, 2019	35,015
Invoiced during the period, excluding amount recognized as revenue during the period	13,746
Recognition of deferred revenue included in the balance at the beginning of the period	(33,082)
Balance, December 31, 2019	**15,679**

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
Additions	373
Interest on lease liability (note 9)	1,600
Lease payments	(2,449)
Balance, December 31, 2019	**42,606**
Current	1,298
Long-term	41,308

The following table presents contractual undiscounted payments for lease liability as at December 31, 2019:

(thousands of $)	
Less than one year	3,382
Between one and five years	14,115
More than five years	47,265
Total undiscounted payments	**64,762**

7. Revenue:

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

	Three months ended December 31		Nine months ended December 31	
(thousands of $)	**2019**	2018	**2019**	2018
Annuity/maintenance license revenue				
Canada	**3,950**	3,767	**11,653**	11,426
United States	**5,147**	4,777	**15,131**	13,956
South America	**2,015**	3,397	**5,931**	6,810
Eastern Hemisphere	**5,500**	5,299	**16,026**	14,874
	16,612	17,240	**48,741**	47,066
Perpetual license revenue				
Canada	**-**	-	**-**	156
United States	**-**	362	**298**	514
South America	**511**	6	**1,280**	6
Eastern Hemisphere	**453**	243	**1,691**	1,433
	964	611	**3,269**	2,109
Total software license revenue	**17,576**	17,851	**52,010**	49,175
Professional services				
Canada	**1,499**	1,090	**4,668**	3,243
United States	**89**	39	**154**	326
South America	**21**	42	**89**	401
Eastern Hemisphere	**90**	51	**350**	574
	1,699	1,222	**5,261**	4,544
Total revenue				
Canada	**5,449**	4,857	**16,321**	14,825
United States	**5,236**	5,178	**15,583**	14,796
South America	**2,547**	3,445	**7,300**	7,217
Eastern Hemisphere	**6,043**	5,593	**18,067**	16,881
	19,275	19,073	**57,271**	53,719

The amount of revenue recognized during the nine months ended December 31, 2019 from performance obligations satisfied (or partially satisfied) in previous periods is $1.8 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 $)	**December 31, 2019**	March 31, 2019
Receivables (included in "Trade and other receivables")	**11,447**	16,783

In the nine months ended December 31, 2019, one customer comprised 10.9% of the Company's total revenue (December 31, 2018 – nil customers over 10%).

8. Research and Development Costs:

Three months ended December 31, (thousands of $)	**2019**	2018
Research and development	**5,480**	5,269
Scientific research and experimental development ("SR&ED") investment tax credits	**(309)**	(293)
	5,171	4,976

Nine months ended December 31, (thousands of $)	**2019**	2018
Research and development	**15,642**	15,693
Scientific research and experimental development ("SR&ED") investment tax credits	**(1,181)**	(1,080)
	14,461	14,613

9. Finance Income and Finance Costs:

Three months ended December 31, (thousands of $)	**2019**	2018
Interest income	**278**	306
Net foreign exchange gain	**-**	694
Finance income	**278**	1,000
Interest expense on lease liability (note 6)	**(532)**	-
Net foreign exchange loss	**(230)**	-
Finance costs	**(762)**	-

Nine months ended December 31, (thousands of $)	**2019**	2018
Interest income	**922**	921
Net foreign exchange gain	**-**	765
Finance income	**922**	1,686
Interest expense on lease liability (note 6)	**(1,600)**	-
Net foreign exchange loss	**(428)**	-
Finance costs	**(2,028)**	-

10. Income and Other Taxes:

The major components of income tax expense are as follows:

Nine months ended December 31, (thousands of $)	**2019**	2018
Current year income tax expense	**6,613**	6,260
Adjustment for prior year	**47**	20
Current income taxes	**6,660**	6,280
Deferred tax recovery	**(348)**	(76)
Foreign withholding and other taxes	**109**	125
	6,421	6,329

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:

Nine months ended December 31, (thousands of $, unless otherwise stated)	**2019**	2018
Combined statutory tax rate	**26.00%**	27.00%
Expected income tax	**5,939**	6,072
Effect of statutory tax rate reduction	**225**	-
Non-deductible costs	**210**	229
Effect of tax rates in foreign jurisdictions	**(6)**	(14)
Withholding taxes	**18**	27
Adjustment for prior year	**22**	20
Other	**13**	(5)
	6,421	6,329

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

(thousands of $)	**December 31, 2019**	March 31, 2019
SR&ED investment tax credits	**(193)**	(247)
Property and equipment	**101**	116
Right-of-use assets	**936**	-
Deferred rent	**-**	489
Stock-based compensation liability	**483**	237
Net deferred tax asset	**1,327**	595

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, 2018	80,215
Issued on redemption of restricted share units	10
Issued for cash on exercise of stock options	2
Balance, December 31, 2018	80,227
Balance, April 1, 2019	**80,227**
Issued on redemption of restricted share units	**22**
Balance, December 31, 2019	**80,249**

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 December 31, (thousands of $)	**2019**	2018
Equity-settled plans	**170**	219
Cash-settled plans	**1,223**	(238)
Total stock-based compensation expense	**1,393**	(19)

Nine months ended December 31, (thousands of $)	**2019**	2018
Equity-settled plans	**571**	816
Cash-settled plans	**1,809**	121
Total stock-based compensation expense	**2,380**	937

Liability Recognized for Stock-Based Compensation (1)

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

(thousands of $)	**December 31, 2019**	March 31, 2019
SARs	**531**	76
RSUs	**1,183**	654
DSUs	**388**	145
Total stock-based compensation liability	**2,102**	875

(1) The intrinsic value of the vested awards at December 31, 2019 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 December 31, 2019, the Company may reserve up to 8,024,000 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:

	Nine months ended December 31, 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	**757**	**6.37**	524	9.12
Exercised	**-**	**-**	(2)	9.78
Forfeited/expired	**(1,901)**	**12.87**	(2,201)	12.17
Outstanding at end of period	**3,964**	**9.66**	5,108	11.34
Options exercisable at end of period	**2,740**	**10.65**	3,969	11.92

The range of exercise prices of stock options outstanding and exercisable at December 31, 2019 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)
6.31 to 6.60	755	4.6	6.32	-	-
6.61 to 9.20	508	3.7	9.18	245	9.20
9.21 to 9.33	826	2.6	9.33	620	9.33
9.34 to 9.78	768	1.6	9.78	768	9.78
9.79 to 13.98	1,107	0.6	12.31	1,107	12.31
	3,964	2.4	9.66	2,740	10.65

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

	Nine months ended December 31, 2019	Year ended March 31, 2019
Fair value at grant date ($/option)	**0.72 to 1.42**	0.83 to 1.63
Share price at grant date ($/share)	**6.31 to 8.70**	6.60 to 9.20
Risk-free interest rate (%)	**1.28 to 1.53**	1.77 to 2.17
Estimated hold period prior to exercise (years)	**3 to 4**	3 to 4
Volatility in the price of common shares (%)	**28 to 31**	29 to 31
Dividend yield per common share (%)	**4.71 to 6.28**	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:

	Nine months ended December 31, 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	221	6.31	389	9.20
Forfeited	-	-	(20)	9.35
Outstanding at end of period	1,173	8.80	952	9.38
SARs exercisable at end of period	675	9.44	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.

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)	Nine months ended December 31, 2019			Year ended March 31, 2019		
	RSUs	PSUs	DSUs	RSUs	PSUs	DSUs
Outstanding at beginning of period	237	-	24	108	-	11
Granted	303	29	23	173	-	13
Exercised	(91)	-	-	(36)	-	-
Forfeited	(20)	-	-	(8)	-	-
Outstanding at end of period	429	29	47	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 December 31, (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	**5,112**	**80,249**	**0.06**	6,847	80,227	0.09
Dilutive effect of stock options		**132**			81	
Diluted	**5,112**	**80,381**	**0.06**	6,847	80,308	0.09

Nine months ended December 31, (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	**16,422**	**80,238**	**0.20**	16,161	80,221	0.20
Dilutive effect of stock options		**117**			75	
Diluted	**16,422**	**80,355**	**0.20**	16,161	80,296	0.20

During the three and nine months ended December 31, 2019, nil and 189,000 awards, respectively (three and nine months ended December 31, 2018 – nil and 30,000 awards, respectively), 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 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 (the "CoFlow Agreement"), CMG is responsible for the research and development costs of CoFlow (estimated to be $7.2 million in fiscal 2020), while Shell provides a fixed fee contribution for the continuing development of the software (estimated to be $4.0 million in fiscal 2020).

Pursuant to the CoFlow Agreement, during the three and nine months ended December 31, 2019, the Company recorded professional services revenue of $1.0 million and $3.0 million, respectively (three and nine months ended December 31, 2018 – $1.0 million and $3.0 million) and CoFlow costs of $1.9 million and $5.2 million, respectively, to research and development expenses (three and nine months ended December 31, 2018 – $1.9 million and $5.6 million).

In July of 2019, 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 cost of additional resources allocated to CoFlow is expected to be in the range of $4.5 – $6.5 million on an annualized basis by the end of fiscal 2020. Pursuant to this amendment, during the three and nine months ended December 31, 2019, the Company recorded an additional $0.5 million and $1.6 million, respectively, as professional services revenue from Shell for additional resources allocated to CoFlow.

(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 December 31, 2019:

(thousands of $)	
Operating lease commitments disclosed as at March 31, 2019	89,013
Remove portion related to IFRS 16 *Leases*	(66,747)
Non-lease component of office leases, April 1, 2019	22,266
Commitments recognized as lease liability upon lease commencement	(528)
Payments made year to date	(958)
Changes in estimated operating costs	(1,300)
Non-lease component of office leases, December 31, 2019	19,480

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

(thousands of $)	As at December 31, 2019
Less than one year	1,172
Between one and five years	4,350
More than five years	13,958
	19,480

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 December 31, 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.

15. Subsequent Event:

On February 11, 2020, the Board of Directors declared a quarterly cash dividend of $0.10 per share on its Common Shares, payable on March 13, 2020 to all shareholders of record at the close of business on March 5, 2020.

CORPORATE INFORMATION

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Mark R. Miller

Ryan N. Schneider

Robert F. M. Smith (2)

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

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President and Chief Executive Officer

Sandra Balic
Vice President,
Finance and Chief Financial Officer

Jason Close
Vice President,
CoFlow Commercialization

Jim C. Erdle
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R. David Hicks
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Stock Exchange Listing

Toronto Stock Exchange: **CMG**