



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, 2019 and 2018.

November 19, 2019



The following Management Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) of Martello Technologies Group Inc. (“Martello” or the “Company”) was prepared by Management and approved by the Board of Directors of the Company (the “Board”) as of November 19, 2019.

This MD&A is a discussion and analysis of the financial condition and results of operations of Martello for the three and six months ended September 30, 2019 and 2018 (“Q2 FY20” and “YTD FY20”, and “Q2 FY19” and “YTD FY19”, respectively). This MD&A should be read in conjunction with the Company’s condensed interim consolidated financial statements and accompanying notes for the three and six months ended September 30, 2019 and 2018. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated.

The effective date of this MD&A is November 19, 2019, the date it was approved by the Board.

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 several 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;
- Economic conditions, including risks associated with foreign currency fluctuations;
- Competition in a continuously evolving industry;
- Customer acceptance of new products;
- Operations in international markets;
- The Company’s ability to respond to rapid technological changes with new products and services;
- The Company’s ability to successfully identify, evaluate and integrate acquired companies;
- The return on investment from research & development investments;
- The Company’s ability to protect and enforce its intellectual property, and risks of potential claims of intellectual property infringement by third parties;
- The Company’s ability to manage product and service lifecycles;
- Effective management open-source software adoption and compliance risks;
- Cybersecurity and privacy risks;
- The ability of the Company’s products to operate effectively with those of its customers; and
- The dependence of the Company’s business on Mitel Networks Corp. (“Mitel”), a key partner.

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 there can be no assurance that the anticipated results or developments will be realized. Actual results can vary from the results projected and such variances may be material and adverse.

The Company does 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.

COMPANY OVERVIEW

Martello is a Canadian technology company that is listed on the TSX Venture Exchange (“TSXV”) following a reverse acquisition in 2018.

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 of the Company 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 Company 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 the TSXV Policy 5.2. For accounting purposes, Martello Corp is considered the acquirer and the Company is considered the acquiree. Accordingly, the consolidated financial statements are in the name of Martello Technologies Group Inc.; however, they are a continuation of the financial statements of Martello Corp.

The Company began trading on September 12, 2018 on the TSXV under the symbol “MTLO”.

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. As of September 30, 2019, Martello had 102 employees; 53 in Ottawa, Ontario; 22 in Montreal, Quebec; 19 in the Netherlands; 4 in the United States; and 4 in Paris, France.

Martello’s mission is to provide customers with clarity and control of their complex IT environments. Martello’s products optimize the performance of real-time services and applications including unified communications (“UC”) on cloud and enterprise networks. Martello has thousands of customers in more than 175 countries around the world. The Company has completed the acquisition of two companies since December 2017 to expand its product portfolio, engineering expertise and global sales capacity.

On December 15, 2017, Martello acquired Canadian Link Balancing / Software-Defined Wide-Area Network (“SD-WAN”) player and industry 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.

On November 1, 2018, Martello acquired Savision B.V. and its wholly owned subsidiaries (“Savision”). Savision is Netherlands-based and was founded in 2006. Savision provides enterprise software for the visualization of IT systems management data and analytics such as performance metrics, outage information and incidents. Savision’s software is an ITOA ‘Manager of Managers’ solution that integrates and controls an organization’s monitoring, cloud, and service management tools from a single platform.

Products

Martello develops products and solutions that optimize the performance of real-time applications on cloud and enterprise networks, while giving IT teams and service providers control and visibility of their entire IT infrastructure from a single platform. Martello’s products include UC performance analytics software, IT operations analytics (“ITOA”) software and SD-WAN and link balancing technology.

Martello’s product portfolio includes subscription-based offerings (software/hardware as a service), hardware product offerings (network appliances) and software license sales. Martello’s sales are both indirect, via distributors and value-added resellers, and direct to enterprises. End users enter into an end-user licensing agreement with Martello before using Martello software or services.

Martello is the provider of UC performance analytics 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, and the Company's software is used in Mitel's own global network operations centre (NOC). Martello's software is called Mitel Performance Analytics ("MPA") when sold in the Mitel channel.

Martello has several products and technologies deployed in the field (i.e.: MPA, LiveMaps, iQ, Elfiq OS and Elfiq Central) and maintains an active product development and enhancement program for these technologies. In addition, having acquired and integrated both Savision and Elfiq, Martello is investing in the development of new service optimization solutions that leverage its expanding technology stack to address the growing demand for improved performance of real-time and enterprise services. These include solutions that provide insight into network, application and UC performance management, SD-WAN solutions that optimize the performance of unified communications deployments on cloud and enterprise networks, and solutions that will address the application performance management and networking challenges of leading enterprise applications such as Microsoft Office 365, Teams and Skype for Business.

Martello's products are developed internally and are not subject to material regulatory approvals. Martello follows industry best practices in its development methodology as appropriate, to ensure scalability, security and standards compliance of its products and services.

Growth Strategy

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 its customers' needs. This will include developing and marketing performance management solutions that meet the evolving needs of Mitel's expanding customer base.
 - ii. Expanding the market presence for iQ as a unified view or single source of insight into the enterprise environment, including network, application and UC performance management, through both enterprise and managed service providers.
 - iii. Continued expansion of Elfiq appliance options and sales models to drive enterprise sales, increase Martello's SD-WAN market share and increase recurring revenue through a subscription sales model.
- b) Pursuing a merger and acquisition strategy that focuses on financially stable targets with established revenue streams, whose technology and products are accretive to Martello's mission to bring clarity to complex network environments, and to the increasingly complex ITC environment.
- c) Developing service optimization solutions that team elements of Martello's expanding technology stack to solve more of our customers' problems. These solutions are expected to drive new recurring revenue streams and include:
 - a. A UC optimized SD-WAN solution for mid-sized enterprises and service providers who require a simple and efficient means of managing the performance of UC systems on cloud and enterprise networks.
 - b. An application performance management solution that addresses the network performance challenges related to leading enterprise and real-time applications such as Office 365, Teams and Skype for Business.
- d) Expanding the distribution channel for Martello's portfolio of solutions, including a focus on cross selling these through partners within the Company's existing Mitel distribution network.
- e) Developing strategic partnerships in areas such as cyber security and IoT network management, where Martello's capabilities are complementary to others, to deliver a stronger business solution and outcome to the market.

Having integrated the acquisitions of Savision and Elfiq, and through investments in technology, people and systems, Martello has created a strong foundation for Martello to acquire companies in the future, to extend the Company's product line and to add to revenue and EBITDA.

SIGNIFICANT DEVELOPMENTS

During Q2 and YTD FY20, the following significant developments occurred:

- In September 2019, the Company issued 15,333,332 shares at \$0.30, for gross proceeds of \$4,600,000 (net proceeds \$4,029,955) through an overnight marketed public offering (the “Public Offering”) with a syndicate of underwriters led by Canaccord Genuity Corp, and including CIBC World Markets Inc. and PI Financial Corp.
- In September 2019, Martello announced that its unified communications performance analytics software is now monitoring more than one million users in Mitel’s network operations center (NOC) as part of a managed service offering.
- In July 2019, Martello announced that it has teamed with Paessler AG to offer a service assurance solution to large enterprises and managed service providers (MSPs).
- In June 2019, Martello moved up 20 spots on the widely respected Branham300 listing of Canada’s top ICT (Information and Communications Technology) companies.
- In June 2019 the Company announced a partnership with GuestTek to deliver reliable high-speed internet access (HSIA) to some of the world’s most respected hotel brands.
- In May 2019 Martello demonstrated a proof of concept of a network performance management solution for mobile applications such as autonomous vehicles, which was developed in collaboration with Blackberry QNX.

During the first six months of FY19, the following significant developments occurred:

- 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).
- In August 2018, the Company completed a reverse acquisition and began trading on September 12, 2018 on the TSXV under the symbol “MTLO”.
- In June 2018, the Company completed a private placement of \$7.5 million.
- In April 2018, the Company launched the CORE series, a new ATLAS SD-WAN as a Service hardware platform for managed service providers.

EVENTS AFTER THE REPORTING PERIOD

Short-term investments

Subsequent to September 30, 2019 the Corporation invested \$4,000,000 into a Guaranteed Investment Certificate.

BASIS OF PRESENTATION

The Company’s condensed interim consolidated financial statements and accompanying notes have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. The condensed interim consolidated financial statements should be read in conjunction with Martello’s March 31, 2019 audited annual consolidated financial statements.

Except for the adoption of IFRS 16, *Leases* (“IFRS 16”), as described in Note 2(a) to the condensed interim consolidated financial statements, the condensed interim consolidated financial statements have been prepared on a basis consistent with the accounting policies disclosed in the March 31, 2019 audited annual consolidated financial statements.

However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the “Non-IFRS Financial Measures” section below.

All amounts stated in this MD&A are in Canadian dollars unless otherwise indicated.

NON-IFRS FINANCIAL MEASURES

This MD&A includes certain non-IFRS financial measures, including EBITDA, Adjusted EBITDA, and MRR as defined below. These measures are used internally to evaluate our operating and financial performance. We believe that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate our operating results, underlying performance and prospects in a manner similar to management. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

FINANCIAL PERFORMANCE

Financial Highlights (in 000's)	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Three months ended)		(Six months ended)	
Sales	\$ 3,116	1,965	6,448	3,902
Cost of Goods Sold	265	125	509	252
Gross Margin	2,851	1,839	5,939	3,650
<i>Gross Margin</i>	%	91.5%	92.1%	93.5%
Operating Expenses	4,301	2,697	8,351	5,271
Loss from operations	(1,450)	(858)	(2,413)	(1,620)
Other income/(expense)	(131)	(1,427)	(271)	(1,866)
Loss before income tax	(1,580)	(2,285)	(2,683)	(3,486)
Income tax recovery	84	134	296	163
Net Loss	(1,497)	(2,150)	(2,387)	(3,324)
Total Comprehensive loss	\$ (1,773)	(2,150)	(2,745)	(3,324)
EBITDA (1)	\$ (1,156)	(2,144)	(1,862)	(3,204)
Adjusted EBITDA (1)	\$ (985)	(343)	(1,484)	(592)

(1) Non-IFRS measure. See "Non-IFRS Financial Measures".

Balance Sheet - Highlights

(in 000's)	September 30, 2019	March 31, 2019
Cash and restricted cash	\$ 9,007	6,649
Working capital	6,336	4,930
Total Assets	30,513	29,523
Total Liabilities	10,575	11,209
Share capital and contributed surplus ⁽¹⁾	34,269	29,901
Accumulated deficit and cumulative translation adjustment	(14,331)	(11,587)
Shares issued and outstanding	# 207,966	191,238

(1) The Company had 207,965,946 shares issued and outstanding as at September 30, 2019 (191,237,568 shares as at March 31, 2019).

Highlights for the three months ended September 30, 2019 as compared to the same period in 2018:

- Revenue of \$3,115,919 is 59% higher than the same quarter in the prior year (\$1,964,795), due to both organic growth (13%) and the acquisition of Savision in November 2018. Savision contributed \$897,195 in revenue in Q2 FY20.
- Revenue remains diversified, with UC Performance Analytics software contributing 58% of revenues, compared to 68% in the same period of FY19. This is due to the acquisition of Savision in November 2018 as Savision generated 29% of Martello's revenue in Q2 FY20.
- Recurring revenue is 92% in the current quarter compared to 82% in the same period of FY19. Growth in UC Performance Analytics revenue (98% recurring in Q2 FY20), the acquisition of Savision with recurring revenue at 95% in Q2 FY20 and a higher proportion of recurring revenue for SD-WAN technology resulted in a year-over-year increase.
- Monthly recurring revenue (MRR) increased to \$957,110 in September 2019, compared to \$535,209 at September 2018, an increase of 79%. MRR is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. The MRR measure offers insight into the predictability of Martello's monthly recurring revenue.
- Gross margin as a percentage of revenue was 91.5%, compared to 93.6% in the comparative period. The slight decrease result from increased web service hosting costs to deliver UC Performance Analytics software and sales commissions relating to ITOA software.
- Operating expenses increased by \$1,603,558 from \$2,697,176 in Q2 FY19 to \$4,300,734 in Q2 FY20. The increase includes \$1,334,689 in expenses related to Savision with remainder of the increase mainly related to growth in Sales and Marketing expenses.
- Loss from operations was \$1,449,530 compared to a loss of \$857,783 in the same period of FY19, an increase of \$591,747.
- Adjusted EBITDA (a non-IFRS measure) was a loss of \$985,457, compared to a loss of \$343,298 in the same period of FY19, an increase of \$642,159.

The increased loss from operations is due in part to amortization of intangibles arising from the Savision acquisition

(\$161,308), which were not present in the prior year. As well, Savision contributed \$492,468 in operating loss in Q2 FY20 (nil in Q2 FY19 as the acquisition occurred in Q3 FY19). Excluding Savision, the increase in revenue explained above was offset by increased sales and marketing and general and administrative expenses, relating primarily to increased marketing resources and activities, investment in systems, and costs associated with public company reporting and investor activities.

The increase in adjusted EBITDA is the result of the Savision operating loss and increased sales and marketing and G&A expenses, offset partially by the increase in revenue, as described in the paragraph above.

Highlights for the six months ended September 30, 2019 as compared to the same period in 2018:

- Revenue of \$6,448,072 is 65% higher than the same period in the prior year (\$3,901,949), due to both organic growth (18%) and the acquisition of Savision in November 2018. Savision contributed \$1,849,102 in revenue in YTD FY20.
- Revenue remains diversified, with UC performance analytics software contributing 56% of revenues, compared to 68% in the same period in FY19. This is due to the acquisition of Savision in November 2018 as Savision generated 29% of Martello's revenue in the first six month of FY20.
- Recurring revenue is 89% in the first six months of FY20, which is higher than Q2 FY19 at 81%. Growth in UC Performance Analytics revenue (98% recurring for the first six months), the acquisition of Savision (recurring revenue at 90% for the first six months) and a higher proportion of recurring revenue for network technology (SDWAN and link balancing) increased the proportion of recurring revenue year-over-year.
- Gross margin as a percentage of revenue was 92.1%, compared to 93.5% in the comparative period. The slight decrease is a result of an increase in web service hosting costs for the unified communications performance analytics software and sales commissions relating to ITOA software.
- Operating expenses increased by \$3,080,857 from \$5,270,530 in the first six months of FY19 to \$8,351,387 for the same period in FY20. The increase includes \$2,699,179 in expenses related to Savision (\$313,450 due to amortization of intangibles relating to the acquisition), with the remainder of the increase mainly related to growth in Sales and Marketing expenses.
- Loss from operations was \$2,412,610, compared to a loss of \$1,620,421 in the same period of FY19, an increased of \$792,189.
- Adjusted EBITDA (a non-IFRS measure) was a loss of \$1,483,871, compared to a loss of \$592,330 in the same period of FY19, an increase of \$891,541.

The increased loss from operations is due in part to amortization of intangibles arising from the Savision acquisition (\$313,450), which were not present in the prior year. As well, Savision contributed \$976,029 in operating loss in YTD FY20 (nil in YTD FY19 as the acquisition occurred in Q3 FY19). Excluding Savision, the increase in revenue explained above was offset by increased sales and marketing and general and administrative expenses, relating primarily to increased marketing resources and activities, investment in systems, and costs associated with public company activities. Offsetting these operating expense increases, acquisition related costs were \$318,494 lower YTD FY20 v. YTD FY19 as FY19 included higher costs leading up to the Savision acquisition and Elfiq integration costs.

The increase in adjusted EBITDA is the result of the Savision operating loss and increased sales and marketing and G&A expenses, offset partially by the increase in revenue, as described in the paragraph above.

Non-IFRS financial measures

EBITDA is a non-IFRS financial measure and is defined as net loss before interest income, interest expense, accretion of long-term debt, income tax recovery, depreciation and amortization of intangible assets.

ADJUSTED EBITDA is a non-IFRS financial measure and is calculated as EBITDA excluding share-based compensation expense, reverse acquisition costs, acquisition-related costs and foreign exchange gain/loss.

Monthly Recurring Revenue (“MRR”) is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. Recurring revenue includes:

- UC performance analytics: fees earned on a monthly per-user basis, fees earned monthly from device usage and revenue from subscription to software licenses, and fees earned monthly on support for UC enterprise management software.
- IT operations analytics: subscription sales, maintenance and support on the licenses for visualization of IT systems management data.
- SD-WAN and link balancing: fees earned from maintenance programs on hardware and software link balancing and bandwidth management solutions.

MRR is a common metric used by subscription software companies to indicate a normalized monthly revenue that is predictable and recurring in the near future and its definition is not guided by IFRS standards. Accordingly, MRR is unlikely to be comparable to similar measures presented by other issuers.

SUMMARY OF RESULTS

Note: The information contained in the following tables, including the Remaining balance and Variance calculations, is intended to assist in the year over year comparison and provide additional clarity on the year over year results.

Sales and Gross Margin

Gross Margin - Summary

(in 000's)	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Three months ended)		(Six months ended)	
Sales	\$ 3,116	1,965	6,448	3,902
Cost of Goods Sold	265	125	509	252
Gross Margin	2,851	1,839	5,939	3,650
<i>Gross Margin</i>	<i>91.5%</i>	<i>93.6%</i>	<i>92.1%</i>	<i>93.5%</i>

Sales represent:

- (a) the sale of UC- performance management solutions for real-time communications;
- (b) the sale of perpetual and subscription software licenses for visualization of IT systems management data, and maintenance and support services for these solutions; and
- (c) the sale of hardware and software link balancing and bandwidth management solutions, and maintenance and support services for these solutions.

Martello offers subscription sales (software/hardware as a service), product sales (network appliances) and software licence sales. Martello’s sales are both indirect, via distributors and value-added resellers, and direct to enterprises. Martello’s UC performance analytics software is included in Mitel’s premium software assurance plans (Mitel Performance Analytics or “MPA”) and Martello earns a monthly fee for each subscriber to the plan.

Recurring revenue includes:

- UC performance analytics: fees earned on a monthly per-user basis, fees earned monthly from device usage and revenue from subscription to software licenses, and fees earned monthly on support for UC enterprise management software.
- IT operations analytics: subscription sales, maintenance and support on the licenses for visualization of IT systems management data.

- SD-WAN and link balancing: fees earned from maintenance programs on hardware and software link balancing and bandwidth management solutions.

Cost of goods sold represents the costs of hardware, delivery and installation, sales commissions and web hosting services.

Three months ended September 30, 2019

Sales and Gross Margin - Three months ended

(in 000's)	September 30 2019			September 30 2018	
	Total	Savision	Remaining Balance*	Total	Variance
Sales	\$ 3,116	897	2,219	1,965	254
Cost of Goods Sold	265	55	210	125	84
Gross Margin	2,851	842	2,009	1,839	170
<i>Gross Margin</i>	% 91.5%	93.9%	90.5%	93.6%	-3.1%

* To facilitate comparison with the three months ended September 30, 2018, the Remaining balance represents the results of the Company's operations in Q2 FY20 without contributions from Savision (acquired in November 2018). The analysis compares the Remaining balance to the comparable period in FY19.

Revenue grew 13% between Q2 FY20 and Q2 FY19, excluding Savision. This reflects organic growth of 34% from the Mitel channel, due to an increase in recurring revenue from the number of users for Mitel's premium software assurance program and an increase in royalties from Mitel resulting from the amendment to the Company's agreement with Mitel in Q4 FY19.

SD-WAN and link balancing sales declined 32%. The decrease is mainly due to lower hardware and licensing revenue. The decreases were partially offset by an increase in recurring maintenance and support revenue quarter over quarter. Currently there is a strong focus within this line of business on bringing to market a service optimization SD-WAN solution that will deliver improved UC performance for mid-sized enterprises and service providers, who require a simple and efficient means of managing the performance of UC systems on cloud and enterprise networks. This is expected to drive new recurring revenue.

Monthly Recurring Revenue ("MRR") grew to \$957,110 at September 2019 compared to \$535,209 at September 2018, an increase of \$421,901 or 79%. The growth in MRR is due to the ITOA software MRR of \$282,724 for Q2 FY20 (nil in Q2 FY19 due to the timing of Savision acquisition) and an increase in UC Performance Analytics MRR of \$143,325.

The gross margin at 91.5% is slightly below the same period in FY19 (93.6%), as a result of an increase in web hosting costs for UC Performance Analytics software and sales commissions for ITOA software.

Six months ended September 30, 2019

Sales and Gross Margin - Six months ended

(in 000's)	September 30 2019			September 30 2018	
	Total	Savision	Remaining Balance*	Total	Variance
Sales	\$ 6,448	1,849	4,599	3,902	697
Cost of Goods Sold	509	126	383	252	132
Gross Margin	5,939	1,723	4,216	3,650	566
<i>Gross Margin</i>	% 92.1%	93.2%	91.7%	93.5%	-1.9%

* To facilitate comparison with the six months ended September 30, 2018, the Remaining balance represents the results of the Company's operations in YTD FY20 without contributions from Savision (acquired in November 2018). The analysis compares the Remaining balance to the comparable period in FY19.

Revenue grew 18% between the first six months of FY20 and FY19, excluding Savision. This reflects organic growth of 36% from the Mitel channel, due to an increase in recurring revenue from the number of users for Mitel's premium software assurance program, a one-time adjustment to revenue of \$193,094, and an increase in royalties from Mitel resulting from the amendment to the Company's agreement with Mitel in Q4 FY19.

SD-WAN and link balancing sales declined 21% between the first six months of FY20 and FY19. The decrease is mainly due to lower hardware and licensing revenue. Currently there is a strong focus within this line of business on bringing to market a service optimization SD-WAN solution that will deliver improved UC performance for mid-sized enterprises and service providers, who require a simple and efficient means of managing the performance of UC systems on cloud and enterprise networks. This is expected to drive new recurring revenue. These decreases were partially offset by an increase in recurring maintenance and support revenue quarter over quarter.

The gross margin at 92.1% is slightly below the same period in FY19 (93.5%), as a result of an increase in web hosting costs for UC Performance Analytics software and sales commissions for ITOA software.

SEGMENTED REVENUE INFORMATION

The Company operates in three operating segments: 1) Unified communications (UC) performance analytics software; 2) IT operations analytics (ITOA) software; and 3) SD-WAN and link-balancing hardware and software. These segments engage in business activities from which they earn revenues from subscription and perpetual software licenses, hardware, maintenance and support, and training and professional services.

Segmented revenue for the three and six months ended September 30, 2019 and 2018 is summarized as follows.

Sales - Three months ended

(in 000's)	September 30, 2019				September 30, 2018			
	UC performance analytics	IT operations analytics	SDWAN technology	Total	UC performance analytics	IT operations analytics	SDWAN technology	Total
Revenue recognized at a point in time								
Hardware	11	-	32	43	1	-	120	121
Perpetual licenses	25	-	45	71	5	-	215	220
Training and professional services	0	43	87	131	-	-	22	22
Revenue recognized over time								
Subscription licenses	1,741	510	-	2,251	1,335	-	-	1,335
Maintenance and support	20	344	257	621	-	-	267	267
Total revenue	1,798	897	421	3,116	1,341	-	623	1,965

For the three and six months ended September 30, 2019 and 2018

Sales - Six months ended

(in 000's)	September 30, 2019				September 30, 2018			
	UC performance analytics	IT operations analytics	SDWAN technology	Total	UC performance analytics	IT operations analytics	SDWAN technology	Total
Revenue recognized at a point in time								
Hardware	16	-	135	151	13	-	229	242
Perpetual licenses	33	76	197	306	25	-	424	449
Training and professional services	23	118	109	251	3	-	66	70
Revenue recognized over time								
Subscription licenses	3,504	946	8	4,458	2,619	-	-	2,619
Maintenance and support	38	709	536	1,283	-	-	522	522
Total revenue	3,615	1,849	984	6,448	2,661	-	1,241	3,902

Expenses

Three and six months ended September 30, 2019

Expenses - Three months ended

(in 000's)	September 30, 2019			September 30, 2018	Decrease / (Increase)*
	Total	Savision	Remaining Balance*	Total	
Research and development	\$ 1,139	328	811	787	(24)
Sales and marketing	1,389	598	791	590	(201)
General and administrative	1,395	221	1,174	1,052	(122)
Depreciation	81	27	54	20	(34)
Amortization	267	0	267	106	(162)
Acquisition-related costs	30	0	30	143	113
TOTAL	4,301	1,173	3,127	2,697	(430)

Expenses - Six months ended

(in 000's)	September 30, 2019			September 30, 2018	Decrease / (Increase)*
	Total	Savision	Remaining Balance*	Total	
Research and development	\$ 2,311	682	1,628	1,659	31
Sales and marketing	2,710	1,192	1,518	1,088	(430)
General and administrative	2,583	457	2,126	1,893	(233)
Depreciation	162	54	107	41	(67)
Amortization	525	0	525	211	(314)
Acquisition-related costs	61	0	61	379	318
TOTAL	8,351	2,386	5,966	5,271	(695)

* To facilitate comparison with fiscal year 2019, the Remaining balance represents the results of the Company's operations for Q2 and YTD FY20 without contributions from Savision (acquired in November 2018) operations. The analysis compares the Remaining balance to the comparable period in FY2019.

NOTE: Certain comparative figures have been reclassified to conform to the current year's presentation. Balances affected include General and administrative expenses and Research and development expenses.

For the three months ended September 30, 2019, operating expenses increased by \$1,603,558 compared to the same period in FY2019. Excluding Savision, the increase was \$430,178. For the six months ended September 30, 2019, operating expenses increased by \$3,080,857 compared to the same period in FY2019. Excluding Savision, the increase was \$695,128.

As Savision was acquired on November 1, 2018 the following year over year analysis excludes Savision.

Research and development (“R&D”) expenses include compensation for the research and development team as well as any sub-contract 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 by funding from the National Research Council of Canada Industrial Research Assistance Program (“NRC-IRAP”).

- R&D expenses increased \$24,120 in Q2 from FY19 to FY20 and decreased \$30,619 in the first six months of FY20 compared to FY19. The increase in R&D costs in Q2 is due to increased headcount relating to investment in product management, project management and developers and partially offset by NRC-IRAP funding in FY20 which is greater than the SRED credits in FY19. The decrease in the first six months of FY20 compared to FY19 is due to NRC-IRAP funding in FY20 which is greater than the SRED credits in FY19. The NRC-IRAP funding began in Q3 FY19 therefore there were no comparable amounts in Q2 FY19.

Sales and marketing costs include headcount related compensation (excluding sales commission accounted for in cost of goods sold) and marketing spend.

- Sales and Marketing expenses increased \$201,370 from Q2 FY19 to Q2 FY20 and \$430,124 from the first six months of FY19 to FY20. This was due to an increase in compensation for incremental marketing and sales headcount to develop capacity for future revenue growth and increased spending on marketing events.

General and administrative costs increased by \$121,843 from Q2 FY19 to Q2 FY20 and \$233,343 from the first six months of FY19 to FY20 due to costs of new software implemented during FY19, additional headcount added in FY19 and FY20, investor relations activities, and audit, tax, director and other professional fees associated with being a public company. These costs were partially offset by a decrease in rent expense of \$20,030 and \$30,820 for the three and six months ending September 30, 2019, relating to the implementation of IFRS 16 (see “*Changes in Accounting Policies*” below for further information regarding IFRS 16).

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. Due to IFRS 16 being implemented effective April 1, 2019, FY19 did not include depreciation of right-of-use assets, whereas FY20 includes depreciation of \$24,600 and \$49,200 for the three and six months ended September 30 relating to right-of-use assets.

Amortization of intangible assets relates to intangibles established on the acquisition of Elfiq and Savision. The increase in amortization relates to amortization of Savision, as it was acquired in November 2018.

Acquisition related costs decreased by \$112,513 from Q2 FY19 to Q2 FY20, and by \$318,494 from YTD FY19 to YTD FY20. The decrease year over year relates to costs incurred in FY19 leading up to the Savision implementation as well as Elfiq integration costs, whereas the costs in FY20 relate only to M&A advisor fees.

Loss from Operations

The loss from operations for the three months ended September 30, 2019 and 2018 was \$1,449,530 and \$857,783 respectively, an increase of \$591,747. The loss from operations for the six months ended September 30, 2019 and 2018 was \$2,412,610 and \$1,620,421 respectively, an increase of \$792,189.

Excluding the impact of Savision, the loss from operations increased \$260,587 year over year for the three-month period and increased \$129,609 for the six-month period ended September 30, 2019.

Excluding the impact of Savision, sales increased by 13% in the three months and 18% in the six months ended September 30, 2019 as outlined above, offset by increases in operating expenses of 16% in Q2 FY20 and 13% for YTD FY20. Key increases in operating expenses are summarized as follows:

- General and administrative costs driven by the Company’s growth and public company reporting requirements, including an expanded team, new systems and additional professional and other fees.
- Investment in sales and marketing headcount, in particular sales operations and marketing.

- Amortization of the identifiable intangible assets from the acquisition of Savision in November 2018. There was no comparable amortization in the prior year.

Other Income/Expense

Other Income / Expense (in 000's)	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Three months ended)		(Six months ended)	
Interest income	\$ 7	1	18	3
Interest expense	(65)	-	(118)	(3)
Reverse acquisition costs	-	(391)	-	(774)
Reverse acquisition transaction costs	-	(1,040)	-	(1,040)
Accretion of long-term debt	(18)	(16)	(34)	(31)
Foreign exchange gain (loss)	(56)	8	(138)	(38)
Other income	2	10	2	17
TOTAL	\$ (131)	(1,427)	(271)	(1,866)

In the three and six months ended September 30, 2019, the Company incurred interest expenses relating to the RBC term loan.

In the three months ended September 30, 2018, significant costs were incurred relating to the reverse acquisition. No similar costs were incurred in the three and six months ended September 30, 2019.

Accretion of long-term debt relates to implied interest on non-interest-bearing loans.

For the three and six months ended September 30, 2019, the Company had foreign exchange losses of \$56,027 and \$138,052 respectively compared to gains of \$8,323 and losses of \$38,450 respectively for the same period last year. Gains and losses relate to differences in exchange rates on foreign currency balances and income/expenses.

Income Tax Recovery

For the three and six months ended September 30, 2019, income tax recovery amounted to \$83,668 and \$296,208 respectively compared to \$134,365 and \$162,518 respectively for the same period last year.

The tax recovery for the three and six months relates primarily to the reversal of taxable temporary differences due to the amortization of intangibles and the increase in deductible temporary differences from losses and investment tax credits available to offset the taxable temporary differences from intangible assets. The recovery was lower in Q2 FY20 than Q2 FY19 as the deferred tax liability related to Elfiq's intangibles was almost entirely offset in the first three months ended June 30, 2019 with no benefit realized in excess of the liability from the intangible taxable temporary difference. The increase in the recovery YTD FY20 as compared to FY19 is primarily due to increases in deductible temporary differences such as SR&ED pool, and non-capital losses; and the decrease in taxable temporary differences from the amortization of intangible assets.

Other Comprehensive Loss

In the three and six months ended September 30, 2019, the Company had other comprehensive losses of \$276,481 and \$357,660, respectively. Other comprehensive loss relates to currency translation differences for Savision operations, for which EUR is the functional currency. During the period, the EUR decreased against the CAD, and therefore there were losses created by the translation of intangibles and goodwill at a lower exchange rate.

Net Loss and Comprehensive Loss

For the three and six months ended September 30, 2019, the net loss amounted to \$1,496,765 and \$2,387,018 respectively compared to \$2,150,251 and \$3,323,912 net loss recorded in the same period last year.

For the three and six months ended September 30, 2019 and 2018

The total comprehensive loss for the three and six months ended September 30, 2019 was \$1,773,246 and \$2,744,678 respectively and a loss of \$2,150,251 and \$3,323,912 for the same period in FY19.

The key drivers for the decrease in losses period over period are provided under Loss from Operations, Other Income/Expense, Income Tax Recovery and Other Comprehensive Loss above.

Non-IFRS Financial Measures - EBITDA and Adjusted EBITDA

The Company's "EBITDA" and "Adjusted EBITDA" are non-IFRS financial measures used by management that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. EBITDA is calculated as net loss before interest income, interest expense, accretion of long-term debt, income tax recovery, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA excluding share-based compensation expense, reverse acquisition costs, acquisition-related costs and foreign exchange gain/loss. 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 and six months ended September 30, 2019 was a loss of \$985,457 and \$1,483,871, compared to a loss of \$343,298 and \$592,329 in the same period ended September 30, 2018.

As further described below under "Changes in accounting policies", on April 1, 2019 the Company adopted IFRS 16 using the modified retrospective approach and, accordingly, comparative figures were not restated. The Company's accounting policy for leases under IFRS 16 results in depreciation expense on right-of-use assets and interest expense on lease liabilities, as compared to the recognition of operating expense under our previous accounting policy for leases. Therefore, the change in the classification of depreciation and interest expenses under IFRS 16 impacted Adjusted EBITDA for the three and six months ended September 30, 2019 and affected the comparability to Adjusted EBITDA for the three and six months ended September 30, 2018. Depreciation expense on right-of-use assets of \$42,469 and \$85,327 has been classified as Depreciation for the three and six months ended September 30, 2019, respectively, and included in the Adjusted EBITDA reconciliation below. Interest expense on lease liabilities of \$7,417 and \$12,726 has been classified as Interest Expense for the three and six months respectively ended September 30, 2019.

EBITDA and Adjusted EBITDA (in 000's)	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Three months ended)		(Six months ended)	
Net loss	\$ (1,497)	(2,150)	(2,387)	(3,324)
Interest income	(2)	(7)	(18)	(3)
Interest expense	(2)	65	118	3
Accretion of long-term debt	(2)	18	34	31
Income tax recovery	(2)	(84)	(296)	(163)
Depreciation	(2)	81	162	41
Amortization	(2)	267	525	211
EBITDA	(1)	(1,156)	(1,862)	(3,204)
Reverse acquisition costs	(2)	-	-	774
Reverse acquisition transaction costs	(2)	-	-	1,040
Foreign exchange (gain) loss	(2)	56	138	38
Other income	(2)	(2)	(2)	(17)
Share-based compensation expenses	(3)	86	181	397
Acquisition-related costs	(2)	30	61	379
Adjusted EBITDA	(1)	(985)	(1,484)	(592)

(1) Non-IFRS measure. See "Non-IFRS Financial Measures".

(2) Per the Statements of loss and comprehensive loss

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

SELECTED QUARTERLY INFORMATION

The following table presents certain unaudited financial information for each of the six fiscal quarters up to and including the quarter ended September 30, 2019. The information has been derived from our unaudited consolidated financial statements, which in management's opinion have been prepared on a basis consistent with the consolidated financial statements for the three and six months ended September 30, 2019 and 2018. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

Quarterly Financial Information (in 000s)	Q2 FY20	Q1 FY20	Q4 FY19	Q3 FY19	Q2 FY19	Q1 FY19
Sales	\$ 3,116	3,332	3,368	3,089	1,965	1,937
Cost of Goods Sold	265	245	267	188	125	126
Gross Margin	2,851	3,088	3,101	2,901	1,839	1,811
Expenses	4,301	4,051	4,413	4,238	2,697	2,573
Loss from operations	(1,450)	(963)	(1,312)	(1,337)	(858)	(763)
Other income/(expense)	(131)	(140)	95	83	(1,427)	(439)
Loss before income tax	(1,580)	(1,103)	(1,217)	(1,254)	(2,285)	(1,202)
Income tax recovery	84	213	148	236	134	28
Net Loss	(1,497)	(890)	(1,069)	(1,019)	(2,150)	(1,174)
Total comprehensive loss	\$ (1,773)	(971)	(1,547)	(488)	(2,150)	(1,174)
EBITDA (1)	\$ (1,156)	(706)	(843)	(987)	(2,144)	(1,060)
Adjusted EBITDA (1)	\$ (985)	(498)	(827)	(270)	(343)	(249)

(1) Non-IFRS measure. See "Non-IFRS Financial Measures".

LIQUIDITY AND CAPITAL RESOURCES

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 enough revenue to reach sustained profitability.

To date, the Company has financed its operations through the issuance of common shares, raising of long-term debt, as well as the receipt of government loans, investment tax credits and revenue generated from the sale of its products and services. After the reverse takeover transaction, the amount of the Company's SRED credits has been reduced and the timing of the application of the credits and refunds may be negatively impacted.

For the foreseeable future, the Company expects to continue financing its operations through raising equity capital and long-term debt to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business. In addition, the Company is focused on generating cashflow from operations while maintaining strong investment in research and development to maintain current revenue and drive increased growth.

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 September 2018, the Company entered into an agreement with NRC-IRAP to fund up to \$2,000,000 of development costs over three years for certain projects including the hiring of additional staff.

On November 1, 2018, in connection with the Savision acquisition, the company closed a loan facility with RBC and drew \$3,000,000 on the term loan. The loan also includes a \$1,000,000 revolving facility which is undrawn as of the date of this MD&A.

On September 27, 2019, the Company completed the Public Offering, with gross proceeds of \$4,600,000 (net proceeds of \$4,029,955) to identify and fund acquisitions, accelerate R&D activities, increase sales capacity and for general corporate purposes.

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

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled \$9,007,386 at September 30, 2019 compared to \$6,649,302 at March 31, 2019. The increase is explained below under **Cashflow Analysis**.

The following tables sets out the working capital position of the Company as at September 30, 2019 and March 31, 2019.

Liquidity Snapshot

<u>(in 000's)</u>	<u>September 30,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Current Assets	\$ 13,131	11,644
Current Liabilities	6,795	6,714
Net working capital	6,336	4,930

The increase in working capital in the first six months of FY20 was mainly due to cash from the Public Offering, partially offset by the inclusion of the current portion of the lease obligation due to IFRS 15, and an increase in the current portion of long-term debt, as well as losses from operations and repayment of the RBC term loan.

Long-Term Debt

As at September 30, 2019 long-term debt totaled \$2,979,548, including \$1,156,944 due within one year. The debt is made up of:

- \$2,288,752 term loan from RBC, bearing interest at 5.4%. The initial loan draw was \$3,000,000 and the loan is repayable over 36 months beginning February 2019.
- \$619,459 non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities for a specific project.
- \$71,337 non-interest-bearing, unsecured loan from Canada Economic Development Agency.

Share Capital

The number of common shares has been retrospectively adjusted to reflect the share exchange in connection with the reverse takeover transaction of 3.2 shares issued in the Company for each share of Martello Corp.

In the first six months of FY20, the following transactions in the share capital of Martello occurred:

- 15,333,332 shares were issued in connection with the Public Offering
- 232,000 unvested options were forfeited (762,665 forfeited in first six months of FY19);
- 90,000 options were granted (7,472,000 in first six months of FY19);
- 901,331 options were exercised (711,168 in first six months of FY19);
- 493,715 warrants were exercised (nil in first six months of FY19).

Cash Flow Analysis

(in 000'S)	Six Months Ended September 30	
	2019	2018
Operating activities		
Loss before income tax	\$ (2,683)	(3,486)
Items not affecting cash	1,535	1,089
Total cash flows used in operations	(1,149)	(2,397)
Investing Activities		
Cash acquired on reverse acquisition	-	637
Additions to equipment and leasehold improvements	(72)	(56)
Total cash flows provided by (used in) investing activities	(72)	581
Financing activities		
Proceeds from issuance of common shares	4,030	7,540
Proceeds from exercise of stock options	103	78
Proceeds from exercise of warrants	54	-
Proceeds from line of credit	-	25
Proceeds of long-term debt	12	-
Repayment of long-term debt	(487)	(103)
Repayment of lease obligations	(99)	-
Total cash flows provided by financing activities	3,614	7,541
Net change in cash and restricted cash	2,393	5,724
Cash and restricted cash, beginning of period	6,649	2,141
Effects of currency translation on cash and cash equivalents	(35)	-
Cash and restricted cash, end of period	9,007	7,866

Cash flows used in operations were \$1,148,667 for the six months ended September 30, 2019, compared to cash flows used in operations of \$2,397,372 for the six months ended September 30, 2018. The decrease in cashflows used in operations of \$1,248,705 is due to the following key factors:

- The loss before income tax is \$803,204 lower compared to the same period in FY19.
- Costs of \$1,040,012 in the six months ended September 30, 2018 associated with the reverse acquisition, which were not incurred in the current year to date.
- The net change in operating components of working capital was an increase of \$647,193 for the first six months of FY20 as compared to a decrease of \$614,899 in the prior year, due to the following:
 - Trade and other accounts receivable decreased \$497,033 in the six months ended September 30, 2019, compared to an increase of \$565,157 in the six months ended September 30, 2018. The decrease is due primarily to receipt of amounts due at March 31, 2019 and were collected during the six-month period ending September 30, 2019. In the six-months period ended September 30, 2018, accounts receivable increased due to a delay in receipt of payment from Mitel on invoices from certain products.

- Investment tax credits and grants receivable decreased by \$228,153 in the six months ended September 30, 2019 as compared to an increase of \$88,661 in the six months ended September 30, 2018. This is due to the receipt of investment tax credits receivable, which were outstanding at March 31, 2019 and cash was received in Q1 FY20, whereas in FY19 there were no similar grants receivable.
- Prepaid expenses decreased by \$72,404 in the six months ended September 30, 2019 as compared to a cash outflow of \$281,185 in the six months ended September 30, 2018. The decrease in the current year relates to expensing of certain prepaid professional fees, research services, and travel and conference costs, whereas in YTD FY19 there were cash outflows relating to prepaid professional fees, travel and conferences and software licenses.
- Accounts payable and accrued liabilities increased \$66,581 during the six months ended September 30, 2019, compared to an increase of \$401,318 in the prior year. The increase in YTD FY19 was primarily due to the accrual of professional and other fees relating to the reverse acquisition and M&A costs, whereas there were no similar accruals in YTD FY20.
- Deferred revenue decreased \$311,815 during the six months ended September 30, 2019, compared to a decrease of \$32,238 in the prior year. This reflects the recognition of revenue from subscription contracts signed prior to March 31, 2019. Although deferred revenue decreased during this period, MRR increased. The MRR metric offers insight into the predictability of Martello's monthly recurring revenue.

Cashflows used in investing activities were \$72,098 for the six months ended September 30, 2019 as compared to cashflows provided by investing activities of \$581,062 for the six months ended September 30, 2018. The use of cash in the current year was driven by the purchase of computer equipment, whereas in FY19 there was cash of \$636,942 acquired on the reverse acquisition transaction, which was non-recurring.

Cashflows provided by financing activities were \$3,613,575 for the six months ended September 30, 2019, compared to \$7,540,617 in the six months ended September 30, 2018. Cashflows provided by financing activities in YTD FY19 included \$7,540,453 from the private placement and proceeds from the exercise of stock options, offset by the repayment of a small Elfiq loan facility. Cashflows provided by financing activities in YTD FY20 reflect the net proceeds of \$4,029,955 from the Public Offering and proceeds from the exercise of stock options and warrants, offset by monthly repayments totaling \$486,793 on the RBC loan facility and the repayment of lease obligations. In the prior year, lease payments were included in operating expenses.

COMMITMENTS

The Company entered a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017 extending through to February 29, 2022. During the year ended March 31, 2019 the lease was amended to increase the leased space, effective January 1, 2019. The lease is with a related party, as described in note 15 *Related party transactions and balances*. In addition, the Company is committed to a 5-year lease for office premises in Amsterdam, Netherlands commencing February 1, 2018 and extending through to January 31, 2023.

Future minimum lease payments in each fiscal year are as follows:

Lease commitments

(in 000's)	Martello Corp.	Savision B.V.	Elfiq Inc.	Total
Fiscal year ended				
2020	124	54	15	193
2021	247	101	-	349
2022	227	92	-	319
2023	-	77	-	77
TOTAL	598	324	15	937

OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2019 and March 31, 2019, 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 SAVISION

On November 1, 2018, the Company acquired Savision. The purchase price was \$10,643,992 which was payable in cash (\$3,628,083) and the issuance of 18,709,090 common shares in the Company.

A finder's fee of \$358,625 was paid to Sampford Advisors, who acted as the exclusive M&A advisor to Martello on the Savision transaction.

The consolidated statements of loss and comprehensive loss include \$876,096 and \$1,849,102 in revenue for the three and six months ended September 30, 2019, and \$453,409 and \$839,915, respectively, in net loss for the three and six months ended September 30, 2019. The Savision acquisition closed in Q3 FY19 and therefore results for the three and six months ended September 30, 2018 did not include any contributions from Savision.

RBC LOAN

In conjunction with the acquisition of Savision, the Company closed a financing arrangement with the Royal Bank of Canada ("RBC") in November 2018. 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% and 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.

MITEL AGREEMENT AMENDMENT

In January 2019, Martello signed an amendment to its agreement with Mitel. The terms of the agreement include expanding the coverage of Martello's software to additional Mitel communications platforms, and extending the renewal term. Under the terms of the amended agreement, Martello will develop support in its software for the MiVoice Connect enterprise call platform, as well as the MiVoice 5000 communications and collaboration solution and the MiVoice Office 400. The amendment also extends the term of the agreement by two years with automatic two-year renewals thereafter and provides for an increased fee per user received by Martello on certain Mitel offerings. Martello's UC performance analytics software is called Mitel Performance Analytics ("MPA") when sold in the Mitel channel.

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 the Board of Directors, who control approximately 24% of the Company as at September 30, 2019. Included in accounts payable and accrued liabilities are balances as at September 30, 2019 totaling \$191,954 (March 31, 2019 - \$246,545) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board was also the chairman of Mitel until November 30, 2018 and is the chair of Wesley Clover International Corporation ("Wesley Clover"). Wesley Clover owns 19% of the issued and outstanding common shares of the Company as at September 30, 2019.

The Company leases office premises from Wesley Clover. Included in the condensed interim consolidated statement of financial position are \$237,805 of right-of-use assets (March 31, 2018 - \$nil) and \$280,268 of lease obligations (March 31, 2018 - \$nil), relating to the Company's lease with Wesley Clover. Operating expenses under the related party lease have

the minimum annual payments disclosed in note 19 to the interim consolidated financial statements. For the three and six months ended September 30, 2019, the Company incurred \$23,415 and \$55,242 in rent expense, respectively (three and six months ended September 30, 2018 - \$43,448 and \$86,062, respectively) and \$24,600 and \$49,200 in depreciation expense (three and six months ended September 30, 2018 - \$nil). Included in accounts payable and accrued liabilities at September 30, 2019 is an account payable of \$1,158 (September 30, 2018 - \$6,489) to Wesley Clover.

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

OUTLOOK

Martello helps businesses control the performance of their most critical cloud-hosted services – from Office 365 to other unified communications services, in today’s complex network environments.

The Company has taken a systematic approach to growing its high-quality recurring revenue stream. Having grown its core business in the Mitel channel, Martello now has millions of telephony users under management by its software, and large amounts of data about how real-time services perform on networks. The Company has acquired businesses whose technology is strategic to Martello’s mission to control the performance of services in complex network environments.

Martello is integrating these technologies to capture a significant emerging market opportunity: the optimization of business critical services on cloud networks. For example, Office 365 now has 200 million monthly active users, growing the service at a pace of 3 million users per month.¹ Gartner has reported that 42% of problems with Office 365 (as reported by users) can be attributed to network performance.² Martello is confident that executing on this service optimization opportunity will grow the Company’s high-quality, recurring revenue stream.

In pursuing the market opportunity for service optimization solutions to drive recurring revenue growth, Martello is leveraging its SD-WAN and link balancing technology. As this progresses, there has been a decline in one-time SD-WAN and link balancing sales revenue. Martello is actively engaged with a small number of customers who have validated the value proposition for the service optimization solutions currently in development and expects to have trials underway by the end of fiscal 2020.

The Company will focus on the activation and acceleration of strategic partnerships, which can become channels for Martello’s acquired product lines and integrated service optimization solutions. These partnerships include Mitel, a channel in which Martello already has thousands of customers, Paessler and Microsoft. In November, Martello joined Microsoft’s Co-Sell program, which offers access to Microsoft’s global ecosystem of sellers and more than 75 million buyers, for its software which provides service assurance analytics for Office 365 and Azure.

Channel development is a key area of focus for the Company as part of its systematic approach to recurring revenue growth, and will help accelerate the cross-sell of acquired technologies into the various Martello channels. The Company will increase channel enablement activity to expand its network of resellers, MSPs and distributors, and address key global regions. The Company believes that it can drive more high-quality, recurring revenue through these channels, including from selling SD-WAN service optimization solutions in the future.

The Company’s cash position grew to \$9M as at September 30th, as a result of the net proceeds of a successful \$4.6 million overnight marketed public offering in September. The cash position enhances Martello’s capacity to accelerate revenue growth by targeting and acquiring strategic assets, and investing in operations including sales and marketing, and research and development.

The Company has enough funding for operations for the foreseeable future. Martello’s revenue base has diversified, most recently from the acquisition of Savision in Q3 FY19. This has reduced the proportion of Martello’s revenue coming from the Mitel channel, even as revenues continue to increase from this channel.

1. Microsoft Q1 FY2020 Financial Results (23 October 2019)

2. Gartner: Network Design Best Practices for Office 365 (22 March 2018)

In addition, the Company has established a strong platform for future acquisitions with investments to expand the R&D and product management teams, enhance sales and marketing activities, and implement new systems to drive efficiencies. As a result, future acquisitions will integrate effectively, enhancing the Company's product lines and driving additional revenue and EBITDA.

CHANGES IN ACCOUNTING POLICIES

Standards, amendments and interpretations to existing IFRS standards which have been issued but are not yet effective as at the date of this MD&A are disclosed below. Martello intends to adopt these standards, if applicable, when they become effective.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 which replaces IAS 17, Leases ("IAS 17"), IFRIC 4, Determining whether an Arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC -27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17, and report their effects. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The Company adopted IFRS 16 with effect from April 1, 2019 using the modified retrospective approach and accordingly did not restate comparative information for the prior periods presented.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at an amount equal to the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently measured at cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the shorter of the lease term or useful economic life of the asset. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the unpaid lease payments as at the commencement date, discounted using the Company's incremental borrowing rate unless the interest rate implicit in the lease is known. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if there is a change in future lease payments arising from a change in an index or rate; there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or the Company changes its assessment of whether it will exercise a purchase, extension or termination option. On remeasurement, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or directly in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line.

Effect of adoption of IFRS 16

The Company adopted IFRS 16 with effect from April 1, 2019 using the modified retrospective approach and accordingly did not restate comparative information for the prior periods presented.

On initial application, the Company elected to record right-of-use assets based on the corresponding lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. The Company elected to apply the following additional practical expedients on initial application: to exclude initial direct costs in the measurement of the right-of-use assets in existence at April 1, 2019; apply hindsight in assessing certain lease extension options; and exclude from the application of the standard any leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company applied the definition of a lease and the requirements of IFRS 16 to its leases of real estate in Ottawa and Amsterdam based on the contracts that were in effect on April 1, 2019.

Right-of-use assets of \$566,692 and corresponding lease liabilities of \$613,113 were recorded as of April 1, 2019, with no net impact on retained earnings and were calculated as follows:

Right-of-use asset:

Balance at March 31, 2019	\$	-
Adoption of IFRS 16 on April 1, 2019		613
Less unamortized leasehold incentives		<u>(46)</u>
Balance at April 1, 2019		567
Depreciation for the period		(85)
Foreign exchange translation		<u>(9)</u>
Balance at September 30, 2019		<u>472</u>

Lease liability:

Balance at March 31, 2019	\$	-
Adoption of IFRS 16 on April 1, 2019		<u>613</u>
Balance at April 1, 2019		613
Interest expense		13
Payments		(99)
Foreign exchange translation		<u>(9)</u>
Balance at September 30, 2019		<u>518</u>

For the three and six months ended September 30, 2019, the Company recognized \$42,469 and \$85,327, respectively, as depreciation on right-of-use asset, and \$7,417 and \$12,726, respectively, as interest expense on the lease liability. No other lease contracts were entered into during the six months ended September 30, 2019 to which the standard applies.

In applying the practical expedient for short-term leases, the Company has excluded rent payments of \$60,763 from the right-of-use asset and lease liability calculations.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at April 1, 2019 of 5.4%.

The Company has applied judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis, which has a significant effect on the measurement of the lease liability and right-of-use assets recognized. Management considers many factors including any events that create an economic incentive to exercise a renewal option including expected future performance and past business practice. The Company has also exercised judgment in determining the incremental borrowing rate based on the term, security, the lessee entity's economic environment, credit rating, level of indebtedness and asset specific adjustments.

The following table reconciles the Company's operating lease obligations at March 31, 2019, as previously disclosed in note 25 to the Company's 2019 annual consolidated financial statements, to the lease liability recognized on initial application of IFRS 16 at April 1, 2019:

	Total \$
Operating lease commitment as at March 31, 2019	1,221,630
Recognition exemption of low value leases	(35,683)
Recognition exemption of leases with terms less than 1 year	(106,335)
<u>Lease operating costs not included in the measurement of lease obligations</u>	<u>(433,443)</u>
Operating lease commitments (undiscounted)	646,169
 Discounted using the incremental borrowing rate and recognised as at April 1, 2019	 613,113

Uncertainty over Income Tax Treatments

In June 2017, the International Accounting Standards Board (IASB) issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments (the "Interpretation") to address the accounting for income taxes when treatments involve uncertainty that affects the application of IAS 12, Income Taxes ("IAS 12"). The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Interpretation had no impact on the condensed interim consolidated financial statements; therefore, the Company was able to implement the Interpretation retrospectively without any adjustment.

CRITICAL ACCOUNTING ESTIMATES

The audited annual consolidated 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. 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.

Significant judgments in the financial statements of Martello for the three and six months ended September 30, 2019 relate to business combinations, determination of functional currencies, fair value of interest free debt, deferred tax assets and liabilities, current income tax assets and liabilities, share-based compensation and warrants, cost allocation of long-lived assets, evaluation of goodwill impairment, the determination of the appropriate lease terms and the assessment of revenues occurring at a point in time, over a period of time or based on usage. For further details reference should be made to Note 3 of the consolidated financial statements for years ended March 31, 2019 and 2018, and to "Changes in Accounting Policies" above.

FINANCIAL INSTRUMENTS

This section should be read in conjunction with the accompanying consolidated financial statements for the three and six months ended September 30, 2019 and 2018. The financial instruments of the Company are as follows:

(in 000's)	September 30, 2019	March 31, 2019
Financial assets		
Cash and cash equivalents	\$ 8,980	6,621
Restricted cash	27	28
Trade and other accounts receivable	2,856	3,368
Investment tax credits and grants receivable	660	888
Total financial assets	12,523	10,905

(in 000's)	September 30, 2019	March 31, 2019
Financial liabilities		
Accounts payable and accrued liabilities	\$ 2,293	2,259
Foreign exchange forward contract liability	48	6
Long-term debt (including current portion)	2,980	3,420
Total financial liabilities	5,320	5,685

As at the above dates, the carrying amounts and the fair values of financial assets and liabilities are equivalent.

The Company's primary risk management objective is to protect the Company's financial position and cash flows, in order to increase the Company's enterprise value. The Company is financed through a mixture of debt and equity. The Company is exposed to market risk, credit risk, interest rate risk, foreign exchange risk and liquidity risk. The Company's senior management and Board oversee the management of these risks.

Market risk is the risk of fluctuation in the fair value of future cash flows because of changes in market prices, including foreign exchange rates. As a substantial portion of the Company's sales are in United States dollar (USD) and the Euro (EUR), the Company is exposed to risk of changes in foreign exchange rates. During the six months ended September 30, 2019, the Company entered into derivative financial instruments (foreign exchange forward contracts) to manage foreign currency risk with the USD. As of September 30, 2019, the Company is committed under outstanding foreign exchange forward contracts to sell USD, representing sales commitments of USD \$2,000,000. Currently, the Company has no derivative instruments to reduce its exposure to the EUR.

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. The Company 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 Company maintains strict credit policies and limits in respect to counterparties and does not expect future credit losses.

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 reviewing its capital and operating requirements on an ongoing basis.

The Company is not exposed to a significant interest rate risk as the RBC term loan is at a fixed rate, much of the remaining 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.

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, in addition to those noted above.

Competition

The industry in which the Company is positioned is rapidly evolving and the Company faces intense competition for its products and services. Other companies may invest more time and resources in developing competitive technology, products or solutions. The competitive environment could result in loss of market share.

Customer acceptance of products and services

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

Risks inherent in acquisitions

The Company may acquire assets, products or businesses in the future that it believes will complement or augment its existing business. Risks associated with acquisition activity include inability to find or complete suitable acquisition deals at reasonable prices, greater than expected product integration or development costs and delays, 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.

Dependence on Mitel Networks

As a channel partner, Mitel accounted for 58% and 56%, respectively, of the Company's revenue during the three and six months ended September 30, 2019 (68% for the three and six months ended September 30, 2018). Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services. The current agreement was originally signed on April 21, 2017 for an initial term of one year with automatic annual renewals.

In January 2019, the Company signed an amendment to the agreement with Mitel. The terms are expected to be favourable to Martello's revenues, and include expanding the coverage of Martello's software to additional Mitel communications platforms, extending the term to provide products and services for an additional two years with automatic two year renewals thereafter, and increasing the fee per user that Martello receives on certain Mitel offerings.

Among other factors, if the relationship with Mitel changes, if Mitel's reliance on the Company's products is reduced because of changes to their business structure or strategy, if the Company is unable to provide suitable support for new or additional products and ongoing product updates or is unable to reach commercially agreeable pricing and other terms for support, or if Mitel business decreases, this could lead to a loss of a significant portion of the Company's business. This risk is mitigated by the Company's acquisition strategy, including the acquisition of Savision in November 2018.

Rapid Technological Change

The nature of Martello's industry is one of frequent new product introductions and evolving industry standards, which could cause the Company's hardware products and software solutions to become obsolete. The length or direction of Martello's development cycle may impact its ability to react to new technology trends and customer needs.

Currency Fluctuations

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

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.

Failure to effectively manage product lifecycles

Failure to effectively manage product lifecycles, including introduction of new products, release of new features and transitioning customers from end of life products to new products, could result in customer dissatisfaction and impact the Company's operating results negatively.

Other Risk Factors

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

- The Company's success is dependent on its ability to hire, retain and motivate qualified people to develop the solutions and services that respond to technological developments and evolving customer needs, and to execute on product and business strategies.
- There is no assurance that research and development efforts will produce revenue in the near-term, if at all.
- International operations will result in increased operational, regulatory, tax, legal and other risks.
- The Company may need to raise additional capital in order to support the continued growth of the business. The interest of 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.
- The Company's success is dependent upon its ability to adapt its business model to keep pace with industry trends, and development of appropriate business and pricing models. Pricing changes or changes to sales models by Martello's 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 Martello's reputation, lead to returns of products or services and possibly reduced future sales.
- The Company's success depends on the cooperation of its current and target hardware and software vendors and partners and on expected functionality of third-party hardware and software to ensure interoperability with the Company's 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 investment tax credits from SRED have decreased and the timing of the application of the credits is negatively affected due to the Reverse Acquisition.
- 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, 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.
- The Company depends on its own 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 or suppliers could seriously harm the business. Risks such as malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks may occur from inside or

outside of the Company. It is increasingly difficult to identify and protect against these risks due to the rapidly evolving nature of the threats.

- 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 with adverse effect on the operating results and on the business.
- 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.
- The Company's SaaS offerings rely on third-party providers for data center space and colocation services. Should these services be disrupted or discontinued, it could result in a loss of current and future business to the Company.

Martello's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results.