

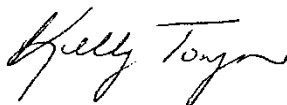
## Management's Statement of Responsibility

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 judgments, 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.



Kelly A. Tomy, CPA, CA  
Interim Vice President, Finance and  
Chief Financial Officer



Ryan N. Schneider  
President and Chief Executive Officer

Calgary, Canada  
May 19, 2021

# 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, 2021 and March 31, 2020
- 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021 and March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## **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.

## **Key Audit Matter**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended March 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

### ***Determination of the standalone selling price of revenue performance obligations for customer contracts with a software license***

#### *Description of the matter*

We draw attention to Note 3 and Note 10 to the financial statements. The Entity has revenue of \$67,363 thousand, a substantial portion of which contain software licenses in the contract.

The Entity enters into contracts with customers that 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 (SSP) for distinct performance obligations can also require judgment and estimates. SSP for a performance obligation in a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

Annuity agreements include a term-based software license bundled with maintenance. Since the Entity 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 Entity allocated the value of bundled annuity agreements between software and 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 50% of the total annuity agreement fee, leaving 50% to be allocated to the stand-alone annuity license.

#### *Why the matter is a key audit matter*

We identified the determination of the SSP of distinct performance obligations in contracts with customers with a software license as a key audit matter. Significant auditor judgment was required to evaluate the determination of SSP, specifically, the allocation between maintenance license and stand-alone annuity license.

#### *How the matter was addressed in the audit*

The primary procedures we performed to address this key audit matter included the following:

We evaluated the determined allocation of SSP based on current pricing patterns in relevant customer contracts, historical analysis of contract pricing completed by the Entity and pricing observed in the industry.

#### **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.

— the information, other than the financial statements and the auditors’ report thereon, included in a document entitled “2021 Financial Report”.

Our opinion on the financial statements does not cover the other information and we do 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 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or

when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants  
May 19, 2021  
Calgary, Canada

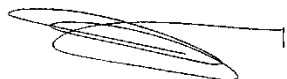
# Consolidated Statements of Financial Position

(thousands of Canadian \$)	March 31, 2021	March 31, 2020
<b>Assets</b>		
Current assets:		
Cash	49,068	40,505
Trade and other receivables (note 18(a))	23,239	26,277
Prepaid expenses	820	913
Prepaid income taxes (note 15)	8	771
	<b>73,135</b>	<b>68,466</b>
Property and equipment (note 5)	12,025	13,507
Right-of-use assets (note 6)	35,509	37,901
Deferred tax asset (note 15)	1,822	992
<b>Total assets</b>	<b>122,491</b>	<b>120,866</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Trade payables and accrued liabilities (note 7)	6,316	5,779
Income taxes payable (note 15)	49	60
Deferred revenue (note 8)	30,461	33,838
Lease liability (note 9)	1,356	1,313
	<b>38,182</b>	<b>40,990</b>
Long-term stock-based compensation liability (note 16(c))	1,281	445
Long-term lease liability (note 9)	39,606	41,062
<b>Total liabilities</b>	<b>79,069</b>	<b>82,497</b>
Shareholders' equity:		
Share capital (note 16)	80,051	79,851
Contributed surplus	14,251	13,533
Deficit	(50,880)	(55,015)
<b>Total shareholders' equity</b>	<b>43,422</b>	<b>38,369</b>
<b>Total liabilities and shareholders' equity</b>	<b>122,491</b>	<b>120,866</b>

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)	2021	2020
<b>Revenue</b> (note 10)	<b>67,363</b>	75,786
<b>Operating expenses</b> (note 11)		
Sales, marketing and professional services	15,690	18,126
Research and development (note 12)	15,194	19,244
General and administrative	5,914	6,665
	<b>36,798</b>	44,035
<b>Operating profit</b>	<b>30,565</b>	31,751
Finance income (note 14)	374	2,833
Finance costs (note 14)	(4,017)	(2,128)
<b>Profit before income and other taxes</b>	<b>26,922</b>	32,456
Income and other taxes (note 15)	6,732	8,971
<b>Net and total comprehensive income</b>	<b>20,190</b>	23,485
<b>Earnings per share</b>		
Basic and diluted (note 16(d))	<b>0.25</b>	0.29

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity

(thousands of Canadian \$)	Share capital	Contributed surplus	Deficit	Total equity
<b>Balance, April 1, 2019</b>	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
<b>Balance, March 31, 2020</b>	<b>79,851</b>	<b>13,533</b>	<b>(55,015)</b>	<b>38,369</b>
<b>Balance, April 1, 2020</b>	<b>79,851</b>	<b>13,533</b>	<b>(55,015)</b>	<b>38,369</b>
Total comprehensive income for the year	-	-	20,190	20,190
Dividends paid	-	-	(16,055)	(16,055)
Shares issued on redemption of restricted share units (note 16(b))	200	-	-	200
Stock-based compensation:				
Current period expense (note 16(c))	-	718	-	718
<b>Balance, March 31, 2021</b>	<b>80,051</b>	<b>14,251</b>	<b>(50,880)</b>	<b>43,422</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended March 31, (thousands of Canadian \$)	2021	2020
<b>Operating activities</b>		
Net income	20,190	23,485
Adjustments for:		
Depreciation (notes 5 and 6)	4,271	4,360
Deferred income tax recovery (note 15)	(831)	(13)
Stock-based compensation (note 16(c))	2,653	933
Funds flow from operations	26,283	28,765
Movement in non-cash working capital:		
Trade and other receivables	3,038	(7,057)
Trade payables and accrued liabilities	(361)	86
Prepaid expenses	93	317
Income taxes payable	752	(404)
Deferred revenue	(3,377)	(1,177)
Decrease (increase) in non-cash working capital	145	(8,235)
<b>Net cash provided by operating activities</b>	<b>26,428</b>	<b>20,530</b>
<b>Financing activities</b>		
Repayment of lease liability (note 9)	(1,413)	(1,228)
Dividends paid	(16,055)	(32,097)
<b>Net cash used in financing activities</b>	<b>(17,468)</b>	<b>(33,325)</b>
<b>Investing activities</b>		
Property and equipment additions (note 5)	(397)	(990)
<b>Increase (decrease) in cash</b>	<b>8,563</b>	<b>(13,785)</b>
Cash, beginning of period	40,505	54,290
<b>Cash, end of period</b>	<b>49,068</b>	<b>40,505</b>
<b>Supplementary cash flow information</b>		
Interest received (note 14)	374	1,135
Interest paid (notes 9 and 14)	2,074	2,128
Income taxes paid	6,107	7,893

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

For the years ended March 31, 2021 and 2020.

## 1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its common shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The consolidated financial statements as at and for the year ended March 31, 2021 comprise CMG and its subsidiaries (together referred to as the "Company"). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

## 2. Basis of Preparation:

### (a) Statement of Compliance:

These 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, 2021 were authorized for issuance by the Board of Directors on May 19, 2021.

### (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.

Property and equipment – estimates are used in determining useful economic lives of property and equipment for the purposes of calculating depreciation (note 5).

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 9).

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 ("SSP") for distinct performance obligations can also require judgment and estimates. SSP for a performance obligation in a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

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.

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).

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)).

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

### 3. 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	<p>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, software annuity license revenue cannot be recognized upfront and will instead be recognized ratably over the term of the contract.</p> <p>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.</p> <p>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.</p> <p>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 software 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 maintenance from the total annuity agreement fee. Based on this calculation, the standalone selling price of maintenance represents 50% of the total annuity agreement fee, leaving 50% to be allocated to the standalone software annuity license.</p>
Maintenance license revenue	<p>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.</p>
Perpetual license revenue	<p>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.</p>
Professional services revenue	<p>Revenue from professional services consists of consulting, training and contract research activities. Professional services revenue is recognized over time, based on hours incurred.</p>

#### *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 and government grants.

#### **(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 judgments about future events. New information may become available that causes the Company to change its judgment 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 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.

**(q) Government Grants**

Government grants are recognized when the Company has reasonable assurance that it has complied with the relevant conditions of the grant and that it will be received. The Company recognizes the grant against the financial statement line item that it is intended to compensate (note 11).

#### 4. Segmented Information:

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

Property, equipment and right-of-use assets of the Company are located in the following geographic regions (for revenue by geographic region, refer to note 10):

(thousands of \$)	March 31, 2021	March 31, 2020
Canada	46,393	49,957
United States	755	972
South America	325	427
Eastern Hemisphere <sup>(1)</sup>	61	52
	<b>47,534</b>	51,408

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

#### 5. Property and Equipment:

Cost (thousands of \$)	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Total
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
Balance at April 1, 2020	7,154	3,081	13,409	23,644
Additions	367	-	30	397
Disposals	(134)	-	-	(134)
<b>Balance at March 31, 2021</b>	<b>7,387</b>	<b>3,081</b>	<b>13,439</b>	<b>23,907</b>
<b>Accumulated Depreciation</b>				
(thousands of \$)				
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)
Balance at April 1, 2020	(5,879)	(2,116)	(2,142)	(10,137)
Depreciation charge for the year	(731)	(481)	(667)	(1,879)
Disposals	134	-	-	134
<b>Balance at March 31, 2021</b>	<b>(6,476)</b>	<b>(2,597)</b>	<b>(2,809)</b>	<b>(11,882)</b>
<b>Carrying Amounts</b>				
At March 31, 2020	1,275	965	11,267	13,507
<b>At March 31, 2021</b>	<b>911</b>	<b>484</b>	<b>10,630</b>	<b>12,025</b>

## 6. Right-of-Use Assets:

<b>Cost</b> (thousands of \$)	<b>Offices</b>
Balance at April 1, 2019	39,756
Additions	521
Balance at March 31, 2020	40,277
Balance at April 1, 2020	40,277
Disposals	(30)
<b>Balance at March 31, 2021</b>	<b>40,247</b>
<b>Accumulated Depreciation</b> (thousands of \$)	
Balance at April 1, 2019	-
Depreciation charge for the year	(2,376)
Balance at March 31, 2020	(2,376)
Balance at April 1, 2020	(2,376)
Depreciation charge for the year	(2,392)
Disposals	30
<b>Balance at March 31, 2021</b>	<b>(4,738)</b>
<b>Carrying Amounts</b>	
At March 31, 2020	37,901
<b>At March 31, 2021</b>	<b>35,509</b>

## 7. Trade Payables and Accrued Liabilities:

(thousands of \$)	<b>March 31, 2021</b>	March 31, 2020
Trade payables	<b>188</b>	402
Employee salaries, commissions and benefits payable	<b>4,662</b>	3,663
Accrued liabilities and other payables	<b>1,466</b>	1,714
	<b>6,316</b>	5,779

## 8. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

(thousands of \$)	<b>March 31, 2021</b>	March 31, 2020
Balance, beginning of period	<b>33,838</b>	35,015
Invoiced during the period, excluding amounts recognized as revenue during the period	<b>30,171</b>	33,139
Recognition of deferred revenue included in the balance at the beginning of the period	<b>(33,548)</b>	(34,316)
Balance, end of period	<b>30,461</b>	33,838

## 9. 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, 2020	42,375
Interest on lease liability (note 14)	2,074
Lease payments	(3,487)
<b>Balance, March 31, 2021</b>	<b>40,962</b>
Current	<b>1,356</b>
Long-term	<b>39,606</b>

The following table presents contractual undiscounted payments for lease liability as at March 31, 2021:

(thousands of \$)	
Less than one year	3,361
Between one and five years	14,105
More than five years	43,120
<b>Total undiscounted payments</b>	<b>60,586</b>

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

Years ended March 31, (thousands of \$)	2021	2020
Variable lease expense	805	1,081
Short-term lease expense	228	260

## 10. Revenue:

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

Years ended March 31, (thousands of \$)	2021	2020
<b>Annuity/maintenance license revenue</b>		
Canada	12,464	14,977
United States	15,113	19,655
South America	6,164	7,625
Eastern Hemisphere	22,193	21,717
	55,934	63,974
<b>Perpetual license revenue</b>		
Canada	-	-
United States	32	461
South America	1,020	1,280
Eastern Hemisphere	2,567	2,931
	3,619	4,672
<b>Total software license revenue</b>	59,553	68,646
<b>Professional services</b>		
Canada	6,971	6,320
United States	458	325
South America	26	115
Eastern Hemisphere	355	380
	7,810	7,140
<b>Total revenue</b>		
Canada	19,435	21,297
United States	15,603	20,441
South America	7,210	9,020
Eastern Hemisphere	25,115	25,028
	67,363	75,786

The amount of revenue recognized during the year ended March 31, 2021 from performance obligations satisfied (or partially satisfied) in previous periods is \$1.6 million (2020 – \$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, 2021	March 31, 2020
Receivables (included in "Trade and other receivables")	22,812	26,020

During the year ended March 31, 2021, one customer comprised 12.5% of the Company's total revenue (2020 – one customer, 11.1%).

## 11. Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy

As a result of the decline in revenue, CMG became eligible for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs and during the year ended March 31, 2021 recorded a CEWS benefit of \$5.2 million and a CERS benefit of \$0.2 million. The CEWS and CERS benefits were recorded against the financial statement line items that they are intended to compensate, resulting in the following credits to the operating expense categories:

Year ended March 31, (thousands of \$)	2021
Sales, marketing and professional services	(927)
Research and development	(3,654)
General and administrative	(873)
	<b>(5,454)</b>

## 12. Research and Development Costs:

Years ended March 31, (thousands of \$)	2021	2020
Research and development, net of government grants	15,864	20,751
Scientific research and experimental development ("SR&ED") investment tax	(670)	(1,507)
	<b>15,194</b>	<b>19,244</b>

## 13. Personnel Expenses:

Years ended March 31, (thousands of \$)	2021	2020
Salaries, commissions and short-term employee benefits, net of government grants	24,722	32,409
Stock-based compensation (note 16(c))	3,452	1,376
	<b>28,174</b>	<b>33,785</b>

## 14. Finance Income and Finance Costs:

Years ended March 31, (thousands of \$)	2021	2020
Interest income	374	1,127
Net foreign exchange gain	-	1,706
Finance income	<b>374</b>	<b>2,833</b>
Interest expense on lease liability (note 9)	(2,074)	(2,128)
Net foreign exchange loss	(1,943)	-
Finance costs	<b>(4,017)</b>	<b>(2,128)</b>

## 15. Income and Other Taxes:

The major components of income tax expense are as follows:

Years ended March 31, (thousands of \$)	2021	2020
Current year income tax expense	7,083	8,535
Adjustment for prior year	(44)	47
Current income taxes	7,039	8,582
Deferred tax recovery	(831)	(13)
Foreign withholding and other taxes	524	402
	6,732	8,971

During the year ended March 31, 2021, the blended statutory tax rate was 23.5% (2020 – 26%). In May 2019, the Alberta government announced that the provincial corporate income tax rate will be reduced from 12% to 8% over a four-year period. Accordingly, the rate was reduced from 12% to 11% effective July 1, 2019 and from 11% to 10% on January 1, 2020. In October 2020, the previously scheduled tax rate reduction was accelerated, with the tax rate reduced to 8% effective July 1, 2020.

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)	2021	2020
Combined statutory tax rate	23.50%	26.00%
Expected income tax	6,327	8,439
Withholding taxes	253	34
Non-deductible costs	192	281
Adjustment for prior year	(44)	22
Effect of tax rates in foreign jurisdictions	(18)	(7)
Effect of statutory tax rate reduction	(2)	188
Other	24	14
	6,732	8,971

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

(thousands of \$)	March 31, 2021	March 31, 2020
SR&ED investment tax credits	(154)	(274)
Property and equipment	115	50
Right-of-use assets	1,245	999
Stock-based compensation liability	616	217
Net deferred tax asset	1,822	992

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, 2019	80,227
Issued on redemption of restricted share units	22
Balance, March 31, 2020	80,249
Balance, April 1, 2020	80,249
Issued on redemption of restricted share units	37
<b>Balance, March 31, 2021</b>	<b>80,286</b>

### (c) Stock-Based Compensation:

#### Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Years ended March 31, (thousands of \$)	2021	2020
Equity-settled plans	718	725
Cash-settled plans	2,734	651
Total stock-based compensation expense	3,452	1,376

#### Liability Recognized for Stock-Based Compensation <sup>(1)</sup>

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

(thousands of \$)	March 31, 2021	March 31, 2020
SARs	407	15
RSUs	1,641	745
PSUs	204	-
DSUs	426	183
Total stock-based compensation liability	2,678	943
Current, recorded within trade payables and accrued liabilities	1,397	498
Long-term, recorded in long-term stock-based compensation liability	1,281	445

(1) The intrinsic value of the vested awards at March 31, 2021 was \$0.4 million.

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

The maximum number of common shares reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding common shares. Based on this calculation, at March 31, 2021, the Company may reserve up to 8,028,000 common shares for issuance under its security-based compensation plans.

(i) *Stock Option Plan*

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 16, 2020. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. Fifty percent of stock options vest on the first year anniversary from the grant date and then 25% vest on each of the second and third year anniversary dates. Stock options have a five-year life.

The following table outlines changes in stock options:

Years ended March 31,	2021		2020	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of period	3,900	9.64	5,108	11.34
Granted	796	5.10	757	6.37
Forfeited/expired	(1,172)	12.03	(1,965)	12.80
Outstanding at end of period	3,524	7.82	3,900	9.64
Options exercisable at end of period	2,234	8.95	2,704	10.61

The range of exercise prices of stock options outstanding and exercisable at March 31, 2021 is as follows:

Exercise Price (\$/option)	Number of Options (thousands)	Outstanding		Exercisable	
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
5.08 to 6.30	786	4.4	5.08	-	-
6.31 to 6.60	748	3.4	6.32	373	6.32
6.61 to 9.20	497	2.4	9.18	368	9.19
9.21 to 9.33	772	1.4	9.33	772	9.33
9.34 to 10.16	721	0.4	9.79	721	9.79
	<b>3,524</b>	<b>2.4</b>	<b>7.82</b>	<b>2,234</b>	<b>8.95</b>

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

Years ended March 31,	2021	2020
Fair value at grant date (\$/option)	1.00 to 1.50	0.72 to 1.42
Share price at grant date (\$/share)	5.08 to 6.59	6.31 to 8.70
Risk-free interest rate (%)	0.22 to 0.37	1.28 to 1.53
Estimated hold period prior to exercise (years)	3 to 4	3 to 4
Volatility in the price of common shares (%)	35 to 41	28 to 31
Dividend yield per common share (%)	3.06 to 3.71	4.71 to 6.28

(ii) *Share Appreciation Rights Plan*

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

The following table outlines changes in SARs:

Years ended March 31,	2021		2020	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of period	1,152	8.80	952	9.38
Granted	221	5.08	221	6.31
Forfeited	-	-	(21)	9.42
Outstanding at end of period	1,373	8.19	1,152	8.80
SARs exercisable at end of period	948	9.04	657	9.44

(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)	2021			2020		
	RSUs	PSUs	DSUs	RSUs	PSUs	DSUs
Outstanding at beginning of period	421	30	48	237	-	24
Granted	379	63	33	309	30	24
Exercised	(181)	-	(7)	(91)	-	-
Forfeited	(30)	-	-	(34)	-	-
Outstanding at end of period	589	93	74	421	30	48

#### (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)	2021			2020		
	Earnings (\$)	Weighted average shares outstanding	Earnings per share (\$/share)	Earnings (\$)	Weighted average shares outstanding	Earnings per share (\$/share)
Basic	20,190	80,272	0.25	23,485	80,240	0.29
Dilutive effect of share-based awards		207			199	
Diluted	20,190	80,479	0.25	23,485	80,439	0.29

During the year ended March 31, 2021, 116,000 awards (year ended March 31, 2020 – 44,000 awards) 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 the possibility of 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. At March 31, 2021, the Company assessed credit risk related to its accounts receivable, considering the COVID-19 pandemic and the related economic uncertainty facing the oil and gas industry, and established an allowance for doubtful accounts of \$71 thousand (nil at March 31, 2020).

As at March 31, 2021, the Company has a concentration of credit risk with 13 domestic and international customers who represent 75% of trade receivables (2020 – 15 customers; 84%).

The carrying amount of trade and other receivables represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2021 was \$23.2 million (2020 – \$26.3 million). The aging of trade and other receivables at the reporting date was:

(thousands of \$)	March 31, 2021	March 31, 2020
Current	12,077	14,262
31-60 days	1,590	10,466
61-90 days	7,290	1,078
Over 90 days	2,282	471
Balance, end of year	23,239	26,277

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 71% (2020 – 74%) of the Company's revenues for the year ended March 31, 2021 were denominated in US dollars, and at March 31, 2021, approximately US \$13.4 million (2020 – US \$15.5 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 since approximately 28% (2020 – 25%) of the Company's total costs are also denominated in US dollars, they provide a partial economic hedge against the fluctuation in this currency exchange. In addition, the Company manages levels of foreign currency held by converting excess US dollars into Canadian dollars at spot rates.

The Company's operations are exposed to currency risk on US-dollar denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated statement of operations and comprehensive income. It is estimated that a one cent change in the US dollar would result in a net change of approximately \$103,000 to equity and net income for the year ended March 31, 2021. 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, 2021 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, 2021 by approximately \$375,000.

**(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. The company's trade payables are due within one year. At March 31, 2021, the Company has significant cash balances in excess of its obligations and approximately \$1.1 million of the line of credit available for its use (note 20).

**19. Commitments:**

**(a) Research Commitment:**

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

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

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

During the year ended March 31, 2021 the Company recorded professional services revenue of \$6.9 million (year ended March 31, 2020 – \$6.2 million) and CoFlow costs of \$6.7 million to research and development expenses (year ended March 31, 2020 – \$8.7 million).

**(b) Commitments:**

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

(thousands of \$)	March 31, 2021
Less than one year	1,115
Between one and five years	4,509
More than five years	12,836
	<b>18,460</b>

## 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, 2021, \$0.9 million (March 31, 2020 – \$1.0 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	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, 2021. 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 \$)	2021	2020
Salaries, bonus and employee benefits	3,670	3,802
Stock-based compensation	1,387	484
	5,057	4,286

## 23. Subsequent Event:

On May 19, 2021, the Board of Directors declared a quarterly cash dividend of \$0.05 per share on its common shares, payable on June 15, 2021 to all shareholders of record at the close of business on June 7, 2021.