



## CEO Letter to Shareholders

### Sharp Reflections Acquisition

November 12, 2024

Dear Fellow Shareholders,

Today, we announced the second major acquisition in CMG's history, Sharp Reflections ("Sharp"). As we did with Bluware, it is important that I share the strategic rationale for the transaction and provide context on how it builds towards CMG's long-term vision.

#### **Why was Sharp the right acquisition for CMG?**

In 2022, we announced our CMG 4.0 strategy and have since undertaken an extensive landscaping exercise to guide our acquisition efforts.

In the context of meeting our internal rate of return (IRR) objectives, we sought to identify businesses that share CMG's values - companies that have been built on complex science and that have developed powerful niche solutions guided and funded by key industry operators. We looked for disruptive technologies that rethink legacy business processes and support integrated workflows and decision making.

This work led us to Sharp and the company's cloud-based seismic interpretation platform. Sharp is built on modern advancements in high performance computing (HPC) and its software suite uniquely combines prestack seismic data visualization, processing, and interpretation. Sharp is a growing, founder-led business with a technology platform rooted in complex science and modern computing technologies. We believe its technology is critical in the energy industry as operators seek better and faster insights from seismic data in the era of cloud computing.

Sharp has grown organically to revenue of approximately €10.0 million annually<sup>1</sup>, and it boasts an enviable customer base – a testament to the pure value of the product. Under CMG, we see an opportunity to apply our commercial playbook and help Sharp achieve its full potential.

With Sharp, we are significantly expanding CMG's solutions in the seismic portion of the upstream workflow and are building on our vision to combine cutting edge technologies into an open ecosystem. This offers a competitive advantage and greater value to our customers through enhanced productivity and seamless integration across specialized workflows. While I have been clear that I do not account for synergies in our financial modelling or analysis of IRR, I believe that there are many opportunities to bring together the technological and scientific expertise of Sharp with CMG's existing businesses and enhance our broader portfolio. Sharp has the potential to leverage the VDS technology of Bluware and in return, Bluware's InteractivAI stands to benefit from Sharp's scientific expertise. Seismic workflows, particularly 4D seismic, could integrate with reservoir modelling to enhance the accuracy of production simulations and improve the overall workflow. While no final development decisions have been made, these types of synergies start to paint a picture of how powerful these capabilities can be when brought together.

As we continue acquiring companies with operational synergies from a user/buyer perspective, we aim to leverage these commonalities to shape our organizational structure, achieving a balance between centralized and decentralized operations. For Sharp and Bluware, we envision a seismic solutions segment where each company independently manages things like product development and customer success, while eventually centralizing corporate functions. A unified sales team with a cohesive go-to-market strategy will offer a comprehensive solution to the market. Although seismic solutions will not be the sole focus of our acquisition strategy, this structure will enable us to effectively integrate companies with complementary expertise.

## **History and Product**

We consider Sharp to be the intellectual, technological and product leader in the niche specialty of multi-dimensional, prestack seismic interpretation. Sharp's solution was created in cooperation with Germany's Fraunhofer Institute, a research foundation which contributed years of expertise in modern data computing to Sharp's expertise in science.

### **Prestack vs Poststack**

For decades, subsurface interpretation has relied on poststack seismic data. Poststack has generally been reliable, but it lacks critical information. Stacking is a process that takes large seismic datasets, known as prestack data, and makes it more manageable. Prestack contains more raw information, which can enhance interpretations. Managing these datasets is complex and time consuming. When geologists can visualize and manipulate prestack data in real-time, their understanding of the subsurface improves significantly.

Think of it like a digital photo. A RAW photo file on a digital camera is like prestack data. That file contains much more information. Converting it to a JPEG makes it much easier to store and transfer, but it loses fidelity in the process. Sharp manages data like a JPEG but retains the information of a RAW file.

Sharp, using HPC architecture and advanced geophysical algorithms, worked with energy company customers to develop a platform that not only allows users to interact with prestack seismic data but to do so at a speed that enables on-the-fly analysis, something that continues to be a unique product capability. Sharp's modern HPC engine ingests enormous volumes of prestack seismic data with unprecedented speed and interactivity. The user-friendly solution maximizes insight from increasingly dense and rich seismic datasets.

In 2022, the company added functionality to make the Sharp solution a leading platform for time-lapse 4D seismic analysis.

### **4D Seismic**

4D seismic data, also known as time-lapse seismic data, involves acquiring multiple 3D seismic surveys over the same area at different times. This allows geoscientists to monitor changes in the reservoir over time. 4D is also critical in the monitoring of carbon storage projects. This use case takes seismic from exploration into understanding real-time production where it assists in well placement, locating stranded oil, identifying production risks, monitoring CO<sub>2</sub> migration behavior and improving forecasting.

The opportunity to work with detailed data in real-time drives significantly better insights, particularly with complex assets, which is why (in part) Sharp has found early success with customers leveraging the workflow for complex, offshore assets. Sharp has impressively grown to 37 customers, including 6 supermajors, 9 international oil companies and 4 national oil companies, many of whom were sponsors of the initial development.

## Financial

We engaged with Sharp for numerous months, and I am pleased to say that the founder and CEO, Bill Shea, has agreed to stay with the business to lead the integration.

Sharp has historically grown revenue at more than double digits and we believe it has a long runway ahead. Given the complexity of the software, it has high barriers to entry, and it is critical to users, evidenced by very low customer churn. By investing its available cash flow into targeted sales and marketing enhancements over the next twelve months, Sharp can position itself to maximize the long-term growth opportunity. We also believe there is considerable room to improve its margins in the years to come, meeting our internal return expectations.

In the twelve-month period ended July 2024, Sharp generated revenue of approximately €10.0 million<sup>1</sup> (with 69% of revenue from software and more than 95% of that considered recurring) and an estimated low double-digit annual Adjusted EBITDA Margin<sup>1</sup>.

The balance of the revenue was service revenue. Like CMG and Bluware, the service revenue component is not expected to contribute significant future growth. However, it does provide support for software growth as it is focused primarily on delivering consulting projects using Sharp's own software. This helps in educating clients and supporting them to become independent users.

We are in the process of transitioning Sharp's reporting to International Financial Reporting Standards (IFRS) and anticipate that Sharp will be subject to specific revenue recognition rules that, like those applied to Bluware, will result in fluctuations in the quarterly revenue. This means that a significant portion of the annual contract value is recognized at the time of signing, with a portion amortized over the course of the contract. Sharp's renewal cycle is weighted to the third and fourth quarters of CMG fiscal year.

## In closing

The acquisition of Sharp significantly raises our visibility in the seismic processing and interpretation space with a growing portfolio of powerful technologies and extensive domain expertise. It strengthens our commitment to empower our customers to make better subsurface decisions with higher degrees of certainty, based on the most advanced, science-backed technologies. With the right integration of our acquisitions with CMG's dominant simulation capabilities, we are on the long-term journey to building an open ecosystem, upstream platform for the industry.

Sharp is a highly skilled organization employing some of the leading global seismic experts and I am immensely proud to welcome its employees to CMG's team. I also want to thank the CMG employees who were involved in this acquisition for their hard work and diligence over the past few months.

As we continue to build towards our vision, I also want to thank our shareholders for their support and confidence in our long-term plan.

Sincerely,



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Pramod Jain

Chief Executive Officer

<sup>1</sup> See Non-IFRS Financial Measures and Unaudited Non-IFRS Historical Sharp Figures

### **Non-IFRS Financial Measures and Unaudited Non-IFRS Historical Sharp Figures**

Certain financial measures in this press release, namely Adjusted EBITDA Margin, do not have a standard meaning prescribed by IFRS and, accordingly, may not be comparable to measures used by other companies. Adjusted EBITDA Margin refers to net income before adjusting for depreciation and amortization expense, interest income, income and other taxes, stock-based compensation, restructuring charges, foreign exchange gains and losses, repayment of lease obligations, asset impairments, acquisition related costs and other expenses directly related to business combinations, including compensation expenses and gains or losses on contingent consideration.

Revenue and Adjusted EBITDA Margin are unaudited for the period August 1, 2023 – July 31, 2024 and are not reported in accordance with International Financial Reporting Standards (IFRS). These figures are subject to adjustment upon conversion to IFRS.

### **Cautionary Note Regarding Forward Looking Information**

Certain statements contained in this letter constitute forward-looking information. These statements relate to future events or future performance. The use of any of the words “will”, “expect”, “potential”, “target”, “optimize”, “benefit”, and similar expressions and statements relating to matters that are not historical facts are intended to identify forward-looking information and are based on CMG’s assumptions or beliefs as to the outcome or timing of such future events. In particular, this letter contains forward-looking information relating to, among other things, the expected benefits to CMG of the acquired software business and the performance of such business going forward. Various assumptions are applied in setting such expectations, including, but without limitation, the value of Sharp’s products and their ability to provide better insights, barriers to entry, the timing of revenue, the ability to retain talent, and the technological, financial, and operational benefits and synergies relating to the acquisition and integration of the acquired software business. Although such statements are based on the reasonable assumptions of CMG’s management, there can be no assurance that any conclusions will prove to be accurate. The forward-looking information contained in this letter is made as of the date hereof. Except as required by applicable securities laws, CMG is not obligated to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise. Because of the risks and assumptions contained herein, investors should not place undue reliance on forward-looking information.