

Unaudited condensed interim consolidated financial statements of

Martello Technologies Group, Inc.

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

Martello Technologies Group, Inc.

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

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The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Martello Technologies Group, Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three and six months ended September 30, 2018 and 2017

Unaudited

(In Canadian dollars)

	Notes	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
		(3 months ended)		(6 months ended)	
Income					
Sales	6	\$ 1,964,795	\$ 1,022,215	\$ 3,901,949	\$ 2,101,686
Cost of goods sold		125,402	67,659	251,840	120,165
Gross margin		1,839,393	954,556	3,650,109	1,981,521
Expenses					
Research and development	7	787,067	525,761	1,658,900	1,125,962
Sales and marketing	7	589,733	108,897	1,087,613	252,520
General and administrative	7	1,051,711	335,702	1,892,827	744,963
Depreciation	7	20,461	11,420	40,687	21,751
Amortization	7	105,691	-	211,131	-
Acquisition-related costs		142,513	37,845	379,372	130,829
		2,697,176	1,019,625	5,270,530	2,276,025
Loss from operations		(857,783)	(65,069)	(1,620,421)	(294,504)
Other income/expense					
Interest income		1,282	3,846	2,722	7,852
Interest expense		-	-	(2,519)	-
Reverse acquisition costs		(390,848)	-	(774,258)	(3,670)
Reverse acquisition transaction cost	5	(1,040,012)	-	(1,040,012)	-
Accretion of long-term debt	7	(15,578)	(11,700)	(30,761)	(23,113)
Foreign exchange gain (loss)	16	8,323	(68,081)	(38,450)	(138,261)
Other income		10,000	-	17,269	-
Loss before income tax		(2,284,616)	(141,004)	(3,486,430)	(451,696)
Income tax recovery		134,365	-	162,518	-
Net loss and comprehensive loss		(2,150,251)	(141,004)	(3,323,912)	(451,696)
Weighted average shares outstanding					
Basic	8	166,468,438	81,144,419	145,817,875	81,144,419
Fully diluted		173,500,978	84,720,938	152,268,072	84,650,417
Net loss and comprehensive loss per share					
Basic	8	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Fully diluted		\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Martello Technologies Group, Inc.
Condensed interim consolidated statements of financial position
As at September 30, 2018 and March 31, 2018
Unaudited
(In Canadian dollars)

	Notes	September 30, 2018	March 31, 2018
Assets			
Current Assets			
Cash		\$ 7,665,918	\$ 2,141,432
Restricted cash	13	199,821	-
Trade and other accounts receivable	9	2,157,251	1,589,961
Investment tax credits receivable	7	1,272,166	1,183,505
Prepaid expenses		526,455	245,270
Inventories		252,552	188,786
Total current assets		12,074,163	5,348,954
Goodwill	19	2,381,174	2,381,174
Intangible assets	19	2,538,853	2,743,985
Equipment and leasehold improvements		309,511	302,033
Total assets		17,303,701	10,776,146
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	10	1,524,845	1,057,421
Foreign exchange forward contract liability	16	14,790	-
Line of credit	11	145,000	120,000
Current portion of deferred revenue	6	1,045,623	991,148
Current portion of leasehold incentives		34,501	34,501
Current portion of long-term debt	12	10,500	107,500
		2,775,259	2,310,570
Deferred revenue	6	418,787	505,500
Leasehold incentives		30,701	47,952
Long-term debt	12	598,972	574,213
Deferred tax liability		345,791	508,309
Total liabilities		4,169,510	3,946,544
Shareholders' equity			
Share capital	13	20,790,813	11,144,814
Warrants	13	37,500	37,500
Contributed surplus		1,857,456	1,874,953
Deficit		(9,551,578)	(6,227,665)
Total shareholders' equity		13,134,191	6,829,602
Total liabilities and equity		17,303,701	10,776,146

Approved by the Board on November 27, 2018 and signed on its behalf by:

Original signed "Colley Clarke" Director
Original signed "Michael Michalyshyn" Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Martello Technologies Group, Inc.

Condensed interim consolidated statements of changes in shareholders' equity for the six months ended September 30, 2018 and 2017

Unaudited

(In Canadian Dollars)

	Notes	Shares outstanding #	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total shareholders' equity \$
Balance at March 31, 2017		81,144,419	7,262,793	37,500	1,670,338	(5,303,680)	3,666,951
Net loss and comprehensive loss for the period		-	-	-	-	(310,692)	(310,692)
Issuance of share-based compensation		-	-	-	36,952	-	36,952
Balance as at June 30, 2017		81,144,419	7,262,793	37,500	1,707,290	(5,614,372)	3,393,211
Net loss and comprehensive loss for the period		-	-	-	-	(141,004)	(141,004)
Issuance of share-based compensation		-	-	-	32,918	-	32,918
Balance as at September 30, 2017		81,144,419	7,262,793	37,500	1,740,208	(5,755,376)	3,285,125
Balance as at March 31, 2018	1	110,463,366	11,144,814	37,500	1,874,953	(6,227,665)	6,829,602
Net loss and comprehensive loss for the period		-	-	-	-	(1,173,662)	(1,173,662)
Issuance of common stock	5	50,568,738	7,540,453	-	-	-	7,540,453
Exercise of stock options	13	98,666	14,800	-	(4,008)	-	10,792
Issuance of share-based compensation	13	-	-	-	151,081	-	151,081
Balance as at June 30, 2018		161,130,770	18,700,067	37,500	2,022,026	(7,401,327)	13,358,266
Net loss and comprehensive loss for the period		-	-	-	-	(2,150,251)	(2,150,251)
Issuance of common stock	13	4,666,666	700,000	-	-	-	700,000
Shares issued for reverse acquisition	5	6,086,540	912,981	-	-	-	912,981
Exercise of stock options	13	612,502	477,765	-	(410,390)	-	67,375
Issuance of share-based compensation	13	-	-	-	245,820	-	245,820
Balance as at September 30, 2018		172,496,478	20,790,813	37,500	1,857,456	(9,551,578)	13,134,191

Outstanding number of shares has been retrospectively adjusted to reflect a share exchange in connection with the Qualifying Transaction (Note 1).
3.2 common shares of the Corporation were issued for every one share held in Martello Corp, which was effected on August 15, 2018.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Martello Technologies Group, Inc.

Condensed interim consolidated statements of cash flows

For the six months ended September 30, 2018 and 2017

Unaudited

(in Canadian Dollars)

	Note	September 30, 2018	September 30, 2017
Operating activities			
Loss before income tax		\$ (3,486,430)	\$ (451,696)
Items not affecting cash:			
Depreciation expense	7	40,687	21,751
Amortization of leasehold incentives		(17,251)	-
Amortization of intangible assets	7	211,131	-
Reverse acquisition transaction costs	5	1,040,012	-
Loss on disposal of computer equipment		1,716	-
Adjustment on long-term debt	7	30,761	17,250
Stock-based compensation	13	396,901	69,870
		(1,782,473)	(342,825)
Net change in operating components of working capital:			
Trade and other accounts receivable	9	(565,157)	718,537
Investment tax credits receivable		(88,661)	(296,000)
Prepaid expenses		(281,185)	(65,839)
Inventories		(63,766)	(6,023)
Accounts payable and accrued liabilities	10	401,318	28,700
Foreign exchange forward contract liability		14,790	-
Deferred revenue		(32,238)	(157,420)
Total cash flows used in operations		(2,397,372)	(120,870)
Investing activities			
Proceeds from short-term investments		-	224,200
Cash acquired on reverse acquisition	5	636,942	-
Additions to equipment and leasehold improvements		(55,880)	(37,107)
Total cash flows from investing activities		581,062	187,093
Financing activities			
Proceeds from issuance of common shares	13	7,540,453	-
Proceeds from exercise of stock options	13	78,167	-
Proceeds from line of credit	11	25,000	-
Repayment of debt	12	(103,003)	-
Total cash flows from financing activities		7,540,617	-
Net change in cash and restricted cash		5,724,307	66,223
Cash and restricted cash, beginning of period		2,141,432	721,010
Cash and restricted cash, end of period		7,865,739	787,233
Cash and restricted cash consists of the following:			
Cash		7,665,918	787,233
Restricted cash		199,821	-
Total cash and restricted cash		7,865,739	787,233

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements

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

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(in Canadian Dollars)

1. Corporate information

Martello Technologies Group Inc., formerly Newcastle Energy Corp. (the "Corporation") was incorporated under the Company Act (British Columbia) in 1981 under the name Cove Energy Corporation. The Corporation's registered office and principal place of business is 390 March Rd. #110, Ottawa, Ontario, Canada K2K 0G7. The Corporation's common shares are traded on the TSX Venture Exchange ("TSXV") under the trading symbol MTLO.

The Corporation has one wholly-owned operating subsidiary, Martello Technologies Corporation ("Martello Corp"). Martello Corp has three wholly-owned operating subsidiaries: Martello Technologies Incorporated, Netvitesse SAS and Elfiq Inc. Martello Corp was incorporated in 2009 under the provisions of the Canada Business Corporations Act ("CBCA"). Martello Technologies Incorporated was incorporated in the state of Delaware in 2010. Netvitesse SAS is a limited liability company incorporated and operating in France.

On December 15, 2017 Martello Corp acquired 100% of the shares of 9290-0018 Quebec Inc., 9289-9954 Quebec Inc., 9290-0059 Quebec Inc. and 9289-9939 Quebec Inc. (the "Elfiq Holdcos"), which collectively own all of the issued and outstanding shares of Elfiq Inc. On April 1, 2018 Martello Corp amalgamated with the Elfiq Holdcos and Elfiq Inc. is now wholly-owned by Martello Corp. Elfiq Inc. is incorporated and operating in Montreal, Quebec.

The Corporation and its subsidiaries are in the business of developing and selling network management and monitoring software for unified communications networks around the world.

2. Basis of presentation

On August 15, 2018, the Corporation completed a reverse asset acquisition which was effective pursuant to an agreement between the Corporation and Martello Corp. Through this transaction, Martello Corp and a newly formed subsidiary of the Corporation amalgamated, with the resulting entity being Martello Corp. The Corporation 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 shareholders of Martello Corp owned 96.5% of the common shares of the Corporation and as a result, the transaction is considered a reverse acquisition of the Corporation by Martello Corp. For accounting purposes, Martello Corp is considered the acquirer and the Corporation is considered the acquiree. Accordingly, the condensed interim consolidated financial statements are in the name of Martello Technologies Group Inc. (formerly Newcastle Energy Corp), however they are a continuation of the financial statements of Martello Corp. Additional information on this transaction is disclosed in Note 5.

The condensed interim consolidated financial statements have been prepared under the going concern assumption and using the historical cost basis, except for foreign exchange forward contracts which are measured at fair market value.

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*.

The accounting policies applied in the preparation of these consolidated financial statements are the same as those described in the audited consolidated financial statements for the year ended March 31, 2018, except as described below. These condensed interim consolidated financial statements should be read in conjunction with the most recent annual financial statements.

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements

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

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(in Canadian Dollars)

2. Basis of presentation (continued)

Significant accounting policies

With effect from April 1, 2018, the Corporation adopted the amendments to IFRS 2 *Share-based Payment* and International Financial Reporting Interpretation (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*. Adoption of this amendment and interpretation had no effect on the Corporation's financial position or performance.

Derivative financial instruments

The Corporation enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss.

Financial liabilities

Financial liabilities are initially measured at fair value. Subsequently, measurement of financial liabilities depends on their classification, as described below:

(a) *Other financial liabilities*

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, loans and borrowings. The effective interest method is used to measure financial liabilities at amortized cost.

(b) *Fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments.

Gains and losses on financial liabilities at FVTPL are recognized in the statement of loss and comprehensive loss.

All intra-group transactions have been eliminated.

The Corporation operates in one operating segment.

The functional currency of the Corporation and each of its subsidiaries is the Canadian dollar, which is also the presentation currency.

3. Significant judgments and estimates

The preparation of the Corporation's condensed interim consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at each reporting date. The outcome of these uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The following are the critical judgments, other than those involving estimates, that management has made in applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements.

Business combinations

Judgment is required to assess the value of contingent consideration or compensation for post-acquisition services.

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements

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3. Significant judgments and estimates (continued)

Functional currencies

Determining the functional currency for an entity requires weighing of facts and circumstances in order to make a judgement as to the primary economic environment in which the entity operates.

Judgments made in relation to deferred tax assets

The Corporation makes assumptions about when deferred tax assets are likely to reverse, the extent to which it is probable that temporary differences will reverse and whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. The Corporation recognizes deferred tax assets only to the extent that it considers it probable that those assets will be recoverable.

The Corporation makes judgments about whether to recognize the benefit of deferred tax assets. In making this judgment the Corporation continually evaluates the magnitude and duration of any past losses, current profitability and whether it is sustainable, and earnings forecasts.

Sources of estimation uncertainty, including assumptions made about the future, are described in the following.

Fair value of interest free debt

The Corporation has secured interest free debt. Initial recognition of such debt is at fair value which requires management to estimate a market interest rate for comparable long-term debt. Currently the Corporation has assessed the implied discount rate on the long-term debt at 10% and 16%.

Share-based compensation and warrants

Share-based compensation and warrants are recognized at fair value. Management has estimated fair values using the Black-Scholes option pricing model, using various assumptions and inputs as described in note 13, Equity instruments, Share-based payments. The fair value calculated is most sensitive to the estimated volatility and common share price.

Cost allocation of long-lived assets

Allocating the cost of the Corporation's tangible and intangible assets to the periods that benefit from their use requires estimation using a systematic methodology. Management reviews the estimated useful lives and the rates applied at the end of each reporting period.

4. Standard issued but not yet effective

As at the date of authorization of these condensed interim consolidated financial statements, the following new standard has been published but is not yet effective.

The International Accounting Standards Board ("IASB") issued IFRS 16, *Leases*, to replace IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*. IFRS 16 requires all leases for significant assets that are of more than 12 months duration to be reported on an entity's statement of financial position as a right of use asset and corresponding liability. Instead of recognizing an expense for the contractual lease payments entities will recognize depreciation expense on the right of use asset and interest expense on the liability which is accounted for at amortized cost. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Corporation intends adopting the standard for its March 31, 2020 year. The effect on the Corporation's financial position and performance will depend on the leases in place on adoption.

Martello Technologies Group, Inc.

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4. Standard issued but not yet effective (continued)

IFRIC 23, *Uncertainty over Income Tax Treatments*, was issued by the IASB and is effective for annual reporting periods beginning on or after January 1, 2019 and the Corporation intends to adopt the standard for its March 31, 2020 year. The Corporation has assessed the impact of this new standard and does not expect there to be any impact on its financial position or financial performance.

5. Reverse asset acquisition

On August 15, 2018, the Corporation, closed its reverse asset acquisition transaction (the “Qualifying Transaction”), which was effected pursuant to an agreement between the Corporation and Martello Corp. Pursuant to an amalgamation agreement, 10831794 Canada Inc., a wholly owned subsidiary of the Corporation, and Martello Corp amalgamated under the CBCA (the “Amalgamation”). The surviving corporation of the Amalgamation is also called Martello Technologies Corporation. As a result of the amalgamation, (a) all securities of Martello Corp were cancelled; (b) the Corporation received one share of the amalgamated company for each one share of 10831794 Canada Inc. held by the Corporation, following which all shares of 10831794 Canada Inc. were cancelled; (c) in exchange for each one security held in the capital of Martello Corp, each security holder received 3.2 securities in the capital of the Corporation. Former shareholders of Martello Corp received an aggregate of 165,797,436 shares in the Corporation and Martello Technologies Corporation became a wholly owned subsidiary of the Corporation. 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. The exchange of these instruments is therefore treated as a modification, whereby the remaining fair value continues to be expensed over the vesting period, in accordance with IFRS 2 Share-based Payment (“IFRS 2”).

The transaction was a reverse acquisition of the Corporation. Since the Corporation’s operations do not meet the definition of a business under IFRS 3, the transaction did not qualify as a business combination and has been accounted for under IFRS 2. Accordingly, the transaction has been accounted for at the fair value of the consideration paid, being the equity instruments held by the shareholders of the Corporation on closing the transaction. In exchange, Martello Corp acquired the net assets of Newcastle Energy Corp., recognized and measured at their acquisition date fair values. The difference between the fair value of the consideration paid and the fair value of the assets acquired and liabilities assumed represents the cost of the Corporation obtaining a listing on the exchange, which does not qualify for recognition as an asset and has therefore been expensed as a listing expense in the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended September 30, 2018. The listing expense is included in reverse acquisition transaction cost on the statements of loss and comprehensive loss. The results of operations of Newcastle Energy Corp. are included in the consolidated financial statements of the Company from the date of the reverse acquisition, August 15, 2018.

The following represents the fair value of the net assets acquired at August 15, 2018 as a result of the reverse acquisition:

Fair value of 6,086,540 Newcastle Energy Corp. shares at their pre-transaction price of \$0.15 per share	\$ 912,981
Acquisition date fair values of assets acquired and liabilities assumed	(572,969)
Listing expense	\$ 340,012

Of the fair values of assets acquired, \$636,942 was cash and \$199,821 was restricted cash.

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements
For the three and six-months ended September 30, 2018 and 2017

Unaudited

(in Canadian Dollars)

6. Revenue

Revenue is presented based on the method of recognition as follows:

	Three-months ended		Six-months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Revenue at a point in time				
Hardware	120,823	21,589	241,777	48,539
Perpetual licenses	219,654	13,091	449,077	53,815
Revenue recognized over time				
Training and professional services	21,925	15,502	69,744	16,538
Subscription licenses	1,335,053	972,033	2,618,964	1,982,794
Maintenance plans	267,340	-	522,387	-
Total revenue	1,964,795	1,022,215	3,901,949	2,101,686

Deferred revenue will be recognized as revenue within 12 months in the following categories:

	September 30, 2018	March 31, 2018
	\$	\$
Revenue recognized over time		
Subscription licenses	358,073	334,348
Maintenance plans	687,550	656,800
Total	1,045,623	991,148

The following geographical summary of revenues is based on the location of the customer.

	Three-months ended		Six-months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Revenue for the period ended				
Canada	1,030,399	610,102	2,096,343	1,253,655
United States	545,058	273,681	1,015,406	567,105
Asia	99,449	-	280,091	-
Europe	142,796	138,432	278,190	280,926
Australia	48,280	-	95,369	-
Latin America	93,761	-	115,043	-
Other	5,052	-	21,507	-
Total revenue	1,964,795	1,022,215	3,901,949	2,101,686

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements

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(in Canadian Dollars)

7. Additional disclosures related to the statement of loss and comprehensive loss

- i. Research and development expense for the three and six-month periods ended September 30, 2018 is net of investment tax credits recognized of \$210,946 and \$506,946, respectively (three and six months ended September 30, 2017 - \$127,000 and \$296,000, respectively).

The Corporation has investment tax credits receivable of \$1,272,166 as at September 30, 2018 (March 31, 2018 - \$1,183,505), which are earned as a result of qualifying Scientific Research and Experimental Development expenditures and are recognized when the expenditures are made and their realization is reasonably assured.

- ii. Staff related expenses consist of the following amounts:

	Three-months ended		Six-months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Research and development				
Short-term employee benefits	863,307	565,844	1,909,473	1,240,632
Share-based payments	50,427	17,165	103,269	36,170
Sales and marketing				
Short-term employee benefits	324,209	88,691	595,020	204,748
Share-based payments	19,238	3,434	39,463	7,826
General and administrative				
Short-term employee benefits	265,465	87,789	591,201	211,905
Share-based payments	176,155	12,319	254,169	25,874
Total staff related expense	1,698,801	775,242	3,492,595	1,727,155

- iii. Amortization of intangible assets has been recognized during the three and six-month periods ended September 30, 2018 of \$105,691 and \$211,131, respectively (three and six-month periods ended September 30, 2017 – \$nil).
- iv. Depreciation expense is comprised as follows:

	Three-months ended		Six-months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Research and development	9,275	4,738	19,023	9,360
Sales and marketing	2,032	-	3,824	-
General and administrative	9,154	6,682	17,840	12,391
Total depreciation expense	20,461	11,420	40,687	21,751

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements
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7. Additional disclosures related to the statement of loss and comprehensive loss (continued)

v. Finance cost consists of the following:

	Three-months ended		Six-months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Accretion of discount on interest free debt	15,578	11,700	30,761	23,113
Other interest expense	-	-	2,519	-
	15,578	11,700	33,280	23,113

8. Loss per share

	(3-months period)		(6-months period)	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Weighted average number of ordinary shares for basic EPS:	166,468,438	81,144,419	145,817,875	81,144,419
Effects of dilution from:				
Share options	6,003,964	2,547,943	5,421,621	2,477,422
Warrants	1,028,576	1,028,576	1,028,576	1,028,576
Weighted average number of ordinary shares adjusted for the effect of dilution:	173,500,978	84,720,938	152,268,072	84,650,417

9. Trade and other accounts receivable

The movements in the allowance for doubtful accounts is as follows:

	September 30, 2018	March 31, 2018
	\$	\$
Balance, beginning of period	28,784	8,784
Trade receivables written off	-	-
Additional allowance recognized	-	20,000
Balance, end of period	28,784	28,784

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due			
			< 30 days	30-60 days	60-90 days	>90 days
	\$	\$	\$	\$	\$	\$
September 30, 2018	2,186,035	1,575,753	486,830	98,733	9,220	15,499
March 31, 2018	1,618,745	872,602	123,317	527,657	87,936	7,233

Martello Technologies Group, Inc.

Notes to the condensed interim consolidated financial statements
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(in Canadian Dollars)

10. Accounts payable and accrued liabilities

	Note	September 30, 2018	March 31, 2018
		\$	\$
Trade payables		701,871	351,762
Accrued key management compensation		13,207	56,975
Accrued professional fees		205,141	182,670
Salaries, benefits and vacation payable		287,385	332,624
Return of capital distribution	13	199,821	-
Other payables		117,420	133,390
Total accounts payable and accrued liabilities		1,524,845	1,057,421

11. Line of Credit

The Corporation has access to a revolving operating line of credit of \$300,000, bearing interest at prime plus 1.85%, secured by Elfiq's accounts receivable and inventory with a total carrying amount of \$606,753. As of September 30, 2018, the Corporation had a balance of \$145,000 on the Line of Credit (March 31, 2018 - \$120,000).

12. Long-term debt

Contractual loan terms	Effective interest	September 30, 2018	March 31, 2018
		\$	\$
FedDev loan, advanced to support the commercialization of the Corporation's activities; non-interest bearing, unsecured and repayable in increasing monthly payments between January 2018 and December 2023	10%	570,669	545,874
Canada Economic Development Area (CEDA), non-interest bearing unsecured and repayable in 60 equal monthly payments commencing in February 2021	16%	38,803	35,839
Finalta Capital, to finance investment tax credits, secured by the tangible and intangible assets of the Corporation and a personal guarantee of two members of management	Prime plus 10%	-	100,000
Total long-term debt		609,472	681,713
Amounts due within one year		(10,500)	(107,500)
Long-term debt		598,972	574,213

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13. Equity instruments

i. Common shares

The Corporation is authorized to issue an unlimited number of common shares with no par value.

During the six months ended September 30, 2018, the Corporation and Martello Corp undertook the following share transactions:

- (a) On June 4, 2018, Martello Corp completed a private placement resulting in gross proceeds of \$7,585,311. The private placement involved the sale of 15,802,732 (50,568,738 post-Qualifying Transaction) common shares at an issue price of \$0.48 (\$0.15 post-Qualifying Transaction) per share. The Company incurred cash finders fees of \$44,858 in relation to the private placement, for net proceeds of \$7,540,453.
- (b) 222,240 (711,168 post-Qualifying Transaction) options were exercised at an exercise price of \$0.35 (\$.11 post-Qualifying Transaction)
- (c) On August 14, 2018, Martello Corp. issued 1,458,333 shares (4,666,666 post-Qualifying Transaction) at a price of \$0.15, as a consulting fee of \$700,000 in relation to the Qualifying Transaction. The consulting fee expense is included in reverse acquisition transaction cost on the statements of loss and comprehensive loss.

As at September 30, 2018, \$199,821 (2017 - \$nil) of undistributed funds remains in trust with the Corporation's transfer agent and is included in both restricted cash and accounts payable and accrued liabilities. The unpaid amount will be held in trust by the transfer agent for a period of two years from the record date, thereafter any unpaid funds will be returned to the Corporation.

No shares were issued during the six months ended September 30, 2017.

ii. Warrants

The Corporation has outstanding 1,028,576 warrants. Each warrant entitles the holder to purchase one common share for an exercise price of \$0.11. All the warrants are exercisable as at September 30 and March 31, 2018. The warrants expire on the earlier of:

- (a) The date that is 24 months from an initial public offering or public listing of the Corporation;
- (b) A voluntary or involuntary liquidation, dissolution, or winding-up of the Corporation;
- (c) The amalgamation or merger of the Corporation; or
- (d) A sale of substantially all of the assets or outstanding shares of the Corporation.

iii. Share-based payments

The Corporation has a stock option plan (the "Plan") open to certain members of management, employees and consultants. The maximum number of stock options reserved for issuance under the Plan is 10% of the total outstanding common shares of the Corporation, calculated on a fully-diluted basis. Unless otherwise determined by the Board of Directors, options issued under the Plan vest over a three-year period and have expiry dates which are 5 years from issuance. The maximum number of Common Shares reserved for issuance of options that may be granted under the Plan is 10% of the total outstanding common shares of the Corporation, calculated on a fully-diluted basis.

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13. Equity instruments (continued)

The following table summarizes the continuity of options issued under the Plan:

	Weighted average exercise price	Total
	\$	#
Balance outstanding at April 1, 2017	0.11	7,584,000
Granted	0.11	3,728,000
Forfeited and expired	0.11	(304,000)
Balance outstanding at March 31, 2018	0.11	11,008,000
Granted	0.13	7,472,000
Exercised	0.11	(711,168)
Forfeited and expired	0.11-0.13	(762,666)
Balance outstanding at September 30, 2018		17,006,166
Options exercisable:		
At September 30, 2018	0.11-0.13	5,168,838
At March 31, 2018	0.11	4,840,000

Grant date	Weighted average exercise price \$	Number outstanding #	Weighted average remaining life Years
September 17, 2015	0.11	2,800,001	1.97
October 15, 2015	0.11	85,334	2.04
December 3, 2015	0.11	2,032,004	2.18
January 14, 2015	0.11	96,835	1.29
July 14, 2016	0.11	53,334	2.79
October 25, 2016	0.11	26,665	3.07
January 19, 2017	0.11	21,335	3.31
April 17, 2017	0.11	26,665	3.55
July 17, 2017	0.11	26,665	3.80
December 18, 2017	0.11	-	4.22
January 10, 2018	0.13	-	4.28
April 3, 2018	0.13	-	4.51
		5,168,838	2.08

At September 30, 2018, the fair value of share-based compensation to be recognized as an expense in future periods totaled \$448,319 (March 31, 2018 – \$847,176). Share-based compensation expense for the period is disclosed in note 7 (ii).

In determining the amount of share-based compensation, the Corporation used the Black-Scholes option pricing model to establish the fair value of options granted during the six months ended September 30, 2018 and 2017 by applying the following assumptions.

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13. Equity instruments (continued)

	Six-month period ended	
	September 30, 2018	September 30, 2017
Stock price valuation	\$0.13	\$0.11
Exercise price	\$0.13	\$0.11
Risk-free interest rate	2.19%	1.05%
Expected life in years	3.5	5
Expected dividend yield	0%	0%
Volatility	89%	89%
Fair value of options issued in the periods	\$0.08	\$0.09

Volatility was determined by using the historical volatility of the stock of comparable companies over a 3.5- 5-year period. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero-coupon Canada government bonds with a remaining term equal to the expected life of the options.

14. Fair values

The carrying amounts of the Corporation's cash, cash equivalents, restricted cash, trade and other receivables, investment tax credits receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The line of credit is a demand instrument at a variable rate and therefore the carrying amount approximates fair value. The market interest rates that would apply to the Corporation's long-term debt is not significantly different from the effective interest rates used to amortize these debts. Therefore, the carrying amounts are comparable to fair values.

The Corporation's foreign exchange forward contracts are remeasured at fair value at each reporting period.

The fair value of the financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Long-term debt is valued under the Level 2 hierarchy.

The fair value of foreign exchange forward contracts, which were entered into in April, 2018, represented a net liability as at September 30, 2018 of \$14,790. This fair value is estimated using a market approach with forward exchange rates observable at the end of the reporting period and contract forward rates as inputs and is categorized within Level 2 of the fair value hierarchy.

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15. Related party transactions and balances

During the period the Corporation entered into the following transactions with related parties in the normal course of operations.

- i. One of the co-chairmen of the Corporation is also the chairman of Mitel Networks Corporation and Wesley Clover International, a shareholder of the Corporation. During the three and six-month period ended September 30, 2018, the Corporation recognized revenue of \$1,270,731 and \$2,503,410, respectively to Mitel Networks Corporation (three and six-month period ended September 30, 2017 - \$961,939 and \$1,977,397, respectively).

Included in trade and other accounts receivables as at September 30, 2018 are amounts owing from Mitel Networks Corporation in the amount of \$1,688,419 (March 31, 2018 - \$1,168,535). This balance is non-interest bearing and unsecured.

- ii. During the three and six months ended September 30, 2018, the Corporation incurred rent expenses of \$43,448 and \$86,062, respectively (three and six months ended September 30, 2017 - \$42,614 and \$85,227, respectively) to Wesley Clover International Corporation. Included in accounts payable and accrued liabilities at September 30, 2018 is an account payable of \$6,489 (March 31, 2018 - \$6,500) payable to Wesley Clover International Corporation.
- iii. Included in accounts payable and accrued liabilities are balances as at September 30, 2018 totaling \$13,207 (March 31, 2018 - \$56,975) due to key management personnel for compensation and earned vacation pay.

16. Financial risk management objectives and policies

Transactions from operations that give rise to the recognition of financial instruments on the statement of financial position may result in an entity assuming or transferring financial risk to another party. The Corporation's primary risk management objective is to protect the Corporation's statement of financial position and cash flows, in order to increase the Corporation's enterprise value.

The Corporation is exposed to credit risk, liquidity risk and market risks (related to foreign exchange rates). The Corporation is not exposed to any interest rate or other market risks. There have been no changes to these risk exposures since the prior period, except as noted.

The Corporation's senior management and Board of Directors oversees the management of these risks. It is the Corporation's policy that no trading in instruments for speculative purposes shall be undertaken. The Board of Directors reviews and defines policies for managing each of these risks which are summarized below.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument asset or customer contract, leading to a financial loss to the Corporation. Trade receivables at September 30, 2018 are presented net of an allowance for doubtful accounts of \$28,784 (March 31, 2018 - \$28,784). The Corporation's largest customer accounted for revenue of \$1,270,731 and \$2,503,410, or approximately 65% and 64% of total revenue, for the three and six-month period ended September 30, 2018 (three and six months ended September 30, 2017 - \$961,939 and \$1,977,397, respectively or 94%). At September 30, 2018 the account receivable from this customer totaled \$1,688,419 (March 31, 2018 - \$1,168,535). The Corporation reduces its exposure to credit risk by performing credit assessments on a regular basis and granting credit upon a review of the credit history of the customer. The Corporation maintains strict credit policies and limits in respect to counterparties and does not expect future credit losses.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk by reviewing its capital and operating requirements on an ongoing basis.

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16. Financial risk management objectives and policies (continued)

The following table summarizes the maturities of financial instruments, including interest payments, as at September 30, 2018:

	2019	2020	2021	2021 and after	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,524,845	-	-	-	1,524,845
Foreign exchange forward contract liability	14,790	-	-	-	14,790
Line of credit	145,000	-	-	-	145,000
Long-term debt	4,500	70,000	246,735	506,302	827,537
Total	1,689,135	70,000	246,735	506,302	2,512,172

Market risk

Market risk is the risk that the fair value or future cash flows related to a financial instrument will fluctuate because of changes in market prices. Market price exposures include foreign currency exchange rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue and expense transactions are denominated in a currency other than the Canadian dollar, the Corporation's functional currency.

In the six-month period ended September 30, 2018, 93% of revenue and 22% of expenses were in foreign currencies (six months ended September 30, 2017 - 100% of revenue and 26% of expenses). Transactions in foreign currencies also require the Corporation to hold significant working capital balances in foreign currencies. The effect of translating financial instrument receivables and payables each period gives rise to foreign exchange gains and losses that are recognized in net loss.

The Corporation's exposure to foreign currency exchange rates is primarily to the United States dollar (USD) and the Euro (EUR).

Commencing in the three-month period ended June 30, 2018, the Corporation entered into derivative financial instruments (foreign exchange forward contracts) to manage foreign currency risk with the USD. As at September 30, 2018, the Corporation is committed under outstanding foreign exchange forward contracts to sell USD, representing the Corporation's total USD sales commitments of USD \$850,000. The Corporation does not enter into any derivative instruments to reduce its exposure to the EUR.

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16. Financial risk management objectives and policies (continued)

The Corporation's net exposure to the USD and EUR is summarized in the following table:

	September 30, 2018	March 31, 2018	September 30, 2018	March 31, 2018
	USD	USD	EUR	EUR
Cash and cash equivalents	235,407	1,035,245	169,854	12,878
Trade and other receivables	2,023,325	1,556,637	43,810	18,696
Accounts payable and accrued liabilities	(123,893)	(117,795)	(70,701)	(72,618)
Foreign exchange forward contract liability	(14,790)	-	-	-
Net exposure	2,120,049	2,474,087	142,963	(41,044)

The following table details the Corporation's sensitivity to a 10% strengthening and weakening in the U.S. dollar and Euro exchange rates against the Canadian dollar. 10% represents management's assessment of a reasonably possible change in foreign exchange rates:

	September 30, 2019	September 30, 2018
Sensitivity to 10% change in foreign currencies against Canadian dollar	\$	\$
Profit or loss	226,301	243,304

17. Capital management

The Board of Directors has not established capital benchmarks or other targets. There have been no changes in the Corporation's approach to capital management during the six-month period ended September 30, 2018. The Corporation will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

18. Commitments

The Corporation entered into a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017 extending through to February 29, 2022. The lease is with a related party, as described in note 15 *Related party transactions and balances*. The Corporation is also committed to a 3-year lease for office premises in Montreal, Quebec commencing November 1, 2016 and extending through to October 1, 2019. Future minimum lease payments in each fiscal year are as follows:

Fiscal year ended	Kanata \$	Montreal \$	Total \$
2019	92,859	91,144	184,003
2020	185,719	106,335	292,054
2021	185,719	-	185,719
2022	170,242	-	170,242
Total	634,539	197,479	832,018

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19. Prior year acquisition

On December 15, 2017, the Corporation purchased 100% of the issued and outstanding shares of each of 9290-0018 Quebec Inc., 9289-9954 Quebec Inc., 9290-0059 Quebec Inc. and 9289-9939 Quebec Inc. These companies owned 100% of the issued and outstanding shares of Elfiq Inc. ("Elfiq"), an SD-WAN provider of business continuity and bandwidth optimization solutions. The transaction was accounted for as a business combination. In total, the consideration for the transaction totaled \$4,672,488 which included \$1,500,000 in cash and \$3,132,021 in common shares issued and contingent consideration of \$40,467 in common shares.

The purchase price was allocated as follows:

	\$
Net assets acquired	8,059
Deferred income tax liability	(583,745)
Customer relationships	1,912,000
Technology	891,000
Brand	64,000
Goodwill	2,381,174
Total purchase price	4,672,488

The net assets acquired included the following:

Cash and cash equivalents	175,992
Trade and other accounts receivable	349,190
Investment tax credits receivable	605,761
Inventories	172,568
Prepaid expenses	71,495
Equipment & leasehold improvements	97,534
Total assets	1,472,540

Accounts payable & accrued liabilities	337,586
Line of credit	20,000
Deferred revenues	871,310
Leasehold incentives	42,330
Deposits from customers	12,569
Long-term debt	180,686
Total liabilities	1,464,481

Net assets acquired	8,059
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The fair value of trade accounts receivable acquired was \$349,190, with the gross contractual amount being \$369,190, of which the Corporation has established a reserve of \$20,000 in respect of amounts which may be uncollectible.

Net cash outflow on acquisition of Elfiq Inc. is as follow:

	\$
Consideration paid in cash	1,500,000
Less: Cash and cash equivalents acquired	175,992
Net cash outflow	1,324,008

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19. Prior year acquisition (continued)

Goodwill arose in the acquisition of Elfiq Inc. because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth and future product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The purchase price included elements of consideration contingent on a specific achievement by the Corporation within 18 months of the acquisition date. In aggregate, the amount of contingent consideration is \$40,467. The contingent consideration has been recorded as equity based on the probability of the achievement occurring within 18 months of the acquisition date.

20. Events after the reporting period

i. Loan

Subsequent to September 30, 2018, the Corporation entered into a credit agreement with Royal Bank of Canada. This financing is comprised of a term loan, a revolving facility and other ancillary facilities. The term loan is \$3,000,000, bears an interest rate of 5.40% per annum and is repayable over a term of 36 months, with the first monthly payment on February 1, 2019. The revolving facility, in the amount of up to \$1,000,000, bears a variable interest rate based on the RBC prime rate and is repayable on demand. The facilities are secured by a general security agreement on the property of Martello Corp as well as secured guarantees from Elfiq Inc. and Martello Technologies Inc., Savision B.V. and its subsidiaries, and the Corporation itself.

ii. Savision acquisition

On November 1, 2018, through its subsidiary Martello Corp, the Corporation acquired all the issued and outstanding shares of Savision B.V. ("Savision") for an aggregate purchase price of \$11,860,083, payable as follows: (i) a cash payment of \$3,628,083 and (ii) the issuance of 18,709,090 shares in the Corporation share capital to the shareholders of Savision at a price of \$0.44 per share. A finder's fee of \$358,625 is payable to Sampford Advisors, who acted as exclusive M&A adviser to Martello on this transaction. By acquiring Savision, the Corporation extends its already strong customer base and network performance management capabilities, while expanding its sales presence in Europe. Given the timing of the transaction, the Corporation is still assessing the transaction and the purchase price allocation and expects to include a preliminary version in its December 31, 2018 condensed interim consolidated financial statements.