

Q2 2018
for the period ended September 30, 2017



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, 2017.

Second Quarter Highlights

Three months ended September 30, (\$ thousands, except per share data)	2017	2016	\$ change	% change
Annuity/maintenance software licenses	16,341	15,379	962	6%
Perpetual software licenses	290	521	(231)	-44%
Total revenue	17,981	16,927	1,054	6%
Operating profit	6,615	6,905	(290)	-4%
Net income	4,606	4,991	(385)	-8%
Earnings per share - basic	0.06	0.06	-	0%
Funds flow from operations per share - basic ⁽¹⁾	0.07	0.07	-	0%

Six months ended September 30, (\$ thousands, except per share data)	2017	2016	\$ change	% change
Annuity/maintenance software licenses	32,857	32,272	585	2%
Perpetual software licenses	1,368	1,100	268	24%
Total revenue	36,967	35,744	1,223	3%
Operating profit	13,593	15,880	(2,287)	-14%
Net income	9,563	11,805	(2,242)	-19%
Earnings per share - basic	0.12	0.15	(0.03)	-20%
Funds flow from operations per share - basic ⁽¹⁾	0.15	0.16	(0.01)	-6%

(1) Funds flow from operations is a non-IFRS financial measure that represents net income adjusted for depreciation expense, non-cash stock-based compensation expense and deferred tax expense (recovery). See "Non-IFRS Financial Measures".

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 8, 2017, should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes of the Company for the three and six months ended September 30, 2017 and 2016. Additional information relating to CMG, including our Annual Information Form, can be found at www.sedar.com. The financial data contained herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise indicated, all amounts in this report are expressed in Canadian dollars.

Forward-looking Information

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

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

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

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

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

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

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", "other corporate costs" and "funds flow from operations". 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.

“Funds flow from operations” is a non-IFRS financial measure that represents net income adjusted for certain non-cash items, such as depreciation expense, stock-based compensation expense, deferred tax expense (recovery) and deferred rent. The Company considers funds flow from operations a useful measure as it represents the cash generated during the period, regardless of the timing of collection of receivables and payment of payables, and demonstrates the Company’s ability to generate the cash flow necessary to fund future growth and dividend payments. Funds flow from operations may not be comparable to similar measures presented by other companies.

Funds Flow from Operations, as Reconciled to Net Income

(\$ thousands)	Fiscal 2016		Q1	Q2	Fiscal 2017		Q1	Fiscal 2018	
	Q3	Q4			Q3	Q4		Q1	Q2
Net income for the period	7,853	3,882	6,814	4,991	7,259	5,205	4,957		4,606
Non-cash items:									
Depreciation	344	349	302	284	270	237	469		475
Stock-based compensation	650	642	595	572	465	512	464		530
Deferred tax expense (recovery)	134	106	(222)	56	90	131	(513)		(170)
Deferred rent	-	-	-	-	-	-	828		347
Funds flow from operations	8,981	4,979	7,489	5,903	8,084	6,085	6,205		5,788

Funds flow from operations can also be derived by adjusting the IFRS measure Net Cash Provided by Operating Activities presented in the Company’s consolidated statements of cash flows for the net change in non-cash working capital and the difference between income tax expense accrued and paid and interest income accrued and received. Accordingly, the Company has provided a second reconciliation “Adjusted Funds Flow from Operations, as Reconciled to Net Cash Provided by Operating Activities”:

Funds Flow from Operations, as Reconciled to Net Cash Provided by Operating Activities

(\$ thousands)	Fiscal 2016		Q1	Q2	Fiscal 2017		Q1	Fiscal 2018 Q2
	Q3	Q4			Q3	Q4		
Net cash provided by (used in) operating activities	6,281	14,489	9,537	3,736	(2,568)	18,140	11,132	(4,027)
Net change in non-cash working capital	2,391	(11,102)	(2,195)	2,389	12,344	(11,309)	(5,483)	8,906
Current income tax expense	(2,987)	(1,562)	(2,620)	(2,072)	(2,827)	(2,349)	(2,486)	(1,817)
Income taxes paid	3,297	3,146	2,764	1,853	1,141	1,620	3,038	2,727
Interest income	116	133	153	148	136	114	202	218
Interest received	(117)	(125)	(150)	(151)	(142)	(131)	(198)	(219)
Funds flow from operations	8,981	4,979	7,489	5,903	8,084	6,085	6,205	5,788

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 2016 ⁽¹⁾		Q1	Q2	Fiscal 2017 ⁽²⁾		Q1	Fiscal 2018 ⁽³⁾ Q2
	Q3	Q4			Q3	Q4		
Annuity/maintenance licenses	17,297	16,980	16,893	15,379	18,378	14,613	16,516	16,341
Perpetual licenses	2,729	782	579	521	835	3,036	1,078	290
Software licenses	20,026	17,762	17,472	15,900	19,213	17,649	17,594	16,631
Professional services	1,191	1,254	1,345	1,027	1,082	1,409	1,392	1,350
Total revenue	21,217	19,016	18,817	16,927	20,295	19,058	18,986	17,981
Operating profit	10,342	7,040	8,975	6,905	9,811	7,630	6,978	6,615
Operating profit (%)	49	37	48	41	48	40	37	37
EBITDA ⁽⁴⁾	10,686	7,389	9,277	7,189	10,081	7,867	7,447	7,090
Profit before income and other taxes	10,974	5,550	9,212	7,119	10,176	7,685	6,930	6,253
Income and other taxes	3,121	1,668	2,398	2,128	2,917	2,480	1,973	1,647
Net income for the period	7,853	3,882	6,814	4,991	7,259	5,205	4,957	4,606
Cash dividends declared and paid	7,871	7,876	7,896	7,929	7,930	7,942	7,977	8,021
Funds flow from operations ⁽⁵⁾	8,981	4,979	7,489	5,903	8,084	6,085	6,205	5,788
Per share amounts - (\$/share)								
Earnings per share - basic	0.10	0.05	0.09	0.06	0.09	0.07	0.06	0.06
Earnings per share - diluted	0.10	0.05	0.09	0.06	0.09	0.07	0.06	0.06
Cash dividends declared and paid	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Funds flow from operations per share - basic ⁽⁵⁾	0.11	0.06	0.09	0.07	0.10	0.08	0.08	0.07

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

(2) Q1, Q2, Q3 and Q4 of fiscal 2017 include \$1.8 million, \$0.3 million, \$3.7 million, and \$0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1 and Q2 of fiscal 2018 include \$1.5 million and \$1.0 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

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

(5) Funds flow from operations is a non-IFRS financial measure that represents net income adjusted for depreciation expense, non-cash stock-based compensation expense and deferred tax expense (recovery). See "Non-IFRS Financial Measures".

Highlights

During the six months ended September 30, 2017, as compared to the same period of the previous fiscal year, CMG:

- Increased annuity/maintenance license revenue by 2%;
- Increased total software license revenue by 3%;
- Experienced an increase in total operating expenses of 18%, mainly due to moving into the new headquarters.

During the six months ended September 30, 2017, CMG:

- Realized basic earnings per share of \$0.12;
- Declared and paid a regular dividend of \$0.20 per share.

Revenue

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Software license revenue	16,631	15,900	731	5%
Professional services	1,350	1,027	323	31%
Total revenue	17,981	16,927	1,054	6%
Software license revenue - % of total revenue	92%	94%		
Professional services - % of total revenue	8%	6%		

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Software license revenue	34,225	33,372	853	3%
Professional services	2,742	2,372	370	16%
Total revenue	36,967	35,744	1,223	3%
Software license revenue - % of total revenue	93%	93%		
Professional services - % of total revenue	7%	7%		

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 increased by 6% and 3% for the three and six months ended September 30, 2017, respectively, compared the same periods of the previous fiscal year, due to increases 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)	2017	2016	\$ change	% change
Annuity/maintenance license revenue	16,341	15,379	962	6%
Perpetual license revenue	290	521	(231)	-44%
Total software license revenue	16,631	15,900	731	5%
Annuity/maintenance as a % of total software license revenue	98%	97%		
Perpetual as a % of total software license revenue	2%	3%		

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Annuity/maintenance license revenue	32,857	32,272	585	2%
Perpetual license revenue	1,368	1,100	268	24%
Total software license revenue	34,225	33,372	853	3%
Annuity/maintenance as a % of total software license revenue	96%	97%		
Perpetual as a % of total software license revenue	4%	3%		

Total software license revenue increased by 5% for the three months ended September 30, 2017, compared to the same period of the previous fiscal year, due to an increase in annuity/maintenance license revenue, partially offset by a decrease in perpetual license revenue.

Total software license revenue increased by 3% for the six months ended September 30, 2017, compared to the same period of the previous fiscal year, due to increases in both annuity/maintenance license revenue and perpetual license revenue.

CMG's annuity/maintenance license revenue increased by 6% and 2% during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, primarily due to increases in South America and the United States.

Our annuity/maintenance license revenue can be significantly impacted by the variability of the amounts recorded from a long-standing customer and its affiliates for whom revenue recognition criteria are fulfilled only at the time of the receipt of funds (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters above the "Quarterly Software License Revenue" graph). The timing of such payments may skew the comparison of annuity/maintenance license revenue between periods. We received payments from these customers during the six months ended September 30, 2017 and during the three months ended June 30, 2016. To provide a normalized comparison, if we remove this revenue from the three months ended September 30, 2017 and 2016, we note that the annuity/maintenance license revenue increased by 1% instead of 6%. Normalizing the annuity/maintenance revenue for the six months ended September 30, 2017 and 2016 has no impact on the percentage of increase. Due to the economic conditions in the country where this customer and its affiliates are located, revenue from this customer and its affiliates will continue to be recognized on a cash basis, which may result in fluctuations in our annuity/maintenance license revenue.

Perpetual license revenue decreased by 44% for the three months ended September 30, 2017, compared to the same period of the previous fiscal year, due to fewer perpetual sales having been realized in the Eastern Hemisphere. Perpetual license revenue increased by 24% for the six months ended September 30, 2017, compared to the same period of the previous fiscal year, mainly due to high perpetual license revenue in the Eastern Hemisphere in the first quarter of the current fiscal year. Software licensing under perpetual sales may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of aggregate perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year.

We can observe from the tables below that the exchange rate between the US and Canadian dollars during the three months ended September 30, 2017, compared to the same period of the previous fiscal year, had a negative impact on reported

software license revenue. During the six months ended September 30, 2017, the exchange rate had a negative impact on reported annuity/maintenance license revenue and a slight positive impact on perpetual license revenue because the majority of perpetual license sales were realized during the first quarter of the current fiscal year, when the US dollar was stronger.

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)		2017	2016	\$ change	% change
US dollar annuity/maintenance license revenue	US\$	9,860	9,074	786	9%
Weighted average conversion rate		1.320	1.348		
Canadian dollar equivalent	CDN\$	13,014	12,232	782	6%
US dollar perpetual license revenue	US\$	230	399	(169)	-42%
Weighted average conversion rate		1.265	1.306		
Canadian dollar equivalent	CDN\$	291	521	(230)	-44%
Six months ended September 30, (\$ thousands)		2017	2016	\$ change	% change
US dollar annuity/maintenance license revenue	US\$	19,902	19,221	681	4%
Weighted average conversion rate		1.326	1.346		
Canadian dollar equivalent	CDN\$	26,381	25,867	514	2%
US dollar perpetual license revenue	US\$	1,030	844	186	22%
Weighted average conversion rate		1.328	1.302		
Canadian dollar equivalent	CDN\$	1,368	1,100	268	24%

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

Three months ended September 30, (\$ thousands)	2016	Incremental License Growth	Foreign Exchange Impact	2017
Annuity/maintenance license revenue	15,379	1,239	(277)	16,341
Perpetual license revenue	521	(221)	(10)	290
Total software license revenue	15,900	1,018	(287)	16,631
Six months ended September 30, (\$ thousands)	2016	Incremental License Growth	Foreign Exchange Impact	2017
Annuity/maintenance license revenue	32,272	988	(403)	32,857
Perpetual license revenue	1,100	241	27	1,368
Total software license revenue	33,372	1,229	(376)	34,225

Software Revenue by Geographic Segment

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Annuity/maintenance license revenue				
Canada	4,462	4,677	(215)	-5%
United States	4,466	4,171	295	7%
South America	2,412	1,347	1,065	79%
Eastern Hemisphere ⁽¹⁾	5,001	5,184	(183)	-4%
	16,341	15,379	962	6%
Perpetual license revenue				
Canada	-	-	-	0%
United States	129	22	107	486%
South America	62	-	62	100%
Eastern Hemisphere	99	499	(400)	-80%
	290	521	(231)	-44%
Total software license revenue				
Canada	4,462	4,677	(215)	-5%
United States	4,595	4,193	402	10%
South America	2,474	1,347	1,127	84%
Eastern Hemisphere	5,100	5,683	(583)	-10%
	16,631	15,900	731	5%
Six months ended September 30, (\$ thousands)				
Annuity/maintenance license revenue				
Canada	8,626	9,455	(829)	-9%
United States	9,057	8,212	845	10%
South America	4,745	4,243	502	12%
Eastern Hemisphere ⁽¹⁾	10,429	10,362	67	1%
	32,857	32,272	585	2%
Perpetual license revenue				
Canada	-	-	-	0%
United States	155	80	75	94%
South America	220	312	(92)	-29%
Eastern Hemisphere	993	708	285	40%
	1,368	1,100	268	24%
Total software license revenue				
Canada	8,626	9,455	(829)	-9%
United States	9,212	8,292	920	11%
South America	4,965	4,555	410	9%
Eastern Hemisphere	11,422	11,070	352	3%
	34,225	33,372	853	3%

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

During the three months ended September 30, 2017, on a geographic basis, South America and the United States experienced an increase in total software license revenue, which was offset by decreases in the Eastern Hemisphere and Canada, as compared to the same period of the previous fiscal year.

During the six months ended September 30, 2017, on a geographic basis, total software license revenue increased in all geographic segments, with the exception of Canada, as compared to the same period of the previous fiscal year.

The Canadian market (representing 25% of year-to-date software license revenue) experienced a 5% and 9% decrease in annuity/maintenance license revenue during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, due to a reduction in licensing by some customers. No perpetual sales were recorded in Canada during the three and six months ended September 30, 2017.

The United States market (representing 27% of year-to-date software license revenue) experienced a 7% and 10% increase in annuity/maintenance license revenue during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, mainly due to increased licensing to existing customers. Perpetual license revenue increased in the three and six months ended September 30, 2017 as more perpetual sales were realized.

South America (representing 15% of year-to-date software license revenue) experienced an increase of 79% and 12% in annuity/maintenance license revenue during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year. Our revenue in South America can be significantly impacted by the variability of the amounts recorded from a customer and its affiliates for whom revenue is recognized only when cash is received (see the discussion about revenue earned in the current quarter that pertains to usage of products in prior quarters on the next page, above the "Quarterly Software License Revenue" graph). We received payments from these customers during the six months ended September 30, 2017 and during the three months ended June 30, 2016. To provide a normalized comparison, if we remove this revenue from the three and six months ended September 30, 2017 and 2016, we note that the annuity/maintenance license revenue increased by 17% instead of 79% in the three-month period and increased by 20% instead of 12% in the six-month period.

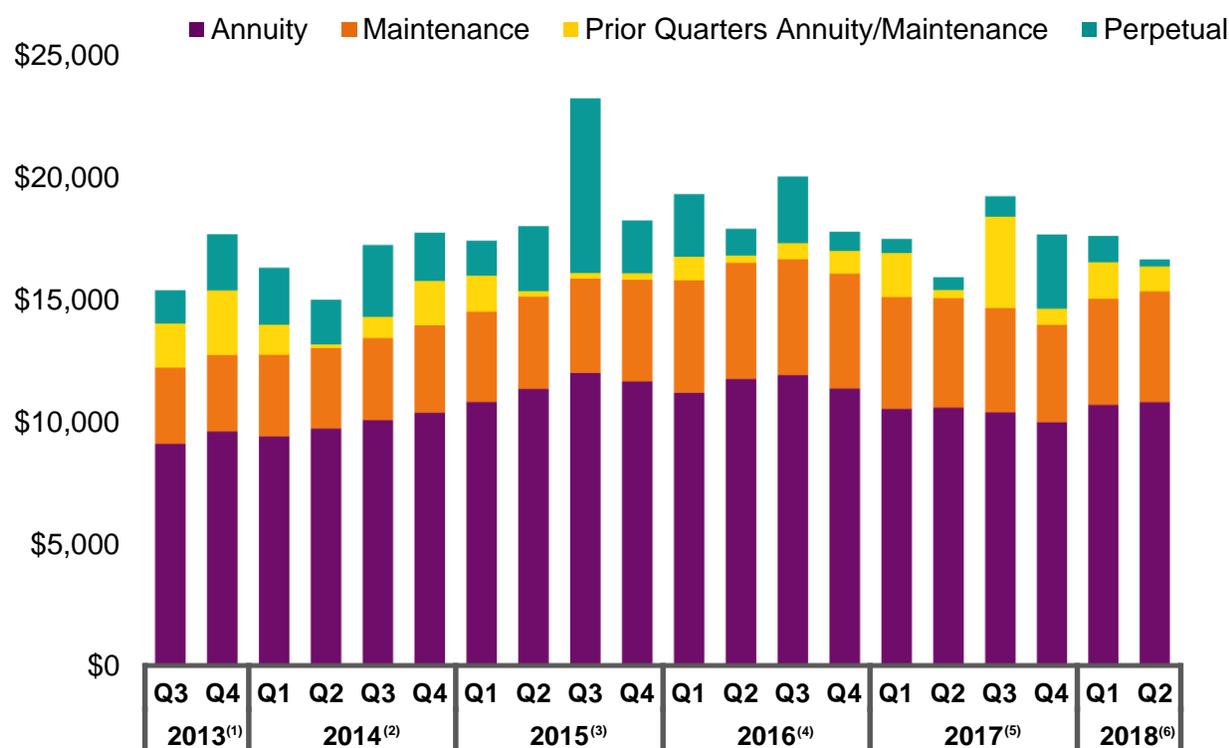
South American perpetual license revenue was up 100% for the three months ended September 30, 2017, compared to the same period of the previous fiscal year, because there were no perpetual sales realized in the comparative period. Fewer perpetual sales were realized in South America during the six months ended September 30, 2017, compared to the same period of the previous fiscal year, resulting in a 29% decrease.

The Eastern Hemisphere (representing 33% of year-to-date software license revenue) experienced a 4% decrease in annuity/maintenance license revenue during the three months ended September 30, 2017, compared to the same period of the previous fiscal year, mainly due to decreased licensing by some European customers. For the six months ended September 30, 2017, annuity/maintenance license revenue in the Eastern Hemisphere stayed relatively consistent with the same period of the previous fiscal year, with an increase of only 1%. There was an 80% decrease in perpetual license revenue during the three months ended September 30, 2017, compared to the same period of the previous fiscal year. During the six months ended September 30, 2017, more perpetual license sales were realized in the Eastern Hemisphere, compared to the same period of the previous fiscal year, resulting in an increase of 40%.

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

Quarterly Software License Revenue

(\$thousands)



- (1) Q3 and Q4 of fiscal 2013 include \$1.8 million, and \$2.6 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) Q1, Q2, Q3 and Q4 of fiscal 2017 include \$1.8 million, \$0.3 million, \$3.7 million, and \$0.7 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (6) Q1 and Q2 of fiscal 2018 include \$1.5 million and \$1.0 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Deferred Revenue

(\$ thousands)	Fiscal 2018	Fiscal 2017	Fiscal 2016	\$ change	% change
Deferred revenue at:					
Q1 (June 30)	31,551 ⁽²⁾	26,154		5,397	21%
Q2 (September 30)	23,686 ⁽³⁾	20,787		2,899	14%
Q3 (December 31)		18,916	17,243	1,673	10%
Q4 (March 31)		38,232 ⁽¹⁾	33,629	4,603	14%

- (1) Includes current deferred revenue of \$36.3 million and long-term deferred revenue of \$1.9 million.
- (2) Includes current deferred revenue of \$30.3 million and long-term deferred revenue of \$1.3 million.
- (3) Includes current deferred revenue of \$23.0 million and long-term deferred revenue of \$0.6 million.

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 or according to usage 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 2018 increased by 14% compared to Q2 of fiscal 2017. The increase is mostly due to the fact that the deferred revenue balance at September 30, 2017 includes a number of contracts that were not included in the deferred revenue balance in the comparative quarter, because the contracts were finalized and invoiced prior to September 30, 2017, whereas in the previous fiscal year the contracts were finalized and invoiced subsequent to September 30, 2016. The increase is also partially due to increased licensing in the United States and South America.

Professional Services Revenue

CMG recorded professional services revenue of \$1.4 million and \$2.7 million for the three and six months ended September 30, 2017, respectively, which represents increases of 31% and 16% when compared to the same periods of the previous fiscal year. The increases were due to the new CoFlow development agreement with Shell Global Solutions International B.V. ("Shell"), which entitles CMG to higher contract research revenue compared to the previous joint project arrangement.

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)	2017	2016	\$ change	% change
Sales, marketing and professional services	4,779	4,569	210	5%
Research and development	4,865	3,941	924	23%
General and administrative	1,722	1,512	210	14%
Total operating expenses	11,366	10,022	1,344	13%
Direct employee costs ⁽¹⁾	8,268	8,093	175	2%
Other corporate costs	3,098	1,929	1,169	61%
	11,366	10,022	1,344	13%
Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Sales, marketing and professional services	9,696	9,147	549	6%
Research and development	10,172	7,750	2,422	31%
General and administrative	3,506	2,967	539	18%
Total operating expenses	23,374	19,864	3,510	18%
Direct employee costs ⁽¹⁾	16,771	16,038	733	5%
Other corporate costs	6,603	3,826	2,777	73%
	23,374	19,864	3,510	18%

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

CMG's total operating expenses increased by 13% and 18% for the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, mainly due to an increase in other corporate costs.

Direct Employee Costs

As a technology company, CMG's largest area of expenditure is its people. Approximately 72% of the total operating expenses for the six months ended September 30, 2017 related to direct employee costs. Staffing levels in the current fiscal year were lower compared to the previous fiscal year. At September 30, 2017, CMG's full-time equivalent staff complement was 196 employees and consultants, down from 207 full-time equivalent employees and consultants at September 30, 2016, mainly due to the reduction of the CoFlow development team. Direct employee costs increased by 2% during the three months ended September 30, 2017, compared to the same period of the previous fiscal year, due to CMG recording a larger share of CoFlow salaries in the current period as a result of the new agreement with Shell. The 5% increase in direct employee costs during the six months ended September 30, 2017 was due to the aforementioned new CoFlow agreement and also due to a large credit recorded in the first quarter of the previous fiscal year as a result of the difference between the annual bonus accrual for the year ended March 31, 2016 and the actual bonus paid.

Other Corporate Costs

Other corporate costs increased by 61% and 73% during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, due to higher office costs and depreciation related to moving into our new headquarters. The six-month period ended September 30, 2017 includes \$0.6 million of non-recurring charges related to the move, which were incurred in the first quarter of the fiscal year.

Research and Development

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Research and development (gross)	5,303	4,345	958	22%
SR&ED credits	(438)	(404)	(34)	8%
Research and development	4,865	3,941	924	23%
Research and development as a % of total revenue	27%	23%		
Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Research and development (gross)	11,065	8,629	2,436	28%
SR&ED credits	(893)	(879)	(14)	2%
Research and development	10,172	7,750	2,422	31%
Research and development as a % of total revenue	28%	22%		

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 \$1.9 million and \$3.9 million of costs for CoFlow for the three and six months September 30, 2017, respectively, (2016 – \$1.4 million and \$2.7 million). See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Research and development costs (gross) increased by 22% and 28% during the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, due to higher office costs and depreciation

related to moving into our new headquarters and also due to the new agreement with our CoFlow partner Shell, under which CMG is responsible for a larger share of CoFlow costs starting January 1, 2017.

SR&ED credits increased by 8% and 2% for the three and six months ended September 30, 2017, respectively, compared to the same periods of the previous fiscal year, because now that the Company is responsible for a larger share of CoFlow costs, it benefits from claiming a larger share of CoFlow SR&ED hours.

Research and development costs as a percentage of total revenue were 27% and 28% for the three and six months ended September 30, 2017, respectively, which is higher than our historical average rate. The increase is due to higher office costs and depreciation associated with moving into our new headquarters and CMG's larger share of CoFlow salaries as a result of the new agreement with Shell.

Depreciation

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	117	99	18	18%
Research and development	294	154	140	91%
General and administrative	64	31	33	106%
Total depreciation	475	284	191	67%

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	229	220	9	4%
Research and development	585	305	280	92%
General and administrative	130	61	69	113%
Total depreciation	944	586	358	61%

Depreciation for the three and six months ended September 30, 2017 increased 67% and 61%, respectively, compared to the same periods of the previous fiscal year, as a result of commencing depreciation on leasehold improvements to the new headquarters.

Finance Income and Costs

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Interest income	218	148	70	47%
Net foreign exchange gain	-	66	(66)	-100%
Total finance income	218	214	4	2%
Net foreign exchange loss	(580)	-	(580)	-100%
Total finance costs	(580)	-	(580)	-100%

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Interest income	420	301	119	40%
Net foreign exchange gain	-	150	(150)	-100%
Total finance income	420	451	(31)	-7%
Net foreign exchange loss	(830)	-	(830)	-100%
Total finance costs	(830)	-	(830)	0%

Interest income increased slightly for the three and six months ended September 30, 2017, compared to the same period of the previous fiscal year.

CMG is impacted by foreign exchange fluctuations as approximately 78% of CMG's revenue for the six months ended September 30, 2017 (2016 – 78%) is denominated in US dollars, whereas only approximately 25% (2016 – 25%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's US dollar-denominated working capital at September 30, 2017, 2016 and 2015 and the average exchange rates used to translate income statement items during the three months ended September 30, 2017, 2016 and 2015:

CDN\$ to US\$	At June 30	At September 30	Six month trailing average
2015	0.8017	0.7466	0.7820
2016	0.7687	0.7624	0.7713
2017	0.7706	0.8013	0.7654

CMG recorded a net foreign exchange loss of \$0.6 million and \$0.8 million for the three and six months ended September 30, 2017, respectively, due to a weakening of the US dollar, which negatively affected the valuation of the US-dollar denominated portion of the Company's working capital.

Income and Other Taxes

CMG's effective tax rate for the six months ended September 30, 2017 was 27.5% (2016 – 27.7%), 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.

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

Operating Profit and Net Income

Three months ended September 30, (\$ thousands, except per share amounts)	2017	2016	\$ change	% change
Total revenue	17,981	16,927	1,054	6%
Operating expenses	(11,366)	(10,022)	(1,344)	13%
Operating profit	6,615	6,905	(290)	-4%
Operating profit as a % of total revenue	37%	41%		
Net income for the period	4,606	4,991	(385)	-8%
Net income for the period as a % of total revenue	26%	29%		
Basic earnings per share (\$/share)	0.06	0.06	-	0%

Six months ended September 30, (\$ thousands, except per share amounts)	2017	2016	\$ change	% change
Total revenue	36,967	35,744	1,223	3%
Operating expenses	(23,374)	(19,864)	(3,510)	18%
Operating profit	13,593	15,880	(2,287)	-14%
Operating profit as a % of total revenue	37%	44%		
Net income for the period	9,563	11,805	(2,242)	-19%
Net income for the period as a % of total revenue	26%	33%		
Basic earnings per share (\$/share)	0.12	0.15	(0.03)	-20%

Operating profit as a percentage of total revenue was 37% for the three and six months ended September 30, 2017, which represents a decrease compared to the same periods of the previous fiscal year. The lower operating profit as a percentage of total revenue in the current fiscal year was due to higher operating expenses.

Net income as a percentage of revenue was 26% for the three and six months ended September 30, 2017. The lower net income as a percentage of total revenue in the current fiscal year was due to higher operating expenses and a foreign exchange loss, partially offset by lower income taxes.

EBITDA

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Net income for the period	4,606	4,991	(385)	-8%
Add (deduct):				
Depreciation	475	284	191	67%
Finance income	(218)	(214)	(4)	2%
Finance costs	580	-	580	100%
Income and other taxes	1,647	2,128	(481)	-23%
EBITDA	7,090	7,189	(99)	-1%
EBITDA as a % of total revenue	39%	42%		

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Net income for the period	9,563	11,805	(2,242)	-19%
Add (deduct):				
Depreciation	944	586	358	61%
Finance income	(420)	(451)	31	-7%
Finance costs	830	-	830	100%
Income and other taxes	3,620	4,526	(906)	-20%
EBITDA	14,537	16,466	(1,929)	-12%
EBITDA as a % of total revenue	39%	46%		

EBITDA for the three and six months ended September 30, 2017 decreased by 1% and 12%, respectively, compared to the same periods of the previous fiscal year, mainly due to higher operating expenses.

Liquidity and Capital Resources

Three months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Cash, beginning of period	67,272	74,811	(7,539)	-10%
Cash flow (used in) provided by:				
Operating activities	(4,027)	3,736	(7,763)	-208%
Financing activities	(5,481)	(5,801)	320	6%
Investing activities	(416)	(1,975)	1,559	79%
Cash, end of period	57,348	70,771	(13,423)	-19%

Six months ended September 30, (\$ thousands)	2017	2016	\$ change	% change
Cash, beginning of period	63,239	72,680	(9,441)	-13%
Cash flow (used in) provided by:				
Operating activities	7,105	13,273	(6,168)	-46%
Financing activities	(9,334)	(12,598)	3,264	26%
Investing activities	(3,662)	(2,584)	(1,078)	-42%
Cash, end of period	57,348	70,771	(13,423)	-19%

Operating Activities

Cash flow from operating activities during the three and six months ended September 30, 2017 decreased by \$7.8 million and \$6.2 million, respectively, compared to the same periods of the previous fiscal year. This was due to lower net income, the negative impact of the timing difference between when sales are made and when the resulting receivables are collected, change in the deferred revenue balance and higher income tax installments.

Financing Activities

Cash used in financing activities during the three and six months ended September 30, 2017 increased by \$0.3 million and \$3.3 million, respectively, compared to the same periods of the previous fiscal year, mainly due to higher proceeds from issuance of Common Shares on option exercises.

During the six months ended September 30, 2017, CMG employees and directors exercised options to purchase 733,000 Common Shares, which resulted in cash proceeds of \$6.7 million (2016 – 476,000 options exercised to purchase Common Shares, which resulted in cash proceeds of \$3.2 million).

In the six months ended September 30, 2017, CMG paid \$16.0 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, 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

On November 8, 2017, 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, 2017 to shareholders of record at the close of business on December 7, 2017. 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.

Investing Activities

CMG's current needs for capital asset investment relate to office infrastructure costs and computer equipment, all of which are being funded internally. During the six months ended September 30, 2017, CMG's cash expenditures on property and equipment were \$3.7 million, primarily for infrastructure for the new Calgary headquarters. Over the last four fiscal years, the Company capitalized \$15.6 million in infrastructure for the new headquarters.

CMG's capital budget for fiscal 2018 is \$2.2 million, which includes the remaining spend for the new headquarters.

Liquidity and Capital Resources

At September 30, 2017, CMG has \$57.8 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 use of cash is for paying dividends.

During the six months ended September 30, 2017, 13.4 million shares of CMG's public float were traded on the TSX. As at September 30, 2017, CMG's market capitalization based upon its September 30, 2017 closing price of \$9.16 was \$734.8 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

Under the five-year development agreement between CMG and Shell, effective January 1, 2017, CMG is responsible for research and development costs of CoFlow, while Shell will provide a fixed fee contribution for the continuing development of the software. The Company estimates that revenue and costs associated with CoFlow development will approximate \$4.0 million and \$8.0 million, respectively, in fiscal 2018, which will result in approximately \$1.2 million net incremental cost to CMG in comparison to the previous joint project arrangement. CMG plans to continue funding project costs 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: 2018 – \$2.4 million; 2019 – \$4.8 million; 2020 – \$4.8 million; 2021 – \$4.7 million; 2022 – \$4.8 million; thereafter – \$81.0 million. These amounts include a twenty-year operating lease for the new Calgary headquarters, which commenced in fiscal 2018.

Business Risks and Critical Accounting Estimates

These remain unchanged from the factors detailed in CMG's 2017 Financial Report.

Changes in Accounting Policies

Accounting policies, presentation and methods of computation remain unchanged from those detailed in CMG's 2017 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.

While we are continuing to assess the impact of the new standard, we currently believe that the most significant impact relates to our annuity agreements, which include term-based software licenses bundled with maintenance. Under the current standards, the revenue attributable to these software licenses is recognized on a straight-line basis over the license period. Under the new standard, the portion of the agreement fee that relates to the software license will be recognized as revenue upon delivery of the software license. We do not expect IFRS 15 to have a substantial impact on revenue related to our maintenance agreements, perpetual licenses, and professional services.

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 outstanding number of Common Shares, stock options and restricted share units:

As at November 8, 2017

(thousands)

Common Shares	80,215
Stock Options	6,932
Restricted Share Units	108

The maximum number of Common Shares that may be reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding Common Shares. Based on this calculation, at November 8, 2017, the Company may reserve up to 8,021,000 Common Shares for issuance under its security-based compensation plans.

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 2017 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2017. During our fiscal year 2018, we continue to monitor and review our controls and procedures.

During the three months ended September 30, 2017, 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 license revenue increased by 6% and 2%, respectively, supported by increases in the United States and South America. In the current quarter this revenue stream was positively affected by payments received for contracts for which revenue is recognized only when cash is received. During the current quarter and year to date, the weakening of the US dollar had a negative impact of 2% and 1%, respectively, on our annuity and maintenance license revenue.

While the oil and gas industry appears to be on a very slow road to recovery, petroleum producers have been focusing their efforts on efficiency improvements, increasing production, and value creation. In particular, the recovery in oil prices has led to oil production growth from shale plays in the United States, which had a positive impact on our software revenue. CMG continues to invest in R&D initiatives to enhance the functionality and performance of our products and help operators to optimize their production.

During the first quarter of fiscal 2018, we moved into our new headquarters in Calgary, which we will lease for the next 20 years. The new building features training facilities for customers and brings together our entire team in one location. We invested just under \$16 million into the new building infrastructure over the past four fiscal years. Now that the new headquarters is substantially complete, our capital expenditures are expected to recede to their normal levels of a couple of million dollars a year.

Mainly due to costs associated with the new headquarters, our total operating expenses increased by 18% in the six months ended September 30, 2017, compared to the same period of the previous fiscal year. The other factor contributing to the increase in operating expenses was the new agreement with our CoFlow partner Shell, under which CMG is responsible for a larger share of CoFlow costs starting January 1, 2017.

We continue to work on identifying customers for trial modelling work in CoFlow, which will provide a one-vendor solution for integrated asset modelling by combining both reservoir and production networks.

We ended the second quarter of 2018 with a strong balance sheet, no debt and \$57.3 million in cash. Subsequent to quarter end, CMG's Board of Directors declared a quarterly dividend of \$0.10 per share.



Kenneth M. Dedeluk
President and Chief Executive Officer
November 8, 2017

Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian \$)	September 30, 2017	March 31, 2017
Assets		
Current assets:		
Cash	57,348	63,239
Trade and other receivables	11,544	25,305
Prepaid expenses	2,273	1,236
Prepaid income taxes (note 8)	1,247	72
	72,412	89,852
Property and equipment	16,397	16,873
Deferred tax asset (note 8)	429	-
Total assets	89,238	106,725
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities	4,623	9,331
Income taxes payable (note 8)	21	190
Deferred revenue	23,041	36,303
	27,685	45,824
Deferred revenue	645	1,929
Deferred rent liability (note 4)	1,175	-
Deferred tax liability (note 8)	-	254
Total liabilities	29,505	48,007
Shareholders' equity:		
Share capital (note 9)	79,598	71,859
Contributed surplus	11,144	11,433
Deficit	(31,009)	(24,574)
Total shareholders' equity	59,733	58,718
Total liabilities and shareholders' equity	89,238	106,725

Subsequent events (note 15)

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income

UNAUDITED (thousands of Canadian \$ except per share amounts)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Revenue (note 5)	17,981	16,927	36,967	35,744
Operating expenses				
Sales, marketing and professional services	4,779	4,569	9,696	9,147
Research and development (note 6)	4,865	3,941	10,172	7,750
General and administrative	1,722	1,512	3,506	2,967
	11,366	10,022	23,374	19,864
Operating profit	6,615	6,905	13,593	15,880
Finance income (note 7)	218	214	420	451
Finance costs (note 7)	(580)	-	(830)	-
Profit before income and other taxes	6,253	7,119	13,183	16,331
Income and other taxes (note 8)	1,647	2,128	3,620	4,526
Net and total comprehensive income	4,606	4,991	9,563	11,805
Earnings Per Share				
Basic (note 9(d))	0.06	0.06	0.12	0.15
Diluted (note 9(d))	0.06	0.06	0.12	0.15

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	Deficit	Total Equity
Balance, April 1, 2016	66,007	10,397	(17,146)	59,258
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 9(b))	3,227	-	-	3,227
Stock-based compensation:				
Current period expense	-	1,135	-	1,135
Stock options exercised (note 9(b))	662	(662)	-	-
Balance, September 30, 2016	69,896	10,870	(21,166)	59,600
Balance, April 1, 2017	71,859	11,433	(24,574)	58,718
Total comprehensive income for the period	-	-	9,563	9,563
Dividends paid	-	-	(15,998)	(15,998)
Shares issued for cash on exercise of stock options (note 9(b))	6,664	-	-	6,664
Stock-based compensation:				
Current period expense (note 9(c))	-	786	-	786
Stock options exercised (note 9(b))	1,075	(1,075)	-	-
Balance, September 30, 2017	79,598	11,144	(31,009)	59,733

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

UNAUDITED (thousands of Canadian \$)	Three months ended September 30		Six months ended September 30	
	2017	2016	2017	2016
Operating activities				
Net income	4,606	4,991	9,563	11,805
Adjustments for:				
Depreciation	475	284	944	586
Income and other taxes (note 8)	1,647	2,128	3,620	4,526
Stock-based compensation (note 9(c))	530	572	994	1,167
Interest income (note 7)	(218)	(148)	(420)	(301)
Deferred rent (note 4)	347	-	1,175	-
	7,387	7,827	15,876	17,783
Changes in non-cash working capital:				
Trade and other receivables	(846)	3,378	13,882	15,197
Trade payables and accrued liabilities	112	(284)	(1,722)	(2,568)
Prepaid expenses	(307)	(116)	(1,037)	19
Deferred revenue	(7,865)	(5,367)	(14,546)	(12,842)
Cash (used in) provided by operating activities	(1,519)	5,438	12,453	17,589
Interest received	219	151	417	301
Income taxes paid	(2,727)	(1,853)	(5,765)	(4,617)
Net cash (used in) provided by operating activities	(4,027)	3,736	7,105	13,273
Financing activities				
Proceeds from issue of common shares	2,540	2,128	6,664	3,227
Dividends paid	(8,021)	(7,929)	(15,998)	(15,825)
Net cash used in financing activities	(5,481)	(5,801)	(9,334)	(12,598)
Investing activities				
Property and equipment additions	(416)	(1,975)	(3,662)	(2,584)
Decrease in cash	(9,924)	(4,040)	(5,891)	(1,909)
Cash, beginning of period	67,272	74,811	63,239	72,680
Cash, end of period	57,348	70,771	57,348	70,771

See accompanying notes to condensed consolidated interim financial statements.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended September 30, 2017 and 2016 (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 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2017 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, 2017, 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, 2017.

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2017 were authorized for issuance by the Board of Directors on November 8, 2017.

(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 consolidated financial statements for the year ended March 31, 2017.

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, 2017 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, 2017.

4. Deferred Rent Liability:

The twenty-year lease agreement for the Company's headquarters, which commenced in fiscal 2018, contains a rent escalation clause. The Company recognizes rent expense on a straight-line basis over the lease term, in accordance with IFRS. The difference between rent expense and rent payable for the period is recorded as deferred rent within long-term liabilities in the consolidated statement of financial position.

5. Revenue:

Three months ended September 30, (thousands of \$)	2017	2016
Software licenses	16,631	15,900
Professional services	1,350	1,027
	17,981	16,927

Six months ended September 30, (thousands of \$)	2017	2016
Software licenses	34,225	33,372
Professional services	2,742	2,372
	36,967	35,744

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 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. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning April 1, 2018.

While we are continuing to assess the impact of the new standard, based on our analysis to date, the most significant impact will relate to our annuity agreements, which include term-based software licenses bundled with maintenance. Under the current standards, the revenue attributable to these software licenses is recognized on a straight-line basis over the license period. Under the new standard, the portion of the agreement fee that relates to the software license will be recognized as revenue upon delivery of the software license. We do not expect IFRS 15 to have a substantial impact on revenue related to our maintenance agreements, perpetual licenses, and professional services.

6. Research and Development Costs:

Three months ended September 30, (thousands of \$)	2017	2016
Research and development	5,303	4,345
Scientific research and experimental development ("SR&ED") investment tax credits	(438)	(404)
	4,865	3,941

Six months ended September 30, (thousands of \$)	2017	2016
Research and development	11,065	8,629
Scientific research and experimental development ("SR&ED") investment tax credits	(893)	(879)
	10,172	7,750

7. Finance Income and Finance Costs:

Three months ended September 30, (thousands of \$)	2017	2016
Interest income	218	148
Net foreign exchange gain	-	66
Finance income	218	214
Net foreign exchange loss	(580)	-
Finance costs	(580)	-
Six months ended September 30, (thousands of \$)	2017	2016
Interest income	420	301
Net foreign exchange gain	-	150
Finance income	420	451
Net foreign exchange loss	(830)	-
Finance costs	(830)	-

8. Income and Other Taxes:

The major components of income tax expense are as follows:

Six months ended September 30, (thousands of \$)	2017	2016
Current year income taxes	4,276	4,833
Adjustment for prior year	(78)	43
Current income taxes	4,198	4,876
Deferred tax recovery	(683)	(166)
Foreign withholding and other taxes (recovery)	105	(184)
	3,620	4,526

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)	2017	2016
Combined statutory tax rate	27.00%	27.00%
Expected income tax	3,559	4,409
Non-deductible costs	276	328
Effect of tax rates in foreign jurisdictions	11	10
Withholding taxes	-	(181)
Adjustment for prior year	(207)	43
Other	(19)	(83)
	3,620	4,526

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

(thousands of \$)	September 30, 2017	March 31, 2017
SR&ED investment tax credits	(139)	(275)
Property and equipment	146	21
Deferred rent	317	-
Stock-based compensation liability	105	-
Net deferred tax asset (liability)	429	(254)

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.

9. 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, 2016	78,819
Issued for cash on exercise of stock options	476
Balance, September 30, 2016	79,295
Balance, April 1, 2017	79,482
Issued for cash on exercise of stock options	733
Balance, September 30, 2017	80,215

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) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Three months ended September 30, (thousands of \$)	2017	2016
Equity-settled plans	376	540
Cash-settled plans	154	32
Total stock-based compensation expense	530	572

Six months ended September 30, (thousands of \$)	2017	2016
Equity-settled plans	786	1,135
Cash-settled plans	208	32
Total stock-based compensation expense	994	1,167

Liability Recognized for Stock-Based Compensation ⁽¹⁾

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

(thousands of \$)	September 30, 2017	March 31, 2017
SARs	226	181
RSUs	68	-
DSUs	95	-
Total liability	389	181

(1) The intrinsic value of the vested awards at September 30, 2017 was \$0.1 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 September 30, 2017, the Company may reserve up to 8,021,000 Common Shares for issuance under its security-based compensation plans.

(i) Stock Option Plan

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 13, 2017. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. 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, 2017		Year ended March 31, 2017	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of period	7,204	11.69	7,182	11.54
Granted	910	9.33	906	9.78
Exercised	(733)	9.09	(663)	7.43
Forfeited/expired	(384)	9.43	(221)	11.80
Outstanding at end of period	6,997	11.78	7,204	11.69
Options exercisable at end of period	5,342	12.33	5,224	11.82

The range of exercise prices of stock options outstanding and exercisable at September 30, 2017 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)
8.96 to 9.55	913	4.9	9.33	-	-
9.56 to 9.78	864	3.9	9.78	432	9.78
9.79 to 12.26	2,051	0.9	12.18	2,044	12.19
12.27 to 12.85	1,201	2.9	12.32	901	12.32
12.86 to 14.97	1,968	1.9	13.04	1,965	13.04
	6,997	2.4	11.78	5,342	12.33

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, 2017	Year ended March 31, 2017
Fair value at grant date (\$/option)	1.46 to 1.47	1.29 to 1.54
Share price at grant date (\$/share)	9.33	8.96 to 10.16
Risk-free interest rate (%)	1.26 to 1.37	0.52 to 0.73
Estimated hold period prior to exercise (years)	3 to 4	3 to 4
Volatility in the price of common shares (%)	29 to 31	29 to 31
Dividend yield per common share (%)	4.31	4.03 to 4.65

(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. 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 awards 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, 2017		Year ended March 31, 2017	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of period	222	9.78	-	-
Granted	365	9.33	222	9.78
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	587	9.50	222	9.78
SARs exercisable at end of period	111	9.78	-	-

*(iii) Share Unit Plans***Restricted Share Units (RSUs)**

RSUs are granted under the Performance Share Unit and Restricted Share Unit Plan, which was adopted in July 2017 and is open to all employees and contractors of the Company. RSUs vest annually over a three-year period. Upon vesting, an RSU can be exchanged for a Common Share of the Company or surrendered for cash. As such, the Company accounts for RSUs 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 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:

(thousands)	Six months ended September 30, 2017		Year ended March 31, 2017	
	RSUs	DSUs	RSUs	DSUs
Outstanding at beginning of period	-	-	-	-
Granted	108	10	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	108	10	-	-

(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:

Three months ended September 30, (thousands except per share amounts)	2017			2016		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	4,606	80,117	0.06	4,991	79,159	0.06
Dilutive effect of stock options		23			130	
Diluted	4,606	80,140	0.06	4,991	79,289	0.06

Six months ended September 30, (thousands except per share amounts)	2017			2016		
	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)	Earnings (\$)	Weighted Average Shares Outstanding	Earnings Per Share (\$/share)
Basic	9,563	79,878	0.12	11,805	79,019	0.15
Dilutive effect of stock options		64			187	
Diluted	9,563	79,942	0.12	11,805	79,206	0.15

During the three and six months ended September 30, 2017, 185,000 and 194,000 awards, respectively (three and six months ended September 30, 2016 – nil and 125,000 options, respectively), were excluded from the computation of the weighted-average number of diluted shares outstanding because their effect was not dilutive.

10. 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.

11. Commitments:

(a) Research Commitments:

Until January 1, 2017, the Company was the operator of a joint project, a collaborative effort with its partners Shell International Exploration and Production B.V. and Petroleo Brasileiro S.A. ("Petrobras"), to jointly develop CoFlow, the newest generation of reservoir and production system simulation software (note 14).

Petrobras' financial participation in the joint development project ended effective January 1, 2017. Under the new five-year development agreement between CMG and Shell Global Solutions International B.V. ("Shell"), CMG is responsible for the research and development costs of CoFlow, while Shell will provide a fixed fee contribution for the continuing development of the software. The Company's revenue and costs associated with CoFlow are estimated to be \$4.0 million and \$8.0 million, respectively, in fiscal 2018.

(b) Lease Commitments:

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

As at September 30, (thousands of \$)	2017	2016
Less than one year	4,837	2,499
Between one and five years	19,133	18,660
More than five years	78,615	79,667
	102,585	100,826

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. The Company invested \$15.6 million in infrastructure for the new headquarters over the last four fiscal years, which was recorded as property and equipment in the consolidated statement of financial position.

12. 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, 2017, US \$215,000 (March 31, 2017 – US \$215,000) had been reserved on this line of credit for letters of credit supporting performance bonds.

13. 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,		As at September 30,	
	2017	2016	2017	2016
Canada	10,656	10,559	16,021	4,555
United States	9,566	8,404	169	220
South America	5,032	5,372	153	197
Eastern Hemisphere ⁽¹⁾	11,713	11,409	54	49
	36,967	35,744	16,397	5,021

(1) Includes Europe, Africa, Asia and Australia

In the six months ended September 30, 2017, one customer comprised 10.8% (September 30, 2016 – nil customers) of the Company's total revenue.

14. CoFlow Project:

Until January 1, 2017, the Company was the operator of a joint project, a collaborative effort with its partners Shell International Exploration and Production B.V. and Petrobras, to jointly develop CoFlow, the newest generation of reservoir and production system simulation software. Accordingly, until January 1, 2017, the Company recorded its proportionate share of costs incurred on the project (37.04%) as research and development costs within the consolidated statement of operations and comprehensive income.

Effective January 1, 2017, Petrobras' financial participation in the joint development project ended. Under the new five-year development agreement between CMG and Shell, CMG is responsible for the research and development costs of CoFlow, while Shell will provide a fixed fee contribution. The new agreement with Shell does not meet the definition of a joint arrangement, and as of January 1, 2017, the Company discontinued the use of proportionate consolidation to account for CoFlow.

During the three and six months ended September 30, 2017, CoFlow revenue of \$1.0 million and \$2.0 million, respectively, was recorded to professional services revenue and CoFlow costs of \$1.9 million and \$3.9 million, respectively, were recorded to research and development expenses.

During the three months and six months ended September 30, 2016, under the proportionate consolidation method, CMG recorded \$1.4 million and \$2.7 million, respectively, of CoFlow costs in its consolidated statement of operations and comprehensive income. Additionally, under the previous arrangement the Company was entitled to charge its partners a fee for various services provided as operator, which was recorded in revenue as professional services and amounted to \$0.7 million and \$1.5 million respectively for the three and six months ended September 30, 2016.

15. Subsequent Event:

On November 8, 2017, the Board of Directors declared a quarterly cash dividend of \$0.10 per share on its Common Shares, payable on December 15, 2017, to all shareholders of record at the close of business on December 7, 2017.

CORPORATE INFORMATION

Directors

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Patrick R. Jamieson ⁽³⁾

Peter H. Kinash ⁽²⁾ ⁽⁴⁾

Robert F. M. Smith ⁽¹⁾

John B. Zaozirny
Chairman of the Board

(1) Chair, Audit Committee

(2) Member, Audit Committee

(3) Chair, Governance Committee

(4) Member, Governance Committee

Officers

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President and Chief Executive Officer

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

Ryan N. Schneider
Chief Operating Officer

Robert R. Eastick
*Vice President,
CoFlow*

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

R. David Hicks
*Vice President,
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Stock Exchange Listing

Toronto Stock Exchange: **CMG**