

2020 Financial Report

Contents

1	2020 Highlights
2	President's Message
6	Management's Discussion and Analysis
38	Management's Statement of Responsibility
39	Independent Auditors' Report
42	Consolidated Financial Statements
46	Notes to Consolidated Financial Statements
IBC	Corporate Information

Annual General Meeting

When: July 16, 2020 at 10:00 a.m. (Calgary time)

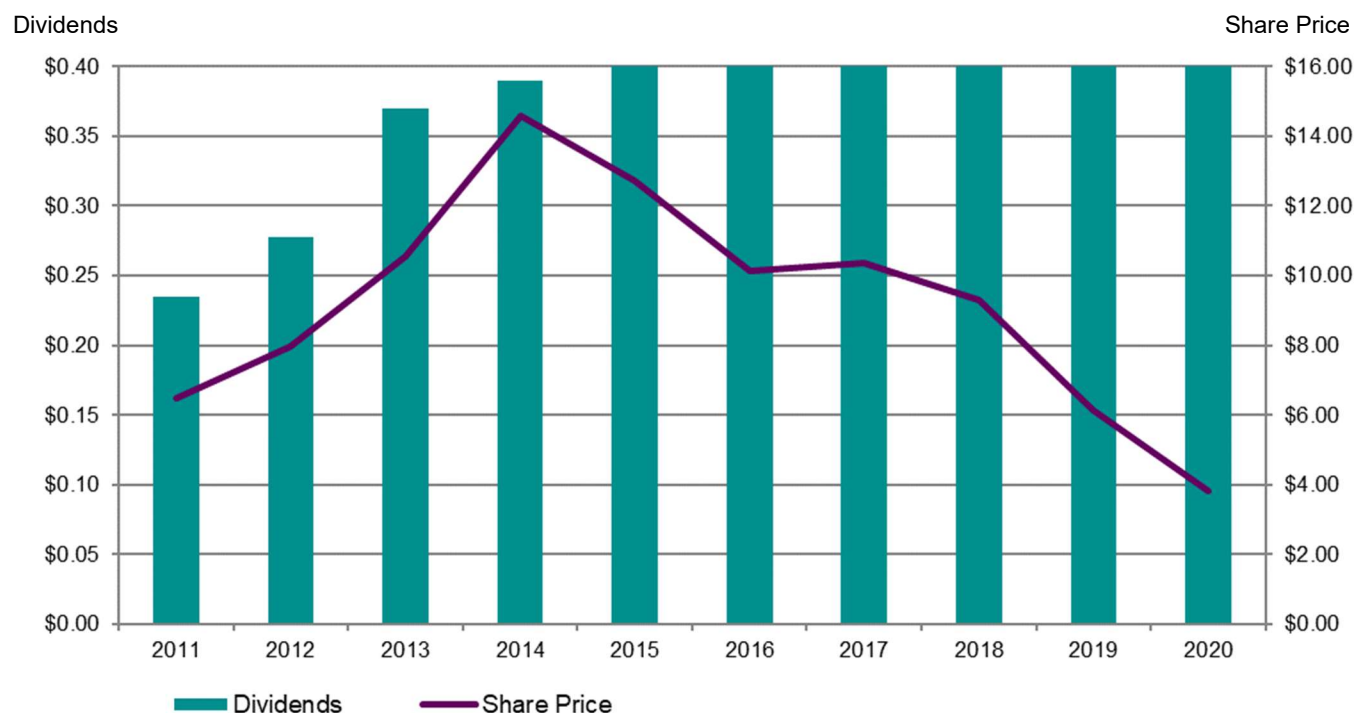
Where: Virtual-only meeting (please refer to our 2020 Management Information Circular available at www.cmgl.ca/investors/agm for the details of the meeting)

2020 Highlights

Years ended March 31, (\$ thousands, unless otherwise stated)	2020	2019 ⁽¹⁾	2018 ⁽¹⁾	2017 ⁽¹⁾	2016 ⁽¹⁾
Software license revenue	68,646	68,800	68,843	70,234	74,974
Professional services revenue	7,140	6,057	5,837	4,863	5,824
Total revenue	75,786	74,857	74,680	75,097	80,798
Operating profit	31,751	29,554	28,030	33,321	36,036
Operating profit (%)	42%	39%	38%	44%	45%
Profit before income and other taxes	32,456	30,890	28,881	34,192	35,631
Income and other taxes	8,971	8,755	8,075	9,923	10,329
Net income for the year	23,485	22,135	20,806	24,269	25,302
EBITDA ⁽²⁾	36,111	31,507	30,027	34,414	37,418
Funds flow from operations	28,765	25,593	25,503	27,560	29,632
Free cash flow ⁽²⁾	26,547	24,851	20,830	16,046	27,723
Weighted average shares outstanding	80,240	80,222	80,046	79,171	78,751
Earnings per share - basic	0.29	0.28	0.26	0.31	0.32
Dividends declared and paid per share	0.40	0.40	0.40	0.40	0.40
Funds flow from operations per share - basic	0.36	0.32	0.32	0.35	0.38
Free cash flow per share basic ⁽²⁾	0.33	0.31	0.26	0.20	0.35
Trading price per share at March 31	3.83	6.15	9.29	10.35	10.14

(1) The Company adopted IFRS 16 Leases effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated.

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



To Our Shareholders:

It is my pleasure to report our fiscal 2020 results, albeit with mixed feelings. While the majority of the fiscal year was on track for growth, we started experiencing some headwinds in software license revenue in the fourth quarter. Nonetheless, we exited fiscal 2020 with a 7% increase in operating profit, a 4% increase in basic earnings per share and a 6% increase in free cash flow per share. We generated EBITDA of \$36.1 million during the year. These are impressive results and a testament to the strength of our business model.

While we celebrate our fiscal 2020 achievements, I would be remiss not to acknowledge the change in circumstances occurring toward the end of the fourth quarter, which continue to prevail into fiscal 2021. In March, the World Health Organization declared COVID-19 a pandemic, which led to a partial shutdown of the majority of the world's economies. The pandemic also led to declines in demand for oil and gas, which, combined with producer market share competition and concerns about a supply/demand imbalance, led to volatility in commodity prices and further production and/or spending curtailments by our customers. Most of all, the pandemic has brought challenges to our operating environment and reduced visibility into the future.

CMG's Response to Market Uncertainty

The health and safety of our employees, customers and communities is always a priority. In dealing with the COVID-19 pandemic, we have been following the advice of governments and local public health authorities in jurisdictions in which we operate. In mid-March 2020, amidst pandemic restrictions, CMG implemented procedures to enable us to continue to fully operate and minimize the impact to our business and customers. Fortunately, as a technology-based company, we were well positioned to maintain our productivity during and after a transition to working from home. We also adapted our customer training to online platforms and have since received a strong positive response from our current and prospective customers.

The ongoing disruption to the oil and gas industry, including volatility in commodity prices and reduction in energy consumption, precipitated by the COVID-19 crisis, could potentially have a significant adverse effect on our operations and future financial performance. In response to these unprecedented times of economic disruption and uncertainty, effective July 1, 2020, CMG is pre-emptively taking the following actions to preserve liquidity, manage costs and protect shareholder value:

- reducing the CEO's annual salary by 25%;
- reducing directors' cash compensation by 20%;
- reducing executive officers' annual salaries by 20%;
- implementing graduated salary reductions to staff.

These reductions are expected to continue throughout the fiscal year and will be reassessed following review of the fiscal 2021 results. The staff, executive and CEO's base salary concessions were reallocated to variable cash compensation associated with fiscal 2021 corporate performance. These compensation reductions were taken in part to retain employees because we are prioritizing product development and support, both of which are important to our customers and to the long-term success of our business.

Software License Revenue

(\$ Thousands)



Total Revenue

(\$ Thousands)



Operating Profit

(\$ Thousands)



In addition, the Board of Directors has approved a dividend of \$0.05 per Common Share, payable on June 15, 2020 to shareholders of record at the close of business on June 5, 2020. This represents a decrease from the Company's previous quarterly dividend of \$0.10 per share.

We are implementing these measures to protect CMG's profitability and optimize free cash flow generation to maintain the strength of our balance sheet. The measures will also allow for maximum flexibility in our capital allocation decisions, including focusing on delivering a sustainable dividend. At the same time, it is our intention to continue to invest in research and development, and sales and marketing efforts, at approximately similar levels as historically proportionate to revenue. CMG will continue to monitor the impact of the current environment on its customers, operations and financial performance and may adjust its compensation structure and capital allocation as appropriate.

In light of the uncertainty caused by COVID-19 and ongoing challenges that we foresee in the oil and gas sector, it is prudent to take timely actions aimed at optimizing our business operations and protecting our financial position.

We will continue to monitor the impact of the current environment on our operations and financial performance and consider the qualifying criteria and merits of applying for any government programs aimed at assisting companies to compensate for losses experienced as a result of the COVID-19 pandemic.

Fiscal 2020 Financial Achievement

Our fiscal 2020 total revenue increased by 1% compared to the previous fiscal year, supported by an increase in professional services revenue. Software license revenue remained consistent with the previous year as the headwinds experienced in the fourth quarter offset the growth experienced during the first three quarters.

We achieved \$4.7 million in perpetual license sales. While it represents a decrease of 7% from the previous year, it is a notable achievement in light of the economic challenges affecting the oil and gas sector and forcing many of our customers to restrain their capital spending.

Annuity and maintenance revenue remained flat compared to the previous fiscal year with the increases in the United States and the Eastern Hemisphere offset by the decreases in Canada and South America. Two items that impacted the fiscal 2020 annuity and maintenance revenue comparison include a payment that was received in the previous fiscal year from a long-standing customer from South America that is recognized on a cash basis, and a one-time reactivation fee on a maintenance contract recorded in the Eastern Hemisphere in the fourth quarter of the previous year. Without these one-time items occurring in the previous fiscal year, annuity and maintenance revenue would have increased in mid-single digits. We are pleased with this performance because a greater portion of the fiscal 2020 annuity and maintenance revenue was of recurring nature and not as affected by the non-recurring amounts as in the prior year.

Canada was showing improvement in annuity and maintenance revenue into the third quarter of the fiscal year, but decreased licensing in the fourth quarter, partially due to the negative impact of the consolidation activity in the oil and gas industry, offset the growth experienced earlier in the year. The United States region continued to benefit from strong activity by unconventional customers for most of the year, to experience only a slight decrease in fourth quarter revenue.

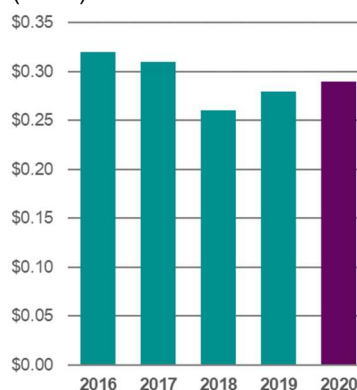
Earnings

(\$ Thousands)



Earnings Per Share

(Basic)



South America, on a normalized basis (see the previous note about the payment from the South American customer), experienced a double-digit increase in annuity and maintenance revenue due to increased licensing by existing customers. While annuity and maintenance revenue in the Eastern Hemisphere showed increases during the first three quarters of the fiscal year, revenue decreased in the fourth quarter due to the one-time maintenance reactivation fee recorded in the comparative quarter.

During fiscal 2020 we controlled our operating costs which were comparable to fiscal 2019 (prior to the impact of IFRS 16 conversion). We were again pleased with our profitability margins. Operating profit was 40% of total revenue, representing a 3% increase from the previous fiscal year (prior to the impact of IFRS 16 conversion). Similarly, our EBITDA was 42% of total revenue, which is comparable to the previous year (prior to the impact of IFRS 16 conversion).

Basic earnings per share were at \$0.29 per share, a 4% increase from the previous fiscal year.

We closed the year with \$40.5 million of cash and no debt. We further demonstrated solid liquidity by generating \$0.33 per share in free cash flow, representing an increase of 6% from the previous fiscal year.

Research and Development Update

During fiscal 2020, we continued with various research and development initiatives aimed at product feature development and performance enhancements to support our superior technological offerings. During the fiscal year, we invested \$19.2 million in research and development. Some of the year's research and development achievements include:

High Performance Computing. Distributed parallel computing is carried out both on local computer networks and on the cloud, offering users an unprecedented ability to run large problems with excellent run time.

Flux Boundary. Flux boundaries allow users to take advantage of smaller sector models created from a full-field run, without compromising on boundary conditions, to achieve faster time-to-decision.

Discrete Fracture Network. Technology has been developed to simulate reservoirs with fractured networks. These fractures are high permeability planes that could go in any direction and are the main flow paths for fluids in the reservoir. This will extend CMG's capabilities in modelling both naturally-fractured as well as hydraulically-fractured ("unconventional") reservoirs.

CMGFRAC. Geomechanics-based hydraulic fracture is extensively used to model production from unconventional shale oil and gas wells. In collaboration with third-party hydraulic fracture design tools, CMG developed a data format, "CMGFRAC", that can be used to import hydraulic fracture design and fracture parameters for hundreds of stages per well, for several wells, all at once. CMGFRAC will help customers easily model complex geomechanics-based hydraulic fractures in CMG simulators and create reliable forecasts for their reservoirs.

TRACERS. IMEX's new Passive Tracer option is used to track fluid movement from desired reservoir regions, injection wells, and aquifers. Tracer functionality could be used to track injector to produced fluid movement when optimizing sweep efficiency in flood-type recovery processes, tracing hydraulic fracture fluid in frac hits from one well to another, and in estimating recovery of hydraulic fracture fluid from unconventional wells.

We continued to invest in our cloud solutions and made more of our products available on the cloud platform.

CoFlow commercialization efforts continued throughout the fiscal 2020. As previously announced, we added one new customer in April 2019, and had two customers renew their contracts during the year. We actively continue to work on CMG opportunities as well as additional deployments with our partner, Shell. The combined impact of COVID-19, commodity price volatility and an uncertain economic outlook are expected to slow down our CoFlow commercialization efforts. We are focused on gaining additional traction for the product but expect that commercial conversations with customers could be delayed.

Executive Appointments in Fiscal 2020

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

During the fourth quarter, Jason Close, General Manager, CoFlow was promoted to Vice President, CoFlow Commercialization. With Jason's extensive experience building relationships with CMG's customers in his previous role as the Manager of Canadian Sales, in combination with his technical acumen and leadership skills, Jason is well-suited to lead the CoFlow team and foster business growth opportunities.

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

These organizational changes position us to continue to operate effectively and efficiently, and to deliver cutting-edge technology to our customers.

Sustainability Reporting

We are committed to managing and reporting on certain environmental and social issues and would refer you to the section in our Information Circular headed *Commitment to Environmental and Social Responsibility* for details.

Closing Remarks

I am confident that with our strong team and fiscal prudence we are well positioned to deal with these uncertain times and maintain financial and operational discipline to take advantage of future opportunities. We are not in a position to predict the future and we are focusing on matters within our control including ensuring the resilience of our business by adjusting our cost structure and protecting liquidity. Through the COVID-19 and economic crises, we continue our research and development activities and we continue providing technical support to our customers globally. In addition, due to our customers working from home, we are seeing an unprecedented attendance at our webinars and training sessions. All of these initiatives will help position us to emerge from this period of uncertainty with strength and superior technological offerings for our customers while delivering value to our shareholders.

The value of reservoir simulation is arguably even greater during these challenging times of economic and regulatory uncertainty. We will continue to work with our customers to help them to deal with such challenges and improve the value of their assets by optimizing production and increasing productivity. We will further employ new and innovative technologies to continue reinforcing our position as a leading developer and supplier of reservoir simulation software in the world.

Ultimately, the success of this company is built on the efforts and talents of our employees. I would like to express my deep appreciation to all CMG staff and the executive team for their outstanding efforts and dedication throughout the fiscal year especially during these difficult times. Together we will prevail through these challenges and continue to make CMG a great success story. I would also like to express my gratitude to our Board of Directors for their continued support and trusted counsel throughout the year.



Ryan N. Schneider

President and Chief Executive Officer

May 27, 2020

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 27, 2020, should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended March 31, 2020 and 2019. 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 CoFlow, the newest generation of reservoir and production system simulation software. Our target is to develop a dynamic system that does more than optimize reservoir recovery; it models the entire hydrocarbon reservoir system, including production systems.

Since its inception more than 40 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. In addition, as producers continue to look for ways to operate efficiently by deploying technologies in their operations, we believe they will continue to seek reservoir simulation solutions to enhance production from their existing and new assets. CMG will continue to provide the most advanced reservoir simulation tools to assist companies with their reservoir planning, management and optimization.

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 600 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, as it enables our customers to become more efficient and effective users of our software. 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 2020, CMG maintained a consistent level of spending on research and development compared to the previous fiscal year (representing 25% 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 is a strategy to achieving 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 is 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 by the current economic environment and the global political climate, which led to increased uncertainty regarding capital markets and commodity prices.

The emergence and efficiency of hydraulic fracturing technologies have opened the door to unconventional shale and tight hydrocarbon resources in North America at economically competitive input costs. CMG's reservoir simulation technology has a very extensive and efficient unconventional modelling workflow, which has been successful in simulation and modelling of reservoirs using hydraulic fracturing processes.

The petroleum industry utilizes reservoir simulation to provide both vital information and a visual interpretation on how reservoirs will behave under various recovery techniques. With this visualization and reservoir simulation modelling, reservoir professionals receive assistance in predicting the physics and chemistry of fluid flows, drilling locations, well operating conditions, risks, and best case economics of oil and gas property investment. 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.

In an uncertain oil price environment, producers have shifted their focus to increasing productivity while reducing operating costs. Reservoir simulation is a cost-effective and high-value tool to reduce risks, improve recovery processes, increase margins and incremental recovery.

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.

A recent shift toward public and government support of climate change initiative provides us with an opportunity to use technological innovation to help energy and resource companies minimize their impact on the environment. CMG has an established technology that has been effectively leveraged and utilized in the development of projects around the world for

safe sequestering and long-term storage of greenhouse gases (“GHGs”), including carbon dioxide. CMG’s GEM simulator is industry-recognized as the only commercial simulator capable of modelling all of the applicable physics associated with GHG sequestering processes. These projects have been of increasing interest to governments and the oil and gas industry for the beneficial application in the reduction of GHGs and efforts to limit climate change impacts.

Among CMG’s latest technological advancements is a public cloud solution, which enables customers to securely access our simulators and run simulations on some of the latest and fastest hardware available in the industry, optimized for maximum efficiency and faster simulation results. Advancements in cloud technology are generating a paradigm shift in modern computing and removing technological limitations faced by our customers.

CMG is in a solid financial position with \$27.0 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, which allows us to deliver unparalleled support and value to our customers.

Our focus will remain on licensing software to both existing and new customers and, with diversification of our geographic profile, our goal is to continue to strengthen our position in the global marketplace. Approximately 93% of our software license revenue is derived from annuity and maintenance contracts, which generally represent a recurring source of revenue. We continue to be profitable and have solid cash generation despite the ongoing economic challenges in the oil and gas industry. During fiscal 2020, we generated \$0.33 per share in free cash flow, compared to \$0.31 per share in the previous fiscal year.

For the fiscal year ended March 31, 2020, operating profit represented 42% of total revenue and EBITDA represented 48% of total revenue, which demonstrates our continuous ability to effectively manage corporate costs.

COVID-19 Impact

Please refer to the President’s Message included in front of the MD&A, as well as in the 2020 Financial Report for discussion on the impact of COVID-19 on CMG’s operations and financial performance and the actions that management and the Board of Directors are undertaking in response to the COVID-19 pandemic and the resulting economic uncertainty.

The health and safety of our employees, customers and communities is always a priority. In mid-March 2020, amidst pandemic restrictions, CMG implemented procedures to enable us to continue to fully operate and minimize the impact to our business and customers. Through the COVID-19 and economic crisis, we continue our research and development activities and we continue providing technical support to our customers globally.

While the COVID-19 pandemic and the related economic uncertainty has not had a material effect on our fiscal 2020 results, the ongoing disruption to the oil and gas industry, including volatility in commodity prices and reduction in energy consumption, precipitated by the COVID-19 crisis, could potentially have a significant adverse effect on our operations and future financial performance. Please refer to the “Business Risks” section for the discussion of Coronavirus Risk.

In order to minimize the potential negative impact of COVID-19, effective July 1, 2020, CMG is pre-emptively taking the following actions to preserve liquidity, manage costs and protect shareholder value:

- reducing the CEO’s annual salary by 25%;
- reducing directors’ cash compensation by 20%;
- reducing executive officers’ annual salaries by 20%;
- implementing graduated salary reductions to staff.

These reductions are expected to continue throughout the fiscal year and will be reassessed following review of the fiscal 2021 results. The staff, executive and CEO’s base salary concessions were reallocated to variable cash compensation associated with fiscal 2021 corporate performance. These compensation reductions were taken in part to retain employees because we are prioritizing product development and support, both of which are important to our customers and to long-term success of our business.

In addition, the Board of Directors has approved a dividend of \$0.05 per Common Share, payable on June 15, 2020 to shareholders of record at the close of business on June 5, 2020. This represents a decrease from the Company’s previous quarterly dividend of \$0.10 per share.

We are implementing these measures to protect CMG's profitability and optimize free cash flow generation to maintain the strength of our balance sheet, in all potential scenarios. This will also allow for maximum flexibility in our capital allocation decisions, including focusing on delivering a sustainable dividend. At the same time, it is our intention to continue to invest in research and development, and sales and marketing efforts, at approximately similar levels as historically proportionate to revenue. CMG will continue to monitor the impact of the current environment on its customers, operations and financial performance and may adjust its compensation structure and capital allocation after assessing its performance during fiscal 2021.

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 and will help us to deal with uncertain times.

Annual Performance

(\$ thousands, unless otherwise stated)

	March 31, 2020	March 31, 2019 ⁽¹⁾	March 31, 2018 ⁽¹⁾
Annuity/maintenance licenses	63,974	63,800	64,679
Perpetual licenses	4,672	5,000	4,164
Software licenses	68,646	68,800	68,843
Professional services	7,140	6,057	5,837
Total revenue	75,786	74,857	74,680
Operating profit	31,751	29,554	28,030
Operating profit (%)	42%	39%	38%
Net income for the year	23,485	22,135	20,806
EBITDA ⁽²⁾	36,111	31,507	30,027
Cash dividends declared and paid	32,097	32,090	32,041
Funds flow from operations	28,765	25,593	25,503
Free cash flow ⁽²⁾	26,547	24,851	20,830
Total assets	120,866	90,305	97,990
Total shares outstanding	80,249	80,227	80,215
Trading price per share at March 31	3.83	6.15	9.29
Market capitalization at March 31	307,353	493,396	745,194
Per share amounts - (\$/share)			
Earnings per share - basic and diluted	0.29	0.28	0.26
Cash dividends declared and paid	0.40	0.40	0.40
Funds flow from operations per share - basic	0.36	0.32	0.32
Free cash flow per share - basic ⁽²⁾	0.33	0.31	0.26

(1) The Company adopted IFRS 16 Leases effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See discussion in "New Accounting Measures Adopted".

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

Quarterly Performance

(\$ thousands, unless otherwise stated)

	Fiscal 2019 ⁽¹⁾				Fiscal 2020 ⁽²⁾			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annuity/maintenance licenses	14,715	15,111	17,240	16,734	15,756	16,373	16,612	15,233
Perpetual licenses	326	1,172	611	2,891	1,159	1,146	964	1,403
Software licenses	15,041	16,283	17,851	19,625	16,915	17,519	17,576	16,636
Professional services	1,664	1,658	1,222	1,513	1,208	2,354	1,699	1,879
Total revenue	16,705	17,941	19,073	21,138	18,123	19,873	19,275	18,515
Operating profit	5,374	7,024	8,406	8,750	7,068	9,343	7,538	7,802
Operating profit (%)	32	39	44	41	39	47	39	42
Profit before income and other taxes	5,980	7,104	9,406	8,400	6,439	9,350	7,054	9,613
Income and other taxes	1,722	2,048	2,559	2,426	1,997	2,482	1,942	2,550
Net income for the period	4,258	5,056	6,847	5,974	4,442	6,868	5,112	7,063
EBITDA ⁽⁵⁾	5,837	7,505	8,915	9,250	8,118	10,426	8,644	8,923
Cash dividends declared and paid	8,021	8,024	8,022	8,023	8,022	8,026	8,025	8,024
Funds flow from operations	5,242	5,777	7,550	7,024	6,097	7,787	7,366	7,515
Free cash flow ⁽⁵⁾	4,909	5,697	7,297	6,948	5,707	7,274	6,726	6,840
Per share amounts - (\$/share)								
Earnings per share - basic and diluted	0.05	0.06	0.09	0.07	0.06	0.09	0.06	0.09
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Funds flow from operations per share - basic	0.07	0.07	0.09	0.09	0.08	0.10	0.09	0.09
Free cash flow per share - basic ⁽⁵⁾	0.06	0.07	0.09	0.09	0.07	0.09	0.08	0.09

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

(1) Q1, Q2, Q3 and Q4 of fiscal 2020 include \$0.2 million, \$0.3 million, \$0.2 million and \$0.5 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Impact of IFRS 16

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

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

The adoption of IFRS 16 resulted in a net decrease to operating expenses due to lower rent expense, partially offset by higher depreciation expense on the recognition of right-of-use assets, and an increase to finance costs due to interest expense on the lease liability. Overall, this standard had a negative impact of \$0.7 million on the Company's profit before income and other taxes for the year ended March 31, 2020. Further disclosure is provided in note 4 to the consolidated financial statements.

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

Condensed Consolidated Statement of Financial Position

(thousands of \$)	March 31, 2020		March 31, 2020
	As reported	Adjustments	Balance without IFRS 16 adoption
Assets			
Current assets:			
Cash	40,505	-	40,505
Trade and other receivables	26,277	-	26,277
Prepaid expenses	913	113	1,026
Prepaid income taxes	771	-	771
	68,466	113	68,579
Property and equipment	13,507	-	13,507
Right-of-use assets	37,901	(37,901)	-
Deferred tax asset	992	(484)	508
Total assets	120,866	(38,272)	82,594
Liabilities and shareholders' equity			
Current liabilities:			
Trade payables and accrued liabilities	6,224	96	6,320
Income taxes payable	60	-	60
Deferred revenue	33,838	-	33,838
Lease liability	1,313	(1,313)	-
	41,435	(1,217)	40,218
Lease liability	41,062	(41,062)	-
Deferred rent liability	-	2,237	2,237
Total liabilities	82,497	(40,042)	42,455
Shareholders' equity:			
Share capital	79,851	-	79,851
Contributed surplus	13,533	-	13,533
Deficit	(55,015)	1,770	(53,245)
Total shareholders' equity	38,369	1,770	40,139
Total liabilities and shareholders' equity	120,866	(38,272)	82,594

Condensed Consolidated Statements of Operations and Comprehensive Income

(thousands of \$ except per share amounts)	Year ended March 31, 2020 As reported	Adjustments	Year ended March 31, 2020 without IFRS 16 adoption
Revenue	75,786	-	75,786
Operating expenses			
Sales, marketing and professional services	18,126	268	18,394
Research and development	19,244	916	20,160
General and administrative	6,665	220	6,885
	44,035	1,404	45,439
Operating profit	31,751	(1,404)	30,347
Finance income	2,833	9	2,842
Finance costs	(2,128)	2,128	-
Profit before income and other taxes	32,456	733	33,189
Income and other taxes	8,971	101	9,072
Net and total comprehensive income	23,485	632	24,117
Earnings per share, basic and diluted	0.29	0.01	0.30

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

Condensed Consolidated Statement of Cash Flows

(thousands of \$)	Year ended March 31, 2020 As reported	Adjustments	Year ended March 31, 2020 without IFRS 16 adoption
Net cash provided by operating activities	20,530	(1,228)	19,302
Net cash used in financing activities	(33,325)	1,228	(32,097)

Highlights

During the three months

ended March 31, 2020, compared to the same period of the previous fiscal year:

- Annuity/maintenance license revenue decreased by 9%, mainly due to one-time maintenance reactivation recorded in the comparative period;
- Total revenue decreased by 12%;
- Net income increased by 18%;
- EBITDA decreased by 4% (without the positive impact of IFRS 16 adoption, EBITDA decreased by 14%).

During the year

- Annuity/maintenance license revenue remained flat, with more revenue being of a recurring nature compared to the prior year;
- Total revenue increased by 1%;
- Net income increased by 6%;
- EBITDA increased by 15% (without the positive impact of IFRS 16 adoption, EBITDA increased by 3%).

During the three months

ended March 31, 2020, CMG:

- Realized basic EPS of \$0.09;
- Achieved free cash flow per share of \$0.08;
- Declared and paid a dividend of \$0.10 per share.

During the year

ended March 31, 2020, CMG:

- Realized basic EPS of \$0.29;
- Achieved free cash flow per share of \$0.33;
- Declared and paid dividends of \$0.40 per share.

Revenue

Three months ended March 31, (\$ thousands)	2020	2019	\$ change	% change
Software license revenue	16,636	19,625	(2,989)	-15%
Professional services	1,879	1,513	366	24%
Total revenue	18,515	21,138	(2,623)	-12%
Software license revenue as a % of total revenue	90%	93%		
Professional services as a % of total revenue	10%	7%		

Years ended March 31, (\$ thousands)	2020	2019	\$ change	% change
Software license revenue	68,646	68,800	(154)	0%
Professional services	7,140	6,057	1,083	18%
Total revenue	75,786	74,857	929	1%
Software license revenue as a % of total revenue	91%	92%		
Professional services as a % of total revenue	9%	8%		

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

Total revenue for the three months ended March 31, 2020 decreased by 12%, compared to the same period of the previous fiscal year, due to a decrease in software license revenue, which was partially offset by an increase in professional services revenue.

Total revenue for the year ended March 31, 2020 increased by 1% compared to the previous fiscal year, as professional services revenue increased and software licenses revenue remained flat.

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)	2020	2019	\$ change	% change
Annuity/maintenance license revenue	15,233	16,734	(1,501)	-9%
Perpetual license revenue	1,403	2,891	(1,488)	-51%
Total software license revenue	16,636	19,625	(2,989)	-15%
Annuity/maintenance as a % of total software license revenue	92%	85%		
Perpetual as a % of total software license revenue	8%	15%		

Years ended March 31, (\$ thousands)	2020	2019	\$ change	% change
Annuity/maintenance license revenue	63,974	63,800	174	0%
Perpetual license revenue	4,672	5,000	(328)	-7%
Total software license revenue	68,646	68,800	(154)	0%
Annuity/maintenance as a % of total software license revenue	93%	93%		
Perpetual as a % of total software license revenue	7%	7%		

Total software license revenue for the three months ended March 31, 2020 decreased by 15% compared to the same period of the previous fiscal year, due to decreases in both annuity/maintenance license revenue and perpetual license revenue.

Total software license revenue for the year ended March 31, 2020 remained flat compared to the previous fiscal year.

CMG's annuity/maintenance license revenue for the three months ended March 31, 2020 decreased by 9%, compared to the same period of the previous fiscal year. All geographic regions experienced decreases, but the largest decrease was in the Eastern Hemisphere, because the comparative quarter included revenue related to one-time maintenance contract reactivation.

Annuity/maintenance license revenue for the year ended March 31, 2020 remained flat, as increases in the United States and the Eastern Hemisphere were offset by decreases in Canada and South America.

Our annuity/maintenance license revenue can be significantly impacted by the variability of the amounts recorded from a long-standing South American customer and its affiliates for whom revenue recognition criteria are fulfilled only at the time of the receipt of funds (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters before the "Quarterly Software License Revenue" graph). Due to the economic conditions in the country where this customer and its affiliates are located, revenue from them will continue to be recognized on a cash basis. The timing of such payments may skew the comparison of annuity/maintenance license revenue between periods. We recorded revenue from this customer in the third quarter of the previous fiscal year, but none during the current fiscal year. Normalized for this prior year revenue, annuity/maintenance license revenue for the year ended March 31, 2020, compared to the previous fiscal year, increased by 3% instead of remaining flat.

Perpetual license revenue for the three months ended March 31, 2020 decreased by 51% as there were fewer perpetual sales in the United States and the Eastern Hemisphere and none in Canada and South America. Perpetual license revenue for the year ended March 31, 2020 decreased by 7% compared to the previous fiscal year, as lower perpetual sales in Canada, the United States and the Eastern Hemisphere were partially offset by higher perpetual sales in South America. Software licensing under perpetual sales may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of aggregate perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers prefer annuity leases over perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollar had a negative impact on reported software license revenue during the three months ended March 31, 2020 and a positive impact during the year ended March 31, 2020, compared to the same periods of the previous fiscal year.

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

Three months ended March 31, (\$ thousands)		2020	2019	\$ change	% change
US dollar annuity/maintenance license revenue	US\$	9,095	10,050	(955)	-10%
Weighted average conversion rate		1.325	1.332		
Canadian dollar equivalent	CDN\$	12,048	13,386	(1,338)	-10%
US dollar perpetual license revenue	US\$	1,050	663	387	58%
Weighted average conversion rate		1.336	1.364		
Canadian dollar equivalent	CDN\$	1,403	904	499	55%
Years ended March 31, (\$ thousands)		2020	2019	\$ change	% change
US dollar annuity/maintenance license revenue	US\$	37,819	39,329	(1,510)	-4%
Weighted average conversion rate		1.333	1.294		
Canadian dollar equivalent	CDN\$	50,423	50,882	(459)	-1%
US dollar perpetual license revenue	US\$	3,511	2,276	1,235	54%
Weighted average conversion rate		1.331	1.324		
Canadian dollar equivalent	CDN\$	4,672	3,014	1,658	55%

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

Three months ended March 31, (\$ thousands)	2019	Incremental License Growth	Foreign Exchange Impact	2020
Annuity/maintenance license revenue	16,734	(1,436)	(65)	15,233
Perpetual license revenue	2,891	(1,459)	(29)	1,403
Total software license revenue	19,625	(2,895)	(94)	16,636

Years ended March 31, (\$ thousands)	2019	Incremental License Growth	Foreign Exchange Impact	2020
Annuity/maintenance license revenue	63,800	(1,322)	1,496	63,974
Perpetual license revenue	5,000	(351)	23	4,672
Total software license revenue	68,800	(1,673)	1,519	68,646

As discussed previously, our annuity/maintenance license revenue can be significantly impacted by the variability of the amounts recorded from a long-standing customer and its affiliates for whom revenue recognition criteria are fulfilled only at the time of the receipt of funds. If we were to normalize for such revenue, incremental license growth for the year ended March 31, 2020 in the table above would be \$0.2 million.

Software Revenue by Geographic Region

Three months ended March 31, (\$ thousands)	2020	2019	\$ change	% change
Annuity/maintenance license revenue				
Canada	3,324	3,725	(401)	-11%
United States	4,524	4,664	(140)	-3%
South America	1,694	1,924	(230)	-12%
Eastern Hemisphere ⁽¹⁾	5,691	6,421	(730)	-11%
	15,233	16,734	(1,501)	-9%
Perpetual license revenue				
Canada	-	-	-	0%
United States	163	582	(419)	-72%
South America	-	-	-	0%
Eastern Hemisphere	1,240	2,309	(1,069)	-46%
	1,403	2,891	(1,488)	-51%
Total software license revenue				
Canada	3,324	3,725	(401)	-11%
United States	4,687	5,246	(559)	-11%
South America	1,694	1,924	(230)	-12%
Eastern Hemisphere	6,931	8,730	(1,799)	-21%
	16,636	19,625	(2,989)	-15%

Years ended March 31, (\$ thousands)	2020	2019	\$ change	% change
Annuity/maintenance license revenue				
Canada	14,977	15,151	(174)	-1%
United States	19,655	18,620	1,035	6%
South America	7,625	8,734	(1,109)	-13%
Eastern Hemisphere ⁽¹⁾	21,717	21,295	422	2%
	63,974	63,800	174	0%
Perpetual license revenue				
Canada	-	156	(156)	-100%
United States	461	1,096	(635)	-58%
South America	1,280	6	1,274	21233%
Eastern Hemisphere	2,931	3,742	(811)	-22%
	4,672	5,000	(328)	-7%
Total software license revenue				
Canada	14,977	15,307	(330)	-2%
United States	20,116	19,716	400	2%
South America	8,905	8,740	165	2%
Eastern Hemisphere	24,648	25,037	(389)	-2%
	68,646	68,800	(154)	0%

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

During the three months ended March 31, 2020, total software license revenue decreased in all geographic regions. During the year ended March 31, 2020, the United States and South America increased, while Canada and the Eastern Hemisphere decreased, resulting in consistent total software license revenue year over year.

The Canadian region (representing 22% of annual total software license revenue) experienced decreases of 11% and 1% in annuity/maintenance license revenue during the three months and year ended March 31, 2020, respectively, compared to the same periods of the previous fiscal year. The region showed growth during the first three quarters of the current fiscal year, but decreased in the fourth quarter, due to decreases in licensing by existing customers, partially caused by the negative impact of the consolidation activity in the industry. No perpetual sales were realized in Canada during the three months and year ended March 31, 2020.

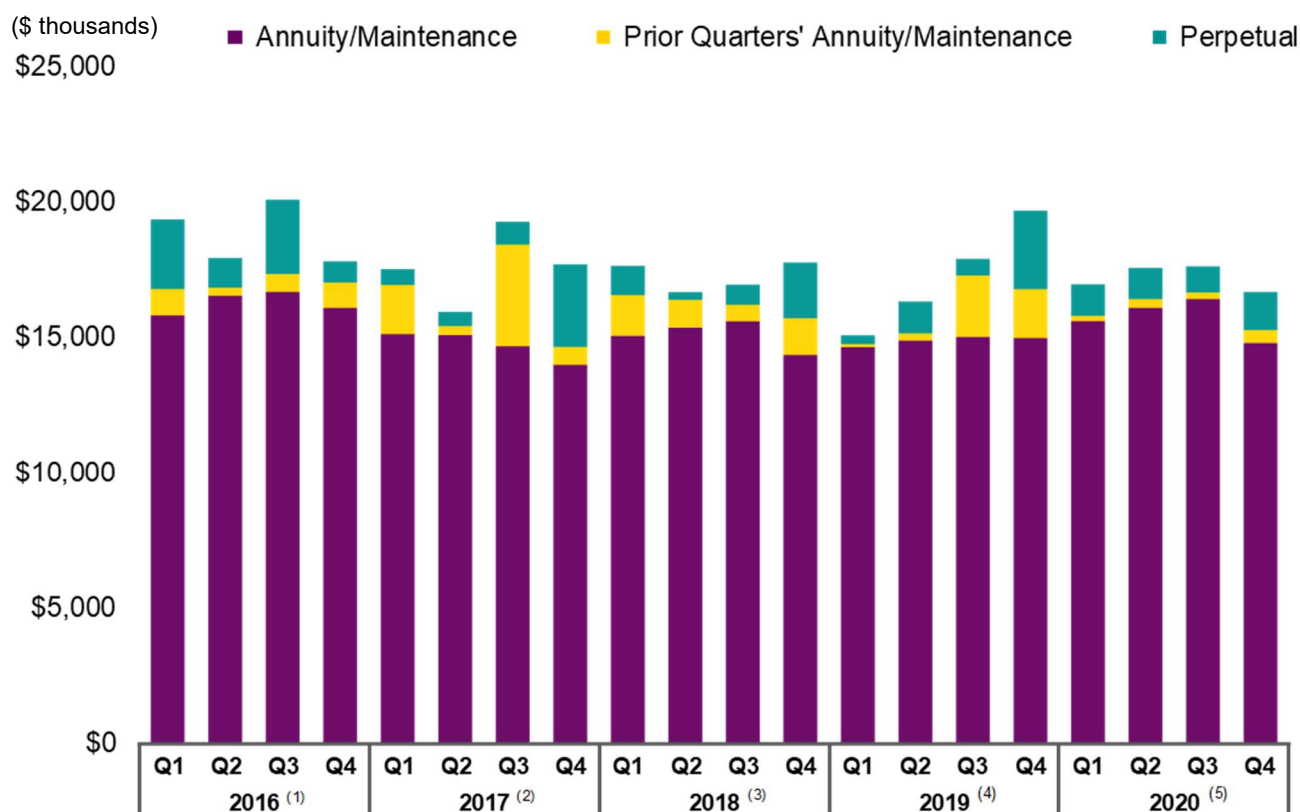
The United States (representing 29% of annual total software license revenue) experienced a 3% decrease in annuity/maintenance license revenue during the three months and a 6% increase during the year ended March 31, 2020, compared to the same periods of the previous fiscal year. The region performed strongly during the first three quarters of the year, but dropped in the fourth quarter due to decreased licensing by some customers. Perpetual sales in the United States were lower during the three months and year ended March 31, 2020, compared to the same periods of the previous fiscal year.

South America (representing 13% of annual total software license revenue) experienced decreases of 12% and 13% in annuity/maintenance license revenue during the three months and year ended March 31, 2020, respectively. Our revenue in South America can be significantly impacted by the variability of the amounts recorded from a customer and its affiliates for whom revenue is recognized only when cash is received (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters on the next page, above the "Quarterly Software License Revenue" graph). We received payment from this customer in the third quarter of the previous fiscal year, but none during the current fiscal year. To provide a normalized comparison, if we exclude revenue from this customer from the previous year, we note that South American annuity/maintenance license revenue increased by 11% (instead of decreasing by 13%) during the year ended March 31, 2020, compared to the previous fiscal year. This normalized increase during the current fiscal year was mainly due to increased licensing by existing customers. There were more perpetual sales realized in South America during the current fiscal year than in the previous fiscal year.

The Eastern Hemisphere (representing 36% of annual total software license revenue) experienced a decrease of 11% in annuity/maintenance license revenue during the three months ended March 31, 2020, compared to the same period of the previous fiscal year, due to maintenance contract reactivation recorded in the comparative period. Despite this decrease during the fourth quarter, annuity/maintenance license revenue in this region grew by 2% on a full year basis, due to a combination of increased licensing by existing customers and the addition of new customers. Perpetual license revenue decreased by 46% and 22% during the three months and year ended March 31, 2020, 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 license revenue stream. To provide a normalized comparison, we specifically identify the revenue component where revenue recognition is satisfied in the current period for products provided in previous quarters. Please refer to the yellow bars and the footnotes in the graph below:

Quarterly Software License Revenue



- (1) 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.
- (2) Q1, Q2, Q3 and Q4 of fiscal 2017 include \$1.8 million, \$0.3 million, \$3.7 million, and \$0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (3) Q1, Q2, Q3 and Q4 of fiscal 2018 include \$1.5 million, \$1.0 million, \$0.6 million, and \$1.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (4) Q1, Q2, Q3 and Q4 of fiscal 2019 include \$0.1 million, \$0.3 million, \$2.3 million, and \$1.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (5) Q1, Q2, Q3 and Q4 of fiscal 2020 include \$0.2 million, \$0.3 million, \$0.2 million and \$0.5 million respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Deferred Revenue

(\$ thousands)	Fiscal 2020	Fiscal 2019	\$ change	% change
Deferred revenue at:				
Q1 (June 30)	29,266	29,350 ⁽¹⁾	(84)	0%
Q2 (September 30)	23,849	23,222 ⁽²⁾	627	3%
Q3 (December 31)	15,679	13,782	1,897	14%
Q4 (March 31)	33,838	35,015 ⁽³⁾	(1,177)	-3%

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

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

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

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

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

Deferred revenue as at the end of fiscal 2020 decreased by 3% compared to fiscal 2019 and included a positive impact of the timing of renewals.

Professional Services Revenue

Professional services revenue was \$1.9 million and \$7.1 million for the three months and year ended March 31, 2020, respectively, up by \$0.4 million and \$1.1 million from the same periods of the previous fiscal year. The increase was due to the amendment to the CoFlow agreement with Shell Global Solutions International B.V. ("Shell"), pursuant to which CMG received development funding for additional resources allocated to CoFlow development and support (see "Commitments, Off Balance Sheet Items and Transactions with Related Parties"). This increase was partially offset by lower consulting revenue due to lower customer project activity.

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

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

Expenses

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Sales, marketing and professional services	4,467	(69)	4,398	5,216	(818)	-16%
Research and development	5,012	(229)	4,783	5,280	(497)	-9%
General and administrative	1,587	(55)	1,532	1,892	(360)	-19%
Total operating expenses	11,066	(353)	10,713	12,388	(1,675)	-14%
Direct employee costs ⁽¹⁾	8,153	-	8,153	9,237	(1,084)	-12%
Other corporate costs	2,913	(353)	2,560	3,151	(591)	-19%
	11,066	(353)	10,713	12,388	(1,675)	-14%

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Sales, marketing and professional services	18,394	(268)	18,126	18,690	(564)	-3%
Research and development	20,160	(916)	19,244	19,893	(649)	-3%
General and administrative	6,885	(220)	6,665	6,720	(55)	-1%
Total operating expenses	45,439	(1,404)	44,035	45,303	(1,268)	-3%
Direct employee costs ⁽¹⁾	33,905	-	33,905	33,481	424	1%
Other corporate costs	11,534	(1,404)	10,130	11,822	(1,692)	-14%
	45,439	(1,404)	44,035	45,303	(1,268)	-3%

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

Prior to applying IFRS 16, total operating expenses for the three months ended March 31, 2020 decreased by 11%, due to lower stock-based compensation on cash-settled awards as a result of a decreased share price. Prior to applying IFRS 16, total operating expenses for the year ended March 31, 2020 remained flat compared to the previous fiscal year.

The application of IFRS 16 decreased total operating expenses by \$0.4 million in the three-month period and by \$1.4 million in the year ended March 31, 2020. This net decrease is a combination of lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by higher depreciation expense on the recognition of right-of-use assets.

Direct Employee Costs

As a technology company, CMG's largest area of expenditure is its people. Approximately 77% of the total operating expenses for the year ended March 31, 2020 related to direct employee costs. Staffing levels in the current fiscal year to date were comparable to the previous fiscal year. At March 31, 2020, CMG's full-time equivalent staff complement was 192 employees and consultants, consistent with the previous year end. Direct employee costs for the three months ended March 31, 2020 decreased compared to the same period of the previous fiscal year due to lower stock-based compensation. Direct employee costs for the year ended March 31, 2020 were up by 1% compared to the previous fiscal year.

Other Corporate Costs

Prior to the application of IFRS 16, other corporate costs for the three months ended March 31, 2020 were down by 8% due to lower office-related costs. Prior to the application of IFRS 16, other corporate costs for the year ended March 31, 2020 decreased slightly by 2%.

Research and Development

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Research and development (gross)	5,338	(229)	5,109	5,513	(404)	-7%
SR&ED credits	(326)	-	(326)	(233)	(93)	40%
Research and development	5,012	(229)	4,783	5,280	(497)	-9%
Research and development as a % of total revenue	27%		26%	25%		

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Research and development (gross)	21,667	(916)	20,751	21,206	(455)	-2%
SR&ED credits	(1,507)	-	(1,507)	(1,313)	(194)	15%
Research and development	20,160	(916)	19,244	19,893	(649)	-3%
Research and development as a % of total revenue	27%		25%	27%		

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

The above research and development costs include \$2.2 million and \$8.7 million of costs for CoFlow for the three months and year ended March 31, 2020, respectively (2019 – \$2.0 million and \$7.6 million). See discussion under “Commitments, Off Balance Sheet Items and Transactions with Related Parties”.

Prior to applying IFRS 16, research and development costs for the three months ended March 31, 2020 decreased by 3%, compared to the same period of the previous fiscal year, primarily due to lower stock-based compensation. Prior to applying IFRS 16, research and development costs for the year ended March 31, 2020 increased slightly by 1%, due to an operating cost refund included in the previous year.

The application of IFRS 16 decreased research and development costs by \$0.2 million in the three-month period and by \$0.9 million for the year ended March 31, 2020. This net decrease is a combination of lower rent expense (because under IFRS 16 rent payments are classified as finance costs and repayment of lease liability), partially offset by higher depreciation expense on the recognition of right-of-use assets.

SR&ED credits increased by 40% and 15% for the three months and year ended March 31, 2020, compared to the same periods of the previous fiscal year, mainly due to an increase in hours spent on SR&ED-eligible projects.

Research and development costs as a percentage of total revenue for the three months and year ended March 31, 2020 were comparable to the same periods of the previous year.

Depreciation

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Depreciation of property and equipment, allocated to:						
Sales, marketing and professional services	102	157	259	117	142	121%
Research and development	366	355	721	320	401	125%
General and administrative	56	85	141	63	78	124%
Total depreciation	524	597	1,121	500	621	124%

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Depreciation of property and equipment, allocated to:						
Sales, marketing and professional services	439	626	1,065	447	618	138%
Research and development	1,322	1,414	2,736	1,272	1,464	115%
General and administrative	222	337	559	234	325	139%
Total depreciation	1,983	2,377	4,360	1,953	2,407	123%

Depreciation increased by 124% and 123% in the three months and year ended March 31, 2020 due to the additional depreciation associated with the right-of-use assets recognized under IFRS 16.

Finance Income and Costs

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Interest income	205	-	205	293	(88)	-30%
Net foreign exchange gain	2,181	(47)	2,134	-	2,134	100%
Total finance income	2,386	(47)	2,339	293	2,046	698%
Interest expense on lease liability	-	(528)	(528)	-	(528)	-100%
Net foreign exchange loss	-	-	-	(643)	643	-100%
Total finance costs	-	(528)	(528)	(643)	115	-18%

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Interest income	1,127	-	1,127	1,214	(87)	-7%
Net foreign exchange gain	1,715	(9)	1,706	122	1,584	1298%
Total finance income	2,842	(9)	2,833	1,336	1,497	112%
Interest expense on lease liability	-	(2,128)	(2,128)	-	(2,128)	-100%
Net foreign exchange loss	-	-	-	-	-	-100%
Total finance costs	-	(2,128)	(2,128)	-	(2,128)	-100%

Interest income for the three months and year ended March 31, 2020 was lower compared to the same periods of the previous fiscal year, due to lower cash balances. Interest expense on lease liability is the result of the adoption of IFRS 16, as explained earlier.

CMG is impacted by foreign exchange fluctuations, as approximately 74% of CMG's revenue for the year ended March 31, 2020 (2019 – 74%) is denominated in US dollars, whereas only approximately 25% (2019 – 26%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's USD-denominated working capital at March 31, 2020, 2019 and 2018 and the average exchange rates used to translate income statement items during the years ended March 31, 2020, 2019 and 2018:

CDN\$ to US\$	At March 31	Yearly average
2018	0.7756	0.7781
2019	0.7483	0.7633
2020	0.7049	0.7539

CMG recorded a net foreign exchange gain of \$2.2 million and \$1.7 million for the three months and year ended March 31, 2020, respectively, due to a strengthening of the US dollar at period end, which positively affected the valuation of the USD-denominated portion of the Company's working capital.

Income and Other Taxes

CMG's effective tax rate for the year ended March 31, 2020 is 27.6% (2019 – 28.3%), whereas the blended Canadian statutory tax rate for the Company's 2020 fiscal year is 26.0% (decreased from 27.0% in fiscal 2019, with further rate reductions legislated over the next two years). This difference between the effective rate and the statutory rate is primarily due to revaluing CMG's deferred tax assets at the lower tax rate and the non-tax deductibility of stock-based compensation expense.

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

Operating Profit and Net Income

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Total revenue	18,515	-	18,515	21,138	(2,623)	-12%
Operating expenses	(11,066)	353	(10,713)	(12,388)	1,675	-14%
Operating profit	7,449	353	7,802	8,750	(948)	-11%
Operating profit as a % of revenue	40%		42%	41%		
Net income for the period	7,247	(184)	7,063	5,974	1,089	18%
Net income as a % of total revenue	39%		38%	28%		
Basic earnings per share (\$/share)	0.09	-	0.09	0.07	0.02	29%

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Total revenue	75,786	-	75,786	74,857	929	1%
Operating expenses	(45,439)	1,404	(44,035)	(45,303)	1,268	-3%
Operating profit	30,347	1,404	31,751	29,554	2,197	7%
Operating profit as a % of revenue	40%		42%	39%		
Net income for the period	24,117	(632)	23,485	22,135	1,350	6%
Net income as a % of total revenue	32%		31%	30%		
Basic earnings per share (\$/share)	0.30	0.01	0.29	0.28	0.01	4%

Prior to applying IFRS 16, operating profit as a percentage of total revenue for the three months and year ended March 31, 2020 was 40%, consistent with 41% and 39% in the comparative periods. Under IFRS 16, operating profit as a percentage of total revenue was slightly higher at 42%, because the adoption of IFRS 16 decreased operating expenses.

Net income as a percentage of total revenue was 38% for the three months ended March 31, 2020, up from 28% in the comparative period, due to lower stock-based compensation and a foreign exchange gain recorded in the current quarter (versus a foreign exchange loss in the comparative quarter), partially offset by lower revenue.

Net income as a percentage of total revenue for the year ended March 31, 2020 was 31%, a slight increase from 30% in the previous fiscal year.

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

EBITDA⁽¹⁾

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Net income for the period	7,247	(184)	7,063	5,974	1,089	18%
Add (deduct):						
Depreciation	524	597	1,121	500	621	124%
Finance (income) costs	(2,386)	575	(1,811)	350	(2,161)	-617%
Income and other taxes	2,588	(38)	2,550	2,426	124	5%
EBITDA	7,973	950	8,923	9,250	(327)	-4%
EBITDA as a % of total revenue	43%		48%	44%		

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Net income for the period	24,117	(632)	23,485	22,135	1,350	6%
Add (deduct):						
Depreciation	1,983	2,377	4,360	1,953	2,407	123%
Finance (income) costs	(2,842)	2,137	(705)	(1,336)	631	-47%
Income and other taxes	9,072	(101)	8,971	8,755	216	2%
EBITDA	32,330	3,781	36,111	31,507	4,604	15%
EBITDA as a % of total revenue	42%		48%	42%		

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

Prior to applying IFRS 16, EBITDA as a percentage of total revenue for the three months and year ended March 31, 2020 was 43% and 42%, consistent with 44% and 42% in the same periods of the previous fiscal year.

EBITDA is higher under IFRS 16 than prior to applying IFRS 16 – 48% for the three months and year ended March 31, 2020 – because rent payments (which used to be included in EBITDA as rent expense) are now recorded as finance costs and repayment of lease liability (both of which are excluded from the calculation of EBITDA).

Liquidity and Capital Resources

Three months ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Cash, beginning of period	36,773	-	36,773	45,603	(8,830)	-19%
Cash flow provided by (used in):						
Operating activities	12,052	379	12,431	16,786	(4,355)	-26%
Financing activities	(8,024)	(379)	(8,403)	(8,023)	(380)	-5%
Investing activities	(296)	-	(296)	(76)	(220)	-289%
Cash, end of period	40,505	-	40,505	54,290	(13,785)	-25%

Years ended March 31, (\$ thousands, except per share data)	Previous lease standard 2020	IFRS 16 impact	IFRS 16 2020	2019	\$ change	% change
Cash, beginning of period	54,290	-	54,290	63,719	(9,429)	-15%
Cash flow provided by (used in):						
Operating activities	19,302	1,228	20,530	23,386	(2,856)	-12%
Financing activities	(32,097)	(1,228)	(33,325)	(32,073)	(1,252)	-4%
Investing activities	(990)	-	(990)	(742)	(248)	-33%
Cash, end of period	40,505	-	40,505	54,290	(13,785)	-25%

At March 31, 2020, CMG had \$40.5 million in cash, no borrowings and access to approximately \$1.0 million under a line of credit with its principal banker. The Company's primary non-operating use of cash is for paying dividends. Management believes that the Company has sufficient capital resources to meet its operating and planned capital expenditure needs. During the year ended March 31, 2020, 25.9 million shares of CMG's public float were traded on the TSX. As at March 31, 2020, CMG's market capitalization based upon its March 31, 2020 closing price of \$3.83 was \$307.4 million.

Operating Activities

Prior to applying IFRS 16, cash flow from operating activities decreased by \$4.7 million in the three months and by \$4.1 million in the year ended March 31, 2020, compared to the same periods of the previous fiscal year. This was mainly due the change in the deferred revenue balance and the negative impact of the timing difference of when sales are made and when the resulting receivables are collected, partially offset by higher net income.

The application of IFRS 16 increased cash flow from operating activities for the three months and year ended March 31, 2020 by \$0.4 million and \$1.2 million, respectively, because the principal reduction portion of lease payments is classified as financing activities under IFRS 16 versus operating activities under the old standard.

Financing Activities

Prior to applying IFRS 16, cash used in financing activities has not changed in the three months and year ended March 31, 2020, compared to the same periods of the previous fiscal year. The application of IFRS 16 increased cash used in financing activities for the three months and year ended March 31, 2020 by \$0.4 million and \$1.2 million, respectively, because the principal reduction portion of lease payments is classified as financing activities under IFRS 16 versus operating activities under the old standard.

In the year ended March 31, 2020, CMG paid \$32.1 million in dividends, representing the following quarterly dividends:

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

In the year ended March 31, 2019 CMG paid \$32.1 million in dividends, representing the following quarterly dividends:

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

On May 27, 2020, CMG announced the payment of a quarterly dividend of \$0.05 per share on CMG's Common Shares. The dividend will be paid on June 15, 2020 to shareholders of record at the close of business on June 5, 2020. Decisions with respect to dividend payments are made by the Board of Directors on a quarterly basis and will take into account market conditions and the financial performance of the Company.

Investing Activities

CMG's current needs for capital asset investment relate to office infrastructure costs and computer equipment, all of which are being funded internally. During the year ended March 31, 2020, CMG's cash expenditures on property and equipment were \$1.0 million, primarily composed of computer equipment. CMG's capital budget for fiscal 2021 is \$1.5 million. We will continue to monitor our business operations, and will adjust our capital budget if necessary.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

CMG, in partnership with Shell currently and historically also with Petroleo Brasileiro S.A., is the developer of CoFlow, the newest generation of reservoir and production system simulation software. Under a five-year agreement entered into by Shell and CMG on January 1, 2017 (the "CoFlow Agreement") and an amendment signed in July of 2019, CMG is responsible for the research and development costs of CoFlow (estimated to be \$9.0 million in fiscal 2021), while Shell provides a contribution for the continuing development of the software (estimated to be \$6.7 million in fiscal 2021).

CMG has very little in the way of other ongoing material contractual obligations other than pre-sold licenses, which are reflected as deferred revenue on the statement of financial position, and contractual obligations for office leases, which are estimated to be as follows as at March 31, 2020:

(thousands of \$)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,394	1,135	4,529
Between one and five years	14,209	4,363	18,572
More than five years	46,483	13,680	60,163
	64,086	19,178	83,264

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 IFRS 15. We follow specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue recognition policies.

We recognize revenue upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met.

Contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices for distinct performance obligations can also require judgment and estimates.

The Company also applies estimates when calculating professional services revenue from certain consulting contracts as it relates to remaining labour hours required to complete the contract. Estimates are continually and routinely revised as new information becomes available. In assessing revenue recognition, judgment is also used in assessing 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.

Incremental borrowing rate

Under IFRS 16 *Leases*, a lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since CMG does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located.

Impact of the COVID-19 pandemic

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

New Accounting Standards Adopted

IFRS 16 Leases

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

The Company's only leases are office space leases, the most significant of which is the twenty-year head office lease that commenced in 2017. The Company's accounting policy for leases under IFRS 16 is as follows:

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

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

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

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

Under IAS 17

In the comparative period, all of the Company's leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Since the lease agreement for the Company's head office contains a rent escalation clause, the difference between rent expense and rent payable for the period was recorded as deferred rent within long-term liabilities in the consolidated statement of financial position.

Outstanding Share Data

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

As at May 27, 2020

(thousands)

Common Shares	80,249
Stock options	3,817
Restricted share units ⁽¹⁾	369
Performance share units ⁽¹⁾	21

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

The maximum number of Common Shares that may be reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding Common Shares. Based on this calculation, at May 27, 2020, CMG could reserve up to 8,024,000 Common Shares for issuance under its security-based compensation plans.

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. 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 revenue stream 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 \$40.5 million of cash at March 31, 2020, which more than covers its obligations, and it has approximately \$1.0 million of the credit facility available for its use. The Company's cash is held with reputable banking institutions. 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 year ended March 31, 2020, one customer comprised more than 10% of the Company's total revenue (year ended March 31, 2019 – nil customers).

Foreign Exchange Risk

CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as approximately 74% (2019 – 74%) of product revenues in fiscal 2020 were denominated in US dollars. Approximately 25% of CMG's total costs in fiscal 2020 (2019 – 26%) 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 Risk

CMG sells its products and services in approximately 60 countries and maintains offices in Canada, the United States, the United Kingdom, the United Arab Emirates, Colombia and Malaysia. Some of these countries have greater economic, political and social risks than North America. Some of those risks include:

- Costs associated with the use of foreign agents and contractors;
- Difficulties in collecting accounts receivable;
- Currency restrictions and exchange rate fluctuations;
- The burdens of complying with a wide variety of foreign laws;
- Changes in laws governing existing operations and contracts;
- Changes to taxation policies dramatically increasing tax costs to the Company;
- Possible social, labor, political, and economic instability;
- 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 CMG's business, financial condition and operational results. 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 consults with tax advisors on complex tax issues and engages professional tax firms to review its tax filings in foreign jurisdictions. 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 two major suppliers (including CMG) and a number of small suppliers. Some of the other 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 spent \$19.2 million on product research and development in its most recently completed fiscal year (2019 – \$19.9 million).

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.

Cyber Risk

CMG is dependent on information technology ("IT") infrastructure to process, transmit and store electronic information, to advertise, inform and train around CMG's products and services, to manage business operations and for the functioning and/or delivery of the Company's products and services. CMG's IT infrastructure is composed of hardware, software, networks, data center facilities, web servers, and all related equipment required to operate. Natural disasters, energy blackouts, operating malfunction, software virus or malware, cyber security attacks, theft, computer or telecommunication errors, human error, internal or external misconduct or other unknown disruptive events could result in the temporary or permanent loss of any or all parts of CMG's IT infrastructure. Any such incident or breach could create system disruptions and slowdowns or could result in the loss of potential sales and existing customers. In such an event, the information stored in CMG's IT infrastructure could be accessed, publicly disclosed, lost, or stolen, which could subject CMG to liability and cause the Company to incur significant costs to eliminate or alleviate the problem. Additionally, such occurrences could cause negative publicity, loss of sales, litigation, affect our business and financial results and harm CMG's reputation. CMG mitigates such risks by:

- ensuring the core network is not connected to the Internet;
- firewalling the servers that are connected to the Internet;
- restricting access to information through user authentication;
- completing frequent back-ups of data in accordance with the Company's Backup and Data Classification Policy;
- having a disaster recovery plan in place;
- having an Information and Cyber Security Policy in place, which informs employees, contractors and other authorized users of the Company's IT infrastructure of their obligatory requirements for protecting the technology and information assets of the Company; and
- conducting mandatory annual cyber security training for all employees.

CMG's cyber risk oversight is conducted by the Audit Committee of the Board of Directors.

Although CMG has implemented disaster recovery plans and extensive technology security initiatives to prevent, detect and address these threats, it is virtually impossible to entirely mitigate these risks. To date, CMG has not experienced any material losses relating to cyber attacks or other information security breaches.

Evolving Laws and Regulation

CMG's website and operations collect some user information, including personal information. The website is not used for e-commerce transactions, and CMG neither receives nor retains financial information from its website users. CMG's products are not known to have any security vulnerabilities. CMG's products are engineering decision-making tools and are not employed in a cyber security (mitigation or defensive) role, as part of our customers' IT infrastructure. CMG's software releases are scanned for software viruses and malware, confirming a lack thereof, prior to delivery to customers.

Companies that use, transmit or store data are increasingly becoming subject to legislation and regulations in numerous jurisdictions. Privacy and data protection laws are constantly evolving and there is a risk that these laws may be interpreted and applied in conflicting ways from country to country. Because CMG's products and services are sold worldwide, certain jurisdictions may claim that we are required to comply with such laws and may cause CMG to incur additional costs. CMG could also be affected if legislation or regulations are expanded to require changes in our products, services or business practices.

Tax Liability Risk

With operations and sales in various countries, CMG is subject to taxes in several jurisdictions around the world. Significant judgment is required in determining the Company's worldwide liability for income, indirect and other taxes, as well as potential penalties and interest. Although management believes that all expenses and tax credits claimed by the Company, including research and development expenses and foreign tax credits, are reasonable, deductible and have been correctly determined, tax authorities may disagree with the treatment of items reported by the Company, the result of which could have a material adverse effect on our financial condition and results of operations. CMG mitigates these risks by staying informed of changes

in tax legislation, consulting with tax advisors on complex tax issues and having professional tax firms review the Company's tax filings.

CMG conducts operations worldwide through subsidiaries in various tax jurisdictions pursuant to transfer pricing arrangements with its subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arm's length. While we believe that we operate in compliance with applicable transfer pricing laws and intend to continue to do so, a tax authority in one or more jurisdictions could challenge the validity of our related-party transfer pricing methodologies, which could result in adjustments in favor of the taxing authority. To address this risk, CMG engages local professional tax firms to review the Company's transfer pricing agreements and dealings with foreign tax authorities.

Climate Change Risk

The recent shift toward public and government support of climate change initiatives, such as emission reduction targets, clean energy standards, and alternative energy incentives and mandates, could impact the demand for hydrocarbons in Canada and around the world. CMG's customers are oil and gas companies; therefore, increasing environmental regulations, taxes, laws or penalties could reduce oil and gas producers' cash flow by way of reduced demand, increased capital expenditures and increased operating expenses, as well as increase delays, costs or legal hurdles, which may not be recoverable in the marketplace. Such regulation changes include, but are not limited to, curtailment rules, new climate change regulations and the implementation of the *Canadian Energy Regulator Act*. The complexity and breadth of changes in environmental regulation make it extremely difficult to predict the potential impact to CMG; however, it is possible to conclude that these developments and future developments in the energy sector could adversely impact the demand for CMG's products.

Climatic Conditions

Extreme climatic conditions may also have material adverse effects on the Company's financial condition and results of operations. Weather and climate can affect the Company directly to the extent it creates natural disasters like flooding or is connected to health concerns such as a pandemic like the current COVID-19 pandemic the Company is facing. It also affects the Company's operations to the extent that weather and climate affect the predictability of the demand for energy and in turn the demand for the Company's products.

In addition, the Company's major customers are oil and gas exploration and production companies and the operations of these customers can be affected by extreme weather. This may result in cessation or diminishment of production or the implementation of new projects which can also affect the Company's revenues. Many of the Company's customers operate in some of the harshest environments in the world. Climate change may increase the frequency of severe weather conditions in these locations including winds, flooding and variable temperatures, which are contributing to the melting of northern ice and increased creation of icebergs. These threats to the assets and available cash of the Company's customers, have the potential to impact their reason to or their ability to use the Company's products.

Transition

In addition to emissions regulations and the physical risks of climate change, climate-related transition risks could have a material adverse effect on the Company's business, financial condition and results of operations, and could adversely impact the Company's reputation. For example, increased public opposition to companies in the oil and gas sector could lead to constrained access to insurance, liquidity and capital and changes in demand for the Company's products, which may impact its revenue. Increasing pressure by the Company's customers to develop new technologies to help them reduce the intensity of their operations and their emissions could require significant capital investment in research and development.

The Company's management and Board monitors these risks on a quarterly basis and discusses strategies to deal with these risks (along with all other identified risks of the Company) at its annual strategic planning session. Overall, the Company is not able to estimate, at this time, the degree to which climate change related regulatory, climatic conditions, and transition risks could impact the Company's financial and operating results.

Coronavirus Risk

The Company's operations may be affected by the ongoing outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020. While this situation is expected to be temporary, the prolonged continuance of the COVID-19 crisis could adversely impact CMG's operations, including sales activities and financial performance. In addition, the sharp decrease in global energy demand and the uncertainty surrounding the impacts of COVID-19 have led to significant declines in commodity prices and decreased oil and gas production. Low commodity prices and resulting lower cash flow and capital spending in the industry could adversely impact the demand for CMG's products. The extent to which the COVID-19 pandemic may impact our operating results, financial condition, and cash flows will depend on future global developments, which are highly uncertain, outside of the Company's control and cannot be accurately predicted at this time.

Amidst pandemic restrictions, CMG implemented procedures to enable us to continue to operate and minimize the impact to our business and customers. CMG remains fully operational during the pandemic with all of its employees working remotely from their homes. The Company continues its research and development activities and it continues to provide technical support and training to its customers through email, phone and video conferencing.

In addition, CMG has pre-emptively taken various cost saving and cash preservation actions to preserve liquidity, manage costs and protect shareholder value. These measures were implemented to protect CMG's profitability and optimize free cash flow generation to maintain the strength of our balance sheet and allow for maximum flexibility in our capital allocation decisions.

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, 2020, 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, 2020 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, 2020, there have been no significant changes to the Company's ICFR that have materially affected or are reasonably likely to materially affect the Company's ICFR.

Additional IFRS Measure

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

Non-IFRS Financial Measures

Certain financial measures in this MD&A – namely, direct employee costs, other corporate costs, EBITDA and free cash flow – do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other

companies. Management believes that these indicators nevertheless provide useful measures in evaluating the Company's performance.

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

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

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

Free Cash Flow Reconciliation to Funds Flow from Operations

(\$ thousands)	Fiscal 2019				Fiscal 2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Funds flow from operations	5,242	5,777	7,550	7,024	6,097	7,787	7,366	7,515
Capital expenditures	(333)	(80)	(253)	(76)	(108)	(235)	(351)	(296)
Repayment of lease liabilities	-	-	-	-	(282)	(278)	(289)	(379)
Free cash flow	4,909	5,697	7,297	6,948	5,707	7,274	6,726	6,840

Years ended March 31,			
(\$ thousands)	2020	2019	2018
Funds flow from operations	28,765	25,593	25,503
Capital expenditures	(990)	(742)	(4,673)
Repayment of lease liabilities	(1,228)	-	-
Free cash flow	26,547	24,851	20,830

Forward-looking Information

Certain information included in this MD&A is forward-looking. Forward-looking information includes statements that are not statements of historical fact and which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans and status of the Company's software development projects, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, research and development timetable, and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes that

the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

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

- future software license sales;
- the continued financing by and participation of the Company's CoFlow partner and it being completed in a timely manner, associated costs and future revenue;
- the Company's ability to increase or sustain its revenue if oil prices remain low;
- the Company's ability to pay dividends;
- Ability to enter into additional software license agreements;
- Ability to continue current research and new product development;
- Ability to recruit and retain qualified staff; and
- The impact of the ongoing COVID-19 pandemic on the global economy and the Company.

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors, which are discussed in greater detail in the "Business Risks" section of CMG's MD&A for the year ended March 31, 2020:

- 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 27, 2020.

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 Financial 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



Ryan N. Schneider
President and Chief Executive Officer

Calgary, Canada
May 27, 2020

Independent Auditors' Report

To the Shareholders of Computer Modelling Group Ltd.

Opinion

We have audited the consolidated financial statements of Computer Modelling Group Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at March 31, 2020 and March 31, 2019;
- the consolidated statements of operations and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2020 and March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2020 Financial Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the other information identified above as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Kimberly J. Payne.

KPMG LLP

Chartered Professional Accountants
May 27, 2020
Calgary, Canada

Consolidated Statements of Financial Position

(thousands of Canadian \$)	March 31, 2020	March 31, 2019*
Assets		
Current assets:		
Cash	40,505	54,290
Trade and other receivables (note 18(a))	26,277	19,220
Prepaid expenses	913	1,332
Prepaid income taxes (note 15)	771	367
	68,466	75,209
Property and equipment (note 6)	13,507	14,501
Right-of-use assets (note 7)	37,901	-
Deferred tax asset (note 15)	992	595
Total assets	120,866	90,305
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities (note 8)	6,224	6,162
Income taxes payable (note 15)	60	60
Deferred revenue (note 9)	33,838	34,653
Lease liability (note 10)	1,313	-
	41,435	40,875
Deferred revenue (note 9)	-	362
Lease liability (note 10)	41,062	-
Deferred rent liability	-	1,813
Total liabilities	82,497	43,050
Shareholders' equity:		
Share capital (note 16)	79,851	79,711
Contributed surplus	13,533	12,808
Deficit	(55,015)	(45,264)
Total shareholders' equity	38,369	47,255
Total liabilities and shareholders' equity	120,866	90,305

*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 4.

Subsequent event (note 23)

See accompanying notes to consolidated financial statements.

Approved by the Board



John B. Zaozirny
Director



Peter H. Kinash
Director

Consolidated Statements of Operations and Comprehensive Income

Years ended March 31, (thousands of Canadian \$ except per share amounts)	2020	2019*
Revenue (note 11)	75,786	74,857
Operating expenses		
Sales, marketing and professional services	18,126	18,690
Research and development (note 12)	19,244	19,893
General and administrative	6,665	6,720
	44,035	45,303
Operating profit	31,751	29,554
Finance income (note 14)	2,833	1,336
Finance costs (note 14)	(2,128)	-
Profit before income and other taxes	32,456	30,890
Income and other taxes (note 15)	8,971	8,755
Net and total comprehensive income	23,485	22,135
Earnings per share		
Basic and diluted (note 16(d))	0.29	0.28

*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 4.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian \$)	Common Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, April 1, 2018	79,598	11,775	(35,309)	56,064
Total comprehensive income for the year	-	-	22,135	22,135
Dividends paid	-	-	(32,090)	(32,090)
Shares issued on redemption of restricted share units (note 16(b))	93	-	-	93
Shares issued for cash on exercise of stock options (note 16(b))	17	-	-	17
Stock-based compensation:				
Current period expense (note 16(c))	-	1,036	-	1,036
Stock options exercised (note 16(b))	3	(3)	-	-
Balance, March 31, 2019	79,711	12,808	(45,264)	47,255
Balance, April 1, 2019	79,711	12,808	(45,264)	47,255
Impact of change in accounting policy*	-	-	(1,139)	(1,139)
Adjusted balance, April 1, 2019	79,711	12,808	(46,403)	46,116
Total comprehensive income for the year	-	-	23,485	23,485
Dividends paid	-	-	(32,097)	(32,097)
Shares issued on redemption of restricted share units (note 16(b))	140	-	-	140
Stock-based compensation:				
Current period expense (note 16(c))	-	725	-	725
Balance, March 31, 2020	79,851	13,533	(55,015)	38,369

*The Company adopted IFRS 16 *Leases* effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 4.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, (thousands of Canadian \$)	2020	2019*
Operating activities		
Net income	23,485	22,135
Adjustments for:		
Depreciation (notes 6 and 7)	4,360	1,953
Deferred income tax recovery (note 15)	(13)	(74)
Stock-based compensation (note 16(c))	933	1,154
Deferred rent	-	425
Funds flow from operations	28,765	25,593
Movement in non-cash working capital:		
Trade and other receivables	(7,057)	(2,947)
Trade payables and accrued liabilities	86	(63)
Prepaid expenses	317	83
Income taxes payable	(404)	(618)
Deferred revenue	(1,177)	1,338
Increase in non-cash working capital	(8,235)	(2,207)
Net cash provided by operating activities	20,530	23,386
Financing activities		
Proceeds from the issue of common shares	-	17
Repayment of lease liability (note 10)	(1,228)	-
Dividends paid	(32,097)	(32,090)
Net cash used in financing activities	(33,325)	(32,073)
Investing activities		
Property and equipment additions (note 6)	(990)	(742)
Decrease in cash	(13,785)	(9,429)
Cash, beginning of period	54,290	63,719
Cash, end of period	40,505	54,290
Supplementary cash flow information		
Interest received	1,135	1,221
Interest paid (notes 10 and 14)	(2,128)	-
Income taxes paid	(7,893)	(8,135)

* The Company adopted IFRS 16 Leases effective April 1, 2019 using the modified retrospective approach. Under this method, comparative information is not restated. See note 4.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2020 and 2019.

1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its Common Shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The consolidated financial statements as at and for the year ended March 31, 2020 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, 2020 were authorized for issuance by the Board of Directors on May 27, 2020.

(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 Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of Estimates, Judgments and Assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses 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. The financial statement areas that require significant estimates and judgments 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 *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 operations and 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 12).

Contracts with multiple products or services – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices for distinct performance obligations can also require judgment and estimates.

Professional services revenue – the Company applies estimates when calculating professional services revenue from certain consulting contracts as it relates to remaining labour hours required to complete the contract. Estimates are continually and routinely revised as new information becomes available. In assessing revenue recognition, judgment is also used in assessing the ability to collect the corresponding account receivable.

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 16 (c)).

Property and equipment – estimates are used in determining useful economic lives of property and equipment for the purposes of calculating depreciation (note 6).

Incremental borrowing rate – under IFRS 16 *Leases*, a lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since CMG does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located (note 10).

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

3. Significant Accounting Policies:

(a) Basis of Consolidation:

The consolidated financial statements include the accounts of CMG and its subsidiaries, all 100% owned (note 21). 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 is recognized upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The nature of the products and services from which the Company derives its revenue is described below.

Type of products /service	Nature, timing of satisfaction of performance obligations, significant contract terms
Annuity license revenue	Annuity agreements include a term-based software license bundled with maintenance. IFRS 15 <i>Revenue from Contracts with Customers</i> requires that the portion of the annuity agreement fee that relates to the software license should be recognized as revenue at the start of the license period, while the remainder should be recognized as maintenance revenue on a straight-line basis over the license period. However, since it is management's practice to honour customers' mid-contract requests to reduce product quantities or license term duration without a penalty and refund or credit a pro-rata share of the agreement fee, annuity license revenue cannot be recognized upfront and will instead be recognized ratably over the term of the contract.

Type of products /service	Nature, timing of satisfaction of performance obligations, significant contract terms
	The exception to this practice is certain multi-year agreements with very specific termination clauses that significantly limit the customer's ability to reduce the license term. For these agreements, the software license portion that relates to the non-cancellable period will be recognized upfront, at the start of that particular period of the license contract. The maintenance component of an annuity contract includes customer support and unspecified software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time. Since the Company does not sell term-based annuity licenses individually without maintenance and there is no comparable product in the market, there is no observable standalone selling price for term-based annuity licenses. The Company allocates the value of bundled annuity agreements between software licenses and maintenance using the residual approach, by subtracting the standalone selling price of a maintenance license from the total annuity agreement fee. Based on this calculation, the standalone selling price of a maintenance license represents 45% of the total annuity agreement fee, leaving 55% to be allocated to the stand-alone annuity license.
Maintenance license revenue	Maintenance agreements include customer support and unspecified software upgrades, typically for a term of one year or less. Maintenance licenses are purchased by customers who already own a perpetual license and want the additional benefit of customer support and software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time.
Perpetual license revenue	A perpetual license grants the customer the right to use the then-current version of the software in perpetuity. Perpetual license revenue is recognized at a point in time, upon delivery of the licensed product.
Professional services revenue	Revenue from professional services consists of consulting, training and contract research activities. Professional services revenue is recognized over time, based on hours incurred.

Costs to obtain a contract

The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

(c) Cash:

Cash consists of balances held in 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 operations and 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	straight-line over 3 years
Furniture and equipment	straight-line over 5 years
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 operations and 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) 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 operations and 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.

(g) 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 operations and comprehensive income in the period in which they occur.

(h) 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.

(i) 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.

(j) 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.

(k) Stock-Based Compensation:

The Company has a stock option plan, a share appreciation rights plan, a performance share unit and restricted share unit plan, and a deferred share unit plan, as described in note 16(c).

Stock options give the holder the right to purchase Common Shares and are accounted for as an equity-settled plan. 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 contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of options that are expected to vest and recognizes the impact of any revision in the statement of operations and 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.

Stock-based compensation awards that settle in cash or have the option to settle in cash or shares are accounted for as cash-settled plans. These awards are remeasured at fair value each reporting period. The expense is recognized over the vesting period, with a corresponding adjustment to liabilities, based on the Company's estimate of the number of awards that will eventually vest. When awards are surrendered for cash, the cash settlement paid reduces the outstanding liability. When awards are exercised for Common Shares, the previously recognized liability is recorded to share capital.

Fair value 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.

(l) 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.

(m) Financial Instruments:

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Below is a list of the Company's financial instruments, their classification and subsequent measurement:

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

The Company's financial assets are initially recognized at fair value plus any directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest rate method less any provision for impairment. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or are transferred to another party and the Company has transferred substantially all risks and rewards of ownership. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities are initially recognized at fair value, 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. Any gain or loss on derecognition is recognized in profit or loss.

(n) 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 operations and 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 operations and 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 operations and 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:

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

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

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

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

4. Changes in Significant Accounting Policies

IFRS 16 Leases

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

The Company's accounting policy for leases under IFRS 16 is described in note 3(p).

Under IAS 17

In the comparative period, all of the Company's leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Since the lease agreement for the Company's head office contains a rent escalation clause, the difference between rent expense and rent payable for the period was recorded as deferred rent within long-term liabilities in the consolidated statement of financial position.

Impact on transition

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

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

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

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

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

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

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

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

Impact for the period

The following tables summarize the impact of adopting IFRS 16 on the Company's consolidated financial statements as at and for the year ended March 31, 2020:

Consolidated Statement of Financial Position

(thousands of \$)	March 31, 2020 As reported	Adjustments	March 31, 2020 Balance without IFRS 16 adoption
Assets			
Current assets:			
Cash	40,505	-	40,505
Trade and other receivables	26,277	-	26,277
Prepaid expenses	913	113	1,026
Prepaid income taxes	771	-	771
	68,466	113	68,579
Property and equipment	13,507	-	13,507
Right-of-use assets	37,901	(37,901)	-
Deferred tax asset	992	(484)	508
Total assets	120,866	(38,272)	82,594
Liabilities and shareholders' equity			
Current liabilities:			
Trade payables and accrued liabilities	6,224	96	6,320
Income taxes payable	60	-	60
Deferred revenue	33,838	-	33,838
Lease liability	1,313	(1,313)	-
	41,435	(1,217)	40,218
Lease liability	41,062	(41,062)	-
Deferred rent liability	-	2,237	2,237
Total liabilities	82,497	(40,042)	42,455
Shareholders' equity:			
Share capital	79,851	-	79,851
Contributed surplus	13,533	-	13,533
Deficit	(55,015)	1,770	(53,245)
Total shareholders' equity	38,369	1,770	40,139
Total liabilities and shareholders' equity	120,866	(38,272)	82,594

Consolidated Statement of Operations and Comprehensive Income

(thousands of \$ except per share amounts)	Year ended March 31, 2020 As reported	Adjustments	Year ended March 31, 2020 without IFRS 16 adoption
Revenue	75,786	-	75,786
Operating expenses			
Sales, marketing and professional services	18,126	268	18,394
Research and development	19,244	916	20,160
General and administrative	6,665	220	6,885
	44,035	1,404	45,439
Operating profit	31,751	(1,404)	30,347
Finance income	2,833	9	2,842
Finance costs	(2,128)	2,128	-
Profit before income and other taxes	32,456	733	33,189
Income and other taxes	8,971	101	9,072
Net and total comprehensive income	23,485	632	24,117
Earnings per share, basic and diluted	0.29	0.01	0.30

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

Consolidated Statement of Cash Flows

(thousands of \$)	Year ended March 31, 2020 As reported	Adjustments	Year ended March 31, 2020 without IFRS 16 adoption
Net cash provided by operating activities	20,530	(1,228)	19,302
Net cash used in financing activities	(33,325)	1,228	(32,097)

5. Segmented Information:

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

Property, equipment and right-of-use assets of the Company are located in the following geographic regions (for revenue by geographic region, refer to note 11):

(thousands of \$)	March 31, 2020	March 31, 2019
Canada	49,957	14,215
United States	972	152
South America	427	74
Eastern Hemisphere ⁽¹⁾	52	60
	51,408	14,501

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

6. Property and Equipment:

Cost (thousands of \$)	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Total
Balance at April 1, 2018	6,284	3,075	13,622	22,981
Additions	605	-	-	605
Disposals	(171)	-	(213)	(384)
Balance at March 31, 2019	6,718	3,075	13,409	23,202
Balance at April 1, 2019	6,718	3,075	13,409	23,202
Additions	984	6	-	990
Disposals	(548)	-	-	(548)
Balance at March 31, 2020	7,154	3,081	13,409	23,644

Accumulated Depreciation

(thousands of \$)				
Balance at April 1, 2018	(5,053)	(1,073)	(793)	(6,919)
Depreciation charge for the year	(747)	(532)	(674)	(1,953)
Disposals	171	-	-	171
Balance at March 31, 2019	(5,629)	(1,605)	(1,467)	(8,701)
Balance at April 1, 2019	(5,629)	(1,605)	(1,467)	(8,701)
Depreciation charge for the year	(798)	(511)	(675)	(1,984)
Disposals	548	-	-	548
Balance at March 31, 2020	(5,879)	(2,116)	(2,142)	(10,137)

Carrying Amounts

At March 31, 2019	1,089	1,470	11,942	14,501
At March 31, 2020	1,275	965	11,267	13,507

7. Right-Of-Use Assets:

(thousands of \$)	Offices
Balance, March 31, 2019	-
Adjustment on initial application of IFRS 16	39,756
Adjusted Balance, April 1, 2019	39,756
Additions	521
Depreciation charge for the year	(2,376)
Balance, March 31, 2020	37,901

8. Trade Payables and Accrued Liabilities:

(thousands of \$)	March 31, 2020	March 31, 2019
Trade payables	402	330
Employee salaries, commissions and benefits payable	4,108	4,167
Accrued liabilities and other payables	1,714	1,665
	6,224	6,162

9. Deferred Revenue:

The following table presents changes in the deferred revenue balance for the year ended March 31, 2020:

(thousands of \$)	
Balance, March 31, 2019	35,015
Invoiced during the period, excluding amount recognized as revenue during the period	33,139
Recognition of deferred revenue included in the balance at the beginning of the period	(34,316)
Balance, March 31, 2020	33,838

10. Lease Liability:

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

(thousands of \$)	
Balance, March 31, 2019	-
Adjustment on initial application of IFRS 16	43,082
Adjusted Balance, April 1, 2019	43,082
Additions	521
Interest on lease liability (note 14)	2,128
Lease payments	(3,356)
Balance, March 31, 2020	42,375
Current	1,313
Long-term	41,062

The following table presents contractual undiscounted payments for lease liability as at March 31, 2020:

(thousands of \$)	
Less than one year	3,394
Between one and five years	14,209
More than five years	46,483
Total undiscounted payments	64,086

Other lease-related items recognized in the consolidated statement of operations and comprehensive income:

Year ended March 31,	2020
(thousands of \$)	
Variable lease expense ⁽¹⁾	1,081
Short-term lease expense	260

11. Revenue:

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

Years ended March 31,	2020	2019
(thousands of \$)		
Annuity/maintenance license revenue		
Canada	14,977	15,151
United States	19,655	18,620
South America	7,625	8,734
Eastern Hemisphere	21,717	21,295
	63,974	63,800
Perpetual license revenue		
Canada	-	156
United States	461	1,096
South America	1,280	6
Eastern Hemisphere	2,931	3,742
	4,672	5,000
Total software license revenue	68,646	68,800
Professional services		
Canada	6,320	4,365
United States	325	405
South America	115	592
Eastern Hemisphere	380	695
	7,140	6,057
Total revenue		
Canada	21,297	19,672
United States	20,441	20,121
South America	9,020	9,332
Eastern Hemisphere	25,028	25,732
	75,786	74,857

The amount of revenue recognized during the year ended March 31, 2020 from performance obligations satisfied (or partially satisfied) in previous periods is \$1.8 million.

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

Receivables from contracts with customers were as follows:

(thousands of \$)	March 31, 2020	March 31, 2019
Receivables (included in "Trade and other receivables")	26,020	16,783

In the year ended March 31, 2020, one customer comprised 11.1% of the Company's total revenue (March 31, 2019 – nil customers over 10%).

12. Research and Development Costs:

Years ended March 31, (thousands of \$)	2020	2019
Research and development	20,751	21,206
Scientific research and experimental development ("SR&ED") investment tax credits	(1,507)	(1,313)
	19,244	19,893

13. Personnel Expenses:

Years ended March 31, (thousands of \$)	2020	2019
Salaries, commissions and short-term employee benefits	32,409	32,007
Stock-based compensation (note 16(c))	1,376	1,379
	33,785	33,386

14. Finance Income and Finance Costs:

Years ended March 31, (thousands of \$)	2020	2019
Interest income	1,127	1,214
Net foreign exchange gain	1,706	122
Finance income	2,833	1,336
Interest expense on lease liability (note 10)	(2,128)	-
Net foreign exchange loss	-	-
Finance costs	(2,128)	-

15. Income and Other Taxes:

The major components of income tax expense are as follows:

Years ended March 31, (thousands of \$)	2020	2019
Current year income tax expense	8,535	8,434
Adjustment for prior year	47	20
Current income taxes	8,582	8,454
Deferred tax recovery	(13)	(74)
Foreign withholding and other taxes	402	375
	8,971	8,755

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)	2020	2019
Combined statutory tax rate	26.00%	27.00%
Expected income tax	8,439	8,340
Non-deductible costs	281	301
Effect of statutory tax rate reduction	188	-
Withholding taxes	34	109
Adjustment for prior year	22	20
Effect of tax rates in foreign jurisdictions	(7)	(21)
Other	14	6
	8,971	8,755

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

(thousands of \$)	March 31, 2020	March 31, 2019
SR&ED investment tax credits	(274)	(247)
Property and equipment	50	116
Right-of-use assets	999	-
Deferred rent	-	489
Stock-based compensation liability	217	237
Net deferred tax asset	992	595

During the year ended March 31, 2020, the blended statutory tax rate was 26% (2019 – 27%). In May 2019, the Alberta government announced that the provincial corporate income tax rate will be reduced from 12 percent to eight percent over a four year period. The rate was reduced from 12% to 11% effective July 1, 2019, reduced to 10% on January 1, 2020 and will be reduced by an additional 1% for each of the next two years until it reaches 8% on January 1, 2022.

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.

16. Share Capital:

(a) Authorized:

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

(b) Issued:

(thousands of shares)	Common Shares
Balance, April 1, 2018	80,215
Issued on redemption of restricted share units	10
Issued for cash on exercise of stock options	2
Balance, March 31, 2019	80,227
Balance, April 1, 2019	80,227
Issued on redemption of restricted share units	22
Balance, March 31, 2020	80,249

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

(c) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Years ended March 31, (thousands of \$)	2020	2019
Equity-settled plans	725	1,036
Cash-settled plans	651	343
Total stock-based compensation expense	1,376	1,379

Liability Recognized for Stock-Based Compensation ⁽¹⁾

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

(thousands of \$)	March 31, 2020	March 31, 2019
SARs	15	76
RSUs	745	654
DSUs	183	145
Total stock-based compensation liability	943	875

(1) The intrinsic value of the vested awards at March 31, 2020 was \$0.2 million.

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

The maximum number of Common Shares reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding Common Shares. Based on this calculation, at March 31, 2020, the Company may reserve up to 8,024,000 Common Shares for issuance under its security-based compensation plans.

(i) Stock Option Plan

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 13, 2017. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. 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)	2020		2019	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of period	5,108	11.34	6,787	11.78
Granted	757	6.37	524	9.12
Exercised	-	-	(2)	9.78
Forfeited/expired	(1,965)	12.80	(2,201)	12.17
Outstanding at end of period	3,900	9.64	5,108	11.34
Options exercisable at end of period	2,704	10.61	3,969	11.92

The range of exercise prices of stock options outstanding and exercisable at March 31, 2020 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)
6.31 to 6.60	745	4.4	6.32	8	6.60
6.61 to 9.20	504	3.4	9.18	245	9.20
9.21 to 9.33	818	2.4	9.33	618	9.33
9.34 to 9.78	766	1.4	9.78	766	9.78
9.79 to 13.98	1,067	0.4	12.30	1,067	12.30
	3,900	2.1	9.64	2,704	10.61

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

Years ended March 31,	2020	2019
Fair value at grant date (\$/option)	0.72 to 1.42	0.83 to 1.63
Share price at grant date (\$/share)	6.31 to 8.70	6.60 to 9.20
Risk-free interest rate (%)	1.28 to 1.53	1.77 to 2.17
Estimated hold period prior to exercise (years)	3 to 4	3 to 4
Volatility in the price of common shares (%)	28 to 31	29 to 31
Dividend yield per common share (%)	4.71 to 6.28	4.33 to 6.16

(ii) *Share Appreciation Rights Plan*

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

The following table outlines changes in SARs:

Years ended March 31, (thousands except per share amounts)	2020		2019	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of period	952	9.38	583	9.50
Granted	221	6.31	389	9.20
Forfeited	(21)	9.42	(20)	9.35
Outstanding at end of period	1,152	8.80	952	9.38
SARs exercisable at end of period	657	9.44	339	9.54

(iii) *Share Unit Plans*

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

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

The International Employees PSU & RSU Plan includes substantially the same terms, conditions and PSU performance criteria as the PSU & RSU Plan, with the main two exceptions being that (i) it is available only to employees and contractors residing and working outside of Canada and (ii) PSUs and RSUs under this plan can be redeemed for cash only. As such, the Company accounts for PSUs and RSUs issued under the International Employees PSU & RSU Plan as cash-settled awards and recognizes a liability for potential cash settlements.

Deferred Share Units (DSUs)

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

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

Years ended March 31, (thousands)	2020			2019		
	RSUs	PSUs	DSUs	RSUs	PSUs	DSUs
Outstanding at beginning of period	237	-	24	108	-	11
Granted	309	30	24	173	-	13
Exercised	(91)	-	-	(36)	-	-
Forfeited	(34)	-	-	(8)	-	-
Outstanding at end of period	421	30	48	237	-	24

(d) Earnings Per Share:

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

Years ended March 31, (thousands except per share amounts)	2020			2019		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	23,485	80,240	0.29	22,135	80,222	0.28
Dilutive effect of stock options		199			71	
Diluted	23,485	80,439	0.29	22,135	80,293	0.28

During the year ended March 31, 2020, 44,000 awards (year ended March 31, 2019 – 15,000 awards, respectively) were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

17. 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.

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.

18. Financial Instruments and Risk Management:

The Company's financial instruments consist of cash, trade and other receivables, trade payables and accrued liabilities. 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 expected credit losses, 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. The Company has concluded that, at March 31, 2020, there has not been a significant increase in credit risk related to its accounts receivable arising from COVID-19 and the related economic uncertainty facing the oil and gas industry. As such, no allowance for doubtful accounts has been established at March 31, 2020 (none at March 31, 2019).

As at March 31, 2020, the Company has a concentration of credit risk with 15 domestic and international customers who represent 84% of trade receivables (2019 – 12 customers; 68%).

The carrying amount of trade and other receivables represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2020 was \$26.3 million (2019 – \$19.2 million). The aging of trade and other receivables at the reporting date was:

(thousands of \$)	March 31, 2020	March 31, 2019
Current	14,262	9,016
31-60 days	10,466	4,787
61-90 days	1,078	4,576
Over 90 days	471	841
Balance, end of year	26,277	19,220

The Company assesses the creditworthiness of its customers on an ongoing basis and 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 risk 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 74% (2019 – 74%) of the Company's revenues for the year ended March 31, 2020 were denominated in US dollars, and at March 31, 2020, approximately US \$15.5 million (2019 – US \$13.3 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 25% (2019 – 26%) 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 \$115,000 to equity and net income for the year ended March 31, 2020. 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 policy is to invest excess cash in interest-bearing deposits and/or guaranteed investment certificates issued by a reputable financial institution. The Company is exposed to interest cash flow risk from changes in interest rates on its cash balances. Based on the March 31, 2020 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, 2020 by approximately \$300,000.

(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 17. 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 that are periodically updated. At March 31, 2020, the Company has significant cash balances in excess of its obligations and approximately \$1.0 million of the line of credit (note 20) available for its use.

19. Commitments:

(a) Research Commitments:

CMG, in partnership with Shell Global Solutions International B.V. ("Shell"), is the developer of CoFlow, the newest generation of reservoir and production system simulation software. Under a five-year agreement entered into by Shell and CMG on January 1, 2017 (the "CoFlow Agreement") and an amendment signed in July of 2019, CMG is responsible for the research and development costs of CoFlow (estimated to be \$9.0 million in fiscal 2021), while Shell provides a contribution for the continuing development of the software (estimated to be \$6.7 million in fiscal 2021).

During the year ended March 31, 2020, the Company recorded professional services revenue of \$6.2 million (year ended March 31, 2019 – \$4.0 million) and CoFlow costs of \$8.7 million, respectively, to research and development expenses (year ended March 31, 2019 – \$7.6 million).

(b) Commitments:

Upon adoption of IFRS 16 *Leases* on April 1, 2019, lease commitments within the scope of that standard have been recognized as lease liabilities and are now disclosed in note 10. The following table reconciles the Company's operating lease commitments at March 31, 2019, as previously disclosed, to non-IFRS 16 commitments at April 1, 2019 and March 31, 2020:

(thousands of \$)	
Operating lease commitments disclosed as at March 31, 2019	89,013
Remove portion related to IFRS 16 <i>Leases</i>	(66,747)
Non-lease component of office leases, April 1, 2019	22,266
Commitments recognized as lease liability upon lease commencement	(528)
Payments made year to date	(1,266)
Changes in estimated operating costs	(1,294)
Non-lease component of office leases, March 31, 2020	19,178

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

(thousands of \$)	March 31, 2020
Less than one year	1,135
Between one and five years	4,363
More than five years	13,680
	19,178

20. Line Of Credit:

The Company has arranged for a \$2.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility or may be used to support letters of credit. As at March 31, 2020 \$1.0 million (March 31, 2019 – \$1.1 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

21. 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 Middle East FZ LLC	Dubai, United Arab Emirates
CMG (Europe) Limited	United Kingdom

22. Related Parties:

(a) Intercompany Transactions:

The Company has three wholly owned subsidiaries (note 21) that 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 4.2% of the outstanding shares of CMG at March 31, 2020. In addition to their salaries and director fees, as applicable, directors and executive officers also participate in the Company's stock-based compensation plans (note 16(c)), which are available to almost all employees of the Company, with the exception of the DSU plan, which is only available to non-employee directors of the Company.

Key management personnel compensation comprised the following:

Years ended March 31, (thousands of \$)	2020	2019
Salaries, bonus and employee benefits	3,802	4,202
Stock-based compensation	484	537
	4,286	4,739

23. Subsequent Event:

On May 27, 2020, the Board of Directors declared a quarterly cash dividend of \$0.05 per share on its Common Shares, payable on June 15, 2020 to all shareholders of record at the close of business on June 5, 2020.

Corporate Information

Directors

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Kenneth M. Dedeluk⁽⁵⁾

Christopher L. Fong^{(2) (4)}

Patrick R. Jamieson⁽³⁾

Peter H. Kinash⁽¹⁾

Mark R. Miller

Ryan N. Schneider

Robert F. M. Smith⁽²⁾

John B. Zaozirny
Chairman of the Board

⁽¹⁾ Chair, Audit Committee

⁽²⁾ Member, Audit Committee

⁽³⁾ Chair, Governance Committee

⁽⁴⁾ Member, Governance Committee

⁽⁵⁾ Vice Chairman of the Board

Officers

Ryan N. Schneider
President and Chief Executive Officer

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

Jason C. Close
*Vice President,
CoFlow Commercialization*

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

R. David Hicks
*Vice President,
Eastern Hemisphere*

Anjani Kumar
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Long X. Nghiem
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