CEO Letter to Shareholders

February 11, 2025

Dear Fellow Shareholders,

A colleague recently challenged me with the question “what is that one word that you stand for?” It was an easy answer or me because it is a deeply held and long-standing belief. That one word is “compounding.” Compounding is said to be the 8th wonder of the world and in both my personal and professional life, I believe “bring a 1% improved version of yourself every day and you’ll be 37 times better in a year.” Our employees know this well as I’ve repeated it often since joining CMG. It is something I strive to do every day.

In business, if you compound free cash flow per share over a long period, well, you can do the math. As I take a step back and look at what we are trying to achieve at CMG, it’s all about compounding. This means small but consistent improvements in our business with a long-term focus on sustainable growth that generates increasing free cash flow per share, which then allows for disciplined capital deployment at attractive rates of return.

This is a lofty goal but by making manageable changes that build on each other, both within our businesses and in our strategy as whole, we set ourselves up for the compounding effect of 1% improvement every day.

Reservoir and Production Simulation

We had many successes in the past two years including establishing a performance-based culture and compensation, investing in key sales and marketing teams, introducing product management as a practice, improving price discipline, and implementing systems to enable scaling. These improvements, alongside constructive industry trends, led to early wins with our transformation efforts.

In the current quarter, the core CMG annuity and maintenance (A/M) revenue, as reported in the Reservoir and Production segment, recovered after a dip in the second quarter. While profitability remains solid, year-to-date revenue is below my expectation of what would be needed to meet the objective of low double-digit annual growth. Customers are increasingly price sensitive and global energy transition policy direction has become more uncertain in recent months. Decision making at many organizations has slowed.

In response, we are making small adjustments to ensure our “1% improvement every day.” Early in my tenure, I committed to expanding our consulting practice, which was met with strong demand. Our consulting and customer support are performed by the same dedicated and highly technical team, which does not easily scale with strong demand for both. As our primary objective is to grow our higher margin software revenue, we are evolving our approach to focus our resources on customer support which we expect to support higher software licensing and usage through deeper customer engagement. We will not be focused on growing our current levels of consulting activity. The team will remain true to its key objectives of building relationships with our customers, driving software use and adoption, and identifying customer challenges, roadmap opportunities and market trends that allow us to deliver the kind of exceptional customer experience expected of us.

Second, there are many product and solution opportunities that CMG could pursue at this time, so ruthless prioritization is key. In my first letter to our shareholders, I shared my passion for building relentlessly customer-focused product organizations.

Building on customer feedback, we identified key opportunities in our product development roadmap and prioritized initiatives we believe are critical to enhancing user experience and strengthening our market position. These include targeted improvements to the simulation pre-processing workflow, run-time speed, and other specific functionality. While these initiatives were previously underway, they have now been given higher priority and resourcing.

Finally, growth in the sales pipeline for CoFlow put us in a position to engage deeply with a diverse potential customer base who offered valuable product feedback. We are committed to delivering on refinements and functionalities to the product as a top priority. This strengthens CoFlow to a point where we expect funding commitments from the development sponsor to ramp down over the coming year as they transition to solely software licensing. This allows CMG to manage CoFlow more directly, with a focus on recurring revenue growth and profitability, which is consistent with how we view all internal initiatives and acquisitions.

Success Criteria

When I joined CMG, success was measured by revenue growth while maintaining strong profitability. Our company looks very different today than it did then and while growth and profitability are still the goal, the nature of that growth is now more critical.

Today, approximately 65% of our total revenue is recurring software revenue, compared to CMG's 78% in the simulation business alone. Reorienting the revenue mix, especially from acquired companies, towards software is essential for driving profitability. Recurring software revenue is scalable in a way that services are not, offering higher incremental margins. This enhances profitability which in turn can boost free cash flow, enabling us to further our acquisition strategy.

Our shift towards a higher percentage of recurring software revenue will primarily result from our focus on stronger software sales. A lesser impact will come from declines in professional services revenue including the ramp-down of CoFlow funding. We also expect a gradual reduction in tailored software development professional services within Seismic Solutions. This shift can contribute to strengthening our margin profile and cash-generating potential. As a result, total revenue growth will be less important than software revenue growth, margin expansion and free cash flow per share.

Acquisitions

Acquisitions are where compounding will have the greatest impact on CMG. To date, we have bought two high-quality businesses with a slightly heavier focus on services revenue and that are in the early stages of software growth. As we adjust the focus to recurring software revenue and expanding the margins, we expect to start growing our free cash flow which can be redeployed into further acquisitions.

This is a long-term, multi-year strategy. It will take time to demonstrate the evolution of the businesses and the growth in free cash flow per share and to successfully identify the right opportunities to reinvest our capital.

We have built a strong team around M&A and have expanded roles covering business development, strategy, research, and integration. Our first two significant acquisitions were complex, allowing us to start to develop an integration and M&A playbook that will set us up for further acquisitions. The size and pace of our acquisitions will continue to be dictated by the opportunities available and we are leveraging the learnings and successes of the last two years to guide further refinements to our strategy.

In closing

My team knows that I am passionate about whiteboarding ideas. It helps me think through ideas, new approaches and clarify my thinking. The idea of compounding is not unique to me or to business, but it is a new approach for CMG. I recently drew out the straightforward idea that focusing on growing recurring software revenue can lead to expanded margins, which in turn improves free cash flow, which can be continually reinvested in initiatives or acquisitions at attractive rates of return. Apply this strategy to how we think about CoFlow, how we think about Bluware, how we think about Sharp, and you quickly come to realize the value of 1% improvement every day. The benefit of compounding comes with time. Investing in our businesses to create profitability alongside sustainable, long-term growth is key.

Thank you for your ongoing support and enthusiasm for our vision.

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 February 11, 2025, accessible on SEDAR+ (www.sedarplus.ca) and our website (www.cmgl.ca/investors/financial-reports).