CEO Letter to Shareholders

February 7, 2024

Dear fellow shareholders,

The last quarter breezed by, marked not by strategic announcements, but by working to delve deep into our businesses. As I draft this letter, we have completed a significant milestone - 90 days since the acquisition of Bluware. It has been an enriching experience collaborating with the new management team, shaping a long-term strategic plan, and formulating a robust GTM (Go-to-Market) strategy for both the software and services divisions.

In the realm of mergers and acquisitions, surprises are inevitable despite rigorous due diligence. For me, a strong fundamental pillar of any acquisition lies in the strength of its product, technology, and people. Is the product built on a scalable tech stack, minimizing the need for extensive refactoring and substantial capital investment to scale? Does the product address 80% of the identified market needs? Is the team invigorated and excited about the changes brought by the new ownership? I am pleased to affirm a resounding "yes" to these questions. However, acknowledging imperfections, we understand that more hard work is required to execute plans, be it in sales, GTM strategy, or challenging the leadership team and setting stretch goals for the company.

On the CMG front, our focus has been on deepening our connections with customers, intensifying efforts on key account renewals, constructing a robust pipeline for FY25, and continuously evaluating our organizational structure and design. Personally, I take great satisfaction in investing efforts to propel the business to its next inflection point—whether it involves launching a new product, completing an existing one, or challenging the status quo of our processes and designs. I firmly believe that when things start to feel easy or comfortable, it's a signal to break away and introduce changes that make us even stronger. Comfort often breeds complacency, and I see change as an opportunity for continuous improvement and growth.

A guiding principle that resonates with me is a quote from a past leader: "Bring yourself to a 1% improved version every day, and you will witness a 37x improvement in one year." Consistent atomic changes drive mega results. Our goal at CMG remains to foster long-term, sustained, and durable growth, constructing a moat around our business through a robust product and a high-touch customer success model.

Speaking of changes, this quarter, in addition to reporting the consolidated CMG Group, we made changes to our financial reporting to reflect our evolving business strategy and present the first full quarter of performance from Bluware. We are now reporting two operating segments, CMG, which has a 40+ year history in simulation and now Bluware (BHV), which is the business of Bluware-Headwave Ventures Inc. that we recently acquired. This allows our stakeholders to understand the performance of our existing CMG business and our acquisitions independently. It mirrors how I think about the business and evaluate the progress of our CMG 4.0 Strategy.

Operating Segments

<u>CMG</u>

CMG has a multi-decade history of industry leadership and strong profitability which we intend to preserve. Since CMG first pioneered the concept of reservoir simulation, not only has the competitive landscape changed but we have seen seismic shifts in things like user interfaces, the shift to cloud, computing power, modernized workflows, and machine learning/AI. These are opportunities that require investments in R&D, product development, sales and marketing, all of which have been a focus of our CMG 4.0 Strategy. My expectation is that as a result, CMG (excluding Bluware) has the potential to achieve sustained annual growth rates while targeting annual Adjusted EBITDA as a % of CMG total revenue of greater than 40%. Preserving and growing free cash flow generation will be another critical measure of success as we look to fund future growth through acquisitions.

BHV (Bluware)

Turning to acquisitions and Bluware specifically, it is easy to point out the difficulty in acquiring businesses with similar margin profiles to CMG. As we make acquisitions, we are investing in opportunities to expand our product portfolio with differentiated software that we believe we can improve operationally (using our CMG playbook). Over time, these companies should contribute meaningfully to revenue growth and have the potential to achieve margin profiles near to the core CMG simulation business. In the short term, we expect the increased revenue will come at a cost to the consolidated profitability margins (CMG and Bluware combined) but that the tradeoff is a path to higher absolute earnings and cash flow.

Our new reporting structure allows us to closely monitor our progress in both aspects of the business.

Solid Financial Performance

CMG Group third quarter revenue increased by 70%, of which 12% was organic growth (CMG) and 58% inorganic (BHV). CMG Group achieved Adjusted EBITDA as a % of total revenue of 38%, a decrease from 49% in the prior year. This was expected post-acquisition of Bluware.

In the third quarter, CMG delivered 12% growth in total revenue compared to the same quarter of last year, driven by a 13% increase in annuity/maintenance revenue, which represents our recurring revenue stream. Adjusted EBITDA as a % of CMG total revenue for the quarter was strong at 44% but declined from 49% in the prior year period. Year-to-date, we have demonstrated outstanding growth. In the first nine months of FY 2024, excluding any contribution from the Bluware acquisition, total revenue grew by 21% year over year. Our growth is evidence of industry momentum and the many positive changes we've made within the organization, including our ability to attract new customers, but I want to be clear that this would be a high bar to set as a sustainable, multi-year trend.

Looking at the quarterly and year-to-date expenses, you will notice that they are trending higher versus last fiscal year which is something we monitor closely. Outside of stock-based compensation, which has had a significant impact this year, we are seeing increases which are consistent with the objectives we have laid out in our CMG 4.0 Strategy; headcount increases, acquisition related costs, commission costs driven by higher revenue, and depreciation and amortization which has increased due to the intellectual property asset we acquired from Bluware.

We are now heading into the final quarter of our fiscal year, and our biggest contract renewal period. Despite having very high contract renewal rates, there are ebbs and flows in our business and as we saw the ebbs earlier this year, we are not immune to some flows. We have worked diligently this year to attract new customers and while I had the privilege of celebrating one of these wins in my Q2 letter, I must also take ownership of attrition when it happens. Going into Q4, I lost a Canadian contract renewal with a global customer as they centralized operations outside of the country. I take attrition seriously and while some may be unavoidable, it presents an opportunity to improve our sales efforts going forward.

Energy transition represented 22% of CMG software revenue this quarter and we continue to see strong demand globally. We are encouraged by the recent announcements of the Canadian and Alberta governments regarding incentives for carbon capture and storage (CCS). Similar incentives in other jurisdictions have had a positive impact however we remain cautious at this stage as it is difficult to quantify the immediate effect on our energy transition business in Canada.

Finally, I will reiterate my comments from last quarter regarding spending throughout the second half of the year. We continue to invest to support our growth, with some strategic hiring, including consulting and R&D. We also expect that, based on our performance year to date, our new sales compensation plan, which is structured with variable compensation tied to growth, will increase costs as we approach the end of our fiscal year.

Bluware (BHV) added 58% revenue growth to our third quarter, of which 26% was software revenue and 32% was professional services. As our focus is growing the software component of BHV, I encourage you to read the detailed reporting in our MD&A under Operations by Reportable Segment which explains how Bluware software revenue is impacted by timing. Specifically, there is an annuity license fee component that is recognized on delivery of software license while a maintenance portion is recognized over the license term, typically twelve months. You will see that in this quarter we recognized $3.8 million in annuity license fee which was a result of contract renewals. The associated maintenance portion of these contracts will be recognized over twelve months. As a result of this reporting, software revenue and Bluware profitability will be lumpy and will be best analyzed on an annual basis. We currently anticipate that contract renewals will trend similarly to CMG with Q3 and Q4 of our fiscal year representing the highest proportion of renewals.

Calendar Year End

At CMG, one of our guiding principles is the fusion of hard work with the camaraderie of a professional sports team. We celebrate victories and acknowledge setbacks, yet our unwavering confidence in clinching the championship remains our north star. This steadfast belief is a constant reminder to the team, an ethos that we hold dear.

I express my deep gratitude to the dedicated members of our team, who consistently rise to the challenge as I urge them to surpass their own expectations. While our pursuit of excellence is relentless, we also recognize the importance of rest and rejuvenation. This past holiday season provided a well-deserved break. Personally, it afforded me the opportunity to indulge in my passion for reading.

As an avid reader, I find inspiration from the stories of both successful and less successful leaders. During this holiday period, one particular paragraph in the book CEO Excellence (by Carolyn Dewar, Scott Keller and Vikram Malhotra) resonated strongly with me: "Don't make it about you". Every CEO should introspect and ask, "What do you want to be remembered for - as a great person or as a person who made the company great?". To truly make the company great, one must prioritize the company above oneself. Ajay Banga's wisdom, quoted from the book, encapsulates this idea: "CEOs like us, who aren't founders, are stewards of the system in a ship sailing through the sea. You have to make sure that the boat doesn't sink while you are there and that it picks up a couple of extra sails and some new engine technology. You make the boat work better. But you don't brand the boat with your name and call it your boat".

My overarching goal remains resolute: the efficient deployment of your capital with a deep commitment to sustained excellence in execution. While we acknowledge that we are a work in progress, it's heartening to reflect on the considerable distance both myself and CMG have traveled. We are far from perfection, but the journey has been significant, and there's plenty more ahead. We remain dedicated to evolving and progressing.

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 International Financial Reporting Standards ("IFRS"), including the financial measure "Adjusted EBITDA as a % of total revenue" 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 7, 2024, accessible on SEDAR(www.sedarplus.ca) and our website (www.cmgl.ca/investors/financial-reports).