

## To Our Shareholders

Computer Modelling Group Ltd. is very pleased to announce our second quarter results for the three and six months ended September 30, 2016.

### Second Quarter Highlights

Three months ended September 30, (\$ thousands, except per share data)	2016	2015	\$ change	% change
Annuity/maintenance software licenses	<b>15,379</b>	16,790	(1,411)	-8%
Perpetual software licenses	<b>521</b>	1,095	(574)	-52%
Total revenue	<b>16,927</b>	19,125	(2,198)	-11%
Operating profit	<b>6,905</b>	8,160	(1,255)	-15%
Net income	<b>4,991</b>	6,766	(1,775)	-26%
Earnings per share - basic	<b>0.06</b>	0.09	(0.03)	-33%

Six months ended September 30, (\$ thousands, except per share data)	2016	2015	\$ change	% change
Annuity/maintenance software licenses	<b>32,272</b>	33,528	(1,256)	-4%
Perpetual software licenses	<b>1,100</b>	3,658	(2,558)	-70%
Total revenue	<b>35,744</b>	40,565	(4,821)	-12%
Operating profit	<b>15,880</b>	18,654	(2,774)	-15%
Net income	<b>11,805</b>	13,567	(1,762)	-13%
Earnings per share - basic	<b>0.15</b>	0.17	(0.02)	-12%

## 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 November 7, 2016, should be read in conjunction with the unaudited condensed consolidated financial statements and related notes of the Company for the three and six months ended September 30, 2016 and the audited consolidated financial statements and MD&A for the years ended March 31, 2016 and 2015 contained in the 2016 Financial Report for CMG. Additional information relating to CMG, including our Annual Information Form, can be found at [www.sedar.com](http://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.*

## Forward-Looking Information

Certain information included in this MD&A is forward-looking. Forward-looking information includes statements that are not statements of historical fact and which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans and status of the Company's software development projects, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, research and development timetable, and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes that the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

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

- Future software license sales
- The continued financing by and participation of the Company's partners in CoFlow and it being completed in a timely manner
- Ability to enter into additional software license agreements
- Ability to continue current research and new product development
- Ability to recruit and retain qualified staff

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors which are described in the MD&A of CMG's 2016 Financial Report under the heading "Business Risks":

- Economic conditions in the oil and gas industry
- Reliance on key customers
- Foreign exchange
- Economic and political risks in countries where the Company currently does or proposes to do business
- Increased competition
- Reliance on employees with specialized skills or knowledge
- Protection of proprietary rights

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of this MD&A. All subsequent forward-looking information attributable to the Company herein is expressly qualified in its entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to forward-looking information contained in this MD&A to reflect events or circumstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

## Non-IFRS Financial Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as “EBITDA”, “direct employee costs” and “other corporate costs.” Since these measures do not have a standard meaning prescribed by IFRS, they are unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful measures in evaluating the Company’s performance.

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

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

## Corporate Profile

CMG is a computer software technology company serving the oil and gas industry. The Company is a leading supplier of advanced process reservoir modelling software with a blue chip customer base of international oil companies and technology centers in approximately 60 countries. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities. CMG has sales and technical support services based in Calgary, Houston, London, Dubai, Bogota and Kuala Lumpur. CMG’s Common Shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “CMG”.

## Quarterly Performance

(\$ thousands, unless otherwise stated)	Fiscal 2015 <sup>(1)</sup>		Fiscal 2016 <sup>(2)</sup>				Fiscal 2017 <sup>(3)</sup>	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Annuity/maintenance licenses	16,071	16,063	16,738	16,790	17,297	16,980	16,893	<b>15,379</b>
Perpetual licenses	7,150	2,162	2,563	1,095	2,729	782	579	<b>521</b>
Software licenses	23,221	18,225	19,301	17,885	20,026	17,762	17,472	<b>15,900</b>
Professional services	1,985	2,147	2,139	1,240	1,191	1,254	1,345	<b>1,027</b>
Total revenue	25,206	20,372	21,440	19,125	21,217	19,016	18,817	<b>16,927</b>
Operating profit	14,315	8,520	10,494	8,160	10,342	7,040	8,975	<b>6,905</b>
Operating profit (%)	57	42	49	43	49	37	48	<b>41</b>
EBITDA <sup>(4)</sup>	14,717	8,945	10,824	8,519	10,686	7,389	9,277	<b>7,189</b>
Profit before income and other taxes	15,144	11,310	9,742	9,365	10,974	5,550	9,212	<b>7,119</b>
Income and other taxes	4,162	3,361	2,941	2,599	3,121	1,668	2,398	<b>2,128</b>
Net income for the period	10,982	7,949	6,801	6,766	7,853	3,882	6,814	<b>4,991</b>
Cash dividends declared and paid	7,862	7,848	7,876	7,891	7,871	7,876	7,896	<b>7,929</b>
Per share amounts - (\$/share)								
Earnings per share - basic	0.14	0.10	0.09	0.09	0.10	0.05	0.09	<b>0.06</b>
Earnings per share - diluted	0.14	0.10	0.09	0.08	0.10	0.05	0.09	<b>0.06</b>
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	<b>0.10</b>

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

(2) Q1, Q2, Q3 and Q4 of fiscal 2016 include \$1.0 million, \$0.3 million, \$0.7 million and \$0.9 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1 and Q2 of fiscal 2017 include \$1.8 million and \$0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

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

## Highlights

During the six months ended September 30, 2016, as compared to the same period of the previous fiscal year, CMG:

- Experienced a decrease in total revenue of 12%;
- Achieved a reduction in total operating expenses of 9%;
- Maintained spending on research and development at 22% of total revenue.

During the six months ended September 30, 2016, CMG:

- Realized basic earnings per share of \$0.15;
- Declared and paid a regular dividend of \$0.20 per share.

## Revenue

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Software licenses	15,900	17,885	(1,985)	-11%
Professional services	1,027	1,240	(213)	-17%
<b>Total revenue</b>	<b>16,927</b>	<b>19,125</b>	<b>(2,198)</b>	<b>-11%</b>
Software license revenue - % of total revenue	94%	94%		
Professional services - % of total revenue	6%	6%		

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Software licenses	33,372	37,186	(3,814)	-10%
Professional services	2,372	3,379	(1,007)	-30%
<b>Total revenue</b>	<b>35,744</b>	<b>40,565</b>	<b>(4,821)</b>	<b>-12%</b>
Software license revenue - % of total revenue	93%	92%		
Professional services - % of total revenue	7%	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 decreased by 11% and 12% for the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, due to decreases in both software license revenue and professional services.

### Software License Revenue

Software license revenue is made up of annuity/maintenance license fees charged for the use of the Company's software products, which is generally for a term of one year or less, and perpetual software license sales, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. Annuity/maintenance license fees have historically had a high renewal rate and, accordingly, provide a reliable revenue stream, while perpetual license sales are more variable and unpredictable in nature as the purchase decision and its timing fluctuate with the customers' needs and budgets. The majority of CMG's customers who have acquired perpetual software licenses subsequently purchase our maintenance package to ensure ongoing product support and access to current versions of CMG's software.

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance licenses	15,379	16,790	(1,411)	-8%
Perpetual licenses	521	1,095	(574)	-52%
<b>Total software license revenue</b>	<b>15,900</b>	<b>17,885</b>	<b>(1,985)</b>	<b>-11%</b>
Annuity/maintenance as a % of total software license revenue	97%	94%		
Perpetual as a % of total software license revenue	3%	6%		

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Annuity/maintenance licenses	<b>32,272</b>	33,528	(1,256)	-4%
Perpetual licenses	<b>1,100</b>	3,658	(2,558)	-70%
<b>Total software license revenue</b>	<b>33,372</b>	37,186	(3,814)	-10%
Annuity/maintenance as a % of total software license revenue	<b>97%</b>	90%		
Perpetual as a % of total software license revenue	<b>3%</b>	10%		

Total software license revenue decreased by 11% and 10% in the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, due to decreases in both annuity/maintenance revenue and perpetual license sales.

CMG's annuity/maintenance license revenue decreased by 8% during the three months ended September 30, 2016, compared to the same period of the previous fiscal year, mainly due to lower license renewals in Canada.

CMG's annuity/maintenance license revenue decreased by 4% during the six months ended September 30, 2016, compared to the same period of the previous fiscal year, due to decreases in Canada and the United States, partially offset by increases in South America and the Eastern Hemisphere.

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. The dollar magnitude of such contracts may be significant to the quarterly comparatives of our annuity/maintenance revenue stream and, to provide a normalized comparison, we specifically identify the revenue component where revenue recognition is satisfied in the current period for products provided in previous quarters (see the Quarterly Software License Revenue graph). If we were to remove annuity/maintenance revenue that pertains to usage of CMG's products in prior quarters from the six months ended September 30, 2016 and 2015, we will notice that the annuity/maintenance revenue decreased by 6%, instead of decreasing by 4%. (Prior period revenue recognized during the three months ended September 30, 2016 and 2015 was insignificant and, therefore, not normalized for.)

Perpetual license sales decreased by 52% and 70% for the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, due to fewer perpetual sales being realized in all geographic areas. Software licensing under perpetual sales may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of aggregate perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year.

We can observe from the tables below that the exchange rates between the US and Canadian dollars during the three and six months ended September 30, 2016, compared to the same periods of the previous fiscal year, had a positive impact on our reported license revenue.

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

Three months ended September 30, (\$ thousands)		2016	2015	\$ change	% change
US dollar annuity/maintenance license sales	US\$	9,074	10,165	(1,091)	-11%
Weighted average conversion rate		1.348	1.230		
Canadian dollar equivalent	CDN\$	12,232	12,507	(275)	-2%
US dollar perpetual license sales	US\$	399	472	(73)	-15%
Weighted average conversion rate		1.306	1.335		
Canadian dollar equivalent	CDN\$	521	630	(109)	-17%

Six months ended September 30, (\$ thousands)		2016	2015	\$ change	% change
US dollar annuity/maintenance license sales	US\$	19,221	20,624	(1,403)	-7%
Weighted average conversion rate		1.346	1.221		
Canadian dollar equivalent	CDN\$	25,867	25,171	696	3%
US dollar perpetual license sales	US\$	844	2,509	(1,665)	-66%
Weighted average conversion rate		1.302	1.260		
Canadian dollar equivalent	CDN\$	1,100	3,161	(2,061)	-65%

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

Three months ended September 30, (\$ thousands)	2015	Incremental License Growth	Foreign Exchange Impact	2016
Annuity/maintenance license sales	16,790	(2,479)	1,068	15,379
Perpetual license sales	1,095	(563)	(11)	521
Total software license revenue	17,885	(3,042)	1,057	15,900

Six months ended September 30, (\$ thousands)	2015	Incremental License Growth	Foreign Exchange Impact	2016
Annuity/maintenance license sales	33,528	(3,664)	2,408	32,272
Perpetual license sales	3,658	(2,594)	36	1,100
Total software license revenue	37,186	(6,258)	2,444	33,372

**Software Revenue by Geographic Segment**

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
<b>Annuity/maintenance revenue</b>				
Canada	4,677	6,065	(1,388)	-23%
United States	4,171	4,318	(147)	-3%
South America	1,347	1,477	(130)	-9%
Eastern Hemisphere <sup>(1)</sup>	5,184	4,930	254	5%
	<b>15,379</b>	<b>16,790</b>	<b>(1,411)</b>	<b>-8%</b>
<b>Perpetual revenue</b>				
Canada	-	465	(465)	-100%
United States	22	92	(70)	-76%
South America	-	-	-	0%
Eastern Hemisphere	499	538	(39)	-7%
	<b>521</b>	<b>1,095</b>	<b>(574)</b>	<b>-52%</b>
<b>Total software license revenue</b>				
Canada	4,677	6,530	(1,853)	-28%
United States	4,193	4,410	(217)	-5%
South America	1,347	1,477	(130)	-9%
Eastern Hemisphere	5,683	5,468	215	4%
	<b>15,900</b>	<b>17,885</b>	<b>(1,985)</b>	<b>-11%</b>

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
<b>Annuity/maintenance revenue</b>				
Canada	9,455	12,059	(2,604)	-22%
United States	8,212	8,641	(429)	-5%
South America	4,243	3,079	1,164	38%
Eastern Hemisphere <sup>(1)</sup>	10,362	9,749	613	6%
	<b>32,272</b>	<b>33,528</b>	<b>(1,256)</b>	<b>-4%</b>
<b>Perpetual revenue</b>				
Canada	-	496	(496)	-100%
United States	80	1,182	(1,102)	-93%
South America	312	460	(148)	-32%
Eastern Hemisphere	708	1,520	(812)	-53%
	<b>1,100</b>	<b>3,658</b>	<b>(2,558)</b>	<b>-70%</b>
<b>Total software license revenue</b>				
Canada	9,455	12,555	(3,100)	-25%
United States	8,292	9,823	(1,531)	-16%
South America	4,555	3,539	1,016	29%
Eastern Hemisphere	11,070	11,269	(199)	-2%
	<b>33,372</b>	<b>37,186</b>	<b>(3,814)</b>	<b>-10%</b>

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

During the three months ended September 30, 2016, on a geographic basis, total software license sales declined in all geographic segments, with the exception of the Eastern Hemisphere, as compared to the same period of the previous fiscal year.

During the six months ended September 30, 2016, on a geographic basis, total software license sales declined in all geographic segments, with the exception of South America, as compared to the same period of the previous fiscal year.



The Canadian market (representing 28% of year-to-date total software revenue) experienced a 23% and 22% decline in annuity/maintenance license sales during the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, due to a reduction in licensing by some customers. There were no perpetual sales realized in Canada during the three and six months ended September 30, 2016.

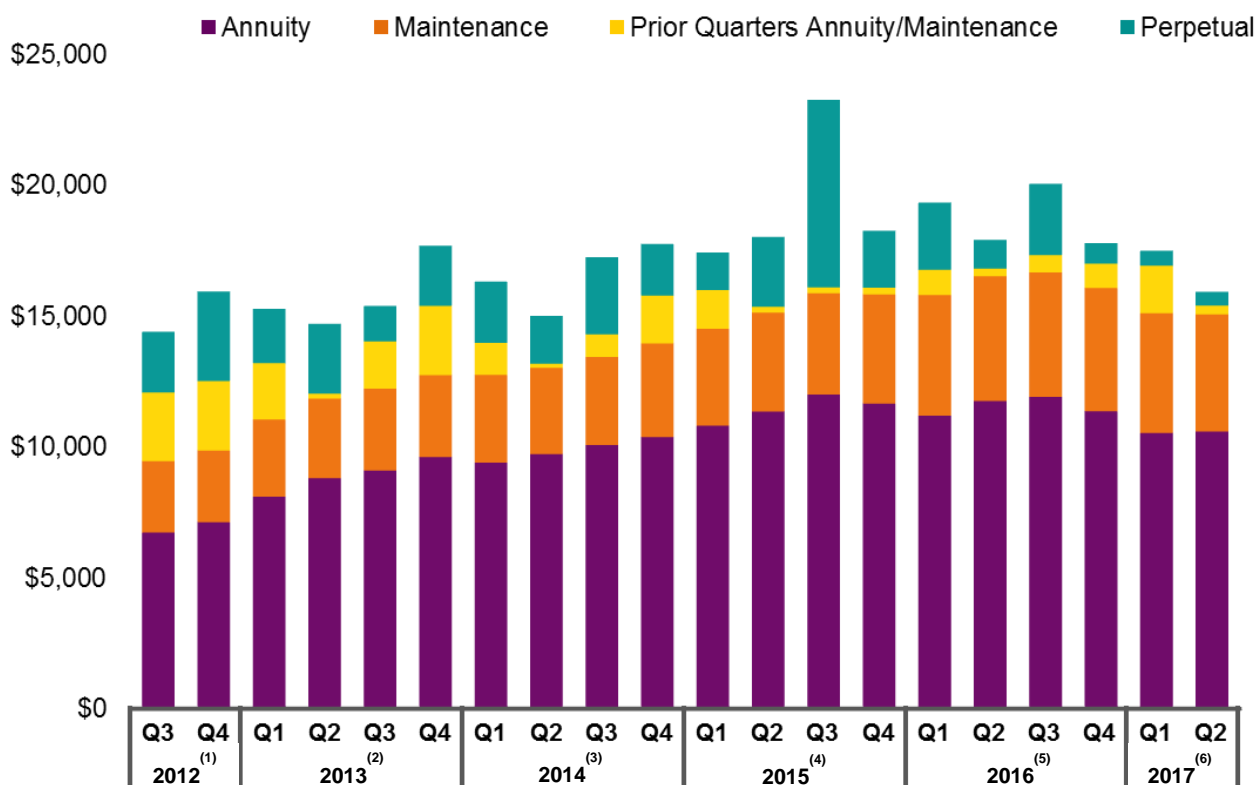
The United States market (representing 25% of year-to-date total software revenue) experienced a 3% and 5% decline in annuity/maintenance license sales during the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, due to decreased spending by existing customers. During the three months ended September 30, 2016, modest perpetual sales were realized in the United States. Perpetual revenue decreased by 93% during the six months ended September 30, 2016, compared to the same period of the previous fiscal year, as a result of a large perpetual sale in the first quarter of the previous fiscal year.

South America (representing 14% of year-to-date total software revenue) experienced a 9% decrease and a 38% increase in annuity/maintenance license sales during the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year. The revenue in the South American region can be impacted by the variability of the amounts recorded from a customer for whom revenue is recognized only when cash is received (see the discussion about revenue earned in the current period that pertains to usage of products in prior quarters in "Software License Revenue"). The most recent payment from this customer was received during the quarter ended June 30, 2016. To provide a normalized comparison, if we were to remove revenue from this particular customer from the six months ended September 30, 2016, we will notice that the annuity/maintenance revenue decreased by 17%, instead of increasing by 38%, as compared to the same period of the previous fiscal year.

While there were no perpetual sales realized in South America during the three months ended September 30, 2016 and 2015, for the six months ended September 30, 2016, the South American region experienced a 32% decrease in perpetual license sales, compared to the same period of the previous fiscal year.

The Eastern Hemisphere (representing 33% of the year-to-date total software revenue) experienced an increase of 5% and 6% in annuity/maintenance license sales during the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, mainly driven by sales to existing customers. Fewer perpetual license sales were realized in the three and six months ended September 30, 2016, compared to the same period of the previous fiscal year.

### Quarterly Software License Revenue (\$thousands)



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

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

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

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

(5) Q1, Q2, Q3 and Q4 of fiscal 2016 include \$1.0 million, \$0.3 million, \$0.7 million, and \$0.9 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(6) Q1 and Q2 of fiscal 2017 include \$1.8 million and \$0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

### Deferred Revenue

	Fiscal 2017	Fiscal 2016	Fiscal 2015	\$ change	% change
(\$ thousands)					
Deferred revenue at:					
Q1 (June 30)	26,154	27,006		(852)	-3%
Q2 (September 30)	20,787	22,608		(1,821)	-8%
Q3 (December 31)		17,243	19,180	(1,937)	-10%
Q4 (March 31)		33,629	32,663	966	3%

CMG's deferred revenue consists primarily of amounts for pre-sold licenses. Our annuity/maintenance revenue is deferred and recognized on a straight-line basis over the life of the related license period, which is generally one year or less. Amounts are deferred for licenses that have been provided and revenue recognition reflects the passage of time.

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

Deferred revenue as at Q2 of fiscal 2017 decreased by 8%, compared to Q2 of fiscal 2016, mainly as a result of reduced licensing in Canada and the United States.

### Professional Services Revenue

CMG recorded professional services revenue of \$1.0 million and \$2.4 million for the three and six months ended September 30, 2016, which represented a decrease of \$0.2 million and \$1.0 million compared to the same periods of the previous fiscal year, due to a decline in project activity by our customers.

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

### Expenses

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Sales, marketing and professional services	4,569	5,237	(668)	-13%
Research and development	3,941	4,227	(286)	-7%
General and administrative	1,512	1,501	11	1%
<b>Total operating expenses</b>	<b>10,022</b>	<b>10,965</b>	<b>(943)</b>	<b>-9%</b>
Direct employee costs <sup>(1)</sup>	8,093	8,739	(646)	-7%
Other corporate costs	1,929	2,226	(297)	-13%
	<b>10,022</b>	<b>10,965</b>	<b>(943)</b>	<b>-9%</b>
Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Sales, marketing and professional services	9,147	10,162	(1,015)	-10%
Research and development	7,750	8,634	(884)	-10%
General and administrative	2,967	3,115	(148)	-5%
<b>Total operating expenses</b>	<b>19,864</b>	<b>21,911</b>	<b>(2,047)</b>	<b>-9%</b>
Direct employee costs <sup>(1)</sup>	16,038	17,735	(1,697)	-10%
Other corporate costs	3,826	4,176	(350)	-8%
	<b>19,864</b>	<b>21,911</b>	<b>(2,047)</b>	<b>-9%</b>

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

CMG's total operating expenses decreased by 9% for the three and six months ended September 30, 2016, compared to the same periods of the previous fiscal year, mainly due to a decrease in direct employee costs.

## Direct Employee Costs

As a technology company, CMG's largest area of expenditure is its people. Approximately 81% of the total operating expenses for six months ended September 30, 2016 related to direct employee costs, consistent with the same period of the previous fiscal year. Staffing levels in the current fiscal year remained unchanged compared to the previous fiscal year. At September 30, 2016, CMG's full-time equivalent staff complement was 207 employees and consultants, slightly down from 208 full-time equivalent employees and consultants as at September 30, 2015. Direct employee costs decreased during the three and six months ended September 30, 2016, compared to the same periods of the previous fiscal year, due to lower bonuses, a decrease in stock-based compensation expense and the closure of the Venezuelan office in May of 2016.

## Other Corporate Costs

Other corporate costs decreased by 13% and 8% for the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, mainly due to less travel for business and training, lower depreciation and higher SR&ED credits (see "Research and Development").

## Research and Development

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Research and development (gross)	4,345	4,614	(269)	-6%
SR&ED credits	(404)	(387)	(17)	4%
Research and development	3,941	4,227	(286)	-7%
Research and development as a % of total revenue	23%	22%		

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Research and development (gross)	8,629	9,379	(750)	-8%
SR&ED credits	(879)	(745)	(134)	18%
Research and development	7,750	8,634	(884)	-10%
Research and development as a % of total revenue	22%	21%		

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

The above research and development costs include \$1.4 million and \$2.7 million of costs for CoFlow for the three and six months ended September 30, 2016, respectively, (2015 – \$1.5 million and \$3.1 million, respectively). See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties."

Research and development costs (gross) decreased by 6% and 8% during the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, mainly as a result of a lower bonus accrual and lower stock-based compensation expense.

SR&ED credits increased by 4% and 18% for the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year, mainly due to an increase in hours spent on SR&ED-eligible projects.

## Depreciation

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	99	133	(34)	-26%
Research and development	154	186	(32)	-17%
General and administrative	31	40	(9)	-23%
<b>Total depreciation</b>	<b>284</b>	<b>359</b>	<b>(75)</b>	<b>-21%</b>

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	220	255	(35)	-14%
Research and development	305	356	(51)	-14%
General and administrative	61	78	(17)	-22%
<b>Total depreciation</b>	<b>586</b>	<b>689</b>	<b>(103)</b>	<b>-15%</b>

Depreciation for the three and six months ended September 30, 2016 decreased slightly, as compared to the same periods of the previous fiscal year.

## Finance Income

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Interest income	148	136	12	9%
Net foreign exchange gain	66	1,069	(1,003)	-94%
<b>Total finance income</b>	<b>214</b>	<b>1,205</b>	<b>(991)</b>	<b>-82%</b>

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Interest income	301	300	1	0%
Net foreign exchange gain	150	153	(3)	-2%
<b>Total finance income</b>	<b>451</b>	<b>453</b>	<b>(2)</b>	<b>0%</b>

Interest income increased slightly in the three months and remained flat in the six months ended September 30, 2016, compared to the same periods of the previous fiscal year.

CMG is impacted by the movement of the US dollar against the Canadian dollar as approximately 78% (2015 – 74%) of CMG's revenue for the six months ended September 30, 2016 is denominated in US dollars, whereas only approximately 25% (2015 – 26%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's US dollar-denominated working capital at September 30, 2016, 2015 and 2014 and the average exchange rates used to translate income statement items during the six months ended September 30, 2016, 2015 and 2014:

CDN\$ to US\$	At June 30	At September 30	Six month trailing average
2014	0.9367	0.8922	0.9166
2015	0.8017	0.7466	0.7820
<b>2016</b>	<b>0.7687</b>	<b>0.7624</b>	<b>0.7713</b>

CMG recorded a net foreign exchange gain of \$0.1 million and \$0.2 million for the three and six months ended September 30, 2016, respectively, compared to a net foreign exchange gain of \$1.1 million and \$0.2 million recorded in the respective periods of the previous fiscal year. A slight strengthening of the US dollar during the three and six months ended September 30, 2016 contributed positively to the valuation of the Company's US dollar-denominated working capital.

### Income and Other Taxes

CMG's effective tax rate for the six months ended September 30, 2016 is reflected as 27.7% (2015 – 29.0%), whereas the prevailing Canadian statutory tax rate is now 27.0%. This difference is primarily due to the non-tax deductibility of stock-based compensation expense, slightly offset by the tax adjustments on the closure of the Venezuelan office.

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

### Operating Profit and Net Income

Three months ended September 30, (\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Total revenue	<b>16,927</b>	19,125	(2,198)	-11%
Operating expenses	<b>(10,022)</b>	(10,965)	943	-9%
Operating profit	<b>6,905</b>	8,160	(1,255)	-15%
Operating profit as a % of total revenue	<b>41%</b>	43%		
Net income for the period	<b>4,991</b>	6,766	(1,775)	-26%
Net income for the period as a % of total revenue	<b>29%</b>	35%		
Basic earnings per share (\$/share)	<b>0.06</b>	0.09	(0.03)	-33%

Six months ended September 30, (\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Total revenue	<b>35,744</b>	40,565	(4,821)	-12%
Operating expenses	<b>(19,864)</b>	(21,911)	2,047	-9%
Operating profit	<b>15,880</b>	18,654	(2,774)	-15%
Operating profit as a % of total revenue	<b>44%</b>	46%		
Net income for the period	<b>11,805</b>	13,567	(1,762)	-13%
Net income for the period as a % of total revenue	<b>33%</b>	33%		
Basic earnings per share (\$/share)	<b>0.15</b>	0.17	(0.02)	-12%

Operating profit as a percentage of total revenue for the three and six months ended September 30, 2016 was 41% and 44%, respectively, which is consistent with the same periods of the previous fiscal year. Both revenue and operating expenses for the three and six months ended September 30, 2016 decreased compared to the same periods of the previous fiscal year. As a result, operating profit as a percentage of total revenue stayed consistent.

Net income for the period as a percentage of revenue decreased to 29% from 35% for the three months ended September 30, 2016, compared to the same period of the previous fiscal year, due to a higher effective tax rate in the current quarter and also due to a large foreign exchange gain recognized in the comparative quarter (see "Finance Income and Costs").

Net income for the period as a percentage of revenue remained unchanged at 33% for the six months ended September 30, 2016, compared to the same period of the previous fiscal year.

## EBITDA

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Net income for the period	<b>4,991</b>	6,766	(1,775)	-26%
Add (deduct):				
Depreciation	<b>284</b>	359	(75)	-21%
Finance income	<b>(214)</b>	(1,205)	991	-82%
Income and other taxes	<b>2,128</b>	2,599	(471)	-18%
EBITDA	<b>7,189</b>	8,519	(1,330)	-16%
EBITDA as a % of total revenue	<b>42%</b>	45%		

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Net income for the period	<b>11,805</b>	13,567	(1,762)	-13%
Add (deduct):				
Depreciation	<b>586</b>	689	(103)	-15%
Finance income	<b>(451)</b>	(453)	2	0%
Income and other taxes	<b>4,526</b>	5,540	(1,014)	-18%
EBITDA	<b>16,466</b>	19,343	(2,877)	-15%
EBITDA as a % of total revenue	<b>46%</b>	48%		

EBITDA decreased by 16% and 15% for the three and six months ended September 30, 2016, respectively, compared to the same periods of the previous fiscal year. EBITDA as a percentage of total revenue decreased slightly for the three and six months ended September 30, 2016, compared to the same periods of the previous fiscal year.

## Liquidity and Capital Resources

Three months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Cash, beginning of period	74,811	79,366	(4,555)	-6%
Cash flow from (used in):				
Operating activities	3,736	1,323	2,413	182%
Financing activities	(5,801)	(13,243)	7,442	-56%
Investing activities	(1,975)	(640)	(1,335)	209%
Cash, end of period	70,771	66,806	3,965	6%

Six months ended September 30, (\$ thousands)	2016	2015	\$ change	% change
Cash, beginning of period	72,680	75,342	(2,662)	-4%
Cash flow from (used in):				
Operating activities	13,273	10,895	2,378	22%
Financing activities	(12,598)	(18,478)	5,880	-32%
Investing activities	(2,584)	(953)	(1,631)	171%
Cash, end of period	70,771	66,806	3,965	6%

### Operating Activities

Cash flow generated from operating activities increased by \$2.4 million in the three and six months ended September 30, 2016, compared to the same periods of the previous fiscal year. This was mainly due to the positive impact of the timing difference of when sales are made and when the resulting receivables are collected, as well as due to lower income tax installments.

### Financing Activities

Cash used in financing activities during the three and six months ended September 30, 2016 decreased by \$7.4 million and \$5.9 million, respectively, compared to the same periods of the previous fiscal year, mainly due to Common Share buy-backs in the second quarter of the previous year.

During the six months ended September 30, 2016, CMG employees and directors exercised options to purchase 476,000 Common Shares, which resulted in cash proceeds of \$3.2 million (2015 – 589,000 options exercised to purchase Common Shares, which resulted in cash proceeds of \$3.7 million).

In the six months ended September 30, 2016, CMG paid \$15.8 million in dividends, representing the following quarterly dividends:

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

In the six months ended September 30, 2015, CMG paid \$15.8 million in dividends, representing the following quarterly dividends:

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



On November 7, 2016, CMG announced the payment of a quarterly dividend of \$0.10 per share on CMG's Common Shares. The dividend will be paid on December 15, 2016 to shareholders of record at the close of business on December 7, 2016.

Based on our expectation of profitability and cash-generating ability, we are cautiously optimistic that the company is well positioned to continue paying quarterly dividends.

On May 21, 2015, the Company announced a Normal Course Issuer Bid ("NCIB") commencing on May 25, 2015 to purchase for cancellation up to 7,447,000 of its Common Shares. This NCIB ended on May 24, 2016, and during the year ended March 31, 2016, 589,000 Common Shares were purchased at market price for a total cost of \$6.9 million (six months ended September 30, 2015 – 538,000 Common Shares were purchased at market price for a total cost of \$6.4 million).

On May 20, 2016, the Company announced a NCIB commencing on May 25, 2016 to purchase for cancellation up to 7,485,000 of its Common Shares. During the three and six months ended September 30, 2016, no Common Shares were purchased.

### Investing Activities

CMG's current needs for capital asset investment relate to computer equipment and office infrastructure costs, all of which will be funded internally. During the six months ended September 30, 2016, CMG spent \$2.6 million on property and equipment additions, primarily composed of computing equipment and leasehold improvements. CMG has a capital budget of \$18.0 million for fiscal 2017, which includes property and equipment additions for the new Calgary headquarters.

### Liquidity and Capital Resources

At September 30, 2016, CMG has \$70.8 million in cash, no debt, and has access to approximately \$0.8 million under a line of credit with its principal banker. The company's primary non-operating uses of cash are for paying dividends and purchasing shares. Over fiscal 2017, we expect to invest approximately \$18.0 million in infrastructure for the new Calgary headquarters.

During the six months ended September 30, 2016, 8,552,000 shares of CMG's public float were traded on the TSX. As at September 30, 2016, CMG's market capitalization based upon its September 30, 2016 closing price of \$9.81 was \$777.9 million.

### Commitments, Off Balance Sheet Items and Transactions with Related Parties

The Company is the operator of CoFlow, a collaborative effort with its partners Shell International Exploration and Production BV ("Shell") and Petroleo Brasileiro S.A. ("Petrobras") to jointly develop the newest generation of reservoir and production system simulation software. The project has been underway since 2006 and is expected to continue until ultimate delivery of the software. Petrobras' financial participation in the joint development project will end in December 2016 and the remaining partners' participation will be sized accordingly. The Company's share of costs associated with the project is estimated to be \$6.5 million (\$3.7 million net of overhead recoveries) for fiscal 2017. CMG plans to continue funding its share of the project costs associated with the development of the newest generation reservoir simulation software system from internally generated cash flows.

CMG has very little in the way of other ongoing material contractual obligations other than pre-sold licenses, which are reflected as deferred revenue on the statement of financial position, and contractual obligations for office leases, which are estimated for our fiscal years as follows: 2017 – \$1.3 million; 2018 – \$3.6 million; 2019 – \$4.7 million; 2020 – \$4.7 million; 2021 – \$4.6 million; thereafter – \$82.0 million. These amounts include a twenty-year operating lease for the new Calgary headquarters, which will commence in fiscal 2018.

## Business Risks and Critical Accounting Estimates

These remain unchanged from the factors detailed in CMG's 2016 Financial Report.

## Changes in Accounting Policies

Accounting policies, presentation and methods of computation remain unchanged from those detailed in CMG's 2016 Financial Report.

## Accounting Standards and Interpretations Issued But Not Yet Effective

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

### IFRS 9 *Financial Instruments*

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

### IFRS 15 *Revenue from Contracts with Customers*

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

### IFRS 16 *Leases*

Replaces the guidance in IAS 17 *Leases* and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. IFRS 16 is effective January 1, 2019, with earlier adoption permitted. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning April 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## Outstanding Share Data

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

### As at November 7, 2016

(thousands)

Common Shares	79,295
Options	7,486

On July 13, 2005, CMG adopted a rolling stock option plan which allows the Company to grant options to its employees, officers and directors to acquire Common Shares of up to 10% of the outstanding Common Shares at the date of grant. Based upon this calculation, at November 7, 2016, CMG could grant up to 7,929,000 stock options.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”) as defined under National Instrument 52-109. These controls and procedures were reviewed and the effectiveness of their design and operation was evaluated in fiscal 2016 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2016. During our fiscal year 2017, we continue to monitor and review our controls and procedures.

During the six months ended September 30, 2016, there have been no significant changes to the Company's ICFR that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## Outlook

During the current quarter and year-to-date, our annuity and maintenance revenue decreased by 8% and 4%, respectively, with decreases in Canada and the United States partially offset by increases in South America (for the year-to-date period) and the Eastern Hemisphere (both for the current quarter and year-to-date). The increase in South America was caused by revenue recognition, in the first quarter of the current fiscal year, on one large contract for which revenue is recognized only when cash is received. Our revenue from foreign regions was positively affected by the strengthening of the US dollar. During the current quarter and year-to-date, we realized fewer perpetual sales than in the same period of the previous fiscal year, reflective of the budgetary cuts by our customers.

Reductions in budgets and activity levels by our customers have affected the utilization levels of our software, resulting in lower revenue. Therefore, we continue to take prudent measures, such as suspending employee recruitment and reducing discretionary spending, to control costs.

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

CMG's joint project to develop CoFlow, the newest generation of dynamic reservoir modelling systems, continued to progress towards the next release, R11, with a heavy focus on identified performance metrics. It is anticipated that R11 will be released to our partner companies, Shell and Petrobras, in December 2016, to be used on target assets selected by our partners. While CMG and its partners remain committed to the ongoing development and the future success of the project, Petrobras has indicated its intention to end its financial participation in the project at the end of calendar 2016 and the remaining partners' participation will be sized in accordance with the development plan for R12.

During the current quarter, we maintained our quarterly dividend of \$0.10 per share.



Kenneth M. Dedeluk  
President and Chief Executive Officer  
November 7, 2016

## Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian \$)	September 30, 2016	March 31, 2016
<b>Assets</b>		
Current assets:		
Cash	70,771	72,680
Trade and other receivables	6,679	21,093
Prepaid expenses	1,203	1,222
Prepaid income taxes (note 7)	1,741	3,173
	<b>80,394</b>	98,168
Property and equipment	5,021	3,245
<b>Total assets</b>	<b>85,415</b>	101,413
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Trade payables and accrued liabilities	4,768	7,527
Income taxes payable (note 7)	226	800
Deferred revenue	20,787	33,629
	<b>25,781</b>	41,956
Deferred tax liability (note 7)	34	199
<b>Total liabilities</b>	<b>25,815</b>	42,155
Shareholders' equity:		
Share capital	69,896	66,007
Contributed surplus	10,870	10,397
Retained earnings (deficit)	(21,166)	(17,146)
<b>Total shareholders' equity</b>	<b>59,600</b>	59,258
<b>Total liabilities and shareholders' equity</b>	<b>85,415</b>	101,413

Subsequent events (notes 8(b) and 14)

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Operations and Comprehensive Income

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
UNAUDITED (thousands of Canadian \$ except per share amounts)				
<b>Revenue</b> (note 4)	<b>16,927</b>	19,125	<b>35,744</b>	40,565
<b>Operating expenses</b>				
Sales, marketing and professional services	<b>4,569</b>	5,237	<b>9,147</b>	10,162
Research and development (note 5)	<b>3,941</b>	4,227	<b>7,750</b>	8,634
General and administrative	<b>1,512</b>	1,501	<b>2,967</b>	3,115
	<b>10,022</b>	10,965	<b>19,864</b>	21,911
<b>Operating profit</b>	<b>6,905</b>	8,160	<b>15,880</b>	18,654
Finance income (note 6)	<b>214</b>	1,205	<b>451</b>	453
<b>Profit before income and other taxes</b>	<b>7,119</b>	9,365	<b>16,331</b>	19,107
Income and other taxes (note 7)	<b>2,128</b>	2,599	<b>4,526</b>	5,540
<b>Net and total comprehensive income</b>	<b>4,991</b>	6,766	<b>11,805</b>	13,567
<b>Earnings Per Share</b>				
Basic (note 8(e))	<b>0.06</b>	0.09	<b>0.15</b>	0.17
Diluted (note 8(e))	<b>0.06</b>	0.08	<b>0.15</b>	0.17

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Changes in Equity

UNAUDITED (thousands of Canadian \$)	Common Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
<b>Balance, April 1, 2015</b>	59,397	8,561	(4,502)	63,456
Total comprehensive income for the period	-	-	13,567	13,567
Dividends paid	-	-	(15,767)	(15,767)
Shares issued for cash on exercise of stock options (note 8(b))	3,733	-	-	3,733
Common shares buy-back (notes 8(b) & (c))	(432)	-	(6,012)	(6,444)
Stock-based compensation:				
Current period expense	-	1,626	-	1,626
Stock options exercised (note 8(b))	662	(662)	-	-
<b>Balance, September 30, 2015</b>	<b>63,360</b>	<b>9,525</b>	<b>(12,714)</b>	<b>60,171</b>
<b>Balance, April 1, 2016</b>	<b>66,007</b>	<b>10,397</b>	<b>(17,146)</b>	<b>59,258</b>
Total comprehensive income for the period	-	-	11,805	11,805
Dividends paid	-	-	(15,825)	(15,825)
Shares issued for cash on exercise of stock options (note 8(b))	3,227	-	-	3,227
Stock-based compensation:				
Current period expense	-	1,135	-	1,135
Stock options exercised (note 8(b))	662	(662)	-	-
<b>Balance, September 30, 2016</b>	<b>69,896</b>	<b>10,870</b>	<b>(21,166)</b>	<b>59,600</b>

See accompanying notes to condensed consolidated interim financial statements.

## Condensed Consolidated Statements of Cash Flows

	Three months ended		Six months ended	
	September 30		September 30	
	2016	2015	2016	2015
UNAUDITED (thousands of Canadian \$)				
<b>Cash flows from operating activities</b>				
Net income	4,991	6,766	11,805	13,567
Adjustments for:				
Depreciation	284	359	586	689
Income and other taxes (note 7)	2,128	2,599	4,526	5,540
Stock-based compensation (note 8(d))	572	745	1,167	1,626
Interest income (note 6)	(148)	(136)	(301)	(300)
	7,827	10,333	17,783	21,122
Changes in non-cash working capital:				
Trade and other receivables	3,378	(2,280)	15,197	10,065
Trade payables and accrued liabilities	(284)	932	(2,568)	(1,993)
Prepaid expenses	(116)	(30)	19	44
Deferred revenue	(5,367)	(4,398)	(12,842)	(10,055)
Cash generated from operating activities	5,438	4,557	17,589	19,183
Interest received	151	151	301	314
Income taxes paid	(1,853)	(3,385)	(4,617)	(8,602)
<b>Net cash from operating activities</b>	<b>3,736</b>	<b>1,323</b>	<b>13,273</b>	<b>10,895</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of common shares	2,128	1,092	3,227	3,733
Dividends paid	(7,929)	(7,891)	(15,825)	(15,767)
Common shares buy-back (note 8(b) & (c))	-	(6,444)	-	(6,444)
<b>Net cash used in financing activities</b>	<b>(5,801)</b>	<b>(13,243)</b>	<b>(12,598)</b>	<b>(18,478)</b>
<b>Cash flows used in investing activities</b>				
Property and equipment additions	(1,975)	(640)	(2,584)	(953)
<b>Decrease in cash</b>	<b>(4,040)</b>	<b>(12,560)</b>	<b>(1,909)</b>	<b>(8,536)</b>
Cash, beginning of period	74,811	79,366	72,680	75,342
<b>Cash, end of period</b>	<b>70,771</b>	<b>66,806</b>	<b>70,771</b>	<b>66,806</b>

See accompanying notes to condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Financial Statements

For the three and six months ended September 30, 2016 and 2015 (unaudited).

## 1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its Common Shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is Suite 200, 1824 Crowchild Trail N.W., Calgary, Alberta, Canada, T2M 3Y7. The condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2016 comprise CMG and its subsidiaries (together referred to as the "Company"). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

## 2. Basis of Preparation:

### (a) Statement of Compliance:

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's most recent annual consolidated financial statements as at and for the year ended March 31, 2016 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and using the accounting policies disclosed in note 3 of the Company's annual consolidated financial statements as at and for the year ended March 31, 2016.

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2016 were authorized for issuance by the Board of Directors on November 7, 2016.

### (b) Basis of Measurement:

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

### (d) Use of Estimates, Judgments and Assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses for the period. Estimates and underlying assumptions are based on historical experience and other assumptions that are considered reasonable in the circumstances and are reviewed on an on-going basis. Actual results may differ from such estimates and it is possible that the differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are the same as those applied in the annual IFRS consolidated financial statements for the year ended March 31, 2016.



### 3. Significant Accounting Policies:

The condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended March 31, 2016 prepared in accordance with IFRS applicable to those annual consolidated financial statements. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the Company's consolidated financial statements for the year ended March 31, 2016.

### 4. Revenue:

Three months ended September 30, (thousands of \$)	2016	2015
Software licenses	15,900	17,885
Professional services	1,027	1,240
	<b>16,927</b>	19,125

Six months ended September 30, (thousands of \$)	2016	2015
Software licenses	33,372	37,186
Professional services	2,372	3,379
	<b>35,744</b>	40,565

### 5. Research and Development:

Three months ended September 30, (thousands of \$)	2016	2015
Research and development	4,345	4,614
Scientific research and experimental development ("SR&ED") investment tax credits	(404)	(387)
	<b>3,941</b>	4,227

Six months ended September 30, (thousands of \$)	2016	2015
Research and development	8,629	9,379
Scientific research and experimental development ("SR&ED") investment tax credits	(879)	(745)
	<b>7,750</b>	8,634

## 6. Finance Income:

Three months ended September 30, (thousands of \$)	2016	2015
Interest income	148	136
Net foreign exchange gain	66	1,069
Finance income	214	1,205

Six months ended September 30, (thousands of \$)	2016	2015
Interest income	301	300
Net foreign exchange gain	150	153
Finance income	451	453

## 7. Income and Other Taxes:

The major components of income tax expense are as follows:

Six months ended September 30, (thousands of \$)	2016	2015
Current year income taxes	4,833	5,688
Adjustment for prior year	43	-
Current income taxes	4,876	5,688
Deferred tax recovery	(166)	(210)
Foreign withholding and other taxes	(184)	62
	4,526	5,540

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:

Six months ended September 30, (thousands of \$, unless otherwise stated)	2016	2015
Combined statutory rate	27.00%	26.50%
Expected income tax	4,409	5,064
Non-deductible costs	328	448
Effect of tax rates in foreign jurisdictions	10	43
Withholding taxes	(181)	34
Adjustment for prior year	43	-
Other	(83)	(49)
	4,526	5,540

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

(thousands of \$)	September 30, 2016	March 31, 2016
Tax liability on SR&ED investment tax credits	(136)	(287)
Tax asset on property and equipment	102	88
Net deferred tax asset (liability)	(34)	(199)

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.

## 8. 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, 2015	78,487
Issued for cash on exercise of stock options	589
Common shares buy-back	(538)
Balance, September 30, 2015	78,538
Balance, April 1, 2016	78,819
Issued for cash on exercise of stock options	476
<b>Balance, September 30, 2016</b>	<b>79,295</b>

Subsequent to September 30, 2016, 350 stock options were exercised for cash proceeds of \$2,000.

On May 20, 2015, the Board of Directors considered the merits of renewing the Company's shareholder rights plan on or before the third-year anniversary of shareholder approval of the plan and determined that it was in the best interest of the Company to continue to have a shareholder rights plan in place. Upon careful review, the Board of Directors agreed to approve an amended and restated rights plan (the "Amended and Restated Rights Plan") between the Company and Valiant Trust Company (which has since been succeeded by Computershare Trust Company of Canada as the Company's transfer agent and registrar). The Amended and Restated Rights Plan is similar in all respects to the existing shareholder rights plan, with the exception of certain minor amendments. The Amended and Restated Rights Plan was approved by the Company's shareholders on July 9, 2015.

### (c) Common Shares Buy-back:

On May 21, 2015, the Company announced a Normal Course Issuer Bid ("NCIB") commencing on May 25, 2015 to purchase for cancellation up to 7,447,000 of its Common Shares. This NCIB ended on May 24, 2016, and during the year ended March 31, 2016, 589,000 Common Shares were purchased at market price for a total cost of \$6,906,000 (six months ended September 30, 2015 – 538,000 Common Shares were purchased at market price for a total cost of \$6,444,000).

On May 20, 2016, the Company announced a NCIB commencing on May 25, 2016 to purchase for cancellation up to 7,485,000 of its Common Shares. During the three and six months ended September 30, 2016, no Common Shares were purchased.

### (d) Stock-Based Compensation:

#### (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 10, 2014, which allows it to grant options to acquire Common Shares of up to 10% of the outstanding Common Shares at the date of grant. Based upon this calculation, at September 30, 2016, the Company could grant up to 7,929,000 stock options. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. The outstanding stock options vest as to 50% after the first year anniversary from date of grant and then vest as to 25% of the total options granted after each of the second and third year anniversary dates.

The following table outlines changes in stock options:

	Six months ended September 30, 2016		Year ended March 31, 2016	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of period	7,182	11.54	7,000	10.76
Granted	903	9.79	1,265	12.32
Exercised	(476)	6.78	(921)	6.52
Forfeited/expired	(103)	11.93	(162)	12.48
Outstanding at end of period	7,506	11.63	7,182	11.54
Options exercisable at end of period	5,474	11.72	4,379	10.89

The range of exercise prices of stock options outstanding and exercisable at September 30, 2016 is as follows:

Exercise Price (\$/option)	Outstanding			Exercisable	
	Number of Options (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)
6.88 to 9.55	1,264	0.9	9.09	1,264	9.09
9.56 to 9.78	891	4.9	9.78	-	-
9.79 to 12.26	2,115	1.9	12.18	2,094	12.19
12.27 to 12.85	1,231	3.9	12.32	615	12.32
12.86 to 14.97	2,005	2.9	13.04	1,501	13.04
	7,506	2.7	11.63	5,474	11.72

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

	Six months ended September 30, 2016	Year ended March 31, 2016
Fair value at grant date (\$/option)	1.46 to 1.54	1.44 to 2.39
Share price at grant date (\$/share)	9.78 to 10.16	11.06 to 13.98
Risk-free interest rate (%)	0.52 to 0.73	0.41 to 0.87
Estimated hold period prior to exercise (years)	3 to 4	2 to 4
Volatility in the price of common shares (%)	29 to 31	25 to 28
Dividend yield per common share (%)	4.03 to 4.07	2.92 to 3.69

(ii) *Share Appreciation Rights Plan*

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

The following table outlines changes in SARs:

	Six months ended September 30, 2016		Year ended March 31, 2016	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of period	-	-	-	-
Granted	222	9.78	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	222	9.78	-	-
SARs exercisable at end of period	-	-	-	-

### Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Three months ended September 30, (thousands of \$)	2016	2015
Stock option plan	540	745
Share appreciation rights plan	32	-
Total stock-based compensation expense	572	745

Six months ended September 30, (thousands of \$)	2016	2015
Stock option plan	1,135	1,626
Share appreciation rights plan	32	-
Total stock-based compensation expense	1,167	1,626

### Liability Recognized for Share-Based Compensation

The fair value of SARs recorded in trade payables and accrued liabilities was \$32,000 at September 30, 2016 (\$nil at March 31, 2016).

**(e) Earnings Per Share:**

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

Three months ended September 30, (thousands except per share amounts)	2016			2015		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	4,991	79,159	0.06	6,766	78,995	0.09
Dilutive effect of stock options		130			767	
Diluted	4,991	79,289	0.06	6,766	79,762	0.08

Six months ended September 30, (thousands except per share amounts)	2016			2015		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	11,805	79,019	0.15	13,567	78,816	0.17
Dilutive effect of stock options		187			941	
Diluted	11,805	79,206	0.15	13,567	79,757	0.17

During the three and six months ended September 30, 2016, Nil and 125,000 options, respectively (three and six months ended September 30, 2015 – 147,000 and 141,000 options, respectively), were excluded from the computation of the weighted-average number of diluted shares outstanding because their effect was not dilutive.

**9. Financial Instruments:**

Financial assets include cash and trade and other receivables which are classified as loans and receivables and are measured at amortized cost which approximates their fair values.

Financial liabilities include trade payables and accrued liabilities which are classified as other financial liabilities and are measured at amortized cost which approximates their fair values.

**10. Commitments:**

**(a) Research Commitments:**

The Company is the operator of a joint project, a collaborative effort with its partners Shell International Exploration and Production BV (“Shell”) and Petroleo Brasileiro S.A. (“Petrobras”), to jointly develop CoFlow, the newest generation of reservoir and production system simulation software (note 13). The Company’s share of costs associated with the project is estimated to be \$6.5 million (\$3.7 million net of overhead recoveries) for fiscal 2017.

**(b) Lease Commitments:**

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

As at September 30, (thousands of \$)	2016	2015
Less than one year	2,499	2,203
Between one and five years	18,660	16,065
More than five years	79,667	84,311
	<b>100,826</b>	<b>102,579</b>

The Company entered into a twenty year operating lease commitment relating to its new Calgary headquarters commencing in calendar 2017. The minimum annual lease payments have been reflected in the above schedule. In addition to the operating lease commitment, the Company expects to invest approximately \$18.0 million in infrastructure for the new headquarters in fiscal 2017. This estimate is based on the Company's assessment of its infrastructure requirements and the contractors' current rates.

**11. Line Of Credit:**

The Company has arranged for a \$1.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility or may be used to support letters of credit. As at September 30, 2016, US \$215,000 (March 31, 2016 – US \$215,000) had been reserved on this line of credit for letters of credit supporting a performance bond.

**12. Segmented Information:**

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

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

(thousands of \$)	Revenue		Property and equipment	
	Six months ended September 30, 2016	2015	As at September 30, 2016	2015
Canada	10,559	14,003	4,555	2,345
United States	8,404	10,023	220	282
South America	5,372	4,901	197	283
Eastern Hemisphere <sup>(1)</sup>	11,409	11,638	49	72
	<b>35,744</b>	<b>40,565</b>	<b>5,021</b>	<b>2,982</b>

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

In the six months ended September 30, 2016 and 2015, no customer represented 10% or more of total revenue.

**13. Joint Operation:**

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

For the three and six months ended September 30, 2016, CMG included \$1.4 million and \$2.7 million, respectively (three and six months ended September 30, 2015 - \$1.5 million and \$3.1 million, respectively) of costs in its condensed consolidated statements of operations and comprehensive income related to this joint project.

Additionally, the Company is entitled to charge its partners for various services provided as operator, which were recorded in revenue as professional services and amounted to \$0.7 million and \$1.5 million during the three and six months ended September 30, 2016, respectively (three and six months ended September 30, 2015 - \$0.7 million and \$1.5 million, respectively).

#### **14. Subsequent Event:**

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



# CORPORATE INFORMATION

## DIRECTORS

**Kenneth M. Dedeluk**

**Christopher L. Fong** <sup>(3)</sup>

**Patrick R. Jamieson** <sup>(5)</sup>

**Peter H. Kinash** <sup>(3) (5)</sup>

**Frank L. Meyer**

Chairman of the Board

**Robert F. M. Smith** <sup>(2)</sup>

**John B. Zaozirny** <sup>(1) (4)</sup>

(1) Lead Director

(2) Chair, Audit Committee

(3) Member, Audit Committee

(4) Chair, Governance Committee

(5) Member, Governance Committee

## OFFICERS

**Kenneth M. Dedeluk**

President & CEO

**Sandra Balic**

Vice President,  
Finance & CFO

**Ryan N. Schneider**

Chief Operating Officer

**Robert R. Eastick**

Vice President,  
CoFlow

**Jim C. Erdle**

Vice President,  
USA & Latin America

**R. David Hicks**

Vice President,  
Eastern Hemisphere

**Anjani Kumar**

Vice President,  
Engineering Solutions and Marketing

**Long X. Nghiem**

Vice President,  
Research & Development

**Kathy L. Krug**

Corporate Secretary

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## REGIONAL OFFICES

Bogota, Colombia

Dubai, UAE

Houston, Texas, USA

Kuala Lumpur, Malaysia

London, England

Rio de Janeiro, Brazil

## TRANSFER AGENT

Computershare Trust Company of  
Canada

## STOCK EXCHANGE LISTING

Toronto Stock Exchange: **CMG**