

Unaudited condensed interim consolidated financial statements of

Martello Technologies Group Inc.

For the three and six months ended September 30, 2020 and
2019

Martello Technologies Group Inc.

For the three and six months ended September 30, 2020 and 2019

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Martello Technologies Group Inc.

Condensed interim consolidated statements of loss and comprehensive loss For the three and six months ended September 30, 2020 and 2019

Unaudited

(In Canadian dollars)

		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	Notes	(3 months ended)		(6 months ended)	
Income					
Sales	6,7	\$ 4,395,098	\$ 2,694,695	\$ 7,722,153	\$ 5,452,218
Cost of goods sold		215,420	180,056	407,036	352,038
Gross margin		4,179,678	\$ 2,514,639	7,315,117	5,100,180
Expenses					
Research and development	9	1,216,403	914,210	2,194,884	1,960,238
Sales and marketing	9	1,288,378	947,007	2,228,252	1,896,949
General and administrative	9	1,520,343	1,189,306	2,615,995	2,147,172
Depreciation	15	142,400	72,307	236,534	144,841
Amortization		499,425	161,001	776,778	312,833
Acquisition-related costs		95,463	30,000	934,291	60,878
		4,762,412	3,313,831	8,986,734	6,522,911
Loss from operations		(582,734)	(799,192)	(1,671,617)	(1,422,731)
Other income (expense)					
Interest income		2,286	6,908	4,698	16,600
Interest expense		(594,002)	(65,336)	(728,808)	(112,935)
Financing fees		(21,728)	-	(404,517)	-
Accretion of long-term debt		(14,022)	(15,273)	15,997	(30,243)
Foreign exchange gain (loss)	20	247,377	(54,924)	118,004	(134,418)
Other income		(9,815)	1,000	(9,464)	1,000
Loss from continuing operations before income tax		(972,638)	(926,817)	(2,675,707)	(1,682,727)
Income tax recovery (expense)		(67,578)	83,668	(19,745)	162,785
Net loss from continuing operations		(1,040,216)	(843,149)	(2,695,452)	(1,519,942)
Gain (Loss) from discontinued operations, net of tax	5	103,063	(653,616)	(320,171)	(867,077)
Net loss		(937,153)	(1,496,765)	(3,015,623)	(2,387,019)
Other comprehensive income (loss) that may be reclassified to net income (loss):					
Cumulative translation adjustment		849,479	(276,481)	766,794	(357,660)
Pension plan fair value adjustment		18,532	-	52,880	-
Total comprehensive loss		(69,142)	(1,773,246)	(2,195,949)	(2,744,679)
Weighted average shares outstanding					
Basic and diluted		229,407,208	192,638,535	247,194,513	191,938,051
Net loss per share from continuing operations	10				
Basic and diluted		\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Net earnings (loss) per share from discontinued operations	10				
Basic and diluted		\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Net loss per share, basic and diluted	10	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (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, 2020 and March 31, 2020
Unaudited
(In Canadian dollars)

	Note	September 30, 2020	March 31, 2020
Assets			
Current assets			
Cash	11	\$ 3,945,382	\$ 2,900,074
Short-term investment		220,000	3,000,000
Trade and other accounts receivable	12	4,305,615	3,733,737
Investment tax credits and grants receivable	9	977,132	376,634
Prepaid expenses		866,631	547,506
Inventories		75,093	242,413
Lease receivable	15	45,167	-
Total current assets		10,435,020	10,800,364
Goodwill	6	21,214,563	7,984,317
Intangible assets	6	14,773,977	5,427,120
Equipment and leasehold improvements		408,501	435,156
Right-of-use assets	15	1,306,131	594,642
Investment	5	303,750	-
Lease receivable	15	115,095	-
Total assets		48,557,037	25,241,599
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	3,419,686	2,525,729
Foreign exchange forward contract liability		-	149,800
Current portion of deferred revenue	7	5,834,712	2,956,373
Current portion of long-term debt	14	179,400	1,222,330
Current portion of lease obligation	15	436,846	253,682
Total current liabilities		9,870,644	7,107,914
Deferred revenue	7	1,615,401	1,181,563
Long-term debt	14	9,771,056	1,246,517
Lease obligation	15	1,071,919	385,206
Pension obligation	3, 16	793,903	-
Deferred tax liability		506,902	225,688
Total liabilities		23,629,825	10,146,888
Shareholders' equity			
Share capital	17	41,078,820	31,780,139
Contributed surplus	17	2,961,461	2,726,868
Warrants	17	2,514,676	19,500
Accumulated other comprehensive income		1,210,890	391,216
Deficit		(22,838,635)	(19,823,012)
Total shareholders' equity		24,927,212	15,094,711
Total liabilities and equity		48,557,037	25,241,599

Approved by the Board on November 17, 2020 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, 2020 and 2019

(In Canadian Dollars)

	Notes	Shares outstanding	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at April 1, 2019		191,237,568	27,443,488	37,500	2,419,902	52,791	(11,639,465)	18,314,216
Net loss for the period		-	-	-	-	-	(2,387,018)	(2,387,018)
Other comprehensive loss		-	-	-	-	(357,660)	-	(357,660)
Total comprehensive loss for the period		-	-	-	-	(357,660)	(2,387,018)	(2,744,678)
Issuance of common stock	17	15,333,332	4,600,000	-	-	-	-	4,600,000
Less: Transaction costs attributable to share and warrant issuance	17	-	(570,045)	-	-	-	-	(570,045)
Exercise of warrants		493,715	72,309	(18,000)	-	-	-	54,309
Exercise of stock options	17	901,331	166,160	-	(62,961)	-	-	103,199
Share-based compensation	17	-	-	-	181,016	-	-	181,016
Balance as at September 30, 2019		207,965,946	31,711,912	19,500	2,537,957	(304,869)	(14,026,483)	19,938,017
Balance at April 1, 2020		208,516,111	31,780,139	19,500	2,726,868	391,216	(19,823,012)	15,094,711
Net loss for the period		-	-	-	-	-	(3,015,623)	(3,015,623)
Other comprehensive income		-	-	-	-	819,674	-	819,674
Total comprehensive loss for the period		-	-	-	-	819,674	(3,015,623)	(2,195,949)
Issuance of common stock	17	54,861,250	9,468,763	-	-	-	-	9,468,763
Issuance of Offering Warrants	17	-	-	862,466	-	-	-	862,466
Issuance of Bonus Warrants	17	-	-	1,942,100	-	-	-	1,942,100
Less: Transaction costs attributable to share and warrant issuance	17	-	(816,130)	(289,890)	-	-	-	(1,106,020)
Issuance of compensation option units	17	-	-	-	216,680	-	-	216,680
Exercise of warrants	17	274,285	40,171	(10,000)	-	-	-	30,171
Expiry of warrants	17	-	-	(9,500)	9,500	-	-	-
Exercise of stock options	17	3,322,665	605,877	-	(229,920)	-	-	375,957
Share-based compensation	17	-	-	-	238,333	-	-	238,333
Balance as at September 30, 2020		266,974,311	41,078,820	2,514,676	2,961,461	1,210,890	(22,838,635)	24,927,212

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, 2020 and 2019

(in Canadian Dollars)

		September 30	September 30
	Note	2020	2019
Operating activities			
Net loss from continuing operations before income tax	\$	(2,675,707)	\$ (1,682,727)
Net loss from discontinued operations before income tax		(320,171)	(867,076)
Items not affecting cash:			
Depreciation	15	236,534	144,841
Amortization of leasehold incentives		-	(11,288)
Amortization of intangible assets	6	776,778	312,833
Amortization of debt issuance cost		187,765	-
(Increase) decrease in fair value of hedge liability		(149,800)	41,955
Accretion of long-term debt	14	(15,997)	30,243
Share-based compensation	2,9,17	238,333	181,016
Defined benefit plan expense	16	55,053	-
Lease interest expense	15	21,006	12,726
Accrued interest expense		95,761	-
Unrealised foreign exchange gain		(277,664)	(24,018)
Income tax refund		-	7,814
Net change in operating components of working capital	18	(3,283,770)	705,014
Total cash flows used in operations		(5,111,878)	(1,148,667)
Investing activities			
Purchase of short term investments		(350,000)	-
Sale of short-term investments		3,130,000	-
Additions to equipment and leasehold improvements		(43,949)	(72,098)
Proceeds from sale of subsidiary	5	424,702	-
Business acquisition, net of cash acquired	6	(11,557,474)	-
Total net cash flows used in investing activities		(8,396,721)	(72,098)
Financing activities			
Proceeds from issuance of common stock	17	4,958,763	4,029,955
Common stock issuance costs	17	(660,437)	-
Proceeds from exercise of stock options	17	375,957	103,199
Proceeds from issuance of warrants	17	1,942,100	-
Proceeds from exercise of warrants	17	-	54,309
Warrants issuance costs	17	(228,902)	-
Proceeds from long-term debt	14	10,975,967	12,000
Debt issuance costs	14	(845,424)	-
Repayment of long-term debt	14	(1,805,332)	(486,793)
Repayment of lease obligations	15	(192,880)	(99,095)
Proceeds from exercise of warrants	17	30,171	-
Total cash flows provided by financing activities		14,549,983	3,613,575
Net change in cash		1,041,384	2,392,810
Cash, beginning of period		2,900,074	6,649,302
Effects of currency translation on cash		3,924	(34,726)
Cash, end of period		3,945,382	9,007,386

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

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

1. Corporate information

Martello Technologies Group Inc. (the "Corporation") is a provider of digital experience monitoring (DEM) solutions. The Corporation's common shares are traded on the TSX Venture Exchange ("TSXV") under the trading symbol MTLO.

On May 29, 2020, the Corporation acquired 100% of the shares of GSX Participations SA and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions Inc. ("GSX"). GSX Participations SA was incorporated in Switzerland in 2008. Sàrl GSX Groupware Solutions was incorporated in France in 2008 and GSX Groupware Solutions, Inc. was incorporated in the state of Massachusetts in 2003.

2. Basis of preparation and accounting policies

The condensed interim consolidated financial statements have been prepared under the going concern assumption and using the historical cost basis, unless otherwise noted.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and should be read in conjunction with the Corporation's most recent annual audited consolidated financial statements, which are for the year ended March 31, 2020.

Significant accounting policies

The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2 of the Corporation's 2020 annual consolidated financial statements, except for the following additions to the policies as set out below:

(a) *New accounting policies*

i. *Employee benefits*

Wages, salaries and bonuses are recognized in the year in which the services are rendered by employees of the Corporation. Employee benefits also include defined benefit pension benefits for employees of GSX Participations SA. Assets and obligations and related costs of the defined benefit plan are accounted for using the following accounting policies:

- (a) Defined benefit obligations are determined from actuarial calculations using the projected unit credit method.
- (b) For the purposes of calculating the estimated rate of return on plan assets, assets are measured at fair value.
- (c) Actuarial gains or losses arise from the difference between the effective yield of plan assets for a period and the expected yield on plan assets for the period, from changes in actuarial assumptions used to determine defined benefit obligations and from emerging experience that differs from the selected assumptions. Actuarial gains or losses are recognized under other comprehensive income (loss) in the period in which they occur.
- (d) Net interest is recognized in the condensed interim consolidated statements of loss and comprehensive loss calculated using the discount rate by reference to market yields at the valuation date and when plan assets and obligations are measured.
- (e) Net defined benefit liability is determined based on the excess of plan obligations over plan assets.

ii. *Share based payments*

For share-based compensation granted to non-employees, the expense is measured at the fair value of the compensation, except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

Basis of preparation and accounting policies (continued)

Significant accounting policies (continued)

iii. *Equity instruments*

The Corporation has adopted the residual value method with respect to the measurement of common shares and warrants issued as equity units. The amount assigned to the common share is the excess of the unit price over the value of the warrant determined by using an appropriate option pricing model.

Equity issuance costs directly attributable to the issue of common shares and warrants are shown as a deduction from the proceeds. For common shares and warrants issued as a unit, the equity issuance costs are allocated to the common shares and warrants based on the relative allocation of proceeds.

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 judgments, estimates and assumptions applied in the preparation of these condensed interim consolidated financial statements are the same as those disclosed in note 3 to the 2020 annual consolidated financial statements with the addition of the following:

Defined-benefit pension plans

The Corporation has a defined benefit pension plan, mandated by Swiss law, that provides certain benefits to the employees of GSX Participations SA. The actuarial valuation of this plan is based on assumptions, which include discount rates, inflation, mortality rates, retirement probabilities, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the pension benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

4. Fair value measurement

The carrying amounts of the Corporation's cash, cash equivalents, restricted cash, trade and other receivables, investment tax credits and grants 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.

Long-term debt is measured using observable interest rates at initial recognition and is categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts, which were entered into on March 9, 2020, represented a net liability of \$nil at September 30, 2020. The 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. The hierarchy is described in Note 21 of the March 31, 2020 annual financial statements.

In July 2020, as a result of the Company's sale of certain assets of the NPM segment to Adaptiv Networks Inc. ("Adaptiv"), the Company received cash consideration of \$424,702 and common shares of Adaptiv valued at \$303,750. The investment is valued as fair value through adjustment to profit and loss. The fair value of this investment is determined using level 3 inputs. There were no losses or gains recognized during the three months ended September 30, 2020.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

5. Discontinued Operations

In the first quarter of the 2021 fiscal year the Corporation initiated a review of the former network performance management operating segment ("NPM segment") and made a decision to divest the assets of this segment.

The Corporation divested the assets of this segment on July 22, 2020. Details of the disposal are as follows:

Carrying amounts of net assets disposed of	
	July 22, 2020
Assets	
Current assets	\$
Trade and other accounts receivable	295,772
Prepaid expenses	15,841
Inventories	157,404
Total current assets	469,017
Non-current assets	
Equipment and leasehold improvements	88,225
Intangible assets	821,168
Total assets	1,378,410
Liabilities	
Current liabilities	
Deferred revenue	497,595
Accounts payable and accrued liabilities	59,674
Lease obligation	5,394
Total current liabilities	562,663
Non-current liabilities	
Deferred revenue	203,370
Total liabilities	766,033
Net assets disposed of	612,377
Gain on Sale of NPM segment	\$
Cash proceeds of sale	424,702
Promissory note receivable	100,000
Shares of Adaptiv	303,750
Proceeds of sale	828,452
Net assets disposed of	(612,377)
Gain on disposal, before tax	216,075

The sale of the NPM segment constitutes the sale of a separate major operating segment, and as a result the Corporation has reported the financial results as discontinued operations for all periods presented.

The comparative results of the discontinued operations included in net loss for the three and six month period ended September 30, 2020 are set out below.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

Discontinued Operations (continued)

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Income				
Sales	\$ 42,355	\$ 421,224	\$ 352,915	\$ 995,854
Cost of goods sold	11,820	84,659	55,194	157,258
Gross margin	30,535	336,565	297,721	838,596
Expenses				
Research and development	7,681	224,523	389,933	350,491
Sales and marketing	24,834	442,313	197,217	812,864
General and administrative	99,735	205,307	138,761	435,950
Depreciation	5,983	8,508	33,485	16,667
Amortization	271	106,252	71,376	212,504
	138,504	986,903	830,772	1,828,476
Loss from discontinued operations	(107,969)	(650,338)	(533,051)	(989,880)
Other income/expense				
Interest income	-	-	-	1,134
Interest expense	(2,148)	-	(4,560)	(4,696)
Accretion of long-term debt	(3,258)	(2,779)	(6,389)	(4,028)
Foreign exchange gain (loss)	364	(1,103)	7,755	(3,634)
Other income	-	604	-	604
Gain on disposal	216,075	-	216,074	-
Income / (Loss) before income tax	103,064	(653,616)	(320,171)	(1,000,500)
Income tax recovery	-	-	-	133,423
Income / (Loss) from discontinued operations	103,064	(653,616)	(320,171)	(867,077)

The following table presents the effect of the discontinued operations on the consolidated statements of cash flows:

	Six months ended	
	September 30, 2020	September 30, 2019
Cash (used in) provided by operating activities	(36,245)	75,299
Cash (used in) provided by investing activities	424,702	-
Cash (used in) provided by financing activities	-	6,355
Net cash outflow	388,457	81,654

6. Business acquisitions

On May 29, 2020 the Corporation purchased 100% of the issued and outstanding shares of GSX Participations SA and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions, Inc. (the "GSX Acquisition"). GSX provides end-user experience monitoring for Microsoft 365 users. The transaction was accounted for as a business combination. The fair values of the identifiable asset and liabilities acquired have been based on management's best estimates and valuation techniques as at the acquisition date.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

Business acquisitions (continued)

As of September 30, 2020, the analysis of identified intangible assets and fair values is incomplete, as such all of the difference between the purchase consideration and the assets acquired and liabilities assumed has been allocated to goodwill and intangible assets. The estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed.

In total, the consideration for the transaction amounted to \$16,521,601 which included \$12,011,601 in cash and \$4,510,000 for the issuance of 22,000,000 common shares.

The purchase price was allocated as follows:

	\$
Net assets (liabilities) acquired, other than undernoted items	(6,590,059)
Deferred tax liability	(366,898)
Goodwill and intangible assets acquired	23,478,558
Total purchase price	16,521,601

The net liabilities acquired included the following:

	\$
Cash	454,127
Trade and other accounts receivable	1,418,110
Prepaid expenses	335,063
Equipment & leasehold improvements	97,830
Right-of-use assets	1,172,045
Total assets	3,477,175
Accounts payable and accrued liabilities	3,072,900
Deferred revenue	4,972,490
Lease obligation	1,190,906
Pension obligation	830,938
Total liabilities	10,067,234
Net liabilities acquired	(6,590,059)

The fair value and gross contractual amount of trade accounts receivable acquired was \$1,418,110.

The net cash outflow on the acquisition of GSX is as follows:

	\$
Consideration paid in cash	12,011,601
Less: Cash and cash equivalents acquired	454,127
Net cash outflow	11,557,474

Goodwill arose in the acquisition of GSX because the cost of acquisition included a control premium and also reflected the benefit of expected revenue growth, diversification of product offering 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.

For the period from May 29, 2020 to September 30, 2020, GSX accounted for \$1,732,744 and \$2,331,767 in sales for three and six months ended September 30, 2020. GSX also recognized \$201,915 and \$393,082 of net loss for three and six months ended September 30, 2020.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

7. Revenue

The geographic location of revenues, based on the location of its customers, is as follows:

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenue for the period ended				
Canada	1,569,756	1,312,594	2,989,433	2,687,981
United States	1,124,794	584,721	1,945,474	1,118,929
Europe	1,466,490	616,139	2,360,762	1,315,027
Asia	83,874	42,766	145,496	97,762
Latin America	3,542	1,651	11,025	3,306
Australia	130,937	93,905	241,884	174,027
Other	15,705	42,919	28,079	55,186
Total revenue	4,395,098	2,694,695	7,722,153	5,452,218

The Corporation's revenue can be analyzed by type and by basis of their recognition, as follows for the three and six-month periods ended:

	Three month Ended		Six month ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenue at a point in time				
Hardware	965	11,082	22,267	15,737
Perpetual licenses	-	25,296	-	108,900
Training and professional services	87,472	43,838	100,119	142,647
Revenue recognized over time				
Subscription licenses	3,350,923	2,250,584	6,085,834	4,439,011
Maintenance and support	859,666	363,895	1,377,885	745,923
Term licenses	96,072	-	136,048	-
Total revenue	4,395,098	2,694,695	7,722,153	5,452,218

At each reporting date, there are no unfulfilled performance obligations extending beyond a year for which the Corporation has not collected funds or deposits.

Deferred revenue is comprised of the following:

	September 30, 2020	March 31, 2020
	\$	\$
Current portion of deferred revenue		
Subscription licenses	3,687,012	1,521,616
Maintenance and support	1,903,670	1,434,757
Term licenses	244,030	-
Deferred revenue		
Subscription licenses	776,200	481,789
Maintenance and support	628,342	699,774
Term licenses	210,859	-
Total deferred revenue	7,450,113	4,137,936

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

Revenue (continued)

Non-current assets by geographic area are as follows:

	September 30, 2020	March 31, 2020
	\$	\$
Canada	805,978	1,614,712
Netherlands	12,348,501	12,805,208
Switzerland	24,945,653	-
Other	21,885	21,315
Total non-current assets	38,122,017	14,441,235

8. Operating segment information

The Corporation has assessed that it operates in three operating segments, those being Vantage DX Monitoring – Mitel UC, Vantage DX Monitoring – Microsoft 365 and Vantage DX Analytics – IT Service Analytics. Vantage Dx is the name of the Corporation's solution suite portfolio for digital experience monitoring and the operating segments have been renamed to align with the revised solution names. Vantage Dx Monitoring – Microsoft 365 is a new segment resulting from the GSX Acquisition. For operating segment reporting purposes, Vantage Dx Monitoring – Mitel UC was previously reported as Performance analytics and Vantage Dx Analytics – IT Service Analytics was previously reported as IT visualization. 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.

	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
For three months ended September 30, 2020				
Revenue at a point in time				
Hardware	965	-	-	965
Perpetual licenses	-	-	-	-
Training and professional services	65,177	9,402	12,894	87,472
Revenue recognized over time				
Subscription licenses	1,774,123	538,649	1,038,151	3,350,923
Maintenance and support	7,949	266,089	585,628	859,666
Term licenses	-	-	96,072	96,072
Total revenue	1,848,214	814,140	1,732,744	4,395,098
	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
For six months ended September 30, 2020				
Revenue at a point in time				
Hardware	22,267	-	-	22,267
Perpetual licenses	-	-	-	-
Training and professional services	65,182	22,043	12,894	100,119
Revenue recognized over time				
Subscription licenses	3,652,338	1,060,639	1,363,862	6,076,839
Maintenance and support	13,842	554,075	818,963	1,386,880
Term licenses	-	-	136,048	136,048
Total revenue	3,753,629	1,636,757	2,331,767	7,722,153

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

(in Canadian Dollars)

Operating segment information (continued)

	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Total
	\$	\$	\$
For three months ended September 30, 2019			
Revenue at a point in time			
Hardware	11,082	-	11,082
Perpetual licenses	25,296	-	25,296
Training and professional services	482	43,356	43,838
Revenue recognized over time			
Subscription licenses	1,740,868	509,716	2,250,584
Maintenance and support	19,772	344,123	363,895
Total revenue	1,797,500	897,195	2,694,695

	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Total
	\$	\$	\$
For six months ended September 30, 2019			
Revenue at a point in time			
Hardware	15,737	-	15,737
Perpetual licenses	33,017	75,883	108,900
Training and professional services	24,871	117,776	142,647
Revenue recognized over time			
Subscription licenses	3,492,808	946,203	4,439,011
Maintenance and support	36,683	709,240	745,923
Total revenue	3,603,116	1,849,102	5,452,218

9. Additional disclosures related to the statements of loss and comprehensive loss

- i. Research and development expense for the three and six months ended September 30, 2020 is net of investment tax credits recognized of \$152,859 and \$217,612, respectively (three and six months ended September 30, 2019 - \$87,002 and \$200,139, respectively) and investment grants recognized of \$137,025 and \$311,229, respectively (three and six months ended September 30, 2019 - \$293,563 and \$636,278).

The Corporation has investment tax credits receivable of \$664,314 (March 31, 2020 - \$242,218) which are earned as a result of qualifying Scientific Research and Experimental Development expenditures, and investment grants receivable of \$312,818 as at September 30, 2020 (March 31, 2020 - \$134,416), which are earned as a result of expenditures permitted under the grant agreement. The investment tax credits and grants are recognized when the expenditures are made and their realization is reasonably assured.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

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Additional disclosures related to the statements of loss and comprehensive loss (continued)

ii. Employee benefits and share-based payments consist of the following amounts:

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$		\$
Research and development				
Short-term employee benefits	1,679,186	1,347,805	2,934,304	2,760,753
Share-based payments	39,690	30,853	49,559	63,873
Sales and marketing				
Short-term employee benefits	1,133,009	1,109,510	1,921,495	2,097,216
Share-based payments	26,170	13,141	32,049	31,623
General and administrative				
Short-term employee benefits	757,581	521,872	1,217,148	1,002,908
Share-based payments	88,003	42,011	156,725	85,520
Total staff related expense	3,723,639	3,065,192	6,311,280	6,041,893

Research and development employee costs above are presented prior to any government grants and investment tax credits.

10. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted loss per share amounts are calculated by dividing the net loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects.

As at September 30, 2020 and 2019, all instruments were anti-dilutive.

The following securities could potentially dilute basic net loss per share in the future but have not been included in diluted loss per share because their effect was anti-dilutive.

	September 30, 2020	September 30, 2019
	#	#
Share options	21,217,161	17,476,336
Warrants	45,638,523	534,861
Broker compensation unit options	1,643,063	-
	68,498,747	18,011,197

11. Cash

	September 30, 2020	March 31, 2020
	\$	\$
Cash	3,915,737	2,870,625
Restricted cash	29,645	29,449
Total	3,945,382	2,900,074

Martello Technologies Group Inc.

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12. Trade and other accounts receivable

Movements in the allowance for doubtful accounts	September 30, 2020 \$	March 31, 2020 \$
Balance, beginning of period	22,631	18,784
Trade receivables written off	-	(59,759)
Additional allowance recognized	76,318	63,606
Balance at the end of the period	98,949	22,631

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	over 90 days
	\$	\$	\$	\$	\$	\$
September 30, 2020	4,305,615		861,993	1,124,450	444,244	269,447
March 31, 2020	3,733,737		871,758	950,599	603,317	176,797

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	over 90 days
	\$	\$	\$	\$	\$	\$
September 30, 2020	4,305,615	1,605,481	861,993	1,124,450	444,244	269,447
March 31, 2020	3,733,737	1,131,266	871,758	950,599	603,317	176,797

13. Accounts payable and accrued liabilities

	September 30, 2020 \$	March 31, 2020 \$
Trade payables	726,729	374,627
Accrued key management compensation	136,437	201,950
Accrued professional fees	450,494	586,821
Salaries, benefits, and vacation payable	1,305,264	782,222
Commissions payable	128,919	60,503
Taxes payable	444,282	290,373
Other payables	227,561	229,233
Total	3,419,686	2,525,729

14. Long-term debt

National Bank of Canada revolving credit facility

On April 27, 2020, the Corporation entered into a credit agreement with National Bank of Canada. This financing is comprised of a revolving facility and other ancillary facilities (the "Revolving Loan"). The Revolving Loan is based on a multiple of monthly recurring revenue, subject to certain adjustments, up to \$7,500,000, bears interest at a variable rate of prime plus 2.85% per annum and is repayable on demand. The facilities are secured by a senior security interest in and guarantees from Martello Corp and the Corporation, as well as Savision B.V. and its subsidiaries, GSX Participations Sàrl and its subsidiaries, Martello Technologies Incorporated, and Elfiq Inc. (the "**Corporate Guarantors**"). The financing costs expensed during the 3 and 6 months ended September 30, 2020 in relation to the Revolving Loan totaled \$21,728 and \$404,517, respectively. As at September 30, 2020, the loan has not been drawn on.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Long-term debt (continued)

	September 30, 2020	March 31, 2020
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. The effective interest rate is 10%.	\$ 570,282	\$ 586,278
Canada Economic Development Agency (CEDA), non-interest bearing, unsecured and repayable in 60 equal monthly payments commencing in February 2021. The effective interest rate is 16%.	83,625	77,237
Royal Bank of Canada, interest at 5.40% and an effective interest rate of 7.06%, 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, and repayable over 36 months commencing in February 2019. On May 25, 2020, the term loan with Royal Bank of Canada was fully repaid.	-	1,805,332
Vistara Technology Growth Fund III Limited Partnership ("Vistara"), US \$8,000,000 subordinated secured term loan; repayable within 36 months of closing and carries interest of greater of: (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. The effective interest rate is 20.4%. The loan is secured by a subordinated security interest and guarantees from the Corporate	9,296,549	-
Total long-term debt	9,950,456	2,468,847
Amounts due within one year	(179,400)	(1,222,330)
Long-term debt	9,771,056	1,246,517

On April 27, 2020, the Corporation entered a term credit facility with Vistara Technology Growth Fund III Limited Partnership ("Vistara") (the "**Vistara Credit Agreement**"). Under the terms of the Vistara Credit Agreement, Vistara provided a US \$8,000,000 subordinated secured term loan (the "**Term Loan**"). Along with the proceeds of the short-form prospectus bought deal offering closed May 26, 2020 (the "**Offering**") (see Note 17) the Term Loan was used to pay the cash portion of the purchase price for the GSX Acquisition.

The Term Loan is repayable within 36 months of closing and carries interest at the greater of (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity. The effective interest rate on the Term Loan is 20.40%. The Term Loan is secured by a subordinated security interest in and guarantees from the Corporate Guarantors.

As consideration for providing the Term Loan, Vistara received upon closing 12,777,273 bonus warrants to purchase Common Shares ("**Bonus Warrants**"). Each Bonus Warrant is exercisable into one Common Share at an exercise price of \$0.22 per Bonus Share for up to 36 months from closing.

If at any time, after four months and a day after the issue date, the volume weighted average price ("**VWAP**") of the Common Shares for any twenty (20) consecutive trading days on the TSXV, during which the total volume of common shares traded in such period exceeds 5,000,000, is equal to or exceeds \$0.44, and the VWAP of the Common Shares for any five (5) consecutive trading days on the TSXV is equal to or exceeds \$0.44 then all of the Bonus Warrants shall be deemed to be automatically exercised by Vistara on a cashless basis.

Issuance costs relating to the Vistara Credit Agreement are allocated between the Term Loan and Bonus Warrants based on the relative fair value of each. Issuance costs related to the Term Loan are netted against the Term Loan and amortized over the life of the loan. Issuance costs related to the Bonus Warrants are netted against the value of the warrants in shareholders' equity.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2020 and 2019

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15. Right-of-use assets

Right-of-use asset:	\$
Balance at March 31, 2020	594,642
Reclassified to lease receivable	(185,496)
Additions (Note 6)	1,172,045
Depreciation for the period	(165,675)
Termination of lease	(136,600)
Foreign exchange translation	27,215
Balance at September 30, 2020	1,306,131
Lease obligation:	\$
Balance at March 31, 2020	638,888
Additions (Note 6)	1,190,906
Interest expense	21,006
Payments	(192,880)
Termination of lease	(168,687)
Foreign exchange translation	19,532
Balance at September 30, 2020	1,508,765

For the three and six months ended September 30, 2020, the Corporation recognized \$103,601 and \$165,675 respectively (2019 - \$42,469 and \$85,327) as depreciation on right-of-use assets, and \$12,514 and \$21,006 respectively (2019 - \$7,417 and \$12,726) as interest expense on the lease liability.

In applying the practical expedient for short-term leases, the Corporation has excluded rent payments of \$179,524 (2019 - \$184,732) from the right-of-use asset and lease liability calculations.

When measuring lease liabilities, the Corporation discounted lease payments using incremental borrowing rates of between 2.47% and 5.40%.

The Corporation 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 Corporation 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.

Effective August 1, 2020, the Corporation subleased its office space in Montreal to the purchaser of the assets of the network performance segment, as described in Note 5. The lease remains guaranteed by the Corporation.

As a result, the right-of-use asset for the office space in Montreal was reclassified to lease receivable on the Condensed interim consolidated statement of financial position. The balance of lease receivable at September 30, 2020 is \$160,262.

16. Defined benefits retirement plan

On May 29, 2020 the Company acquired GSX, as described in note 6, and assumed its occupational defined benefits pension plan (the "GSX Plan"). Swiss law requires GSX to arrange for an affiliation contract with a pension fund provider to provide participants with at least occupational benefits.

GSX has an affiliation contract with AXA collective foundation, Fondation LPP Suisse romande (Professional Invest) ("Collective Foundation" or "AXA") which covers actuarial risks and the pooling of assets for all affiliated companies. The governing bodies of the Collective Foundation are responsible for risk management and the investment of Plan assets, although investment decisions can be mandated to another party.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Defined benefits retirement plan (continued)

Retirement benefits, which are based on participant salaries, are funded by the employer and employee as a fixed percentage of the insured salaries. The Collective Foundation is able to adapt the contributions and benefits at any time. If the contract with AXA is cancelled, GSX would be required to affiliate with another pension provider.

The risks of invalidity and death prior to retirement are covered by insurance. The Plan exposes the Company to the following actuarial risks:

Investment risk – a Plan deficit would be created if the return achieved on plan assets is below the discount rate used to present value of the defined benefit liability.

Foreign exchange risk – the defined benefit obligation and Plan assets are denominated in Swiss francs. The Company is exposed to changes in the value of the Swiss franc relative to the Canadian dollar to the extent of the Plan surplus or deficit.

Interest rate risk – the discount rate used to present value the defined benefit obligation is based on high quality corporate bond yields. A decrease in bond yields would increase the defined benefit obligation.

Longevity and salary risks – increases in life expectancy or the salaries of Plan participants in excess of those used in the actuarial assumptions would increase the defined benefit obligation.

An actuarial valuation of the Plan assets and the present value of the defined benefit obligation was completed as at May 31, 2020 as part of the purchase accounting for the acquisition of GSX. The present value of the defined benefit obligation and the related service costs were measured using the projected unit credit method.

Retirement ages are defined by Swiss statute as 65 years for men and 64 years for women. It is assumed that 30% of retirees opt to take a lump sum instead of converting retirement assets into a lifelong pension. The significant actuarial assumptions include:

	<u>May 31, 2020</u>
Discount rate	0.40%
Long-term expected salary increase	1.00%
Average longevity at retirement age for Plan participants	LPP/BVG 2015 tables

The LPP/BVG 2015 tables are Swiss generational tables used to establish the expected retirement age for the plan participants, based on experience of specific Swiss pension plans over the period 2010 to 2014.

Post-acquisition current service costs of \$45,345 and \$60,302 were recognized for the three and six months ended September 30, 2020 along with net interest income of \$5,527 and \$5,249 for the three and

six months ended September 30, 2020. The current service cost is included in the operating expenses on the condensed interim consolidated statements of loss and comprehensive loss. The net interest income is included in interest income.

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Defined benefits retirement plan (continued)

At September 30, 2020, the Plan was in a deficit position of \$793,903 (May 29, 2020 - \$830,938). The movements in the defined benefit obligation for the period ending September 30, 2020 are as follows:

	\$
Defined benefit obligation at April 1, 2020	-
Defined benefit obligation assumed on acquisition (note 6)	2,887,145
Current service cost	60,302
Interest cost	3,903
Foreign exchange translation	38,390
Defined benefit obligation September 30, 2020	2,989,740

The movements in Plan assets for the period from acquisition to September 30, 2020 are:

	\$
Plan assets at April 1, 2020	-
Plan assets acquired (note 6)	2,056,207
Interest income	9,152
Return on plan assets, excluding interest income	52,880
Participant contributions	14,449
Employer contributions	35,919
Foreign exchange translation	27,230
Fair value of pension plan September 30, 2020	2,195,837

The Company's pension plan actual weighted average asset allocations by asset category were as follows:

	September 30, 2020	May 29, 2020
Debt securities	37.07%	38.59%
Real estate assets	25.31%	25.69%
Equity securities	24.81%	25.64%
Alternative investments	9.36%	9.58%
Cash and cash equivalents	3.45%	0.50%
Total	100.00%	100.00%

The fair values of the plan assets were determined based on the following methods:

- Equity securities – generally quoted market prices in active markets
- Debt securities – generally quoted market prices in active markets
- Real estate assets – valued based on appraisal performed by a qualified external real estate appraiser
- Alternative investments - generally quoted market prices in active markets
- Cash and cash equivalents – generally recorded at cost which approximates fair value

Alternative investments are classified as Level 2 instruments and real estate assets as Level 3.

Reasonably possible changes in the discount rate, salary increases, pension or life expectancy would result in a change in the DBO to the following amounts, calculated using the projected unit credit method, as at September 30, 2020.

Martello Technologies Group Inc.

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Defined benefits retirement plan (continued)

	Defined benefit obligation, \$	
	Increase 0.25%	Decrease 0.25%
Discount rate	2,787,981	3,074,675
	Decrease 0.25%	Increase 0.25%
Salary increase	2,893,516	2,958,754
	Decrease 0.25%	Increase 0.25%
Pension increase	2,925,292	2,925,292
	Decrease 1 year	Increase 1 year
Life expectancy	2,879,678	2,970,919

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation because the changes in discount rate and salary inputs would not occur in isolation of one another.

The weighted average duration of the obligation at September 30, 2020, which relates to active members, is 19.65 years.

The Corporation expects to make contributions to the Plan totaling \$139,186 during the next 12 months.

17. Equity instruments

i. Common shares

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

The holders of the common shares are entitled to receive non-cumulative dividends, as may be determined by the Board of Directors.

Bought deal offering

On May 26, 2020, the Corporation completed an offering (the "Offering") with a syndicate of investment dealers led by PI Financial (collectively, the "underwriters") for a total of 32,861,250 units (each, a "Unit") consisting of one common share of the Corporation and one common share purchase warrant at a price of \$0.21 per unit, for gross proceeds of \$6,900,863. Each warrant is exercisable into one common share at an exercise price of \$0.30 per common share for a period of 36 months from the closing date. Commencing on May 26, 2021, if the daily volume weighted average exceeds \$0.50, the Corporation may, upon providing written notice to the holders of the warrants, accelerate the expiry date of the warrants to the date that is 30 days following the date of such written notice.

In addition, the underwriters received a cash commission equal to 7% of the gross proceeds realized from the Offering. The Corporation granted the underwriters 1,643,063 broker compensation option units, exercisable to purchase Units at a price of \$0.21 per compensation option unit for a period of 24 months from the closing date.

GSX Acquisition

In connection with the GSX Acquisition 22,000,000 common shares were issued as part of the purchase price.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Equity instruments (continued)

ii. Warrants

During the six months ended September 30, 2020, 45,638,523 warrants were issued (six months ended September 30, 2019 – nil).

At September 30, 2020 the Corporation's outstanding warrants consisted of the following:

Date of Issue	Expiry Date	Type	Exercise price	Number outstanding
			\$	#
February 27, 2015	See note below	Warrants	0.11	-
May 26, 2020	May 26, 2023	Offering Warrants	0.30	32,861,250
May 28, 2020	May 28, 2023	Bonus Warrants	0.22	12,777,273
				45,638,523

Of the warrants issued on February 27, 2015, 274,285 were exercised on September 11, 2020. The remaining 260,576 expired during the quarter (six months ended September 30, 2019 – nil).

Offering Warrants

As part of the share issuance of 32,861,250 common shares on May 26, 2020, 32,861,250 warrants were issued with an exercise price of \$0.30 and an expiry date of May 26, 2023 (the "Offering Warrants") Commencing on May 26, 2021, if the daily volume weighted average exceeds \$0.50, the Corporation may, upon providing written notice to the holders of the warrants, accelerate the expiry date of the Offering Warrants to the date that is 30 days following the date of such written notice.

In determining the value of the Offering Warrants, the barrier option model was used. The Offering Warrants were valued at \$0.0591 per warrant. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.29%
Expected term	3 years
Volatility	75.1%
Expected dividend yield	0%

Bonus Warrants

As consideration for providing the Term Loan, on May 28, 2020 Vistara received 12,777,273 bonus warrants to purchase common shares ("Bonus Warrants"). Each Bonus Warrant is exercisable into one common share at an exercise price of \$0.22 for up to 36 months from closing. If at any time, after four months and a day after the issue date, the volume weighted average price (VWAP) of the common shares for any twenty (20) consecutive trading days on the TSXV, during which the total volume of common shares traded in such period exceeds 5,000,000, is equal to or exceeds \$0.44, and the VWAP of the common shares for any five (5) consecutive trading days on the TSXV is equal to or exceeds \$0.44 then all of the Bonus Warrants shall be deemed to be automatically exercised by Vistara on a cashless basis.

In determining the value of the Bonus Warrants as non-employee share-based compensation, the barrier option model was used. The Bonus Warrants were valued at \$0.0675 per warrant.

The total value of the warrants has been netted against the Term Loan and will be amortized over the term of the debt through interest expense in the consolidated statements of loss and comprehensive loss. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.29%
Expected term	3 years
Volatility	74.9%
Expected dividend yield	0%

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Equity instruments (continued)

iii. Broker compensation option units

In connection with the Offering, the Corporation granted the underwriters 1,643,063 broker compensation option units ("**Broker Option Units**"), exercisable to purchase Units at a price of \$0.21 per Broker Option Unit for a period of 24 months from the closing date.

In determining the value of the Broker Option Units as non-employee share-based compensation, the Black-Scholes option pricing model was used. The Broker Option Units were valued at \$0.131 per Broker Option Unit. The assumptions used to determine the value of the Broker Option Units are as follows:

Market value of a Broker Option Unit	\$0.2741
Exercise Price	\$0.21
Risk-free interest rate	0.30%
Expected term	24 months
Volatility	73.9%
Expected dividend yield	0%

The market value of the Broker Option Unit was determined by adding the value of a Broker Warrant and the market value of a common share at the date of closing of the Offering.

iv. Share-based payments

The Corporation has a stock option plan (the "Plan") open to certain members of management, employees and consultants. 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.

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

	Option exercise price	Total
	\$	#
Balance outstanding at March 31, 2020	0.11-0.38	18,665,993
Granted	0.195-0.205	6,127,167
Exercised	0.11-0.13	(3,322,665)
Forfeited	0.13-0.375	(253,334)
Balance outstanding at September 30, 2020		21,217,161

Options exercisable:

At September 30, 2020	0.11-0.38	9,573,812
At March 31, 2020	0.11-0.38	10,900,472

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Equity instruments (continued)

Share-based payments (continued)

Grant date	Option exercise price \$	Number exercisable #	Remaining life Years
December 3, 2015	0.110	2,368,000	0.18
January 14, 2016	0.110	144,000	0.29
July 14, 2016	0.110	40,000	0.79
October 25, 2016	0.110	80,000	1.07
January 19, 2017	0.110	64,000	1.30
July 17, 2017	0.110	80,000	1.79
December 18, 2017	0.110	1,472,000	2.22
January 10, 2018	0.130	298,666	2.28
April 3, 2018	0.130	4,575,992	2.51
January 18, 2019	0.335	293,156	3.30
February 28, 2019	0.380	141,333	3.41
September 3, 2019	0.375	16,665	3.93
November 26, 2019	0.330	-	-
December 10, 2019	0.320	-	-
February 13, 2020	0.305	-	-
March 5, 2020	0.225	-	-
July 28, 2020	0.195	-	-
August 31, 2020	0.205	-	-
Weighted average	0.132		1.85
Total		9,573,812	

At September 30, 2020, the fair value of share-based compensation to be recognized as an expense in future periods totaled \$897,716 (March 31, 2020– \$531,031). Share-based compensation expense for the period is disclosed in note 9.

In determining the amount of share-based compensation, the Corporation uses the Black-Scholes option pricing model to establish the fair value of options granted. 6,127,167 options were granted in the three and six months ended September 30, 2020. The fair value of options granted in the six months ended September 30, 2020 was established by applying the following assumptions:

	September 30, 2020
Stock price valuation	\$0.195-0.205
Exercise price	\$0.195-0.205
Risk-free interest rate	0.29-0.32%
Expected life in years	3.5
Expected dividend yield	0%
Volatility	79.30%
Fair value of options issued in the periods	\$0.106-0.111

Volatility was determined by using the historical volatility of the stock of comparable companies over a 3.5-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.

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For the three and six months ended September 30, 2020 and 2019

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18. Supplementary cash flow information

The net change in the operating components of working capital is as follows:

		Six months ended	
		September 30, 2020	September 30, 2019
		\$	\$
Net change in operating components of working capital:			
Trade and other accounts receivable	12	269,379	497,033
Investment tax credits and grants receivable	9	(380,573)	228,153
Prepaid expenses		206,798	72,404
Inventories		9,919	52,882
Accounts payable and accrued liabilities	13	(2,438,548)	166,357
Deferred revenue	7	(950,745)	(311,815)
Total		(3,283,770)	705,014

19. 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. For the six months ended September 30, 2020, the Corporation paid rent to Wesley Clover International Corporation, which is reflected in the September 30, 2020 results as depreciation of right-of-use assets of \$24,600 and \$49,201 for the 3 and 6-month period, respectively, (September 30, 2019 – \$24,600 and \$49,201).
- ii. Included in accounts payable and accrued liabilities as at September 30, 2020 are balances totaling \$136,437 (March 31, 2020 - \$201,950) due to key management personnel for compensation and earned vacation pay.
- iii. One of the co-chairmen is chairman of Wesley Clover International Corporation, a shareholder of the Corporation.
- iv. The remuneration of directors and key management personnel during the three-month period ended was as follows:

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Salaries, wages and bonuses	490,852	428,356	911,663	854,660
Other employee benefits	93,430	10,711	101,957	16,839
Share-based compensation	26,762	34,554	104,735	69,239
Total	611,044	473,621	1,118,355	940,738

20. Financial risk management objectives and policies

There have been no significant changes to the nature and magnitude of risk exposures and to management's objectives and processes for managing them since the prior period.

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Financial risk management objectives and policies (Continued)

Credit risk

Trade receivables at September 30, 2020 are presented net of an allowance for doubtful accounts of \$98,949 (March 31, 2020 - \$22,631). The Corporation's largest customer, which is included in Vantage Dx Monitoring - Mitel UC segment reporting, accounted for revenue of \$1,840,330 and \$3,626,399 or approximately 41% and 47% of total revenue, for the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 - \$1,697,090 and \$3,425,625 or 54% and 53%, respectively). At September 30, 2020 the account receivable from this customer totaled \$1,604,224 (March 31, 2020- \$2,304,275). The Corporation maintains strict credit policies and limits in respect to counterparties.

Liquidity risk

The following table summarizes the maturities of financial instruments, including interest payments, as at September 30, 2020:

	2021	2022	2023	2024 and after	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,419,686	-	-	-	3,419,686
Lease obligation	281,958	462,438	307,071	632,783	1,684,250
Long-term debt	78,600	216,600	176,601	10,904,918	11,376,719
Total	3,780,244	679,038	483,672	11,537,701	16,480,655

Foreign currency risk

For the three and six months ended September 30, 2020, 99% of revenue were in foreign currencies (September 30, 2019 – 97% of revenue).

For the three and six months ended September 30, 2020, 44% and 41% of expenses were in foreign currencies, respectively (September 30, 2019 – 30% and 34%).

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. With the acquisition of GSX, the Corporation has increased exposure to the EUR. The Corporation's net exposure to the USD and EUR is denominated in CAD and is summarized in the following table:

	September 30, 2020	March 31, 2020	September 30, 2020	March 31, 2020
	USD	USD	EUR	EUR
Cash and restricted cash	899,173	1,091,003	481,538	488,827
Trade and other accounts receivables	3,094,859	3,221,803	1,048,758	247,862
Accounts payable and accrued liabilities	(1,174,666)	(849,213)	(2,029,289)	(528,822)
Foreign exchange forward contract liability	-	(149,800)	-	-
Long-term debt	(9,296,549)	-	-	-
Net exposure	(6,477,183)	3,313,793	(498,993)	207,867

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21. Capital management

Management defines capital as total shareholders' equity. 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 months ended September 30, 2020. 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.

22. Commitments

The Corporation entered into a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017 extending through to February 28, 2022. The lease is with a related party, as described in note 19 *Related party transactions and balances*. The Corporation is also committed to a 3-year lease for office premises in Montreal, Quebec (the "Elfiq Lease") commencing November 1, 2019 and extending through to October 31, 2022. The purchaser of the assets described in note 5 has entered into a sublease for the Elfiq Lease effective August 1, 2020, and the lease has been guaranteed by the Corporation. The Corporation is committed to a 5-year lease for office premises in Amsterdam, Netherlands commencing February 1, 2018 and extending through to January 31, 2023. During the three months ending September 30, 2020, the Corporation exercised its right to early terminate the current lease, which has a new maturity date of January 2021. The Corporation also has a lease in Kennett Square, Pennsylvania, USA with current lease expiring on March 31, 2021.

The amounts below exclude the Corporation's debt and lease related commitments which are disclosed, respectively, in notes 14 and 15.

<u>Fiscal year ended</u>	<u>\$</u>
2021	79,677
2022	116,697
Total	196,374

23. Events after the reporting period

Forward contracts

On November 3, 2020, the Corporation entered into derivative financial instruments (foreign exchange collars) to manage USD foreign currency risk. Under these instruments, the Corporation is committed to sell \$200,000 per month for 6 months, if the USD/CAD rate goes above or below certain thresholds.