CEO Letter to Shareholders

November 12, 2024

Dear Fellow Shareholders,

Each quarter I aim to share with you the most recent developments and progress. This quarter marks one full year of Bluware under CMG's ownership and to keep the big picture in mind, I want to comment on how our acquisition strategy has contributed to the overall performance of CMG Group. In the trailing twelve-month period (ended September 30, 2024), we have significantly bolstered our financial performance. Our revenue has increased by $42.3 million, or 51% and even though we are still early in the commercial transformation of Bluware, Adjusted EBITDA has increased by $3.1 million, or 8%. Bluware also started us on a promising path towards developing an open ecosystem of upstream products for the industry, based on the most advanced science-backed technologies. This underscores the value of our acquisition approach to not only accelerate financial growth but also to broaden our capabilities, allowing us to offer a more comprehensive suite of solutions to our customers. I have more conviction than ever in the value creation potential of our strategy as we continue to execute.

Q2 2025

In November of 2022, I wrote my first letter to shareholders and shared how my career has been guided by the principle of "extreme ownership" so I will be the first to say that, on the surface, a 1% total revenue increase in the CMG operating segment was modest given our performance over the last two years. I own that performance, and while it is just one quarter, I will explain why I have not lost enthusiasm for what we are building and the long-term opportunity in front of us.

CMG has significant potential for long-term growth supported by new customer growth, increasing share of wallet, modest price increases and ensuring strong renewals. Demonstrating profitable growth with strong margins and healthy Free Cash Flow conversion is a priority as it ensures flexibility for our M&A strategy and provides a benchmark to the incoming lower margin businesses (acquisitions).

In the CMG operating segment, I am very pleased to share that we secured a sizeable new, multi-year contract for both our core oil and gas simulation and energy transition, evidencing our strong market position. The timing of the contract was after the end of the quarter which means that for reporting purposes, it did not offset a decline in annuity/maintenance ("A/M") revenue for Q2 but will be recorded starting in Q3. The decline in A/M revenue was largely due to a contract that didn't renew, and which included a portion of short-term licenses. That particular contract had a moderate impact on the quarter. While it is not unusual to have small fluctuation in renewals, I committed to being fully transparent with our shareholders and to presenting a balanced view of wins and losses when I call them out. I am very proud of the team for a multi-year A/M contract covering both core and energy transition, but any loss still stings.

The percentage of software revenue attributable to energy transition was 19% in the quarter, compared to 22% in the prior year period. This fluctuation is reasonable given what we know about how energy transition projects, CCS in particular, have varying demands for simulation depending on the stage of the projects. From a trend perspective, on a year-to-date basis, energy transition represented 24% of software revenue this year compared to 22% in the first half of fiscal 2024, evidencing ongoing growth.

Looking forward, I am paying close attention to renewal season in Q4 of this year. As is typical for CMG, we renew a large volume of contracts in the fourth quarter and this year, several multi-year contracts are up for renewal. From my recent customer conversations, I know that the industry continues to weigh the trade-offs of speed, price, and accuracy. Pressures remain and ensuring that we are strategic about how we approach pricing and bundling to deliver the best value for our customers will be critical to achieving our growth objective. As I said last quarter, “effortless is a myth”. We will have to work hard and with diligence to maintain our competitive edge.

We continue to successfully manage the CMG operating segment for strong profitability as evidenced by the sequential increase in Adjusted EBITDA Margin to 45%, from 42% in the first quarter of the year. Free Cash Flow per share of $0.07 was lower than the prior year reflecting the performance of Bluware in the current quarter. Free Cash Flow per share was consistent with the Q1 of this year.

Second quarter performance for BHV was in line with expectation. As we enter Q3 and Q4, we anticipate most of our contract renewals will occur, leading to an expected higher revenue in the coming two quarters (a reminder that 50% of the contract value of the renewals is recognized, from an accounting perspective, at the time of signing).

Solutions

Over the past several months, I traveled extensively and engaged with our customers. These meetings are always insightful and what stood out to me is that I have never encountered a brand as strong as CMG in my career. Our customers consistently emphasize that no other company matches CMG in terms of the scientific integrity of our products and the quality of our service. While other simulators are used, CMG is often regarded as the “North Star” – the most trusted technology, backed by solid math and physics. This is a significant advantage.

To remain the most trusted and sought-after solutions provider, we must continue to be responsive to the market and that is evident in the shift in our approach to product development. In September, we launched Focus CCS, a purpose-driven simulation tool designed to accelerate the preliminary selection and validation process for CO_2 storage sites. I’m pleased to report it is receiving strong market interest.

Beyond meeting a specific market need, Focus CCS represents a significant process innovation for CMG. Leveraging our new R&D talent at our C3 Center in India, we created an intuitive interface and guided workflows to enhance user experience and with a focus on API integration that lays the foundation for future product innovation and faster launches.

Think of it like building with LEGO blocks: by breaking down core services into modular components, we can construct solutions of varying sizes and complexities.

Last week, we announced a partnership with NVIDIA, marking a significant step forward for CMG and underscoring our commitment to evolving our solutions. As I mentioned, speed is crucial to our customers. Advances in high-performance computing, AI, and machine learning will profoundly impact the industry, and we are prioritizing our position to innovate during these transformative times. We look forward to close collaboration with NVIDIA.

Acquisition Strategy

With the recent acquisition of Sharp Reflections, we have invested additional capital, at our target IRR rate, and have expanded our seismic interpretation capabilities. These are concrete steps towards our vision of bringing together an open ecosystem of new and innovative technologies to disrupt the upstream workflow. This expansion is not about ad-hoc additions but a strategic selection of companies that enhance critical functions in the upstream workflow, making the whole greater than the sum of its parts. Integrating these technologies to provide users with a single version of the truth, breaking down silos, and simplifying access to answers is crucial.

As we refine our acquisition processes and approach, it is clear to me that there are many strong opportunities that align with our IRR hurdle rate and vision. To ensure we maintain the financial flexibility to take advantage of our pipeline, we have begun to evaluate various credit facility options to supplement our Free Cash Flow. Leverage can be an effective tool but, in my career, I have also seen what happens when it goes unchecked. My priority is to deploy our Free Cash Flow primarily and to potentially use leverage strategically to supplement on an as needed basis. Most importantly, I want to reassure our shareholders that I believe in maintaining a strong balance sheet and that financial leverage should be used carefully and opportunistically to enhance shareholder value without taking on undue risk.

In Closing

The cricket analogies resonate for me, so I'll close with yet another. Cricket is a game of patience and strategy, much like our corporate journey. While the scoreboard might show our performance in short bursts, akin to quarterly reports, it's the cumulative runs over the entire match that determine the outcome. Just as a cricket team invests in training and refining their techniques to build a solid foundation for future matches, we are investing in our product and processes to ensure sustainable growth. Acquiring new businesses is like adding skilled players to our team, making us stronger and more versatile. Together, these efforts ensure that we're not just playing for the next over, but for the entire match.

I continue to be honored to have the opportunity to lead CMG through this transformative time.

Sincerely,

Pramod Jain

Chief Executive Officer

This letter to shareholders forms an integral part of our Management's Discussion and Analysis ("MD&A") and includes forward-looking information and forward-looking statements (together, "Forward Looking Statements") within the meaning of applicable securities laws, and measures that do not have a standard meaning prescribed by the IFRS Accounting Standards ("IFRS"), including the financial measure "Free Cash Flow" to indicate financial performance. For detailed information on these Forward-Looking Statements, non-IFRS measures, and associated risks, please see the relevant sections in our MD&A dated November 12, 2024, accessible on SEDAR+ (www.sedarplus.ca) and our website (www.cmgl.ca/investors/financial-reports).