CEO Letter to Shareholders

August 10, 2023

Dear fellow shareholder,

Just over a year into my role as CEO, I continue to believe that CMG has mission critical software deeply rooted in complex science, and a well-earned reputation for technically skilled, outstanding customer support. From the outset, I saw a strong moat around areas of expertise, and a significant opportunity to introduce best practices and processes that could kick start organic growth for the company. Today, the same rings true.

CMG 4.0 – A MARKET-LED ORGANIZATION

As we become a market-led organization, we are being intentional about customer segmentation and value-based pricing to deliver tailored solutions to our clients. And we are evolving our sales strategies to increase our competitiveness in conventional energy assets and allow us to advocate our value across multiple levels of our customers organizations. This is not limited to reservoir engineers but also includes asset managers, executive leaders, and more.

We have also analyzed our competitiveness and offerings across subsurface operations and applications. We are well known around the world for providing solutions which accurately account for the most complex problems, such as those related to Enhanced Oil Recovery and energy transition. While these solutions often command a premium in the market, conventional oil and gas simulation is much more competitive. Our analysis resulted in the creation of a new, competitively priced, bundled product offering for conventional assets, providing a path to compete in a greater range of proposals and bids globally.

Our approach was to isolate core functionality of several existing products which, when bundled together, deliver a simple, cohesive solution of fit-for-purpose simulation technology and tools. This strategy proved successful in a highly competitive contract bid. We delivered what the customer needed; at the price they needed it. The solution captures the physics and quantifies the risks of operations across a wide array of assets at a competitive cost and leaves room to expand functionality in the future. This type of responsiveness is an example of how we are enabling our sales team to access additional markets and revenue opportunities. We are listening to the market and delivering for our customers.

Q1 RESULTS

Revenue grew materially this quarter, compared to the first quarter of the previous fiscal year, as we returned to levels not seen since fiscal 2019 which drove strong profitability. Revenue growth came from both energy transition and our core business, evidencing strong market dynamics in both areas. Energy transition represented approximately 22% of total software revenue in the first quarter.

Growing our Annuity/maintenance (A/M) revenue is our primary focus and the 15% increase this quarter came from a combination of price increases, increased licensing from various existing customers and the addition of new customers. It is encouraging that growth was widespread and not attributable to any single client and while the US and eastern hemisphere underpinned our performance, we demonstrated growth in every region this quarter. While perpetual revenue increased $1.5 million from the same period last year, we know that our perpetual license stream is difficult to forecast and can fluctuate considerably from quarter to quarter.

Last fall we announced that we were doubling down on our consulting practice. This was strategically the right decision as we grew professional services revenue by $1.1 million in the first quarter of this year. Our customers are seeing a significant talent crunch which is driving consulting growth. Demand for talent is aggressive and high-quality candidates are scarce. While we will be adding to our team in the coming months to allow us to build on this momentum, we remain disciplined in prioritizing consulting opportunities that promote the growth of our software sales.

LOOKING FORWARD

This past quarter, I had the privilege of delivering a keynote address at the Reuters Energy Transition conference in New York. I joined executive leaders and decision makers in the energy space to discuss the power of technology in energy transition. It reinforced my belief in the critical role of our technology and expertise, and it strengthened my conviction in the strategic importance of our recently announced partnerships to bring holistic solutions to the market.

Whether in energy transition or traditional oil and gas, I see the enthusiasm and focused effort driving the industry towards digitization. Technology will add scale, intelligence, and efficiency to the current operating model, and it can break down silos promoting optimization across the entire value chain. As the industry moves more rapidly towards digitization, we are delivering science-based, expert, fit-for-purpose workflows, and solutions to an increasingly receptive end user.

As technology enables greater and greater amounts of data to be collected and analyzed in more powerful ways, we are using our M&A strategy to evaluate opportunities to deploy capital in innovative new technologies that are changing the way things are done, have strong fundamentals, scope for scalability and create further moat and product stickiness. I strongly believe that acquisitions create long term shareholder value and that the ultimate responsibility to ensure our capital is invested profitably and prudently rests with me. We have evaluated many opportunities but remain patient and diligent to ensure we are acquiring the right assets at the right price which will help us achieve our long-term goal of building a sustainable, durable growth business with high shareholder returns.

I look forward to continuing to share our progress in the coming quarters and remain grateful for your continued support.

Sincerely,

Pramod Jain

Chief Executive Officer

Management's Discussion and Analysis

Computer Modelling Group Ltd. announces its first quarter results for the three months ended June 30, 2023.

First Quarter Highlights

Three months ended June 30, ($ thousands, except per share data)	**2023**	2022	$ change	% change
Annuity/maintenance software licenses	**15,607**	**13,529**	2,078	15%
Perpetual software licenses	**1,849**	**386**	1,463	379%
Total revenue	**20,748**	**16,107**	4,641	29%
Operating profit	**9,764**	**4,961**	4,803	97%
Net income	**6,904**	**3,813**	3,091	81%
Adjusted EBITDA(1)	**9,948**	**6,775**	3,173	32%
Earnings per share - basic	**0.09**	**0.05**	0.04	80%
Funds flow from operations per share - basic	**0.10**	**0.06**	0.04	67%
Free cash flow per share - basic (1)	**0.09**	**0.05**	0.04	80%

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

This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for Computer Modelling Group Ltd. ("CMG", the "Company", "we" or "our"), dated August 10, 2023, should be read in conjunction with CMG's unaudited condensed consolidated interim financial statements (the "Financial Statements") and accompanying notes for the three months ended June 30, 2023 and 2022 and CMG's Annual Information Form dated May 24, 2023 ("AIF"), which are available under CMG's issuer profile at www.sedar.com.

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

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

This MD&A was reviewed and approved by the Audit Committee and Board of Directors and is effective August 10, 2023.

Forward-Looking Information

Certain information included in this MD&A is forward-looking. Forward-looking information includes statements that are not statements of historical fact and which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans and status of the Company's software development projects, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, research and development timetable, and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavors", "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

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 and Reconciliation of non-IFRS Measures

Certain financial measures in this MD&A – namely, Adjusted EBITDA, free cash flow, adjusted total operating expenses, direct employee costs, adjusted direct employee costs, other corporate costs, adjusted other corporate costs, adjusted operating profit, and adjusted net income – 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.

Adjusted EBITDA and Adjusted EBITDA as a % of Total Revenue

Adjusted EBITDA and Adjusted EBITDA as a % of total revenue refers to net income before adjusting for depreciation and amortization expense, interest income, interest expense, and income and other taxes, share-based compensation, restructuring charges, foreign exchange gains and losses, interest expense on lease liabilities, repayment of lease obligations, acquisition related costs and asset impairments. Adjusted EBITDA should not be construed as an alternative to operating income, net income or liquidity as determined by IFRS. The Company believes that Adjusted EBITDA and Adjusted EBITDA as a % total revenue 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. In addition, management has determined that Adjusted EBITDA and Adjusted EBITDA as a % of total revenue is a more accurate measurement of the Company's operating performance and our ability to generate operating earnings as compared to EBITDA and EBITDA as a % of total revenue.

EBITDA was a metric utilized by management prior to fiscal year 2024 which had included stock-based compensation and excluded leases. The inclusion of stock-based compensation in EBITDA increased volatility in the metric and impacted our ability to make meaningful comparisons to our peer group and industry. Under IFRS, companies must reflect leases on the balance sheet and the lease payment is allocated between depreciation and interest expense. As such, these expenses were not reflected in EBITDA even though they represent an operating cost. We have Adjusted EBITDA to reflect the cash cost of lease payments as we believe that this more properly reflects the operating performance of the Company.

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Net income	**6,904**	3,813	3,091	81%
Add (deduct):				
Depreciation and amortization (1)	**961**	931	30	3%
Stock-based compensation	**104**	74	30	41%
Restructuring charges	**-**	1,602	(1,602)	(100%)
Income and other tax expense	**2,244**	1,369	875	64%
Interest income	**(760)**	(180)	(580)	322%
Foreign exchange loss (gain) (2)	**907**	(531)	1,438	(271%)
Repayment of lease liabilities	**(412)**	(303)	(109)	36%
Adjusted EBITDA(3)	**9,948**	6,775	3,173	47%
Adjusted EBITDA(3) as a % of total revenue	**48%**	42%		

(2) Depreciation and amortization expense are primarily related to property and equipment, right-of-use and intangible assets. Depreciation and amortization expense for the three months ended June 30, 2023, includes recognized depreciation expense on right-of-use assets of $0.6 million (June 30, 2022 - $0.6 million).

(3) These losses (gains) relate to the impact of foreign exchange translation on financial assets and liabilities.

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

Adjusted EBITDA as a percentage of total revenue was 48% in the current quarter, up from 42% in the prior year quarter, mainly due to an increase in revenue, a decrease in operating expenses partially offset by an increase in cost of revenue.

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

	Fiscal 2022			Fiscal 2023				Fiscal 2024
($ thousands, unless otherwise stated)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Funds flow from operations	4,904	7,022	7,105	4,558	4,974	8,169	7,656	**7,920**
Capital expenditures	(133)	(481)	(62)	-	(130)	(211)	(1,707)	**(45)**
Repayment of lease liabilities	(277)	(314)	(459)	(303)	(339)	(413)	(553)	**(412)**
Free cash flow	4,494	6,227	6,584	4,255	4,505	7,545	5,396	**7,463**
Weighted average shares – basic (thousands)	80,307	80,335	80,335	80,335	80,412	80,511	80,603	**80,685**
Free cash flow per share – basic	0.06	0.08	0.08	0.05	0.06	0.09	0.07	**0.09**

Direct Employee and Other Corporate Costs

Direct employee costs include salaries, bonuses, stock-based compensation, benefits, commission expenses, and professional development. Other corporate costs include facility-related expenses, corporate reporting, professional services, marketing and promotion, computer expenses, travel, and other office-related expenses. Direct employee costs and other corporate costs should not be considered an alternative to total operating expenses as determined in accordance with IFRS. People-related costs represent the Company's largest area of expenditure; hence, management considers highlighting separately corporate and 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.

Corporate Profile

CMG is a global software and consulting company providing advanced reservoir modelling capabilities to the energy industry. CMG provides cutting-edge technologies that support critical field development decisions for upstream planning and energy transition strategies. The Company has a diverse customer base of international oil companies in approximately 60 countries. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities. CMG has sales and technical support services based in Calgary, Houston, London, Dubai, Bogota and Kuala Lumpur. CMG's Common Shares are listed on the Toronto Stock Exchange ("TSX") and trade under the symbol "CMG".

Quarterly Performance

($ thousands, unless otherwise stated)	Fiscal 2022[2] Q2	Q3	Q4	Fiscal 2023[3] Q1	Q2	Q3	Q4	Fiscal 2024[4] Q1
Annuity/maintenance license revenue	13,239	13,575	14,306	13,529	14,825	15,533	15,803	**15,607**
Perpetual license revenue	846	1,497	2,351	386	780	518	1,556	**1,849**
Software license revenue	14,085	15,072	16,657	13,915	15,605	16,051	17,359	**17,456**
Professional services revenue	1,864	1,973	2,137	2,192	2,477	3,341	2,906	**3,292**
Total revenue	15,949	17,045	18,794	16,107	18,082	19,392	20,265	**20,748**
Operating profit	5,440	7,755	7,312	4,961	5,555	8,435	6,909	**9,764**
Operating profit (%)	34	45	39	31	31	43	34	**47**
Profit before income and other taxes	5,321	7,310	6,563	5,182	5,989	8,350	7,127	**9,148**
Income and other taxes	1,175	1,736	1,611	1,369	1,579	2,002	1,901	**2,244**
Net income for the period	4,146	5,574	4,952	3,813	4,410	6,348	5,226	**6,904**
Adjusted EBITDA[1]	6,948	8,672	8,795	6,775	8,509	10,595	8,515	**9,948**
Cash dividends declared and paid	4,016	4,017	4,016	4,017	4,025	4,025	4,032	**4,039**
Funds flow from operations	4,904	7,022	7,105	4,558	4,974	8,169	7,656	**7,920**
Free cash flow[1]	4,494	6,227	6,584	4,255	4,505	7,545	5,396	**7,463**
Per share amounts – ($/share)								
Earnings per share (EPS) – basic	0.05	0.07	0.06	0.05	0.05	0.08	0.07	**0.09**
Earnings per share (EPS) – diluted	0.05	0.07	0.06	0.05	0.05	0.08	0.06	**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	0.06	0.09	0.09	0.06	0.06	0.10	0.09	**0.10**
Free cash flow per share – basic[1]	0.06	0.08	0.08	0.05	0.06	0.09	0.07	**0.09**

(1) This is a non-IFRS financial measure. See the "Non-IFRS Financial Measures" section.
(2) Q2 Q3 and Q4 of fiscal 2022 include $0.5 million, $nil and $0.8 million, respectively, in annuity/maintenance revenue that pertains to usage of CMG's products in prior quarters.
(3) Q1, Q2 Q3 and Q4 of fiscal 2023 include $0.2 million, $0.3 million, $0.3 million, and $0.4 million, respectively, in annuity/maintenance revenue that pertains to usage of CMG's products in prior quarters.
(4) Q1 of fiscal 2024 includes $0.1 million in annuity/maintenance revenue that pertains to usage of CMG's products in prior quarters.

Commentary on Quarterly Performance

For the Three Months Ended

June 30, 2023 and compared to the same period of the previous fiscal year:

- Annuity/maintenance license revenue increased by 15%;
- Total revenue increased by 29%;
- Total operating expenses decreased by 3%. Adjusted for restructuring charges in the comparative quarter, operating expenses increased by 17%; primarily due to an increase in variable direct employee costs, higher professional services, travel-related, office-related and marketing corporate costs;
- Operating profit margin was 47%, up from 31% in the comparative quarter. Adjusted for restructuring charges in the comparative quarter, operating profit margin was 47%, compared to 41%;
- Basic EPS of $0.09 was higher than the comparative quarter's EPS of $0.05;
- Achieved free cash flow per share of $0.09;
- Declared and paid a dividend of $0.05 per share.

CMG's annuity/maintenance revenue increased by 15% during Q1 of fiscal 2024 compared to Q1 of fiscal 2023, continuing the trend of comparative quarterly increases that started in Q3 of the previous fiscal year. Consistent with previous quarters, this increase was driven by increase in license pricing and offerings by existing customers and an addition of new customers.

Geographically, all regions saw increases in annuity/maintenance revenue due to new customers and increased licensing by some existing customers. Existing customers continue to grow their product offerings on contract renewals and expansion.

Perpetual license revenue increased by $1.5 million compared to Q1 of fiscal 2023, supported by sales in the Eastern Hemisphere, Canada and the United States.

During the quarter, operating expenses decreased by $0.3 million compared to Q1 of fiscal 2023. The decrease was driven by a decrease in direct employee costs partially offset by an increase in professional services, travel-related, office-related and marketing corporate costs.

Adjusted operating profit margin was 47%, compared to 41% in Q1 of fiscal 2023, which is driven by the increase in total revenue. Basic earnings per share was $0.09, an increase of $0.04 per share compared to Q1 of fiscal 2023.

As always, CMG maintains a strong financial position and closed the quarter with $64.2 million in cash and no debt. We generated $0.09 per share of free cash flow, an increase of $0.04 per share as compared to Q1 of fiscal 2023.

So far fiscal 2024 has been positive, due to increased revenue as a result of increase in license fees and demand for products across the regions. At the same time, we continue to navigate complex market conditions with geopolitical challenges, ESG policy tightening, supply and demand imbalances, and increasing inflation. Despite these challenges, we are encouraged by the strength of our technology and our team.

Revenue

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Software license revenue	**17,456**	13,915	3,541	25%
Professional services revenue	**3,292**	2,192	1,100	50%
Total revenue	**20,748**	16,107	4,641	29%
Software license revenue as a % of total revenue	**84%**	86%		
Professional services revenue as a % of total revenue	**16%**	14%		

CMG's revenue is comprised of software license sales, which provides the majority of the Company's revenue, and fees for professional services. The growth and future success of our business depends on many factors and variables. While each of these events present significant opportunities for our business, they also present challenges which are discussed in CMG's 2023 financial report and in the "Risk Factors" section of CMG's Annual Information Form dated May 24, 2023, which is available under the Company's profile on SEDAR at www.sedar.com.

Total revenue for the three months ended June 30, 2023, increased by 29%, 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 June 30, ($ thousands)	**2023**	2022	$ change	% change
Annuity/maintenance license revenue	**15,607**	**13,529**	2,078	15%
Perpetual license revenue	**1,849**	**386**	1,463	379%
Total software license revenue	**17,456**	**13,915**	3,541	25%
Annuity/maintenance as a % of total software license revenue	**89%**	**97%**		
Perpetual as a % of total software license revenue	**11%**	**3%**		

Total software license revenue for the three months ended June 30, 2023 increased by 25%, compared to the same period of the previous fiscal year, due to increases in both annuity/maintenance license revenue and perpetual license revenue.

Annuity/maintenance license revenue increased by 15%, due to increased license fees, increased license usage by existing customers and the addition of new customers. We continue to see an increase in revenue from our energy transition customers and estimate that 22% of total software revenue during the three months ended June 30, 2023 is related to energy transition.

Perpetual license revenue increased by 379% during the three months ended June 30, 2023 compared to the same period of the previous quarter due to new perpetual license sales in Asia. Sales of perpetual licenses may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers usually prefer annuity licenses to perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollar had a small negative impact on reported annuity/maintenance license revenue during the three months ended June 30, 2023 compared to the same period of the previous fiscal year.

Three months ended June 30, ($ thousands)	2022	Incremental License Growth/(Decrease)	Foreign Exchange Impact	**2023**
Annuity/maintenance license revenue	13,529	1,396	682	**15,607**
Perpetual license revenue	386	1,392	71	**1,849**
Total software license revenue	13,915	2,788	753	**17,456**

Software Revenue by Geographic Region

Three months ended June 30, ($ thousands)	2023	2022	$ change	% change
Annuity/maintenance license revenue				
Canada	**3,241**	2,950	290	10%
United States	**4,254**	3,350	904	27%
South America	**1,822**	1,699	123	7%
Eastern Hemisphere[1]	**6,290**	5,530	760	14%
	15,607	13,529	2,078	15%
Perpetual license revenue				
Canada	**115**	-	115	100%
United States	**233**	-	233	100%
South America	**-**	-	-	-
Eastern Hemisphere	**1,501**	386	1,115	289%
	1,849	386	1,463	379%
Total software license revenue				
Canada	**3,356**	2,950	405	14%
United States	**4,487**	3,350	1,137	34%
South America	**1,822**	1,699	123	7%
Eastern Hemisphere	**7,791**	5,916	1,875	32%
	17,456	13,915	3,541	25%

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

During the three months ended June 30, 2023 compared to the same period of the previous fiscal year, total software license revenue increased in all regions.

The Canadian region (representing 19% of year-to-date total software license revenue) experienced a 10% increase in annuity/maintenance license revenue, due to increased license fee and licensing by existing customers. Perpetual license revenue increased by 100% during the quarter due to a license purchase.

The United States (representing 26% of year-to-date total software license revenue) experienced a 27% increase in annuity/maintenance license revenue, due to new customers and increased licensing and pricing by existing customers. Perpetual license revenue increased by 100% during the quarter due to a new customer license purchase.

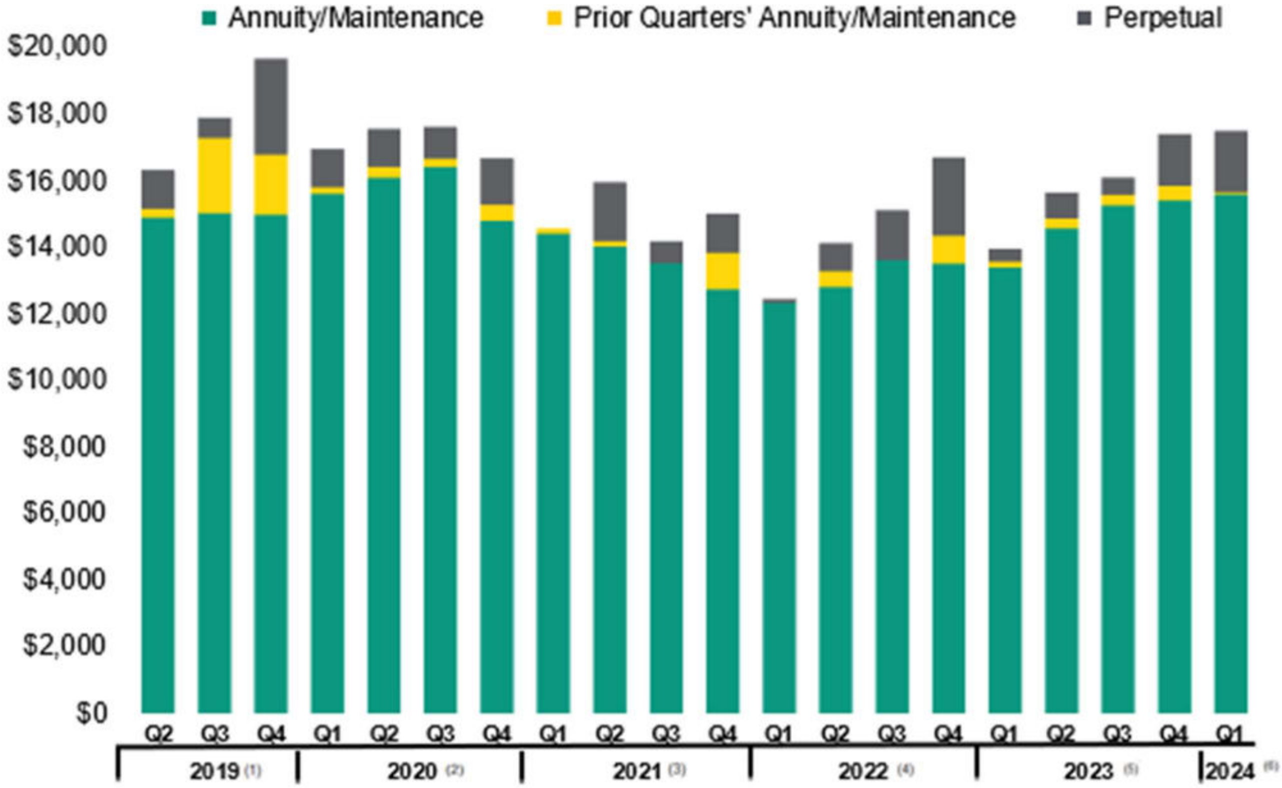
South America (representing 10% of year-to-date total software license revenue) experienced a 7% increase in annuity/maintenance license revenue, due to increased licensing by existing customers. There were no perpetual sales in South America during the current quarter.

The Eastern Hemisphere (representing 45% of year-to-date total software license revenue) experienced a 14% increase in annuity/maintenance license revenue, due to increased license fees and licensing by existing customers. Several perpetual sales were realized during the quarter, which resulted in a 289% increase over 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)



(2) Q2, Q3 and Q4 of fiscal 2019 include $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, Q3 and Q4 of fiscal 2023 includes $0.2 million, $0.3 million, $0.3 million, and $0.4million, respectively, in revenue that pertains to usage of CMG's products in prior quarters.

(7) Q1 of fiscal 2024 includes $0.1 million in revenue that pertains to usage of CMG's products in prior quarters.

Deferred Revenue

($ thousands)	**Fiscal 2024**	Fiscal 2023	Fiscal 2022	$ change	% change
Deferred revenue at:					
Q1 (June 30)	**26,616**	24,409		2,207	9%
Q2 (September 30)		24,164	21,242	2,922	12%
Q3 (December 31)		26,717	23,056	3,661	14%
Q4 (March 31)		34,797	30,454	4,343	12%

CMG's deferred revenue consists primarily of amounts for prepaid licenses. Our annuity/maintenance revenue is deferred and recognized rateably 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 Q1 of fiscal 2024 was 9% higher than Q1 of fiscal 2023 which was negatively impacted by timing differences on the balance.

Professional Services Revenue

Professional services revenue for the three months ended June 30, 2023 increased by 50%, compared to the same period of the previous fiscal year. This was due to an increase in new consulting contracts in the Unites States, South America and the Eastern Hemisphere.

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.

Cost of Revenue

Cost of revenue primarily consists of direct employee, external consultants and overhead costs associated with customer support, training, and consulting, and public cloud hosting applications. These costs are generally related to headcount and are driven by management's decision to add customer success and consulting capacity. In general, these costs fluctuate as a percentage of revenue as CMG adds headcount to support increased demand for our software and consulting services.

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Cost of revenue	**1,905**	1,764	141	8%

Cost of revenues increased by 8% for the three months ended June 30, 2023 compared to the same period of the previous fiscal year related to headcount driven direct employee costs.

Operating Expenses

Sales and Marketing

Sales and marketing expenses are comprised primarily of employee salaries, commissions, benefits and share-based compensation, as well direct costs related to the delivery of marketing programs and events. Sales and marketing expenses also include travel-related expenses and corporate overhead allocations. We plan to continue to expand sales and marketing efforts to attract new customers, retain existing customers and increase revenues from both new and existing customers.

Research and Development

Research and development expenses are comprised primarily of personnel expenses including employee salaries, benefits and share-based compensation, product-related expenses including product management, product research and development, and other corporate overhead allocations off-set by certain tax benefits realized through the Canadian Scientific Research and Experimental Development Tax Credit program ("SR&ED"). We continue to invest in our research and development program by adding new features and functionality to our products, maintaining our expansive artifact infrastructure, and delivering new products to market.

General and Administrative

General and administrative expenses are comprised primarily of personnel expenses including salaries, benefits, and share-based compensation expense for our administrative, finance, legal, information technology, and people and culture teams, allocated rent, travel and general office and administrative expenses, consulting and professional fees.

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Sales and marketing	**2,355**	1,903	452	24%
Research and development	**4,052**	4,129	(77)	(2%)
General and administrative	**2,672**	3,350	(678)	(20%)
Total operating expenses	**9,079**	9,382	(303)	(3%)
Direct employee costs[1]	**6,157**	7,489	(1,332)	(18%)
Other corporate costs[1]	**2,922**	1,893	1,029	54%
	9,079	9,382	(303)	(3%)

(8) 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. Restructuring charges are excluded from total operating expenses. 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 June 30 ($ thousands)	**2023**	2022
Total operating expenses	**9,079**	9,382
Restructuring charge	**-**	(1,602)
Adjusted total operating expenses	**9,079**	7,780
Direct employee costs	**6,157**	7,489
Restructuring charge	**-**	(1,478)
Adjusted direct employee costs	**6,157**	6,011
Other corporate costs	**2,922**	1,893
Restructuring charge	**-**	(124)
Adjusted other corporate costs	**2,922**	1,769

Total operating expenses decreased by 3% for the three months ended June 30, 2023 compared to the same period of the previous fiscal year. Adjusted total operating expenses increased by 17% primarily related to the increase in other corporate costs.

Direct Employee Costs

As a technology company, CMG's largest investment is its people, and approximately 85% of total operating expenses relate to direct employee costs. At June 30, 2023, CMG's full-time equivalent staff complement was 184 employees and consultants (June 30, 2022 – 173 employees)

In May 2022, Ryan Schneider stepped down as the Company's President and CEO and Pramod Jain was appointed CEO. This change resulted in a one-time restructuring cost of $1.6 million.

For the three months ended June 30, 2023, adjusted direct employee costs increased by 2%, compared to the same period of the previous fiscal year primarily due to an increase in headcount.

Other Corporate Costs

Adjusted other corporate costs increased by 65% for the three months ended June 30, 2023 compared to the same period of the previous fiscal year, primarily due to higher general professional services and legal costs, travel-related, office-related and marketing corporate costs. As the Company resumes post-pandemic operations, travel, marketing and office-related activities have increased as compared to the first quarter of the previous fiscal year.

Research and Development

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Research and development	**4,164**	4,316	(152)	(4%)
SR&ED credits	**(112)**	(187)	75	40%
Research and development	**4,052**	4,129	(77)	(2%)
Research and development as a % of total revenue	**20%**	26%		

Research and development costs for the three months ended June 30, 2023 decreased by 2%, compared to the same period of the previous fiscal year, as a result of the decrease in direct employee costs due to restructuring that occurred in the second quarter of the previous fiscal year partially offset by lower SR&ED credits.

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 of costs for CoFlow for the three months ended June 30, 2023, slight decrease of $0.1 million in the same period of the previous fiscal year. See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Depreciation and Amortization

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Depreciation of property and equipment and amortization of intangible assets, allocated to:				
Cost of revenue	**103**	112	(9)	(8%)
Sales and marketing	**105**	101	4	4%
Research and development[1]	**567**	604	(37)	(6%)
General and administrative	**186**	114	72	63%
Total depreciation and amortization	**961**	931	30	3%

(1) Amortization of intangible assets for the three months ended June 30, 2023 is $0.1 million (June 30, 2022 – nil) allocated to the research and development department.

Depreciation for the three months ended June 30, 2023 increased slightly compared to the same period of the previous fiscal year. Amortization for the three months ended June 30, 2023 relates to the intangible assets acquired during the fourth quarter of fiscal 2023.

Finance Income and Costs

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Interest income	**760**	180	580	322%
Net foreign exchange gain	**-**	531	(531)	(100%)
Total finance income	**760**	711	49	7%
Interest expense on lease liability	**(469)**	(490)	21	(4%)
Net foreign exchange loss	**(907)**	-	(907)	100%
Total finance costs	**(1,376)**	(490)	(886)	181%

Interest income for the three months ended June 30, 2023 was 322% higher than in the same period of the previous fiscal year, due to higher interest rates and higher cash balances in interest bearing accounts.

Interest expense on the lease liabilities for the three months ended June 30, 2023 was consistent with the comparative period.

CMG is impacted by foreign exchange fluctuations, as 70% of CMG's total revenue for the three months ended June 30, 2023 (2022 – 69%) is denominated in US dollars, whereas only 22% (2022 – 22%) 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 June 30, 2023, 2022 and 2021 and the average exchange rates used to translate income statement items during the three months ended June 30, 2023, 2022 and 2021:

CDN$ to US$	At June 30	Three-month trailing average
2021	0.8068	0.8125
2022	0.7744	0.7892
2023	**0.7545**	**0.7418**

CMG recorded a net foreign exchange loss of $0.9 million for the three months ended June 30, 2023 due to a strengthening of the Canadian dollar during the period, which negatively affected the valuation of the USD-denominated portion of the Company's working capital.

Income and Other Taxes

CMG's effective tax rate for the three months ended June 30, 2023 is 24.6% (2022 – 26.4%), whereas the Canadian statutory tax rate for the Company's 2024 fiscal year is 23%. The difference between the effective rate and the statutory rate is primarily due to the non-tax deductibility of stock-based compensation expense and the benefit of certain foreign withholding taxes being realized only as a tax deduction as opposed to a tax credit.

The benefit recorded in CMG's books on the SR&ED investment tax credit program impacts deferred income taxes. The investment tax credit earned in the current fiscal year 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 June 30, ($ thousands, except per share data)	**2023**	2022	$ change	% change
Total revenue	**20,748**	16,107	4,641	29%
Cost of revenue	**(1,905)**	(1,764)	(141)	8%
Operating expenses	**(9,079)**	(9,382)	303	-3%
Operating profit	**9,764**	4,961	4,803	97%
Operating profit as a % of revenue	**47%**	31%		
Net income	**6,904**	3,813	3,091	81%
Net income as a % of total revenue	**33%**	24%		
Basic earnings per share ($/share)	**0.09**	0.05	0.04	80%

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 restructuring charges. Adjusted net income is calculated as net income excluding tax-affected 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 June 30, ($thousands)	**2023**	2022
Operating profit	**9,764**	4,961
Restructuring charge	**-**	1,602
Adjusted operating profit	**9,764**	6,563
Adjusted operating profit as a % of revenue	**47%**	41%
Net income	**6,904**	3,813
Restructuring charge	**-**	1,602
Tax impact of adjusting items	**-**	(368)
Adjusted net income	**6,904**	5,047
Adjusted net income as a % of total revenue	**33%**	31%

Operating profit as a percentage of total revenue for the three months ended June 30, 2023 was 47%, up from 31% in the comparative quarter due to an increase in revenue and decrease in operating expenses. Adjusted operating profit was 47%, up from 41% in the comparative quarter, due to an increase in revenue and partially offset by an increase in adjusted operating expenses.

Net income as a percentage of total revenue for the three months ended June 30, 2023 was 33%, up from 24% in 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, primarily due to higher revenue partially offset by increase in adjusted operating expenses and foreign exchange loss.

Liquidity and Capital Resources

Three months ended June 30, ($ thousands)	**2023**	2022	$ change	% change
Cash, beginning of period	**66,850**	59,660	7,190	12%
Cash provided by (used in):				
Operating activities	**1,187**	(258)	1,445	560%
Financing activities	**(3,750)**	(4,320)	570	13%
Investing activities	**(45)**	-	(45)	(100%)
Cash, end of period	**64,242**	55,082	9,160	17%

At June 30, 2023, CMG had $64.2 million in cash, no borrowings and access to approximately $1.0 million under a line of credit with its principal banker. The Company's primary non-operating use of cash is quarterly dividend payments. Management believes that the Company has sufficient capital resources to meet its operating obligations and capital expenditure needs.

During the quarter ended June 30, 2023, $3.3 million shares of CMG's public float were traded on the TSX. As at June 30, 2023, CMG's market capitalization based upon its June 30, 2023 closing price of $6.66 was $538.1 million.

Operating Activities

Cash provided by operating activities increased by $1.4 million during the three months ended June 30, 2023, compared to the same period of the previous fiscal year. This increase was driven by an increase in funds flow from operations as a result of the increase in net income. This increase was partially offset by the change in non-cash working capital.

Financing Activities

Cash used in financing activities increased by 13% in the three months ended June 30, 2023 compared to the same period of the previous fiscal year. The increase is attributable to proceeds received from exercise of stock options offset by CMG's quarterly dividend payment and repayment of lease liabilities. In the three months ended June 30, 2023 and 2022, CMG paid $4.0 million in dividends, representing a payment of a quarterly dividend of $0.05 per share on CMG's common shares.

On August 10, 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 September 15, 2023 to shareholders of record at the close of business on September 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. CMG had no capital additions during the three months ended June 30, 2023. CMG's capital budget for fiscal 2024 is $1.5 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

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

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

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term. In September 2021, CMG and Shell agreed that CMG 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 June 30, 2023:

(thousands of $)	Undiscounted lease liability payments	Operating costs and short-term leases	Total commitments
Less than one year	3,617	1,083	4,700
Between one and five years	17,512	4,332	21,844
More than five years	31,593	9,838	41,431
	52,722	15,253	67,975

Business Risks, Critical Accounting Estimates and Judgments

These remain unchanged from the factors detailed in CMG's 2023 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 August 10, 2023 (thousands)	
Common shares	80,810
Stock options	4,710
Restricted share units(1)	507
Performance share units(1)	68

(9) 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 August 10, 2023, CMG could reserve up to 8,081,000 common shares for issuance under its security-based compensation plans.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109. These controls and procedures were reviewed and the effectiveness of their design and operation was evaluated in fiscal 2023 in accordance with the COSO control framework (2013). The evaluation confirmed the effectiveness of DC&P and ICFR at March 31, 2023. During the 2024 fiscal year, we continue to monitor and review our controls and procedures.

During the three months ended June 30, 2023, there have been no significant changes to the Company’s ICFR that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

Condensed Consolidated Statements of Financial Position

UNAUDITED (thousands of Canadian $)	**June 30, 2023**	March 31, 2023
Assets		
Current assets:		
Cash	**64,242**	66,850
Trade and other receivables	**20,028**	23,910
Prepaid expenses	**1,061**	1,060
Prepaid income taxes (note 9)	**254**	444
	85,585	92,264
Property and equipment	**10,102**	10,366
Right-of-use assets	**30,138**	30,733
Intangible assets	**1,264**	1,321
Deferred tax asset (note 9)	**2,492**	2,444
Total assets	**129,581**	137,128
Liabilities and shareholders' equity		
Current liabilities:		
Trade payables and accrued liabilities	**7,157**	9,883
Income taxes payable (note 9)	**204**	33
Deferred revenue (note 4)	**26,616**	34,797
Lease liabilities (note 5)	**1,853**	1,829
	35,830	46,542
Long-term stock-based compensation liability (note 10(c))	**1,848**	1,985
Long-term lease liabilities (note 5)	**35,715**	36,151
Total liabilities	**73,393**	84,678
Shareholders' equity:		
Share capital (note 10(b))	**82,650**	81,820
Contributed surplus	**15,514**	15,471
Deficit	**(41,976)**	(44,841)
Total shareholders' equity	**56,188**	52,450
Total liabilities and shareholders' equity	**129,581**	137,128

Subsequent event (note 14)

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Operations and Comprehensive Income

Three months ended June 30, UNAUDITED (thousands of Canadian $ except per share amounts)	**2023**	2022 (note 2(e))
Revenue (note 6)	**20,748**	16,107
Cost of revenue	**1,905**	1,764
Gross profit	**18,843**	14,343
Operating expenses		
Sales and marketing	**2,355**	1,903
Research and development (note 7)	**4,052**	4,129
General and administrative	**2,672**	3,350
	9,079	9,382
Operating profit	**9,764**	4,961
Finance income (note 8)	**760**	711
Finance costs (note 8)	**(1,376)**	(490)
Profit before income and other taxes	**9,148**	5,182
Income and other taxes (note 9)	**2,244**	1,369
Net and total comprehensive income	**6,904**	3,813
Earnings per share – basic (note 10(d))	**0.09**	0.05
Earnings per share – diluted (note 10(d))	**0.08**	0.05
Dividend per share	**0.05**	0.05

See accompanying notes to consolidated financial statements.

Condensed Consolidated Statements of Changes in Equity

UNAUDITED (thousands of Canadian $)	Share capital	Contributed surplus	Deficit	Total equity
Balance, April 1, 2022	80,248	15,009	(48,539)	46,718
Total comprehensive income for the period	-	-	3,813	3,813
Dividends paid	-	-	(4,017)	(4,017)
Stock-based compensation:				
Current period expense (note 10(c))	-	210	-	210
Balance, June 30, 2022	80,248	15,219	(48,743)	46,724
Balance, April 1, 2023	**81,820**	**15,471**	**(44,841)**	**52,450**
Total comprehensive income for the period	-	-	**6,904**	**6,904**
Dividends paid	-	-	**(4,039)**	**(4,039)**
Stock-based compensation:				
Shares issued on receipt of cash	**830**	**(129)**	-	**701**
Current period expense (note 10(c))	-	**172**	-	**172**
Balance, June 30, 2023	**82,650**	**15,514**	**(41,976)**	**56,188**

See accompanying notes to consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

Three months ended June 30, UNAUDITED (thousands of Canadian $)	**2023**	2022
Operating activities		
Net income	**6,904**	3,813
Adjustments for:		
Depreciation and amortization of property, equipment, right-of-use assets	**904**	931
Amortization of intangible assets	**57**	-
Deferred income tax recovery (note 9)	**(49)**	(154)
Stock-based compensation (note 10(c))	**104**	(32)
Funds flow from operations	**7,920**	4,558
Movement in non-cash working capital:		
Trade and other receivables	**3,882**	2,396
Trade payables and accrued liabilities	**(2,794)**	(945)
Prepaid expenses	**(1)**	(62)
Income taxes payable	**361**	(160)
Deferred revenue	**(8,181)**	(6,045)
Changes in non-cash working capital	**(6,733)**	(4,816)
Net cash provided by (used in) operating activities	**1,187**	(258)
Financing activities		
Proceeds from issue of common shares	**701**	-
Repayment of lease liabilities (note 5)	**(412)**	(303)
Dividends paid	**(4,039)**	(4,017)
Net cash used in financing activities	**(3,750)**	(4,320)
Investing activities		
Property and equipment additions	**(45)**	-
Decrease in cash	**(2,608)**	(4,578)
Cash, beginning of period	**66,850**	59,660
Cash, end of period	**64,242**	55,082
Supplementary cash flow information		
Interest received (note 8)	**760**	180
Interest paid (notes 5 and 8)	**469**	490
Income taxes paid	**1,778**	1,496

See accompanying notes to consolidated financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2023 and 2022.

1. Reporting Entity:

Computer Modelling Group Ltd. ("CMG") is a company domiciled in Alberta, Canada and is incorporated pursuant to the Alberta Business Corporations Act, with its common shares listed on the Toronto Stock Exchange under the symbol "CMG". The address of CMG's registered office is 3710 33 Street N.W., Calgary, Alberta, Canada, T2L 2M1. The condensed consolidated interim financial statements as at and for the three months ended June 30, 2023 comprise CMG and its subsidiaries (together referred to as the "Company"). The Company is a computer software technology company engaged in the development and licensing of reservoir simulation software. The Company also provides professional services consisting of highly specialized support, consulting, training, and contract research activities.

2. Basis of Preparation:

(a) Statement of Compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). 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, 2023, 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 months ended June 30, 2023 were authorized for issuance by the Board of Directors on August 10, 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.

(e) Change in Presentation of Operating Expenses:

Prior to April 1, 2023, the Company classified costs related to software licenses and professional services (including costs associated with customer support and training, and consulting services) under sales and marketing expenses, and costs related to public cloud hosting services under research and development expenses in the statement of operations. In order to better align with industry peers for comparability purposes, the Company has changed the presentation of the direct costs to deliver professional services and software licenses as a cost of revenue. Cost of revenue includes direct employee, external consultant and overhead costs associated with customer support, training, consulting, and public cloud hosting applications. The change in presentation had no effect on the reported results of operations. The comparative period has been updated to reflect this presentation change.

(thousands of $)	As presented June 30, 2022	Reclassification in Presentation	Restated June 30,2022
Cost of Revenue	-	1,764	**1,764**
Sales and marketing	3,591	(1,688)	**1,903**
Research and development	4,205	(76)	**4,129**

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, intangible 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 $)	June 30, 2023	March 31, 2023
Canada(1)	**41,020**	41,835
United States	**288**	345
South America	**125**	148
Eastern Hemisphere(2)	**71**	92
	41,504	42,420

(1) Includes intangible assets, refer to Note 5 in the annual consolidated financial statements as at and for the year ended March 31, 2023.
(2) Includes Europe, Africa, Asia and Australia.

4. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

(thousands of $)	June 30, 2023	March 31, 2023
Balance, beginning of period	**34,797**	30,454
Invoiced during the period, excluding amounts recognized as revenue during the period	**5,298**	33,533
Recognition of deferred revenue included in the balance at the beginning of the period	**(13,479)**	(29,190)
Balance, end of period	**26,616**	34,797

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 $)	**June 30, 2023**	March 31, 2023
Balance, beginning of period	**37,980**	39,588
Interest on lease liabilities (note 8)	**469**	1,931
Lease payments	**(881)**	(3,539)
Balance, end of period	**37,568**	37,980
Current	**1,853**	1,829
Long-term	**35,715**	36,151

The following table presents contractual undiscounted payments for lease liabilities as at June 30, 2023:

(thousands of $)	
Less than one year	3,617
Between one and five years	17,512
More than five years	31,593
Total undiscounted payments	**52,722**

6. Revenue:

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

Three months ended June 30, (thousands of $)	2023	2022
Annuity/maintenance license revenue		
Canada	**3,241**	2,950
United States	**4,254**	3,350
South America	**1,822**	1,699
Eastern Hemisphere	**6,290**	5,530
	15,607	13,529
Perpetual license revenue		
Canada	**115**	-
United States	**233**	-
South America	**-**	-
Eastern Hemisphere	**1,501**	386
	1,849	386
Total software license revenue	**17,456**	13,915
Professional services		
Canada	**2,348**	2,074
United States	**255**	55
South America	**376**	29
Eastern Hemisphere	**313**	34
	3,292	2,192
Total revenue		
Canada	**5,702**	5,024
United States	**4,743**	3,405
South America	**2,199**	1,728
Eastern Hemisphere	**8,104**	5,950
	20,748	16,107

The amount of revenue recognized during the three months ended June 30, 2023 from performance obligations satisfied (or partially satisfied) in previous periods is $0.7 million (2022 – $0.4 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 $)	June 30, 2023	March 31, 2023
Receivables (included in "Trade and other receivables")	**19,103**	22,901

During the three months ended June 30, 2023, one customer comprised 10.1% of the Company's total revenue (2022 – one customer, 13.7%).

7. Research and Development Costs:

Three months ended June 30, (thousands of $)	**2023**	2022
Research and development	**4,164**	4,316
Scientific research and experimental development ("SR&ED") investment tax	**(112)**	(187)
	4,052	4,129

8. Finance Income and Finance Costs:

Three months ended June 30, (thousands of $)	**2023**	2022
Interest income	**760**	180
Net foreign exchange gain	**-**	531
Finance income	**760**	711
Interest expense on lease liabilities (note 5)	**(469)**	(490)
Net foreign exchange loss	**(907)**	-
Finance costs	**(1,376)**	(490)

9. Income and Other Taxes:

The major components of income tax expense are as follows:

Three months ended June 30, (thousands of $)	**2023**	2022
Current year income tax expense	**2,165**	1,369
Deferred tax recovery	**(49)**	(154)
Foreign withholding and other taxes	**128**	154
	2,244	1,369

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:

Three months ended June 30, (thousands of $, unless otherwise stated)	**2023**	2022
Combined statutory tax rate	**23.00%**	23.00%
Expected income tax	**2,104**	1,192
Non-deductible costs	**47**	50
Withholding taxes	**85**	101
Effect of tax rates in foreign jurisdictions	**20**	23
Other	**(12)**	3
	2,244	1,369

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

(thousands of $)	**June 30, 2023**	March 31, 2023
Right-of-use assets	**1,687**	1,653
Stock-based compensation liability	**1,026**	1,041
Property and equipment	**(59)**	70
Intangible Assets	**(137)**	(150)
SR&ED investment tax credits	**(25)**	(170)
Net deferred tax asset	**2,492**	2,444

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.

10. 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, 2022	80,335
Balance, June 30, 2022	80,335
Balance, April 1, 2023	**80,637**
Issued for cash on exercise of stock options	**162**
Balance, June 30, 2023	**80,799**

(c) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

Three months ended June 30, (thousands of $)	**2023**	2022
Equity-settled plans	**172**	210
Cash-settled plans	**(68)**	(136)
Total stock-based compensation expense	**104**	74

Liability Recognized for Stock-Based Compensation[1]

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

(thousands of $)	**June 30, 2023**	March 31, 2023
SARs	**771**	931
RSUs	**2,173**	1,975
PSUs	**420**	437
DSUs	**1,095**	1,184
Total stock-based compensation liability	**4,459**	4,527
Current, recorded within trade payables and accrued liabilities	**2,611**	2,542
Long-term	**1,848**	1,985

(1) The intrinsic value of the vested awards at June 30, 2022 was $0.5 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 June 30, 2023, the Company may reserve up to 8,079,000 common shares for issuance under its security-based compensation plans.

(i) Stock Option Plan

The Company adopted a rolling stock option plan as of July 13, 2005, which was reaffirmed by the Company's shareholders on July 16, 2020. 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:

	Three months ended June 30, 2023		Year ended March 31, 2023	
	Number of Options (thousands)	**Weighted Average Exercise Price ($/share)**	Number of Options (thousands)	Weighted Average Exercise Price ($/share)
Outstanding at beginning of period	**5,017**	**5.21**	3,680	6.38
Granted[1]	**-**	**-**	3,196	4.86
Exercised	**(162)**	**4.87**	(236)	4.52
Forfeited/expired	**(58)**	**6.15**	(1,623)	7.30
Outstanding at end of period	**4,797**	**5.21**	5,017	5.21
Options exercisable at end of period	**1,410**	**6.22**	1,573	6.14

(1) 2,525,000 stock options granted during the year ended March 31, 2023 are exercisable when specified share price targets are achieved.

The range of exercise prices of stock options outstanding and exercisable at June 30, 2023 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	787	3.4	4.13	275	3.98
4.63 to 4.87	1,800(1)	3.9	4.74	-	-
4.88 to 5.04	667	4.2	5.00	-	-
5.05 to 5.88	739	3.0	5.23	333	5.08
5.89 to 9.20	804	0.8	7.45	802	7.45
	4,797	**3.2**	**5.21**	**1,410**	**6.22**

(1) 2,525,000 stock options granted during the year ended March 31, 2023 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:

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

(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:

	Three months ended June 30, 2023		Year ended March 31, 2023	
	Number of SARs (thousands)	**Weighted Average Exercise Price ($/SAR)**	Number of SARs (thousands)	Weighted Average Exercise Price ($/SAR)
Outstanding at beginning of period	**957**	**6.47**	1,395	7.11
Granted	**-**	**-**	304	6.25
Exercised	**-**	**-**	(23)	5.42
Forfeited/expired	**(28)**	**6.81**	(719)	7.64
Outstanding at end of period	**929**	**6.48**	957	6.47
SARs exercisable at end of period	**520**	**7.05**	544	7.04

(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)			**Three months ended June 30, 2023**			Year ended March 31, 2023
	RSUs	**PSUs**	**DSUs**	RSUs	PSUs	DSUs
Outstanding at beginning of period	**542**	**68**	**163**	722	165	123
Granted	**4**	**-**	**1**	305	3	82
Exercised	**-**	**-**	**-**	(273)	-	(42)
Forfeited/expired	**(26)**	**-**	**-**	(212)	(100)	-
Outstanding at end of period	**520**	**68**	**164**	542	68	163

(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 June 30, (thousands except per share amounts)			**2023**			2022
	Earnings ($)	**Weighted average shares outstanding**	**Earnings per share ($/share)**	Earnings ($)	Weighted average shares outstanding	Earnings per share ($/share)
Basic	**6,904**	**80,685**	**0.09**	3,813	80,335	0.05
Dilutive effect of share-based awards		**1,525**			539	
Diluted	**6,904**	**82,210**	**0.08**	3,813	80,874	0.05

During the three months ended June 30, 2023 and 2022, no awards were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

11. 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.

12. 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 months ended June 30, 2023, the Company recorded professional services revenue of $1.9 million (2022 – $2.0 million) and CoFlow costs of $1.7 million to research and development expenses (2022 – $1.8 million).

(b) Commitments:

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

(thousands of $)	**June 30, 2023**
Less than one year	**1,083**
Between one and five years	**4,332**
More than five years	**9,838**
	15,253

13. 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 June 30, 2023, $1.0 million (June 30, 2022 – $1.0 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

14. Subsequent Event:

On August 10, 2023, the Board of Directors declared a quarterly cash dividend of $0.05 per share on its common shares, payable on September 15, 2023 to all shareholders of record at the close of business on September 7, 2023.

Corporate Information

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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
Chairman of the Board

Kiren Singh(2)

(1) Chair, Audit Committee
(2) Member, Audit Committee
(3) Chair, TMGN Committee
(4) Member, TMGN Committee
(5) Vice Chairman of the Board

Officers

Pramod Jain
Chief Executive Officer

Sandra Balic
Vice President,
Finance and Chief Financial Officer

John Mortimer
Chief Technology Officer

Sheldon Harbinson
Vice President
Americas

R. David Hicks
Vice President,
Eastern Hemisphere

Anjani Kumar
Vice President,
Customer Success and Consulting

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Olympia Trust Company

Stock Exchange Listing

Toronto Stock Exchange: **CMG**