

2023 Financial Report

CMG

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Annual General Meeting

When: July 6, 2023 at 10:00 a.m. (Calgary time)

Where: Virtual-only meeting (please refer to our 2023 Management Information Circular available at www.cmgl.ca/investors/agm for the details of the meeting)



CEO Letter to Shareholders

May 24, 2023

Dear fellow shareholders,

As I stepped into the CEO role in May of 2022, I did so with tremendous enthusiasm for the opportunity and an appreciation of the amount of change that the company would undergo in the next 12 months. My objective was twofold; embark on a multi-faceted transformation journey that would instill the tenets of a market-led technology company, leading to a return of strong organic growth, and equip the company with the necessary competencies to pursue diversification and expansion through acquisitions and partnerships.

While it is early in our journey, a great deal was accomplished in the past year.

Fiscal 2023 Highlights:

- Total revenue increased by 12% vs prior year
- Adjusted operating profit margin* increased to 40%
- Generated free cash flow* of \$21.7 million
- Derived 14% of total software revenue from energy transition
- Established a strategic alliance with Hatch-McDaniel to deliver comprehensive solutions for carbon capture
- Completed the first acquisition in CMG's history, launching our capabilities in data analytics
- Welcomed senior talent including Chief Technology Officer, Vice President Americas, Head of Corporate Development, Head of People and Culture, Head of Business Operations and Head of Legal
- Opened CMG Collaboration Centre (C3) in India

**See Non-IFRS Measures*

In addition to these highlights we have established a product management function responsible for our product development roadmap which is focused on building scalable, extensible software, and adding features for speed and workflows. We have begun the transition from a product company to a solutions company that develops a combination of product, services, and partnerships to provide holistic solutions for the energy industry's most complex problems.

Values

Most importantly, we are establishing a culture of accountability, to ourselves and to each other, to our customers, to our shareholders and to the values that define our organization. These values preserve the best of what has made CMG successful in the past and introduces the elements that will shift us to the performance driven culture that will make us successful in the future.

- **Entrepreneurial Talent** – We create our own future and don't settle for "no" as an answer
- **Curiosity** – We explore new ideas without settling for what we already know
- **Extreme Ownership** – We accept responsibility to own our work and the results we create

- **Customer Centricity** – We work relentlessly to delight our customers
- **Integrity** – We always do the right thing even if it's hard
- **Collaboration** - We believe it takes a Team to accomplish something great and we work as partners across the organization

Culture does not happen overnight, it is something that is built over time when there is a clear understanding of strategic objectives, and a clarity and commitment to the individual roles we play in attaining our common goals. We have high expectations for our leaders to set an example within the organization and we challenge each other daily to ensure that we have the courage to question the status quo, ruthlessly prioritize what will bring us closer to our goals, provide constructive feedback to our teams, have the difficult conversations that will make us better and remain committed to developing and elevating our incredible workforce.

Fiscal 2023 Review

Closing out fiscal year 2023 with total revenue growth of 12% marked a turning point for our company. Strong industry fundamentals, healthy balance sheets amongst our customers and an acceleration of digital transformation within the industry supported our financial performance this year with increased licensing by both new and existing customers.

On a full-year basis, total software license revenue increased across all regions except Canada which experienced a slight decline due to the negative affect of consolidation activity that impacted annuity and maintenance revenue in the first quarter of the year. Growth in the US and Eastern Hemisphere, particularly Europe, was positively impacted by increased licensing for carbon capture and storage projects. South America was positively impacted by a multi-year lease that commenced in the second quarter of fiscal 2022.

Compared to fiscal 2022, our annuity and maintenance revenue grew by 12%, offset by a decline in the much smaller, more volatile segment of perpetual licenses. Our expanded consulting practice is driving awareness of our expertise in the energy transition space in addition to supporting our customers in the use and adoption of our simulation technology in the traditional upstream energy arena. Growth in professional services revenue of 37% was amplified by the receipt of funding related to our innovative Joint Industry Project (JIP) with Kongsberg Digital, to develop new technology focused on the carbon capture and storage processes.

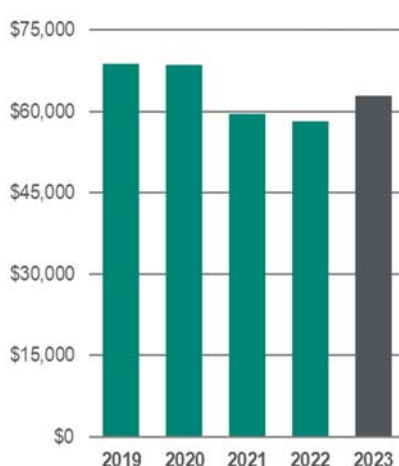
Total Revenue

(\$ Thousands)



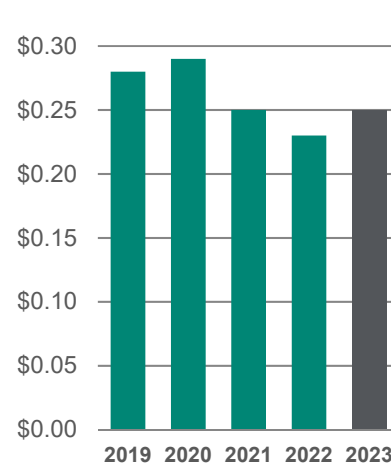
Software License Revenue

(\$ Thousands)



Earnings Per Share

(Basic)



Full year operating expenses increased by 20%, however, when adjusted for CEWS and CERS subsidies and restructuring charges, the increase is a more modest 8%. The increase is driven by a combination of increased variable compensation, such as stock-based compensation and bonuses, higher professional services and travel-related costs. In addition, we made investments in our sales and marketing functions.

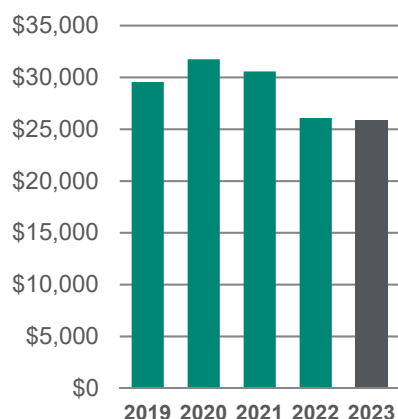
Our research and development efforts resulted in multiple performance and functional enhancements to our products. This included improved speed and stability, updated user experience in our pre-processor, CCS workflow development, enhanced functionality in our EOR and thermal applications as well as advancements in CoFlow.

Full year adjusted operating profit margin was 40% compared to 38% in the prior year, and adjusted EBITDA margin was 45% compared to 44% in the prior year. We are pleased to see improvement in profitability margins alongside the increase in top-line revenue.

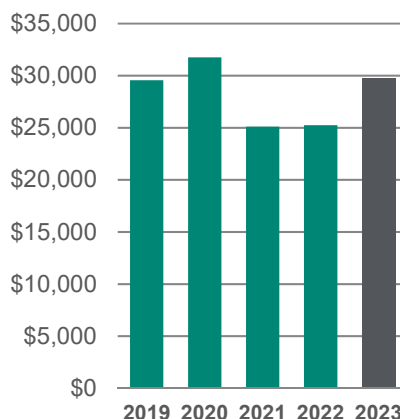
Basic earnings per share were \$0.25 compared to \$0.23 last year.

We maintain a strong financial position and closed out the year with \$66.9 million of cash and no debt. We generated \$0.27 per share of free cash flow, similar to the prior year.

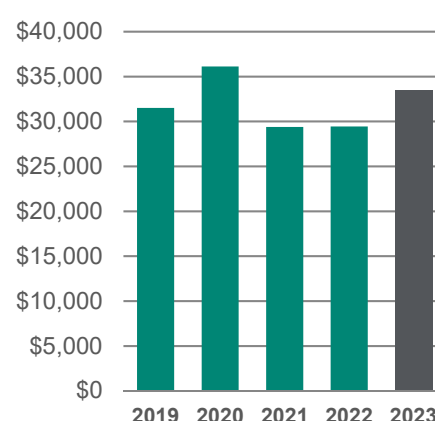
Operating Profit (\$ Thousands)



Adjusted Operating Profit (\$ Thousands)



Adjusted EBITDA (\$ Thousands)



Note: Adjusted operating profit and adjusted EBITDA are non-IFRS financial measures. Additional disclosures for these non-IFRS measures can be found on page 2 of the Management's Discussion and Analysis ("MD&A"). A reconciliation of adjusted operating profit to operating profit can be found on page 22 of the MD&A, and a reconciliation of adjusted EBITDA to net income can be found on page 23 of the MD&A.

CMG 4.0

We wrapped up fiscal 2023 with the first acquisition in CMG's history by acquiring the assets of Unconventional Subsurface Integration LLC ("USI"), an early-stage AI-based data analytics technology for maximizing asset valuation and production performance of shale reservoirs. Our acquisition of USI will enable us to further expand our presence in the shale market by offering a data analytics tool which uses pre-run reservoir simulation data, using CMG's simulators, to quickly and accurately predict well interaction and performance in varying development scenarios. Deploying capital in a manner that is both financially and strategically accretive is a responsibility I take earnestly, and I believe this acquisition was a positive step toward product diversification and honing our acquisition process.

We continue to build our M&A pipeline of opportunities within traditional upstream energy, energy transition and in adjacent industries where we can access new addressable markets. We are identifying acquisitions that could grow our software portfolio and enhance our competitive position.

Turning to energy transition, we have undertaken several initiatives aimed at growing our presence in energy transition.

We were honored to have an influential group of executives, representing many of the most important organizations in the energy space, join us as we hosted our first editorial roundtable on the topic of energy transformation. Joining the roundtable conversation were leaders from Pathways Alliance, the Alberta Energy Regulator, Heartland Generation and the Energy & Environmental Research Center. The insights from the discussion led to the launch of CMG's editorial platform, [Accelerate](#), which will be an ongoing initiative in thought leadership to explore energy transition and the role of technology in the coming years.

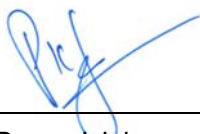
We also announced our continued commitment to working with global partners by signing an agreement with Wood LLC, a global engineering and consulting company, to partner in the delivery of carbon capture solutions.

Looking Ahead

In fiscal 2024, we are committed to growing our core business with new and existing customers, continuing to focus on energy transition opportunities and advancing the commercialization of CoFlow. We will not lose sight of the innovation and incredible expertise for which CMG is known and we will invest to drive product enhancements and improvements to enhance our competitiveness and evaluate opportunities to build our product portfolio with new capabilities.

I am optimistic for the opportunities that lie ahead for CMG and I am grateful to our Board of Directors for their support and counsel during this year of transition. On behalf of CMG's leadership team, I extend my sincere thanks to our loyal customers, our dedicated employees, our collaborative partners and our supportive shareholders. You are all what make CMG a success and I look forward to an energizing coming year together.

Sincerely,



Pramod Jain

Chief Executive Officer

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for Computer Modelling Group Ltd. ("CMG", the "Company", "we" or "our"), dated May 24, 2023, should be read in conjunction with CMG's audited consolidated financial statements (the "Financial Statements") and accompanying notes for the year ended March 31, 2023 and CMG's Annual Information Form dated May 24, 2023 ("AIF"), which are available online under CMG's issuer profile at www.sedar.com.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of CMG.

Figures within this MD&A are presented in Canadian dollars, unless otherwise indicated. Financial data, other than non-IFRS financial measures, have been prepared in accordance with IFRS.

This MD&A was reviewed and approved by the Audit Committee and Board of Directors and is effective as of May 24, 2023.

Forward-Looking Information

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

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

- future software license sales;
- the continued financing by and participation of the Company's CoFlow partner and it being completed in a timely manner, associated costs and future revenue;
- the Company's ability to increase or sustain its revenue in a volatile oil price environment;
- the Company's ability to pay dividends;
- ability to enter into additional software license agreements;
- ability to continue current research and new product development; and
- 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 energy 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.

Additional IFRS Measure

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

Non-IFRS Financial Measures

Certain financial measures in this MD&A – namely, adjusted total operating expenses, direct employee costs, adjusted direct employee costs, other corporate costs, adjusted other corporate costs, adjusted operating profit, adjusted net income, EBITDA, adjusted EBITDA and free cash flow – do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other companies. Management believes that these indicators nevertheless provide useful measures in evaluating the Company's performance.

Direct employee costs include salaries, bonuses, stock-based compensation, benefits (including termination 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 direct employee 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. Adjusted EBITDA also excludes Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") and restructuring charges. EBITDA/adjusted EBITDA should not be construed as an alternative to net income as determined by IFRS. The Company believes that EBITDA/adjusted EBITDA are useful supplemental measures as they provide 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 "Adjusted EBITDA" heading for a reconciliation of EBITDA and adjusted EBITDA to net income.

Free cash flow is a non-IFRS financial measure that is calculated as funds flow from operations less capital expenditures, repayment of lease liabilities, and cash consideration for acquisitions. Free cash flow per share is calculated by dividing free cash flow by the number of weighted average outstanding shares during the period. Management uses free cash flow and free cash flow per share to help measure the capacity of the Company to pay dividends and invest in business growth opportunities.

Free Cash Flow Reconciliation to Funds Flow from Operations

(\$ thousands, unless otherwise stated)	Fiscal 2022				Fiscal 2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Funds flow from operations	4,811	4,904	7,022	7,105	4,558	4,974	8,169	7,656
Capital expenditures ⁽¹⁾	(27)	(133)	(481)	(62)	-	(130)	(211)	(1,707)
Repayment of lease liabilities	(306)	(277)	(314)	(459)	(303)	(339)	(413)	(553)
Free cash flow	4,478	4,494	6,227	6,584	4,255	4,505	7,545	5,396
Weighted average shares – basic (thousands)	80,286	80,307	80,335	80,335	80,335	80,412	80,511	80,603
Free cash flow per share - basic	0.06	0.06	0.08	0.08	0.05	0.06	0.09	0.07

(1) Capital expenditures include cash consideration for acquisitions.

Years ended March 31, (\$ thousands)			
	2023	2022	2021
Funds flow from operations	25,357	23,842	26,283
Capital expenditures ⁽¹⁾	(2,048)	(703)	(397)
Repayment of lease liabilities	(1,608)	(1,356)	(1,413)
Free cash flow	21,701	21,783	24,473
Weighted average shares – basic (thousands)	80,464	80,316	80,272
Free cash flow per share - basic	0.27	0.27	0.30

(1) Capital expenditures include cash consideration for acquisitions.

Corporate Profile

CMG is a global software and consulting company providing advanced reservoir modelling capabilities to the energy industry. CMG provides cutting-edge technologies that support critical field development decisions for upstream planning and energy transition strategies. The Company has a diverse customer base of international oil companies in approximately 60 countries. The Company's professional services consist 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".

Business Overview

Since its inception more than 40 years ago, CMG made the strategic decision to focus its research and development efforts on providing solutions for the simulation of difficult hydrocarbon recovery techniques, a decision that created the foundation for CMG's dominant market presence today in the simulation of advanced hydrocarbon recovery processes. CMG has demonstrated this commitment by continuously investing in research and development and working closely with its customers to develop simulation tools relevant to the challenges and opportunities they face.

The petroleum industry utilizes reservoir simulation to provide both vital information and a visual interpretation on how reservoirs will behave under various recovery techniques. With this visualization and reservoir simulation modelling, reservoir professionals obtain valuable insight into predicting the physics and chemistry of fluid flows, drilling locations, well operating conditions, risks, and best-case economics of oil and gas property investment. Understanding the science of how a petroleum reservoir will react to difficult hydrocarbon recovery processes through simulation prior to spending the capital on drilling wells and injecting expensive chemicals and steam, for instance, is far less costly and risky than trying the various techniques on real wells.

With petroleum production using conventional methods on the decline, the petroleum industry must use more difficult and costly advanced process extraction methods. In addition, brand-new fields are increasingly difficult to find, especially on a

large scale, and there is a large number of mature fields and unconventional prospects where known petroleum reserves exist. The problem facing the producers is how to economically extract more of the petroleum reserves in place while utilizing environmentally conscious processes and meeting governmental and regulatory requirements. These challenges are made even more formidable by the volatile macroeconomic environment and the global political climate, which has led to increased uncertainty regarding capital markets, commodity prices and global energy demand.

Due to the maturity of conventional petroleum reservoirs and the complexities of both current and emerging production processes we believe that the oil industry will continue to be increasingly reliant on the use of simulation technology. Reservoir simulation is a cost-effective and high-value tool to reduce risks, improve recovery processes, increase margins and incremental recovery.

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

In addition to offering reservoir simulation solutions, CMG has invested into the development of CoFlow, the industry's first fully implicit, multi-user and multi-disciplinary Integrated Reservoir and Production System Modelling (IPSM) software application. It provides a unified solution for integrated asset modelling by combining reservoir, production networks and geomechanics in one environment and allows reservoir and production engineers to make informed decisions on large, integrated oil and gas projects. While this has been a significant undertaking for the Company, we believe that oil producers are seeking integrated solutions of this type, which connect the surface and subsurface simulation on the same platform, to enable better decision-making and optimization of their assets.

Energy transition has been a growing area for CMG. A shift toward public and government support of climate change initiatives enable us to use technological innovation to help energy and resource companies minimize their impact on the environment. CMG has an established technology that has been effectively leveraged and utilized in the development of projects around the world for safe sequestering and long-term storage of carbon dioxide. CMG's GEM simulator is the industry-leading simulator capable of modelling all of the applicable physics associated with carbon storage processes. These projects have been of increasing interest to governments and the oil and gas industry, as well as new "green energy" entrants for the beneficial application in the reduction of carbon footprint. CMG's products can also be used for hydrogen storage and geothermal processes.

Growth Strategy

At CMG, we are committed to the development of cutting-edge technologies that support critical field development decisions for upstream planning and energy transition strategies.

Our growth strategy was developed around three main objectives.

- maintain and grow our core business competencies in reservoir simulation, capitalizing on our leadership position as experts in the science, technology and customer support for complex hydrocarbon recovery techniques
- expand our product offering and market presence, including the introduction of data analytics solutions, to deliver greater value to new and existing customers
- reach into new market segments with applications in Integrated Production Systems Modelling (IPSM) and energy transition, specifically carbon capture and storage, hydrogen storage, and geothermal processes

To achieve these objectives, investment in research and development is important as it helps maintain our competitive advantage for our existing software product suite and advances new product development. CMG's approach to investment in research and development is to invest in initiatives that are driven by customers' needs. Integrating new and innovative features into our existing product suite as well as developing simplified, fit-for-purpose applications is anticipated to help us to increase revenue from new and existing customers.

We pursue revenue growth through direct sales using our internal sales force, and are focused on enhancing our market engagement framework through the addition of a strategic marketing function and additional sales tools and training. We are also committed to partnering with industry leaders in two key areas:

- 1) Assist in the development, testing and refinement of new technology
 - During fiscal 2023, CMG entered into a Joint Industry Partnership (JIP) with Kongsberg to, with the participation and support of numerous leading energy companies, research and develop a new technology focused on carbon capture and storage.
- 2) Extend our reach into other ecosystems while enabling sales
 - During fiscal 2023, CMG announced a strategic partnership with McDaniel & Associates Consultants Ltd. and Hatch Ltd. to deliver comprehensive industry leading solutions for carbon capture and storage.

In addition to organic growth, we intend to engage in strategic and disciplined acquisitions to expand our product offering and customer base, and to grow our business.

On February 16, 2023, we announced the acquisition of the assets of Unconventional Subsurface Integration LLC ("USI"), an early-stage AI-based data analytics technology for maximizing asset valuation and production performance of shale reservoirs. CMG's reservoir simulation technology has a very extensive and efficient unconventional modelling workflow, which has been successful in simulation and modelling of reservoirs using hydraulic fracturing processes. Our acquisition of USI will enable us to further expand our presence in the shale market by offering a data analytics tool for reservoir valuation and production performance. This technology uses pre-run reservoir simulation data, using CMG's simulators, to quickly and accurately predict well interaction and performance in varying development scenarios.

Business Model

CMG's software can be licensed on a term or perpetual basis:

- Term licenses are made up of annuity/maintenance license fees charged for the use of the Company's software products, generally for a term of one year or less. Annuity licenses give the customers the right to use CMG's software for a fixed time-period. Maintenance licenses are offered to the customers who purchase perpetual licenses, which gives them access to support and latest software releases for the duration of the license term. This revenue stream is reported as "Annuity/maintenance license revenue."
- Perpetual licenses represent one-time software license sale, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. This revenue stream is reported as "Perpetual license revenue."

Annuity/maintenance license fees have historically had a high renewal rate and, accordingly, provide a recurring 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. Annuity/maintenance and perpetual licenses are typically installed on customers' premises.

Approximately 95% of our software license revenue was derived from annuity and maintenance contracts during fiscal 2023. We generally invoice our customers for the full amount of their contractual payment obligations at the time that they contract with us.

We also offer a public cloud solution which enables customers to securely access Company's simulators and submit simulation jobs to some of the latest and fastest hardware available in the industry optimized for maximum efficiency and faster simulation results. The cloud solution gives customers the ability to take advantage of the flexibility and economies of scale with the "pay as you go" model for hardware and CMG software. This currently represents a small part of the Company's business and is reported under annuity/maintenance license revenue.

In combination with its principal business of licensing its software, CMG also provides professional services consisting of highly specialized consulting, support, training, and funded research activities for its customers. CMG performs specialized consulting services, which are typically of a highly complex and/or experimental nature. These studies provide hands-on practical knowledge, allowing CMG staff to test the boundaries of our software, and provide us the opportunity to sell additional software licenses to both new and existing customers. In addition, providing consulting services is important from the customer service perspective as it enables our customers to become more proficient users of CMG's software. Professional research revenue is also derived from the customers who partner with CMG to assist in the development, testing and refinement of new simulation technologies.

In addition to consulting, we allocate significant resources to training, which is an instrumental part of our Company's success, as it enables our customers to become more efficient and effective users of our software. Our training is continuous in nature, is offered worldwide, and it helps us in developing and maintaining long-term relationships with our customers.

We sell our products primarily through our direct salesforce in North and South America, Europe and Asia. In Asia and Middle East we sell our products through both our direct salesforce and agents.

CMG is in a solid financial position with \$45.7 million in positive working capital, no bank debt and a long history of generating earnings and cash from operating activities. Combined with its strong balance sheet is the strength of its employees in all areas of the Company.

We continue to be profitable and have solid cash generation. During fiscal 2023, operating profit represented 35% of total revenue and we generated \$0.27 per share in free cash flow.

Annual Performance

(\$ thousands, unless otherwise stated)	March 31, 2023	March 31, 2022	March 31, 2021
Annuity/maintenance license revenue	59,690	53,406	55,934
Perpetual license revenue	3,240	4,819	3,619
Software license revenue	62,930	58,225	59,553
Professional service revenue	10,916	7,977	7,810
Total revenue	73,846	66,202	67,363
Operating profit	25,860	26,080	30,565
Operating profit (%)	35%	39%	45%
Net income for the year	19,797	18,405	20,190
EBITDA ⁽¹⁾	29,505	30,278	34,836
Cash dividends declared and paid	16,099	16,064	16,055
Funds flow from operations	25,357	23,842	26,283
Free cash flow ⁽¹⁾	21,701	21,783	24,473
Total assets	137,128	125,148	122,491
Total shares outstanding	80,637	80,335	80,286
Trading price per share at March 31	7.26	5.36	5.75
Market capitalization at March 31	585,425	430,596	461,645
Per share amounts – (\$/share)			
Earnings per share – basic	0.25	0.23	0.25
Earnings per share – diluted	0.24	0.23	0.25
Cash dividends declared and paid	0.20	0.20	0.20
Funds flow from operations per share – basic	0.32	0.30	0.33
Free cash flow per share – basic ⁽¹⁾	0.27	0.27	0.30

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.

Quarterly Performance

(\$ thousands, unless otherwise stated)	Fiscal 2022 ⁽²⁾				Fiscal 2023 ⁽³⁾			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annuity/maintenance license revenue	12,286	13,239	13,575	14,306	13,529	14,825	15,533	15,803
Perpetual license revenue	125	846	1,497	2,351	386	780	518	1,556
Software license revenue	12,411	14,085	15,072	16,657	13,915	15,605	16,051	17,359
Professional services revenue	2,003	1,864	1,973	2,137	2,192	2,477	3,341	2,906
Total revenue	14,414	15,949	17,045	18,794	16,107	18,082	19,392	20,265
Operating profit	5,573	5,440	7,755	7,312	4,961	5,555	8,435	6,909
Operating profit (%)	39	34	45	39	31	31	43	34
Profit before income and other taxes	4,827	5,321	7,310	6,563	5,182	5,989	8,350	7,127
Income and other taxes	1,094	1,175	1,736	1,611	1,369	1,579	2,002	1,901
Net income for the period	3,733	4,146	5,574	4,952	3,813	4,410	6,348	5,226
EBITDA ⁽¹⁾	6,596	6,473	8,843	8,366	5,892	6,492	9,300	7,821
Cash dividends declared and paid	4,015	4,016	4,017	4,016	4,017	4,025	4,025	4,032
Funds flow from operations	4,811	4,904	7,022	7,105	4,558	4,974	8,169	7,656
Free cash flow ⁽¹⁾	4,478	4,494	6,227	6,584	4,255	4,505	7,545	5,396
Per share amounts – (\$/share)								
Earnings per share (EPS) – basic	0.05	0.05	0.07	0.06	0.05	0.05	0.08	0.07
Earnings per share (EPS) – diluted	0.05	0.05	0.07	0.06	0.05	0.05	0.08	0.06
Cash dividends declared and paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Funds flow from operations per share – basic	0.06	0.06	0.09	0.09	0.06	0.06	0.10	0.09
Free cash flow per share – basic ⁽¹⁾	0.06	0.06	0.08	0.08	0.05	0.06	0.09	0.07

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.

(2) Q1, Q2, Q3 and Q4 of fiscal 2022 include \$nil, \$0.5 million, \$nil and \$0.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(3) Q1, Q2, Q3 and Q4 of fiscal 2023 include \$0.2 million, \$0.3 million, \$0.3 million and \$0.4 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Commentary on Quarterly Performance

For the Three Months Ended

March 31, 2023 and compared to the same period of the previous fiscal year, when appropriate:

- Annuity/maintenance license revenue increased by 10%;
- Perpetual license revenue decreased by \$0.8 million, or 34%;
- Total revenue increased by 8%;
- Total operating expenses increased by 16%. Adjusted for CEWS/CERS benefits, operating expenses increased by 8%, primarily due to an increase in variable direct employee costs;
- Operating profit margin was 34%, decreasing from 39% in the comparative quarter of the prior year but consistent with the adjusted operating profit in the comparative quarter of the prior year;
- Basic EPS of \$0.07 was higher than the comparative quarter's EPS of \$0.06;
- Achieved free cash flow per share of \$0.07;
- Declared and paid a dividend of \$0.05 per share.

For the Year Ended

- Annuity/maintenance license revenue increased by 12%;
- Perpetual license revenue decreased by \$1.6 million, or 33%;
- Total revenue increased by 12%;
- Total operating expenses increased by 20%. Adjusted for the restructuring charges and CEWS/CERS benefits, operating expenses increased by 8%, due to an increase in variable direct employee costs as well as higher professional services and travel-related costs;
- Operating profit margin was 35%, decreasing from 39% in the comparative year. Adjusted for the restructuring charges and CEWS/CERS benefits, operating profit was 40%, increasing from 38% in the prior year;
- Basic EPS of \$0.25 was higher than the comparative year's EPS of \$0.23;
- Achieved free cash flow per share of \$0.27;
- Declared and paid dividends of \$0.20 per share.

Revenue

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Software license revenue	17,359	16,657	702	4%
Professional services revenue	2,906	2,137	769	36%
Total revenue	20,265	18,794	1,471	8%
Software license revenue as a % of total revenue	86%	89%		
Professional services revenue as a % of total revenue	14%	11%		

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Software license revenue	62,930	58,225	4,705	8%
Professional services revenue	10,916	7,977	2,939	37%
Total revenue	73,846	66,202	7,644	12%
Software license revenue as a % of total revenue	85%	88%		
Professional services revenue as a % of total revenue	15%	12%		

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

Total revenue for the three months and year ended March 31, 2023 increased by 8% and 12%, respectively, compared to the same periods of the previous fiscal year, due to increases in both software license revenue and professional services revenue.

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 recurring revenue stream, while perpetual license sales are more variable and unpredictable in nature as the purchase decision and its timing fluctuate with the customers' needs and budgets. The majority of CMG's customers, who have acquired perpetual software licenses, subsequently purchase our maintenance package to ensure ongoing product support and access to current versions of CMG's software.

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Annuity/maintenance license revenue	15,803	14,306	1,497	10%
Perpetual license revenue	1,556	2,351	(795)	-34%
Total software license revenue	17,359	16,657	702	4%
Annuity/maintenance as a % of total software license revenue	91%	86%		
Perpetual as a % of total software license revenue	9%	14%		

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Annuity/maintenance license revenue	59,690	53,406	6,284	12%
Perpetual license revenue	3,240	4,819	(1,579)	-33%
Total software license revenue	62,930	58,225	4,705	8%
Annuity/maintenance as a % of total software license revenue	95%	92%		
Perpetual as a % of total software license revenue	5%	8%		

Total software license revenue for the three months and year ended March 31, 2023 increased by 4% and 8%, respectively, compared to the same periods of the previous fiscal year, due to the increases in annuity/maintenance license revenue, partially offset by the decreases in perpetual license revenue.

Annuity/maintenance license revenue increased by 10% and 12% during the three months and year ended March 31, 2023, respectively, due to increases in all regions except Canada, supported by license fee increases, increased license usage by existing customers and the addition of new customers. We continue to see an increase in revenue from the customers involved in carbon capture and storage projects and estimate that about 18% and 14% of total software revenue for the three months and year ended March 31, 2023, respectively, is attributable to the energy transition solutions.

Perpetual license revenue decreased by 34% and 33% during the three months and year ended March 31, 2023, respectively, compared to the same periods of the previous fiscal year. Sales of perpetual licenses 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 perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers usually prefer annuity licenses to perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollar had a positive impact on reported software license revenue during the three months and year ended March 31, 2023, compared to the same periods of the previous fiscal year.

Three months ended March 31, (\$ thousands)	2022	Incremental License Growth/(Decrease)	Foreign Exchange Impact	2023
Annuity/maintenance license revenue	14,306	887	610	15,803
Perpetual license revenue	2,351	(883)	88	1,556
Total software license revenue	16,657	4	698	17,359

Years ended March 31, (\$ thousands)	2022	Incremental License Growth/(Decrease)	Foreign Exchange Impact	2023
Annuity/maintenance license revenue	53,406	5,556	728	59,690
Perpetual license revenue	4,819	(1,730)	151	3,240
Total software license revenue	58,225	3,826	879	62,930

Software Revenue by Geographic Region

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Annuity/maintenance license revenue				
Canada	3,203	3,274	(71)	-2%
United States	3,813	3,408	405	12%
South America	2,239	1,663	576	35%
Eastern Hemisphere ⁽¹⁾	6,548	5,961	587	10%
	15,803	14,306	1,497	10%
Perpetual license revenue				
Canada	-	-	-	-
United States	145	-	145	100%
South America	-	-	-	-
Eastern Hemisphere	1,411	2,351	(940)	-40%
	1,556	2,351	(795)	-34%
Total software license revenue				
Canada	3,203	3,274	(71)	-2%
United States	3,958	3,408	550	16%
South America	2,239	1,663	576	35%
Eastern Hemisphere	7,959	8,312	(353)	-4%
	17,359	16,657	702	4%

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Annuity/maintenance license revenue				
Canada	12,602	12,699	(97)	-1%
United States	14,928	12,910	2,018	16%
South America	8,079	6,858	1,221	18%
Eastern Hemisphere ⁽¹⁾	24,081	20,939	3,142	15%
	59,690	53,406	6,284	12%
Perpetual license revenue				
Canada	-	-	-	-
United States	302	401	(99)	-25%
South America	-	-	-	-
Eastern Hemisphere	2,938	4,418	(1,480)	-33%
	3,240	4,819	(1,579)	-33%
Total software license revenue				
Canada	12,602	12,699	(97)	-1%
United States	15,230	13,311	1,919	14%
South America	8,079	6,858	1,221	18%
Eastern Hemisphere	27,019	25,357	1,662	7%
	62,930	58,225	4,705	8%

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

During the three months ended March 31, 2023, compared to the same period of the previous fiscal year, total software license revenue increased in the United States and South America and decreased in the Eastern Hemisphere and Canada. During the year ended March 31, 2023, compared to the previous fiscal year, total software license revenue increased across all of the regions with the exception of Canada which experienced only a slight decrease.

The Canadian region (representing 20% of annual total software license revenue) experienced slight decreases of 2% and 1% in annuity/maintenance license revenue during the three months and year ended March 31, 2023, respectively, compared to the same periods of the previous fiscal year, due to the region continuing to be negatively affected during fiscal 2023 by consolidation activity that started affecting its annuity/maintenance revenue in the first quarter of the current fiscal year.

The United States (representing 24% of annual total software license revenue), experienced increases of 12% and 16% in annuity/maintenance license revenue during the three months and year ended March 31, 2023, respectively, compared to the same periods of the previous fiscal year, due to new customers, including those within the carbon capture and storage industry, and increased licensing by existing customers. Perpetual license revenue increased by 100% during the quarter and decreased by 25% during the year, compared to the same periods of the previous fiscal year.

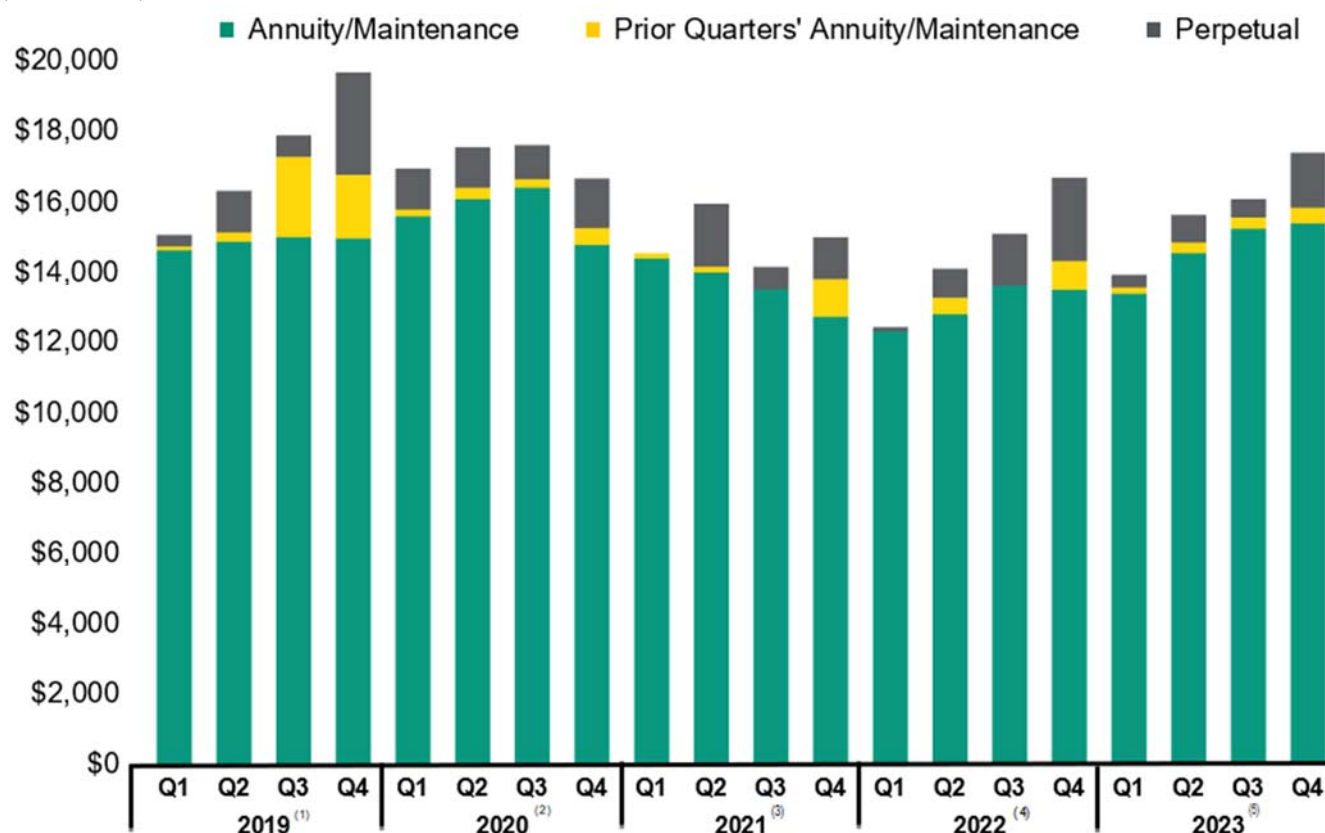
South America (representing 13% of annual total software license revenue) experienced increases of 35% and 18% in annuity/maintenance license revenue during the three months and year ended March 31, 2023, respectively, due to increased licensing by new and existing customers, which included reactivation of maintenance on perpetual licenses. In addition, year-over-year increase was positively affected by a multi-year lease that commenced in the second quarter of the previous fiscal year. There were no perpetual sales in South America during the current quarter or year.

The Eastern Hemisphere (representing 43% of annual total software license revenue) experienced increases of 10% and 15% in annuity/maintenance license revenue during the three months and year ended March 31, 2023, respectively, due to increased license fees as well as increased licensing by existing customers, and the addition of new customers, including new customers in the carbon capture and storage industry in Europe. Perpetual revenue during the three months and year ended March 31, 2023 decreased by 40% and 33%, respectively, due to not realizing the same level of perpetual sales in the current fiscal year.

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

Quarterly Software License Revenue

(\$ thousands)



- (1) Q1, Q2, Q3 and Q4 of fiscal 2019 include \$0.1 million, \$0.3 million, \$2.3 million, and \$1.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (2) Q1, Q2, Q3 and Q4 of fiscal 2020 include \$0.2 million, \$0.3 million, \$0.2 million and \$0.5 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (3) Q1, Q2, Q3 and Q4 of fiscal 2021 include \$0.2 million, \$0.2 million, \$nil and \$1.1 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (4) Q1, Q2, Q3 and Q4 of fiscal 2022 include \$nil, \$0.5 million, \$nil and \$0.8 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.
- (5) Q1, Q2, Q3 and Q4 of fiscal 2023 include \$0.2 million, \$0.3 million, \$0.3 million and \$0.4 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

Deferred Revenue

(\$ thousands)	Fiscal 2023	Fiscal 2022	\$ change	% change
Deferred revenue at:				
Q1 (June 30)	24,409	23,451	958	4%
Q2 (September 30)	24,164	21,242	2,922	14%
Q3 (December 31)	26,717	23,056	3,661	16%
Q4 (March 31)	34,797	30,454	4,343	14%

CMG's deferred revenue consists primarily of amounts for prepaid licenses. Our annuity/maintenance revenue is deferred and recognized ratably over the license period, which is generally one year or less. Amounts are deferred for licenses that have been provided and revenue recognition reflects the passage of time.

The above table illustrates the normal trend in the deferred revenue balance from the beginning of the calendar year (which corresponds with Q4 of our fiscal year), when most renewals occur, to the end of the calendar year (which corresponds with

Q3 of our fiscal year). Our fourth quarter corresponds with the beginning of the fiscal year for most oil and gas companies, representing a time when they enter a new budget year and sign/renew their contracts.

The deferred revenue balance at the end of Q4 of fiscal 2023 was 14% higher than Q4 of fiscal 2022.

Professional Services Revenue

Professional services revenue for the three months and year ended March 31, 2023 increased by 36% and 37%, respectively, compared to the same periods of the previous fiscal year. These increases were due to increased revenue from consulting projects and due to a technology development contract with Kongsberg Digital ("Kongsberg"). During the second quarter, CMG entered into a joint development agreement with Kongsberg to research and develop a new technology focused on carbon capture and storage.

Professional services revenue consists of specialized consulting, training, and contract research activities. CMG performs consulting and contract research activities on an ongoing basis. Our experience is that consulting activities are variable in nature as both the timing and dollar magnitude of work are dependent on activities and budgets within customer companies.

Expenses

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Sales, marketing and professional services	5,587	4,933	654	13%
Research and development	4,661	4,106	555	14%
General and administrative	3,108	2,443	665	27%
Total operating expenses	13,356	11,482	1,874	16%
Direct employee costs ⁽¹⁾	10,235	7,889	2,346	30%
Other corporate costs ⁽¹⁾	3,121	3,593	(472)	-13%
	13,356	11,482	1,874	16%

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Sales, marketing and professional services	17,161	15,995	1,166	7%
Research and development	18,145	16,705	1,440	9%
General and administrative	12,680	7,422	5,258	71%
Total operating expenses	47,986	40,122	7,864	20%
Direct employee costs ⁽¹⁾	36,983	30,592	6,391	21%
Other corporate costs ⁽¹⁾	11,003	9,530	1,473	15%
	47,986	40,122	7,864	20%

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.

Adjusted total operating expenses, adjusted direct employee costs and adjusted other corporate costs are non-IFRS financial measures. They do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other companies. They are calculated by excluding CEWS subsidies, CERS subsidies and restructuring charges, as applicable, from the related non-adjusted measures. Management believes that analyzing the Company's expenses exclusive of these items illustrates underlying trends in our costs and provides better comparability between periods.

The following tables provide a reconciliation of total operating expenses to adjusted total operating expenses, direct employee costs to adjusted direct employee costs and other corporate costs to adjusted other corporate costs:

(\$ thousands)	Three months ended March 31		Years ended March 31	
	2023	2022	2023	2022
Total operating expenses	13,356	11,482	47,986	40,122
CEWS	-	916	-	1,499
CERS	-	-	-	183
Restructuring charge	-	-	(3,943)	(851)
Adjusted total operating expenses	13,356	12,398	44,043	40,953
Direct employee costs	10,235	7,889	36,983	30,592
CEWS	-	916	-	1,499
Restructuring charge	-	-	(3,771)	(851)
Adjusted direct employee costs	10,235	8,805	33,212	31,240
Other corporate costs	3,121	3,593	11,003	9,530
CERS	-	-	-	183
Restructuring charge	-	-	(172)	-
Adjusted other corporate costs	3,121	3,593	10,831	9,713

Total operating expenses increased by 16% for the three months ended March 31, 2023, compared to the same period of the previous fiscal year. Adjusted total operating expenses increased by 8%.

Total operating expenses increased by 20% for the year ended March 31, 2023, compared to the previous fiscal year. Adjusted total operating expenses increased by 8%.

Direct Employee Costs

As a technology company, CMG's largest investment is its people, and approximately 77% of total operating expenses during the year ended March 31, 2023 relate to direct employee costs (year ended March 31, 2022 – 77%).

In May 2022, Ryan Schneider stepped down as the Company's President and CEO and Pramod Jain was appointed CEO. This change resulted in restructuring costs of \$1.6 million in the first quarter of the current fiscal year. During the second quarter of the current fiscal year, the Company restructured primarily its Calgary office, resulting in additional restructuring costs of \$2.3 million in the second quarter and bringing the total restructuring charges for the fiscal year to \$3.9 million. The restructuring that occurred in the second quarter was mainly aimed at streamlining operations to align resources with the Company's priorities. This prioritization will allow the Company to strengthen other business operations that are necessary for the Company to be responsive, resilient and able to adapt more quickly to changing business priorities.

The restructuring decreased our headcount and at March 31, 2023, CMG's full-time equivalent staff complement was 165 employees and consultants (March 31, 2022: 175 employees).

Adjusted direct employee costs increased for the three months and year ended March 31, 2023 by \$1.4 million (16%) and \$2.0 million (6%), compared to the same periods of the previous fiscal year primarily due to increased variable compensation such as stock-based compensation and bonuses.

Other Corporate Costs

Adjusted other corporate costs decreased by 13% for the three months ended March 31, 2023 compared to the same period of the previous fiscal year, due to the write-off of receivables from Russian customers included in the comparative period of the previous fiscal year.

Adjusted other corporate costs increased by 12% for the year ended March 31, 2023, compared to prior year, primarily due to higher professional services costs and travel-related costs.

Research and Development

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Research and development, net of government grants	4,911	4,318	593	14%
SR&ED credits	(250)	(212)	(38)	-18%
Research and development	4,661	4,106	555	14%
Research and development as a % of total revenue	23%	22%		

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Research and development, net of government grants	18,913	17,581	1,132	8%
SR&ED credits	(768)	(876)	108	12%
Research and development	18,145	16,705	1,440	9%
Research and development as a % of total revenue	25%	25%		

CMG works closely with its customers to provide solutions to complex problems related to proven and new advanced recovery processes through investment in research and development.

The above research and development costs include \$2.2 million and \$7.7 million of costs for CoFlow for the three months and year ended March 31, 2023, respectively, up from \$1.8 million and \$7.4 million in the same periods of the previous fiscal year. See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Research and development costs for the three months ended March 31, 2023 increased by 14%, compared to the same period of the previous fiscal year, primarily due to the increase in direct employee costs. During the year ended March 31, 2023 research and development costs increased by 9%, compared to the same period of the previous fiscal year, primarily due to the increase in direct employee costs and higher restructuring costs incurred in the current fiscal year compared to the previous fiscal year, partially offset by CEWS benefits received during the previous fiscal year which did not occur in the current fiscal year, and fewer full-time employees during the current fiscal year.

SR&ED credits increased slightly for the three months ended March 31, 2023, compared to the same period of the previous fiscal year, while they decreased by 12% for the year ended March 31, 2023, compared to the prior year.

Depreciation

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	213	219	(6)	-3%
Research and development	529	698	(169)	-24%
General and administrative	174	137	37	27%
Total depreciation	916	1,054	(138)	-13%

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Depreciation of property and equipment, allocated to:				
Sales, marketing and professional services	836	888	(52)	-6%
Research and development	2,275	2,764	(489)	-18%
General and administrative	538	546	(8)	-1%
Total depreciation	3,649	4,198	(549)	-13%

Depreciation for the three months and year ended March 31, 2023 both decreased by 13% compared to the same periods of the previous fiscal year.

Finance Income and Costs

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Interest income	705	101	604	598%
Total finance income	705	101	604	598%
Interest expense on lease liabilities	(474)	(494)	(20)	-4%
Net foreign exchange loss	(13)	(356)	(343)	-96%
Total finance costs	(487)	(850)	(363)	-43%

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Interest income	1,810	440	1,370	311%
Net foreign exchange gain	910	-	910	100%
Total finance income	2,720	440	2,280	518%
Interest expense on lease liabilities	(1,932)	(2,004)	(72)	-4%
Net foreign exchange loss	-	(495)	(495)	-100%
Total finance costs	(1,932)	(2,499)	(567)	-23%

Interest income for the three months and year ended March 31, 2023 was higher than in the same periods of the previous fiscal year, mainly due to higher interest rates and higher cash balances.

Interest expense on the lease liabilities for the three months and year ended March 31, 2023 was consistent with the comparative periods.

CMG is impacted by foreign exchange fluctuations, as 74% of CMG's revenue for the year ended March 31, 2023 (2022 – 70%) is denominated in US dollars, whereas only 27% (2022 – 24%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's USD-denominated working capital at March 31, 2023, 2022 and 2021 and the average exchange rates used to translate income statement items during the years ended March 31, 2023, 2022 and 2021:

CDN\$ to US\$	At March 31	Yearly average
2021	0.7952	0.7520
2022	0.8003	0.7980
2023	0.7383	0.7534

CMG recorded a very minor net foreign exchange loss for the three months ended March 31, 2023. During the year ended March 31, 2023, CMG recorded a net foreign exchange gain of \$0.9 million due to a strengthening of the US dollar during the period, which positively affected the valuation of the USD-denominated portion of the Company's working capital.

Income and Other Taxes

CMG's effective tax rate for the year ended March 31, 2023 is 25.7% (2022 – 23.4%), whereas the blended Canadian statutory tax rate for the Company's 2023 fiscal year is 23% (2022- 23%). The difference between the effective rate and the statutory rate 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 reduces income taxes otherwise payable for the current fiscal year, but bears an inherent tax liability as the amount of the credit is included in the subsequent year's taxable income for both federal and provincial purposes. The inherent tax liability on these investment tax credits is reflected in the year the credit is earned as a non-current deferred tax liability and then, in the following fiscal year, is transferred to income taxes payable.

Operating Profit and Net Income

Three months ended March 31, (\$ thousands, except per share data)	2023	2022	\$ change	% change
Total revenue	20,265	18,794	1,471	8%
Operating expenses	(13,356)	(11,482)	(1,874)	-16%
Operating profit	6,909	7,312	(403)	-6%
Operating profit as a % of revenue	34%	39%		
Net income	5,226	4,952	247	6%
Net income as a % of total revenue	26%	26%		
Basic earnings per share (\$/share)	0.07	0.06	0.01	17%

Years ended March 31, (\$ thousands, except per share data)	2023	2022	\$ change	% change
Total revenue	73,846	66,202	7,644	12%
Operating expenses	(47,986)	(40,122)	(7,864)	-20%
Operating profit	25,860	26,080	(220)	-1%
Operating profit as a % of revenue	35%	39%		
Net income	19,797	18,405	1,392	8%
Net income as a % of total revenue	27%	28%		
Basic earnings per share (\$/share)	0.25	0.23	0.02	9%

Adjusted operating profit and adjusted net income are non-IFRS financial measures. They do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other companies. Adjusted operating profit is calculated as operating profit excluding CEWS and CERS subsidies and restructuring charges. Adjusted net income is calculated as net income excluding tax-affected CEWS and CERS subsidies and restructuring charges. Management believes that analyzing the Company's performance exclusive of these items illustrates underlying trends in our business and provides better comparability between periods.

The following table provides a reconciliation of operating profit to adjusted operating profit and net income to adjusted net income:

(\$thousands)	Three months ended March 31		Years ended March 31	
	2023	2022	2023	2022
Operating profit	6,909	7,312	25,860	26,080
CEWS	-	(916)	-	(1,499)
CERS	-	-	-	(183)
Restructuring charge	-	-	3,943	851
Adjusted operating profit	6,909	6,396	29,803	25,249
Adjusted operating profit as a % of revenue	34%	34%	40%	38%
Net income	5,226	4,952	19,797	18,405
CEWS	-	(916)	-	(1,499)
CERS	-	-	-	(183)
Restructuring charge	-	-	3,943	851
Tax impact of adjusting items	-	211	(907)	191
Adjusted net income	5,226	4,247	22,833	17,765
Adjusted net income as a % of total revenue	26%	23%	31%	27%

Operating profit as a percentage of total revenue for the three months ended March 31, 2023 was 34%, down from 39% in the comparative quarter and consistent with the adjusted operating profit in the comparative quarter.

Operating profit as a percentage of total revenue for the year ended March 31, 2023 was 35%, down from 39% in the comparative year. Adjusted operating profit was 40%, up from 38% in the comparative year.

Net income as a percentage of total revenue for the three months ended March 31, 2023 was 26%, consistent with the comparative quarter. Adjusted net income as a percentage of total revenue was 26% in the current quarter, up from 23% in the comparative quarter.

Net income as a percentage of total revenue for the year ended March 31, 2023 was 27%, down from 28% in the comparative year. Adjusted net income as a percentage of total revenue was 31%, up from 27% in the prior year.

Adjusted EBITDA⁽¹⁾

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Net income	5,226	4,952	274	6%
Add (deduct):				
Depreciation	912	1,054	(142)	-13%
Finance (income) costs	(218)	749	(967)	-129%
Income and other taxes	1,901	1,611	290	18%
EBITDA ⁽¹⁾	7,821	8,366	(545)	-7%
Add (deduct):				
CEWS	-	(916)	(916)	-100%
Adjusted EBITDA ⁽¹⁾	7,821	7,450	371	5%
Adjusted EBITDA ⁽¹⁾ as a % of total revenue	39%	40%		

Year ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Net income	19,797	18,405	1,392	8%
Add (deduct):				
Depreciation	3,645	4,198	(553)	-13%
Finance (income) costs	(788)	2,059	(2,847)	-138%
Income and other taxes	6,851	5,616	1,235	22%
EBITDA ⁽¹⁾	29,505	30,278	(773)	-3%
Add (deduct):				
CEWS	-	(1,499)	(1,499)	-100%
CERS	-	(183)	(183)	-100%
Restructuring charge	3,943	851	3,092	363%
Adjusted EBITDA ⁽¹⁾	33,448	29,447	4,001	14%
Adjusted EBITDA as a % of total revenue	45%	44%		

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.

Adjusted EBITDA as a percentage of total revenue was 39% in the current quarter, slightly down from 40% in the prior year quarter.

Adjusted EBITDA as a percentage of total revenue was 45% in the current year, up from 44% in the prior year.

Liquidity and Capital Resources

Three months ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Cash, beginning of period	59,886	47,727	12,159	25%
Cash provided by (used in):				
Operating activities	12,624	16,470	(3,846)	-23%
Financing activities	(3,953)	(4,475)	522	12%
Investing activities	(1,707)	(62)	(1,645)	-2653%
Cash, end of period	66,850	59,660	7,190	12%

Years ended March 31, (\$ thousands)	2023	2022	\$ change	% change
Cash, beginning of period	59,660	49,068	10,592	22%
Cash provided by (used in):				
Operating activities	25,879	28,715	(2,836)	-10%
Financing activities	(16,641)	(17,420)	779	4%
Investing activities	(2,048)	(703)	(1,345)	-191%
Cash, end of period	66,850	59,660	7,190	12%

At March 31, 2023, CMG had \$66.9 million in cash, no borrowings and access to approximately \$1.1 million under a line of credit with its principal banker. The Company's primary non-operating use of cash during the year ended March 31, 2023 was dividend payments. Management believes that the Company has sufficient capital resources to meet its operating and capital expenditure needs.

During the year ended March 31, 2023, 15.3 million shares of CMG's public float were traded on the TSX. As at March 31, 2023, CMG's market capitalization based upon its March 31, 2023 closing price of \$7.26 was \$585.4 million.

Operating Activities

Cash provided by operating activities decreased by \$3.8 million during the three months ended March 31, 2023, compared to the same period of the previous fiscal year. While funds flow from operations was \$0.5 million higher in the current quarter than the comparative quarter due to higher revenue, it was offset by the changes in non-cash working capital during the current quarter.

Cash provided by operating activities decreased by \$2.8 million during the year ended March 31, 2023, compared to the previous fiscal year. This was because of a \$4.4 million decrease due to the movement in non-cash working capital, mainly in the receivables balance which was partially offset by a \$1.5 million increase in funds flow from operations, primarily due to higher revenue in the current fiscal year.

Financing Activities

Cash used in financing activities increased by 12% and 4% in the three months and year ended March 31, 2023, respectively, compared to same periods of the previous fiscal year primarily due to the proceeds received for the issuance of common shares.

In the year ended March 31, 2023, CMG paid \$16.1 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1	Q2	Q3	Q4
Total dividends declared and paid	0.05	0.05	0.05	0.05

In the year ended March 31, 2022, CMG paid \$16.1 million in dividends, representing the following quarterly dividends:

(\$ per share)	Q1	Q2	Q3	Q4
Total dividends declared and paid	0.05	0.05	0.05	0.05

On May 24, 2023, CMG announced the payment of a quarterly dividend of \$0.05 per share on CMG's common shares. The dividend will be paid on June 15, 2023 to shareholders of record at the close of business on June 7, 2023. Decisions with respect to dividend payments are made by the Board of Directors on a quarterly basis and take into account market conditions and the financial performance of the Company.

Investing Activities

CMG's investing activities consist of capital asset additions, all of which are funded internally. During the year ended March 31, 2023, CMG's net capital asset additions were \$0.6 million for computer equipment and \$1.3 million of intangible asset additions, compared to \$0.7 million in capital asset additions in the previous fiscal year. CMG's capital budget for fiscal 2024 is \$1.5 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

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

On January 1, 2017, Shell and CMG entered into an agreement (the "CoFlow Agreement") for an initial five-year term, whereby CMG would be responsible for the research and development costs of CoFlow and Shell would be responsible for providing a contribution for the continuing development of the software.

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term. In September 2021, CMG and Shell agreed that CMG will add and/or allocate up to six additional full-time employees in order to accelerate CoFlow development and support targeted CoFlow deployments, and Shell's contribution will increase accordingly.

CMG has only minor ongoing material contractual obligations other than prepaid licenses, which are reflected as deferred revenue on the statement of financial position, and contractual obligations for office leases, which are estimated to be as follows as at March 31, 2023:

(thousands of \$)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,674	812	4,486
Between one and five years	13,820	4,332	18,152
More than five years	36,173	10,379	46,552
	53,667	15,523	69,190

Critical Accounting Estimates and Judgments

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

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

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

Contracts with multiple products or services – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices (“SSP”) for distinct performance obligations can also require judgment and estimates. SSP for a performance obligation in a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

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

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

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

Outstanding Share Data

The following table represents the number of common shares, stock options, restricted share units and performance share units outstanding:

As at May 24, 2023	
(thousands)	
Common shares	80,668
Stock options	4,975
Restricted share units ⁽¹⁾	412
Performance share units ⁽¹⁾	51

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

The maximum number of common shares that may be reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding common shares. Based on this calculation, at May 24, 2023, CMG could reserve up to 8,066,763 common shares for issuance under its security-based compensation plans.

Business Risks

CMG's activities expose it to a variety of business risks, such as:

Commodity Price Risk

CMG's customers are primarily oil and gas companies, and we depend on our customers' capital and operating spending budgets. Commodity price volatility and changing economic conditions could adversely affect our customers' budgets, which could negatively affect demand for CMG's products and CMG's financial results. Additionally, sales of perpetual licenses, which require a relatively higher initial outlay, may decrease in favour of leasing software on a term basis.

Volatility in commodity prices could have an impact on CMG's consulting business; however, this revenue stream generates less than 10% of total revenues.

Credit and Liquidity Risks

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

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

In terms of liquidity, the Company held \$66.9 million of cash at March 31, 2023, which more than covers its obligations, and it has approximately \$1.1 million of the credit facility available for its use. The Company's cash is held with reputable banking institutions. For the described reasons, we believe that our liquidity risk is low.

Sales Variability Risk

CMG's software license revenue consists primarily of annuity/maintenance software licensing, which is generally for a term of one year or less, and, to a lesser extent, perpetual software licensing, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. Software licensing under perpetual sales has comprised 5-8% of total software licensing revenue over the last two fiscal years, but is more variable in nature as the purchase decision, and its timing, fluctuate with customers' needs and budgets. CMG has found that a number of customers prefer to acquire perpetual software licenses rather than leasing the software on an annual basis. The Company's experience is that a number of these customers are purchasing additional licenses to allow more users to access CMG technology in their operations. CMG has found that a large percentage of its customers who have acquired perpetual software licenses are subsequently purchasing maintenance licenses to ensure they have access to current CMG technology.

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

CMG's customers are both domestic and international oil and gas companies, and for the year ended March 31, 2023, one customer comprised more than 10% of the Company's total revenue (year ended March 31, 2022 – one customer).

Foreign Exchange Risk

CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as 74% of product revenues in fiscal 2023 were denominated in US dollars (2022 – 70%). 27% of CMG's total costs in fiscal 2023 were denominated in US dollars (2022 – 24%), which provides a partial economic hedge against the fluctuation in currency exchange between the US and the Canadian dollar on revenues. CMG's residual revenues and costs are primarily denominated in Canadian dollars, and its policy is to convert excess US dollar cash into Canadian dollars when received.

Geopolitical Risk

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

- Costs associated with the use of foreign agents and contractors;
- Difficulties in collecting accounts receivable;
- Currency restrictions and exchange rate fluctuations;
- The burdens of complying with a wide variety of foreign laws;
- Changes in laws governing existing operations and contracts;
- Changes to taxation policies dramatically increasing tax costs to the Company;
- Possible social, labor, political, and economic instability, including the war in Ukraine;

- Economic and legal sanctions (including with respect to the economic sanctions on Russia as a result of the war in Ukraine); and
- Non-compliance with applicable anti-corruption and bribery laws.

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

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

Competition Risk

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

Increased consolidation in oil and gas industry can result in a concentration of market share and reduced licensing of CMG's products. If CMG's customers acquire or merge with entities not using CMG's products, such consolidation may have a positive impact on CMG. However, in most cases, consolidation leads to reduced engineering teams and spending to drive post-acquisition synergies, which leads to reduced licensing of CMG's products.

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

Sustaining competitive advantage is another issue, which CMG addresses by making a significant ongoing commitment to research and development spending. CMG spent \$18.1 million on product research and development in its most recently completed fiscal year (2022 – \$16.7 million).

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

Any new products CMG develops could require long development and testing and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue. CMG also continues to face the challenge of the increasingly complex integration of its products to address customers' requirements. If CMG is unable to successfully develop new products, or enhance and improve existing products or if we fail to position and/or price our products to respond on a timely basis to the changing needs of our customer base, then our business, operating and financial results will be adversely affected.

The competition in the reservoir simulation market has been increasing as existing and new competitors enhance and expand their products and service offerings. While switching costs for customers remain high, some competitors could facilitate switching or offer incentives for switching, which would have a negative impact on CMG's revenue. Some competitors have greater name recognition and significantly greater financial, technical, sales, marketing and other resources. Competitors may offer lower prices, additional products or services, or other incentives that we cannot match or offer. Increased competition could result in pricing pressure, reduced sales, loss of market share, lower margins or other adverse effects on the business.

Our continuing ability to address these risks will depend, to a large extent, on our ability to retain a technically competent research and development staff and to adapt to technological advances in the industry.

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

CMG's financial position allows us to grow in other product categories to provide a deeper offering to our customer base.

We seek to develop and offer high-value solutions that can be implemented with relative ease. We believe our products have advantages over many of our competitors including, but not limited to, leadership in modelling of difficult processes; exceptional customer training and support, and quality and performance such as speed, flexibility, functionality and ease of use leadership in modelling of difficult processes, exceptional customer support and training, and functionality and ease of use.

Qualified Personnel Risk

The Company's continued success is substantially dependent on the performance of its key employees and officers. The loss of the services of these personnel as well as failure to attract additional key personnel could have a negative impact upon the Company's business, operating results and financial condition. As a result of more flexible working arrangements, employees have more options when looking for employment, as they can work remotely for employers located in other provinces or countries. Consequently, employers find themselves competing for talent not only locally, but with other employers from around the world. Due to high levels of competition for qualified personnel, there can be no assurance that the Company will be successful in retaining and attracting such personnel. The Company attempts to overcome this by offering an attractive compensation package and providing an environment that provides the intellectual and professional stimulation sought by our employee group.

Intellectual Property Risk

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

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

Cyber Risk

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

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

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

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

Evolving Laws and Regulation

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

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

Tax Liability Risk

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

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

Climate Change Risk

The recent shift toward public and government support of climate change initiatives, such as emission reduction targets, clean energy standards, and alternative energy incentives and mandates, could impact the demand for hydrocarbons in Canada and around the world. CMG's customers are oil and gas companies; therefore, increasing environmental regulations, taxes, laws or

penalties could reduce oil and gas producers' cash flow by way of reduced demand, increased capital expenditures and increased operating expenses, as well as increased delays, costs or legal hurdles, which may not be recoverable in the marketplace. Such regulation changes include, but are not limited to, curtailment rules, new climate change regulations and the implementation of the *Canadian Energy Regulator Act*. The complexity and breadth of changes in environmental regulation make it extremely difficult to predict the potential impact to CMG; however, it is possible to conclude that these developments and future global developments in the energy sector could adversely impact the demand for CMG's products.

Extreme Climatic Conditions

Climate change may increase the frequency of severe weather conditions and natural disasters, such as flooding and forest fires, shifts in temperature and precipitation, and changing sea levels. The Company's major customers are oil and gas exploration and production companies, and the operations of these customers can be affected by extreme weather, which can threaten their assets and available cash. This may result in cessation or diminishment of production or implementation of new projects, which can affect the demand for CMG's products and adversely affect the Company's financial results.

Energy Transition

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109.

At March 31, 2023, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") concluded that the design and operation of the Company's DC&P were effective (in accordance with the COSO control framework (2013)) and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation. Further, the CEO and the CFO concluded that the design and operation of the Company's ICFR were effective at March 31, 2023 in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that such controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

During the year ended March 31, 2023, 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.

Management's Statement of Responsibility

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

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

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

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



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

Calgary, Canada
May 24, 2023



Pramod Jain
Chief Executive Officer

Independent Auditor's Report

To the Shareholders of Computer Modelling Group Ltd.

Opinion

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

- the consolidated statements of financial position as at March 31, 2023 and March 31, 2022
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2023 and March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended March 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

We draw attention to Note 3 and Note 12 to the financial statements. The Entity has revenue of \$73,846 thousand, a substantial portion of which contain software licenses in the contract.

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

a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

Annuity agreements include a term-based software license bundled with maintenance. Since the Entity does not sell term-based annuity licenses individually without maintenance and there is no comparable product in the market, there is no observable standalone selling price for term-based software annuity licenses. The Entity allocated the value of bundled annuity agreements between software licenses and maintenance using the residual approach, by subtracting the standalone selling price of maintenance from the total annuity agreement fee. Based on this calculation, the standalone selling price of maintenance represents 50% of the total annuity agreement fee, leaving 50% to be allocated to the standalone annuity license.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Financial Report".

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants
May 24, 2023
Calgary, Canada

Consolidated Statements of Financial Position

(thousands of Canadian \$)	March 31, 2023	March 31, 2022
Assets		
Current assets:		
Cash	66,850	59,660
Trade and other receivables (note 20(a))	23,910	17,507
Prepaid expenses	1,060	792
Prepaid income taxes (note 17)	444	959
	92,264	78,918
Property and equipment (note 6)	10,366	10,908
Right-of-use assets (note 7)	30,733	33,113
Intangible assets (note 4 and 8)	1,321	-
Deferred tax asset (note 17)	2,444	2,209
Total assets	137,128	125,148
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities (note 9)	9,883	6,819
Income taxes payable (note 17)	33	13
Deferred revenue (note 10)	34,797	30,454
Lease liabilities (note 11)	1,829	1,626
	46,542	38,912
Long-term stock-based compensation liability (note 18(c))	1,985	1,556
Long-term lease liabilities (note 11)	36,151	37,962
Total liabilities	84,678	78,430
Shareholders' equity:		
Share capital (note 18)	81,820	80,248
Contributed surplus	15,471	15,009
Deficit	(44,841)	(48,539)
Total shareholders' equity	52,450	46,718
Total liabilities and shareholders' equity	137,128	125,148

Subsequent event (note 25)

See accompanying notes to consolidated financial statements.

Approved by the Board



Mark R. Miller
Director



Peter H. Kinash
Director

Consolidated Statements of Operations and Comprehensive Income

Years ended March 31, (thousands of Canadian \$ except per share amounts)	2023	2022
Revenue (note 12)	73,846	66,202
Operating expenses (note 13)		
Sales, marketing and professional services	17,161	15,995
Research and development (note 14)	18,145	16,705
General and administrative	12,680	7,422
	47,986	40,122
Operating profit	25,860	26,080
Finance income (note 16)	2,720	440
Finance costs (note 16)	(1,932)	(2,499)
Profit before income and other taxes	26,648	24,021
Income and other taxes (note 17)	6,851	5,616
Net and total comprehensive income	19,797	18,405
Earnings per share – basic (note 18(d))	0.25	0.23
Earnings per share – diluted (note 18(d))	0.24	0.23
Dividend per share	0.20	0.20

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian \$)	Share capital	Contributed surplus	Deficit	Total equity
Balance, April 1, 2021	80,051	14,251	(50,880)	43,422
Total comprehensive income for the year	-	-	18,405	18,405
Dividends paid	-	-	(16,064)	(16,064)
Shares issued on redemption of restricted share units (note 18(b))	197	-	-	197
Stock-based compensation:				
Current period expense (note 18(c))	-	758	-	758
Balance, March 31, 2022	80,248	15,009	(48,539)	46,718
Balance, April 1, 2022	80,248	15,009	(48,539)	46,718
Total comprehensive income for the year	-	-	19,797	19,797
Dividends paid	-	-	(16,099)	(16,099)
Shares issued on redemption of restricted share units (note 18(b))	309	-	-	309
Shares issued on exercise of stock options (note 18(b))	1,263	(197)	-	1,066
Stock-based compensation:				
Current period expense (note 18(c))	-	659	-	659
Balance, March 31, 2023	81,820	15,471	(44,841)	52,450

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, (thousands of Canadian \$)	2023	2022
Operating activities		
Net income	19,797	18,405
Adjustments for:		
Depreciation (notes 6, 7 and 8)	3,649	4,198
Deferred income tax recovery (note 17)	(235)	(386)
Stock-based compensation (note 18(c))	2,146	1,625
Funds flow from operations	25,357	23,842
Movement in non-cash working capital:		
Trade and other receivables	(6,403)	5,732
Trade payables and accrued liabilities	2,315	107
Prepaid expenses	(268)	28
Income taxes payable	535	(987)
Deferred revenue	4,343	(7)
Changes in non-cash working capital	522	4,873
Net cash provided by operating activities	25,879	28,715
Financing activities		
Proceeds from issuance of common shares	1,066	-
Repayment of lease liabilities (note 11)	(1,608)	(1,356)
Dividends paid	(16,099)	(16,064)
Net cash used in financing activities	(16,641)	(17,420)
Investing activities		
Property and equipment additions (note 6)	(708)	(703)
Intangible asset additions (note 4 and 8)	(1,340)	-
Net cash used in investing activities	(2,048)	(703)
Increase in cash	7,190	10,592
Cash, beginning of period	59,660	49,068
Cash, end of period	66,850	59,660
Supplementary cash flow information		
Interest received (note 16)	1,810	440
Interest paid (notes 11 and 16)	1,932	2,004
Income taxes paid	6,635	6,113

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2023 and 2022.

1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its common shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The consolidated financial statements as at and for the year ended March 31, 2023 comprise CMG and its subsidiaries (together referred to as the "Company"). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

2. Basis of Preparation:

(a) Statement of Compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements as at and for the year ended March 31, 2023 were authorized for issuance by the Board of Directors on May 24, 2023.

(b) Basis of Measurement:

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

(c) Functional and Presentation Currency:

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of Estimates, Judgments and Assumptions:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses. Estimates and underlying assumptions are based on historical experience and other assumptions that are considered reasonable in the circumstances and are reviewed on an ongoing basis. Actual results may differ from such estimates and it is possible that the differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The financial statement areas that require significant estimates and judgments are as follows:

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

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

Contracts with multiple products or services – contracts with customers often include promises to deliver multiple products, such as licenses and maintenance. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the standalone selling prices (“SSP”) for distinct performance obligations can also require judgment and estimates. SSP for a performance obligation in a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

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

Research and development – assumptions are made in respect to the eligibility of certain research and development projects in the calculation of scientific research and experimental development (“SR&ED”) investment tax credits which are netted against the research and development costs in the statement of operations and comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits (note 14).

Stock-based compensation – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives (note 18 (c)).

3. Significant Accounting Policies:

(a) Basis of Consolidation:

The consolidated financial statements include the accounts of CMG and its subsidiaries, all 100% owned (note 23). All inter-company transactions and balances have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(b) Revenue Recognition:

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The nature of the products and services from which the Company derives its revenue is described below.

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

Type of products /service	Nature, timing of satisfaction of performance obligations, significant contract terms
	agreements, the software license portion that relates to the non-cancellable period will be recognized upfront, at the start of that particular period of the license contract. The maintenance component of an annuity contract includes customer support and unspecified software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time. Since the Company does not sell term-based annuity licenses individually without maintenance and there is no comparable product in the market, there is no observable standalone selling price for term-based software annuity licenses. The Company allocates the value of bundled annuity agreements between software licenses and maintenance using the residual approach, by subtracting the standalone selling price of maintenance from the total annuity agreement fee. Based on this calculation, the standalone selling price of maintenance represents 50% of the total annuity agreement fee, leaving 50% to be allocated to the standalone software annuity license.
Maintenance license revenue	Maintenance agreements include customer support and unspecified software upgrades, typically for a term of one year or less. Maintenance licenses are purchased by customers who already own a perpetual license and want the additional benefit of customer support and software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time.
Perpetual license revenue	A perpetual license grants the customer the right to use the then-current version of the software in perpetuity. Perpetual license revenue is recognized at a point in time, upon delivery of the licensed product.
Professional services revenue	Revenue from professional services consists of consulting, training and contract research activities. Professional services revenue is recognized over time, based on hours incurred.

Costs to obtain a contract

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

(c) Cash:

Cash consists of balances held in interest-earning bank accounts.

(d) Property and Equipment:

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

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

Computer equipment	straight-line over 3 years
Furniture and equipment	straight-line over 5 years
Leasehold improvements	straight-line over the lease term

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

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

(e) Intangible Assets:

Intangible assets consist of intellectual property and are carried at cost less accumulated depreciation and accumulated impairment losses, if applicable. The carrying value of intangibles with definite lives is reviewed each reporting period to determine whether there is any indication of impairment. If there are indications of impairment the impairment analysis is completed and if the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and impairment loss is recognized.

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

Intellectual Property	straight-line over 5 years
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The estimated useful lives and depreciation methods are reviewed at each fiscal year-end and adjusted if appropriate.

(f) Business Combinations:

Acquisitions have been accounted for using the acquisition method required by IFRS 3 Business Combinations. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values.

While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities, including contingent consideration where applicable, assumed at the acquisition date, these estimates are inherently uncertain and subject to refinement, particularly since these assumptions and estimates are based in part on historical experience and information obtained from the management of the acquired companies.

Furthermore, when valuing certain intangible assets that the Company has acquired, critical estimates may be made relating to, but not limited to:

- (i) future expected cash flows from software license sales, support agreements, consulting agreements and other customer contracts
- (ii) the acquired company's technology and competitive position, as well as assumptions about the period of time that the acquired technology will continue to be used in the Company's product portfolio, and
- (iii) discount rates.

Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments would be recorded to our consolidated statements of income.

(g) Research and Development Costs:

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

(h) Finance Income and Finance Costs:

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

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

(i) Foreign Currency Translation:

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

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

(j) Income Taxes:

Income taxes comprise current and deferred tax.

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

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

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

(k) Investment Tax Credits:

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

(l) Earnings Per Share:

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

(m) Stock-Based Compensation:

The Company has a stock option plan, a share appreciation rights plan, a performance share unit and restricted share unit plan, and a deferred share unit plan, as described in note 18(c).

Stock options give the holder the right to purchase common shares and are accounted for as an equity-settled plan. The fair value of stock options is determined using the Black-Scholes valuation model as of the grant date and is expensed over the vesting period, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of options that are expected to vest and recognizes the impact of any revision in the statement of operations and comprehensive income. When stock options are exercised, the Company records consideration received, together with amounts previously recognized in contributed surplus, as an increase in share capital.

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

Fair value measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(n) Short-Term Employee Benefits:

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

(o) Financial Instruments:

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

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

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

Financial liabilities are initially recognized at fair value, represented by the amount required to be paid plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within a year; otherwise, they are classified as non-current liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Any gain or loss on derecognition is recognized in profit or loss.

(p) Share Capital:

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

(q) Impairment:

(i) Receivables

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

(ii) Non-financial assets

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

(r) Leases:

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

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

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

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

(s) Government Grants:

Government grants are recognized when the Company has reasonable assurance that it has complied with the relevant conditions of the grant. Government grants are recognized against the financial statement line item that they are intended to compensate (note 13).

4. Acquisition:

On February 15, 2023, the Company acquired all of the assets of Unconventional Subsurface Integration LLC ("USI"), an early-stage AI-based data analytics technology used for the development and optimization of shale reservoirs. Total consideration for USI's assets was \$1.3 million (US\$1.0 million) settled in cash. In accordance with IFRS 3, this acquisition was accounted for as a business combination with the results of operations included in these consolidated financial statements from the date of the acquisition. This acquisition will help the Company to establish its presence in data analytics and deliver physics-based solutions to a broader range of users.

The purchase consideration has been allocated exclusively to the intellectual property (note 8) acquired in the transaction based on the fair value calculated using the discounted cash flow methodology.

The acquisition had no significant impact on revenues and net earnings for the year ended March 31, 2023.

5. Segmented Information:

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

Property and equipment, right-of-use assets and intangible assets of the Company are located in the following geographic regions (for revenue by geographic region, refer to note 12):

(thousands of \$)	March 31, 2023	March 31, 2022
Canada ⁽¹⁾	41,835	43,216
United States	345	553
South America	148	218
Eastern Hemisphere ⁽²⁾	92	34
	42,420	44,021

(1) Includes intangible assets from note 8.

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

6. Property and Equipment:

Cost

(thousands of \$)	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Total
Balance at April 1, 2021	7,387	3,081	13,439	23,907
Additions	703	-	-	703
Disposals	(600)	(29)	-	(629)
Balance at March 31, 2022	7,490	3,052	13,439	23,981
Balance at April 1, 2022	7,490	3,052	13,439	23,981
Additions	708	-	-	708
Disposals	(65)	-	-	(65)
Balance at March 31, 2023	8,133	3,052	13,439	24,624

Accumulated Depreciation

(thousands of \$)				
Balance at April 1, 2021	(6,476)	(2,597)	(2,809)	(11,882)
Depreciation charge for the year	(665)	(468)	(687)	(1,820)
Disposals	600	29	-	629
Balance at March 31, 2022	(6,541)	(3,036)	(3,496)	(13,073)
Balance at April 1, 2022	(6,541)	(3,036)	(3,496)	(13,073)
Depreciation charge for the year	(584)	(4)	(662)	(1,250)
Disposals	65	-	-	65
Balance at March 31, 2023	(7,060)	(3,040)	(4,158)	(14,258)

Carrying Amounts

At March 31, 2022	949	16	9,943	10,908
At March 31, 2023	1,073	12	9,281	10,366

7. Right-of-Use Assets:

Cost	Offices
(thousands of \$)	
Balance at April 1, 2021	40,247
Remeasurement due to change in lease payments	(18)
Balance at March 31, 2022	40,229
Balance at April 1, 2022	40,229
Remeasurement due to change in lease payments	-
Balance at March 31, 2023	40,229
Accumulated Depreciation	
(thousands of \$)	
Balance at April 1, 2021	(4,738)
Depreciation charge for the year	(2,378)
Balance at March 31, 2022	(7,116)
Balance at April 1, 2022	(7,116)
Depreciation charge for the year	(2,380)
Balance at March 31, 2023	(9,496)
Carrying Amounts	
At March 31, 2022	33,113
At March 31, 2023	30,733

8. Intangible Assets:

Cost	Intellectual Property
(thousands of \$)	
Balance at April 1, 2022	-
Additions	1,340
Balance at March 31, 2023	1,340
Accumulated Depreciation	
(thousands of \$)	
Balance at April 1, 2022	-
Depreciation charge for the year	(19)
Balance at March 31, 2023	(19)
Carrying Amounts	
At March 31, 2022	-
At March 31, 2023	1,321

9. Trade Payables and Accrued Liabilities:

(thousands of \$)	March 31, 2023	March 31, 2022
Trade payables	634	293
Employee salaries, commissions and benefits payable	5,138	5,302
Accrued liabilities and other payables	4,111	1,224
	9,883	6,819

10. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

(thousands of \$)	March 31, 2023	March 31, 2022
Balance, beginning of period	30,454	30,461
Invoiced during the period, excluding amounts recognized as revenue during the period	33,533	30,071
Recognition of deferred revenue included in the balance at the beginning of the period	(29,190)	(30,078)
Balance, end of period	34,797	30,454

11. Lease Liabilities:

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

(thousands of \$)	March 31, 2023	March 31, 2022
Balance, beginning of period	39,588	40,962
Interest on lease liabilities (note 16)	1,931	2,004
Lease payments	(3,539)	(3,360)
Remeasurement due to change in lease payments	-	(18)
Balance, end of period	37,980	39,588
Current	1,829	1,626
Long-term	36,151	37,962

The following table presents contractual undiscounted payments for lease liabilities as at March 31, 2023:

(thousands of \$)	
Less than one year	3,674
Between one and five years	13,820
More than five years	36,173
Total undiscounted payments	53,667

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

Years ended March 31, (thousands of \$)	2023	2022
Variable lease expense	884	885
Short-term lease expense	141	157

12. Revenue:

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

Years ended March 31, (thousands of \$)	2023	2022
Annuity/maintenance license revenue		
Canada	12,602	12,699
United States	14,928	12,910
South America	8,079	6,858
Eastern Hemisphere	24,081	20,939
	59,690	53,406
Perpetual license revenue		
Canada	-	-
United States	302	401
South America	-	-
Eastern Hemisphere	2,938	4,418
	3,240	4,819
Total software license revenue	62,930	58,225
Professional services		
Canada	9,108	7,380
United States	374	78
South America	420	99
Eastern Hemisphere	1,014	420
	10,916	7,977
Total revenue		
Canada	21,710	20,079
United States	15,604	13,389
South America	8,499	6,957
Eastern Hemisphere	28,033	25,777
	73,846	66,202

The amount of revenue recognized during the year ended March 31, 2023 from performance obligations satisfied (or partially satisfied) in previous periods is \$2.6 million (2022 – \$2.3 million).

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

Receivables from contracts with customers were as follows:

(thousands of \$)	March 31, 2023	March 31, 2022
Receivables (included in "Trade and other receivables")	22,901	17,296

During the year ended March 31, 2023, one customer comprised 11.7% of the Company's total revenue (2022 – one customer, 12.1%).

13. Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy

No CEWS or CERS benefits were recorded during the year ended March 31, 2023.

CMG was eligible for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs during the year ended March 31, 2022. During that year, the Company recorded a CEWS benefit of \$1.5 million and a CERS benefit of \$0.2 million. These benefits were recorded against the financial statement line items that they are intended to compensate, resulting in the following credits to the operating expense categories:

Years ended March 31, (thousands of \$)	2023	2022
Sales, marketing and professional services	-	(286)
Research and development	-	(1,127)
General and administrative	-	(269)
	-	(1,682)

14. Research and Development Costs:

Years ended March 31, (thousands of \$)	2023	2022
Research and development, net of government grants	18,913	17,581
Scientific research and experimental development ("SR&ED") investment tax credits	(768)	(876)
	18,145	16,705

15. Personnel Expenses:

Years ended March 31, (thousands of \$)	2023	2022
Salaries, commissions and short-term employee benefits, net of government grants	33,344	28,070
Stock-based compensation (note 18(c))	3,317	2,466
	36,661	30,536

16. Finance Income and Finance Costs:

Years ended March 31, (thousands of \$)	2023	2022
Interest income	1,810	440
Net foreign exchange gain	910	-
Finance income	2,720	440
Interest expense on lease liabilities (note 11)	(1,932)	(2,004)
Net foreign exchange loss	-	(495)
Finance costs	(1,932)	(2,499)

17. Income and Other Taxes:

The major components of income tax expense are as follows:

Years ended March 31, (thousands of \$)	2023	2022
Current year income tax expense	6,442	5,882
Adjustment for prior year	50	(131)
Current income taxes	6,492	5,751
Deferred tax recovery	(235)	(386)
Foreign withholding and other taxes	594	251
	6,851	5,616

During the year ended March 31, 2023, the blended statutory tax rate was 23% (2022 – 23%).

The provision for income and other taxes reported differs from the amount computed by applying the combined Canadian Federal and Provincial statutory rate to the profit before income and other taxes. The reasons for this difference and the related tax effects are as follows:

Years ended March 31, (thousands of \$, unless otherwise stated)	2023	2022
Combined statutory tax rate	23.00%	23.00%
Expected income tax	6,129	5,525
Non-deductible costs	364	223
Withholding taxes	445	(37)
Effect of tax rates in foreign jurisdictions	(16)	(7)
Adjustment for prior year	50	(131)
Other	(121)	43
	6,851	5,616

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

(thousands of \$)	March 31, 2023	March 31, 2022
Right-of-use assets	1,653	1,479
Stock-based compensation liability	1,041	770
Property and equipment	70	149
Intangible Assets	(150)	0
SR&ED investment tax credits	(170)	(189)
Net deferred tax asset	2,444	2,209

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.

18. 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, 2021	80,286
Issued on redemption of restricted share units	49
Balance, March 31, 2022	80,335
Balance, April 1, 2022	80,335
Issued on redemption of restricted share units	67
Issued for cash on exercise of stock options	235
Balance, March 31, 2023	80,637

(c) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Years ended March 31, (thousands of \$)	2023	2022
Equity-settled plans	659	758
Cash-settled plans	2,658	1,708
Total stock-based compensation expense	3,317	2,466

Liability Recognized for Stock-Based Compensation⁽¹⁾

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

(thousands of \$)	March 31, 2023	March 31, 2022
SARs	931	525
RSUs	1,975	1,874
PSUs	437	311
DSUs	1,184	639
Total stock-based compensation liability	4,527	3,348
Current, included in trade payables and accrued liabilities	2,542	1,792
Long-term	1,985	1,556

(1) The intrinsic value of the vested awards at March 31, 2023 was \$1.8 million.

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

The maximum number of common shares reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding common shares. Based on this calculation, at March 31, 2023, the Company may reserve up to 8,063,706 common shares for issuance under its security-based compensation plans.

(i) *Stock Option Plan*

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

The following table outlines changes in stock options:

Years ended March 31,	2023		2022	
	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)	Number of Options (thousands)	Weighted Average Exercise Price (\$/share)
Outstanding at beginning of year	3,680	6.38	3,524	7.82
Granted ⁽¹⁾	3,196	4.86	1,006	3.98
Exercised	(236)	4.52	-	-
Forfeited/expired	(1,623)	7.30	(850)	9.51
Outstanding at end of year	5,017	5.21	3,680	6.38
Options exercisable at end of year	1,573	6.14	2,121	7.73

(1) 2,525,000 stock options are exercisable when specified share price targets are achieved.

The range of exercise prices of stock options outstanding and exercisable at March 31, 2023 is as follows:

			Outstanding		Exercisable	
Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Contractual Life (years)	Weighted Average Exercise Price (\$/option)	Number of Options (thousands)	Weighted Average Exercise Price (\$/option)	
3.98 to 4.62	865	3.6	4.11	323	3.98	
4.63 to 4.87	1,800	4.2	4.74	-	-	
4.88 to 5.04	667	4.5	5.00	-	-	
5.05 to 5.88	837	3.2	5.21	405	5.08	
5.89 to 9.20	848	1.0	7.47	845	7.47	
	5,017	3.4	5.21	1,573	6.14	

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

Years ended March 31,	2023	2022
Fair value at grant date (\$/option)	0.10 to 1.37	0.78 to 0.80
Share price at grant date (\$/share)	4.49 to 5.45	3.98
Risk-free interest rate (%)	2.55 to 3.76	0.57 to 0.70
Estimated hold period prior to exercise (years)	3 to 5	3 to 4
Volatility in the price of common shares (%)	39 to 45	39 to 42
Dividend yield per common share (%)	3.91 to 4.45	5.18

(ii) *Share Appreciation Rights Plan*

The Company adopted a share appreciation rights plan ("SAR Plan") in November 2015. A share appreciation right ("SAR") entitles the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of the Company's common shares on the date the SAR is exercised. SARs are granted to executive officers and employees

residing and working outside of Canada. Fifty percent of SARs vest on the first year anniversary from the grant date and then 25% vest on each of the second and third year anniversary dates. SARs have a five-year life.

The following table outlines changes in SARs:

Years ended March 31,	2023		2022	
	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)	Number of SARs (thousands)	Weighted Average Exercise Price (\$/SAR)
Outstanding at beginning of year	1,395	7.11	1,373	8.19
Granted ⁽¹⁾	304	6.25	278	3.98
Exercised	(23)	5.42	(3)	5.08
Forfeited/expired	(719)	7.64	(253)	9.58
Outstanding at end of year	957	6.47	1,395	7.11
SARs exercisable at end of year	544	7.04	955	8.29

(1) 200,000 SARs are exercisable when specified share price targets are achieved.

(iii) Share Unit Plans

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

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

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

Deferred Share Units (DSUs)

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

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

Years ended March 31, (thousands)	2023			2022		
	RSUs	PSUs	DSUs	RSUs	PSUs	DSUs
Outstanding at beginning of year	722	165	123	589	93	74
Granted	305	3	82	491	72	49
Exercised	(273)	-	(42)	(256)	-	-
Forfeited	(212)	(100)	-	(102)	-	-
Outstanding at end of year	542	68	163	722	165	123

(d) Earnings Per Share:

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

Years ended March 31, (thousands except per share amounts)	2023			2022		
	Earnings (\$)	Weighted average shares outstanding	Earnings per share (\$/share)	Earnings (\$)	Weighted average shares outstanding	Earnings per share (\$/share)
Basic	19,797	80,464	0.25	18,405	80,316	0.23
Dilutive effect of share-based awards		635			293	
Diluted	19,797	81,099	0.24	18,405	80,609	0.23

During the year ended March 31, 2023, 233,000 awards (2022 – 125,000 awards) were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

19. Capital Management:

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

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

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

20. Financial Instruments and Risk Management:

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

Overview:

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

(a) Credit Risk:

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

The Company's trade receivables consist primarily of balances from customers operating in the oil and gas industry, both domestically and internationally, as the Company sells its products and services in approximately 60 countries worldwide. Some of these countries have greater economic and political risk than experienced in North America, and as a result there may be greater risk associated with sales in those jurisdictions. The Company manages this risk by invoicing for the full license term in advance for the majority of software license sales and by invoicing as frequently as the contract allows for consulting and contract research services. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met. Historically, the Company has not experienced any significant losses related to individual customers or groups of customers in any particular geographic area. At March 31, 2023, the Company assessed credit risk related to its accounts receivable and established an allowance for doubtful accounts of \$6,000 (2022 – \$737,000). In fiscal 2022, most of the allowance for doubtful accounts related to receivables from Russian customers, due to the Company's decision to suspend doing business in Russia.

As at March 31, 2023, the Company has a concentration of credit risk with 9 domestic and international customers who represent 80% of trade receivables (2022 – 6 customers; 72%).

The carrying amount of trade and other receivables represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2023 was \$23.9 million (2022 – \$17.5 million). The aging of trade and other receivables at the reporting date was:

(thousands of \$)	March 31, 2023	March 31, 2022
Current	11,431	7,795
31-60 days	8,048	8,503
61-90 days	2,027	1,123
Over 90 days	2,404	86
Balance, end of year	23,910	17,507

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

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

(b) Market Risk:

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

(i) Foreign Exchange Risk

The Company operates internationally and primarily prices its products in either the Canadian or US dollar. This gives rise to exposure to market risks from changes in the foreign exchange rates between the Canadian and US dollar. Approximately 74% (2022 – 70%) of the Company's revenues for the year ended March 31, 2023 were denominated in US dollars, and at March 31, 2023, approximately US \$28.6 million (2022 – US \$13.1 million) of the Company's working capital was denominated in US dollars. The Company currently does not use derivative instruments to hedge its exposure to those risks, but since approximately 27% (2022 – 24%) of the Company's total costs are also denominated in US dollars, they provide a partial economic hedge against the fluctuation in this currency exchange. In addition, the Company manages levels of foreign currency held by converting excess US dollars into Canadian dollars at spot rates.

The Company's operations are exposed to currency risk on US-dollar denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated statement of operations and comprehensive income. It is estimated that a one cent change in the US dollar would result in a net change of approximately \$220,000 to equity and net income for the year ended March 31, 2023. A weaker US dollar with respect to the Canadian dollar will result in a negative impact, while the reverse would result from a stronger US dollar.

(ii) *Interest Rate Risk*

The Company has significant cash balances and no interest-bearing debt. The Company's policy is to invest excess cash in interest-bearing deposits and/or guaranteed investment certificates issued by a reputable financial institution. The Company is exposed to interest cash flow risk from changes in interest rates on its cash balances. Based on the March 31, 2023 cash balance, each 1% change in the interest rate on the Company's cash balance would change equity and net income for the year ended March 31, 2023 by approximately \$515,000.

(c) Liquidity Risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure as outlined in note 19. The Company's growth is financed through a combination of the cash flows from operations and its cash balances on hand. Given the Company's available liquid resources as compared to the timing of the payments of its liabilities, management assesses the Company's liquidity risk to be low. The Company monitors its expenditures by preparing annual budgets that are periodically updated. The company's trade payables are due within one year. At March 31, 2023, the Company has significant cash balances in excess of its obligations and approximately \$1.1 million of the line of credit available for its use (note 22).

21. Commitments:

(a) Research Commitment:

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

On January 1, 2017, Shell and CMG entered into an agreement (the "CoFlow Agreement") with an initial five-year term whereby CMG would be responsible for the research and development costs of CoFlow and Shell would be responsible for providing a contribution for the continuing development of the software.

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term. In September 2021, CMG and Shell agreed that CMG will add and/or allocate up to six additional full-time employees in order to accelerate CoFlow development and support targeted CoFlow deployments, and Shell's contribution will increase accordingly.

During the year ended March 31, 2023 the Company recorded professional services revenue of \$7.7 million (year ended March 31, 2022 – \$7.1 million) and CoFlow costs of \$7.7 million to research and development expenses (year ended March 31, 2022 – \$7.4 million).

(b) Commitments:

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

(thousands of \$)	March 31, 2023
Less than one year	812
Between one and five years	4,332
More than five years	10,379
	15,523

22. Line of Credit:

The Company has arranged for a \$2.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility or may be used to support letters of credit. As at March 31, 2023, \$1.1 million (March 31, 2022 – \$1.0 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

23. Subsidiaries:

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

The following is the list of CMG's subsidiaries:

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

24. Related Parties:

(a) Intercompany Transactions:

The Company has three wholly owned subsidiaries (note 23) that have intercompany transactions under the normal course of operations and are eliminated upon consolidation.

(b) Key Management Personnel Compensation:

For year ended March 31, 2023, the key management personnel of the Company are the Company's executive officers, heads of departments and Board of Directors (for year ended March 31, 2022, the key management personnel consisted of the Company's executive officers and Board of Directors). The key management personnel control approximately 3.2% of the outstanding shares of CMG at March 31, 2023. In addition to their salaries and director fees, as applicable, directors, executive officers and heads of departments also participate in the Company's stock-based compensation plans (note 18(c)), which are available to almost all employees of the Company, with the exception of the DSU plan, which is only available to non-employee directors of the Company.

Key management personnel compensation comprised the following:

Years ended March 31, (thousands of \$)	2023	2022
Salaries, bonus and employee benefits	5,273	3,865
Termination benefits	1,973	-
Stock-based compensation	1,685	1,182
	8,931	5,047

25. Subsequent Event:

On May 24, 2023, the Board of Directors declared a quarterly cash dividend of \$0.05 per share on its common shares, payable on June 15, 2023 to all shareholders of record at the close of business on June 7, 2023.

Corporate Information

Directors

Christine (Tina) M. Antony ⁽⁴⁾

Judith J. Athaide ⁽³⁾

John E. Billowits ⁽⁴⁾

Kenneth M. Dedeluk ⁽⁵⁾

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

Pramod Jain

Peter H. Kinash ⁽¹⁾

Mark R. Miller ⁽²⁾

Chairman of the Board

(1) Chair, Audit Committee

(2) Member, Audit Committee

(3) Chair, Governance Committee

(4) Member, Governance Committee

(5) Vice Chairman of the Board

Officers

Pramod Jain

Chief Executive Officer

Sandra Balic

Vice President,

Finance and Chief Financial Officer

John Mortimer

Chief Technology Officer

Sheldon Harbinson

Vice President

Americas

R. David Hicks

Vice President,

Eastern Hemisphere

Anjani Kumar

Vice President,

Customer Success and Consulting

Long X. Nghiem

Vice President,

Chief Scientist

Kirsty T. Sklar

Corporate Secretary

Head Office

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Canada

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Email: cmgl@cmgl.ca

Website: www.cmgl.ca

Regional Offices

Bogota, Colombia

Dubai, UAE

Houston, Texas, USA

Kuala Lumpur, Malaysia

London, England

Rio de Janeiro, Brazil

Transfer Agent

Olympia Trust Company

Stock Exchange Listing

Toronto Stock Exchange: **CMG**



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