

2022 Financial Report

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Annual General Meeting

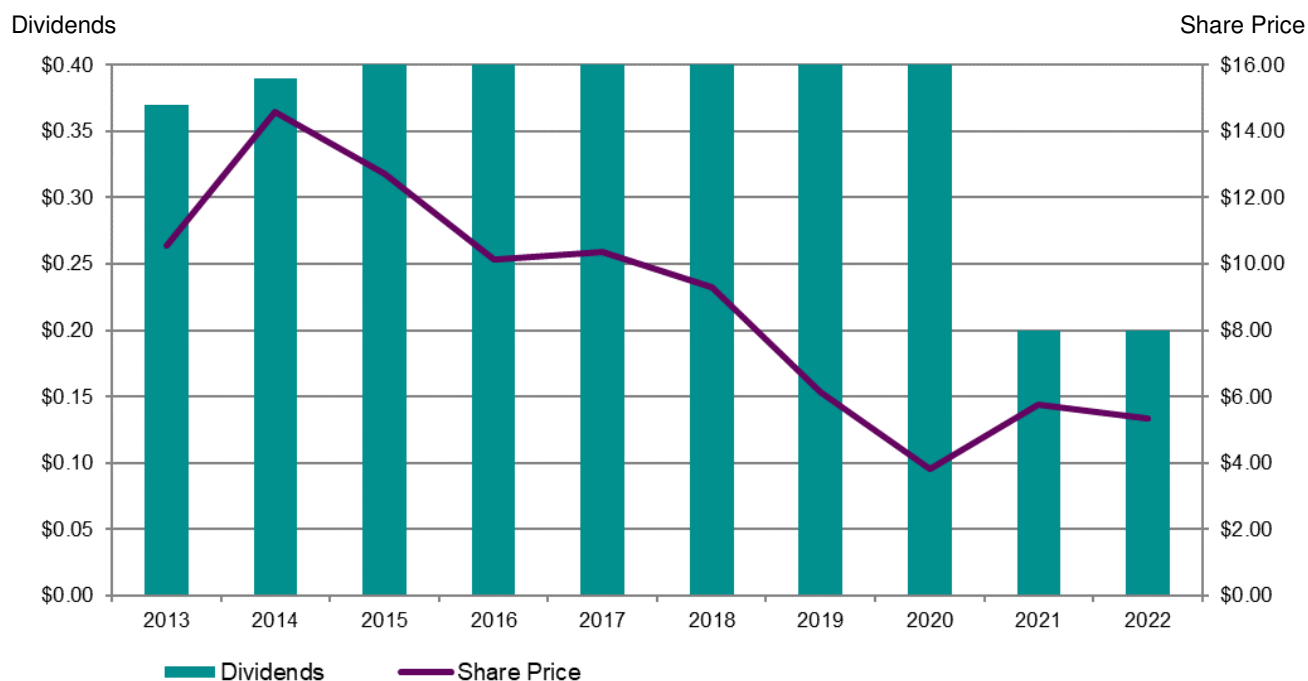
When: July 7, 2022 at 10:00 a.m. (Calgary time)

Where: Virtual-only meeting (please refer to our 2022 Management Information Circular available at www.cmgl.ca/investors/agm for the details of the meeting)

2022 Highlights

| Years ended March 31, (\$ thousands, unless otherwise stated) | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|--------|--------|--------|--------|--------|
| Software license revenue | 58,225 | 59,553 | 68,646 | 68,800 | 68,843 |
| Professional services revenue | 7,977 | 7,810 | 7,140 | 6,057 | 5,837 |
| Total revenue | 66,202 | 67,363 | 75,786 | 74,857 | 74,680 |
| Operating profit | 26,080 | 30,565 | 31,751 | 29,554 | 28,030 |
| Operating profit (%) | 39% | 45% | 42% | 39% | 38% |
| Profit before income and other taxes | 24,021 | 26,922 | 32,456 | 30,890 | 28,881 |
| Income and other taxes | 5,616 | 6,732 | 8,971 | 8,755 | 8,075 |
| Net income for the year | 18,405 | 20,190 | 23,485 | 22,135 | 20,806 |
| EBITDA ⁽¹⁾ | 30,278 | 34,836 | 36,111 | 31,507 | 30,027 |
| Funds flow from operations | 23,842 | 26,283 | 28,765 | 25,593 | 25,503 |
| Free cash flow ⁽¹⁾ | 21,783 | 24,473 | 26,547 | 24,851 | 20,830 |
| Weighted average shares outstanding | 80,316 | 80,272 | 80,240 | 80,222 | 80,046 |
| Earnings per share - basic | 0.23 | 0.25 | 0.29 | 0.28 | 0.26 |
| Dividends declared and paid per share | 0.20 | 0.20 | 0.40 | 0.40 | 0.40 |
| Funds flow from operations per share - basic | 0.30 | 0.33 | 0.36 | 0.32 | 0.32 |
| Free cash flow per share basic ⁽¹⁾ | 0.27 | 0.30 | 0.33 | 0.31 | 0.26 |
| Trading price per share at March 31 | 5.36 | 5.75 | 3.83 | 6.15 | 9.29 |

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



To Our Shareholders:

During fiscal 2022, CMG had to navigate a very volatile economic environment characterized by fluctuating demand for oil and gas and volatility in global energy prices, which were influenced by the uncertainty of the COVID-19 pandemic and geopolitical instability.

As we entered fiscal 2022, we continued to deal with the headwinds of the pandemic, which first occurred in fiscal 2021 when some of our customers chose to curtail their spending and not renew their licensing agreements or renewed their agreements at reduced levels. The second part of fiscal 2022 was characterized by recovering fundamentals as world economies started reopening and commodity prices started strengthening. At the time of our major contract renewal period in December 2021, our customers did not seem to be facing the same financial constraints as in the previous year and our Q3 and Q4 financial performance reflects an improvement in industry conditions.

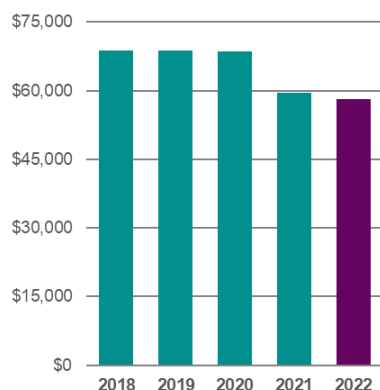
Even though economic conditions appeared to be normalizing, the crisis triggered by the Russian invasion of Ukraine introduced another element of uncertainty in world markets. As a result, we note that despite rising oil prices, our customers continue to be financially prudent and carefully analyze their investment decisions. This presents an opportunity for CMG, as the value of reservoir simulation is arguably even greater during these challenging times of economic and regulatory uncertainty. Our customers have an increasing need for CMG's technology as they engage in complex recovery processes to mitigate their declining production.

With our customers expanding their focus on climate change initiatives, including development of hydrocarbon resources in line with ESG strategies, CMG offers technology to help them minimize their impact on the environment. Energy transition-related modelling, such as carbon capture and sequestration and geothermal processes, continues to be an area of opportunity for CMG as our existing software has the technical capabilities to support such modelling. We are pleased to apply our innovative approach by providing leading technology in the energy transition and we believe that CMG is the experienced go-to partner for energy transition modelling solutions.

Fiscal 2022 Financial Review

Compared to fiscal 2021, our fiscal 2022 total revenue decreased by 2%, due to a decrease in software license revenue, which also decreased by 2%. Total software license revenue decreased as the headwinds of the first two quarters offset the growth of the last two quarters of fiscal 2022. On a full-year basis, Canada and the Eastern Hemisphere grew by 2% each, while the United States and South America experienced decreases. CMG experienced growth in Canada as a result of increased licensing, and the Eastern Hemisphere segment grew as a result of strong perpetual sales. Similar to the previous fiscal year, the United States continued to be affected by industry consolidation and reduced licensing due to ongoing challenges experienced by US unconventional shale plays. While South America was positively impacted by the new multi-year lease that included CoFlow, it recorded lower perpetual sales in the current fiscal year.

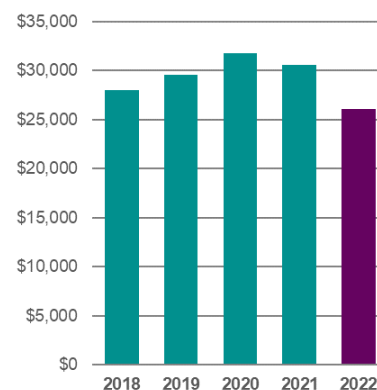
Software License Revenue (\$ Thousands)



Total Revenue (\$ Thousands)



Operating Profit (\$ Thousands)



Annuity and maintenance license revenue decreased by 5% compared to last year. This was due to decreases in the first two quarters of fiscal 2022, which were impacted by ongoing oil and gas industry disruption caused by the pandemic, corporate consolidations, economic pressures, and lower unconventional shale activity. Our annuity and maintenance revenue improved in the last two quarters of fiscal 2022 with a 4% increase experienced in the most recent quarter, which was supported by improved industry conditions and the CoFlow lease in South America.

Perpetual license sales increased by 33% compared to last year, supported by sales in the United States and the Eastern Hemisphere.

Fiscal 2022 adjusted total operating expenses decreased by 3% due to lower headcount and stock-based compensation expense (please refer to the Management’s Discussion and Analysis for fulsome discussion and reconciliation of the adjusted numbers). At the end of the second quarter, we restructured our Calgary office, which resulted in lower headcount, incurring a one-time restructuring cost of \$0.9 million before tax. Effective July 1, 2021, we also revised staff compensation, resulting in partial reinstatements of staff salaries that had been reduced since July 1, 2020. Executives’ and directors’ cash compensation remained reduced in fiscal 2022.

Adjusted other corporate costs increased in fiscal 2022 compared to last year primarily due to the write-off of receivables from Russian customers as a result of CMG’s decision to suspend doing business in Russia. As we generated approximately 1% of annual revenue from Russia in the past few years, we do not expect our decision to have a significant impact on our ongoing operations.

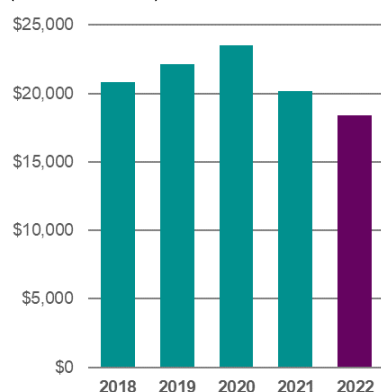
Adjusted operating profit margin was at 38%, compared to 37% recorded last year, and adjusted EBITDA was 44% of total revenue, which is comparable to the last year’s adjusted EBITDA. We are pleased with this fiscal year’s achievement in profitability margins, particularly in light of last year’s operating results being positively affected by the receipt of the wage-related (“CEWS”) and rent-related (“CERS”) COVID-related subsidies (\$5.5 million in fiscal 2021 compared to \$1.7 million in fiscal 2022), and our current fiscal year’s results being negatively affected by a combination of the one-time restructuring charge and the write-off of Russian receivables.

Basic earnings per share was \$0.23, compared to \$0.25 last year, due to the factors noted in the preceding paragraph.

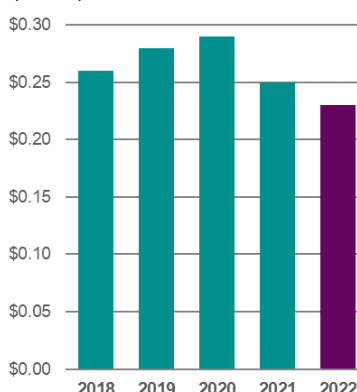
CMG continues to maintain a strong financial position and closed the year with \$59.7 million of cash and no debt. We generated \$0.27 per share of free cash flow, compared to \$0.30 per share during the previous year. The cash flows in the previous year were positively affected by the CEWS and CERS subsidies received.

During the year we declared and paid dividends totaling \$0.20 per share.

Earnings
(\$ Thousands)



Earnings Per Share
(Basic)



Product Update

CMG continued to enhance the performance and functionality of our products through ongoing research and development, and during fiscal 2022 we invested \$16.7 million in research and development. Such enhancements included improved modelling and workflows for hydraulic fractures and chemical Enhanced Oil Recovery (“EOR”), improvements in simulation speed and visualization, and ongoing improvements and added capabilities to CoFlow.

We also continued making enhancements to our public cloud solutions, as well as energy transition capabilities including carbon capture and storage.

During fiscal 2022, our efforts towards the commercialization of CoFlow were rewarded with four additional leases, including a multi-year lease to Petroleo Brasileiro S.A. (Petrobras), one of the original partners of the CoFlow project. Subsequent to fiscal year end, we closed another deal with a Middle Eastern customer for commercial licensing of CoFlow.

We are pleased that the revenue stream from our existing CoFlow commercial customers, combined with the development funding from Shell, is projected to generate a positive margin for CoFlow in the upcoming fiscal year.

Board Succession

On February 9, 2022, John Zaozirny announced his retirement as Chairman of the Board, after serving on the Board for more than 25 years. I would like to thank John for his leadership and his commitment of service to CMG over the years. Mark Miller, a current director, succeeded John as Board Chairman. Mark brings a wealth of experience across a wide range of software companies, which will benefit CMG in pursuing our strategic objectives.

Closing Remarks

As we emerge from the global pandemic, oil prices continue to strengthen having a positive effect on our customers’ cash flows, and as new opportunities are created by demand for energy transition projects, we look forward to fiscal 2023 with increasing optimism. With fiscal 2022 renewal season mostly behind us, our focus is on generating customer traction and growth for the upcoming fiscal year. We are also cautious as we continue to face complex market conditions with volatile energy prices, 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. Our technology has never been more relevant and important as during these times. Retaining our employees, prioritizing product development, and maintaining global customer technical support continue to be instrumental to our ongoing success. In addition, our global diversification helps CMG mitigate the effects of world-wide instability.

Our record of disciplined and prudent operational and financial management, along with our focus on growth, have enabled CMG to get through some very challenging and uncertain times. As the market focuses on energy transition, capital discipline, operational efficiencies, improved returns, debt reduction, and returning cash to shareholders, CMG intends to be responsive and proactive to our customers’ needs. CMG will support our customers in improving the value of their assets by optimizing production and realizing operational cost efficiencies. We will further employ new and innovative technologies to continue reinforcing our competitive position as we focus on driving growth and returns to shareholders.

On May 10, 2022, Ryan Schneider stepped down as President and Chief Executive Officer and as a director of CMG, in order to pursue other opportunities. Ryan made many contributions to CMG during his eleven-year tenure. CMG’s Board of Directors, and I personally, thank Ryan for his leadership and commitment to CMG over the years.

Pramod Jain succeeded Ryan as Chief Executive Officer. Pramod is a seasoned executive with over 15 years of experience in the software industry with a demonstrated track record of leading multiple acquisition businesses and numerous turnarounds. We are excited for Pramod to join CMG. His history and skillset of leading diverse teams to international success will be of benefit to CMG and we look forward to the next chapter of growth and success under his leadership.

On behalf of CMG's leadership team, I extend my appreciation and gratitude to all our employees for their support and hard work and to our Board of Directors for their continued support and trusted counsel throughout the year.

A handwritten signature in cursive script that reads "Balic".

Sandra Balic

Vice President, Finance and Chief Financial Officer

May 18, 2022

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for Computer Modelling Group Ltd. ("CMG", the "Company", "we" or "our"), dated May 18, 2022, should be read in conjunction with CMG's audited consolidated financial statements (the "Financial Statements") and accompanying notes for the year ended March 31, 2022 and CMG's Annual Information Form dated May 18, 2022 ("AIF"), which are available online under CMG's issuer profile at www.sedar.com.

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

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

This MD&A was reviewed and approved by the Audit Committee and Board of Directors and is effective as of May 18, 2022.

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;
- the impact of the ongoing COVID-19 pandemic on the global economy and the Company; and
- the Company's eligibility for the federal government's Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs.

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

| (\$ thousands, unless otherwise stated) | Fiscal 2021 | | | | Fiscal 2022 | | | |
|---|-------------|--------|--------|--------|-------------|--------|--------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Funds flow from operations | 4,703 | 7,991 | 7,322 | 6,267 | 4,811 | 4,904 | 7,022 | 7,105 |
| Capital expenditures | (149) | (200) | (7) | (41) | (27) | (133) | (481) | (62) |
| Repayment of lease liabilities | (315) | (317) | (310) | (471) | (306) | (277) | (314) | (459) |
| Free cash flow | 4,239 | 7,474 | 7,005 | 5,755 | 4,478 | 4,494 | 6,227 | 6,584 |
| Weighted average shares – basic (thousands) | 80,249 | 80,265 | 80,286 | 80,286 | 80,286 | 80,307 | 80,335 | 80,335 |
| Free cash flow per share - basic | 0.05 | 0.09 | 0.09 | 0.07 | 0.06 | 0.06 | 0.08 | 0.08 |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | 2020 |
|---|----------------|---------|---------|
| Funds flow from operations | 23,842 | 26,283 | 28,765 |
| Capital expenditures | (703) | (397) | (990) |
| Repayment of lease liabilities | (1,356) | (1,413) | (1,228) |
| Free cash flow | 21,783 | 24,473 | 26,547 |
| Weighted average shares – basic (thousands) | 80,316 | 80,272 | 80,240 |
| Free cash flow per share - basic | 0.27 | 0.30 | 0.33 |

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".

Vision, Business and Strategy

CMG's vision is to be the leading developer and supplier of dynamic reservoir modelling systems in the world. Early in its life CMG made the strategic decision to focus its research and development efforts on providing solutions for the simulation of difficult hydrocarbon recovery techniques, a decision that created the foundation for CMG's dominant market presence today in the simulation of advanced hydrocarbon recovery processes. CMG has demonstrated this commitment by continuously investing in research and development and working closely with its customers to develop simulation tools relevant to the challenges and opportunities they face today. This includes CoFlow, the newest generation of reservoir and production system simulation software. Our goal is to develop a dynamic system that does more than optimize reservoir recovery; it models the entire hydrocarbon reservoir system, including production systems.

Since its inception more than 40 years ago, CMG has remained focused on assisting its customers in unlocking the value of their hydrocarbon reservoirs. With petroleum production using conventional methods on the decline, the petroleum industry must use more difficult and costly advanced process extraction methods, while being faced with more governmental and regulatory requirements over environmental concerns. CMG's success can, in turn, be correlated with the oil industry becoming more reliant on the use of simulation technology due to the maturity of conventional petroleum reservoirs and the complexities of both current and emerging production processes. In addition, as producers continue to look for ways to

operate efficiently by deploying technologies in their operations, we believe they will continue to seek reservoir simulation solutions to enhance production from their existing and new assets. CMG's goal is to provide the most advanced reservoir simulation tools to assist companies with their reservoir planning, management and optimization.

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

In combination with its principal business of licensing its software, CMG also provides professional services consisting of highly specialized consulting, support, training, and funded research activities for its customers. While the generation of professional services revenue specifically tied to the provision of consulting services is not regarded as a core part of CMG's business, offering this type of service is important to CMG operationally. CMG performs a limited amount of specialized consulting services, which are typically of a highly complex and/or experimental nature. These studies provide hands-on practical knowledge, allowing CMG staff to test the boundaries of our software, and provide us the opportunity to sell additional software licenses to both new and existing customers. In addition, providing consulting services is important from the customer service perspective as it enables our customers to become more proficient users of CMG's software. Professional research revenue is also derived from the customers who partner with CMG to assist in the development, testing and refinement of new simulation technologies.

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

CMG realizes the importance of continuously advancing its technology to maintain its competitive edge. CMG firmly believes that, to be the dominant supplier of dynamic reservoir modelling systems in the world, it must be responsive to customers' needs today and accurately predict their needs in the future.

Investment in research and development is important to CMG as it helps maintain our competitive advantage for our existing software product suite, advances new product development and aligns with our vision of striving to be the world's leading developer and supplier of dynamic reservoir modeling systems. CMG's approach to investment in research and development is to invest in initiatives that are driven by customers' immediate needs by refining software already in use, to amend software in anticipation of customers' needs, or to advance the technology to better serve the customers.

Overall Performance

Key Performance Drivers and Capability to Deliver Results

One of the challenges the petroleum industry faces in trying to overcome barriers to production growth is the continuing need for breakthrough technologies. The facts facing the petroleum industry today are that brand-new fields are increasingly difficult to find, especially on a large scale, and that there is a large number of mature fields and unconventional prospects where known petroleum reserves exist; the question is how to economically extract more of the petroleum reserves in place while utilizing environmentally conscious processes. These challenges have been made even more formidable by the current economic environment and the global political climate, which led to increased uncertainty regarding capital markets, commodity prices and global energy demand.

Hydraulic fracturing technologies have opened the door to unconventional shale and tight hydrocarbon resources in North America at economically competitive input costs. CMG's reservoir simulation technology has a very extensive and efficient unconventional modelling workflow, which has been successful in simulation and modelling of reservoirs using hydraulic fracturing processes.

The petroleum industry utilizes reservoir simulation to provide both vital information and a visual interpretation on how reservoirs will behave under various recovery techniques. With this visualization and reservoir simulation modelling, reservoir professionals receive assistance in predicting the physics and chemistry of fluid flows, drilling locations, well operating

conditions, risks, and best-case economics of oil and gas property investment. Understanding the science of how a petroleum reservoir will react to difficult hydrocarbon recovery processes through simulation prior to spending the capital on drilling wells and injecting expensive chemicals and steam, for instance, is far less costly and risky than trying the various techniques on real wells.

In an uncertain oil price environment, producers have shifted their focus to increasing productivity while reducing operating costs. Reservoir simulation is a cost-effective and high-value tool to reduce risks, improve recovery processes, increase margins and incremental recovery.

CMG's existing product suite of software is the market leader in the simulation of difficult hydrocarbon recovery techniques. To maintain this dominant market position, CMG actively participates in research consortia that experiment with new petroleum extraction processes and technologies. CMG then incorporates the simulation of new recovery methods into its product suite and focuses on overcoming existing technological barriers to advance speed and ease of use, amongst other benefits, in its software.

A recent shift toward public and government support of climate change initiatives provides us with an opportunity to use technological innovation to help energy and resource companies minimize their impact on the environment. CMG has an established technology that has been effectively leveraged and utilized in the development of projects around the world for safe sequestering and long-term storage of greenhouse gases ("GHGs"), including carbon dioxide. CMG's GEM simulator is industry-recognized as the only commercial simulator capable of modelling all of the applicable physics associated with GHG sequestering processes. These projects have been of increasing interest to governments and the oil and gas industry, as well as new "green energy" entrants, for the beneficial application in the reduction of GHGs and efforts to limit climate change impacts.

More recently, CMG has seen increased support requests, training activity and commercial customers running models related to CO₂ enhanced recovery, carbon sequestration, hydrogen generation/storage, and geothermal projects. While companies continue to look at alternative energy sources, storage technologies, CO₂ mitigation projects and hydrogen and geothermal initiatives, CMG is pleased to apply its innovative approach to drive the energy transition while serving its existing customers. CMG's existing technology has differentiating capabilities, built in GEM and STARS over the preceding decades, that directly apply to the needs of our "energy transition" end-user customers.

Among CMG's more recent technological advancements is a public cloud solution, which enables customers to securely access our simulators and run simulations on some of the latest and fastest hardware available in the industry, optimized for maximum efficiency and faster simulation results. Advancements in cloud technology are generating a paradigm shift in modern computing and removing technological limitations faced by our customers.

CMG is in a solid financial position with \$39.3 million in positive working capital, no bank debt and a long history of generating earnings and cash from operating activities. Combined with its strong balance sheet is the strength of its employees in all areas of the Company.

Our focus will remain on licensing software to both existing and new customers and, with diversification of our geographic profile, our goal is to continue to strengthen our position in the global marketplace. Approximately 92% of our software license revenue is derived from annuity and maintenance contracts, which generally represent a recurring source of revenue.

We continue to be profitable and have solid cash generation despite the ongoing economic uncertainty in the oil and gas industry. During fiscal 2022, operating profit represented 39% of total revenue and we generated \$0.27 per share in free cash flow.

CMG's Response to the COVID-19 Pandemic

CMG's operations have been affected by the COVID-19 pandemic. Some of our customers, when facing economic uncertainty and volatile commodity prices, curtailed spending and chose not to renew their licensing agreements or to renew them at reduced levels. The extent to which the COVID-19 pandemic continues to impact our operating results, financial condition, and cash flows will depend on future global developments, which are highly uncertain and outside our control.

CMG realized that retaining its employees, continuing to prioritize product development, maintaining global customer technical support and delivering a dividend to its shareholders were important factors to the long-term success of the business.

Accordingly, early in the fiscal year 2021, CMG took the following steps in response to the COVID-19 pandemic in order to preserve liquidity, financial flexibility, balance sheet strength and profitability:

- reduced the quarterly dividend by 50% (from \$0.10 per share to \$0.05 per share) effective June 15, 2020;
- reduced the CEO's annual salary by 25% effective July 1, 2020;
- reduced the directors' cash compensation by 20% effective July 1, 2020;
- reduced the executive officers' annual salaries by 20% effective July 1, 2020; and
- implemented graduated salary reductions across all staff.

The CEO and executive officers' salary reductions were reallocated to the bonus portion of the executive annual incentive plan.

Effective July 1, 2021, CMG revised staff compensation, resulting in partial reinstatements of staff salaries that had been reduced since July 1, 2020. In September 2021, CMG restructured its Calgary office, incurring a one-time restructuring cost of \$0.9 million before tax. The restructuring, net of salary reinstatements, is expected to result in annual savings of approximately \$0.2 million before tax. Directors' cash compensation reductions and officers' salary reductions implemented on July 1, 2020 remained unchanged during fiscal 2022. Our goal is to continue to defend our margins, while making sure we deliver reliable and accurate reservoir simulation solutions to our customers.

Annual Performance

| (\$ thousands, unless otherwise stated) | March 31, 2022 | March 31, 2021 | March 31, 2020 |
|---|----------------|----------------|----------------|
| Annuity/maintenance license revenue | 53,406 | 55,934 | 63,974 |
| Perpetual license revenue | 4,819 | 3,619 | 4,672 |
| Software license revenue | 58,225 | 59,553 | 68,646 |
| Professional service revenue | 7,977 | 7,810 | 7,140 |
| Total revenue | 66,202 | 67,363 | 75,786 |
| Operating profit | 26,080 | 30,565 | 31,751 |
| Operating profit (%) | 39% | 45% | 42% |
| Net income for the year | 18,405 | 20,190 | 23,485 |
| EBITDA ⁽¹⁾ | 30,278 | 34,836 | 36,111 |
| Cash dividends declared and paid | 16,064 | 16,055 | 32,097 |
| Funds flow from operations | 23,842 | 26,283 | 28,765 |
| Free cash flow ⁽¹⁾ | 21,783 | 24,473 | 26,547 |
| Total assets | 125,148 | 122,491 | 120,866 |
| Total shares outstanding | 80,335 | 80,286 | 80,249 |
| Trading price per share at March 31 | 5.36 | 5.75 | 3.83 |
| Market capitalization at March 31 | 430,596 | 461,645 | 307,353 |
| Per share amounts – (\$/share) | | | |
| Earnings per share – basic and diluted | 0.23 | 0.25 | 0.29 |
| Cash dividends declared and paid | 0.20 | 0.20 | 0.40 |
| Funds flow from operations per share – basic | 0.30 | 0.33 | 0.36 |
| Free cash flow per share – basic ⁽¹⁾ | 0.27 | 0.30 | 0.33 |

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

Quarterly Performance

| (\$ thousands, unless otherwise stated) | Fiscal 2021 ⁽²⁾ | | | | Fiscal 2022 ⁽³⁾ | | | |
|---|----------------------------|--------|--------|--------|----------------------------|--------|--------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Annuity/maintenance license revenue | 14,523 | 14,144 | 13,477 | 13,790 | 12,286 | 13,239 | 13,575 | 14,306 |
| Perpetual license revenue | - | 1,775 | 660 | 1,184 | 125 | 846 | 1,497 | 2,351 |
| Software license revenue | 14,523 | 15,919 | 14,137 | 14,974 | 12,411 | 14,085 | 15,072 | 16,657 |
| Professional services revenue | 2,149 | 1,933 | 1,901 | 1,827 | 2,003 | 1,864 | 1,973 | 2,137 |
| Total revenue | 16,672 | 17,852 | 16,038 | 16,801 | 14,414 | 15,949 | 17,045 | 18,794 |
| Operating profit | 5,711 | 9,861 | 8,437 | 6,556 | 5,573 | 5,440 | 7,755 | 7,312 |
| Operating profit (%) | 34 | 55 | 53 | 39 | 39 | 34 | 45 | 39 |
| Profit before income and other taxes | 4,405 | 9,360 | 7,410 | 5,747 | 4,827 | 5,321 | 7,310 | 6,563 |
| Income and other taxes | 1,143 | 2,600 | 1,535 | 1,454 | 1,094 | 1,175 | 1,736 | 1,611 |
| Net income for the period | 3,262 | 6,760 | 5,875 | 4,293 | 3,733 | 4,146 | 5,574 | 4,952 |
| EBITDA ⁽¹⁾ | 6,767 | 10,933 | 9,509 | 7,627 | 6,596 | 6,473 | 8,843 | 8,366 |
| Cash dividends declared and paid | 4,013 | 4,013 | 4,015 | 4,014 | 4,015 | 4,016 | 4,017 | 4,016 |
| Funds flow from operations | 4,703 | 7,991 | 7,322 | 6,267 | 4,811 | 4,904 | 7,022 | 7,105 |
| Free cash flow ⁽¹⁾ | 4,239 | 7,474 | 7,005 | 5,755 | 4,478 | 4,494 | 6,227 | 6,584 |
| Per share amounts – (\$/share) | | | | | | | | |
| Earnings per share (EPS) – basic and diluted | 0.04 | 0.08 | 0.07 | 0.05 | 0.05 | 0.05 | 0.07 | 0.06 |
| Cash dividends declared and paid | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Funds flow from operations per share – basic | 0.06 | 0.10 | 0.09 | 0.08 | 0.06 | 0.06 | 0.09 | 0.09 |
| Free cash flow per share – basic ⁽¹⁾ | 0.05 | 0.09 | 0.09 | 0.07 | 0.06 | 0.06 | 0.08 | 0.08 |

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

(2) 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.

(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.

Commentary on Quarterly Performance

For the Three Months Ended

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

- Annuity/maintenance license revenue increased by 4%;
 - Perpetual license revenue increased by \$1.2 million, or 99%;
 - Total revenue increased by 12%;
 - Total operating expenses increased by 12%. Adjusted for CEWS and CERS benefits, operating expenses increased by 8%;
 - Quarterly operating profit margin was 39%, consistent with the comparative quarter. Adjusted for CEWS and CERS benefits, operating profit margin was 34% and 32%, respectively;
 - Basic EPS of \$0.06 was \$0.01 higher than the comparative quarter;
 - Achieved free cash flow per share of \$0.08;
 - Declared and paid a dividend of \$0.05 per share.
- Annuity/maintenance license revenue decreased by 5%;
 - Perpetual license revenue increased by \$1.2 million, or 33%;
 - Total revenue decreased by 2%;
 - Total operating expenses increased by 9%. Adjusted for CEWS and CERS benefits and a one-time restructuring charge, operating expenses decreased by 3%;
 - Year-to-date operating profit margin was 39%, down from the comparative period’s figure of 45%. Adjusted for CEWS and CERS benefits and the one-time restructuring charge, operating profit was 38% and 37%, respectively;
 - Basic EPS of \$0.23 was lower than the comparative year’s EPS of \$0.25;
 - Achieved free cash flow per share of \$0.27;
 - Declared and paid dividends of \$0.20 per share.

Revenue

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|---------------|---------------|--------------|------------|
| Software license revenue | 16,657 | 14,974 | 1,683 | 11% |
| Professional services revenue | 2,137 | 1,827 | 310 | 17% |
| Total revenue | 18,794 | 16,801 | 1,993 | 12% |
| Software license revenue as a % of total revenue | 89% | 89% | | |
| Professional services revenue as a % of total revenue | 11% | 11% | | |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|---------------|---------------|----------------|------------|
| Software license revenue | 58,225 | 59,553 | (1,328) | -2% |
| Professional services revenue | 7,977 | 7,810 | 167 | 2% |
| Total revenue | 66,202 | 67,363 | (1,161) | -2% |
| Software license revenue as a % of total revenue | 88% | 88% | | |
| Professional services revenue as a % of total revenue | 12% | 12% | | |

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

Total revenue for the three months ended March 31, 2022 increased by 12%, due to increases in both software license revenue and professional services revenue.

Total revenue for the year ended March 31, 2022 decreased by 2%, due to a decrease in software license revenue, slightly offset by an increase in professional services revenue.

Software License Revenue

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

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|--------------|------------|
| Annuity/maintenance license revenue | 14,306 | 13,790 | 516 | 4% |
| Perpetual license revenue | 2,351 | 1,184 | 1,167 | 99% |
| Total software license revenue | 16,657 | 14,974 | 1,683 | 11% |
| Annuity/maintenance as a % of total software license revenue | 86% | 92% | | |
| Perpetual as a % of total software license revenue | 14% | 8% | | |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|----------------|------------|
| Annuity/maintenance license revenue | 53,406 | 55,934 | (2,528) | -5% |
| Perpetual license revenue | 4,819 | 3,619 | 1,200 | 33% |
| Total software license revenue | 58,225 | 59,553 | (1,328) | -2% |
| Annuity/maintenance as a % of total software license revenue | 92% | 94% | | |
| Perpetual as a % of total software license revenue | 8% | 6% | | |

Total software license revenue for the three months ended March 31, 2022 increased by 11%, compared to the same period of the previous fiscal year, due to increases in both perpetual license revenue and annuity/maintenance license revenue. Annuity/maintenance license revenue increased by 4%, due to increases in Canada and the Eastern Hemisphere, partially offset by decreases in the United States and South America.

During the year ended March 31, 2022, CMG's total software license revenue decreased by 2%, compared to the previous fiscal year, due to a decrease in annuity/maintenance license revenue, partially offset by an increase in perpetual license revenue. Annuity/maintenance license revenue decreased by 5%, due to decreases in the United States and the Eastern Hemisphere, partially offset by increases in South America and Canada.

Perpetual license revenue increased by 99% and 33% during the three months and year ended March 31, 2022, respectively, compared to the same periods of the previous fiscal year. Sales of perpetual licenses may fluctuate significantly between periods due to the uncertainty associated with the timing and the location where sales are generated. For this reason, even though we expect to achieve a certain level of perpetual sales on an annual basis, we expect to observe fluctuations in the quarterly perpetual revenue amounts throughout the fiscal year. In our experience, the majority of perpetual sales are generated in South America and the Eastern Hemisphere, as North American customers usually prefer annuity licenses to perpetual purchases.

We can observe from the tables below that the exchange rate between the US and Canadian dollar had a negative impact on reported software license revenue during the three months and year ended March 31, 2022, compared to the same periods of the previous fiscal year.

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

| Three months ended March 31, (\$ thousands) | | 2022 | 2021 | \$ change | % change |
|--|-------|--------|--------|-----------|----------|
| US dollar annuity/maintenance license revenue | US\$ | 8,709 | 8,276 | 433 | 5% |
| Weighted average conversion rate | | 1.269 | 1.302 | | |
| Canadian dollar equivalent | CDN\$ | 11,050 | 10,778 | 272 | 3% |
| US dollar perpetual license revenue | US\$ | 1,855 | 929 | 926 | 100% |
| Weighted average conversion rate | | 1.268 | 1.274 | | |
| Canadian dollar equivalent | CDN\$ | 2,352 | 1,184 | 1,168 | 99% |
| Years ended March 31, (\$ thousands) | | 2022 | 2021 | \$ change | % change |
| US dollar annuity/maintenance license revenue | US\$ | 32,022 | 32,926 | (904) | -3% |
| Weighted average conversion rate | | 1.275 | 1.325 | | |
| Canadian dollar equivalent | CDN\$ | 40,826 | 43,625 | (2,799) | -6% |
| US dollar perpetual license revenue | US\$ | 3,812 | 2,779 | 1,033 | 37% |
| Weighted average conversion rate | | 1.264 | 1.302 | | |
| Canadian dollar equivalent | CDN\$ | 4,819 | 3,620 | 1,199 | 33% |

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

| Three months ended March 31, (\$ thousands) | 2021 | Incremental License Growth/(Decrease) | Foreign Exchange Impact | 2022 |
|--|--------|--|----------------------------|--------|
| Annuity/maintenance license revenue | 13,790 | 807 | (291) | 14,306 |
| Perpetual license revenue | 1,184 | 1,179 | (12) | 2,351 |
| Total software license revenue | 14,974 | 1,986 | (303) | 16,657 |
| Years ended March 31, (\$ thousands) | 2021 | Incremental License Growth/(Decrease) | Foreign Exchange Impact | 2022 |
| Annuity/maintenance license revenue | 55,934 | (927) | (1,601) | 53,406 |
| Perpetual license revenue | 3,619 | 1,344 | (144) | 4,819 |
| Total software license revenue | 59,553 | 417 | (1,745) | 58,225 |

Software Revenue by Geographic Region

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|--------------|------------|
| Annuity/maintenance license revenue | | | | |
| Canada | 3,274 | 3,012 | 262 | 9% |
| United States | 3,408 | 3,580 | (172) | -5% |
| South America | 1,663 | 1,752 | (89) | -5% |
| Eastern Hemisphere ⁽¹⁾ | 5,961 | 5,446 | 515 | 9% |
| | 14,306 | 13,790 | 516 | 4% |
| Perpetual license revenue | | | | |
| Canada | - | - | - | - |
| United States | - | 32 | (32) | -100% |
| South America | - | - | - | - |
| Eastern Hemisphere | 2,351 | 1,152 | 1,199 | 104% |
| | 2,351 | 1,184 | 1,167 | 99% |
| Total software license revenue | | | | |
| Canada | 3,274 | 3,012 | 262 | 9% |
| United States | 3,408 | 3,612 | (204) | -6% |
| South America | 1,663 | 1,752 | (89) | -5% |
| Eastern Hemisphere | 8,312 | 6,598 | 1,714 | 26% |
| | 16,657 | 14,974 | 1,683 | 11% |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|----------------|------------|
| Annuity/maintenance license revenue | | | | |
| Canada | 12,699 | 12,464 | 235 | 2% |
| United States | 12,910 | 15,113 | (2,203) | -15% |
| South America | 6,858 | 6,164 | 694 | 11% |
| Eastern Hemisphere ⁽¹⁾ | 20,939 | 22,193 | (1,254) | -6% |
| | 53,406 | 55,934 | (2,528) | -5% |
| Perpetual license revenue | | | | |
| Canada | - | - | - | - |
| United States | 401 | 32 | 369 | 1153% |
| South America | - | 1,020 | (1,020) | -100% |
| Eastern Hemisphere | 4,418 | 2,567 | 1,851 | 72% |
| | 4,819 | 3,619 | 1,200 | 33% |
| Total software license revenue | | | | |
| Canada | 12,699 | 12,464 | 235 | 2% |
| United States | 13,311 | 15,145 | (1,834) | -12% |
| South America | 6,858 | 7,184 | (326) | -5% |
| Eastern Hemisphere | 25,357 | 24,760 | 597 | 2% |
| | 58,225 | 59,553 | (1,328) | -2% |

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

During the three months and year ended March 31, 2022, compared to the same periods of the previous fiscal year, total software license revenue increased in the Eastern Hemisphere and Canada and decreased in the United States and South America.

The Canadian region (representing 22% of annual total software license revenue) experienced 9% and 2% increases in annuity/maintenance license revenue during the three months and year ended March 31, 2022, respectively, due to a returning customer and increased licensing by some existing customers.

The United States (representing 23% of annual total software license revenue), experienced decreases of 5% and 15% in annuity/maintenance license revenue during the three months and year ended March 31, 2022, compared to the same periods of the previous fiscal year. The decreases were largely due to the same factors that affected the region's revenue in the previous fiscal year: consolidation in the industry and reduced licensing due to ongoing challenges experienced by US unconventional shale plays. Perpetual license revenue decreased slightly during the quarter and increased during the year, compared to the same periods of the previous fiscal year.

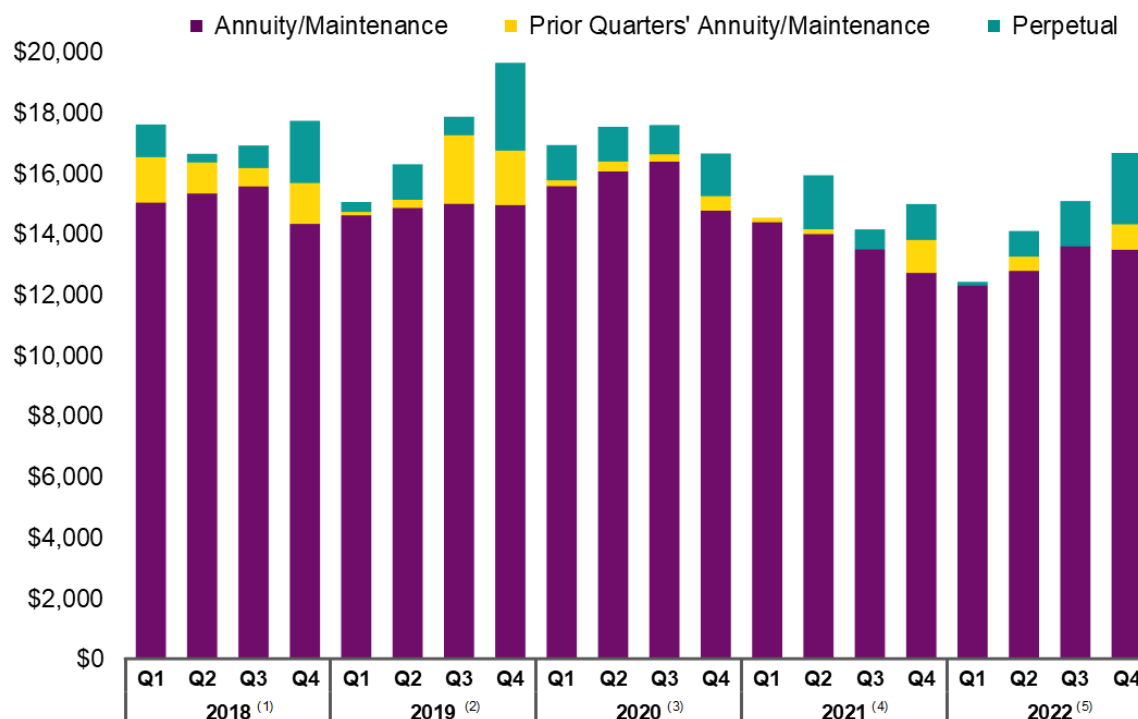
South America (representing 12% of annual total software license revenue) showed a decrease of 5% in annuity/maintenance license revenue during the three months ended March 31, 2022, mainly due to reactivation of maintenance on perpetual licenses in the comparative quarter. During the year ended March 31, 2022, annuity/maintenance license revenue from South America increased by 11%, compared to the previous fiscal year, primarily due to a new multi-year lease that included CoFlow. There were no perpetual sales in South America during the current quarter or year.

The Eastern Hemisphere (representing 43% of annual total software license revenue) experienced a 9% increase in annuity/maintenance license revenue during the three months ended March 31, 2022, primarily due to a three-year agreement with a customer in Asia. During the year ended March 31, 2022, annuity/maintenance license revenue from the Eastern Hemisphere decreased by 6%, due to reduced licensing by some customers. Perpetual revenue during the three months and year ended March 31, 2022 increased by 104% and 72%, respectively, as a result of perpetual sales realized in Asia and Europe.

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

Quarterly Software License Revenue

(\$ thousands)



- (1) Q1, Q2, Q3 and Q4 of fiscal 2018 include \$1.5 million, \$1.0 million, \$0.6 million, and \$1.3 million, respectively, 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.

Deferred Revenue

| (\$ thousands) | Fiscal 2022 | Fiscal 2021 | \$ change | % change |
|----------------------|-------------|-------------|-----------|----------|
| Deferred revenue at: | | | | |
| Q1 (June 30) | 23,451 | 25,492 | (2,041) | -8% |
| Q2 (September 30) | 21,242 | 19,549 | 1,693 | 9% |
| Q3 (December 31) | 23,056 | 15,347 | 7,709 | 50% |
| 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 Q4 of fiscal 2022 was comparable to Q4 of fiscal 2021.

Professional Services Revenue

Professional services revenue for the three months and year ended March 31, 2022 increased by 17% and 2%, respectively, compared to the same periods of the previous fiscal year. This was due to increased development funding from Shell Global Solutions International B.V. (“Shell”) for CoFlow development and support (see “Commitments, Off Balance Sheet Items and Transactions with Related Parties”).

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

Expenses

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|--------------|------------|
| Sales, marketing and professional services | 4,933 | 4,481 | 452 | 10% |
| Research and development | 4,106 | 4,036 | 70 | 2% |
| General and administrative | 2,443 | 1,728 | 715 | 41% |
| Total operating expenses | 11,482 | 10,245 | 1,237 | 12% |
| Direct employee costs ⁽¹⁾ | 7,889 | 7,970 | (81) | -1% |
| Other corporate costs ⁽¹⁾ | 3,593 | 2,275 | 1,318 | 58% |
| | 11,482 | 10,245 | 1,237 | 12% |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------------|---------------|--------------|-----------|
| Sales, marketing and professional services | 15,995 | 15,690 | 305 | 2% |
| Research and development | 16,705 | 15,194 | 1,511 | 10% |
| General and administrative | 7,422 | 5,914 | 1,508 | 25% |
| Total operating expenses | 40,122 | 36,798 | 3,324 | 9% |
| Direct employee costs ⁽¹⁾ | 30,592 | 28,227 | 2,365 | 8% |
| Other corporate costs ⁽¹⁾ | 9,530 | 8,571 | 959 | 11% |
| | 40,122 | 36,798 | 3,324 | 9% |

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

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

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

| (\$ thousands) | Three months ended March 31 | | Years ended March 31 | |
|-----------------------------------|--------------------------------|--------|-------------------------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| Total operating expenses | 11,482 | 10,245 | 40,122 | 36,798 |
| CEWS | 916 | 1,116 | 1,499 | 5,206 |
| CERS | - | 109 | 183 | 248 |
| Restructuring charge | - | - | (851) | - |
| Adjusted total operating expenses | 12,398 | 11,470 | 40,953 | 42,252 |
| Direct employee costs | 7,889 | 7,970 | 30,592 | 28,227 |
| CEWS | 916 | 1,116 | 1,499 | 5,206 |
| Restructuring charge | - | - | (851) | - |
| Adjusted direct employee costs | 8,805 | 9,086 | 31,240 | 33,433 |
| Other corporate costs | 3,593 | 2,275 | 9,530 | 8,571 |
| CERS | - | 109 | 183 | 248 |
| Adjusted other corporate costs | 3,593 | 2,384 | 9,713 | 8,819 |

Total operating expenses increased by 12% for the three months ended March 31, 2022, compared to the same period of the previous fiscal year. Adjusted total operating expenses increased by 8%.

Total operating expenses increased by 9% for the year ended March 31, 2022, compared to the previous fiscal year. Adjusted total operating expenses decreased by 3%.

Direct Employee Costs

As a technology company, CMG's largest investment is its people, and approximately 77% of total operating expenses relate to direct employee costs. Effective July 1, 2021, CMG revised staff compensation, resulting in adjustments of certain staff salaries previously reduced since July 1, 2020. Directors' cash compensation and executives' salaries remain reduced during fiscal 2022. In September 2021, CMG restructured its Calgary office, incurring a one-time restructuring cost of \$0.9 million before tax. The restructuring, net of salary reinstatements, is expected to result in annual savings of approximately \$0.2 million before tax.

The restructuring decreased our headcount, and at March 31, 2022, CMG's full-time equivalent staff complement was 175 employees and consultants (March 31, 2021: 198 employees).

For the three months ended March 31, 2022, adjusted direct employee costs decreased by \$0.3 million, or 3%, compared to the same period of the previous fiscal year, primarily due to lower headcount. For the year ended March 31, 2022, adjusted direct employee costs decreased by \$2.2 million, or 7%, compared to the previous fiscal year, due to lower headcount and lower stock-based compensation expense.

Other Corporate Costs

Adjusted other corporate costs increased by 51% and 10% for the three months and year ended March 31, 2022, compared to the same periods of the previous fiscal year, primarily due to the write-off of receivables from Russian customers as a result of the Company's decision to suspend doing business in Russia.

Research and Development

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|-------|-------|-----------|----------|
| Research and development, net of government grants | 4,318 | 4,155 | 163 | 4% |
| SR&ED credits | (212) | (119) | (93) | -78% |
| Research and development | 4,106 | 4,036 | 70 | 2% |
| Research and development as a % of total revenue | 22% | 24% | | |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|--------|--------|-----------|----------|
| Research and development, net of government grants | 17,581 | 15,864 | 1,717 | 11% |
| SR&ED credits | (876) | (670) | (206) | -31% |
| Research and development | 16,705 | 15,194 | 1,511 | 10% |
| Research and development as a % of total revenue | 25% | 23% | | |

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 \$1.8 million and \$7.4 million of costs for CoFlow for the three months and year ended March 31, 2022, respectively, up from \$1.7 million and \$6.7 million in the same periods of the previous fiscal year, primarily due to lower CEWS benefits in the current year. See discussion under "Commitments, Off Balance Sheet Items and Transactions with Related Parties".

Research and development costs for the three months and year ended March 31, 2022 increased by 2% and 10%, respectively, compared to the same periods of the previous fiscal year, primarily due to lower CEWS benefits. SR&ED credits increased by 78% and 31% for the three months and year ended March 31, 2022, compared to the same periods of the previous fiscal year, due to lower CEWS benefits (CEWS benefits decrease SRE&D-eligible wages).

Depreciation

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|-------|-------|-----------|----------|
| Depreciation of property and equipment, allocated to: | | | | |
| Sales, marketing and professional services | 219 | 258 | (39) | -15% |
| Research and development | 698 | 674 | 24 | 4% |
| General and administrative | 137 | 139 | (2) | -1% |
| Total depreciation | 1,054 | 1,071 | (17) | -2% |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|-------|-------|-----------|----------|
| Depreciation of property and equipment, allocated to: | | | | |
| Sales, marketing and professional services | 888 | 1,019 | (131) | -13% |
| Research and development | 2,764 | 2,697 | 67 | 2% |
| General and administrative | 546 | 555 | (9) | -2% |
| Total depreciation | 4,198 | 4,271 | (73) | -2% |

Depreciation for the three months and year ended March 31, 2022 remained consistent with the same periods of the previous fiscal year.

Finance Income and Costs

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|-------|-------|-----------|----------|
| Interest income | 101 | 86 | 15 | 17% |
| Total finance income | 101 | 86 | 15 | 17% |
| Interest expense on lease liabilities | (494) | (511) | (17) | -3% |
| Net foreign exchange loss | (356) | (384) | (28) | -7% |
| Total finance costs | (850) | (895) | (45) | -5% |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|---------|---------|-----------|----------|
| Interest income | 440 | 374 | 66 | 18% |
| Total finance income | 440 | 374 | 66 | 18% |
| Interest expense on lease liabilities | (2,004) | (2,074) | (70) | -3% |
| Net foreign exchange loss | (495) | (1,943) | (1,448) | -75% |
| Total finance costs | (2,499) | (4,017) | (1,518) | -38% |

Interest income for the three months and year ended March 31, 2022 was higher than in the same periods of the previous fiscal year, due to higher cash balances.

Interest expense on the lease liabilities for the three months and year ended March 31, 2022 was consistent with the comparative periods.

CMG is impacted by foreign exchange fluctuations, as 70% of CMG's revenue for the year ended March 31, 2022 (2021 – 71%) is denominated in US dollars, whereas only 24% (2021 – 28%) of CMG's total costs are denominated in US dollars.

The following chart shows the exchange rates used to translate CMG's USD-denominated working capital at March 31, 2022, 2021 and 2020 and the average exchange rates used to translate income statement items during the years ended March 31, 2022, 2021 and 2020:

| CDN\$ to US\$ | At March 31 | Yearly average |
|---------------|---------------|----------------|
| 2020 | 0.7049 | 0.7539 |
| 2021 | 0.7952 | 0.7520 |
| 2022 | 0.8003 | 0.7980 |

CMG recorded net foreign exchange losses of \$0.4 million and \$0.5 million for the three months and year ended March 31, 2022, respectively, due to a weakening of the US 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 year ended March 31, 2022 is 23.4% (2021 – 25.0%), whereas the blended Canadian statutory tax rate for the Company's 2022 fiscal year is 23% (down from 23.5% in fiscal 2021, due to a reduction in the Alberta

provincial tax rate). The difference between the effective rate and the statutory rate is primarily due to the non-tax deductibility of stock-based compensation expense.

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

Operating Profit and Net Income

| Three months ended March 31, (\$ thousands, except per share data) | 2022 | 2021 | \$ change | % change |
|---|----------|----------|-----------|----------|
| Total revenue | 18,794 | 16,801 | 1,993 | 12% |
| Operating expenses | (11,482) | (10,245) | (1,237) | -12% |
| Operating profit | 7,312 | 6,556 | 756 | 12% |
| Operating profit as a % of revenue | 39% | 39% | | |
| Net income | 4,952 | 4,293 | 659 | 15% |
| Net income as a % of total revenue | 26% | 26% | | |
| Basic earnings per share (\$/share) | 0.06 | 0.05 | 0.01 | 20% |

| Years ended March 31, (\$ thousands, except per share data) | 2022 | 2021 | \$ change | % change |
|--|----------|----------|-----------|----------|
| Total revenue | 66,202 | 67,363 | (1,161) | -2% |
| Operating expenses | (40,122) | (36,798) | (3,324) | -9% |
| Operating profit | 26,080 | 30,565 | (4,485) | -15% |
| Operating profit as a % of revenue | 39% | 45% | | |
| Net income | 18,405 | 20,190 | (1,785) | -9% |
| Net income as a % of total revenue | 28% | 30% | | |
| Basic earnings per share (\$/share) | 0.23 | 0.25 | (0.02) | -8% |

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

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

| (\$thousands) | Three months ended March 31 | | Years ended March 31 | |
|---|--------------------------------|---------|-------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Operating profit | 7,312 | 6,556 | 26,080 | 30,565 |
| CEWS | (916) | (1,116) | (1,499) | (5,206) |
| CERS | - | (109) | (183) | (248) |
| Restructuring charge | - | - | 851 | - |
| Adjusted operating profit | 6,396 | 5,331 | 25,249 | 25,111 |
| Adjusted operating profit as a % of revenue | 34% | 32% | 38% | 37% |
| Net income | 4,952 | 4,293 | 18,405 | 20,190 |
| CEWS | (916) | (1,116) | (1,499) | (5,206) |
| CERS | - | (109) | (183) | (248) |
| Restructuring charge | - | - | 851 | - |
| Tax impact of adjusting items | 211 | 288 | 191 | 1,282 |
| Adjusted net income | 4,247 | 3,356 | 17,765 | 16,018 |
| Adjusted net income as a % of total revenue | 23% | 20% | 27% | 24% |

Operating profit as a percentage of total revenue for the three months ended March 31, 2022 was 39%, consistent with the comparative quarter. Adjusted operating profit was 34%, slightly higher than 32% in the comparative quarter.

Operating profit as a percentage of total revenue for the year ended March 31, 2022 was 39%, down from 45% in the comparative year. Adjusted operating profit was 38%, consistent with 37% in the comparative period.

Net income as a percentage of total revenue for the three months ended March 31, 2022 was 26%, consistent with the comparative quarter. Adjusted net income as a percentage of total revenue was 23% in the current quarter, up from 20% in the comparative quarter.

Net income as a percentage of total revenue for the year ended March 31, 2022 was 28%, down from 30% in the comparative year. Adjusted net income as a percentage of total revenue was 27%, up from 24% in the prior year.

Adjusted EBITDA⁽¹⁾

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|-------|---------|-----------|----------|
| Net income | 4,952 | 4,293 | 659 | 15% |
| Add (deduct): | | | | |
| Depreciation | 1,054 | 1,071 | (17) | -2% |
| Finance (income) costs | 749 | 809 | (60) | -7% |
| Income and other taxes | 1,611 | 1,454 | 157 | 11% |
| EBITDA ⁽¹⁾ | 8,366 | 7,627 | 739 | 10% |
| Add (deduct): | | | | |
| CEWS | (916) | (1,116) | 200 | 18% |
| CERS | - | (109) | 109 | 100% |
| Adjusted EBITDA ⁽¹⁾ | 7,450 | 6,402 | 1,048 | 16% |
| Adjusted EBITDA ⁽¹⁾ as a % of total revenue | 40% | 38% | | |

| Year ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|---------|---------|-----------|----------|
| Net income | 18,405 | 20,190 | (1,785) | -9% |
| Add (deduct): | | | | |
| Depreciation | 4,198 | 4,271 | (73) | -2% |
| Finance (income) costs | 2,059 | 3,643 | (1,584) | -43% |
| Income and other taxes | 5,616 | 6,732 | (1,116) | -17% |
| EBITDA ⁽¹⁾ | 30,278 | 34,836 | (4,558) | -13% |
| Add (deduct): | | | | |
| CEWS | (1,499) | (5,206) | 3,707 | 71% |
| CERS | (183) | (248) | 65 | 26% |
| Restructuring charge | 851 | - | 851 | 100% |
| Adjusted EBITDA ⁽¹⁾ | 29,447 | 29,382 | 65 | 0% |
| Adjusted EBITDA as a % of total revenue | 44% | 44% | | |

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

Adjusted EBITDA as a percentage of total revenue was 40% in the current quarter, slightly up from 38% in the prior year quarter.

Adjusted EBITDA as a percentage of total revenue was 44% in the current year, consistent with 44% in the prior year.

Liquidity and Capital Resources

| Three months ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|--|---------|---------|-----------|----------|
| Cash, beginning of period | 47,727 | 39,176 | 8,551 | 22% |
| Cash provided by (used in): | | | | |
| Operating activities | 16,470 | 14,418 | 2,052 | 14% |
| Financing activities | (4,475) | (4,485) | 10 | 0% |
| Investing activities | (62) | (41) | (21) | -51% |
| Cash, end of period | 59,660 | 49,068 | 10,592 | 22% |

| Years ended March 31, (\$ thousands) | 2022 | 2021 | \$ change | % change |
|---|----------|----------|-----------|----------|
| Cash, beginning of period | 49,068 | 40,505 | 8,563 | 21% |
| Cash provided by (used in): | | | | |
| Operating activities | 28,715 | 26,428 | 2,287 | 9% |
| Financing activities | (17,420) | (17,468) | 48 | 0% |
| Investing activities | (703) | (397) | (306) | -77% |
| Cash, end of period | 59,660 | 49,068 | 10,592 | 22% |

At March 31, 2022, CMG had \$59.7 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 dividend payments. Management believes that the Company has sufficient capital resources to meet its operating and capital expenditure needs.

During the year ended March 31, 2022, 26.3 million shares of CMG's public float were traded on the TSX. As at March 31, 2022, CMG's market capitalization based upon its March 31, 2022 closing price of \$5.36 was \$430.6 million.

Operating Activities

Cash provided by operating activities increased by \$2.1 million during the three months ended March 31, 2022, compared to the same period of the previous fiscal year. Funds flow from operations was \$0.8 million higher than the comparative quarter, primarily due to higher revenue, and there was an increase in cash due to the movement in non-cash working capital, with the main factor being the timing of when sales are made and when the resulting receivables are collected.

Cash provided by operating activities increased by \$2.3 million during the year ended March 31, 2022, compared to the previous fiscal year. This was as a result of a \$4.7 million cash increase due to the movement in non-cash working capital, mainly in the deferred revenue balance and the receivables balance. This was partially offset by a \$2.4 million decrease in funds flow from operations, primarily due to lower CEWS benefits and lower revenue.

Financing Activities

Cash used in financing activities in the three months and year ended March 31, 2022 was consistent with the same periods of the previous fiscal year.

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

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

In the year ended March 31, 2021, CMG paid \$16.1 million in dividends, representing the following quarterly dividends:

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

On May 18, 2022, CMG announced the payment of a quarterly dividend of \$0.05 per share on CMG's common shares. The dividend will be paid on June 15, 2022 to shareholders of record at the close of business on June 7, 2022. 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 year ended March 31, 2022, CMG's capital asset additions were composed of computer equipment and totalled \$0.7 million, an increase of \$0.3 million compared to the previous fiscal year. CMG's capital budget for fiscal 2023 is \$2.0 million.

Commitments, Off Balance Sheet Items and Transactions with Related Parties

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

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

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

and support targeted CoFlow deployments, and Shell's contribution will increase accordingly. CoFlow costs are estimated to be \$8.7 million and Shell's contribution is estimated to be \$8.2 million in fiscal 2023.

CMG has only minor ongoing material contractual obligations other than prepaid licenses, which are reflected as deferred revenue on the statement of financial position, and contractual obligations for office leases, which are estimated to be as follows as at March 31, 2022:

| (thousands of \$) | Undiscounted lease liability payments | Operating costs and short-term leases | Total commitments |
|----------------------------|---------------------------------------|---------------------------------------|-------------------|
| Less than one year | 3,558 | 1,100 | 4,658 |
| Between one and five years | 13,891 | 4,332 | 18,223 |
| More than five years | 39,757 | 11,192 | 50,949 |
| | 57,206 | 16,624 | 73,830 |

Critical Accounting Estimates and Judgments

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

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

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

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

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

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

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

Impact of the COVID-19 pandemic – In fiscal 2022, COVID-19 continued to have an impact on the global economy. Fluctuating demand for crude oil resulting from world economies emerging from and then entering into subsequent COVID-19 waves has resulted in significant volatility in global energy prices. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A potential adverse impact to the Company includes reductions in revenues and cash flows and increased risk of non-payment from customers. Estimates made during this period of extreme volatility are subject to a higher level of uncertainty and, as a result, there may be a further prospective impact in future periods.

Outstanding Share Data

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

| As at May 18, 2022 | |
|--|--------|
| (thousands) | |
| Common shares | 80,335 |
| Stock options | 3,400 |
| Restricted share units ⁽¹⁾ | 539 |
| Performance share units ⁽¹⁾ | 65 |

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

The maximum number of common shares that may be reserved for issuance under the Company's security-based compensation plans is limited to 10% of the issued and outstanding common shares. Based on this calculation, at May 18, 2022, CMG could reserve up to 8,033,000 common shares for issuance under its security-based compensation plans.

Business Risks

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

Commodity Price Risk

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

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

Credit and Liquidity Risks

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

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

In terms of liquidity, the Company held \$59.7 million of cash at March 31, 2022, which more than covers its obligations, and it has approximately \$1.0 million of the credit facility available for its use. The Company's cash is held with reputable banking institutions. For the described reasons, we believe that our liquidity risk is low.

Sales Variability Risk

CMG's software license revenue consists primarily of annuity/maintenance software licensing, which is generally for a term of one year or less, and, to a lesser extent, perpetual software licensing, whereby the customer purchases the then-current version of the software and has the right to use that version in perpetuity. Software licensing under perpetual sales has comprised 6-8% of total software licensing revenue over the last two fiscal years, but is more variable in nature as the purchase decision, and its timing, fluctuate with customers' needs and budgets. CMG has found that a number of customers prefer to acquire perpetual software licenses rather than leasing the software on an annual basis. The Company's experience is that a number of these customers are purchasing additional licenses to allow more users to access CMG technology in their operations. CMG has found that a large percentage of its customers who have acquired perpetual software licenses are subsequently purchasing maintenance licenses to ensure they have access to current CMG technology.

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

CMG's customers are both domestic and international oil and gas companies, and for the year ended March 31, 2022, one customer comprised more than 10% of the Company's total revenue (year ended March 31, 2021 – one customer).

Foreign Exchange Risk

CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as 70% of product revenues in fiscal 2022 were denominated in US dollars (2021 – 71%). 24% of CMG's total costs in fiscal 2022 were denominated in US dollars (2021 – 28%), which provides a partial economic hedge against the fluctuation in currency exchange between the US and the Canadian dollar on revenues. CMG's residual revenues and costs are primarily denominated in Canadian dollars, and its policy is to convert excess US dollar cash into Canadian dollars when received.

Geopolitical Risk

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

- Costs associated with the use of foreign agents and contractors;
- Difficulties in collecting accounts receivable;
- Currency restrictions and exchange rate fluctuations;
- The burdens of complying with a wide variety of foreign laws;
- Changes in laws governing existing operations and contracts;
- Changes to taxation policies dramatically increasing tax costs to the Company;
- Possible social, labor, political, and economic instability, including the war in Ukraine;
- Economic and legal sanctions (including with respect to the economic sanctions on Russia as a result of the war in Ukraine); and
- Non-compliance with applicable anti-corruption and bribery laws.

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

tax firms to review its tax filings in foreign jurisdictions. CMG closely monitors the business and regulatory environments of the countries in which it conducts operations to minimize the potential impact on costs and operations.

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

Coronavirus Risk

The Company's operations and revenues have been affected by the COVID-19 pandemic, as some of its customers, faced with the economic uncertainty and decreasing commodity prices, curtailed spending and chose not to renew their licensing agreements or to renew them at reduced levels. The ongoing uncertainty as to the extent and duration of the pandemic, as well as uncertainty surrounding new mutations of the COVID-19 virus, could further adversely impact CMG's operations, including sales activities and financial performance. Fluctuating demand for crude oil resulting from world economies emerging from and then entering into subsequent COVID-19 waves has resulted in significant volatility in global energy prices and, as a result, has impacted the demand for CMG's products. The extent to which the COVID-19 pandemic may impact our operating results, financial condition, and cash flows will depend on future developments, which are highly uncertain and cannot be accurately predicted at this time.

At the start of the pandemic, CMG took various cost saving and cash preservation actions to preserve liquidity, manage costs and protect shareholder value. These measures were implemented to protect CMG's profitability and optimize free cash flow generation to maintain the strength of our balance sheet and allow for maximum flexibility in our capital allocation decisions.

Operationally, CMG experienced minimal adverse impacts to its operations and workforce throughout the pandemic, and the Company's research and development activities and technical support for customers continued uninterrupted, through email, phone and video conferencing. By April 2022, employees at most locations returned to the office, as local health authorities lifted their work-from-home guidance.

Competition Risk

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

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

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

Sustaining competitive advantage is another issue, which CMG addresses by making a significant ongoing commitment to research and development spending. CMG spent \$16.7 million on product research and development in its most recently completed fiscal year (2021 – \$15.2 million).

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

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

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

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

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

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

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

Qualified Personnel Risk

The Company's continued success is substantially dependent on the performance of its key employees and officers. The loss of the services of these personnel as well as failure to attract additional key personnel could have a negative impact upon the Company's business, operating results and financial condition. As a result of the shift to working from home since the start of the COVID-19 pandemic, employees have more options when looking for employment, because they can work remotely for employers located in other provinces or countries. Consequently, employers find themselves competing for talent not only locally, but with other employers from around the world. Due to high levels of competition for qualified personnel, there can be no assurance that the Company will be successful in retaining and attracting such personnel. The Company attempts to overcome this by offering an attractive compensation package and providing an environment that provides the intellectual and professional stimulation sought by our employee group.

Intellectual Property Risk

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

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

Cyber Risk

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

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

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

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

Evolving Laws and Regulation

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

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

Tax Liability Risk

With operations and sales in various countries, CMG is subject to taxes in several jurisdictions around the world. Significant judgment is required in determining the Company's worldwide liability for income, indirect and other taxes, as well as potential penalties and interest. Although management believes that all expenses and tax credits claimed by the Company, including

research and development expenses and foreign tax credits, are reasonable, deductible and have been correctly determined, tax authorities may disagree with the treatment of items reported by the Company, the result of which could have a material adverse effect on our financial condition and results of operations. CMG mitigates these risks by staying informed of changes in tax legislation, consulting with tax advisors on complex tax issues and having professional tax firms review the Company's tax filings.

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

Climate Change Risk

The recent shift toward public and government support of climate change initiatives, such as emission reduction targets, clean energy standards, and alternative energy incentives and mandates, could impact the demand for hydrocarbons in Canada and around the world. CMG's customers are oil and gas companies; therefore, increasing environmental regulations, taxes, laws or penalties could reduce oil and gas producers' cash flow by way of reduced demand, increased capital expenditures and increased operating expenses, as well as increased delays, costs or legal hurdles, which may not be recoverable in the marketplace. Such regulation changes include, but are not limited to, curtailment rules, new climate change regulations and the implementation of the *Canadian Energy Regulator Act*. The complexity and breadth of changes in environmental regulation make it extremely difficult to predict the potential impact to CMG; however, it is possible to conclude that these developments and future global developments in the energy sector could adversely impact the demand for CMG's products.

Extreme Climatic Conditions

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

Energy Transition

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

At March 31, 2022, the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) concluded that the design and operation of the Company’s DC&P were effective (in accordance with the COSO control framework (2013)) and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation. Further, the CEO and the CFO concluded that the design and operation of the Company’s ICFR were effective at March 31, 2022 in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. It should be noted that while the Company’s CEO and CFO believe that the Company’s disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that such controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

During the year ended March 31, 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.

Management's Statement of Responsibility

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

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

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

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



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

Calgary, Canada
May 18, 2022



Pramod Jain
Chief Executive Officer

Independent Auditors' Report

To the Shareholders of Computer Modelling Group Ltd.

Opinion

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

- the consolidated statements of financial position as at March 31, 2022 and March 31, 2021
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2022 and March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended March 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

We draw attention to Note 3 and Note 10 to the financial statements. The Entity has revenue of \$66,202 thousand, a substantial portion of which contain software licenses in the contract.

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

prices (SSP) for distinct performance obligations can also require judgment and estimates. SSP for a performance obligation in a contract with customers is an estimate of the price that would be charged for the specific product or service if it was sold separately in similar circumstances and to similar customers.

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Other Information

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

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “2022 Financial Report”.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or

when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants
May 18, 2022
Calgary, Canada

Consolidated Statements of Financial Position

| (thousands of Canadian \$) | March 31, 2022 | March 31, 2021 |
|---|----------------|----------------|
| Assets | | |
| Current assets: | | |
| Cash | 59,660 | 49,068 |
| Trade and other receivables (note 18(a)) | 17,507 | 23,239 |
| Prepaid expenses | 792 | 820 |
| Prepaid income taxes (note 15) | 959 | 8 |
| | 78,918 | 73,135 |
| Property and equipment (note 5) | 10,908 | 12,025 |
| Right-of-use assets (note 6) | 33,113 | 35,509 |
| Deferred tax asset (note 15) | 2,209 | 1,822 |
| Total assets | 125,148 | 122,491 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Trade payables and accrued liabilities (note 7) | 6,819 | 6,316 |
| Income taxes payable (note 15) | 13 | 49 |
| Deferred revenue (note 8) | 30,454 | 30,461 |
| Lease liabilities (note 9) | 1,626 | 1,356 |
| | 38,912 | 38,182 |
| Long-term stock-based compensation liability (note 16(c)) | 1,556 | 1,281 |
| Long-term lease liabilities (note 9) | 37,962 | 39,606 |
| Total liabilities | 78,430 | 79,069 |
| Shareholders' equity: | | |
| Share capital (note 16) | 80,248 | 80,051 |
| Contributed surplus | 15,009 | 14,251 |
| Deficit | (48,539) | (50,880) |
| Total shareholders' equity | 46,718 | 43,422 |
| Total liabilities and shareholders' equity | 125,148 | 122,491 |

Subsequent event (note 23)

See accompanying notes to consolidated financial statements.

Approved by the Board



Mark R. Miller
Director



Peter H. Kinash
Director

Consolidated Statements of Operations and Comprehensive Income

| Years ended March 31, (thousands of Canadian \$ except per share amounts) | 2022 | 2021 |
|--|---------------|---------|
| Revenue (note 10) | 66,202 | 67,363 |
| Operating expenses (note 11) | | |
| Sales, marketing and professional services | 15,995 | 15,690 |
| Research and development (note 12) | 16,705 | 15,194 |
| General and administrative | 7,422 | 5,914 |
| | 40,122 | 36,798 |
| Operating profit | 26,080 | 30,565 |
| Finance income (note 14) | 440 | 374 |
| Finance costs (note 14) | (2,499) | (4,017) |
| Profit before income and other taxes | 24,021 | 26,922 |
| Income and other taxes (note 15) | 5,616 | 6,732 |
| Net and total comprehensive income | 18,405 | 20,190 |
| Earnings per share – basic and diluted (note 16(d)) | 0.23 | 0.25 |
| Dividend per share | 0.20 | 0.20 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

| (thousands of Canadian \$) | Share capital | Contribute surplus | Deficit | Total equity |
|--|------------------|-----------------------|-----------------|-----------------|
| Balance, April 1, 2020 | 79,851 | 13,533 | (55,015) | 38,369 |
| Total comprehensive income for the year | - | - | 20,190 | 20,190 |
| Dividends paid | - | - | (16,055) | (16,055) |
| Shares issued on redemption of restricted share units (note 16(b)) | 200 | - | - | 200 |
| Stock-based compensation: | | | | |
| Current period expense (note 16(c)) | - | 718 | - | 718 |
| Balance, March 31, 2021 | 80,051 | 14,251 | (50,880) | 43,422 |
| Balance, April 1, 2021 | 80,051 | 14,251 | (50,880) | 43,422 |
| Total comprehensive income for the year | - | - | 18,405 | 18,405 |
| Dividends paid | - | - | (16,064) | (16,064) |
| Shares issued on redemption of restricted share units (note 16(b)) | 197 | - | - | 197 |
| Stock-based compensation: | | | | |
| Current period expense (note 16(c)) | - | 758 | - | 758 |
| Balance, March 31, 2022 | 80,248 | 15,009 | (48,539) | 46,718 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

| Years ended March 31, (thousands of Canadian \$) | 2022 | 2021 |
|---|-----------------|-----------------|
| Operating activities | | |
| Net income | 18,405 | 20,190 |
| Adjustments for: | | |
| Depreciation (notes 5 and 6) | 4,198 | 4,271 |
| Deferred income tax recovery (note 15) | (386) | (831) |
| Stock-based compensation (note 16(c)) | 1,625 | 2,653 |
| Funds flow from operations | 23,842 | 26,283 |
| Movement in non-cash working capital: | | |
| Trade and other receivables | 5,732 | 3,038 |
| Trade payables and accrued liabilities | 107 | (361) |
| Prepaid expenses | 28 | 93 |
| Income taxes payable | (987) | 752 |
| Deferred revenue | (7) | (3,377) |
| Decrease in non-cash working capital | 4,873 | 145 |
| Net cash provided by operating activities | 28,715 | 26,428 |
| Financing activities | | |
| Repayment of lease liabilities (note 9) | (1,356) | (1,413) |
| Dividends paid | (16,064) | (16,055) |
| Net cash used in financing activities | (17,420) | (17,468) |
| Investing activities | | |
| Property and equipment additions (note 5) | (703) | (397) |
| Increase in cash | 10,592 | 8,563 |
| Cash, beginning of period | 49,068 | 40,505 |
| Cash, end of period | 59,660 | 49,068 |
| Supplementary cash flow information | | |
| Interest received (note 14) | 440 | 374 |
| Interest paid (notes 9 and 14) | 2,004 | 2,074 |
| Income taxes paid | 6,113 | 6,107 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended March 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 consolidated financial statements as at and for the year ended March 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements as at and for the year ended March 31, 2022 were authorized for issuance by the Board of Directors on May 18, 2022.

(b) Basis of Measurement:

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

(c) Functional and Presentation Currency:

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

(d) Use of Estimates, Judgments and Assumptions:

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

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

Property and equipment – estimates are used in determining useful economic lives of property and equipment for the purposes of calculating depreciation (note 5).

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

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

Research and development – assumptions are made in respect to the eligibility of certain research and development projects in the calculation of scientific research and experimental development (“SR&ED”) investment tax credits which are netted against the research and development costs in the statement of operations and comprehensive income. SR&ED claims are subject to audits by relevant taxation authorities and the actual amount may change depending on the outcome of such audits (note 12).

Stock-based compensation – assumptions and estimates are used in determining the inputs used in the Black-Scholes option pricing model, including assumptions regarding volatility, dividend yield, risk-free interest rates, forfeiture estimates and expected option lives (note 16 (c)).

Canada Emergency Wage Subsidy (“CEWS”) – assumptions are made in respect to the Company’s eligibility for CEWS. CEWS claims are subject to audits by taxation authorities and the actual amount may change depending on the outcome of such audits (note 11).

(E) Impact of the COVID-19 Pandemic:

In fiscal 2022, COVID-19 continued to have an impact on the global economy. Fluctuating demand for crude oil resulting from world economies emerging from and then entering into subsequent COVID-19 waves has resulted in significant volatility in global energy prices. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. A potential adverse impact to the Company includes reductions in revenues and cash flows and increased risk of non-payment from customers. Estimates made during this period of extreme volatility are subject to a higher level of uncertainty and as a result, there may be a further prospective impact in future periods.

3. Significant Accounting Policies:

(a) Basis of Consolidation:

The consolidated financial statements include the accounts of CMG and its subsidiaries, all 100% owned (note 21). All inter-company transactions and balances have been eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(b) Revenue Recognition:

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

| Type of products /service | Nature, timing of satisfaction of performance obligations, significant contract terms |
|-------------------------------|--|
| Annuity license revenue | <p>Annuity agreements include a term-based software license bundled with maintenance. IFRS 15 <i>Revenue from Contracts with Customers</i> requires that the portion of the annuity agreement fee that relates to the software license should be recognized as revenue at the start of the license period, while the remainder should be recognized as maintenance revenue on a straight-line basis over the license period. However, since it is management's practice to honour customers' mid-contract requests to reduce product quantities or license term duration without a penalty and refund or credit a pro-rata share of the agreement fee, software annuity license revenue cannot be recognized upfront and will instead be recognized ratably over the term of the contract.</p> <p>The exception to this practice is certain multi-year agreements with very specific termination clauses that significantly limit the customer's ability to reduce the license term. For these agreements, the software license portion that relates to the non-cancellable period will be recognized upfront, at the start of that particular period of the license contract.</p> <p>The maintenance component of an annuity contract includes customer support and unspecified software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time.</p> <p>Since the Company does not sell term-based annuity licenses individually without maintenance and there is no comparable product in the market, there is no observable standalone selling price for term-based software annuity licenses. The Company allocates the value of bundled annuity agreements between software licenses and maintenance using the residual approach, by subtracting the standalone selling price of maintenance from the total annuity agreement fee. Based on this calculation, the standalone selling price of maintenance represents 50% of the total annuity agreement fee, leaving 50% to be allocated to the standalone software annuity license.</p> |
| Maintenance license revenue | <p>Maintenance agreements include customer support and unspecified software upgrades, typically for a term of one year or less. Maintenance licenses are purchased by customers who already own a perpetual license and want the additional benefit of customer support and software upgrades. Maintenance license revenue is recognized on a straight-line basis over the term of the contract, as the Company satisfies its maintenance performance obligation over time.</p> |
| Perpetual license revenue | <p>A perpetual license grants the customer the right to use the then-current version of the software in perpetuity. Perpetual license revenue is recognized at a point in time, upon delivery of the licensed product.</p> |
| Professional services revenue | <p>Revenue from professional services consists of consulting, training and contract research activities. Professional services revenue is recognized over time, based on hours incurred.</p> |

Costs to obtain a contract

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

(c) Cash:

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

(d) Property and Equipment:

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

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

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

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

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

(e) Research and Development Costs:

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

(f) Finance Income and Finance Costs:

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

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

(g) Foreign Currency Translation:

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

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

(h) Income Taxes:

Income taxes comprise current and deferred tax.

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

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

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

(i) Investment Tax Credits:

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

(j) Earnings Per Share:

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

(k) Stock-Based Compensation:

The Company has a stock option plan, a share appreciation rights plan, a performance share unit and restricted share unit plan, and a deferred share unit plan, as described in note 16(c).

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

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

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

(l) Short-Term Employee Benefits:

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

(m) Financial Instruments:

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

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

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

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

(n) Share Capital

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

(o) Impairment:

(i) Receivables

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable

amount is estimated, and any impairment loss required is recognized in the statement of operations and comprehensive income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(p) Leases:

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

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

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

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

(q) Government Grants

Government grants are recognized when the Company has reasonable assurance that it has complied with the relevant conditions of the grant. Government grants are recognized against the financial statement line item that they are intended to compensate (note 11).

4. 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 10):

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|-----------------------------------|----------------|----------------|
| Canada | 43,216 | 46,393 |
| United States | 553 | 755 |
| South America | 218 | 325 |
| Eastern Hemisphere ⁽¹⁾ | 34 | 61 |
| | 44,021 | 47,534 |

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

5. Property and Equipment:

| Cost (thousands of \$) | Computer Equipment | Furniture and Equipment | Leasehold Improvements | Total |
|----------------------------------|-----------------------|----------------------------|---------------------------|---------------|
| Balance at April 1, 2020 | 7,154 | 3,081 | 13,409 | 23,644 |
| Additions | 367 | - | 30 | 397 |
| Disposals | (134) | - | - | (134) |
| Balance at March 31, 2021 | 7,387 | 3,081 | 13,439 | 23,907 |
| Balance at April 1, 2021 | 7,387 | 3,081 | 13,439 | 23,907 |
| Additions | 703 | - | - | 703 |
| Disposals | (600) | (29) | - | (629) |
| Balance at March 31, 2022 | 7,490 | 3,052 | 13,439 | 23,981 |

| Accumulated Depreciation (thousands of \$) | | | | |
|---|----------------|----------------|----------------|-----------------|
| Balance at April 1, 2020 | (5,879) | (2,116) | (2,142) | (10,137) |
| Depreciation charge for the year | (731) | (481) | (667) | (1,879) |
| Disposals | 134 | - | - | 134 |
| Balance at March 31, 2021 | (6,476) | (2,597) | (2,809) | (11,882) |
| Balance at April 1, 2021 | (6,476) | (2,597) | (2,809) | (11,882) |
| Depreciation charge for the year | (665) | (468) | (687) | (1,820) |
| Disposals | 600 | 29 | - | 629 |
| Balance at March 31, 2022 | (6,541) | (3,036) | (3,496) | (13,073) |

| Carrying Amounts | | | | |
|--------------------------|------------|-----------|--------------|---------------|
| At March 31, 2021 | 911 | 484 | 10,630 | 12,025 |
| At March 31, 2022 | 949 | 16 | 9,943 | 10,908 |

6. Right-of-Use Assets:

| Cost (thousands of \$) | Offices |
|--|----------------|
| Balance at April 1, 2020 | 40,277 |
| Disposals | (30) |
| Balance at March 31, 2021 | 40,247 |
| Balance at April 1, 2021 | 40,247 |
| Remeasurement due to change in lease payments | (18) |
| Balance at March 31, 2022 | 40,229 |
| Accumulated Depreciation (thousands of \$) | |
| Balance at April 1, 2020 | (2,376) |
| Depreciation charge for the year | (2,392) |
| Disposals | 30 |
| Balance at March 31, 2021 | (4,738) |
| Balance at April 1, 2021 | (4,738) |
| Depreciation charge for the year | (2,378) |
| Balance at March 31, 2022 | (7,116) |
| Carrying Amounts | |
| At March 31, 2021 | 35,509 |
| At March 31, 2022 | 33,113 |

7. Trade Payables and Accrued Liabilities:

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|---|-----------------------|----------------|
| Trade payables | 293 | 188 |
| Employee salaries, commissions and benefits payable | 5,302 | 4,662 |
| Accrued liabilities and other payables | 1,224 | 1,466 |
| | 6,819 | 6,316 |

8. Deferred Revenue:

The following table presents changes in the deferred revenue balance:

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|--|-----------------------|----------------|
| Balance, beginning of period | 30,461 | 33,838 |
| Invoiced during the period, excluding amounts recognized as revenue during the period | 30,071 | 30,171 |
| Recognition of deferred revenue included in the balance at the beginning of the period | (30,078) | (33,548) |
| Balance, end of period | 30,454 | 30,461 |

9. Lease Liabilities:

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

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|---|----------------|----------------|
| Balance, beginning of period | 40,962 | 42,375 |
| Interest on lease liabilities (note 14) | 2,004 | 2,074 |
| Lease payments | (3,360) | (3,487) |
| Remeasurement due to change in lease payments | (18) | - |
| Balance, end of period | 39,588 | 40,962 |
| Current | 1,626 | 1,356 |
| Long-term | 37,962 | 39,606 |

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

| (thousands of \$) | |
|------------------------------------|---------------|
| Less than one year | 3,558 |
| Between one and five years | 13,891 |
| More than five years | 39,757 |
| Total undiscounted payments | 57,206 |

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

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|------|------|
| Variable lease expense | 885 | 805 |
| Short-term lease expense | 157 | 228 |

10. Revenue:

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

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|---|---------------|---------------|
| <i>Annuity/maintenance license revenue</i> | | |
| Canada | 12,699 | 12,464 |
| United States | 12,910 | 15,113 |
| South America | 6,858 | 6,164 |
| Eastern Hemisphere | 20,939 | 22,193 |
| | 53,406 | 55,934 |
| <i>Perpetual license revenue</i> | | |
| Canada | - | - |
| United States | 401 | 32 |
| South America | - | 1,020 |
| Eastern Hemisphere | 4,418 | 2,567 |
| | 4,819 | 3,619 |
| <i>Total software license revenue</i> | 58,225 | 59,553 |
| <i>Professional services</i> | | |
| Canada | 7,380 | 6,971 |
| United States | 78 | 458 |
| South America | 99 | 26 |
| Eastern Hemisphere | 420 | 355 |
| | 7,977 | 7,810 |
| <i>Total revenue</i> | | |
| Canada | 20,079 | 19,435 |
| United States | 13,389 | 15,603 |
| South America | 6,957 | 7,210 |
| Eastern Hemisphere | 25,777 | 25,115 |
| | 66,202 | 67,363 |

The amount of revenue recognized during the year ended March 31, 2022 from performance obligations satisfied (or partially satisfied) in previous periods is \$2.3 million (2021 – \$1.6 million).

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

Receivables from contracts with customers were as follows:

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|---|----------------|----------------|
| Receivables (included in "Trade and other receivables") | 17,296 | 22,812 |

During the year ended March 31, 2022, one customer comprised 12.1% of the Company's total revenue (2021 – one customer, 12.5%).

11. Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy

As a result of the decline in revenue, CMG became eligible for the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”) programs and during the year ended March 31, 2022 recorded a CEWS benefit of \$1.5 million (2021 – \$5.2 million) and a CERS benefit of \$0.2 million (2021 – \$0.2 million). The CEWS and CERS benefits were recorded against the financial statement line items that they are intended to compensate, resulting in the following credits to the operating expense categories:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|----------------|----------------|
| Sales, marketing and professional services | (286) | (927) |
| Research and development | (1,127) | (3,654) |
| General and administrative | (269) | (873) |
| | (1,682) | (5,454) |

12. Research and Development Costs:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|---|---------------|---------------|
| Research and development, net of government grants | 17,581 | 15,864 |
| Scientific research and experimental development (“SR&ED”) investment tax credits | (876) | (670) |
| | 16,705 | 15,194 |

13. Personnel Expenses:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|---------------|---------------|
| Salaries, commissions and short-term employee benefits, net of government grants | 28,070 | 24,722 |
| Stock-based compensation (note 16(c)) | 2,466 | 3,452 |
| | 30,536 | 28,174 |

14. Finance Income and Finance Costs:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|----------------|----------------|
| Interest income | 440 | 374 |
| Finance income | 440 | 374 |
| Interest expense on lease liabilities (note 9) | (2,004) | (2,074) |
| Net foreign exchange loss | (495) | (1,943) |
| Finance costs | (2,499) | (4,017) |

15. Income and Other Taxes:

The major components of income tax expense are as follows:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|--------------|-------|
| Current year income tax expense | 5,882 | 7,083 |
| Adjustment for prior year | (131) | (44) |
| Current income taxes | 5,751 | 7,039 |
| Deferred tax recovery | (386) | (831) |
| Foreign withholding and other taxes | 251 | 524 |
| | 5,616 | 6,732 |

During the year ended March 31, 2022, the blended statutory tax rate was 23% (2021 – 23.5%). In May 2019, the Alberta government announced that the provincial corporate income tax rate will be reduced from 12% to 8% over a four-year period. Accordingly, the rate was reduced from 12% to 11% effective July 1, 2019 and from 11% to 10% on January 1, 2020. In October 2020, the previously scheduled tax rate reduction was accelerated, with the tax rate reduced to 8% effective July 1, 2020.

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

| Years ended March 31, (thousands of \$, unless otherwise stated) | 2022 | 2021 |
|---|--------------|--------|
| Combined statutory tax rate | 23.00% | 23.50% |
| Expected income tax | 5,525 | 6,327 |
| Non-deductible costs | 223 | 192 |
| Withholding taxes | (37) | 253 |
| Effect of tax rates in foreign jurisdictions | (7) | (18) |
| Effect of statutory tax rate reduction | - | (2) |
| Adjustment for prior year | (131) | (44) |
| Other | 43 | 24 |
| | 5,616 | 6,732 |

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

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|------------------------------------|----------------|----------------|
| Right-of-use assets | 1,479 | 1,245 |
| Stock-based compensation liability | 770 | 616 |
| Property and equipment | 149 | 115 |
| SR&ED investment tax credits | (189) | (154) |
| Net deferred tax asset | 2,209 | 1,822 |

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.

16. 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, 2020 | 80,249 |
| Issued on redemption of restricted share units | 37 |
| Balance, March 31, 2021 | 80,286 |
| Balance, April 1, 2021 | 80,286 |
| Issued on redemption of restricted share units | 49 |
| Balance, March 31, 2022 | 80,335 |

(c) Stock-Based Compensation:

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|--------------|-------|
| Equity-settled plans | 758 | 718 |
| Cash-settled plans | 1,708 | 2,734 |
| Total stock-based compensation expense | 2,466 | 3,452 |

Liability Recognized for Stock-Based Compensation⁽¹⁾

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

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|---|----------------|----------------|
| SARs | 525 | 407 |
| RSUs | 1,874 | 1,641 |
| PSUs | 311 | 204 |
| DSUs | 639 | 426 |
| Total stock-based compensation liability | 3,348 | 2,678 |
| Current, recorded within trade payables and accrued liabilities | 1,792 | 1,397 |
| Long-term | 1,556 | 1,281 |

(1) The intrinsic value of the vested awards at March 31, 2022 was \$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 March 31, 2022, the Company may reserve up to 8,033,000 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. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. Fifty percent of stock options vest on the first year anniversary from the grant date and then 25% vest on each of the second and third year anniversary dates. Stock options have a five-year life.

The following table outlines changes in stock options:

| Years ended March 31, | 2022 | | 2021 | |
|--------------------------------------|-------------------------------|--|-------------------------------|--|
| | Number of Options (thousands) | Weighted Average Exercise Price (\$/share) | Number of Options (thousands) | Weighted Average Exercise Price (\$/share) |
| Outstanding at beginning of period | 3,524 | 7.82 | 3,900 | 9.64 |
| Granted | 1,006 | 3.98 | 796 | 5.10 |
| Forfeited/expired | (850) | 9.51 | (1,172) | 12.03 |
| Outstanding at end of period | 3,680 | 6.38 | 3,524 | 7.82 |
| Options exercisable at end of period | 2,121 | 7.73 | 2,234 | 8.95 |

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

| Exercise Price (\$/option) | Number of Options (thousands) | Outstanding | | Exercisable | |
|----------------------------|-------------------------------|---|---|-------------------------------|---|
| | | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price (\$/option) | Number of Options (thousands) | Weighted Average Exercise Price (\$/option) |
| 3.98 to 5.07 | 991 | 4.4 | 3.98 | - | - |
| 5.08 to 6.30 | 779 | 3.4 | 5.08 | 393 | 5.08 |
| 6.31 to 9.19 | 745 | 2.4 | 6.38 | 563 | 6.38 |
| 9.20 to 9.32 | 465 | 1.4 | 9.20 | 465 | 9.20 |
| 9.33 to 9.33 | 700 | 0.4 | 9.33 | 700 | 9.33 |
| | 3,680 | 2.6 | 6.38 | 2,121 | 7.73 |

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

| Years ended March 31, | 2022 | 2021 |
|---|--------------|--------------|
| Fair value at grant date (\$/option) | 0.78 to 0.80 | 1.00 to 1.50 |
| Share price at grant date (\$/share) | 3.98 | 5.08 to 6.59 |
| Risk-free interest rate (%) | 0.57 to 0.70 | 0.22 to 0.37 |
| Estimated hold period prior to exercise (years) | 3 to 4 | 3 to 4 |
| Volatility in the price of common shares (%) | 39 to 42 | 35 to 41 |
| Dividend yield per common share (%) | 5.18 | 3.06 to 3.71 |

(ii) *Share Appreciation Rights Plan*

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

The following table outlines changes in SARs:

| Years ended March 31, | 2022 | | 2021 | |
|------------------------------------|-------------------------------|---|-------------------------------|--|
| | Number of SARs (thousands) | Weighted Average Exercise Price (\$/SAR) | Number of SARs (thousands) | Weighted Average Exercise Price (\$/SAR) |
| Outstanding at beginning of period | 1,373 | 8.19 | 1,152 | 8.80 |
| Granted | 278 | 3.98 | 221 | 5.08 |
| Exercised | (3) | 5.08 | - | - |
| Forfeited/expired | (253) | 9.58 | - | - |
| Outstanding at end of period | 1,395 | 7.11 | 1,373 | 8.19 |
| SARs exercisable at end of period | 955 | 8.29 | 948 | 9.04 |

(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:

| Years ended March 31, (thousands) | 2022 | | | 2021 | | |
|--------------------------------------|-------|------|------|-------|------|------|
| | RSUs | PSUs | DSUs | RSUs | PSUs | DSUs |
| Outstanding at beginning of period | 589 | 93 | 74 | 421 | 30 | 48 |
| Granted | 491 | 72 | 49 | 379 | 63 | 33 |
| Exercised | (256) | - | - | (181) | - | (7) |
| Forfeited | (102) | - | - | (30) | - | - |
| Outstanding at end of period | 722 | 165 | 123 | 589 | 93 | 74 |

(d) Earnings Per Share:

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

| Years ended March 31, (thousands except per share amounts) | 2022 | | | 2021 | | |
|---|------------------|--|--|------------------|--|-------------------------------------|
| | Earnings (\$) | Weighted average shares outstanding | Earnings per share (\$/share) | Earnings (\$) | Weighted average shares outstanding | Earnings per share (\$/share) |
| Basic | 18,405 | 80,316 | 0.23 | 20,190 | 80,272 | 0.25 |
| Dilutive effect of share-based awards | | 293 | | | 207 | |
| Diluted | 18,405 | 80,609 | 0.23 | 20,190 | 80,479 | 0.25 |

During the year ended March 31, 2022, 125,000 awards (2021 – 116,000 awards) were excluded from the computation of the weighted average number of diluted shares outstanding because their effect was not dilutive.

17. Capital Management:

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

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

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

18. Financial Instruments and Risk Management:

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

Overview:

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

(a) Credit Risk:

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

The Company's trade receivables consist primarily of balances from customers operating in the oil and gas industry, both domestically and internationally, as the Company sells its products and services in approximately 60 countries worldwide. Some of these countries have greater economic and political risk than experienced in North America, and as a result there may be greater risk associated with sales in those jurisdictions. The Company manages this risk by invoicing for the full license term in advance for the majority of software license sales and by invoicing as frequently as the contract allows for consulting and contract research services. In cases where collectability is not deemed probable, revenue is recognized upon receipt of cash, providing all other criteria have been met. Historically, the Company has not experienced any significant losses related to individual customers or groups of customers in any particular geographic area. At March 31, 2022, the Company assessed credit risk related to its accounts receivable and established an allowance for doubtful accounts of \$737,000 (2021 – \$71,000), most of which was for receivables from Russian customers, due to the Company's decision to suspend doing business in Russia.

As at March 31, 2022, the Company has a concentration of credit risk with 6 domestic and international customers who represent 72% of trade receivables (2021 – 13 customers; 75%).

The carrying amount of trade and other receivables represents the maximum credit exposure. The maximum exposure to credit risk at March 31, 2022 was \$17.5 million (2021 – \$23.2 million). The aging of trade and other receivables at the reporting date was:

| (thousands of \$) | March 31, 2022 | March 31, 2021 |
|----------------------|----------------|----------------|
| Current | 7,795 | 12,077 |
| 31-60 days | 8,503 | 1,590 |
| 61-90 days | 1,123 | 7,290 |
| Over 90 days | 86 | 2,282 |
| Balance, end of year | 17,507 | 23,239 |

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

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

(b) Market Risk:

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

(i) Foreign Exchange Risk

The Company operates internationally and primarily prices its products in either the Canadian or US dollar. This gives rise to exposure to market risks from changes in the foreign exchange rates between the Canadian and US dollar. Approximately 70% (2021 – 71%) of the Company's revenues for the year ended March 31, 2022 were denominated in US dollars, and at March 31, 2022, approximately US \$13.1 million (2021 – US \$13.4 million) of the Company's working capital was denominated in US dollars. The Company currently does not use derivative instruments to hedge its exposure to those risks, but since approximately 24% (2021 – 28%) of the Company's total costs are also denominated in US dollars, they provide a partial economic hedge against the fluctuation in this currency exchange. In addition, the Company manages levels of foreign currency held by converting excess US dollars into Canadian dollars at spot rates.

The Company's operations are exposed to currency risk on US-dollar denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated statement of operations and comprehensive income. It is estimated that a one cent change in the US dollar would result in a net change of approximately \$101,000 to equity and net income for the year ended March 31, 2022. A weaker US dollar with respect to the Canadian dollar will result in a negative impact, while the reverse would result from a stronger US dollar.

(ii) *Interest Rate Risk*

The Company has significant cash balances and no interest-bearing debt. The Company's policy is to invest excess cash in interest-bearing deposits and/or guaranteed investment certificates issued by a reputable financial institution. The Company is exposed to interest cash flow risk from changes in interest rates on its cash balances. Based on the March 31, 2022 cash balance, each 1% change in the interest rate on the Company's cash balance would change equity and net income for the year ended March 31, 2022 by approximately \$459,000.

(c) Liquidity Risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure as outlined in note 17. The Company's growth is financed through a combination of the cash flows from operations and its cash balances on hand. Given the Company's available liquid resources as compared to the timing of the payments of its liabilities, management assesses the Company's liquidity risk to be low. The Company monitors its expenditures by preparing annual budgets that are periodically updated. The company's trade payables are due within one year. At March 31, 2022, the Company has significant cash balances in excess of its obligations and approximately \$1.0 million of the line of credit available for its use (note 20).

19. Commitments:

(a) Research Commitment:

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

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

On December 21, 2020, the CoFlow Agreement was amended when Shell exercised its right to request a five-year term extension, commencing January 1, 2022. All other terms and conditions in the CoFlow Agreement, including any related amendments, remain unchanged and in full force and effect during the extended term. In September 2021, CMG and Shell agreed that CMG will add and/or allocate up to six additional full-time employees in order to accelerate CoFlow development and support targeted CoFlow deployments, and Shell's contribution will increase accordingly. CoFlow costs are estimated to be \$8.7 million and Shell's contribution is estimated to be \$8.2 million in fiscal 2023.

During the year ended March 31, 2022 the Company recorded professional services revenue of \$7.1 million (year ended March 31, 2021 – \$6.9 million) and CoFlow costs of \$7.4 million to research and development expenses (year ended March 31, 2021 – \$6.7 million).

(b) Commitments:

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

| (thousands of \$) | March 31, 2022 |
|----------------------------|----------------|
| Less than one year | 1,100 |
| Between one and five years | 4,332 |
| More than five years | 11,192 |
| | 16,624 |

20. Line of Credit:

The Company has arranged for a \$2.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility or may be used to support letters of credit. As at March 31, 2022, \$1.0 million (March 31, 2021 – \$0.9 million) had been reserved on this line of credit for letters of credit supporting performance bonds.

21. Subsidiaries:

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

The following is the list of CMG's subsidiaries:

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

22. Related Parties:

(a) Intercompany Transactions:

The Company has three wholly owned subsidiaries (note 21) that have intercompany transactions under the normal course of operations and are eliminated upon consolidation.

(b) Key Management Personnel Compensation:

The key management personnel of the Company are the members of the Company's executive management team and Board of Directors and control approximately 4.1% of the outstanding shares of CMG at March 31, 2022. In addition to their salaries and director fees, as applicable, directors and executive officers also participate in the Company's stock-based compensation plans (note 16(c)), which are available to almost all employees of the Company, with the exception of the DSU plan, which is only available to non-employee directors of the Company.

Key management personnel compensation comprised the following:

| Years ended March 31, (thousands of \$) | 2022 | 2021 |
|--|-------|-------|
| Salaries, bonus and employee benefits | 3,865 | 3,670 |
| Stock-based compensation | 1,182 | 1,387 |
| | 5,047 | 5,057 |

23. Subsequent Event:

On May 18, 2022, the Board of Directors declared a quarterly cash dividend of \$0.05 per share on its common shares, payable on June 15, 2022 to all shareholders of record at the close of business on June 7, 2022.

Corporate Information

Directors

Judith J. Athaide ⁽⁴⁾

John E. Billowits ⁽⁴⁾

Kenneth M. Dedeluk ⁽⁵⁾

Christopher L. Fong ⁽²⁾⁽⁴⁾

Patrick R. Jamieson ⁽³⁾

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*

Jason C. Close
*Vice President,
CoFlow Commercialization*

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

R. David Hicks
*Vice President,
Eastern Hemisphere*

Anjani Kumar
*Vice President,
Engineering Solutions*

Long X. Nghiem
*Vice President,
Research & Development and Chief
Technology Officer*

Kirsty T. Sklar
Corporate Secretary

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Transfer Agent

Olympia Trust Company

Stock Exchange Listing

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