

Q3 2016

For the period ended December 31, 2015

CMG COMPUTER
MODELLING
GROUP LTD.

To our Shareholders

Computer Modelling Group Ltd. is very pleased to announce our third quarter results for the three and nine months ended December 31, 2015.

THIRD QUARTER HIGHLIGHTS

Three months ended December 31, (\$ thousands, except per share data)	2015	2014	\$ change	% change
Annuity/maintenance software licenses	17,297	16,071	1,226	8%
Perpetual software licenses	2,729	7,150	(4,421)	-62%
Total revenue	21,217	25,206	(3,989)	-16%
Operating profit	10,342	14,315	(3,973)	-28%
Net income	7,853	10,982	(3,129)	-28%
Earnings per share - basic	0.10	0.14	(0.04)	-29%
Nine months ended December 31, (\$ thousands, except per share data)	2015	2014	\$ change	% change
Annuity/maintenance software licenses	50,825	47,368	3,457	7%
Perpetual software licenses	6,387	11,243	(4,856)	-43%
Total revenue	61,782	64,489	(2,707)	-4%
Operating profit	28,996	32,996	(4,000)	-12%
Net income	21,420	24,699	(3,279)	-13%
Earnings per share - basic	0.27	0.31	(0.04)	-13%

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 9, 2016, should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of the Company for the three and nine months ended December 31, 2015 and the audited consolidated financial statements and MD&A for the years ended March 31, 2015 and 2014 contained in the 2015 Annual Report for CMG. 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 and rounded to the nearest thousand.

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 partners in CoFlow 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 described in the MD&A of CMG's 2015 Annual Report under the heading "Business Risks":

- 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.

NON-IFRS FINANCIAL MEASURES

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as “EBITDA”, “direct employee costs” and “other corporate costs.” Since these measures do not have a standard meaning prescribed by IFRS, they are unlikely to be comparable to similar measures presented by other issuers. 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.

CORPORATE PROFILE

CMG is a computer software technology company serving the oil and gas industry. The Company is a leading supplier of advanced processes 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, Caracas, Dubai, Bogota and Kuala Lumpur. CMG’s Common Shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “CMG”.

QUARTERLY PERFORMANCE

(\$ thousands, unless otherwise stated)	Fiscal 2014 ⁽¹⁾			Fiscal 2015 ⁽²⁾			Fiscal 2016 ⁽³⁾	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Annuity/maintenance licenses	15,750	15,966	15,331	16,071	16,063	16,738	16,790	17,297
Perpetual licenses	1,972	1,432	2,661	7,150	2,162	2,563	1,095	2,729
Software licenses	17,722	17,398	17,992	23,221	18,225	19,301	17,885	20,026
Professional services	2,254	2,154	1,739	1,985	2,147	2,139	1,240	1,191
Total revenue	19,976	19,552	19,731	25,206	20,372	21,440	19,125	21,217
Operating profit	9,561	9,121	9,560	14,315	8,520	10,494	8,160	10,342
Operating profit (%)	48	47	48	57	42	49	43	49
EBITDA ⁽⁴⁾	10,001	9,488	9,949	14,717	8,945	10,824	8,519	10,686
Profit before income and other taxes	10,761	8,733	10,411	15,144	11,310	9,742	9,365	10,974
Income and other taxes	3,025	2,489	2,938	4,162	3,361	2,941	2,599	3,121
Net income for the period	7,736	6,244	7,473	10,982	7,949	6,801	6,766	7,853
Cash dividends declared and paid	7,449	7,872	7,880	7,862	7,848	7,876	7,891	7,871
Per share amounts - (\$/share)								
Earnings per share - basic	0.10	0.08	0.09	0.14	0.10	0.09	0.09	0.10
Earnings per share - diluted	0.10	0.08	0.09	0.14	0.10	0.09	0.08	0.10
Cash dividends declared and paid	0.095	0.10	0.10	0.10	0.10	0.10	0.10	0.10

(1) Q4 of fiscal 2014 includes \$1.8 million in revenue that pertains to usage of CMG's products in prior quarters.

(2) Q1, Q2, Q3 and Q4 of fiscal 2015 include \$1.5 million, \$0.2 million, \$0.2 million and \$0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1, Q2 and Q3 of fiscal 2016 include \$1.0 million, \$0.3 million and \$0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(4) EBITDA is defined as net income before adjusting for depreciation expense, finance income, finance costs, and income and other taxes. See "Non-IFRS Financial Measures".

Highlights

During the nine months ended December 31, 2015, as compared to the same period of the prior fiscal year, CMG:

- Increased annuity/maintenance revenue by 7%
- Experienced decrease in total revenue of 4%
- Maintained the same level of spending on research and development

During the nine months ended December 31, 2015, CMG:

- Declared and paid a regular quarterly dividend of \$0.10
- Realized basic earnings per share of \$0.27
- Purchased 589,000 Common Shares for cancellation under the Normal Course Issuer Bid ("NCIB")

Revenue

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Software licenses	20,026	23,221	(3,195)	-14%
Professional services	1,191	1,985	(794)	-40%
Total revenue	21,217	25,206	(3,989)	-16%
Software license revenue - % of total revenue	94%	92%		
Professional services - % of total revenue	6%	8%		
Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Software licenses	57,212	58,611	(1,399)	-2%
Professional services	4,570	5,878	(1,308)	-22%
Total revenue	61,782	64,489	(2,707)	-4%
Software license revenue - % of total revenue	93%	91%		
Professional services - % of total revenue	7%	9%		

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 decreased by 16% for the three months ended December 31, 2015, compared to the same period of the previous fiscal year, primarily due to a decrease in software license revenue. Fees for professional services also declined during this time period.

Total revenue decreased by 4% for the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, due to decreases in both software license revenue and professional services.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Annuity/maintenance licenses	17,297	16,071	1,226	8%
Perpetual licenses	2,729	7,150	(4,421)	-62%
Total software license revenue	20,026	23,221	(3,195)	-14%
Annuity/maintenance as a % of total software license revenue	86%	69%		
Perpetual as a % of total software license revenue	14%	31%		
Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Annuity/maintenance licenses	50,825	47,368	3,457	7%
Perpetual licenses	6,387	11,243	(4,856)	-43%
Total software license revenue	57,212	58,611	(1,399)	-2%
Annuity/maintenance as a % of total software license revenue	89%	81%		
Perpetual as a % of total software license revenue	11%	19%		

Total software license revenue decreased by 14% in the three months ended December 31, 2015, compared to the same period of the previous fiscal year, due to a decrease in perpetual license sales, partially offset by an increase in annuity/maintenance revenue.

Total software license revenue decreased by 2% in the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, due to a decrease in perpetual licenses partially offset by an increase in annuity/maintenance revenue.

CMG's annuity/maintenance license revenue increased by 8% and 7% during the three and nine months ended December 31, 2015, respectively, compared to the same periods of the previous fiscal year, mainly due to the positive effect of the strengthening of the US dollar in relation to the Canadian dollar.

During the three and nine months ended December 31, 2015, the Eastern Hemisphere and US experienced growth in annuity/maintenance revenue, compared to the same periods of the previous fiscal year, which was partially offset by decreases in South America and Canada.

Our annuity/maintenance revenue is impacted by the revenue recognition from a long-standing customer for which revenue recognition criteria are fulfilled only at the time of the receipt of funds (see the discussion about revenue earned in the current period that pertains to usage of products in prior quarters above the "Quarterly Software License Revenue" graph). The variability of the amounts of the payments received and the timing of such payments may skew the comparison of the recorded annuity/maintenance revenue amounts between periods. No amounts were received from this customer during the three months ended December 31, 2015 and 2014. If we were to remove revenue from this particular customer from the nine months ended December 31, 2015 and 2014, we will notice that the annuity/maintenance revenue increased by 11%, instead of 7%, as compared to the same period of the previous fiscal year. Historically we have received payments from this particular customer, however, there is increasing uncertainty associated with the receipt of payments due to the economic conditions in the country where this customer is located. Payments from this customer will continue to be recorded on a cash basis which may introduce some variability in our reported quarterly annuity/maintenance revenue results.

Perpetual license sales decreased by \$4.4 million or 62% for the three months ended December 31, 2015, compared to the same period of the previous fiscal year, with majority of the decline occurring in South America as a result of a large perpetual sale recorded in the third quarter of the previous fiscal year.

Perpetual license sales decreased by \$4.9 million or 43% for the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, mainly due to fewer perpetual sales being realized in South America.

Software licensing under perpetual sales may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of aggregate perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year.

We can observe from the tables below that the exchange rates between the US and Canadian dollars during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, had a positive impact on our reported license revenue.

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

Three months ended December 31, (\$ thousands)		2015	2014	\$ change	% change
US dollar annuity/maintenance license sales	US\$	10,833	10,447	386	4%
Weighted average conversion rate		1.254	1.086		
Canadian dollar equivalent	CDN\$	13,588	11,350	2,238	20%
US dollar perpetual license sales	US\$	2,049	6,306	(4,257)	-68%
Weighted average conversion rate		1.333	1.134		
Canadian dollar equivalent	CDN\$	2,732	7,150	(4,418)	-62%
Nine months ended December 31, (\$ thousands)		2015	2014	\$ change	% change
US dollar annuity/maintenance license sales	US\$	31,457	31,550	(93)	0%
Weighted average conversion rate		1.232	1.078		
Canadian dollar equivalent	CDN\$	38,759	34,009	4,750	14%
US dollar perpetual license sales	US\$	4,559	9,620	(5,061)	-53%
Weighted average conversion rate		1.293	1.117		
Canadian dollar equivalent	CDN\$	5,893	10,746	(4,853)	-45%

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

Three months ended December 31, (\$ thousands)	Q3 2015 Balance	Incremental License Growth	Foreign Exchange Impact	Q3 2016 Balance
Annuity/maintenance license sales	16,071	(593)	1,819	17,297
Perpetual license sales	7,150	(4,830)	409	2,729
Total software license revenue	23,221	(5,423)	2,228	20,026

Nine months ended December 31, (\$ thousands)	Q3 2015 Balance	Incremental License Growth	Foreign Exchange Impact	Q3 2016 Balance
Annuity/maintenance license sales	47,368	(1,394)	4,851	50,825
Perpetual license sales	11,243	(5,657)	801	6,387
Total software license revenue	58,611	(7,051)	5,652	57,212

As discussed previously, our annuity/maintenance revenue is impacted by the revenue recognition from a long-standing customer for which revenue recognition criteria are fulfilled only at the time of the receipt of funds. If we were to normalize for this customer, the annuity/maintenance incremental license growth in the above table would have been flat for the nine months ended December 31, 2015.

SOFTWARE REVENUE BY GEOGRAPHIC SEGMENT

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Annuity/maintenance revenue				
Canada	5,626	6,457	(831)	-13%
United States	4,342	4,178	164	4%
South America	1,746	1,783	(37)	-2%
Eastern Hemisphere ⁽¹⁾	5,583	3,653	1,930	53%
	17,297	16,071	1,226	8%
Perpetual revenue				
Canada	-	-	-	0%
United States	187	-	187	0%
South America	522	4,310	(3,788)	-88%
Eastern Hemisphere	2,020	2,840	(820)	-29%
	2,729	7,150	(4,421)	-62%
Total software license revenue				
Canada	5,626	6,457	(831)	-13%
United States	4,529	4,178	351	8%
South America	2,268	6,093	(3,825)	-63%
Eastern Hemisphere	7,603	6,493	1,110	17%
	20,026	23,221	(3,195)	-14%

Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Annuity/maintenance revenue				
Canada	17,685	19,063	(1,378)	-7%
United States	12,983	11,679	1,304	11%
South America	4,825	6,240	(1,415)	-23%
Eastern Hemisphere ⁽¹⁾	15,332	10,386	4,946	48%
	50,825	47,368	3,457	7%
Perpetual revenue				
Canada	496	497	(1)	0%
United States	1,369	174	1,195	687%
South America	982	6,579	(5,597)	-85%
Eastern Hemisphere	3,540	3,993	(453)	-11%
	6,387	11,243	(4,856)	-43%
Total software license revenue				
Canada	18,181	19,560	(1,379)	-7%
United States	14,352	11,853	2,499	21%
South America	5,807	12,819	(7,012)	-55%
Eastern Hemisphere	18,872	14,379	4,493	31%
	57,212	58,611	(1,399)	-2%

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

During the three months ended December 31, 2015, on a geographic basis, total software license sales declined in South America and Canada, partially offset by increases in the Eastern Hemisphere and the US, as compared to the same period of the previous fiscal year.

During the nine months ended December 31, 2015, on a geographic basis, declines in total software license sales in South America and Canada were partially offset by increases in the Eastern Hemisphere and the US, compared to the same period of the previous fiscal year.

The Canadian market (representing 32% of year-to-date total software revenue) experienced declines in annuity/maintenance license sales during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, due to a reduction in licensing by customers and due to shifting of some licenses from Canada to the US. Perpetual sales remained flat in the three and nine months ended December 31, 2015 compared to the same periods of the previous fiscal year.

The US market (representing 25% of year-to-date total software revenue) grew annuity/maintenance license sales during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, mainly as a result of the positive effect of foreign exchange on the conversion of the US dollars. While perpetual revenue increased modestly during the three months ended December 31, 2015, it increased by \$1.2 million during the nine months ended December 31, 2015, as compared to the same periods of the previous fiscal year as a result of a large perpetual sale in the first quarter of the current fiscal year.

South America (representing 10% of year-to-date total software revenue) experienced declines of 2% and 23%, respectively, in annuity/maintenance license sales during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, due to a reduction in licensing by some customers. The results for the nine months ended December 31, 2015 were impacted by the variability of amounts recorded from a customer for which revenue is recognized only when cash is received (see the discussion about revenue earned in the current period that pertains to usage of products in prior quarters above the "Quarterly Software License Revenue" graph). To provide a normalized comparison, if we were to remove revenue from this particular customer from the nine months ended December 31, 2015 and 2014, we will notice that the annuity/maintenance revenue remained flat instead of decreasing by 23%, as compared to the same period of the previous fiscal year. No amounts were received from this customer during the three months ended December 31, 2015 and 2014. The South American region experienced decreases in perpetual license sales during the three and nine months ended December

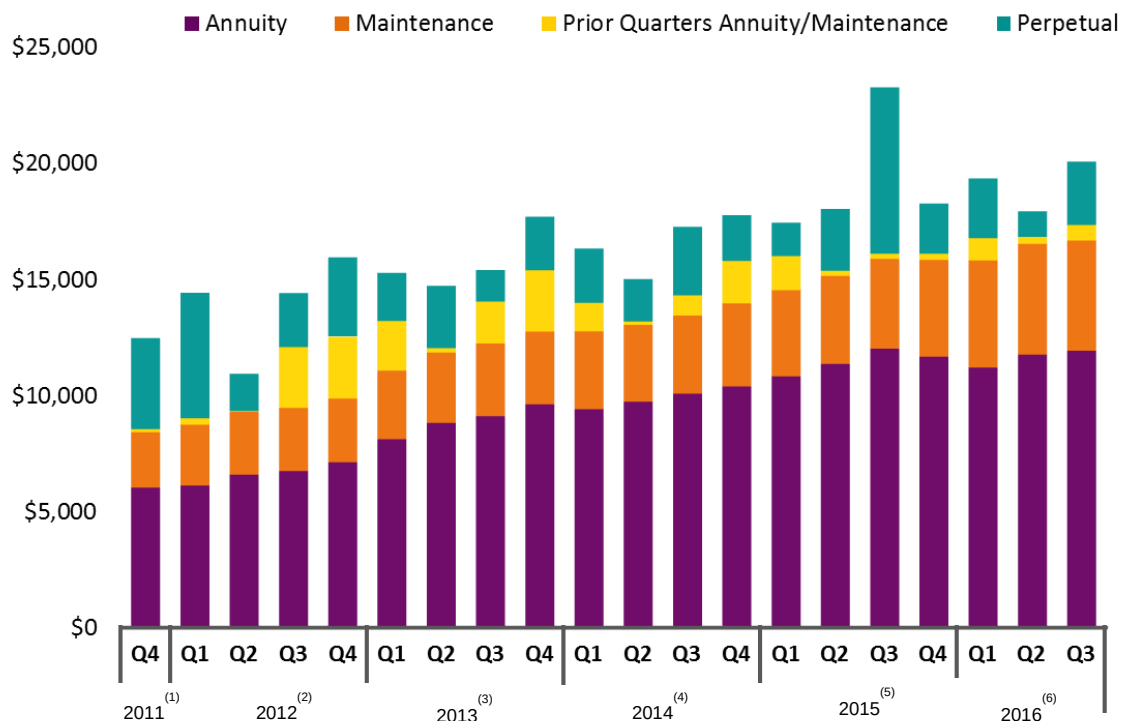
31, 2015, compared to the same periods of the previous fiscal year, mainly as a result of the large perpetual sale during the third quarter of the previous fiscal year.

The Eastern Hemisphere (representing 33% of the year-to-date total software revenue) grew annuity/maintenance license sales by 53% and 48%, respectively, during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, mainly due to sales to existing customers. Fewer perpetual license sales were realized in the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year.

Software license revenue in the US, South America and Eastern Hemisphere were positively affected by the strengthening of the US dollar during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year.

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

QUARTERLY SOFTWARE LICENSE REVENUE (\$THOUSANDS)



(1) Q4 of fiscal 2011 includes \$0.1 million in revenue that pertains to usage of CMG's products in prior quarters.

(2) Q1, Q2, Q3 and Q4 of fiscal 2012 include \$0.3 million, \$0.04 million, \$2.6 million, and \$2.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1, Q2, Q3 and Q4 of fiscal 2013 include \$2.1 million, \$0.2 million, \$1.8 million, and \$2.6 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(4) Q1, Q2, Q3 and Q4 of fiscal 2014 include \$1.2 million, \$0.2 million, \$0.9 million, and \$1.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(5) Q1, Q2, Q3 and Q4 of fiscal 2015 include \$1.5 million, \$0.2 million, \$0.2 million, and \$0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(6) Q1, Q2 and Q3 of fiscal 2016 include \$1.0 million, \$0.3 million, and \$0.7 million respectively, in revenue that pertains to usage of CMG's products in prior quarters.

DEFERRED REVENUE

	Fiscal 2016	Fiscal 2015	Fiscal 2014	\$ change	% change
(\$ thousands)					
Deferred revenue at:					
Q1 (June 30)	27,006	26,628		378	1%
Q2 (September 30)	22,608	22,928		(320)	-1%
Q3 (December 31)	17,243	19,180		(1,937)	-10%
Q4 (March 31)		32,663	29,531	3,132	11%

CMG's deferred revenue consists primarily of amounts for pre-sold licenses. Our annuity/maintenance revenue is deferred and recognized on a straight-line basis over the life of the related 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 Q3 of fiscal 2016 decreased by 10%, compared to Q3 of fiscal 2015, mainly as a result of reduced licensing in Canada and South America. It should also be pointed out that during times of economic uncertainty some companies opt to renew licenses over a shorter length of time than a year, which has a negative effect on the deferred revenue balance. The deferred revenue balance at December 31, 2015, has also been affected by the timing difference on recognition of one contract. The deferred revenue associated with this particular contract was included in deferred revenue at the end of Q3 2015, while it was not included in deferred revenue at the end of Q3 2016. If we were to normalize deferred revenue for this amount, the decrease would have been 6% instead of 10%. This amount will be reflected in the fourth quarter deferred revenue balance.

PROFESSIONAL SERVICES REVENUE

CMG recorded professional services revenue of \$1.2 million and \$4.6 million for the three and nine months ended December 31, 2015, respectively, representing decreases of \$0.8 million and \$1.3 million, compared to the same periods of the previous fiscal year, due to decreases in project activities by our customers.

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.

Expenses

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Sales, marketing and professional services	5,217	4,885	332	7%
Research and development	4,023	4,261	(238)	-6%
General and administrative	1,635	1,745	(110)	-6%
Total operating expenses	10,875	10,891	(16)	0%
Direct employee costs ⁽¹⁾	8,657	8,576	81	1%
Other corporate costs	2,218	2,315	(97)	-4%
	10,875	10,891	(16)	0%
Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Sales, marketing and professional services	15,379	13,749	1,630	12%
Research and development	12,657	12,588	69	1%
General and administrative	4,750	5,156	(406)	-8%
Total operating expenses	32,786	31,493	1,293	4%
Direct employee costs ⁽¹⁾	26,392	24,891	1,501	6%
Other corporate costs	6,394	6,602	(208)	-3%
	32,786	31,493	1,293	4%

⁽¹⁾ Includes salaries, bonuses, stock-based compensation, benefits, commissions, and professional development.

CMG's total operating expenses remained flat during the three months ended December 31, 2015, compared to the same periods of the previous fiscal year, due to a slight increase in direct employee costs being offset by a slight decrease in other corporate costs. More than 20% of total operating expenses are denominated in USD, the majority of which impacts sales, marketing and professional services line item.

CMG's total operating expenses increased by 4% for the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, due to an increase in direct employee costs partially offset by a decrease in other corporate costs. The majority of the increase in total operating expenses is attributable to sales, marketing and professional services, mainly due to the foreign exchange impact as a result of the weakening Canadian dollar, and due to staff additions.

DIRECT EMPLOYEE COSTS

As a technology company, CMG's largest area of expenditure is its people. Approximately 80% of total operating expenses in the nine months ended December 31, 2015 related to direct employee costs, which is consistent with 79% recorded in the comparative period of the previous fiscal year. Staffing levels for the current fiscal year grew in comparison to the previous fiscal year. At December 31, 2015, CMG's full-time equivalent staff complement was 208 employees and consultants, up from 201 full-time equivalent employees and consultants as at December 31, 2014. Direct employee costs increased during the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, due to staff additions, increased levels of compensation and related benefits, partially offset by a decrease in recorded stock-based compensation expense.

OTHER CORPORATE COSTS

Other corporate costs decreased by 4% for the three months ended December 31, 2015, compared to the same period of the previous fiscal year, due to a slight decrease in various corporate costs.

Other corporate costs decreased by 3% for the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, mainly attributable to the inclusion of the costs associated with CMG's biennial technical symposium in the nine months ended December 31, 2014.

RESEARCH AND DEVELOPMENT

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Research and development (gross)	4,364	4,586	(222)	-5%
SR&ED credits	(341)	(325)	(16)	5%
Research and development	4,023	4,261	(238)	-6%
Research and development as a % of total revenue	19%	17%		
Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Research and development (gross)	13,743	13,556	187	1%
SR&ED credits	(1,086)	(968)	(118)	12%
Research and development	12,657	12,588	69	1%
Research and development as a % of total revenue	20%	20%		

CMG maintains its 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 CMG's share of joint research and development costs associated with the CoFlow project of \$1.3 million and \$4.4 million for the three and nine months ended December 31, 2015 (2014 - \$1.1 million and \$3.4 million). See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties."

Research and development costs (gross) decreased by 5% during the three months ended December 31, 2015, compared to the same period of the previous fiscal year mainly as a result of lower consulting costs and recording lower stock-based compensation expense.

Research and development costs (gross) increased by 1% during the nine months ended December 31, 2015, compared to the same period of the previous fiscal year due to an increase in employee compensation costs, partially offset by the decrease in stock-based compensation, consulting and depreciation expenses.

SR&ED credits increased by 5% and 12% for the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, mainly due to an increase in hours spent on SR&ED eligible projects.

DEPRECIATION

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	127	128	(1)	-1%
Research and development	178	225	(47)	-21%
General and administrative	39	49	(10)	-20%
Total depreciation	344	402	(58)	-14%

Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	382	358	24	7%
Research and development	534	647	(113)	-17%
General and administrative	117	153	(36)	-24%
Total depreciation	1,033	1,158	(125)	-11%

Depreciation in the three and nine months ended December 31, 2015 decreased slightly, as compared to the same periods in the previous fiscal year.

Finance Income

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Interest income	116	169	(53)	-31%
Net foreign exchange gain	516	660	(144)	-22%
Total finance income	632	829	(197)	-24%
Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Interest income	416	546	(130)	-24%
Net foreign exchange gain	669	746	(77)	-10%
Total finance income	1,085	1,292	(207)	-16%

Interest income decreased in the three and nine months ended December 31, 2015, compared to the same periods of the previous fiscal year, mainly due to investing smaller cash balances at a lower interest rate.

CMG is impacted by the movement of the US dollar against the Canadian dollar as approximately 76% (2014 – 74%) of CMG's revenue for the nine months ended December 31, 2015 is denominated in US dollars, whereas only approximately 27% (2014 – 24%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's US dollar denominated working capital at June 30, September 30 and December 31, 2015, 2014 and 2013 and the average exchange rates used to translate income statement items during the nine months ended December 31, 2015, 2014 and 2013:

CDN\$ to US\$	At June 30	At September 30	At December 31	Nine month trailing average
2013	0.9513	0.9723	0.9402	0.9604
2014	0.9367	0.8922	0.8620	0.9022
2015	0.8017	0.7466	0.7225	0.7694

CMG recorded a net foreign exchange gain of \$0.5 million for the three months ended December 31, 2015, compared to a net foreign exchange gain of \$0.7 million recorded in the same period of the previous fiscal year, due to a weakening of the Canadian dollar during the quarter which contributed positively to the valuation of our US-denominated working capital.

CMG recorded a net foreign exchange gain of \$0.7 million for the nine months ended December 31, 2015, compared to a net foreign exchange gain of \$0.7 million recorded in the same period of the previous fiscal year, as the net foreign exchange gains recorded in the three months ended September 30, 2015 and December 31, 2015 were partially offset by the \$0.9 million net foreign exchange loss recorded in the three months ended June 30, 2015.

Income and Other Taxes

CMG's effective tax rate for the nine months ended December 31, 2015 is reflected as 28.8% (2014 – 28.0%), whereas the prevailing Canadian statutory tax rate is now 26.5%. This difference is primarily due to the non-tax deductibility of stock-based compensation expense.

The benefit recorded in CMG's books on the 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 amounts)	2015	2014	\$ change	% change
Total revenue	21,217	25,206	(3,989)	-16%
Operating expenses	(10,875)	(10,891)	16	0%
Operating profit	10,342	14,315	(3,973)	-28%
Operating profit as a % of total revenue	49%	57%		
Net income for the period	7,853	10,982	(3,129)	-28%
Net income for the period as a % of total revenue	37%	44%		
Basic earnings per share (\$/share)	0.10	0.14	(0.04)	-29%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nine months ended December 31, (\$ thousands, except per share amounts)	2015	2014	\$ change	% change
Total revenue	61,782	64,489	(2,707)	-4%
Operating expenses	(32,786)	(31,493)	(1,293)	4%
Operating profit	28,996	32,996	(4,000)	-12%
Operating profit as a % of total revenue	47%	51%		
Net income for the period	21,420	24,699	(3,279)	-13%
Net income for the period as a % of total revenue	35%	38%		
Basic earnings per share (\$/share)	0.27	0.31	(0.04)	-13%

Operating profit as a percentage of total revenue for the three months ended December 31, 2015 was at 49% compared to 57% recorded in the same period of the previous fiscal year due to a decline in total revenue.

Operating profit as a percentage of total revenue for the nine months ended December 31, 2015 was at 47% compared to 51% recorded in the same period of the previous fiscal year due to a decline in total revenue and an increase in operating expenses.

Net income for the period as a percentage of revenue decreased to 37% from 44% and to 35% from 38% for the three and nine months ended December 31, 2015, respectively, compared to the same periods of the previous fiscal year.

EBITDA

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Net income for the period	7,853	10,982	(3,129)	-28%
Add (deduct):				
Depreciation	344	402	(58)	-14%
Finance income	(632)	(829)	197	-24%
Income and other taxes	3,121	4,162	(1,041)	-25%
EBITDA	10,686	14,717	(4,031)	-27%
EBITDA as a % of total revenue	50%	58%		

Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Net income for the period	21,420	24,699	(3,279)	-13%
Add (deduct):				
Depreciation	1,033	1,158	(125)	-11%
Finance income	(1,085)	(1,292)	207	-16%
Income and other taxes	8,661	9,589	(928)	-10%
EBITDA	30,029	34,154	(4,125)	-12%
EBITDA as a % of total revenue	49%	53%		

EBITDA decreased by 27% and 12% for the three and nine months ended December 31, 2015, respectively, mainly as a result of the decrease in net income.

EBITDA as a percentage of total revenue decreased to 50% from 58%, and to 49% from 53% for the three and nine months ended December 31, 2015, as compared to the same periods of the previous fiscal year.

Liquidity and Capital Resources

Three months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Cash, beginning of period	66,806	65,402	1,404	2%
Cash flow from (used in):				
Operating activities	6,281	11,764	(5,483)	-47%
Financing activities	(6,672)	(10,911)	4,239	-39%
Investing activities	(215)	(335)	120	-36%
Cash, end of period	66,200	65,920	280	0%

Nine months ended December 31, (\$ thousands)	2015	2014	\$ change	% change
Cash, beginning of period	75,342	72,410	2,932	4%
Cash flow from (used in):				
Operating activities	17,176	23,588	(6,412)	-27%
Financing activities	(25,150)	(28,863)	3,713	-13%
Investing activities	(1,168)	(1,215)	47	-4%
Cash, end of period	66,200	65,920	280	0%

OPERATING ACTIVITIES

Cash flow generated from operating activities decreased by \$5.5 million in the three months ended December 31, 2015, compared to the same period of the previous fiscal year, mainly due to a decrease in net income and change in deferred revenue, offset by the positive impact of the timing difference of when sales are made and when the resulting receivables are collected.

Similarly, cash flow generated from operating activities decreased by \$6.4 million in the nine months ended December 31, 2015, compared to the same period of the previous fiscal year, mainly due to a decrease in net income and change in deferred revenue, offset by the positive impact of the timing difference of when sales are made and when the resulting receivables are collected.

FINANCING ACTIVITIES

Cash used in financing activities during the three and nine months ended December 31, 2015 decreased by \$4.2 million and \$3.7 million, respectively, compared to the same periods of the previous fiscal year, mainly due to spending less on Common Share buy-backs and receiving more in proceeds from the issuance of Common Shares.

During the nine months ended December 31, 2015, CMG employees and directors exercised options to purchase 833,000 Common Shares, which resulted in cash proceeds of \$5.4 million (2014 – 757,000 options exercised to purchase Common Shares which resulted in cash proceeds of \$4.6 million).

In the nine months ended December 31, 2015, CMG paid \$23.6 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, 2014, CMG paid \$23.6 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 9, 2016, 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 15, 2016 to shareholders of record at the close of business on March 7, 2016.

In the fiscal 2012 Management's Discussion and Analysis, we reported that, beginning in fiscal 2013, we would increase the relative proportion of dividends paid quarterly and lower and/or eliminate the amount paid as a special dividend at the end of the fiscal year, in order to provide a more regular income stream to our shareholders throughout the year. The Company's focus will remain on a sustainable quarterly dividend; however, we may consider a special dividend as appropriate.

Based on our expectation of profitability and cash-generating ability driven by the predictability of our software revenue base and effective management of costs, we are cautiously optimistic that the company is well positioned to continue to pay quarterly dividends.

On May 5, 2014, the Company announced a NCIB commencing on May 5, 2014 to purchase for cancellation up to 7,440,000 of its Common Shares. This NCIB ended on May 4, 2015 and 808,000 Common Shares were purchased at market price for a total cost of \$9,845,000.

On May 21, 2015, the Company announced a NCIB commencing on May 25, 2015 to purchase for cancellation up to 7,447,000 of its Common Shares. During the nine months ended December 31, 2015, 589,000 Common Shares were purchased at market price for a total cost of \$6,906,000 (2014 – 808,000 Common Shares were purchased at market price for a total cost of \$9,845,000).

INVESTING ACTIVITIES

CMG's current needs for capital asset investment relate to computer equipment and office infrastructure costs, all of which will be funded internally. During the nine months ended December 31, 2015, CMG expended \$1.2 million on property and equipment additions, primarily composed of computing equipment and leasehold improvements. CMG has a capital budget of \$2.5 million for fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2015, CMG has \$66.2 million in cash, no debt, and has access to just over \$0.8 million under a line of credit with its principal banker.

During the nine months ended December 31, 2015, 33,867,000 shares of CMG's public float were traded on the TSX. As at December 31, 2015, CMG's market capitalization based upon its December 31, 2015 closing price of \$8.98 was \$707.0 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

The Company is the operator of CoFlow, a collaborative effort with its partners Shell International Exploration and Production BV ("Shell") and Petroleo Brasileiro S.A. ("Petrobras"), to jointly develop the newest generation of reservoir and production system simulation software. The project has been underway since 2006 and, with the ongoing support of the participants; it is expected to continue until ultimate delivery of the software. The Company's share of costs associated with the project is estimated to be \$6.4 million (\$3.4 million net of overhead recoveries) for fiscal 2016. CMG plans to continue funding its share of the project costs associated with the development of the newest generation reservoir simulation software system from internally generated cash flows.

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 its statement of financial position, and contractual obligations for office leases which are estimated for our fiscal years as follows: 2016 – \$0.6 million; 2017 – \$2.0 million; 2018 – \$3.5 million; 2019 – \$4.7 million; 2020 – \$4.7 million; thereafter – \$86.7 million. During the third quarter of fiscal 2015, CMG finalized a twenty year operating lease for our new Calgary offices which will commence in fiscal 2018.

Business Risks and Critical Accounting Estimates

These remain unchanged from the factors detailed in CMG's 2015 Annual Report.

Changes in Accounting Policies

Accounting policies, presentation and methods of computation remain unchanged from those detailed in CMG's 2015 Annual Report.

Accounting Standards and Interpretations Issued But Not Yet Effective

The following standards and interpretations have not been adopted by the Company as they apply to future periods:

Amendments to IAS 1 Presentation of Financial Statements

Amends IAS 1 *Presentation of Financial Statements* to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company intends to adopt these amendments to IAS 1 in its consolidated financial statements beginning April 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 9 Financial Instruments

Replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets, amends the impairment model and includes a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company intends to adopt IFRS 9 (2014) in its consolidated financial statements beginning April 1, 2018. The Company does not expect IFRS 9 (2014) to have a material impact on the consolidated financial statements because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 15 Revenue from Contracts with Customers

Replaces the guidance in IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services* with a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The new standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning April 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Outstanding Share Data

The following table represents the number of Common Shares and options outstanding:

As at February 9, 2016

(thousands)

Common Shares	78,751
Options	7,269

On July 13, 2005, CMG adopted a rolling stock option plan which allows the Company to grant options to its employees and directors to acquire Common Shares of up to 10% of the outstanding Common Shares at the date of grant. Based upon this calculation, at February 9, 2016, CMG could grant up to 7,875 stock options.

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 2015 in accordance with the COSO control framework (1992). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2015. During our fiscal year 2016, we continue to monitor and review our controls and procedures.

During the nine months ended December 31, 2015, 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.

Outlook

During the current quarter we continued to face the ongoing economic slow-downs in the oil and gas industry, causing our customers to curtail their spending and asset development plans. This impact has been reflected in the decrease in annuity and maintenance revenue in Canada and South America, offset by the increases in the Eastern Hemisphere and the US. Our revenue in foreign regions was positively affected by the strengthening of the US dollar which has contributed to increases in annuity and maintenance revenue during the current quarter and year-to-date. During the current quarter and year-to-date, we realized fewer perpetual license sales than in the same periods of the previous fiscal year, reflective of the budgetary cuts by our customers.

Due to uncertainty of the impact on our future revenue and operating margins, we are taking prudent measures, such as suspending employee recruitment, to control our costs and run our business efficiently. Our operating expenses for the three months ended December 31, 2015, remained flat in comparison to the same period of the previous year.

We will continue to focus on research and development initiatives which provide a foundation for future growth and position us to continue providing much-needed advanced technical tools to our customers now and when economic recovery eventually takes place.

In late September 2015, we released the most recent version of CoFlow, R10, to our partners Shell and Petrobras, which was deployed in a target asset selected by our partners to assist with day-to-day business decisions. R10 will continue to be used on the selected asset, however, due to identified issues with the software performance, further deployment will be temporarily suspended. CoFlow is the newest generation dynamic reservoir modelling system developed jointly with Shell and Petrobras who remain committed to the ongoing development and success of the project. During the current quarter, the CoFlow team continued to work on the next version of software, R11, scheduled to be released in the latter part of calendar 2016.

During the current quarter, we purchased 51,000 Common Shares for \$0.5 million under our NCIB given our solid liquidity and our belief that CMG's Common Shares were not trading in price ranges that reflected their underlying value. Using CMG's available capital for the purchase of Common Shares demonstrates our commitment to return value to our shareholders by reducing the number of Common Shares outstanding. During the third quarter, we declared our regular dividend payment of \$0.10 per share.



Kenneth M. Dedeluk
President and Chief Executive Officer
February 9, 2016