

2016 Financial Report



Contents

1	2016 Highlights
2	President's Message
5	Management's Discussion and Analysis
30	Management's Statement of Responsibility
31	Independent Auditors' Report
32	Consolidated Financial Statements
36	Notes to Consolidated Financial Statements
IBC	Corporate Information

Annual General Meeting

CMG's 2016 Annual General Meeting will be held at 10:00 am on July 14, 2016

Best Western Village Park Inn, Brentwood Room
1804 Crowchild Trail N.W.,
Calgary, Alberta

2016 Highlights

Years ended March 31,
(\$ thousands, unless otherwise stated)

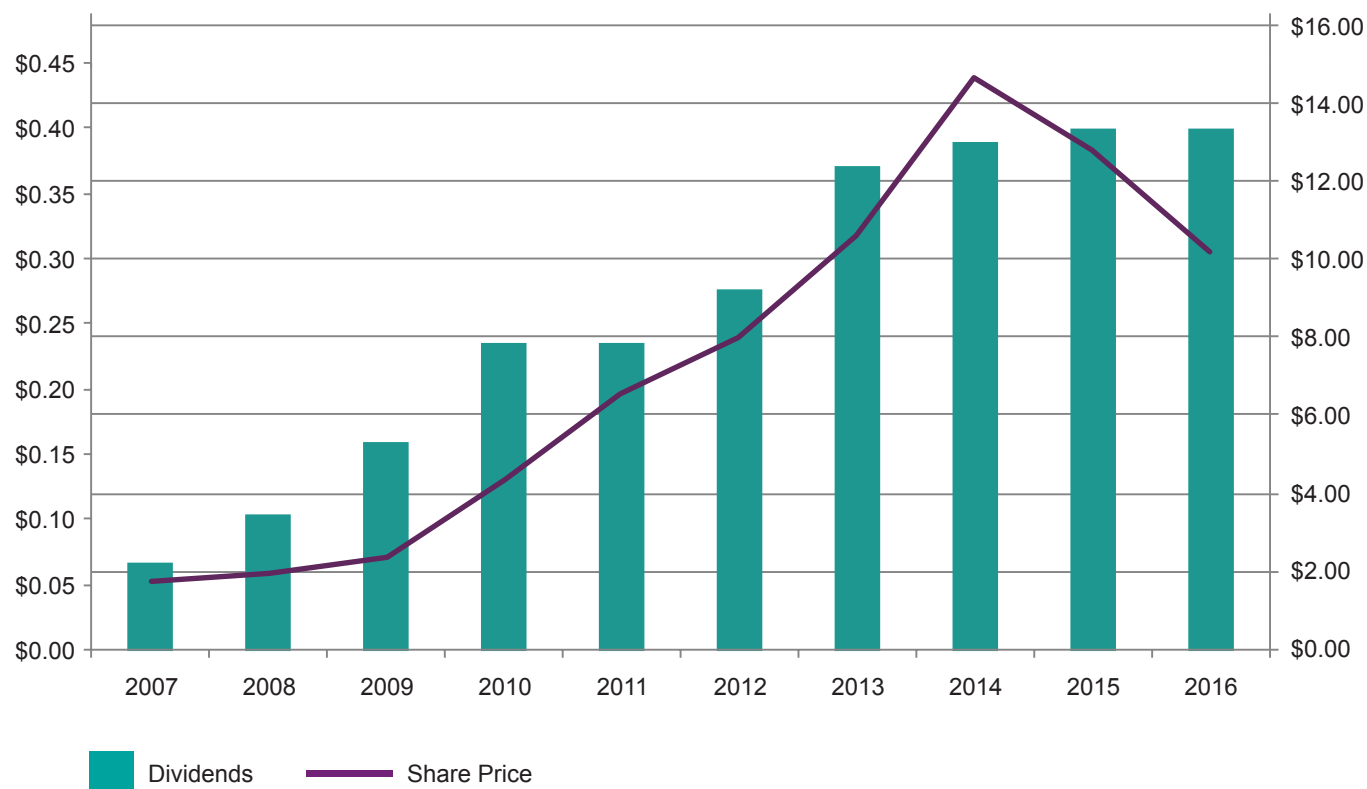
	2016	2015	2014	2013	2012
Software license revenue	74,974	76,836	66,213	62,961	55,582
Professional services revenue	5,824	8,025	8,290	5,659	5,452
Total revenue	80,798	84,861	74,503	68,620	61,034
Operating profit	36,036	41,516	36,782	34,290	31,604
Operating profit (%)	45%	49%	49%	50%	52%
EBITDA ⁽¹⁾	37,418	43,099	38,373	35,829	32,831
Profit before income and other taxes	35,631	45,598	39,142	35,149	32,624
Income and other taxes	10,329	12,950	11,512	10,327	9,233
Net income for the year	25,302	32,648	27,630	24,822	23,391
Weighted average shares outstanding	78,751	78,581	77,465	75,286	73,733
Earnings per share – basic	0.32	0.42	0.36	0.33	0.32
Dividends declared and paid per share	0.40	0.40	0.39	0.37	0.2775
Trading price per share at March 31	10.14	12.72	14.58	10.55	7.95

(1) EBITDA is defined as net income before adjusting for depreciation expense, finance income, finance costs, and income and other taxes.

CMG (TSX: CMG) 10 Year History

Dividends

Share Price



To Our Shareholders:

CMG delivered solid performance in light of the economic uncertainties that persisted in the oil and gas sector throughout fiscal 2016. We continued to execute our business plan by renewing existing annuity and maintenance contracts with current customers while investing in research and development, focusing on training and providing unparalleled customer support. While new business opportunities have decreased as a result of the economic situation, there are still opportunities to convert competitive product users to CMG products, by providing superior offerings of price and performance.

Weakening oil prices over the past couple of years have caused many of CMG's customers to either cancel or defer projects that involve various types of unconventional reserves and advanced recovery processes which has affected the utilization levels of our software. Having said that, due to the complexity and costs associated with unconventional and enhanced oil recovery (EOR) projects, reservoir simulation continues to be critical to the decision-making process as it allows companies to optimize and enhance recovery. Our business has therefore displayed a level of resilience to economic uncertainty as oil and gas producers continue to use reservoir simulation software to simulate their existing production. Producers have shifted their focus to lower-cost assets, improving production margins and low-cost EOR, instead of drilling new wells. Simulation is a cost-effective and high-value tool to further reduce risks, improve recovery processes, increase margins and incremental recovery, all of which are more relevant in a low-price environment.

Financial Achievements

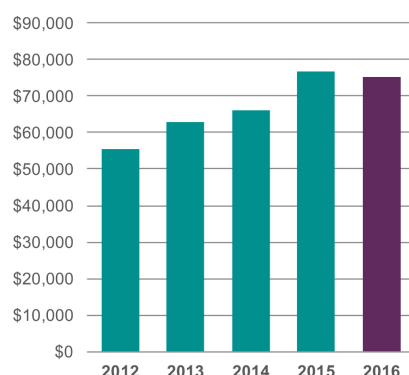
In fiscal 2016, we achieved a 7% increase in annuity and maintenance software license revenue, our recurring revenue base, mainly as a result of new contracts in the Eastern Hemisphere and the strengthening US dollar. Increases in the Eastern Hemisphere and the US regions more than offset declines experienced in Canada and South America. The most significant impact of the economic downturn has been felt in Canada where fiscal 2016 annuity and maintenance revenue declined by 11%. The decrease in South America was caused by timing of revenue recognition on one large contract for which revenue is recognized only when cash is received. If we were to normalize annuity and maintenance revenue for this contract, the South American region would have shown an increase of 6% in annuity and maintenance in fiscal 2016.

We achieved perpetual sales of \$7.2 million during fiscal 2016. Although this represents a 47% decline from the previous year and was partially due to fewer purchases by our customers in fiscal 2016, there was a significant perpetual sale in South America in fiscal 2015 which contributed to record perpetual license revenue last year. As we have stated in the past, we expect fluctuations in perpetual revenue amounts and we plan and budget accordingly.

Our EBITDA margin was 46% as a percentage of revenue, and even though it decreased from 51% in the previous year, it is still an impressive achievement given current conditions in the industry. The decline was caused by a combination of lower revenue and higher costs. We realized less professional service fees and perpetual license sales in fiscal 2016 reflective of reduced activity levels and budgetary cuts by our customers.

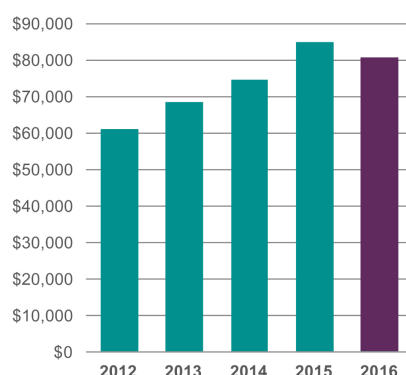
Software License Revenue

(\$ Thousands)



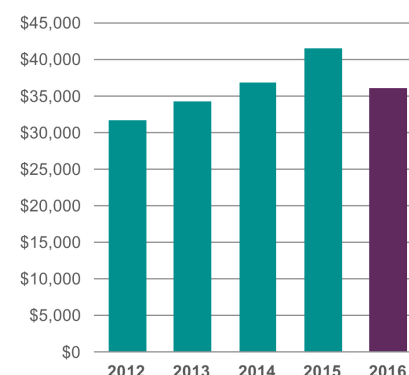
Total Revenue

(\$ Thousands)



Operating Profit

(\$ Thousands)



Approximately 28% of our costs, mainly in sales, marketing and professional services, are denominated in US dollars contributing to the increase in expenses as a result of the strengthening US dollar. Basic earnings per share decreased by 24% to \$0.32 a share. In fiscal 2016, we recorded a foreign exchange loss of \$1.0 million which has negatively affected our bottom line.

During fiscal 2016, we contributed to share value by purchasing 589,000 common shares for \$6.9 million, and by paying dividends of \$0.40 per share. CMG's Board of Directors has further confirmed our commitment to shareholder returns by maintaining a quarterly dividend of \$0.10 per share to be paid on June 15, 2016.

We continued to maintain strong cash flow and ended the year with \$72.7 million in cash without debt. Our primary uses for cash continue to be for paying dividends and opportunistic purchasing of common shares. Our capital budget for fiscal 2017 is set at \$15.1 million, intended for the new headquarters, which will increase operational efficiency by consolidating our Calgary staff in one location.

R&D Initiatives

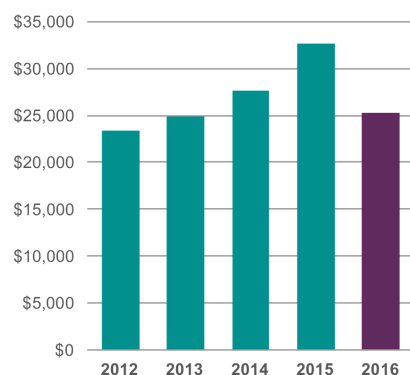
We continued to focus on research and development initiatives to maintain our competitive positioning in providing advanced technical tools to our customers now and when economic recovery takes place. We continued with our target of annually spending 20% of revenue on research and development, which amounted to \$16.9 million or 21% of total revenue in fiscal 2016.

During fiscal 2016, in addition to numerous customer-requested and internally-driven enhancements, we developed CMG's third generation simulator output format "SR3" and a significantly improved, SR3-capable version of our RESULTS product, all of which are expected to be released in the first quarter of fiscal 2017. SR3 reduces output file sizes and enables users to efficiently open large-model, memory-intensive results files very quickly. These order of magnitude improvements in file loading times improve user experience and optimize simulation post-processing activities. In addition, redesign and enhancements to the graphical user interface of RESULTS, such as the ribbon menu, data filtering and automated plotting, make RESULTS easier to use, more intuitive, and give users greater power in analyzing results, discovering new reservoir knowledge and communicating business decisions via simulation results. This next generation RESULTS will help our users improve productivity and efficiency in their day to day simulation work.

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 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 runtime performance, further deployment has been temporarily suspended. In the meantime, the CoFlow team continues to work on the next version of software, R11, with a heavy focus on performance, which is scheduled to be released in the latter part of calendar 2016. Petrobras has indicated their intention to end their financial participation in the joint development project at the end of December 2016 and the remaining partners' participation will be sized in accordance with the development plan for R12.

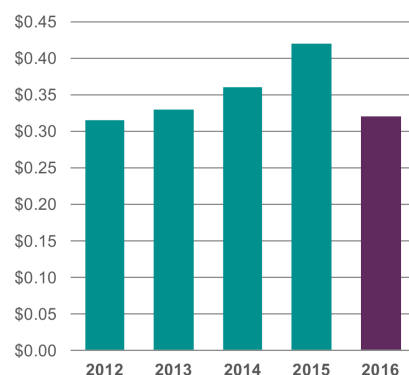
Earnings

(\$ Thousands)



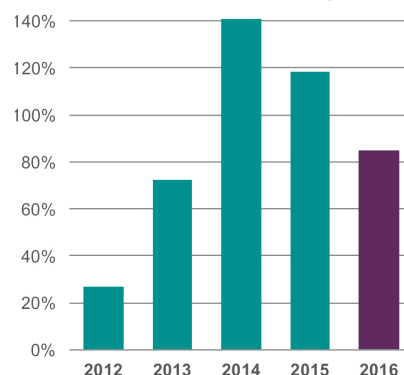
Earnings Per Share

(Basic)



Cumulative Shareholder Return

(Rate of return, assuming initial investment in one common share on March 31, 2011)



Outlook

In a low oil price environment when companies decrease new drilling programs, it becomes increasingly important to produce economically from existing assets and simulation becomes more valuable in optimizing this production. As producers look for ways to operate efficiently, we believe they will continue to seek reservoir simulation solutions to enhance their existing production and CMG will continue to provide the most advanced reservoir simulation tools to assist companies with their reservoir planning, management and optimization.

Nevertheless, as we enter fiscal 2017, the ongoing reductions in budgets and activity levels by our customers are contributing to uncertainty of the impact on our future revenue and operating margins. As a result, we are taking prudent measures, such as suspending employee recruitment and reducing discretionary spending, to control our costs and run our business efficiently. In May 2016, as a result of ongoing adverse economic conditions in Venezuela and in the oil and gas industry generally, we made a difficult decision to close our office in Caracas. Our customers in the region will be supported from other locations, mainly the office in Bogota.

As we adapt to circumstances posed by today's economic challenges, we will continue to operate our business by focusing on the pillars of our success – superior technology, research and development, and unparalleled customer experience – while controlling our costs and exercising fiscal prudence, so that we may emerge even stronger when the economic recovery eventually takes place.

Finally, I would like to express my sincere appreciation to our entire team of employees and management for their hard work and dedication throughout the year, and our Board of Directors for their continued support.



Kenneth M. Dedeluk
President and Chief Executive Officer

May 19, 2016

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 May 19, 2016, should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended March 31, 2016 and 2015. 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.

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".

Vision, Business and Strategy

CMG's vision is to be the leading developer and supplier of dynamic reservoir modelling systems in the world. Early in its life CMG made the strategic decision to focus its research and development efforts on providing solutions for the simulation of difficult hydrocarbon recovery techniques, a decision that created the foundation for CMG's dominant market presence today in the simulation of advanced hydrocarbon recovery processes. CMG has demonstrated this commitment by continuously investing in research and development and working closely with its customers to develop simulation tools relevant to the challenges and opportunities they face today. This includes the CoFlow project, a collaborative effort with our partners Shell International Exploration and Production BV ("Shell") and Petroleo Brasileiro S.A. ("Petrobras") to jointly develop the newest generation of reservoir simulation software. Our target is to develop a dynamic system that does more than optimize reservoir recovery; it will model the entire hydrocarbon reservoir system, including production systems.

Since its inception more than 35 years ago, CMG has remained focused on assisting its customers in unlocking the value of their hydrocarbon reservoirs. With petroleum production using conventional methods on the decline, the petroleum industry must use more difficult and costly advanced process extraction methods, while being faced with more governmental and regulatory requirements over environmental concerns. CMG's success can, in turn, be correlated with the oil industry becoming more reliant on the use of simulation technology due to the maturity of conventional petroleum reservoirs and the complexities of both current and emerging production processes.

CMG's success can specifically be attributed to a number of factors: advanced physics, ongoing enhancements to the Company's already robust product line, improved computational speed, parallel computing ability, ease of use features of the pre- and post-processor applications, cost effectiveness of the CMG solution for customers, and the knowledge base of CMG's personnel to support and advance its software.

CMG currently licenses reservoir simulation software to more than 500 oil and gas companies, consulting firms and research institutions in approximately 60 countries. In combination with its principal business of licensing its software, CMG also provides professional services consisting of highly specialized consulting, support, training, and funded research activities for its customers. While the generation of professional services revenue specifically tied to the provision of consulting services is not regarded as a core part of CMG's business, offering this type of service is important to CMG operationally. CMG performs a limited amount of specialized consulting services, which are typically of a highly complex and/or experimental nature. These studies provide hands-on practical knowledge, allowing CMG staff to test the boundaries of our software, and provide us the opportunity to increase software license sales to both new and existing customers. In addition, providing consulting services is important from the customer service perspective as it enables our customers to become more proficient users of CMG's software. The funded research revenue is derived from the customers who partner with CMG to assist in the development, testing and refinement of new simulation technologies.

In addition to consulting, we allocate significant resources to training, which is an instrumental part of our company's success. Our training programs enable our customers to become more efficient and effective users of our software, which, in turn, contributes to higher customer satisfaction. Our training is continuous in nature and it helps us in developing and maintaining long-term relationships with our customers.

CMG remains committed to advancing its technological superiority over its competition. CMG firmly believes that, to be the dominant supplier of dynamic reservoir modelling systems in the world, it must be responsive to customers' needs today and accurately predict their needs in the future.

CMG invests a significant amount of resources each year toward maintaining its technological superiority. During fiscal 2016, CMG maintained the same level of spending on research and development as in the previous fiscal year (representing 21% of total revenue). The continued investment by CMG in its current product suite offering helps to ensure that its existing proven technology continues to be industry-leading. These significant levels of investment, in combination with partnering with Shell and Petrobras in the CoFlow project to jointly develop the newest generation of reservoir simulation software, are targeted strategies to achieve our vision to be the leading developer and supplier of dynamic reservoir modelling systems in the world.

Overall Performance

Key Performance Drivers and Capability to Deliver Results

One of the challenges the petroleum industry faces in trying to overcome barriers to production growth is the continuing need for breakthrough technologies. The facts facing the petroleum industry today are that brand new fields are increasingly difficult to find, especially on a large scale, and that there are a large number of mature fields and unconventional prospects where known petroleum reserves exist; the question is how to economically extract the petroleum reserves in place while utilizing environmentally conscious processes. These challenges have been made even more formidable given that the current economic environment and global political climate have led to increased uncertainty regarding capital markets and commodity prices.

The petroleum industry utilizes reservoir simulation to provide both vital information and a visual interpretation on how reservoirs will behave under various recovery techniques. Understanding the science of how a petroleum reservoir will react to difficult hydrocarbon recovery processes through simulation prior to spending the capital on drilling wells and injecting expensive chemicals and steam, for instance, is far less costly and risky than trying the various techniques on real wells.

CMG's existing product suite of software is the market leader in the simulation of difficult hydrocarbon recovery techniques. To maintain this dominant market position, CMG actively participates in research consortia that experiment with new petroleum extraction processes and technologies. CMG then incorporates the simulation of new recovery methods into its product suite and focuses on overcoming existing technological barriers to advance speed and ease of use, amongst other benefits, in its software.

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 runtime performance, further deployment has been temporarily suspended. In the meantime, the CoFlow team continues to work on the next version of software, R11, with a heavy focus on performance, which is scheduled to be released in the latter part of calendar 2016.

During fiscal 2016, in addition to numerous customer-requested and internally-driven enhancements, we developed CMG's third generation simulator output format "SR3" and a significantly improved, SR3-capable version of our RESULTS product, all of which are expected to be released in the first quarter of fiscal 2017. SR3 reduces output file sizes and enables users to efficiently open large-model, memory-intensive results files very quickly. These order of magnitude improvements in file loading times improve user experience and optimize simulation post-processing activities. In addition, redesign and enhancements to the graphical user interface of RESULTS, such as the ribbon menu, data filtering and automated plotting, make RESULTS easier to use, more intuitive, and give users greater power in analyzing results, discovering new reservoir knowledge and communicating business decisions via simulation results. This next generation RESULTS will help our users improve productivity and efficiency in their day to day simulation work.

In a low oil price environment, producers have shifted their focus to lower-cost assets, improving production margins and low-cost enhanced oil recovery, instead of drilling new wells. Reservoir simulation is a cost-effective and high-value tool to further reduce risks, improve recovery processes, increase margins and incremental recovery, all of which are more valuable in a low-price environment.

The development of our CoFlow system, the newest generation reservoir and production system simulation software, is a significant project for CMG and its partners; a project that to-date has represented over 410 man-years of development. The CoFlow team consists of 70 full-time equivalent persons made up of 47 CMG employees and consultants and 4 partner-seconded staff members, all working in CMG's Calgary offices, with an additional 19 partner staff members working remotely from their respective offices in the Netherlands, Brazil and the United States. CMG, through its participation in this joint project, will have full commercialization rights to the developed technology. CMG's share of project costs is estimated to be \$6.5 million (\$3.7 million net of overhead recoveries) for the upcoming fiscal year. As project operator, CMG receives a fee for operator services, which is reflected in revenue as professional services. Petrobras' financial participation in the joint development project will end in December 2016 and the remaining partners' participation will be sized in accordance with the plan for the next release, referred to as R12.

CMG is in a very strong financial position with \$56.2 million in working capital, no bank debt and a long history of generating earnings and cash from operating activities. In addition to its financial resources, CMG's real strength lies in the outstanding quality and dedication of its employees in all areas of the Company. While it has never been easy to find qualified staff as CMG has grown through the years, our expanding reputation as a challenging and rewarding place to work has somewhat eased this burden. CMG added 7 new full-time equivalent staff members to its employee complement in fiscal 2016.

Our focus will remain on licensing software to both existing and new customers and, with diversification of our geographic profile, we plan to strengthen our position in the global marketplace. Approximately 90% of our software license revenue is derived from our annuity and maintenance contracts, which generally represent a recurring source of revenue. We continue to be profitable despite the ongoing economic challenges in the oil and gas industry, and we are taking prudent measures, such as suspending employee recruitment, to control our costs and run the business efficiently. During the fiscal year ended March 31, 2016, our EBITDA represented 46% of total revenue, which demonstrates our ability to effectively manage our corporate costs.

As a result of ongoing adverse economic conditions in Venezuela and in the oil and gas industry in general, we have decided to close our office in Caracas effective May 2016. Our customers in the region will be supported from other locations, mainly the office in Bogota.

We continue to return value to our shareholders in the form of regular quarterly dividend payments. During the year ended March 31, 2016, we paid dividends of \$0.40 per share, which is consistent with the prior fiscal year.

We are confident that our sustainable business model driven by superior technology, commitment to research and development initiatives, and customer-oriented approach will continue contributing to CMG's future success.

Annual Performance

(\$ thousands, unless otherwise stated)	March 31, 2016	March 31, 2015	March 31, 2014
Annuity/maintenance licenses	67,805	63,431	57,139
Perpetual licenses	7,169	13,405	9,074
Software licenses	74,974	76,836	66,213
Professional services	5,824	8,025	8,290
Total revenue	80,798	84,861	74,503
Operating profit	36,036	41,516	36,782
Operating profit (%)	45%	49%	49%
EBITDA ⁽¹⁾	37,418	43,099	38,373
Net income for the year	25,302	32,648	27,630
Cash dividends declared and paid	31,514	31,462	30,304
Total assets	101,413	106,456	100,268
Total shares outstanding	78,819	78,487	78,419
Trading price per share at March 31	10.14	12.72	14.58
Market capitalization at March 31	799,220	998,353	1,143,351
Per share amounts - (\$/share)			
Earnings per share - basic	0.32	0.42	0.36
Earnings per share - diluted	0.32	0.41	0.35
Cash dividends declared and paid	0.40	0.40	0.39

(1) 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".

Quarterly Performance

(\$ thousands, unless otherwise stated)	Fiscal 2015 ⁽¹⁾				Fiscal 2016 ⁽²⁾			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annuity/maintenance licenses	15,966	15,331	16,071	16,063	16,738	16,790	17,297	16,980
Perpetual licenses	1,432	2,661	7,150	2,162	2,563	1,095	2,729	782
Software licenses	17,398	17,992	23,221	18,225	19,301	17,885	20,026	17,762
Professional services	2,154	1,739	1,985	2,147	2,139	1,240	1,191	1,254
Total revenue	19,552	19,731	25,206	20,372	21,440	19,125	21,217	19,016
Operating profit	9,121	9,560	14,315	8,520	10,494	8,160	10,342	7,040
Operating profit (%)	47	48	57	42	49	43	49	37
EBITDA	9,488	9,949	14,717	8,945	10,824	8,519	10,686	7,389
Profit before income and other taxes	8,733	10,411	15,144	11,310	9,742	9,365	10,974	5,550
Income and other taxes	2,489	2,938	4,162	3,361	2,941	2,599	3,121	1,668
Net income for the period	6,244	7,473	10,982	7,949	6,801	6,766	7,853	3,882
Cash dividends declared and paid	7,872	7,880	7,862	7,848	7,876	7,891	7,871	7,876
Per share amounts - (\$/share)								
Earnings per share - basic	0.08	0.09	0.14	0.10	0.09	0.09	0.10	0.05
Earnings per share - diluted	0.08	0.09	0.14	0.10	0.09	0.08	0.10	0.05
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

(1) 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.

(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.

Highlights

During the year ended March 31, 2016, as compared to the previous fiscal year, CMG:

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

During the year ended March 31, 2016, CMG:

- Declared and paid dividends of \$0.40 per share;
- Realized basic earnings per share of \$0.32;
- Purchased 589,000 Common Shares for cancellation under the Normal Course Issuer Bid ("NCIB").

Revenue

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Software licenses	17,762	18,225	(463)	-3%
Professional services	1,254	2,147	(893)	-42%
Total revenue	19,016	20,372	(1,356)	-7%
Software license revenue - % of total revenue	93%	89%		
Professional services - % of total revenue	7%	11%		
Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Software licenses	74,974	76,836	(1,862)	-2%
Professional services	5,824	8,025	(2,201)	-27%
Total revenue	80,798	84,861	(4,063)	-5%
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 7% and 5% for the three months and year ended March 31, 2016, respectively, compared to the same periods 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.

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance licenses	16,980	16,063	917	6%
Perpetual licenses	782	2,162	(1,380)	-64%
Total software license revenue	17,762	18,225	(463)	-3%
Annuity/maintenance as a % of total software license revenue	96%	88%		
Perpetual as a % of total software license revenue	4%	12%		

Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance licenses	67,805	63,431	4,374	7%
Perpetual licenses	7,169	13,405	(6,236)	-47%
Total software license revenue	74,974	76,836	(1,862)	-2%
Annuity/maintenance as a % of total software license revenue	90%	83%		
Perpetual as a % of total software license revenue	10%	17%		

Total software license revenue decreased by 3% and 2% in the three months and year ended March 31, 2016, respectively, compared to the same periods of the previous fiscal year, due to a decrease in perpetual license revenue, partially offset by an increase in annuity/maintenance revenue.

CMG's annuity/maintenance license revenue increased by 6% and 7% during the three months and year ended March 31, 2016, respectively, compared to the same periods of the previous fiscal year, due to new contracts in the Eastern Hemisphere and the positive effect of the strengthening of the US dollar relative to the Canadian dollar.

During the three months ended March 31, 2016, all of our regions, with the exception of Canada, experienced growth in annuity/maintenance revenue, compared to the same period of the previous fiscal year.

During the year ended March 31, 2016, the Eastern Hemisphere and the United States experienced growth in annuity/maintenance revenue, compared to the same period of the previous fiscal year. This growth 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 timing of such payments may skew the comparison of the recorded annuity/maintenance revenue amounts between periods. The latest payment from this customer was received during the year ended March 31, 2015. No amounts were received from this customer during the year ended March 31, 2016. To provide a normalized comparison, if we were to remove revenue from this particular customer from the year ended March 31, 2015, we will notice that the annuity/maintenance revenue increased by 9%, instead of 7%, during the year ended March 31, 2016, as compared to 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 result in fluctuations in our annuity/maintenance revenue results.

Perpetual license sales decreased by \$1.4 million, or 64%, for the three months ended March 31, 2016, compared to the same period of the previous fiscal year, mainly due to fewer perpetual sales being realized in South America and the Eastern Hemisphere.

Perpetual license sales decreased by \$6.2 million, or 47%, for the year ended March 31, 2016, compared to the previous fiscal year, with the 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.

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 dollar during the three months and year ended March 31, 2016, 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 March 31, (\$ thousands)		2016	2015	\$ change	% change
US dollar annuity/maintenance license sales	US\$	10,023	10,119	(96)	-1%
Weighted average conversion rate		1.349	1.161		
Canadian dollar equivalent	CDN\$	13,518	11,747	1,771	15%
US dollar perpetual license sales	US\$	470	1,713	(1,243)	-73%
Weighted average conversion rate		1.342	1.238		
Canadian dollar equivalent	CDN\$	631	2,121	(1,490)	-70%
Year ended March 31, (\$ thousands)		2016	2015	\$ change	% change
US dollar annuity/maintenance license sales	US\$	41,480	41,669	(189)	0%
Weighted average conversion rate		1.260	1.098		
Canadian dollar equivalent	CDN\$	52,277	45,756	6,521	14%
US dollar perpetual license sales	US\$	5,028	11,333	(6,305)	-56%
Weighted average conversion rate		1.297	1.135		
Canadian dollar equivalent	CDN\$	6,524	12,867	(6,343)	-49%

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

Three months ended March 31, (\$ thousands)	2015	Incremental License Growth	Foreign Exchange Impact	2016
Annuity/maintenance license sales	16,063	(965)	1,882	16,980
Perpetual license sales	2,162	(1,429)	49	782
Total software license revenue	18,225	(2,394)	1,931	17,762
Year ended March 31, (\$ thousands)	2015	Incremental License Growth	Foreign Exchange Impact	2016
Annuity/maintenance license sales	63,431	(2,354)	6,728	67,805
Perpetual license sales	13,405	(7,051)	815	7,169
Total software license revenue	76,836	(9,405)	7,543	74,974

Software Revenue by Geographic Segment

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance revenue				
Canada	4,963	6,475	(1,512)	-23%
United States	4,426	4,279	147	3%
South America	1,885	1,502	383	25%
Eastern Hemisphere ⁽¹⁾	5,706	3,807	1,899	50%
	16,980	16,063	917	6%
Perpetual revenue				
Canada	151	42	109	260%
United States	35	175	(140)	-80%
South America	177	848	(671)	-79%
Eastern Hemisphere	419	1,097	(678)	-62%
	782	2,162	(1,380)	-64%
Total software license revenue				
Canada	5,114	6,517	(1,403)	-22%
United States	4,461	4,454	7	0%
South America	2,062	2,350	(288)	-12%
Eastern Hemisphere	6,125	4,904	1,221	25%
	17,762	18,225	(463)	-3%
Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance revenue				
Canada	22,648	25,538	(2,890)	-11%
United States	17,409	15,958	1,451	9%
South America	6,710	7,742	(1,032)	-13%
Eastern Hemisphere ⁽¹⁾	21,038	14,193	6,845	48%
	67,805	63,431	4,374	7%
Perpetual revenue				
Canada	647	539	108	20%
United States	1,404	349	1,055	302%
South America	1,159	7,427	(6,268)	-84%
Eastern Hemisphere	3,959	5,090	(1,131)	-22%
	7,169	13,405	(6,236)	-47%
Total software license revenue				
Canada	23,295	26,077	(2,782)	-11%
United States	18,813	16,307	2,506	15%
South America	7,869	15,169	(7,300)	-48%
Eastern Hemisphere	24,997	19,283	5,714	30%
	74,974	76,836	(1,862)	-2%

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

During the three months ended March 31, 2016, on a geographic basis, total software license sales declined in Canada and South America, partially offset by an increase in the Eastern Hemisphere, while sales in the United States remained unchanged, as compared to the same period of the previous fiscal year.

During the year ended March 31, 2016, on a geographic basis, total software license sales declined in Canada and South America, partially offset by increases in the Eastern Hemisphere and United States, as compared to the previous fiscal year.

The Canadian market (representing 31% of year-to-date total software revenue) experienced declines in annuity/maintenance license sales during the three months and year ended March 31, 2016, 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.

The United States market (representing 25% of year-to-date total software revenue) grew annuity/maintenance license sales during the three months and year ended March 31, 2016, 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 dollar-denominated revenue. While perpetual revenue decreased slightly during the three months ended March 31, 2016, it increased by \$1.1 million during the year ended March 31, 2016, 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 11% of year-to-date total software revenue) experienced an increase of 25% in annuity/maintenance license sales during the three months ended March 31, 2016, compared to the same period of the previous fiscal year, mainly due to sales to an existing customer. The results for the year ended March 31, 2016 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). The latest payment from this customer was received during the year ended March 31, 2015. No amounts were received from this customer during the year ended March 31, 2016. To provide a normalized comparison, if we were to remove revenue from this particular customer from the year ended March 31, 2015, we will notice that the annuity/maintenance revenue increased by 6%, instead of decreasing by 13%, during the year ended March 31, 2016, as compared to the previous fiscal year. The year-over-year increase in annuity/maintenance revenue is mainly due to the positive effect of foreign exchange on the conversion of the US dollar-denominated revenue.

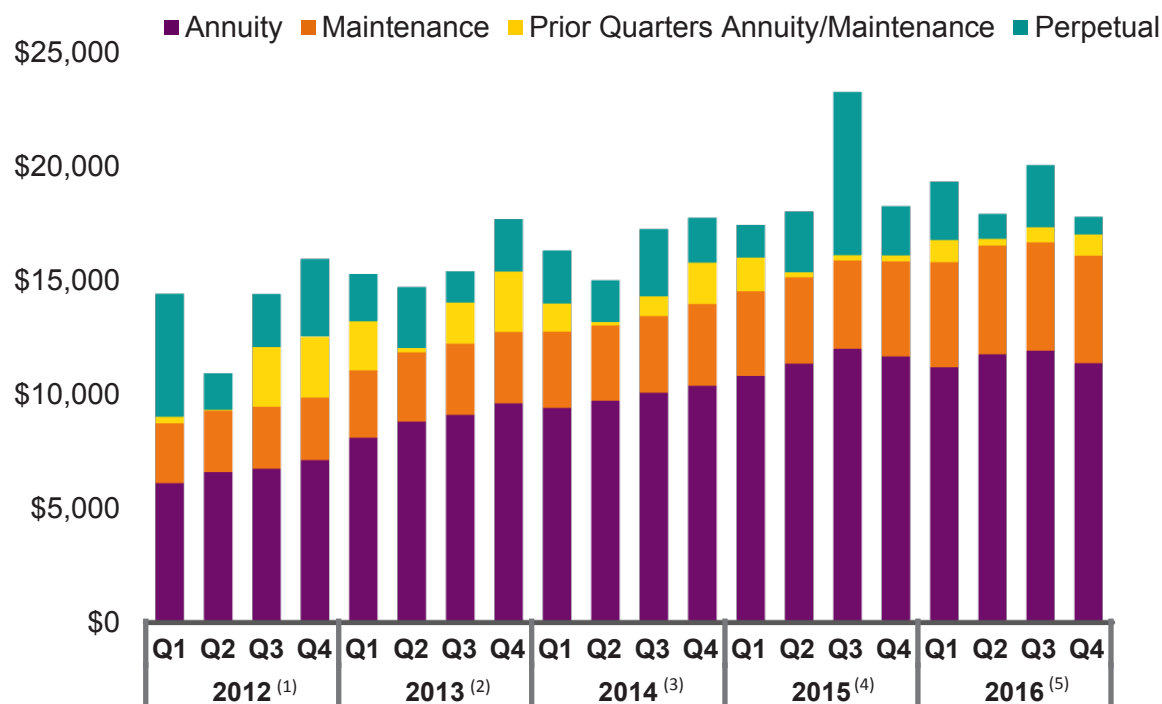
The South American region experienced decreases in perpetual license sales during the three months and year ended March 31, 2016, compared to the same periods of the previous fiscal year, mainly as a result of the large perpetual sale made during the third quarter of the previous fiscal year.

The Eastern Hemisphere (representing 33% of the year-to-date total software revenue) grew annuity/maintenance license sales by 50% and 48%, during the three months and year ended March 31, 2016, respectively, compared to the same periods of the previous fiscal year, mainly due to higher sales to existing customers. Fewer perpetual license sales were realized in the three months and year ended March 31, 2016, compared to the same periods of the previous fiscal year.

Software license revenue in the US, South America and the Eastern Hemisphere was positively affected by the strengthening of the US dollar during the three months and year ended March 31, 2016, 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) 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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.

Deferred Revenue

(\$ thousands)	Fiscal 2016	Fiscal 2015	\$ change	% change
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)	33,629	32,663	966	3%

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 March 31, 2016 increased by 3% compared to March 31, 2015. The increase is primarily due to the timing of finalizing annual agreements with certain customers. These agreements had been finalized by March 31, 2016 and, therefore, included in deferred revenue as at March 31, 2016, while the previous year's agreements with the same customers had not been finalized by March 31, 2015 and, therefore, had not been included in deferred revenue as at that date. Deferred revenue was also positively impacted by strengthening of the US dollar relative to the Canadian dollar.

Professional Services Revenue

CMG recorded professional services revenue of \$1.3 million and \$5.8 million for the three months and year ended March 31, 2016, representing decreases of \$0.8 million and \$2.2 million, respectively, compared to the same periods of the previous fiscal year, due to a decline 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 March 31, (\$ thousands)	2016	2015	\$ change	% change
Sales, marketing and professional services	6,071	5,529	542	10%
Research and development	4,208	4,406	(198)	-4%
General and administrative	1,697	1,917	(220)	-11%
Total operating expenses	11,976	11,852	124	1%
Direct employee costs ⁽¹⁾	9,634	9,486	148	2%
Other corporate costs	2,342	2,366	(24)	-1%
	11,976	11,852	124	1%
Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Sales, marketing and professional services	21,450	19,278	2,172	11%
Research and development	16,865	16,994	(129)	-1%
General and administrative	6,447	7,073	(626)	-9%
Total operating expenses	44,762	43,345	1,417	3%
Direct employee costs ⁽¹⁾	36,026	34,377	1,649	5%
Other corporate costs	8,736	8,968	(232)	-3%
	44,762	43,345	1,417	3%

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

CMG's total operating expenses remained relatively flat during the three months ended March 31, 2016, compared to the same period of the previous fiscal year, due to a slight increase in direct employee costs being offset by a slight decrease in other corporate costs. Approximately 28% of the Company's total operating expenses are denominated in USD, the majority of which impacts the sales, marketing and professional services line item.

CMG's total operating expenses increased by 3% for the year ended March 31, 2016, compared to the previous fiscal year, due to an increase in direct employee costs, partially offset by a decrease in other corporate costs. 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 the total operating expenses in the year ended March 31, 2016 related to direct employee costs, compared to 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 March 31, 2016, CMG's staff complement was 212 full-time equivalent employees and consultants, up from 205 full-time equivalent employees and consultants as at March 31, 2015. Direct employee costs increased during the three months and year ended March 31, 2016, 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 stock-based compensation expense.

Other Corporate Costs

Other corporate costs decreased by 1% for the three months ended March 31, 2016, compared to the same period of the previous fiscal year.

Other corporate costs decreased by 3% for the year ended March 31, 2016, compared to the previous fiscal year, mainly attributable to the costs associated with CMG's biennial technical symposium that took place during the year ended March 31, 2015.

Research and Development

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Research and development (gross)	4,623	4,757	(134)	-3%
SR&ED credits	(415)	(351)	(64)	18%
Research and development	4,208	4,406	(198)	-4%
Research and development as a % of total revenue	22%	22%		

Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Research and development (gross)	18,366	18,313	53	0%
SR&ED credits	(1,501)	(1,319)	(182)	14%
Research and development	16,865	16,994	(129)	-1%
Research and development as a % of total revenue	21%	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 \$1.5 million and \$5.9 million for the three months and year ended March 31, 2016, respectively (2015 – \$1.5 million and \$6.1 million). See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Research and development costs (gross) decreased by 3% during the three months ended March 31, 2016, compared to the same period of the previous fiscal year, mainly as a result of lower consulting costs and lower stock-based compensation expense.

Research and development costs (gross) remained flat during the year ended March 31, 2016, compared to the previous fiscal year, due to an increase in employee compensation costs, offset by a decrease in stock-based compensation, consulting and depreciation expenses.

SR&ED credits increased by 18% and 14% for the three months and year ended March 31, 2016, 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 March 31, (\$ thousands)	2016	2015	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	132	151	(19)	-13%
Research and development	178	230	(52)	-23%
General and administrative	39	44	(5)	-11%
Total depreciation	349	425	(76)	-18%
Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	514	509	5	1%
Research and development	712	877	(165)	-19%
General and administrative	156	197	(41)	-21%
Total depreciation	1,382	1,583	(201)	-13%

Depreciation decreased slightly for the three months and year ended March 31, 2016, as compared to the same periods in the previous fiscal year.

Finance Income

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Interest income	133	153	(20)	-13%
Net foreign exchange gain	-	2,637	(2,637)	-100%
Total finance income	133	2,790	(2,657)	-95%
Net foreign exchange loss	(1,623)	-	(1,623)	100%
Total finance costs	(1,623)	-	(1,623)	100%

Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Interest income	549	699	(150)	-21%
Net foreign exchange gain	-	3,383	(3,383)	-100%
Total finance income	549	4,082	(3,533)	-87%
Net foreign exchange loss	(954)	-	(954)	100%
Total finance costs	(954)	-	(954)	100%

Interest income decreased for the three months and year ended March 31, 2016, compared to the same periods of the previous fiscal year, mainly due to investing smaller cash balances at lower interest rates.

CMG is impacted by the movement of the US dollar against the Canadian dollar as approximately 76% (2015 – 74%) of CMG's revenue for the year ended March 31, 2016 is denominated in US dollars, whereas only approximately 28% (2015 – 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 March 31, 2016, 2015 and 2014 and the average exchange rates used to translate income statement items during the years ended March 31, 2016, 2015 and 2014:

CDN\$ to US\$	At March 31	Yearly average
2014	0.9047	0.9452
2015	0.7885	0.8717
2016	0.7710	0.7617

CMG recorded a net foreign exchange loss of \$1.6 million for the three months ended March 31, 2016, compared to a net foreign exchange gain of \$2.6 million recorded in the same period of the previous fiscal year, due to a weakening of the US dollar during the quarter, which negatively impacted the valuation of the US dollar-denominated portion of the Company's working capital.

CMG recorded a net foreign exchange loss of \$1.0 million for the year ended March 31, 2016, compared to a net foreign exchange gain of \$3.4 million recorded in the previous fiscal year. The foreign exchange loss was largely due to the timing of collection of receivables, since the majority of US dollar-denominated customer receivables outstanding at March 31, 2015 were collected during the first quarter of the current fiscal year, when a significant weakening of the US dollar occurred. This foreign exchange loss was partially offset by the strengthening of the US dollar at March 31, 2016 compared to March 31, 2015, which contributed positively to 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 year ended March 31, 2016 is reflected as 29.0% (2015 – 28.4%), whereas the prevailing Canadian statutory tax rate is currently 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 March 31, (\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Total revenue	19,016	20,372	(1,356)	-7%
Operating expenses	(11,976)	(11,852)	(124)	1%
Operating profit	7,040	8,520	(1,480)	-17%
Operating profit as a % of total revenue	37%	42%		
Net income for the period	3,882	7,949	(4,067)	-51%
Net income for the period as a % of total revenue	20%	39%		
Basic earnings per share (\$/share)	0.05	0.10	(0.05)	-50%

Year ended March 31, (\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Total revenue	80,798	84,861	(4,063)	-5%
Operating expenses	(44,762)	(43,345)	(1,417)	3%
Operating profit	36,036	41,516	(5,480)	-13%
Operating profit as a % of total revenue	45%	49%		
Net income for the period	25,302	32,648	(7,346)	-23%
Net income for the period as a % of total revenue	31%	38%		
Basic earnings per share (\$/share)	0.32	0.42	(0.10)	-24%

Operating profit as a percentage of total revenue for the three months ended March 31, 2016 was at 37%, compared to 42% for 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 year ended March 31, 2016 was at 45%, compared to 49% for the previous fiscal year, due to a decline in total revenue and an increase in operating expenses.

Net income as a percentage of revenue decreased to 20% from 39% and to 31% from 38% for the three months and year ended March 31, 2016, respectively, compared to the same periods of the previous fiscal year.

EBITDA

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Net income for the period	3,882	7,949	(4,067)	-51%
Add (deduct):				
Depreciation	349	425	(76)	-18%
Finance costs (income)	1,490	(2,790)	4,280	-153%
Income and other taxes	1,668	3,361	(1,693)	-50%
EBITDA	7,389	8,945	(1,556)	-17%
EBITDA as a % of total revenue	39%	44%		

Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Net income for the period	25,302	32,648	(7,346)	-23%
Add (deduct):				
Depreciation	1,382	1,583	(201)	-13%
Finance costs (income)	405	(4,082)	4,487	-110%
Income and other taxes	10,329	12,950	(2,621)	-20%
EBITDA	37,418	43,099	(5,681)	-13%
EBITDA as a % of total revenue	46%	51%		

EBITDA decreased by 17% and 13% for the three months and year ended March 31, 2016, respectively, compared to the same periods of the previous fiscal year. EBITDA as a percentage of total revenue decreased to 39% from 44% and to 46% from 51% for the three months and year ended March 31, 2016, as compared to the same periods of the previous fiscal year.

Liquidity and Capital Resources

Three months ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Cash, beginning of period	66,200	65,920	280	0%
Cash flow from (used in):				
Operating activities	14,489	17,130	(2,641)	-15%
Financing activities	(7,268)	(7,174)	(94)	1%
Investing activities	(741)	(534)	(207)	39%
Cash, end of period	72,680	75,342	(2,662)	-4%

Year ended March 31, (\$ thousands)	2016	2015	\$ change	% change
Cash, beginning of period	75,342	72,410	2,932	4%
Cash flow from (used in):				
Operating activities	31,665	40,718	(9,053)	-22%
Financing activities	(32,418)	(36,037)	3,619	-10%
Investing activities	(1,909)	(1,749)	(160)	9%
Cash, end of period	72,680	75,342	(2,662)	-4%

Operating Activities

Cash flow generated from operating activities decreased by \$2.7 million in the three months ended March 31, 2016, compared to the same period of the previous fiscal year, mainly due to lower net income and higher income tax installments, partially offset by the change in the deferred revenue balance and the positive impact of the timing difference of when sales are made and when the resulting receivables are collected.

Cash flow generated from operating activities decreased by \$9.1 million in the year ended March 31, 2016, compared to the previous fiscal year, mainly due to lower net income, higher income tax installments and the change in the deferred revenue balance, partially 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 remained relatively flat during the three months ended March 31, 2016, compared to the same period of the previous fiscal year.

Cash used in financing activities decreased by \$3.6 million during the year ended March 31, 2016, compared to the previous fiscal year, due to spending less on Common Share buy-backs and receiving higher proceeds from the issuance of Common Shares, slightly offset by paying larger dividends.

During the year ended March 31, 2016, CMG employees and directors exercised options to purchase 921,000 Common Shares, which resulted in cash proceeds of \$6.0 million (2015 – 876,000 options exercised to purchase Common Shares, which resulted in cash proceeds of \$5.3 million).

In the year ended March 31, 2016, CMG paid \$31.5 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1	Q2	Q3	Q4	2016 Total
Total dividends declared and paid	0.10	0.10	0.10	0.10	0.40

In the year ended March 31, 2015, CMG paid \$31.5 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1	Q2	Q3	Q4	2015 Total
Total dividends declared and paid	0.10	0.10	0.10	0.10	0.40

On May 19, 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 June 15, 2016 to shareholders of record at the close of business on June 7, 2016.

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 paying 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 \$9.8 million.

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 year ended March 31, 2016, 589,000 Common Shares were purchased at market price for a total cost of \$6.9 million.

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 year ended March 31, 2016, CMG expended \$1.9 million on property and equipment additions, primarily composed of computing equipment, furniture and leasehold improvements. CMG has a capital budget of \$15.1 million for fiscal 2017, which includes property and equipment additions for the new Calgary headquarters.

Liquidity and Capital Resources

At March 31, 2016, CMG has \$72.7 million in cash, no debt, and has access to approximately \$0.8 million under a line of credit with its principal banker. The company's primary uses of cash are for paying dividends and purchasing shares. Over the upcoming fiscal year, we expect to invest approximately \$15.0 million in infrastructure for the new Calgary headquarters.

During the year ended March 31, 2016, 42,807,000 shares of CMG's public float were traded on the TSX. As at March 31, 2016, CMG's market capitalization based upon its March 31, 2016 closing price of \$10.14 was \$799.2 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 and 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 \$6.5 million (\$3.7 million net of overhead recoveries) for fiscal 2017. 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 the statement of financial position, and contractual obligations for office leases, which are estimated for our fiscal years as follows: 2017 – \$2.5 million; 2018 – \$3.6 million; 2019 – \$4.7 million; 2020 – \$4.6 million; 2021 – \$4.6 million; thereafter – \$82.0 million. During the third quarter of fiscal 2015, CMG finalized a twenty year operating lease for our new Calgary office, which will commence in fiscal 2018.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to estimation uncertainty. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period in which the estimates are revised and in any future periods affected.

Revenue recognition

Revenue consists primarily of software license fees with some fees for professional services. We recognize revenue in accordance with the current rules of IFRS. We follow specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue recognition policies.

Software license revenue is comprised of annuity/maintenance license fees charged for the use of our software products, which is generally for a term of one year or less, and perpetual software licensing, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. We recognize software license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met.

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. License fees for perpetual licenses are recognized fully in revenue when all recognition conditions are satisfied.

Certain software license agreements contain multiple-element arrangements as they may also include maintenance fees. Judgment is used in determining a fair value of each element of a contract.

Professional services revenue earned from certain consulting contracts is recognized by the stage of completion of the transaction determined using the percentage-of-completion method. Judgment is used in determining progress of each contract at period end. In assessing revenue recognition, judgment is also used in determining the ability to collect the corresponding account receivable.

Functional currency

The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21, *The Effects of Changes in Foreign Exchange Rates*, sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, the Company uses judgment in the ultimate determination of that subsidiary's functional currency, including an assessment of the nature of the relationship between the Company and the subsidiary. Judgment was applied in the determination of the functional currency of certain of the Company's operating entities.

Research and development

Assumptions are made in respect to the eligibility of certain research and development projects in the calculation of SR&ED investment tax credits which are netted against the research and development costs in the statement of operations. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits.

Stock-based compensation

Assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives.

Property and equipment

Estimates are used in determining useful economic lives of property and equipment for the purposes of calculating depreciation.

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 clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this amendment is 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 and does not expect these amendments to have a material impact on the Company's disclosure.

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 in its consolidated financial statements beginning April 1, 2018. The Company does not expect IFRS 9 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 effective date for IFRS 15 is for annual periods beginning on or after January 1, 2018. IFRS 15 is available for early adoption. 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.

IFRS 16 Leases

Replaces the guidance in 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 exemptions for short-term leases where the term is twelve months or less and for leases of low value items. IFRS 16 is effective January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning April 1, 2019. 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 May 19, 2016

(thousands)

Common Shares	78,836
Options	7,165

On July 13, 2005, CMG adopted a rolling stock option plan which allows the Company to grant options to its employees, officers 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 May 19, 2016, CMG could grant up to 7,884,000 stock options.

Business Risks

The Company has the following business risks:

Commodity Price Risk

CMG's customers are oil and gas companies and it might, therefore, be assumed that its financial results are significantly impacted by commodity prices. CMG's actual experience of growth in software license revenues during depressed oil price markets makes us believe that software license sales are influenced more by the utility of the software as opposed to the prevailing commodity price, but different circumstances could prevail in the future. Low commodity prices and resulting lower cash flow in the industry could impact how customers license CMG software; one could expect sales of perpetual licenses to decrease in favour of leasing software on a term basis.

Volatility in commodity prices could have an impact on CMG's consulting business; however, this business segment generates less than 10% of total revenues and CMG has no current plans to significantly expand this area of business.

Credit and Liquidity Risks

Our product demand is dependent on the customers' overall spending plans, which are driven by commodity prices and the availability of capital. This risk is mitigated by having a diversified customer base with the majority of revenue being derived from larger entities which are not as affected by the market volatility or cyclical downturns in commodity prices. In addition, our diversified geographic profile helps to mitigate the effects of economic recessions and instability experienced in any particular geographic region.

The Company mitigates the collection risk by closely monitoring its accounts receivable and assessing creditworthiness of its customers. The Company has not had any significant losses to date.

In terms of liquidity, the Company held \$72.7 million of cash at March 31, 2016, which more than covers its obligations, and it has approximately \$0.8 million of the credit facility available for its use. The Company's cash is held with a reputable banking institution. For the described reasons, we believe that our liquidity risk is low.

Sales Variability Risk

CMG's software license revenue consists of annuity/maintenance software licensing, which is generally for a term of one year or less, and perpetual software licensing, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. Software licensing under perpetual sales is a significant part of CMG's business but is more variable in nature as the purchase decision, and its timing, fluctuate with customers' needs and budgets. CMG has found that a number of customers prefer to acquire perpetual software licenses rather than leasing the software on an annual basis. The experience over the last few years is that a number of these customers are purchasing additional licenses to allow more users to access CMG technology in their operations. CMG has found that a large percentage of its customers who have acquired perpetual software licenses are subsequently purchasing maintenance licenses to ensure they have access to current CMG technology.

The variability in sales of perpetual licenses may cause significant fluctuations in the Company's quarterly and annual financial results, and these results may not meet the expectations of analysts or investors. Accordingly, the Company's past results may not be a good indication of its future performance.

CMG's customers are both domestic and international oil and gas companies and for the years ended March 31, 2016 and 2015, no customer represented revenue in excess of 10% of total revenue.

Foreign Exchange Risk

CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as approximately 76% (2015 – 74%) of product revenues in fiscal 2016 were denominated in US dollars. Approximately 28% of CMG's total costs in fiscal 2016 (2015 – 25%) were denominated in US dollars, which provides a partial economic hedge against the fluctuation in currency exchange between the US and the Canadian dollar on revenues. CMG's residual revenues and costs are primarily denominated in Canadian dollars, and its policy is to convert excess US dollar cash into Canadian dollars when received.

Geopolitical Risks

CMG sells its products and services in approximately 60 countries worldwide, and has operations in a number of different countries. Some of these countries have greater economic, political and social risks than experienced in North America which may adversely affect the Company's sales, costs and operations in those jurisdictions. Some of those risks include:

- Currency restrictions and exchange rate fluctuations
- Civil unrest and political instability
- Changes in laws governing existing operations and contracts
- Changes to taxation policies dramatically increasing tax costs to the Company
- Economic and legal sanctions
- Non-compliance with applicable anti-corruption and bribery laws

Any disruption in our ability to complete a sale cycle, including disruption of travel to customers' locations to provide training and support, and the cost of reorganizing daily activities of foreign operations, could have an adverse effect on our financial condition. CMG mitigates the potential adverse effect on sales by invoicing for the full license term in advance for the majority of software license sales and by invoicing as frequently as the contract allows for consulting and contract research services. CMG closely monitors the business and regulatory environments of the countries in which it conducts operations to minimize the potential impact on costs and operations.

Non-compliance with applicable anti-corruption and bribery laws could subject the Company to onerous penalties and the costs of prosecution. CMG has established business practices and internal controls to minimize the potential occurrence of any irregular payments. In addition, the Company has established well-defined anti-corruption and bribery policies and procedures that each employee and contractor is required to sign indicating their compliance.

Competition Risk

Competition is a risk for CMG as it is for almost every company in every sector. The reservoir simulation software industry currently consists of three major suppliers (including CMG) and a number of small suppliers. Some of the other suppliers, including two major suppliers, offer products or oil field services outside the scope of reservoir simulation. Some potential customers may prefer to deal with such multi-service suppliers, while others prefer an independent supplier, such as CMG.

Although competition is very active, CMG believes that its proven technology and the comprehensive scope of its products, combined with its international presence and recognition as a major independent supplier, provide distinct competitive advantages.

Sustaining competitive advantage is another issue, which CMG addresses by making a significant ongoing commitment to research and development spending. CMG expended \$16.9 million (2015 – \$17.0 million) in product research and development in its most recently completed fiscal year.

The introduction by competitors of products embodying new technology and the emergence of new industry standards and practices could render CMG's products obsolete and unmarketable and could exert price pressures on existing products, which could have negative effects on the Company's business, operating results and financial condition.

There is a significant barrier for new entrants into the reservoir simulation software industry. The cost of entry is substantial as a significant investment in research and development is required. In addition, to become a major supplier, a significant time investment is required to build up quality relationships with potential customers.

Labour Risk

The Company's continued success is substantially dependent on the performance of its key employees and officers. The loss of the services of these personnel as well as failure to attract additional key personnel could have a negative impact upon the Company's business, operating results and financial condition. Due to high levels of competition for qualified personnel, there can be no assurance that the Company will be successful in retaining and attracting such personnel. The Company attempts to overcome this by offering an attractive compensation package and providing an environment that provides the intellectual and professional stimulation sought by our employee group.

Intellectual Property Risk

CMG regards its software as proprietary and attempts to protect it with copyrights, trademarks and trade secret measures, including restrictions on disclosure and technical measures. Despite these precautions, it may be possible for third parties to copy CMG's programs or aspects of its trade secrets. CMG has no patents, and existing legal and technical precautions afford only limited practical protection. CMG could incur substantial costs in protecting and enforcing its intellectual property rights. Moreover, from time to time third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to CMG. In such an event, CMG may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that CMG pay damages or obtain a license of a third party's proprietary rights in order to continue licensing its products as currently offered, or, if such a license is required, that it will be available on terms acceptable to CMG.

CMG does not know of any infringement of any third party's patent rights, copyrights, trade secrecy rights or other intellectual property disputes in the development or support of its products.

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.

At March 31, 2016, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) concluded that the design and operation of the Company’s DC&P were effective (in accordance with the COSO control framework (2013)) and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation. Further, the CEO and the CFO concluded that the design and operation of the Company’s ICFR were effective at March 31, 2016 in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It should be noted that while the Company’s CEO and CFO believe that the Company’s disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that such controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

During the year ended March 31, 2016, 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.

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.

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 the CoFlow project 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 this MD&A:

- 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.

This Management's Discussion and Analysis was reviewed and approved by the Audit Committee and Board of Directors and is effective as of May 19, 2016.

Management's Statement of Responsibility

Management is responsible for the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards consistently applied, using management's best estimates and judgements, where appropriate. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

KPMG LLP, Chartered Professional Accountants, appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee reviews the financial content of the Annual Report and meets regularly with management and KPMG LLP to discuss internal controls, accounting and auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.



Sandra Balic, CPA, CA
Vice President, Finance and
Chief Financial Officer



Kenneth M. Dedeluk
President and Chief Executive Officer

Calgary, Canada
May 19, 2016

Independent Auditors' Report

To the Shareholders of Computer Modelling Group Ltd.

We have audited the accompanying consolidated financial statements of Computer Modelling Group Ltd., which comprise the consolidated statements of financial position as at March 31, 2016 and March 31, 2015, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Computer Modelling Group Ltd. as at March 31, 2016 and March 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
May 19, 2016
Calgary, Canada

Consolidated Statements of Financial Position

(thousands of Canadian \$)	March 31, 2016	March 31, 2015
Assets		
Current assets:		
Cash	72,680	75,342
Trade and other receivables (note 13(a))	21,093	27,083
Prepaid expenses	1,222	1,271
Prepaid income taxes (note 10)	3,173	42
	98,168	103,738
Property and equipment (note 4)	3,245	2,718
Total assets	101,413	106,456
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities (note 5)	7,527	7,753
Income taxes payable (note 10)	800	2,415
Deferred revenue	33,629	32,663
	41,956	42,831
Deferred tax liability (note 10)	199	169
Total liabilities	42,155	43,000
Shareholders' equity:		
Share capital (note 11)	66,007	59,397
Contributed surplus	10,397	8,561
Retained earnings (deficit)	(17,146)	(4,502)
Total shareholders' equity	59,258	63,456
Total liabilities and shareholders' equity	101,413	106,456

Subsequent events (notes 11(b) and 20)

See accompanying notes to consolidated financial statements.

Approved by the Board



Frank L. Meyer
Director



Robert F. M. Smith
Director

Consolidated Statements of Operations and Comprehensive Income

Years Ended March 31, (thousands of Canadian \$ except per share amounts)	2016	2015
Revenue (note 6)	80,798	84,861
Operating expenses		
Sales, marketing and professional services	21,450	19,278
Research and development (note 7)	16,865	16,994
General and administrative	6,447	7,073
	44,762	43,345
Operating profit	36,036	41,516
Finance income (note 9)	549	4,082
Finance costs (note 9)	(954)	-
Profit before income and other taxes	35,631	45,598
Income and other taxes (note 10)	10,329	12,950
Net and total comprehensive income	25,302	32,648
Earnings Per Share		
Basic (note 11(e))	0.32	0.42
Diluted (note 11(e))	0.32	0.41

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian \$)	Common Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance, April 1, 2014	53,750	5,853	3,565	63,168
Total comprehensive income for the year	-	-	32,648	32,648
Dividends paid	-	-	(31,462)	(31,462)
Shares issued for cash on exercise of stock options (note 11(b))	5,270	-	-	5,270
Common shares buy-back (notes 11(b) & (c))	(592)	-	(9,253)	(9,845)
Stock-based compensation:				
Current period expense	-	3,677	-	3,677
Stock options exercised	969	(969)	-	-
Balance, March 31, 2015	59,397	8,561	(4,502)	63,456
Balance, April 1, 2015	59,397	8,561	(4,502)	63,456
Total comprehensive income for the year	-	-	25,302	25,302
Dividends paid	-	-	(31,514)	(31,514)
Shares issued for cash on exercise of stock options (note 11(b))	6,002	-	-	6,002
Common shares buy-back (notes 11(b) & (c))	(474)	-	(6,432)	(6,906)
Stock-based compensation:				
Current period expense	-	2,918	-	2,918
Stock options exercised	1,082	(1,082)	-	-
Balance, March 31, 2016	66,007	10,397	(17,146)	59,258

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, (thousands of Canadian \$)	2016	2015
Cash flows from operating activities		
Net income	25,302	32,648
Adjustments for:		
Depreciation (note 4)	1,382	1,583
Income and other taxes (note 10)	10,329	12,950
Stock-based compensation (note 11(d))	2,918	3,677
Interest income (note 9)	(549)	(699)
	39,382	50,159
Changes in non-cash working capital:		
Trade and other receivables	5,983	(3,067)
Trade payables and accrued liabilities	(226)	1,806
Prepaid expenses	49	(118)
Deferred revenue	966	3,132
Cash generated from operating activities	46,154	51,912
Interest received	556	708
Income taxes paid	(15,045)	(11,902)
Net cash from operating activities	31,665	40,718
Cash flows from financing activities		
Proceeds from issue of common shares	6,002	5,270
Dividends paid	(31,514)	(31,462)
Common shares buy-back (note 11(c))	(6,906)	(9,845)
Net cash used in financing activities	(32,418)	(36,037)
Cash flows used in investing activities		
Property and equipment additions (note 4)	(1,909)	(1,749)
Increase (decrease) in cash	(2,662)	2,932
Cash, beginning of year	75,342	72,410
Cash, end of year	72,680	75,342

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2016 and 2015.

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 Suite 200, 1824 Crowchild Trail N.W., Calgary, Alberta, Canada, T2M 3Y7. The consolidated financial statements as at and for the year ended March 31, 2016 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements as at and for the year ended March 31, 2016 were authorized for issuance by the Board of Directors on May 19, 2016.

(b) Basis of Measurement:

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

(c) Functional and Presentation Currency:

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

(d) Use of Estimates, Judgments and Assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses for the period. Estimates and underlying assumptions are based on historical experience and other assumptions that are considered reasonable in the circumstances and are reviewed on an on-going 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.

(i) Key judgments in applying accounting policies

The key judgments made in applying accounting policies, apart from those involving estimations (note 2(d)(ii) below), that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

Functional currency – the determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, sets out a number of factors to apply in making the determination of the functional currency. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies within a subsidiary, the Company uses judgment in the ultimate determination of that subsidiary's functional

currency, including an assessment of the nature of the relationship between the Company and the subsidiary. Judgment was applied in the determination of the functional currency of certain of the Company's operating entities.

Research and development – assumptions are made in respect to the eligibility of certain research and development projects in the calculation of scientific research and experimental development ("SR&ED") investment tax credits which are netted against the research and development costs in the statement of comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits (note 7).

Revenue recognition – certain software license agreements contain multiple-element arrangements as they may also include maintenance fees. Judgment is used in determining a fair value of each element of a contract. Professional services revenue earned from certain consulting contracts is recognized by the stage of completion of the transaction determined using the percentage-of-completion method. Judgment is used in determining the progress of each contract at period end. In assessing revenue recognition, judgment is also used in determining the ability to collect the corresponding account receivable (note 6).

(ii) **Estimation uncertainty**

The following are the key sources of estimation uncertainty and key assumptions concerning the future, that have a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year:

Stock-based compensation – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives (note 11(d)).

Property and equipment – estimates are used in determining useful economic lives of property and equipment for the purposes of calculating depreciation (note 4).

3. Significant Accounting Policies:

(a) **Basis of Consolidation:**

The consolidated financial statements include the accounts of CMG and its subsidiaries, all 100% owned. All inter-company transactions and balances have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(b) **Revenue Recognition:**

Revenue consists of software license fees and professional service fees.

Software License Revenue

Software license revenue is comprised 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 licensing fees, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity.

Software license revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met.

Annuity/maintenance revenue is recognized on a straight-line basis over the life of the related license period, which is generally one year or less. Revenue for licenses billed in advance is deferred and recognized in revenue over the relevant license period.

License fees for perpetual licenses are recognized fully in revenue when all recognition conditions are satisfied.

Software license agreements with multiple-element arrangements, such as those including license fees and maintenance fees, are recognized as separate units of accounting and are recognized as each element is earned based on the relative fair value of each element. A delivered element is considered a separate unit of accounting if it has value to the customer.

on a standalone basis, and delivery or performance of the undelivered elements is considered probable and substantially under the Company's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting.

Professional Services Revenue

Revenue from professional services, consisting of consulting, training and contract research activities, is recorded on a percentage-of-completion basis or based on the hours incurred, as appropriate in the circumstances. This approach is used when the outcome of the contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably, the amount of revenue recognized is limited to the cost incurred in the period.

(c) Cash:

Cash is comprised of interest-earning bank accounts.

(d) Property and Equipment:

Property and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is based on the cost of an asset and is recognized from the date the item is ready for use in the statement of comprehensive income using the following annual rates and methods that are expected to amortize the cost of the property and equipment over their estimated useful lives:

Computer equipment	33 1/3% straight-line
Furniture and equipment	20% straight-line
Leasehold improvements	Straight-line over the lease term

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of comprehensive income.

The estimated useful lives and depreciation methods are reviewed at each fiscal year-end and adjusted if appropriate.

(e) Research and Development Costs:

All costs of product research and development are expensed to operations as incurred as the impact of both technological changes and competition require the Company to continually enhance its products on an annual basis. Research and development costs are recorded net of related SR&ED investment tax credits.

(f) Joint Research and Development Costs:

The Company participates in a joint project engaged in product research and development and accordingly records its proportionate share of costs incurred as research and development costs within the statement of comprehensive income.

(g) Finance Income and Finance Costs:

Finance income comprises interest income earned on the bank balances and is recognized as it accrues through the statement of comprehensive income, using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position. Foreign currency gains and losses are recognized in the period in which they occur.

(h) Foreign Currency Translation:

Transactions in foreign currencies are translated to Canadian dollars, the functional currency of the Company, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the reporting date, while non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the dates of the transactions.

Revenues and expenses are translated at the rate of exchange in effect on the transaction dates. Realized and unrealized foreign exchange gains and losses are included in the statement of comprehensive income in the period in which they occur.

(i) Income Taxes:

Income taxes comprise current and deferred tax.

Current tax is the expected tax payable or receivable based on taxable profit for the period calculated using tax rates that have been enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable in respect of previous years. Taxable profit differs from profit as reported in the consolidated statement of operations and comprehensive income because of items that are taxable or deductible in other years and items that are never taxable and deductible. Prepaid income taxes and current income taxes payable are offset only when a legally enforceable right of offset exists and the prepaid income tax and tax payable arise in the same tax jurisdiction and relate to the same taxable entity.

Deferred taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes to the extent that it is probable that future taxable profits will be available against which the losses can be utilized. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. Any change to the net deferred tax assets and liabilities is included in operations in the period it occurs. Deferred tax assets and liabilities are offset only when a legally enforceable right of offset exists and the deferred tax assets and liabilities arise in the same tax jurisdiction and relate to the same taxable entity.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(j) Investment Tax Credits:

The Company receives federal and provincial investment tax credits in Canada on qualified scientific research and experimental development expenditures incurred in each taxation year. Investment tax credits are recorded as a deduction against related expenses or capital items provided that reasonable assurance over collection of the tax credits exists.

(k) Earnings Per Share:

Basic earnings per share is computed by dividing the net income by the weighted average number of Common Shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. In calculating the dilutive effect of stock options, it is assumed that proceeds received from the exercise of in-the-money stock options are used to purchase Common Shares at the average market price during the period.

(l) Stock-based Compensation Plan:

The Company has a stock-based compensation plan that is described in note 11(d). The fair value of stock options is determined using the Black-Scholes valuation model as of the grant date and is expensed over the vesting period, with a corresponding increase in equity, based on the Company's estimate of the number of options that will actually vest. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest and recognizes the impact of any revision in the statement of comprehensive income. When stock options are exercised, the Company records consideration received, together with amounts previously recognized in contributed surplus, as an increase in share capital.

(m) Short-term Employee Benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(n) Financial Instruments:

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company classifies non-derivative financial assets into the following category:

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's cash and trade and other receivables are classified as loans and receivables. The Company's loans and receivables are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method less any provision for impairment. The Company's trade and other receivables are classified as current assets.

(ii) Non-derivative financial liabilities

Financial liabilities at amortized cost include trade payables and accrued liabilities. Such liabilities are initially recognized at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument, represented by the amount required to be paid plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within a year; otherwise, they are classified as non-current liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iii) Share Capital

Common Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares are recognized as a deduction from equity, net of any tax effects.

(o) Impairment:

(i) Receivables

Trade and other receivables are assessed for impairment at each reporting date at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired, together with receivables that are not individually significant, are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the statement of comprehensive income and reflected in an allowance account against trade and other receivables. When a subsequent event (such as the repayment by a debtor) causes the amount of impairment loss to decrease, the decrease is reversed through the statement of comprehensive income.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated, and any impairment loss required is recognized in the statement of comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(p) **Leases:**

The Company's only lease commitments relate to its office premises, which are classified as operating leases since they do not transfer the risks and rewards of ownership to the Company. Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

(q) **Accounting Standards and Interpretations Not Yet Adopted:**

The following is a summary of new standards, amendments to standards and interpretations not yet effective for the year ended March 31, 2016, and have not been applied in preparing these consolidated financial statements:

(i) *Amendments to IAS 1 Presentation of Financial Statements*

Amends IAS 1 *Presentation of Financial Statements* to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this amendment is 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 and does not expect these amendments to have a material impact on the Company's disclosure.

(ii) *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 in its consolidated financial statements beginning April 1, 2018. The Company does not expect IFRS 9 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.

(iii) *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 effective date for IFRS 15 is for annual periods beginning on or after January 1, 2018. IFRS 15 is available for early adoption. 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.

(iv) *IFRS 16 Leases*

Replaces the guidance in 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 exemptions for short-term leases where the term is twelve months or less and for leases of low value items. IFRS 16 is effective January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning April 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Property and Equipment:

Cost (thousands of \$)	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Total
Balance at April 1, 2014	5,704	1,712	2,715	10,131
Additions	1,122	243	384	1,749
Disposals	(281)	(92)	(159)	(532)
Balance at March 31, 2015	6,545	1,863	2,940	11,348
Balance at April 1, 2015	6,545	1,863	2,940	11,348
Additions	462	107	1,340	1,909
Disposals	(406)	-	-	(406)
Balance at March 31, 2016	6,601	1,970	4,280	12,851

Accumulated Depreciation

(thousands of \$)				
Balance at April 1, 2014	(4,237)	(1,296)	(2,046)	(7,579)
Depreciation charge for the year	(1,000)	(224)	(359)	(1,583)
Disposals	281	92	159	532
Balance at March 31, 2015	(4,956)	(1,428)	(2,246)	(8,630)
Balance at April 1, 2015	(4,956)	(1,428)	(2,246)	(8,630)
Depreciation charge for the year	(951)	(178)	(253)	(1,382)
Disposals	406	-	-	406
Balance at March 31, 2016	(5,501)	(1,606)	(2,499)	(9,606)

Carrying Amounts

At March 31, 2015	1,589	435	694	2,718
At March 31, 2016	1,100	364	1,781	3,245

5. Trade Payables and Accrued Liabilities:

(thousands of \$)	March 31, 2016	March 31, 2015
Trade payables	248	714
Employee salaries, commissions and benefits payable	4,229	4,303
Accrued liabilities and other payables	3,050	2,736
	7,527	7,753

6. Revenue:

Years ended March 31, (thousands of \$)	2016	2015
Software licenses	74,974	76,836
Professional services	5,824	8,025
	80,798	84,861

7. Research and Development Costs:

Years ended March 31, (thousands of \$)	2016	2015
Research and development	18,366	18,313
SR&ED investment tax credits	(1,501)	(1,319)
	16,865	16,994

8. Personnel Expenses:

Years ended March 31, (thousands of \$)	2016	2015
Salaries, commissions and short-term employee benefits	33,003	30,518
Stock-based compensation (note 11(d))	2,918	3,677
	35,921	34,195

9. Finance Income and Finance Costs:

Years ended March 31, (thousands of \$)	2016	2015
Interest income	549	699
Net foreign exchange gain	-	3,383
Finance income	549	4,082
Net foreign exchange loss	(954)	-
Finance costs	(954)	-

10. Income and Other Taxes:

The major components of income tax expense are as follows:

Years ended March 31, (thousands of \$)	2016	2015
Current year income taxes	10,208	12,498
Adjustment for prior year	(194)	25
Current income taxes	10,014	12,523
Deferred tax expense (recovery)	30	(166)
Foreign withholding and other taxes	285	593
	10,329	12,950

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:

Years ended March 31, (thousands of \$, unless otherwise stated)	2016	2015
Combined statutory tax rate	26.50%	25.00%
Expected income tax	9,442	11,400
Non-deductible costs	799	945
Effect of tax rates in foreign jurisdictions	60	139
Withholding taxes	188	429
Adjustment for prior year	(194)	25
Other	34	12
	10,329	12,950

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

(thousands of \$)	March 31, 2016	March 31, 2015
Tax liability on SR&ED investment tax credits	(287)	(230)
Tax asset on property and equipment	88	61
Net deferred tax liability	(199)	(169)

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, 2014	78,419
Issued for cash on exercise of stock options	876
Common shares buy-back	(808)
Balance, March 31, 2015	78,487
Balance, April 1, 2015	78,487
Issued for cash on exercise of stock options	921
Common shares buy-back	(589)
Balance, March 31, 2016	78,819

Subsequent to March 31, 2016, 17,000 stock options were exercised for cash proceeds of \$114,000.

On May 20, 2015, 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. Upon careful review, the Board of Directors agreed to approve an amended and restated rights plan (the "Amended and Restated Rights Plan") between the Company and Valiant Trust Company (which has since been succeeded by Computershare Trust Company of Canada as the Company's transfer agent and registrar). 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 9, 2015.

(c) Common Shares Buy-back:

On May 5, 2014, the Company announced a Normal Course Issuer Bid ("NCIB") commencing on May 5, 2014 to purchase for cancellation up to 7,440,000 of its Common Shares. During the year ended March 31, 2015, 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 year ended March 31, 2016, 589,000 Common Shares were purchased at market price for a total cost of \$6,906,000.

(d) Stock-based Compensation Plan:

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 10, 2014, which allows it to grant options to acquire Common Shares of up to 10% of the outstanding Common Shares at the date of grant. Based upon this calculation, at March 31, 2016, the Company could grant up to 7,882,000 stock options. 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:

Years ended March 31, (thousands except per share amounts)	2016		2015	
	Options Granted	Weighted Average Exercise Price (\$/share)	Options Granted	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of year	7,000	10.76	5,858	9.25
Granted	1,265	12.32	2,148	13.01
Exercised	(921)	6.52	(876)	6.01
Forfeited	(162)	12.48	(130)	11.74
Outstanding at end of year	7,182	11.54	7,000	10.76
Options exercisable at end of year	4,379	10.89	3,341	9.07

The range of exercise prices of stock options outstanding and exercisable at March 31, 2016 is as follows:

Exercise Price (\$/option)	Outstanding			Exercisable	
	Number of Options (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
6.50 to 9.55	1,752	1.1	8.45	1,752	8.45
9.56 to 12.26	2,138	2.4	12.19	1,593	12.19
12.27 to 12.85	1,254	4.4	12.32	16	12.63
12.86 to 14.97	2,038	3.4	13.04	1,018	13.04
	7,182	2.7	11.54	4,379	10.89

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

Years ended March 31,	2016	2015
Fair value at grant date (\$/option)	1.44 to 2.39	1.27 to 2.50
Share price at grant date (\$/share)	11.06 to 13.98	11.80 to 14.97
Risk-free interest rate (%)	0.41 to 0.87	0.43 to 1.36
Estimated hold period prior to exercise (years)	2 to 4	2 to 4
Volatility in the price of common shares (%)	25 to 28	22 to 28
Dividend yield per common share (%)	2.92 to 3.69	2.67 to 3.21

The Company recognized total stock-based compensation expense for the year ended March 31, 2016 of \$2,918,000 (2015 – \$3,677,000).

(e) **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:

Years ended March 31, (thousands except per share amounts)	2016			2015		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	25,302	78,751	0.32	32,648	78,581	0.42
Dilutive effect of stock options		614			1,139	
Diluted	25,302	79,365	0.32	32,648	79,720	0.41

During the year ended March 31, 2016, 1,000 options (2015 – 88,000) were excluded from the computation of the weighted-average number of diluted shares outstanding because their effect was not dilutive.

12. Capital Management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to maximize the return to its shareholders. The capital structure of the Company consists of cash, credit facilities and shareholders' equity. The Company does not have any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company's policy is to pay quarterly dividends based on the Company's overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors. There can be no assurance as to the amount or payment of such dividends in the future.

Since November 2002, the Company embarked on a series of normal course issuer bids to buy back its shares. Reference is made to note 11(c).

The Company makes adjustments to its capital structure in light of general economic conditions and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, buy back shares or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business.

13. Financial Instruments and Risk Management:

(i) *Classification of financial instruments*

	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade payables and accrued liabilities	Other financial liabilities	Amortized cost

(ii) *Fair values of financial instruments*

The carrying values of cash, trade and other receivables, trade payables and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Overview:

The Company is exposed to risks of varying degrees of significance and likelihood, which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below:

(a) Credit Risk:

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligation and arises principally from the Company's trade and other receivables. The amounts reported in the statements of financial position for trade receivables are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

The Company's trade receivables consist primarily of balances from customers operating in the oil and gas industry, both domestically and internationally, as the Company sells its products and services in approximately 60 countries worldwide. Some of these countries have greater economic and political risk than experienced in North America, and as a result there may be greater risk associated with sales in those jurisdictions. The Company manages this risk by invoicing for the full license term in advance for the majority of software license sales and by invoicing as frequently as the contract allows for consulting and contract research services. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met. Historically, the Company has not experienced any significant losses related to individual customers or groups of customers in any particular geographic area; therefore, no allowance for doubtful accounts has been established at March 31, 2016 and 2015.

As at March 31, 2016, the Company has a concentration of credit risk with 12 domestic and international customers who represent 79% of trade receivables (2015 – 14 customers; 79%).

The carrying amount of trade and other receivables represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2016 was \$21.1 million (2015 - \$27.1 million). The aging of trade and other receivables at the reporting date was:

(thousands of \$)	March 31, 2016	March 31, 2015
Current	6,067	13,638
31-60 days	11,038	8,938
61-90 days	1,830	2,460
Over 90 days	2,158	2,047
Balance, end of year	21,093	27,083

The Company assesses the creditworthiness of its customers on an ongoing basis and it regularly monitors the amount and age of balances outstanding. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms. Accordingly, the Company views the credit risks on these amounts as normal for the industry.

The Company minimizes the credit risk of cash by depositing only with a reputable financial institution in highly liquid interest-bearing cash accounts.

(b) Market Risk:

Market risk is the risk that changes in market prices of the foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

(i) Foreign Exchange Risk

The Company operates internationally and primarily prices its products in either the Canadian or US dollar. This gives rise to exposure to market risks from changes in the foreign exchange rates between the Canadian and US dollar. Approximately 76% (2015 – 74%) of the Company's revenues for the year ended March 31, 2016 were denominated in US dollars, and at March 31, 2016, approximately US \$15.0 million (2015 – US \$19.1 million) of the Company's working capital was denominated in US dollars. The Company currently does not use derivative instruments to hedge its exposure to those risks, but as approximately 28% (2015 – 25%) of the Company's total costs are also denominated in US dollars, they provide a partial economic hedge against the fluctuation in this currency exchange. In addition, the Company manages levels of foreign currency held by converting excess US dollars into Canadian dollars at spot rates.

The Company's operations are exposed to currency risk on US-dollar denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated statement of operations and comprehensive income. It is estimated that a one cent change in the US dollar would result in a net change of approximately \$110,000 to equity and net income for the year ended March 31, 2016. A weaker US dollar with respect to the Canadian dollar will result in a negative impact, while the reverse would result from a stronger US dollar.

(ii) *Interest Rate Risk*

The Company has significant cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in interest-bearing deposits and/or guaranteed investment certificates issued by its principal banker. The Company is exposed to interest cash flow risk from changes in interest rates on its cash balances. Based on the March 31, 2016 cash balance, each 1% change in the interest rate on the Company's cash balance would change equity and net income for the year ended March 31, 2016 by approximately \$534,000.

(c) **Liquidity Risk:**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure as outlined in note 12. The Company's growth is financed through a combination of the cash flows from operations and its cash balances on hand. Given the Company's available liquid resources as compared to the timing of the payments of its liabilities, management assesses the Company's liquidity risk to be low. The Company monitors its expenditures by preparing annual budgets which are updated periodically. At March 31, 2016, the Company has significant cash balances in excess of its obligations and approximately \$0.8 million of the line of credit (note 15) available for its use.

14. Commitments:

(a) **Research Commitments:**

The Company is the operator of a joint project, a collaborative effort with its partners Shell International Exploration and Production BV ("Shell") and Petroleo Brasileiro S.A. ("Petrobras"), to jointly develop CoFlow, 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 \$6.5 million (\$3.7 million net of overhead recoveries) for fiscal 2017.

(b) **Lease Commitments:**

The Company has operating lease commitments relating to its office premises with the minimum annual lease payments as follows:

Years ended March 31, (thousands of \$)	2016	2015
Less than one year	2,482	2,444
Between one and five years	17,566	14,735
More than five years	81,969	86,564
	102,017	103,743

The Company leases a number of properties under operating leases. During the year ended March 31, 2016, \$2.7 million (2015 – \$2.5 million) was recognized as an expense in the statement of comprehensive income in respect of operating leases related to office premises.

The Company entered into a twenty year operating lease commitment relating to its new Calgary headquarters commencing in calendar 2017. The minimum annual lease payments have been reflected in the above schedule. In addition to the operating lease commitment, the Company expects to invest approximately \$15.0 million in infrastructure for the new headquarters over the upcoming fiscal year. This estimate is based on the Company's assessment of its infrastructure requirements and the contractors' current rates.

15. Line Of Credit:

The Company has arranged for a \$1.0 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 March 31, 2016, US \$215,000 (2015 – US \$165,000) had been reserved on this line of credit for letters of credit supporting performance bonds.

16. 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.

Revenues and property and equipment of the Company arise in the following geographic regions:

(thousands of \$)	Revenue		Property and equipment	
	Years ended March 31,		As at March 31,	
	2016	2015	2016	2015
Canada	26,121	29,428	2,694	2,064
United States	19,103	16,803	248	294
South America	9,837	18,144	245	303
Eastern Hemisphere ⁽¹⁾	25,737	20,486	58	57
	80,798	84,861	3,245	2,718

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

No customer represented 10% or more of total revenue in the years ended March 31, 2016 and 2015.

17. Subsidiaries:

CMG is the beneficial owner of the entire issued share capital and controls all the votes of its subsidiaries. The principal activities of all the subsidiaries are the sale and support for the use of CMG's software licenses. Transactions between subsidiaries are eliminated on consolidation.

The following is the list of CMG's subsidiaries:

Subsidiary	Country of Incorporation
Computer Modelling Group Inc.	United States
CMG Venezuela	Venezuela
CMG Middle East FZ LLC	Dubai, United Arab Emirates
CMG (Europe) Limited	United Kingdom

18. Joint Operation:

The Company is the operator of a joint software development project, the CoFlow project (formerly known as the DRMS project), which gives the Company exclusive rights to commercialize the jointly developed software, while the other partners will have unlimited software access for their internal use. Accordingly, the Company records its proportionate share of costs incurred on the project (37.04%) as research and development costs within the consolidated statement of operations and comprehensive Income.

For the year ended March 31, 2016, CMG included \$5.9 million (2015 - \$6.1 million) of costs in its consolidated statement of operations and comprehensive income related to this joint project.

Additionally, the Company is entitled to charge the project for various services provided as operator, which were recorded in revenue as professional services and amounted to \$2.8 million during the year ended March 31, 2016 (2015 - \$2.7 million).

19. Related Parties:

(a) Intercompany Transactions:

The Company has four wholly owned subsidiaries (note 17) which have intercompany transactions under the normal course of operations and are eliminated upon consolidation.

(b) Key Management Personnel Compensation:

The key management personnel of the Company are the members of the Company's executive management team and Board of Directors and control approximately 5.1% of the outstanding shares of CMG at March 31, 2016.

In addition to their salaries and director fees, as applicable, directors and executive officers also participate in the Company's stock option plan (note 11(d)), which is available to almost all employees of the Company.

Key management personnel compensation comprised the following:

Years ended March 31, (thousands of \$)	2016	2015
Salaries, bonus and employee benefits	4,215	4,296
Stock-based compensation	829	995
	5,044	5,291

20. Subsequent Event:

On May 19, 2016, the Board of Directors declared a quarterly cash dividend of \$0.10 per share on its Common Shares, payable on June 15, 2016, to all shareholders of record at the close of business on June 7, 2016.

Notes

[illegible]

Corporate Information

Directors

Kenneth M. Dedeluk

Christopher L. Fong⁽³⁾

Patrick R. Jamieson⁽⁵⁾

Peter H. Kinash⁽³⁾⁽⁵⁾

Frank L. Meyer
Chairman of the Board

Robert F. M. Smith⁽²⁾

John B. Zaozirny⁽¹⁾⁽⁴⁾

⁽¹⁾ Lead Director

⁽²⁾ Chair, Audit Committee

⁽³⁾ Member, Audit Committee

⁽⁴⁾ Chair, Governance Committee

⁽⁵⁾ Member, Governance Committee

Officers

Kenneth M. Dedeluk
President and Chief Executive Officer

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

Ryan N. Schneider
Chief Operating Officer

Robert R. Eastick
*Vice President,
CoFlow*

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

R. David Hicks
*Vice President,
Eastern Hemisphere*

Anjani Kumar
*Vice President,
Engineering Solutions and Marketing*

Long X. Nghiem
*Vice President,
Research & Development*

Kathy L. Krug
Corporate Secretary

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Regional Offices

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

Transfer Agent

Computershare Trust Company
of Canada

Stock Exchange Listing

Toronto Stock Exchange: **CMG**



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