# CEO Letter to Shareholders

February 8, 2023

Dear fellow shareholders,

In the third quarter, our comparative quarterly revenue grew by 14% which represents the fifth consecutive period of growth. With increased licensing by existing customers and the addition of new customers, our annuity and maintenance revenue grew in all regions except Canada which remained flat due to the negative impact of consolidation activity that occurred in the first quarter. Strength in the U.S. and Europe in particular, continues to be buoyed by increased interest in our technology for use in carbon capture projects.

Approximately 15% of third quarter and 13% of year-to-date total software revenue has been generated by energy transition projects. This will be an important indicator of success as we capitalize on CMG as the technology of choice in Carbon Capture and Storage (CCS) and other energy transition projects.

## CMG 4.0: Energy Transition

With evidence of immediate market demand for our simulators in the energy transition market, we have several initiatives that support us in capitalizing on our leadership position and continuing to define the role simulation technology plays in achieving success in the energy transition space.

First is the ground-breaking, innovative research being done in a Joint Industry Partnership (JIP) with Kongsberg. With the participation and support of numerous leading energy companies, this project attempts to solve one of the most challenging issues in CCS and emphasizes the acceptance of CMG's established technology within the carbon capture space.

Second is our recently announced agreement with Hatch and McDaniel which demonstrates how we are embracing partnerships with industry leaders to underscore the integral part we play in providing technology and consulting expertise in CCS.

## CMG 4.0: CoFlow | Integrated Decision Making

During my first nine months at CMG, I have travelled through the Americas, the Middle East and India, listening to and learning from our customers. The industry shift towards maximizing existing reserves, often in aging fields, and away from reserve replacement through exploration is underlining a new need for integrated decision making to optimize increasingly complex reserve recovery.

Integrated decision making is not unique to the energy industry. It was evident in my previous career in travel technology, and it has been on clear display in the past few months as holiday travel was upended by weather and airline disruptions.

For airlines, sorting out the crew, the aircraft, and the passengers needs to be done simultaneously to recover schedules quickly and efficiently. In reality, this is a problem with almost infinite variables, and it is incredibly difficult to solve. As a result, the problems are solved independent of one another and, as is evident to anyone who tried to travel over the holidays, are inefficient, costly and time consuming.

At the most senior executive level, the benefit of removing silos to optimize decision making is clear. The energy industry today is limiting its potential by engaging in siloed decision making. Having used advanced physics, mathematics, chemistry and high-performance computing for decades to address the unknown risks and mysteries of subsurface reservoirs, the industry must now embrace technology to break down barriers amongst functional groups and share decision making.

Connecting sub-surface expertise and understanding with the surface and production engineering has the potential to achieve yet another level of optimization to drive profitable, sustainable and critical resource development. Key development choices are improved by the ability of multiple disciplines to efficiently understand the end-to-end system from subsurface realizations through surface constraints. This is the vision of CoFlow, as a comprehensive platform of both surface and subsurface simulation. Our strategic partners in the development of CoFlow have embraced the benefits of this new approach.

This technology is a true differentiator for CMG, but not without risk. Developing our organizational sales strategy to properly educate the market will be critical in the successful commercialization of this tool, and our expectation is that, of all our growth initiatives, CoFlow will require the most time to execute.

### CMG 4.0: CMG Collaboration Centre (C3)

For the past several days I have been in India, wrapping up CMG's participation in India Energy Week. The event connected the global energy community for innovation, ideas and investment and I was both honored and excited to have joined our team for the occasion.

As the world's third largest energy consumer with increasing energy needs, India is projected to experience the largest increase in energy demand of any country over the next two decades. Amid the vision to become self-reliant and increase domestic production of oil and gas with a parallel focus on energy transition, CMG has the cutting-edge specialized software and technical expertise to support these goals.

To this end, I am also excited to share that we opened a new CMG Collaboration Centre in Bengaluru, India, which we are calling C3. This new Centre is a component of the CMG 4.0 strategy focused on driving organic growth. As we transform CMG to a market-focused product organization, we require product strategy that builds on our leadership in reservoir simulation while meeting the evolving demand for simplified, fit-for-purpose applications and workflows. This Centre will leverage over 15 years of collaboration with educational institutions in the country to expand specific research and development capabilities, to support our core team based in Calgary, and advance our product development.

In addition, with over a third of our business regularly derived from the Eastern Hemisphere, C3 will have a team that is focused and dedicated to supporting our sales efforts in the region with both consulting and customer care capabilities and marketing efforts.

### CMG 4.0: Organic and Inorganic Growth

Our commitment to leadership in energy transition, R&D and product development, and a long-term vision with CoFlow can drive organic growth within the context of strong industry trends.

Equally important, we continue to build a pipeline of opportunities for our inorganic growth strategy. We are evaluating where we can efficiently deploy capital to accelerate growth. This includes solutions within or as an extension to our core competencies to increase the value we deliver or technology acquisitions that serve as an entry into adjacent markets.

I look forward to continuing to provide updates on our progress as we execute on our CMG 4.0 strategy.

Sincerely,

Pramod Jain
Chief Executive Officer

Computer Modelling Group Ltd. announces its third quarter results for the three and nine months ended December 31, 2022.

## Third Quarter Highlights

| Three months ended December 31,<br>($ thousands, except per share data) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Annuity/maintenance software licenses | **15,533** | 13,575 | 1,958 | 14% |
| Perpetual software licenses | **518** | 1,497 | (979) | -65% |
| Total revenue | **19,392** | 17,045 | 2,347 | 14% |
| Operating profit | **8,435** | 7,755 | 680 | 9% |
| Net income | **6,348** | 5,574 | 774 | 14% |
| Earnings per share - basic | **0.08** | 0.07 | 0.01 | 14% |
| Funds flow from operations per share - basic | **0.10** | 0.09 | 0.01 | 11% |
| Free cash flow per share - basic (1) | **0.09** | 0.08 | 0.01 | 13% |

| Nine months ended December 31,<br>($ thousands, except per share data) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Annuity/maintenance software licenses | **43,887** | 39,100 | 4,787 | 12% |
| Perpetual software licenses | **1,684** | 2,468 | (784) | -32% |
| Total revenue | **53,581** | 47,408 | 6,173 | 13% |
| Operating profit | **18,951** | 18,768 | 183 | 1% |
| Net income | **14,571** | 13,453 | 1,118 | 8% |
| Earnings per share - basic | **0.18** | 0.17 | 0.01 | 6% |
| Funds flow from operations per share - basic | **0.22** | 0.21 | 0.01 | 5% |
| Free cash flow per share - basic (1) | **0.20** | 0.19 | 0.01 | 5% |

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

# Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") for Computer Modelling Group Ltd. ("CMG", the "Company", "we" or "our"), presented as at February 8, 2023, should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes of the Company for the three and nine months ended December 31, 2022 and 2021. Additional information relating to CMG, including our Annual Information Form, can be found at www.sedar.com. The financial data contained herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise indicated, all amounts in this report are expressed in Canadian dollars.*

## Forward-Looking Information

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

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

- future software license sales;
- the continued financing by and participation of the Company's CoFlow partner and it being completed in a timely manner, 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;
- ability to recruit and retain qualified staff; and
- the impact of the ongoing COVID-19 pandemic on the global economy and the Company.

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors, which are discussed in greater detail in the "Business Risks" section of 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 (net of CEWS), bonuses, stock-based compensation, benefits, commission expenses, and professional development. Other corporate costs include facility-related expenses, corporate reporting, professional services, marketing and promotion, computer expenses, travel, and other office-related expenses. Direct employee costs and other corporate costs should not be considered an alternative to total operating expenses as determined in accordance with IFRS. People-related costs represent the Company's largest area of expenditure; hence, management considers highlighting separately corporate and 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 CEWS and CERS subsidies 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 and repayment of lease liabilities. 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**

| | Fiscal 2021 | Fiscal 2022 | | | | Fiscal 2023 | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands, unless otherwise stated) | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | **Q3** |
| Funds flow from operations | 6,267 | 4,811 | 4,904 | 7,022 | 7,105 | 4,558 | 4,974 | **8,169** |
| Capital expenditures | (41) | (27) | (133) | (481) | (62) | - | (130) | **(211)** |
| Repayment of lease liabilities | (471) | (306) | (277) | (314) | (459) | (303) | (339) | **(413)** |
| Free cash flow | 5,755 | 4,478 | 4,494 | 6,227 | 6,584 | 4,255 | 4,505 | **7,545** |
| Weighted average shares – basic (thousands) | 80,286 | 80,286 | 80,307 | 80,335 | 80,335 | 80,335 | 80,412 | **80,511** |
| Free cash flow per share – basic | 0.07 | 0.06 | 0.06 | 0.08 | 0.08 | 0.05 | 0.06 | **0.09** |

## Corporate Profile

CMG is a computer software technology company serving the energy industry. The Company is a leading supplier of advanced process reservoir modelling software, with a diverse customer base of international oil companies and technology centers in approximately 60 countries. CMG's existing technology has differentiating capabilities built into its software products that can also be directly applied to the energy transition needs of its customers. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities. CMG has sales and technical support services based in Calgary, Houston, London, Dubai, Bogota and Kuala Lumpur. CMG's Common Shares are listed on the Toronto Stock Exchange ("TSX") and trade under the symbol "CMG".

## Quarterly Performance

| | Fiscal 2021[2] | Fiscal 2022[3] | | | | **Fiscal 2023[4]** | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands, unless otherwise stated) | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | **Q3** |
| Annuity/maintenance license revenue | 13,790 | 12,286 | 13,239 | 13,575 | 14,306 | 13,529 | 14,825 | **15,533** |
| Perpetual license revenue | 1,184 | 125 | 846 | 1,497 | 2,351 | 386 | 780 | **518** |
| Software license revenue | 14,974 | 12,411 | 14,085 | 15,072 | 16,657 | 13,915 | 15,605 | **16,051** |
| Professional services revenue | 1,827 | 2,003 | 1,864 | 1,973 | 2,137 | 2,192 | 2,477 | **3,341** |
| Total revenue | 16,801 | 14,414 | 15,949 | 17,045 | 18,794 | 16,107 | 18,082 | **19,392** |
| Operating profit | 6,556 | 5,573 | 5,440 | 7,755 | 7,312 | 4,961 | 5,555 | **8,435** |
| Operating profit (%) | 39 | 39 | 34 | 45 | 39 | 31 | 31 | **43** |
| Profit before income and other taxes | 5,747 | 4,827 | 5,321 | 7,310 | 6,563 | 5,182 | 5,989 | **8,350** |
| Income and other taxes | 1,454 | 1,094 | 1,175 | 1,736 | 1,611 | 1,369 | 1,579 | **2,002** |
| Net income for the period | 4,293 | 3,733 | 4,146 | 5,574 | 4,952 | 3,813 | 4,410 | **6,348** |
| EBITDA[1] | 7,627 | 6,596 | 6,473 | 8,843 | 8,366 | 5,892 | 6,492 | **9,300** |
| Cash dividends declared and paid | 4,014 | 4,015 | 4,016 | 4,017 | 4,016 | 4,017 | 4,025 | **4,025** |
| Funds flow from operations | 6,267 | 4,811 | 4,904 | 7,022 | 7,105 | 4,558 | 4,974 | **8,169** |
| Free cash flow[1] | 5,755 | 4,478 | 4,494 | 6,227 | 6,584 | 4,255 | 4,505 | **7,545** |
| Per share amounts – ($/share) | | | | | | | | |
| Earnings per share (EPS) – basic and diluted | 0.05 | 0.05 | 0.05 | 0.07 | 0.06 | 0.05 | 0.05 | **0.08** |
| 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 | 0.08 | 0.06 | 0.06 | 0.09 | 0.09 | 0.06 | 0.06 | **0.10** |
| Free cash flow per share – basic[1] | 0.07 | 0.06 | 0.06 | 0.08 | 0.08 | 0.05 | 0.06 | **0.09** |

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.
(2) Q4 of fiscal 2021 includes $1.1 million in revenue that pertains to usage of CMG's products in prior quarters.
(3) 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.
(4) Q1, Q2 and Q3 of fiscal 2023 include $0.2 million, $0.3 million, and $0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

## Commentary on Quarterly Performance

***For the Three Months Ended*** / ***For the Nine Months Ended***

*December 31, 2022 and compared to the same period of the previous fiscal year, when appropriate:*

**For the Three Months Ended**

- Annuity/maintenance license revenue increased by 14%;
- Total revenue increased by 14%;
- Total operating expenses increased by 18%. Adjusted for the restructuring charges, operating expenses increased by 13%, primarily due to an increase in variable direct employee costs;
- Quarterly operating profit margin was 43%, decreasing from 45% in the comparative quarter of the prior year. Adjusted for the restructuring charges, operating profit margin was 43%, consistent with the adjusted operating profit margin of the comparative quarter;
- Basic EPS of $0.08 was higher than the comparative quarter's EPS of $0.07;
- Achieved free cash flow per share of $0.09;
- Declared and paid a dividend of $0.05 per share.

**For the Nine Months Ended**

- Annuity/maintenance license revenue increased by 12%;
- Total revenue increased by 13%;
- Total operating expenses increased by 21%. Adjusted for the restructuring charges and CEWS/CERS benefits, operating expenses increased by 7%, primarily due to higher professional services and travel-related costs;
- Year-to-date operating profit margin was 35%, decreasing from 40% in the comparative period. Adjusted for the restructuring charges and the CEWS/CERS benefits, operating profit margin was 43%, increasing from 40%, in the comparative quarter;
- Basic EPS of $0.18 was higher than the comparative period's EPS of $0.17;
- Achieved free cash flow per share of $0.20;
- Declared and paid dividends of $0.15 per share.

## Revenue

| Three months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Software license revenue | **16,051** | 15,072 | 979 | 6% |
| Professional services revenue | **3,341** | 1,973 | 1,368 | 69% |
| Total revenue | **19,392** | 17,045 | 2,347 | 14% |
| Software license revenue as a % of total revenue | **83%** | 88% | | |
| Professional services revenue as a % of total revenue | **17%** | 12% | | |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Software license revenue | **45,571** | 41,568 | 4,003 | 10% |
| Professional services revenue | **8,010** | 5,840 | 2,170 | 37% |
| Total revenue | **53,581** | 47,408 | 6,173 | 13% |
| 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 and nine months ended December 31, 2022 increased by 14% and 13%, respectively, 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 December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Annuity/maintenance license revenue | **15,533** | 13,575 | 1,958 | 14% |
| Perpetual license revenue | **518** | 1,497 | (979) | -65% |
| Total software license revenue | **16,051** | 15,072 | 979 | 6% |
| Annuity/maintenance as a % of total software license revenue | **97%** | 90% | | |
| Perpetual as a % of total software license revenue | **3%** | 10% | | |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Annuity/maintenance license revenue | **43,887** | 39,100 | 4,787 | 12% |
| Perpetual license revenue | **1,684** | 2,468 | (784) | -32% |
| Total software license revenue | **45,571** | 41,568 | 4,003 | 10% |
| Annuity/maintenance as a % of total software license revenue | **96%** | 94% | | |
| Perpetual as a % of total software license revenue | **4%** | 6% | | |

Total software license revenue for the three and nine months ended December 31, 2022 increased by 6% and 10%, 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 14% and 12% during the three and nine months ended December 31, 2022, 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. In particular, we are seeing an increase in revenue from the customers involved in carbon capture and storage projects, and estimate that about 15% and 13% of total software revenue for the three and nine months ended December 31, 2022, respectively, is attributable to the energy transition segment.

Perpetual license revenue during the three and nine months ended December 31, 2022 decreased by 65% and 32%, 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 change in the exchange rate used to convert US dollar denominated revenue to Canadian dollars had a positive impact on reported annuity/maintenance license revenue during the three and nine months ended December 31, 2022, compared to the same periods of the previous fiscal year.

| Three months ended December 31, ($ thousands) | 2021 | Incremental License Growth/(Decrease) | Foreign Exchange Impact | **2022** |
|---|---|---|---|---|
| Annuity/maintenance license revenue | 13,575 | 1,763 | 195 | **15,533** |
| Perpetual license revenue | 1,497 | (1,057) | 78 | **518** |
| Total software license revenue | 15,072 | 706 | 273 | **16,051** |

| Nine months ended December 31, ($ thousands) | 2021 | Incremental License Growth/(Decrease) | Foreign Exchange Impact | **2022** |
|---|---|---|---|---|
| Annuity/maintenance license revenue | 39,100 | 4,636 | 151 | **43,887** |
| Perpetual license revenue | 2,468 | (918) | 134 | **1,684** |
| Total software license revenue | 41,568 | 3,718 | 285 | **45,571** |

### Software Revenue by Geographic Region

| Three months ended December 31, ($ thousands) | 2022 | 2021 | $ change | % change |
|---|---|---|---|---|
| ***Annuity/maintenance license revenue*** | | | | |
| Canada | **3,268** | 3,303 | (35) | -1% |
| United States | **4,061** | 3,429 | 632 | 18% |
| South America | **2,247** | 1,884 | 363 | 19% |
| Eastern Hemisphere(1) | **5,957** | 4,959 | 998 | 20% |
| | **15,533** | 13,575 | 1,958 | 14% |
| ***Perpetual license revenue*** | | | | |
| Canada | **-** | - | - | 0% |
| United States | **-** | 180 | (180) | -100% |
| South America | **-** | - | - | 0% |
| Eastern Hemisphere | **518** | 1,317 | (799) | -61% |
| | **518** | 1,497 | (979) | -65% |
| ***Total software license revenue*** | | | | |
| Canada | **3,268** | 3,303 | (35) | -1% |
| United States | **4,061** | 3,609 | 452 | 13% |
| South America | **2,247** | 1,884 | 363 | 19% |
| Eastern Hemisphere | **6,475** | 6,276 | 199 | 3% |
| | **16,051** | 15,072 | 979 | 6% |

| Nine months ended December 31, ($ thousands) | 2022 | 2021 | $ change | % change |
|---|---|---|---|---|
| ***Annuity/maintenance license revenue*** | | | | |
| Canada | **9,399** | 9,425 | (26) | 0% |
| United States | **11,115** | 9,502 | 1,613 | 17% |
| South America | **5,840** | 5,195 | 645 | 12% |
| Eastern Hemisphere(1) | **17,533** | 14,978 | 2,555 | 17% |
| | **43,887** | 39,100 | 4,787 | 12% |
| ***Perpetual license revenue*** | | | | |
| Canada | **-** | - | - | 0% |
| United States | **157** | 401 | (244) | -61% |
| South America | **-** | - | - | 0% |
| Eastern Hemisphere | **1,527** | 2,067 | (540) | -26% |
| | **1,684** | 2,468 | (784) | -32% |
| ***Total software license revenue*** | | | | |
| Canada | **9,399** | 9,425 | (26) | 0% |
| United States | **11,272** | 9,903 | 1,369 | 14% |
| South America | **5,840** | 5,195 | 645 | 12% |
| Eastern Hemisphere | **19,060** | 17,045 | 2,015 | 12% |
| | **45,571** | 41,568 | 4,003 | 10% |

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

During the three and nine months ended December 31, 2022, compared to the same periods of the previous fiscal year, total software license revenue increased in all regions except Canada.

The Canadian region's (representing 22% of year-to-date total software license revenue) annuity/maintenance revenue remained consistent during the three and nine months ended December 31, 2022, compared to the same periods of the previous fiscal year, due to the region continuing to be negatively affected by consolidation activity that started affecting its annuity/maintenance revenue in the first quarter of the current fiscal year.

The United States (representing 25% of year-to-date total software license revenue) experienced increases of 18% and 17% in annuity/maintenance license revenue during the three and nine months ended December 31, 2022, respectively, due to new customers, including those within the carbon capture and storage industry, and increased licensing by existing customers.

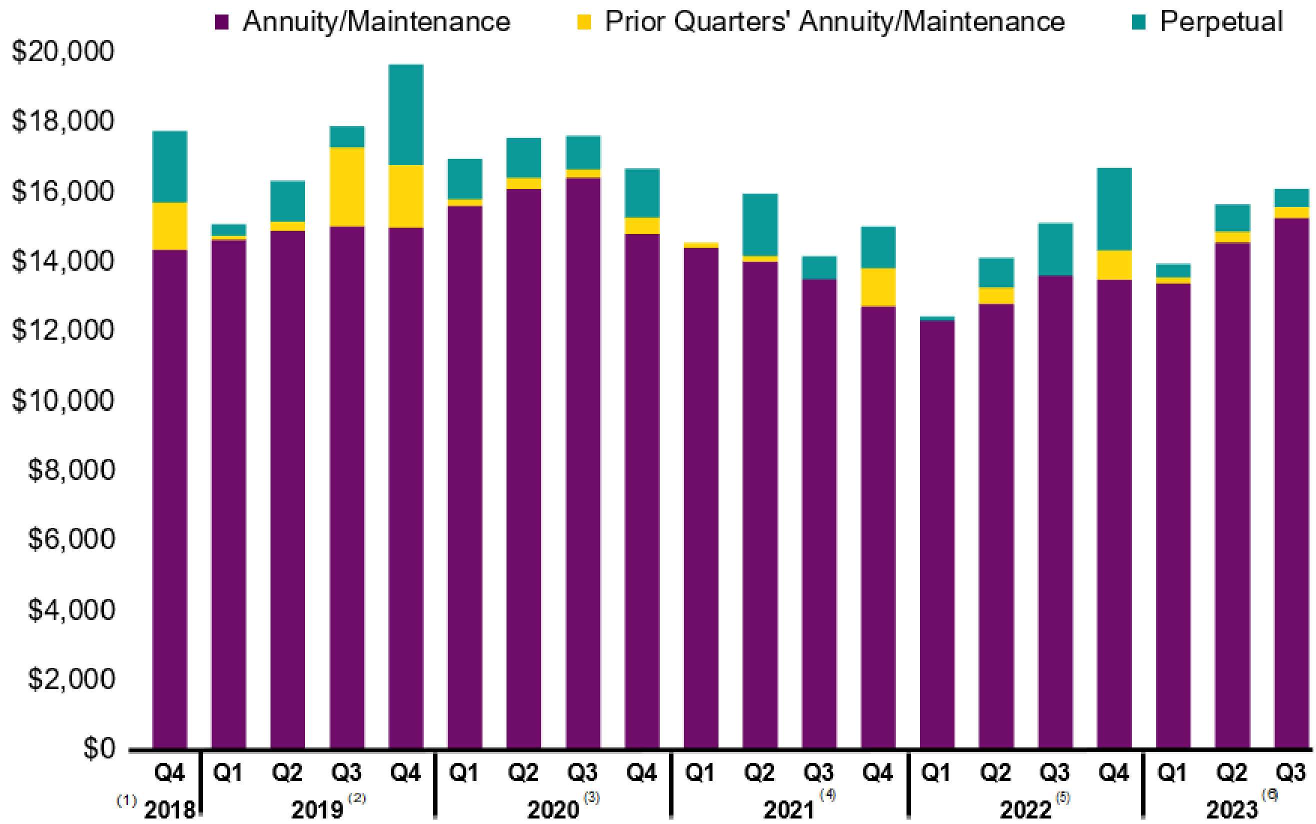
South America (representing 13% of year-to-date total software license revenue) experienced increases of 19% and 12% in annuity/maintenance license revenue during the three and nine months ended December 31, 2022, respectively, due to increased licensing by new and existing customers as well as due to a multi-year lease that commenced in the second quarter of the previous fiscal year.

The Eastern Hemisphere (representing 40% of year-to-date total software license revenue) experienced increases of 20% and 17% in annuity/maintenance license revenue during the three and nine months ended December 31, 2022, 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 decreased by 61% and 26%, respectively, during the three and nine months ended December 31, 2022, relative to the same period of the previous 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) Q4 of fiscal 2018 includes $0.6 million in revenue that pertains to usage of CMG's products in prior quarters.
(2) 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.
(3) 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.
(4) 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.
(5) 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.
(6) Q1, Q2 and Q3 of fiscal 2023 include $0.2 million, $0.3 million and $0.3 million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

## Deferred Revenue

| ($ thousands) | Fiscal 2023 | Fiscal 2022 | Fiscal 2021 | $ 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) | | 30,454 | 30,461 | (7) | 0% |

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 Q3 of fiscal 2023 was 16% higher than Q3 of fiscal 2022 with only minor impact of timing differences on the balance.

### Professional Services Revenue

Professional services revenue for the three and nine months ended December 31, 2022 was $3.3 million and $8.0 million which represents the increases of 69% 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 receiving development funding from Kongsberg Digital ("Kongsberg"). During the 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 December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Sales, marketing and professional services | **4,111** | 3,810 | 301 | 8% |
| Research and development | **4,160** | 3,926 | 234 | 6% |
| General and administrative | **2,686** | 1,554 | 1,132 | 73% |
| Total operating expenses | **10,957** | 9,290 | 1,667 | 18% |
| Direct employee costs[1] | **8,304** | 7,054 | 1,250 | 18% |
| Other corporate costs[1] | **2,653** | 2,236 | 417 | 19% |
| | **10,957** | 9,290 | 1,667 | 18% |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Sales, marketing and professional services | **11,574** | 11,062 | 512 | 5% |
| Research and development | **13,484** | 12,599 | 885 | 7% |
| General and administrative | **9,572** | 4,979 | 4,593 | 92% |
| Total operating expenses | **34,630** | 28,640 | 5,990 | 21% |
| Direct employee costs[1] | **26,748** | 22,703 | 4,045 | 18% |
| Other corporate costs[1] | **7,882** | 5,937 | 1,945 | 33% |
| | **34,630** | 28,640 | 5,990 | 21% |

(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:

| Three months ended December 31<br>($ thousands) | **2022** | 2021 |
|---|---|---|
| Total operating expenses | **10,957** | 9,290 |
| CEWS | **-** | 259 |
| CERS | **-** | 140 |
| Adjusted total operating expenses | **10,957** | 9,689 |
| Direct employee costs | **8,304** | 7,054 |
| CEWS | **-** | 259 |
| Adjusted direct employee costs | **8,304** | 7,313 |
| Other corporate costs | **2,653** | 2,236 |
| CERS | **-** | 140 |
| Adjusted other corporate costs | **2,653** | 2,376 |

| Nine months ended December 31<br>($ thousands) | **2022** | 2021 |
|---|---|---|
| Total operating expenses | **34,630** | 28,640 |
| CEWS | **-** | 583 |
| CERS | **-** | 183 |
| Restructuring charge | **(3,943)** | (851) |
| Adjusted total operating expenses | **30,687** | 28,555 |
| Direct employee costs | **26,748** | 22,703 |
| CEWS | **-** | 583 |
| Restructuring charge | **(3,771)** | (851) |
| Adjusted direct employee costs | **22,977** | 22,435 |
| Other corporate costs | **7,882** | 5,937 |
| CERS | **-** | 183 |
| Restructuring charge | **(172)** | - |
| Adjusted other corporate costs | **7,710** | 6,120 |

Total operating expenses for the three and nine months ended December 31, 2022 increased by 18% and 21%, respectively, compared to the same periods of the previous fiscal year. Adjusted total operating expenses increased by 13% and 7%, respectively, for the three and nine months ended December 31, 2022, compared to the same periods of the previous fiscal year.

### Direct Employee Costs

As a technology company, CMG's largest investment is its people, and approximately 77% of total operating expenses during the nine months ending December 31, 2022 relate to direct employee costs (nine months ended December 31, 2021 – 80%).

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 December 31, 2022, CMG's full-time equivalent staff complement was 164 employees and consultants (December 31, 2021 – 178 employees).

In the three months ended December 31, 2022, adjusted direct employee costs increased by 14% due to increased variable compensation expense as well as a result of increased stock-based compensation expense due to the increase in share price during the current quarter. In the nine months ended December 31, 2022, adjusted direct employee costs increased by 2% due to the increase in direct employee costs experienced during the current quarter.

## Other Corporate Costs

Adjusted other corporate costs increased by 12% and 26% for the three and nine months ended December 31, 2022, respectively, compared to the same periods of the previous fiscal year, primarily due to higher professional services costs and travel-related costs.

## Research and Development

| Three months ended December 31,<br>($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Research and development, net of government grants | **4,278** | 4,104 | 174 | 4% |
| SR&ED credits | **(118)** | (178) | 60 | 34% |
| Research and development | **4,160** | 3,926 | 234 | 6% |
| Research and development as a % of total revenue | **21%** | 23% | | |

| Nine months ended December 31,<br>($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Research and development, net of government grants | **14,002** | 13,263 | 739 | 6% |
| SR&ED credits | **(518)** | (664) | 146 | 22% |
| Research and development | **13,484** | 12,599 | 885 | 7% |
| Research and development as a % of total revenue | **25%** | 27% | | |

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 $1.7 million and $5.5 million of costs for CoFlow for the three and nine months ended December 31, 2022, respectively, consistent with $1.8 million and $5.6 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 December 31, 2022 increased by 6%, compared to the same period of the previous fiscal year, as a result of the increase in direct employee costs due to increased stock-based compensation expense during the quarter. In the nine months ended December 31, 2022 research and development costs increased by 7%, compared to the same period of the previous fiscal year, primarily due to 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.

### Depreciation

| Three months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Depreciation of property and equipment, allocated to: | | | | |
| Sales, marketing and professional services | **192** | 233 | (41) | -18% |
| Research and development | **538** | 719 | (181) | -25% |
| General and administrative | **135** | 136 | (1) | -1% |
| Total depreciation | **865** | 1,088 | (223) | -20% |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Depreciation of property and equipment, allocated to: | | | | |
| Sales, marketing and professional services | **623** | 669 | (46) | -7% |
| Research and development | **1,746** | 2,066 | (320) | -15% |
| General and administrative | **364** | 409 | (45) | -11% |
| Total depreciation | **2,733** | 3,144 | (411) | -13% |

Depreciation for the three and nine months ended December 31, 2022 decreased by 20% and 13%, respectively, compared to the same periods of the previous fiscal year.

## Finance Income and Costs

| Three months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Interest income | **548** | 115 | 433 | 377% |
| Total finance income | **548** | 115 | 433 | 377% |
| Interest expense on lease liability | **(482)** | (500) | (18) | -4% |
| Net foreign exchange loss | **(151)** | (60) | 91 | 152% |
| Total finance costs | **(633)** | (560) | 73 | 13% |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Interest income | **1,105** | 339 | 766 | 226% |
| Net foreign exchange gain | **923** | - | 923 | 100% |
| Total finance income | **2,028** | 339 | 1,689 | 498% |
| Interest expense on lease liability | **(1,458)** | (1,510) | (52) | -3% |
| Net foreign exchange loss | **-** | (139) | (139) | -100% |
| Total finance costs | **(1,458)** | (1,649) | (191) | -12% |

Interest income for the three and nine months ended December 31, 2022 was significantly higher compared to the same periods of the previous fiscal year, mainly due to higher interest rates.

Interest expense on the lease liabilities for the three and nine months ended December 31, 2022 was consistent with the comparative period.

CMG is impacted by foreign exchange fluctuations, as 70% of CMG's revenue for the nine months ended December 31, 2022 (2021 – 69%) is denominated in US dollars, whereas only 22% (2021 – 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 December 31, 2022, 2021 and 2020 and the average exchange rate used to translate income statement expense items during the nine months ended December 31, 2022, 2021 and 2020:

| CDN$ to US$ | At June 30 | At September 30 | At December 31 | Nine month trailing average |
|---|---|---|---|---|
| 2020 | 0.7338 | 0.7497 | 0.7854 | 0.7408 |
| 2021 | 0.8068 | 0.7849 | 0.7888 | 0.8015 |
| **2022** | **0.7744** | **0.7302** | **0.7370** | **0.7581** |

CMG recorded a net foreign exchange loss of $0.6 million for the three months ended December 31, 2022, due to a weakening of the US dollar during the quarter, which negatively affected the valuation of the USD- denominated portion of the Company's working capital. For the nine months ended December 31, 2022, CMG recorded a net foreign exchange gain of $0.5 million due strengthening of the US dollar during the period.

## Income and Other Taxes

CMG's effective tax rate for the nine months ended December 31, 2022 is 25.4% (2021 – 22.9%), whereas the Canadian statutory tax rate for the Company's 2023 fiscal year is 23% (December 31, 2021 – 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 December 31,<br>($ thousands, except per share data) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Total revenue | **19,392** | 17,045 | 2,347 | 14% |
| Operating expenses | **(10,957)** | (9,290) | (1,667) | -18% |
| Operating profit | **8,435** | 7,755 | 680 | 9% |
| Operating profit as a % of revenue | **43%** | 45% | | |
| Net income | **6,348** | 5,574 | 774 | 14% |
| Net income as a % of total revenue | **33%** | 33% | | |
| Basic earnings per share ($/share) | **0.08** | 0.07 | 0.01 | 14% |

| Nine months ended December 31, ($ thousands, except per share data) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Total revenue | **53,581** | 47,408 | 6,173 | 13% |
| Operating expenses | **(34,630)** | (28,640) | (5,990) | -21% |
| Operating profit | **18,951** | 18,768 | 183 | 1% |
| Operating profit as a % of revenue | **35%** | 40% | | |
| Net income | **14,571** | 13,453 | 1,118 | 8% |
| Net income as a % of total revenue | **27%** | 28% | | |
| Basic earnings per share ($/share) | **0.18** | 0.17 | 0.01 | 6% |

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:

| Three months ended December 31, ($thousands) | **2022** | 2021 |
|---|---|---|
| Operating profit | **8,435** | 7,755 |
| CEWS | **-** | (259) |
| CERS | **-** | (140) |
| Adjusted operating profit | **8,435** | 7,356 |
| Adjusted operating profit as a % of revenue | **43%** | 43% |
| | | |
| Net income | **6,348** | 5,574 |
| CEWS | **-** | (259) |
| CERS | **-** | (140) |
| Tax impact of adjusting items | **-** | 91 |
| Adjusted net income | **6,348** | 5,266 |
| Adjusted net income as a % of total revenue | **33%** | 31% |

| Nine months ended December 31, ($thousands) | 2022 | 2021 |
|---|---|---|
| Operating profit | 18,951 | 18,768 |
| CEWS | - | (583) |
| CERS | - | (183) |
| Restructuring charge | 3,943 | 851 |
| Adjusted operating profit | 22,894 | 18,853 |
| Adjusted operating profit as a % of revenue | 43% | 40% |
| Net income | 14,571 | 13,453 |
| CEWS | - | (583) |
| CERS | - | (183) |
| Restructuring charge | 3,943 | 851 |
| Tax impact of adjusting items | (907) | (20) |
| Adjusted net income | 17,607 | 13,518 |
| Adjusted net income as a % of total revenue | 33% | 29% |

Operating profit as a percentage of total revenue for the three months ended December 31, 2022 was 43%, down from 45% in the comparative quarter. Adjusted operating profit was 43%, consistent with the comparative quarter, due to an increase in revenue, partially offset by an increase in operating expenses.

Operating profit as a percentage of total revenue for the nine months ended December 31, 2022 was 35%, down from 40% in the comparative quarter. Adjusted operating profit was 43%, up from 40% in the comparative quarter, due to an increase in revenue, partially offset by a lower increase in operating expenses.

Net income as a percentage of total revenue for the three months ended December 31, 2022 was 33%, consistent with the comparative quarter. Adjusted net income as a percentage of total revenue was 33% in the current quarter, up from 31% in the comparative quarter, due to an increase in revenues, partially offset by a lower increase in operating expenses.

Net income as a percentage of total revenue for the nine months ended December 31, 2022 was 27%, down from 28% in the comparative period. Adjusted net income as a percentage of total revenue was 33% in the current period, up from 29% in the comparative period, primarily due to the same factors impacting adjusted operating profit and higher foreign exchange gains in the current period relative to the comparative period as a result of the impact of a stronger US dollar on CMG's earnings.

## Adjusted EBITDA[1]

| Three months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Net income | **6,348** | 5,574 | 774 | 14% |
| Add (deduct): | | | | |
| Depreciation | **865** | 1,088 | (223) | -20% |
| Finance (income) costs | **85** | 445 | (360) | -81% |
| Income and other taxes | **2,002** | 1,736 | 266 | 15% |
| EBITDA[1] | **9,300** | 8,843 | 457 | 5% |
| Add (deduct): | | | | |
| CEWS | **-** | (259) | 259 | 100% |
| CERS | **-** | (140) | 140 | 100% |
| Adjusted EBITDA[1] | **9,300** | 8,444 | 856 | 10% |
| Adjusted EBITDA[1] as a % of total revenue | **48%** | 50% | | |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Net income | **14,571** | 13,453 | 1,118 | 8% |
| Add (deduct): | | | | |
| Depreciation | **2,733** | 3,144 | (411) | -13% |
| Finance (income) costs | **(570)** | 1,310 | (1,880) | -144% |
| Income and other taxes | **4,950** | 4,005 | 945 | 24% |
| EBITDA[1] | **21,684** | 21,912 | (228) | -1% |
| Add (deduct): | | | | |
| CEWS | **-** | (583) | 583 | -100% |
| CERS | **-** | (183) | 183 | -100% |
| Restructuring charge | **3,943** | 851 | 3,092 | 363% |
| Adjusted EBITDA[1] | **25,627** | 21,997 | 3,630 | 17% |
| Adjusted EBITDA[1] as a % of total revenue | **48%** | 46% | | |

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

Adjusted EBITDA as a percentage of total revenue for the three and nine months ended December 31,2022 was 48% for both periods, compared to 50% and 46% in the same periods of the previous fiscal year, primarily due to the same factors impacting adjusted operating profit.

## Liquidity and Capital Resources

| Three months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Cash, beginning of period | **56,859** | 48,012 | 8,847 | 18% |
| Cash provided by (used in): | | | | |
| Operating activities | **7,657** | 4,527 | 3,130 | 69% |
| Financing activities | **(4,419)** | (4,331) | (88) | -2% |
| Investing activities | **(211)** | (481) | 270 | 56% |
| Cash, end of period | **59,886** | 47,727 | 12,159 | 25% |

| Nine months ended December 31, ($ thousands) | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Cash, beginning of period | **59,660** | 49,068 | 10,592 | 22% |
| Cash provided by (used in): | | | | |
| Operating activities | **13,255** | 12,245 | 1,010 | 8% |
| Financing activities | **(12,688)** | (12,945) | 257 | 2% |
| Investing activities | **(341)** | (641) | 300 | 47% |
| Cash, end of period | **59,886** | 47,727 | 12,159 | 25% |

At December 31, 2022, CMG had $59.9 million in cash, no borrowings and access to approximately $0.9 million under a line of credit with its principal banker. The Company's primary non-operating use of cash is dividend payments. Management believes that the Company has sufficient capital resources to meet its operating and capital expenditure needs.

During the nine months ended December 31, 2022, 11.2 million shares of CMG's public float were traded on the TSX. As at December 31, 2022, CMG's market capitalization based upon its December 31, 2022 closing price of $5.83 was $469.4 million.

### Operating Activities

Cash provided by operating activities increased by $3.1 million during the three months ended December 31, 2022, compared to the same period of the previous fiscal year. The increase is mainly due to higher funds flow from operations as a result of higher revenues and changes in non-cash working capital.

Cash provided by operating activities increased by $1.0 million during the nine months ended December 31, 2022, compared to the same period of the previous fiscal year due to higher revenue.

### Financing Activities

Cash used in financing activities during the three and nine months ended December 31, 2022 was comparable with the amounts in the same period of the previous fiscal year.

In the nine months ended December 31, 2022, CMG paid $12.1 million in dividends, representing the following quarterly dividends:

| ($ per share) | Q1 | Q2 | Q3 |
|---|---|---|---|
| Total dividends declared and paid | 0.05 | 0.05 | 0.05 |

In the nine months ended December 31, 2021, CMG paid $12.0 million in dividends, representing the following quarterly dividends:

| ($ per share) | Q1 | Q2 | Q3 |
|---|---|---|---|
| Total dividends declared and paid | 0.05 | 0.05 | 0.05 |

On February 8, 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 March 15, 2023 to shareholders of record at the close of business on March 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 which are funded internally. During the nine months ended December 31, 2022, CMG's capital asset additions were composed of computer equipment and totalled $0.3 million, a decrease compared to $0.6 million in the same period of the previous fiscal year. CMG's revised capital budget for fiscal 2023 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 would 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 would 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 December 31, 2022:

| (thousands of $) | Undiscounted lease liability payments | Operating costs and short-term leases | Total commitments |
|---|---|---|---|
| Less than one year | 3,670 | 1,096 | 4,766 |
| Between one and five years | 13,815 | 4,332 | 18,147 |
| More than five years | 37,209 | 10,379 | 47,588 |
| | 54,694 | 15,807 | 70,501 |

## Business Risks, Critical Accounting Estimates and Judgments

These remain unchanged from the factors detailed in CMG's 2022 Financial Report.

## Outstanding Share Data

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

| **As at February 8, 2023**<br>(thousands) | |
|---|---|
| Common shares | 80,511 |
| Stock options | 5,332 |
| Restricted share units(1) | 564 |
| Performance share units(1) | 84 |

(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 February 8, 2023, CMG could reserve up to 8,051,067 common shares for issuance under its security-based compensation plans.

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

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109. These controls and procedures were reviewed and the effectiveness of their design and operation was evaluated in fiscal 2022 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2022. During the 2023 fiscal year, we continue to monitor and review our controls and procedures.

During the three months ended December 31, 2022, 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.

## Quarterly Summary

Fiscal 2023 continues to be positive, with the strengthening fundamentals across the oil and gas sector, and new opportunities created by demand for energy transition projects.

During the three and nine months ended December 31, 2022, CMG's annuity/maintenance revenue increased by 14% and 12%, respectively, compared to the same periods of the previous fiscal year, continuing the trend of comparative quarterly increases that started in the third quarter of the previous fiscal year, supported by improved industry conditions.

Geographically, all regions saw increases in annuity/maintenance revenue, except Canada which remained flat, due to the addition of new customers, including carbon capture and storage companies, increased license fees and increased licensing by some existing customers.

Perpetual license revenue decreased by 65% and 32% during the three and nine months ended December 31, 2022, compared to the same periods of the prior fiscal year, primarily due to lower perpetual license sales in the Eastern Hemisphere.

During nine months ended December 31, 2022, CMG's expenses were impacted by restructuring charges of $3.9 million, which resulted in reduced full-time equivalent staff compared to the same period of the previous fiscal year. The Company made these changes to concentrate the focus of our research and development activities into the areas with the potential to deliver the greatest value to our customers and have the greatest commercial impact on the business. This allows the Company to reinvest to strengthen other business operations that are necessary to support our growth strategy without materially altering the current cost structure. When adjusted for the restructuring charges, as well as CEWS and CERS subsidies in the comparative periods of the previous year, total operating expenses increased by 13% and 7% in the three and nine months ended December 31, 2022, respectively, due to increases in professional services and travel costs as COVID-19 related travel restrictions eased.

Adjusted operating profit margins were 43% and 43% during the three and nine months ended December 31, 2022, respectively, compared to 43% and 40% during the same periods in the previous fiscal year which is reflective of CMG's continuous cost management. Basic earnings per share were $0.08 and $0.18 for the three and nine months ended December 31, 2022, compared to $0.07 and $0.17 recorded in the same periods of the previous fiscal year.

CMG maintains a strong financial position and closed the period with $59.9 million of cash and no debt. Despite the restructuring charges and the increase in professional fees year-to-date, CMG generated $0.09 and $0.20 per share of free cash flow for the three and nine months ended December 31, 2022, respectively, representing a slight increase compared to the same periods of fiscal 2022.

# Condensed Consolidated Statements of Financial Position

| UNAUDITED (thousands of Canadian $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | **59,886** | 59,660 |
| Trade and other receivables | **18,555** | 17,507 |
| Prepaid expenses | **1,213** | 792 |
| Prepaid income taxes (note 10) | **213** | 959 |
| | **79,867** | 78,918 |
| Property and equipment | **10,302** | 10,908 |
| Right-of-use assets | **31,328** | 33,113 |
| Deferred tax asset (note 10) | **2,273** | 2,209 |
| **Total assets** | **123,770** | 125,148 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Trade payables and accrued liabilities | **6,625** | 6,819 |
| Income taxes payable (note 10) | **-** | 13 |
| Deferred revenue (note 4) | **26,717** | 30,454 |
| Lease liabilities (note 5) | **1,803** | 1,626 |
| | **35,145** | 38,912 |
| Long-term stock-based compensation liabilities (note 11(c)) | **1,412** | 1,556 |
| Long-term lease liabilities (note 5) | **36,730** | 37,962 |
| Total liabilities | **73,287** | 78,430 |
| Shareholders' equity: | | |
| Share capital (note 11(b)) | **81,080** | 80,248 |
| Contributed surplus | **15,438** | 15,009 |
| Deficit | **(46,035)** | (48,539) |
| Total shareholders' equity | **50,483** | 46,718 |
| **Total liabilities and shareholders' equity** | **123,770** | 125,148 |

Subsequent event (note 15)

See accompanying notes to condensed consolidated interim financial statements.

# Condensed Consolidated Statements of Operations and Comprehensive Income

| UNAUDITED (thousands of Canadian $ except per share amounts) | Three months ended December 31 2022 | 2021 | Nine months ended December 31 2022 | 2021 |
|---|---|---|---|---|
| **Revenue (note 6)** | **19,392** | 17,045 | **53,581** | 47,408 |
| **Operating expenses (note 7)** | | | | |
| Sales, marketing and professional services | **4,111** | 3,810 | **11,574** | 11,062 |
| Research and development (note 8) | **4,160** | 3,926 | **13,484** | 12,599 |
| General and administrative | **2,686** | 1,554 | **9,572** | 4,979 |
| | **10,957** | 9,290 | **34,630** | 28,640 |
| **Operating profit** | **8,435** | 7,755 | **18,951** | 18,768 |
| Finance income (note 9) | **548** | 115 | **2,028** | 339 |
| Finance costs (note 9) | **(633)** | (560) | **(1,458)** | (1,649) |
| **Profit before income and other taxes** | **8,350** | 7,310 | **19,521** | 17,458 |
| Income and other taxes (note 10) | **2,002** | 1,736 | **4,950** | 4,005 |
| **Net and total comprehensive income** | **6,348** | 5,574 | **14,571** | 13,453 |
| Earnings per share – basic and diluted (note 11(d)) | **0.08** | 0.07 | **0.18** | 0.17 |
| Dividend per share | **0.05** | 0.05 | **0.15** | 0.15 |

See accompanying notes to condensed consolidated interim financial statements.

# Condensed Consolidated Statements of Changes in Equity

| UNAUDITED (thousands of Canadian $) | Share capital | Contribute surplus | Deficit | Total equity |
|---|---|---|---|---|
| **Balance, April 1, 2021** | 80,051 | 14,251 | (50,880) | 43,422 |
| Total comprehensive income for the period | - | - | 13,453 | 13,453 |
| Dividends paid | - | - | (12,048) | (12,048) |
| Shares issued on redemption of restricted share units (note 11(b)) | 197 | - | - | 197 |
| Stock-based compensation expense (note 11(c)) | - | 567 | - | 567 |
| **Balance, December 31, 2021** | 80,248 | 14,818 | (49,475) | 45,591 |
| **Balance, April 1, 2022** | **80,248** | **15,009** | **(48,539)** | **46,718** |
| Total comprehensive income for the period | **-** | **-** | **14,571** | **14,571** |
| Dividends paid | **-** | **-** | **(12,067)** | **(12,067)** |
| Shares issued on redemption of restricted share units (note 11(b)) | **309** | **-** | **-** | **309** |
| Shares issued on exercise of stock options (note 11(b)) | **523** | **(89)** | **-** | **434** |
| Stock-based compensation expense (note 11(c)) | **-** | **518** | **-** | **518** |
| **Balance, December 31, 2022** | **81,080** | **15,438** | **(46,035)** | **50,483** |

See accompanying notes to condensed consolidated interim financial statements.

# Condensed Consolidated Statements of Cash Flows

| UNAUDITED (thousands of Canadian $) | Three months ended December 31 2022 | 2021 | Nine months ended December 31 2022 | 2021 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | **6,348** | 5,574 | **14,571** | 13,453 |
| Adjustments for: | | | | |
| Depreciation | **864** | 1,088 | **2,732** | 3,144 |
| Deferred income tax expense recovery (note 10) | **(145)** | (49) | **(64)** | (104) |
| Stock-based compensation (note 11(c)) | **1,102** | 409 | **462** | 244 |
| Funds flow from operations | **8,169** | 7,022 | **17,701** | 16,737 |
| Movement in non-cash working capital: | | | | |
| Trade and other receivables | **(4,872)** | (4,687) | **(1,048)** | 4,471 |
| Trade payables and accrued liabilities | **649** | 68 | **27** | (141) |
| Prepaid expenses | **1** | (45) | **(421)** | (245) |
| Income taxes receivable (payable) | **1,157** | 355 | **733** | (1,172) |
| Deferred revenue | **2,553** | 1,814 | **(3,737)** | (7,405) |
| Decrease in non-cash working capital | **(512)** | (2,495) | **(4,446)** | (4,492) |
| **Net cash provided by operating activities** | **7,657** | 4,527 | **13,255** | 12,245 |
| **Financing activities** | | | | |
| Proceeds from issuance of common shares | **19** | - | **434** | - |
| Repayment of lease liabilities (note 5) | **(413)** | (314) | **(1,055)** | (897) |
| Dividends paid | **(4,025)** | (4,017) | **(12,067)** | (12,048) |
| **Net cash used in financing activities** | **(4,419)** | (4,331) | **(12,688)** | (12,945) |
| **Investing activities** | | | | |
| Property and equipment additions | **(211)** | (481) | **(341)** | (641) |
| **Increase (decrease) in cash** | **3,027** | (285) | **226** | (1,341) |
| Cash, beginning of period | **56,859** | 48,012 | **59,660** | 49,068 |
| **Cash, end of period** | **59,886** | 47,727 | **59,886** | 47,727 |
| **Supplementary cash flow information** | | | | |
| Interest received (note 9) | **548** | 115 | **1,105** | 339 |
| Interest paid (notes 5 and 9) | **482** | 500 | **1,458** | 1,510 |
| Income taxes paid | **1,732** | 1,107 | **4,615** | 4,617 |

See accompanying notes to condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended December 31, 2022 and 2021.

## 1. Reporting Entity:

Computer Modelling Group Ltd. (“CMG”) is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its common shares listed on the Toronto Stock Exchange under the symbol “CMG”. The address of CMG’s registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The condensed consolidated interim financial statements as at and for the three and nine months ended December 31, 2022 comprise CMG and its subsidiaries (together referred to as the “Company”). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

## 2. Basis of Preparation:

### (a) Statement of Compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting.* Accordingly, they do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s most recent annual consolidated financial statements as at and for the year ended March 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended December 31, 2022 were authorized for issuance by the Board of Directors on February 8, 2023.

### (b) Basis of Measurement:

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

### (c) Functional and Presentation Currency:

The condensed consolidated interim 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.

## 3. Segmented Information:

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

Property, equipment and right-of-use assets of the Company are located in the following geographic regions (for revenue by geographic region, refer to note 6):

| (thousands of $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| Canada | **41,068** | 43,216 |
| United States | **399** | 553 |
| South America | **149** | 218 |
| Eastern Hemisphere(1) | **14** | 34 |
| | **41,630** | 44,021 |

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

## 4. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

| (thousands of $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| Balance, beginning of year | **30,454** | 30,461 |
| Invoiced during the period, excluding amounts recognized as revenue during the period | **24,581** | 30,071 |
| Recognition of deferred revenue included in the balance at the beginning of the period | **(28,318)** | (30,078) |
| Balance, end of period | **26,717** | 30,454 |

## 5. 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 $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| Balance, beginning of year | **39,588** | 40,962 |
| Interest on lease liabilities (note 9) | **1,458** | 2,004 |
| Lease payments | **(2,513)** | (3,360) |
| Remeasurement due to change in lease payments | **-** | (18) |
| Balance, end of period | **38,533** | 39,588 |
| | | |
| Current | **1,803** | 1,626 |
| Long-term | **36,730** | 37,962 |

The following table presents contractual undiscounted payments for lease liabilities as at December 31, 2022:

| (thousands of $) | |
|---|---|
| Less than one year | 3,670 |
| Between one and five years | 13,815 |
| More than five years | 37,209 |
| **Total undiscounted payments** | **54,694** |

## 6. Revenue:

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

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| (thousands of $) | **2022** | 2021 | **2022** | 2021 |
| ***Annuity/maintenance license revenue*** | | | | |
| Canada | **3,268** | 3,303 | **9,399** | 9,425 |
| United States | **4,061** | 3,429 | **11,115** | 9,502 |
| South America | **2,247** | 1,884 | **5,840** | 5,195 |
| Eastern Hemisphere | **5,957** | 4,959 | **17,533** | 14,978 |
| | **15,533** | 13,575 | **43,887** | 39,100 |
| ***Perpetual license revenue*** | | | | |
| Canada | **-** | - | **-** | - |
| United States | **-** | 180 | **157** | 401 |
| South America | **-** | - | **-** | - |
| Eastern Hemisphere | **518** | 1,317 | **1,527** | 2,067 |
| | **518** | 1,497 | **1,684** | 2,468 |
| ***Total software license revenue*** | **16,051** | 15,072 | **45,571** | 41,568 |
| ***Professional services*** | | | | |
| Canada | **2,924** | 1,798 | **7,101** | 5,368 |
| United States | **135** | 9 | **279** | 66 |
| South America | **72** | 12 | **136** | 91 |
| Eastern Hemisphere | **210** | 154 | **494** | 315 |
| | **3,341** | 1,973 | **8,010** | 5,840 |
| ***Total revenue*** | | | | |
| Canada | **6,192** | 5,101 | **16,500** | 14,793 |
| United States | **4,196** | 3,618 | **11,551** | 9,969 |
| South America | **2,319** | 1,896 | **5,976** | 5,286 |
| Eastern Hemisphere | **6,685** | 6,430 | **19,554** | 17,360 |
| | **19,392** | 17,045 | **53,581** | 47,408 |

The amount of revenue recognized during the nine months ended December 31, 2022 from performance obligations satisfied (or partially satisfied) in previous periods is $2.0 million (nine months ended December 31, 2021 – $1.4 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 $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| Receivables (included in “Trade and other receivables”) | **18,016** | 17,296 |

During the nine months ended December 31, 2022, one customer comprised 12.4% of the Company’s total revenue (nine months ended December 31, 2021 – one customer, 12.2%).

## 7. Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy:

No CEWS or CERS benefits were recorded during the three and nine months ended December 31, 2022.

CMG was eligible for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") programs during the nine months ended December 31, 2021. During that period, the Company recorded CEWS and CERS benefits of $0.8 million. These benefits were recorded against the financial statement items that they are intended to compensate, resulting in the following credits to the operating expense categories:

| Nine months ended December 31,<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Sales, marketing and professional services | **-** | (130) |
| Research and development | **-** | (513) |
| General and administrative | **-** | (123) |
| | **-** | (766) |

## 8. Research and Development Costs:

| Three months ended December 31,<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Research and development, net of government grants | **4,278** | 4,104 |
| Scientific research and experimental development ("SR&ED") investment tax | **(118)** | (178) |
| | **4,160** | 3,926 |

| Nine months ended December 31,<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Research and development, net of government grants | **14,002** | 13,263 |
| Scientific research and experimental development ("SR&ED") investment tax | **(518)** | (664) |
| | **13,484** | 12,599 |

## 9. Finance Income and Finance Costs:

| Three months ended December 31,<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Interest income | **548** | 115 |
| Finance income | **548** | 115 |
| | | |
| Interest expense on lease liabilities (note 5) | **(482)** | (500) |
| Net foreign exchange loss | **(151)** | (60) |
| Finance costs | **(633)** | (560) |

| Nine months ended December 31, (thousands of $) | **2022** | 2021 |
|---|---|---|
| Interest income | **1,105** | 339 |
| Net foreign exchange gain | **923** | - |
| Finance income | **2,028** | 339 |
| | | |
| Interest expense on lease liabilities (note 5) | **(1,458)** | (1,510) |
| Net foreign exchange loss | **-** | (139) |
| Finance costs | **(1,458)** | (1,649) |

## 10. Income and Other Taxes:

The major components of income tax expense are as follows:

| Nine months ended December 31, (thousands of $) | **2022** | 2021 |
|---|---|---|
| Current year income tax expense | **4,714** | 4,232 |
| Adjustment for prior year | **50** | (131) |
| Current year income taxes | **4,764** | 4,101 |
| Deferred tax recovery | **(64)** | (104) |
| Foreign withholding and other taxes | **250** | 8 |
| | **4,950** | 4,005 |

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:

| Nine months ended December 31, (thousands of $, unless otherwise stated) | **2022** | 2021 |
|---|---|---|
| Combined statutory tax rate | **23.00%** | 23.00% |
| Expected income tax | **4,490** | 4,015 |
| Non-deductible costs | **321** | 180 |
| Withholding taxes | **180** | (73) |
| Effect of tax rates in foreign jurisdictions | **(11)** | (6) |
| Adjustment for prior year | **50** | (131) |
| Other | **(80)** | 20 |
| | **4,950** | 4,005 |

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

| (thousands of $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| Right-of-use assets | **1,610** | 1,479 |
| Stock-based compensation liabilities | **636** | 770 |
| Property and equipment | **142** | 149 |
| SR&ED investment tax credits | **(115)** | (189) |
| Net deferred tax asset | **2,273** | 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.

## 11. 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, December 31, 2021 | 80,335 |
| | |
| Balance, April 1, 2022 | **80,335** |
| Issued on redemption of restricted share units | **67** |
| Issued for cash on exercise of stock options | **109** |
| **Balance, December 31, 2022** | **80,511** |

### (c) Stock-Based Compensation:

**Stock-Based Compensation Expense**

The following table summarizes stock-based compensation expense:

| Three months ended December 31<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Equity-settled plans | **220** | 188 |
| Cash-settled plans | **874** | 225 |
| Total stock-based compensation expense | **1,094** | 413 |

| Nine months ended December 31<br>(thousands of $) | **2022** | 2021 |
|---|---|---|
| Equity-settled plans | **518** | 567 |
| Cash-settled plans | **1,078** | 517 |
| Total stock-based compensation expense | **1,596** | 1,084 |

**Liability Recognized for Stock-Based Compensation(1)**

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

| (thousands of $) | **December 31, 2022** | March 31, 2022 |
|---|---|---|
| SARs | **491** | 525 |
| RSUs | **1,235** | 1,874 |
| PSUs | **312** | 311 |
| DSUs | **945** | 639 |
| Total stock-based compensation liability | **2,983** | 3,349 |
| | | |
| Current, included in trade payables and accrued liabilities | **1,571** | 1,792 |
| Long-term | **1,412** | 1,556 |

(1) The intrinsic value of the vested awards at December 31, 2022 was $1.2 million (March 31, 2022 - $0.7 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 December 31, 2022, the Company may reserve up to 8,051,067 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. Stock options granted by the Company provide the holder with the right to purchase common shares at the market price on the grant date, subject to fulfilling vesting terms. The majority of the Company's options vest over a three-year period, with fifty percent vesting on the first-year anniversary from the grant date and 25% vesting on each of the second and third year anniversary dates. In fiscal 2023, the Company granted stock options that vest when certain share price thresholds are achieved. All stock options have a five-year life.

The following table outlines changes in stock options:

| | **Nine months ended December 31, 2022** | | Year ended March 31, 2022 | |
|---|---|---|---|---|
| | **Number of Options (thousands)** | **Weighted Average Exercise Price ($/share)** | Number of Options (thousands) | Weighted Average Exercise Price ($/share) |
| Outstanding at beginning of period | **3,680** | **6.39** | 3,524 | 7.82 |
| Granted(1) | **3,196** | **4.86** | 1,006 | 3.98 |
| Exercised | **(109)** | **3.98** | - | - |
| Forfeited/expired | **(1,369)** | **7.69** | (850) | 9.51 |
| Outstanding at end of period | **5,398** | **5.20** | 3,680 | 6.38 |
| Options exercisable at end of period | **1,719** | **6.09** | 2,121 | 7.73 |

(1) 2,625,000 stock options are exercisable when specified share price targets are achieved.

The range of exercise prices of stock options outstanding and exercisable at December 31, 2022 is as follows:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price ($/option) | Number of Options (thousands) | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price ($/option) | Number of Options (thousands) | Weighted Average Exercise Price ($/option) |
| 3.98 to 4.62 | 941(1) | 3.9 | 4.10 | 373 | 3.98 |
| 4.63 to 4.87 | 1,800(2) | 4.4 | 4.74 | - | - |
| 4.88 to 5.04 | 871(3) | 4.7 | 5.00 | - | - |
| 5.05 to 5.70 | 880(4) | 3.4 | 5.21 | 445 | 5.08 |
| 5.71 to 9.20 | 906 | 1.3 | 7.46 | 901 | 7.47 |
| | **5,398** | **3.7** | **5.20** | **1,719** | **6.09** |

(1) 225,000 stock options are exercisable when specified share price targets are achieved.
(2) Exercisable when specified share price targets are achieved.
(3) 300,000 stock options are exercisable when specified share price targets are achieved.
(4) 300,000 stock options are exercisable when specified share price targets are achieved.

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

| | **Nine months ended December 31, 2022** | Year ended March 31, 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 (%) | **2.88 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:

| | **Nine months ended December 31, 2022** | | Year ended March 31, 2022 | |
|---|---|---|---|---|
| | **Number of SARs (thousands)** | **Weighted Average Exercise Price ($/SAR)** | Number of SARs (thousands) | Weighted Average Exercise Price ($/SAR) |
| Outstanding at beginning of period | **1,395** | **7.11** | 1,373 | 8.19 |
| Granted | **104** | **5.00** | 278 | 3.98 |
| Exercised | **-** | **-** | (3) | 5.08 |
| Forfeited/expired | **(697)** | **7.65** | (253) | 9.58 |
| Outstanding at end of period | **802** | **6.37** | 1,395 | 7.11 |
| SARs exercisable at end of period | **581** | **7.03** | 955 | 8.29 |

*(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:

| (thousands) | Nine months ended December 31, 2022 | | | Year ended March 31, 2022 | | |
|---|---|---|---|---|---|---|
| | **RSUs** | **PSUs** | **DSUs** | RSUs | PSUs | DSUs |
| Outstanding at beginning of period | **722** | **165** | **123** | 589 | 93 | 74 |
| Granted | **302** | **3** | **81** | 491 | 72 | 49 |
| Exercised | **(273)** | **-** | **(42)** | (256) | - | - |
| Forfeited/expired | **(187)** | **(84)** | **-** | (102) | - | - |
| Outstanding at end of period | **564** | **84** | **162** | 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:

| Three months ended December 31, (thousands except per share amounts) | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Earnings ($)** | **Weighted average shares outstanding** | **Earnings per share ($/share)** | Earnings ($) | Weighted average shares outstanding | Earnings per share ($/share) |
| Basic | **6,348** | **80,511** | **0.08** | 5,574 | 80,335 | 0.07 |
| Dilutive effect of share-based awards | | **414** | | | 324 | |
| Diluted | **6,348** | **80,925** | **0.08** | 5,574 | 80,659 | 0.07 |

| Nine months ended December 31, (thousands except per share amounts) | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Earnings ($)** | **Weighted average shares outstanding** | **Earnings per share ($/share)** | Earnings ($) | Weighted average shares outstanding | Earnings per share ($/share) |
| Basic | **14,571** | **80,419** | **0.18** | 13,453 | 80,309 | 0.17 |
| Dilutive effect of share-based awards | | **523** | | | 362 | |
| Diluted | **14,571** | **80,942** | **0.18** | 13,453 | 80,671 | 0.17 |

During the three and nine months ended December 31, 2022, 82,000 and 174,000 awards, respectively, were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive (three and nine months ended December 31, 2021 - nil and 173,000 awards, respectively).

## 12. Financial Instruments and Risk Management:

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

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

## 13. 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 would 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 would increase accordingly.

During the three and nine months ended December 31, 2022, the Company recorded professional services revenue of $1.9 million and $5.9 million, respectively (three and nine months ended December 31, 2021 – $1.8 million and $5.1 million, respectively), and CoFlow costs of $1.7 million and $5.5 million, respectively, to research and development expenses (three and nine months ended December 31, 2021 – $1.8 million and $5.6 million).

### (b) Commitments:

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

| (thousands of $) | **December 31, 2022** |
|---|---:|
| Less than one year | **1,096** |
| Between one and five years | **4,332** |
| More than five years | **10,379** |
| | **15,807** |

## 14. 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 December 31, 2022, $1.1 million (March 31, 2022 – $1.0 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

## 15. Subsequent Event:

On February 8, 2023, the Board of Directors declared a quarterly cash dividend of $0.05 per share on its common shares, payable on March 15, 2023 to all shareholders of record at the close of business on March 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*

**Jason C. Close**
*Vice President,*
*Product*

**Sheldon Harbison**
*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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## 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**