

Martello Technologies Group Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

For the three and six months ended September 30, 2018 and 2017

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

The following Management Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) was prepared by Management of Martello Technologies Group Inc. (“Martello” or the “Company”) and approved by the Board of Directors of the Company (the “Board of Directors”).

This MD&A is a discussion and analysis of the financial condition and results of operations of Martello Technologies Group Inc. for the three and six months ended September 30, 2018 and 2017 (“Q2 FY19” and “Q2 FY18”, respectively). This MD&A should be read in conjunction with the Company’s unaudited consolidated interim financial statements and accompanying notes for the three and six months ended September 30, 2018 and 2017, and with the audited financial statements for the year ended March 31, 2018. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated. The Company’s financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”).

The effective date of this MD&A is November 27, 2018

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based on current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend”, and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not facts but reflect the Company’s current assumptions and expectations regarding future results or events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to risks and uncertainties related to:

- The performance of the Company’s business and operations;
- The intention to grow the business and operations of the company;
- Future liquidity, financial capacity and availability of future financing opportunities;
- Risks associated with economic conditions, including risks associated with foreign currency fluctuations;
- Risks associated with customer acceptance of new products and competition;
- Our ability to respond to rapid technological changes with new products and services;
- Our ability to successfully integrate acquired companies;
- The return on investment from research & development investments;
- Our ability to protect and enforce our intellectual property, and risks of potential claims of intellectual property infringement by third parties;
- Failure to manage our product and service lifecycles;
- Failure to manage open-source software adoption and compliance risks;
- The ability of our products to operate effectively with those of our customers; and
- The dependence of our business on Mitel Networks.

A more complete discussion of these and other risks can be found in “Risk Factors”.

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. There can be no assurance that the anticipated results or developments will actually be realized, and actual results can be expected to vary from the results projected and such variances may be material and adverse.

We do not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

COMPANY OVERVIEW

Martello, formerly Newcastle Energy Corp. (“Newcastle”), was incorporated in 1981 under the Company Act (British Columbia) and has its registered and head office at 390 March Road, Suite 110, Ottawa, Ontario, Canada, K2K 0G7.

On August 15, 2018, the Company completed a reverse acquisition. Through this transaction, Martello Technologies Corporation (Martello Corp) and a newly formed subsidiary of the Company amalgamated, with the resulting entity being Martello Corp. The Company acquired all the issued and outstanding shares of Martello Corp and issued each shareholder of Martello Corp 3.2 Common Shares for each common share they held in Martello Corp (the “Exchange Ratio”). All outstanding options and other convertible securities of Martello Corp were exchanged at the Exchange Ratio for options and convertible securities of the Corporation having the same economic terms.

Upon closing of the transaction, the previous shareholders of Martello Corp owned 96.5% of the common shares of the Company. The Transaction constitutes a reverse takeover under TSXV Policy 5.2. For accounting purposes, Martello Corp is considered the acquirer and the Company is considered the acquiree. Accordingly, the condensed interim financial statements are in the name of Martello Technologies Group Inc. however they are a continuation of the financial statements of Martello Corp.

Upon receipt of the Final Exchange Bulletin from the TSXV, the Company began trading on September 12, 2018 on the TSXV under the symbol “MTLO”.

Martello is an application and network performance management company. It develops solutions that manage and optimize the performance of real-time services on cloud and enterprise networks, with a specialization in unified communications (UC) systems. Martello’s network performance management solutions include subscription offers (software/platform as a service), product offers (network appliances) and software license sales. Martello’s sales are principally indirect, via distributors and value-added resellers. End users enter into an end-user licensing agreement before using Martello software or services.

Martello is the provider of UC network performance management software to Mitel’s channel. Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services. Martello’s end customers are Mitel’s channel partners, service providers and enterprise users. Martello has expertise in both performance management software and in networking technologies.

In December 2017, Martello acquired Canadian Link Balancing / software-defined wide-area network (“SD-WAN”) player and pioneer Elfiq Inc. (“**Elfiq Networks**” or “**Elfiq**”). Elfiq is a Montreal-based company carrying on business as a provider of SD-WAN solutions that deliver business continuity, bandwidth optimization and network performance. Elfiq has been in the business of link-balancing and SD-WAN since 2003.

Martello has several mature product technologies (MarWatch, MPA, Elfiq OS, Elfiq Central) and maintains an active product development and enhancement program. With the acquisition of Elfiq, Martello is investing in SD-WAN products and services with a specific focus on enabling over-the-top (OTT) UC service providers to offer superior network performance management, real-time service delivery and a range of value-added network services.

Martello develops its products internally. Martello’s products are not subject to material regulatory approvals.

On November 1, 2018, Martello acquired Savision B.V. and its wholly owned subsidiaries (collectively, “Savision”). Savision is headquartered in the Netherlands, with R&D in Kanata, Ontario. Savision provides enterprise software for the visualization of IT systems’ management data such as performance metrics, outage information and incidents. Deployed in over 50 countries around the world for more than 900 customers, Savision’s software is an IT operations management solution that integrates and controls monitoring, cloud and service management tools data in a single user interface.

Prior to the acquisition of Savision, Martello had 60 employees: 33 at its main offices in Ottawa, Ontario; 21 in Montreal; two employees in the United States; and four employees in Paris, France.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

With the acquisition of Savision and its wholly owned subsidiaries, Martello now has 90 employees; 46 in Ottawa, Ontario; 21 in Montreal, 16 in the Netherlands, three in the United States and four in Paris, France.

Martello is focused on generating growth from the following areas:

- a) Broadening its addressable market organically:
 - i. Continuing to align and grow its business with Mitel and Mitel customer needs. This will include developing and marketing performance management solutions that meet the evolving needs of Mitel's expanding customer base.
 - ii. Continued expansion of Elfiq appliance options & growth in sales. Developing Elfiq appliance options will drive enterprise sales and increase Martello's SD-WAN market share.
 - iii. Expanding the market presence for LiveMaps within the Microsoft Environment and positioning eQ as a 'single pane of glass'/'unified view' of the enterprise environment, including network, application and UC performance management.
- b) Through acquisitions. Martello intends to pursue a merger and acquisition strategy that focuses on targets whose technology and products are accretive to Martello's mission to power network performance.
- c) Development of a UC optimized SD-WAN solution. This solution will target mid-sized enterprises and service providers requiring a simple and efficient means of managing the performance of unified communications (UC) systems on cloud and enterprise networks.

Recent Developments

NOTE: The number of shares has been retrospectively adjusted to reflect a share exchange in connection with the reverse takeover transaction of 3.2 shares issued in the Company for each share of Martello Technologies Corporation.

During the three- and six- months ended Sept 30, 2018, 612,502 and 711,168 common shares were issued, respectively, upon the exercise of options for proceeds of \$67,375 and \$78,167 respectively. During these same periods, 309,334 and 746,666 unvested options were forfeited, respectively.

In conjunction with the completion of the reverse takeover transaction, the Company issued 4,666,666 shares as a consulting fee to Pelican Point Holdings. In addition, shareholders of Newcastle (subsequently renamed Martello Technologies Group) retained 6,086,540 shares in the Company.

In September 2018, the Company entered into agreement to receive a contribution of up to \$2 million from the National Research Council of Canada Industrial Research Assistance Program ("NRC IRAP"), a federally funded program that supports Canadian small and medium-sized enterprises to help develop and commercialize innovative technologies, products and services. The term of the funding is from September 2018 through August 2020 and will accelerate the development of a service-aware SD-WAN solution, including the hiring of eleven STEM employees in Canada.

Subsequent Events

To support the growth strategy outlined above, the Company has completed the following significant transactions subsequent to September 30, 2018:

Acquisition of Savision B.V.

- On November 1, 2018 the Company acquired Savision a company incorporated under Dutch law, having its head office in the Netherlands. Savision is a software company carrying on the business of fault and performance management, founded in 2006. The purchase price was \$11,860,063 which was payable as \$3,628,083 in cash and the issuance of 18,709,090 shares in the Company. By acquiring Savision, the Corporation extends its customer base and network performance management capabilities while expanding its sales presence in Europe.
- A finder's fee of \$358,625 was paid to Sampford Advisors, who acted as exclusive M&A advisor to Martello on the Savision transaction.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

- In conjunction with the acquisition of Savision, the Company closed a financing with Royal Bank of Canada (RBC). The financing is comprised of a term loan, a revolving facility and other ancillary facilities (collectively, the "RBC Loan"). The term loan is \$3,000,000 with an interest rate of 5.4%. The term loan is repayable over 36 months beginning February 1, 2019. The revolving facility is for a maximum amount of \$1,000,000, with a variable interest rate based on the RBC prime rate and is repayable on demand. The revolving facility is undrawn as of the date of this MD&A. The facilities are secured by a general security agreement on the property of Martello Corp, as well as secured guarantees from the Company and certain of its subsidiaries.

SELECTED ANNUAL FINANCIAL INFORMATION - MARTELLO

Statement of operations - Summary (in CAD \$000's)	For the three and six-months ended			
	3 months ended		6 months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Sales	1,964	1,022	3,901	2,101
Gross margin	1,839	955	3,650	1,981
Expenses	2,697	1,020	5,270	2,276
Loss from operations	(858)	(65)	(1,620)	(295)
Adjusted EBITDA ⁽¹⁾	(343)	17	(592)	(72)
Loss before taxes	(2,284)	(141)	(3,486)	(451)
Net loss and comprehensive net loss	(2,150)	(141)	(3,324)	(451)
Weighted average shares outstanding (#, fully diluted)	173,500,978	84,720,938	152,268,072	84,650,417
Fully diluted loss per common share	(0.01)	(0.00)	(0.02)	(0.01)

(1) Adjusted EBITDA, a non-GAAP measure, is defined as the Loss from operations, as reported, before interest, tax and adjusted for removing the share-based compensation expense, depreciation, amortization, and further adjusted to remove acquisition related costs. A reconciliation of Loss from operations to Adjusted EBITDA is provided below.

After taking into consideration the 18,709,090 shares issued for the acquisition of Savision, the Company had 191,205,568 shares issued and outstanding.

Balance Sheet – Summary (in CAD\$000's)	September 30, 2018	As at March 31, 2018
Assets	17,303	10,776
Liabilities	4,169	3,946
Share capital	22,686	13,057
Accumulated deficit	9,552	6,227

SUMMARY OF RESULTS:

Sales

Sales represent the sale of network performance management solutions for real-time communications and the sale of

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

hardware and software link balancing and bandwidth management solutions, and maintenance and support services for these solutions.

Martello offers subscription sales (software/platform as a service), product sales (network appliances) and software licence sales. Martello's sales are principally indirect, via distributors and value-added resellers. Martello's network performance management solution software is included in Mitel Networks premium software assurance plans and Martello earns a fee for each subscriber of the plan.

For the three months ended September 30, 2018 and 2017, the Company earned revenue of \$1,964,795 and \$1,022,215 respectively. For the six months ended September 30, 2018 and 2017, the Company earned revenue of \$3,901,949 and \$2,101,686, respectively. The year over year increases of \$942,580 and \$1,800,263 for the three and six-months ended September 30, 2018 is driven primarily by the following:

- Growth in the number of users for Mitel's premium software assurance program as more customers are requesting to use this platform. Growth year over year on revenue from network performance management is 21% for the six months ended September 30, 2018.
- The acquisition of Elfiq. Elfiq contributed \$639,064 and \$1,257,006 in sales in the three and six-months ended September 30, 2018, whereas there was no Elfiq revenue in Q2 FY18.

Cost of Goods Sold

Cost of goods sold represents the costs of hardware, installation and delivery, sales commissions and web services. For the three months ended September 30, 2018 and September 30, 2017, Cost of goods sold was \$125,402 and \$67,659, respectively. For the six months ended September 30, 2018 and 2017, Cost of goods sold was \$251,840 and \$120,165, respectively. The increase of \$57,743 and \$ 131,675 in cost of goods sold year over year was due to:

- Elfiq cost of goods sold, which represented \$75,223 and \$147,885 in Cost of goods sold for the three and six months ended September 30, 2018, respectively.
- Martello cost of sales decreased quarter over quarter due to a decrease in sales from an end of life product which had a higher cost of sales.

Expenses

Expenses – Snapshot (in CAD\$000's)	3 months ended September 30		6 months ended September 30	
	2018	2017	2018	2017
Research and development	787	526	1,659	1,126
Sales and marketing	590	109	1,087	253
General and administrative	1,052	336	1,893	745
Depreciation of equipment and leasehold improvements	20	11	41	21
Amortization of intangible assets	106	-	211	-
Acquisition-related costs	142	38	379	131
TOTAL	2,697	1,020	5,270	2,276

For the three months ended September 30, 2018 and 2017, operating expenses totaled \$2,697,176 and \$1,019,625, respectively, an increase of \$1,677,551. For the six months ended September 30, 2018 and 2017, operating expenses totaled \$5,270,530 and \$2,276,025, respectively.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

The expenses for the three and six months ended September 30, 2018 include \$799,082 and \$1,632,621 in Elfiq expenses, respectively. Elfiq was acquired in December 2017, so no related expenses were included in the three and six months ended September 30, 2017. Excluding the impact of Elfiq, increases total \$878,469 and \$1,361,884 for the three and six months ended Sept 30, 2018 respectively.

Acquisition related costs increased year over year by \$104,668 for the three months ended September 30, and \$248,543 for the six months ended September 30. Costs in the current year in both Q1 and Q2 relate to the integration of Elfiq and the acquisition of Savision and prior year costs related to advisory, due diligence and legal costs for the acquisition of Elfiq.

Amortization of \$105,691 and \$211,131 for the three and six months ended September 30, 2018, respectively, relates to the amortization of intangible assets identified upon the acquisition of Elfiq.

Research and development expenses include salaries and other benefits and compensation for the research and development team as well as any subcontract costs and development tools. These costs are partially offset by government grants, primarily investment tax credits which are earned from qualifying Scientific Research and Experimental Development ("SRED") expenditures, and effective September 2018 they are also be partially offset by NRC IRAP funding.

R&D expenses increased year over year by \$261,306 and \$532,938 for the three and six months ended September 30, 2018, respectively. Excluding the addition of Elfiq expenses, the increases were \$72,850 and \$88,989 for the three and six months ended September 30, 2018 respectively. The increases in Q2 and year to date related to higher share-based compensation costs (non-cash), general salary increases, and an investment in additional development tools, offset partially by SRED credits and IRAP funding.

Sales and marketing costs include salaries, commissions, advertising and promotion costs incurred in marketing the Company's products, including industry and channel partner trade shows. Sales and marketing expenses increased year over year by \$480,836 and \$835,093 for the three and six months ended September 30, 2018, respectively. Excluding the addition of Elfiq sales and marketing costs, the increases were \$201,251 and \$289,100 for the same periods. The increases are due to a focus on expanding the Company's brand awareness and communications, and increased presence at industry events. The Company has invested in a new website, increased public relations activity and media training, and conference and trade show sponsorship and attendance. Compensation costs also increased year over year due to growth in the team aligned with the above strategy, general salary increases and non-cash stock compensation expense.

General and administrative expenses include salaries for finance, HR and executive staff, as well as general corporate expenditures including consulting fees, legal and professional fees, insurance and office rent. General and administration costs totaled \$1,051,711 and \$335,702 for the three months ended September 30, 2018 and 2017 respectively, an increase of \$716,009. For the six months ended September 30, 2018 and 2017, G&A costs increased by \$1,147,864, and totaled \$1,892,827 and \$744,963, respectively. Excluding Elfiq's general and administrative expenses, the year over year increases were \$540,269 and \$782,796 for the three and six months ended September 30, 2018.

The key factor contributing to the increase in general and administrative costs is the Company's growth. Key increases for the quarter and six months ended September 30, 2018 are higher salaries and share based compensation expense, relating to additional executive staff, the accelerated vesting of certain stock options as a result of the RTO and an expanded finance team, and increased professional fees for accounting, audit, tax and legal due to the additional complexity associated with the reverse acquisition transaction and public reporting.

Depreciation totaled \$20,461 for the quarter ended September 30, 2018 and \$40,687 for the six months ended September 30, 2018. This represents an increase of \$9,041 and \$18,936 over the three and six months ended September 30, 2017. The majority of this increase relates to depreciation of Elfiq assets in the periods ended September 30, 2018.

Loss from Operations

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

The loss from operations for the three months ended September 30, 2018 and 2017 was \$857,783 and \$65,069, respectively, an increase of \$792,714. For the six months ended September 30, 2018 and 2017, the loss from operations was \$1,620,421 and \$294,504, respectively, an increase of \$1,325,917.

Elfiq operations contributed \$235,242 and \$523,500, respectively to these operating losses for the three and six months ended September 30, 2018.

While there was a material increase in sales in both the three and six months ended September 30, 2018, there were also increased expenses due to a variety of factors described in detail above, with key drivers summarized as follows:

- Increased acquisition related costs, relating to the integration of Elfiq, as well as ongoing acquisition negotiation, due diligence and advisory services for Savision. The level of activity was significantly lower in the prior year.
- Share-based compensation costs increased by \$212,902 and \$327,031 over the prior year for the three and six months ended September 30, 2018. This is due to additional expense for new options granted on April 3, 2018 as well as accelerated vesting for certain options in relation to the completion of the RTO transaction.
- G&A costs driven by the Company's growth, including investment in the executive team and additional professional and other fees.
- Investment in marketing activities and headcount relating to communications, brand awareness and trade show presence.
- Amortization of intangible assets in the three and six months ended September 30, 2018, due to the identifiable intangible assets resulting from the acquisition of Elfiq.

Adjusted EBITDA (non-GAAP measure)

The Company's "Adjusted EBITDA" is a non-GAAP measure used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines Adjusted EBITDA as the Income (Loss) from operations, as reported, before interest, tax and adjusted for removing the share-based compensation expense, depreciation, amortization, and further adjusted to remove acquisition related costs. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on an adjusted basis as described above.

Adjusted EBITDA in the three months ended September 30, 2018 was a loss of \$343,298, compared to income of 17,114 in the three months ended September 30, 2017.

Adjusted EBITDA in the six months ended September 30, 2018 and 2017 amounted to losses of \$492,330 and \$72,054, respectively.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

Adjusted EBITDA (non-GAAP measure)	September 30, 2018		September 30, 2017					
	(3 months ended)		(6 months ended)					
Adjusted EBITDA reconciliation								
Loss from operations (as reported)	\$	(857,783)	\$	(65,069)	\$	(1,620,421)	\$	(294,504)
Share-based compensation expense	(1)	245,820		32,918		396,901		69,870
Acquisition-related costs	(2)	142,513		37,845		379,372		130,829
Depreciation	(2)	20,461		11,420		40,687		21,751
Amortization	(2)	105,691		-		211,131		-
		514,485		82,183		1,028,091		222,450
Adjusted EBITDA	\$	(343,298)	\$	17,114	\$	(592,330)	\$	(72,054)

(1) Share-based compensation expense per the Statement of cash flows

(2) Acquisition-related costs, Depreciation and Amortization per the Statement of net loss and comprehensive net loss

Loss before income tax

Loss before income tax is \$2,284,616 and \$3,486,430 for the three and six months ended September 30, 2018, an increase of \$2,143,612 and \$3,034,734 over the same periods in the prior year.

Key drivers are described above in “*Operating Loss*”. In addition, the Company incurred non-cash costs of \$1,040,012 on the closing of the reverse acquisition, consisting of a \$700,000 consulting fee and listing expense of \$340,012. The listing expense represents the difference between the fair value of the consideration paid for Newcastle and the fair value of the Newcastle assets acquired and liabilities assumed. The Company also incurred cash costs of \$390,848 relating to the reverse acquisition, consisting primarily of legal fees, accounting and audit fees, consulting fees and compensation related to completion of the transaction.

Change in cash and cash equivalents

The increase in cash and cash equivalents was \$5,724,307 for the six months ended September 30, 2018, compared to \$66,223 for the six months ended September 30, 2017.

Cashflow used in operations was \$2,397,372 for the six months ended September 30, 2018, compared to \$120,870 for the six months ended September 30, 2017. The increase of \$2,276,502 is due to the following key factors:

- Costs of \$774,258 associated with the reverse acquisition, which were not incurred in the prior year.
- Trade and other accounts receivable increased \$565,157 in the six months ended September 30, 2018, compared to a decrease of \$718,537 in the six months ended September 30, 2017. The increase in FY19 is due to a delay in receipt of payment from Mitel on invoices for certain products. In the six months ended September 30, 2017, accounts receivable decreased significantly due to receipt of amounts which had been accrued at the prior year end and were received after year end.
- Cash outflow for prepaid expenses was \$281,185 in the six months ended September 30, 2018 as compared to \$65,839 in the six months ended September 30, 2017. The increase in the current year relates to the prepayment of certain fees relating to the acquisition of Savision, which would be refunded if the acquisition did not close, as well as prepaid fees for a research subscription, which is new in the current year.
- Investment tax credits receivable increased by \$88,661 in the six months ended September 30, 2018 as compared to an increase of \$296,000 in the six months ended September 30, 2017. In the six months ended September 30, 2017, the Company was accruing the investment tax credits receivable, but did not receive a refund during this time. In the current year, a comparable accrual was offset by the receipt of investment tax credits by Elfiq.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

- Accounts payable and accrued liabilities contributed \$401,318 to operating cashflow during the six months ended September 30, 2018, but only \$28,700 during the six months ended September 30, 2017. This was due primarily to significant accruals at September 30, 2018 for legal, accounting and audit fees relating to the reverse acquisition and acquisition related work, as well as the addition of \$199,821 in payables, which were assumed from Newcastle. These are funds which remain in trust with the Company's transfer agent and are included in both accounts payable and accrued liabilities and restricted cash. The unpaid amount will be held in trust by the transfer agent until January 12, 2019, thereafter any unpaid funds will be returned to the Company.
- Cashflows from investing activities were \$581,062 for the six months ended September 30, 2018 as compared to \$187,093 for the six months ended September 30, 2017. The increase in cashflows in the current year was primarily due to cash of \$636,942 acquired as part of the reverse acquisition, as compared to proceeds from short-term investments of \$224,200 in the prior year.
- Cashflows from financing activities were \$7,540,617 for the six months ended September 30, 2018 (nil for the six months ended September 30, 2017). In the first two quarters of the current year, the Company generated cashflows of \$7,540,453 from the private placement in June 2018, as well as proceeds from the exercise of stock options (\$78,167). In addition, the Company repaid \$103,003 of debt and drew \$25,000 on its line of credit. No financing transactions occurred in the same period in the prior year.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

LIQUIDITY and CAPITAL RESOURCES

Liquidity

The Company's objectives in managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating objectives, including organic growth and growth through acquisitions. The Company's ability to reach sustained profitability is dependent on successful implementation of the business strategy. While management is confident in the success and profitability of the business, there can be no assurance that Martello will generate sufficient revenue to reach sustained profitability.

The following tables sets out the working capital position of the Company as at September 30, 2018 and March 31, 2018.

Liquidity Snapshot (in 000's)	September 30, 2018	March 31, 2018
	\$	\$
Current Assets	12,074	5,349
Current liabilities	2,775	2,311
Net working capital	9,299	3,038

Cash and cash equivalents, including restricted cash, totaled \$7,865,739 at September 30, 2018 compared to \$2,141,432 at March 31, 2018. The increase of \$5,724,307 year over year was due to the following inflows / (outflows):

- Cashflow used in operations (\$2,397,372)
- Cash acquired on reverse acquisition \$636,942
- Net proceeds from the private placement \$7,540,453
- Proceeds from the exercise of stock options \$78,167
- Repayment of debt, net of line of credit increase (\$78,003)
- Additions to equipment and leasehold improvements (\$55,880)

Capital Resources

To date, the Company has financed its operations through the issuance of common shares, as well as the receipt of government loans, investment tax credits and revenue generated from sale of its products and services. In addition, Elfiq had access to a revolving operating line of credit of \$300,000, of which \$145,000 was outstanding as of September 30, 2018 (\$120,000 as of March 31, 2018). This revolving line of credit has been repaid and terminated as of the date of this MD&A.

As at September 30, 2018 long-term debt totaled \$598,972, net of \$10,500 due within one year. The total debt of \$609,472 is made up of:

- \$570,669 non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities for a specific project.
- \$39,803 non interest-bearing loan from Canada Economic Development Agency.

For the foreseeable future, the Company expects to finance its operations through revenue generated from the sale of its products and services, through the issuance of common shares and through long-term debt. On November 1, 2018, the Company entered into the RBC Loan and drew \$3,000,000 on the term loan. The purpose of the loan was to provide capital in conjunction with the acquisition of Savision. In addition, in September 2018 the Company entered into an agreement with NRC-IRAP to fund up to \$2,000,000 of development costs for certain projects including hiring of additional staff.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

The Company periodically evaluates the opportunity to raise additional funds through the placement of equity capital and long-term debt, to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business.

After the reverse takeover transaction, the amount of the Company's SRED credits may be reduced and the timing of the application of the credits and refunds may be negatively impacted.

Funding

The Company had negative cashflow from operations of \$2,397,372 for the six months ended September 30, 2018. This included costs of \$774,258 associated with the reverse acquisition, and acquisition-related costs totaling \$379,372. The Company had positive working capital of \$9,298,904.

In June 2018, the Company closed a private placement of \$7,585,311, which is being used to fund general working capital, possible future acquisitions and to support the reverse takeover transaction.

In November 2018, the Company closed the acquisition of Savision for a total purchase price of \$11,860,083, payable with the issuance of 18,709,090 shares and a cash payment of \$3,628,083. In connection with the Savision acquisition, the company closed the RBC Loan and drew \$3,000,000 on the term loan. The RBC Loan also includes a \$1,000,000 revolving facility.

The Company believes that cashflow from operations, the receipt of funds from the private placement, proceeds from the RBC Loan and working capital will be sufficient to fund organic growth over the next year.

OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2018 and March 31, 2018, Martello did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations of the Company, including, and without limitation, such considerations as liquidity and capital resources.

ACQUISITION OF ELFIQ

In December 2017, the Company completed the acquisition of Elfiq Inc. The consolidated statement of net loss includes \$639,064 and \$1,257,006 in revenue and \$232,299 and \$495,501 in net loss for the three and six months ended September 30, 2018, respectively. The Elfiq acquisition closed in December 2017 therefore results for the three and six months ended September 30, 2017 did not include any Elfiq results.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, who control approximately 5.6% of the Company as at September 30, 2018.

In addition, the co-Chair of the Board of Directors of the Company is also the chairman of Mitel Networks Corporation and Wesley Clover International. Wesley Clover International owns 23.3% of the issued and outstanding common shares of the Company as at September 30, 2018. During the three and six months ended September 30, 2018, the Company had sales to Mitel Networks Corporation of \$1,270,731 and \$2,503,410, respectively (three and six months ended September 30, 2017 - \$961,939 and \$1,977,397, respectively).

During the three and six months ended September 30, 2018, the Company paid rent of \$43,448 and \$86,062 to Wesley Clover International, respectively (three and six months ended September 30, 2017 - \$42,614 and \$85,227, respectively).

These transactions are in the normal course of operations and are recorded at fair value.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

RISK FACTORS

Martello's operations are subject to many factors that may cause results to differ from expectations. Below is a summary of the risk factors. For greater detail, see the filing statement dated June 29, 2018.

Customer acceptance of products and services

The Company's product development and marketing efforts are directed toward products and services that enable business to innovate. Success depends on customers' belief that there are technological, operational or cost benefits associated with our products.

Competition

The industry in which the Company is positioned is rapidly evolving and the company faces intense competition for its products and services. The adoption of public cloud, micro-services, containers and open source technologies has the potential to erode our profitability. The competitive environment could result in loss of market share.

Rapid Technological Change

The nature of our industry is one of frequent new product introductions and evolving industry standards, which could cause our software solutions to become obsolete. The length of our development cycle may impact our ability to react to new technology trends and customer needs.

Currency Fluctuations

A substantial portion of the Company's sales are denominated in foreign currencies. The Company is exposed to changes in foreign currency rates and this could negatively impact revenue and profitability.

Operating results may fluctuate significantly

There are many factors that influence the Company's operating results which are outside of its control. Past results should not be relied upon as an indication of future performance. Revenue and future operating results are difficult to predict even in the near term.

Dependence on Mitel Networks

As a channel partner, Mitel Networks accounted for 64% of the Company's revenue during the six months ended September 30, 2018 (94% for the six months ended September 30, 2017). Martello and Mitel have entered into a number of agreements regarding the use and resale of Martello software and services. The current agreement was signed on April 21, 2017 for an initial term of one year with automatic annual renewal. Among other factors, if the relationship with Mitel changes, or if the Company is unable to provide suitable support for new products and ongoing product updates or is unable to reach commercially agreeable pricing and other terms for support, or if Mitel Networks business decreases, this could lead to a loss of a significant portion of the Company's business. This risk is further mitigated by the acquisition of Savision.

Other Risk Factors

Other risk factors relating to the Company's business are summarized as follows:

- The Company may pursue acquisitions of assets, products or businesses in the future. Risks associated with acquisition activity include inability to find or complete suitable acquisition deals at reasonable prices, disruption and diversion from the existing business, challenges of integration and retention of key personnel, unanticipated costs or liabilities associated with the new business, and inappropriate valuations of the acquired assets or business. These risks could have a material adverse impact on liquidity, capital resources and operations of the Company.

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

- The Company depends on IT systems and the IT systems of key SaaS providers to conduct a significant amount of its business operations. Breaches of the company's cybersecurity systems or the systems of its vendors, partners and suppliers could seriously harm the business.
- There is no assurance that research and development efforts will produce revenue in the near-term, if at all.
- The Company's investment tax credits from SRED are expected to decrease and the timing of the application of the credits may be negatively affected after the reverse-takeover transaction.
- The Company's success is dependent upon its ability to adapt its business model to keep pace with industry trends, and development appropriate business and pricing models. Pricing changes by our competitors may also require the Company to reduce prices.
- The Company's products are highly technical and complex and can contain errors or security vulnerabilities. These could harm our reputation, lead to returns of products or services and possibly reduced future sales.
- The Company's success and future growth depends in part upon its ability to protect its intellectual property. The Company relies on a combination of patents, copyrights, trademarks, trade secret laws, contractual agreements, licenses and other methods to protect its intellectual property. There is no assurance that such measures will protect the Company's intellectual property, and despite its efforts to protect its trade secrets and proprietary rights, unauthorized parties may still infringe its intellectual property.
- The Company's commercial success depends, in part, upon the Company not infringing intellectual property rights owned by others. A number of the Company's competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of such patents. It cannot be determined with certainty whether any existing third-party patents, or the issuance of any third party patents, would require the Company to alter its technology, obtain licenses or cease certain activities.
- Failure to effectively manage product lifecycle, including transitioning customers from end of life products to new products, could result in customer dissatisfaction and impact our operating results negatively.
- The Company's success depends on the cooperation of our hardware and software vendors to ensure interoperability with our products and to offer compatible products to end users.
- The Company relies on relationships with distributors, resellers, system vendors and systems integrators for a significant portion of its revenues. Disruptions to these channels could harm its business.
- The Company's SaaS offerings rely on third-party providers for data center space and colocation services. Should these services be disrupted, it could result in a loss of current and future business to the Company.
- As the Company continues to develop its SaaS offerings, it will need to continue evolving processes to meet regulatory, intellectual property, open source software compliance and contractual and service compliance challenges. This requires significant investment and could affect operating results.
- Failure of the Company or its partners to comply with privacy policies and privacy-related and data protection laws and regulations could result in proceedings and/or fines and have an adverse effect on the operating results and on the business.
- The Company may need to raise additional capital in order to support the continued growth of the business. Existing shareholders could be diluted, or restrictive covenants could be placed upon the Company by lenders. There is no assurance that sufficient capital will be available to fund future growth.

CHANGES IN ACCOUNTING POLICIES

Standards, amendments and interpretations to existing IFRS standards which have been issued but are not yet effective during the six months ended September 30, 2018 are disclosed below. Martello intends to adopt these standards, if applicable, when they become effective.

The IASB issued on January 13, 2016 a new accounting standard called IFRS 16 *Leases*. IFRS 16 *Leases* replaces IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. IFRS 16 requires all leases to be reported on

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

an entity's statement of financial position as assets and liabilities. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted for entities that also apply IFRS 15. The Company has assessed and determined that there will be an impact upon adoption of the new standard, which Martello expects to adopt on April 1, 2019. The Company leases real estate, for which the lease term exceeds one year, however there are no significant economic incentives for renewal. The Company expects to capitalize the present value of the commitment contained in Note 22 to the consolidated financial statements.

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments (the Interpretation)* which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments (the Interpretation)* is effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard on its financial position and financial performance.

CRITICAL ACCOUNTING ESTIMATES

The financial statements of Martello are prepared in accordance with IFRS. Management makes estimates and assumptions and uses judgment in applying these accounting policies and reporting the amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. Significant estimates in the financial statements of Martello for the six months ended September 30, 2018 relate to the fair value of interest free debt, deferred tax assets and liabilities, current income tax assets and liabilities, share-based payments, cost allocation of long-lived assets and the assessment of revenues occurring at a point in time, over a period of time or based on usage.

FINANCIAL INSTRUMENTS

This section should be read in conjunction with the accompanying financial statements. The financial instruments of the Company are as follows:

	Sept 30, 2018	March 31, 2018
	\$	\$
Financial assets		
Cash and cash equivalents	7,665,918	2,141,432
Restricted cash	199,821	-
Trade and other accounts receivable	2,157,251	1,589,961
Total financial assets	10,022,990	3,731,393

	Sept 30, 2018	March 31, 2018
	\$	\$
Financial liabilities		
Accounts payable and accrued liabilities	1,524,845	1,057,421
Foreign exchange forward contract liability	14,790	-
Line of credit	145,000	120,000
Long-term debt (including current portion)	609,472	681,713
Total financial liabilities	2,294,107	1,859,134

As at the above dates, the carrying amounts and the fair values are equivalent.

The Company's primary risk management objective is to protect the Corporation's statement of financial position and cashflow, in order to increase the Company's enterprise value. The Company is financed through a mixture of debt and

Martello Technologies Group Inc.

MD&A

For the three and six months ended September 30, 2018 and 2017

equity. The Corporation is exposed to market risk, credit risk, interest rate risk, foreign exchange risk and liquidity risk. The Company's senior management and Board of Directors oversee the management of these risks.

Market risk is the risk of fluctuation in the fair value of future cashflows because of changes in market prices, including foreign exchange rates. As a substantial portion of the Company's sales are in foreign currencies, the Company is exposed to risk of changes in foreign exchange rates. During the six months ended September 30, 2018, the Company did not use derivative financial instruments to mitigate its foreign currency risk. In the six months ended September 30, 2018, the Company was a party to two foreign currency forward contracts to mitigate its exposure to currency risks arising from non-functional currency denominated sales transactions in US dollars. Under these contracts, the Corporation agreed to buy \$850,000 US dollars at prices of \$1.2798 and \$1.2771, with settlement dates of July 26, 2018 and October 26, 2018 respectively. The first of these contracts settled in the quarter ended September 30, 2018 at a loss \$24,650 and the second of these contracts settled in October 2018 at a loss of \$33,745.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or contract. Martello has one major customer which increases the concentration of credit risk.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by ensuring, to the extent possible, that it will always have sufficient liquidity to meet its obligations as they come due, and reviews cashflows, capital and operating requirements on an ongoing basis.

The Company is not exposed to a significant interest rate risk as the majority of its debt is interest free, and short-term investments, receivables and payables are settled in the current periods.

Financial assets and financial liabilities are initially measured at fair value and are subsequently measured at amortized cost, or at fair value through comprehensive income or through profit and loss.

The forward contracts are measured at fair value through profit and loss. All other financial assets and liabilities are measured at amortized cost.

APPROVAL

The directors of Martello have approved the disclosures contained in this MD&A.