



MARTELLO

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, 2021

November 23, 2021

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 23, 2021, the effective date of this MD&A.

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, 2021 and 2020 (“Q2 FY22” and “FY22”, and “Q2 FY21” and “FY21”, respectively). This MD&A should be read in conjunction with the Company’s consolidated financial statements and accompanying notes for the years ended September 30, 2021 and 2020. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated.

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;
- The impact of the COVID-19 pandemic on the global economy and markets, and on the Company’s operations, business and financial performance;
- 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 realize value from acquisitions;
- 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;
- The Company’s ability to execute on sales strategies, including developing existing and new channels to market;
- 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. and its affiliates (“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 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”). Martello develops digital experience monitoring (“DEM”) software solutions for enterprises and partners.

Martello’s mission is to become a leading vendor in the enterprise DEM market, making every user’s digital experience productive, with a focus on Microsoft cloud-based Microsoft 365 and Microsoft Teams digital enterprise services. Martello’s DEM solutions, which include Vantage DX, give IT teams actionable intelligence to proactively deliver a positive digital experience for users. Digital experience monitoring is a Gartner-recognized market segment which includes vendors whose solutions provide insight into the user’s experience of cloud-based services. These solutions provide insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with synthetic user monitoring information, to provide a clearer picture of the user’s experience of the service. Martello has thousands of customers in more than 65 countries around the world. The Company has acquired and integrated two companies with DEM solutions since November 2018, to expand its product portfolio, engineering expertise and global sales capacity. The launch of Vantage DX in September 2021 reflects the integration of acquired DEM products, to introduce a single platform solution to the market.

As of September 30, 2021, Martello had 114 active employees; 68 in Canada, 7 in the United States and 39 in EMEA.

History

On August 15, 2018, the Company completed a reverse acquisition and 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.

On December 15, 2017, Martello acquired Elfiq Inc., a network performance management business. The Company divested this line of business in July 2020 to focus resources on its DEM strategy.

On November 1, 2018, Martello acquired Savision B.V. and its wholly owned subsidiaries (“Savision”). Savision provides enterprise service monitoring and analytics software that brings together metrics and events from multiple tools to present a unified view of the infrastructure that supports critical business services for companies.

On May 29, 2020, Martello acquired GSX Participations SA (“GSX”), a provider of end-user experience monitoring software for Microsoft 365. GSX was headquartered in Geneva, Switzerland.

Products

Martello develops products that monitor, analyze and optimize the user’s experience of cloud-based enterprise digital services such as Microsoft 365 and unified communications. Martello’s products include Vantage DX, a single platform DEM suite for Microsoft 365 and Microsoft Teams, as well as UC performance analytics software which is primarily sold within Mitel. Martello’s product portfolio includes subscription-based offerings (software as a service), and software license sales. Martello’s sales are direct to enterprises and indirect, via value-added resellers and global systems integrators. 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 users 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, including MPA, iQ, Live Maps, and Gizmo. The Company maintains an active product development and enhancement program for Vantage DX and the components of its DEM portfolio, while providing ongoing support for legacy and other product offerings. Martello's product program prioritizes activities that will drive user growth, customer acquisition, total addressable market expansion, partner engagement, and cross selling of products.

In September 2021, Martello launched its Vantage DX single platform DEM solution to manage Microsoft 365 and Microsoft Teams user experience. Vantage DX includes products which help Martello's customers to prioritize and resolve problems impacting Microsoft 365 and Teams performance and optimize the user experience. These products include Microsoft Teams Call Quality Analytics, Proactive Microsoft 365 Monitoring, Microsoft Active Network Path Analysis, Advanced Troubleshooting and SLA/OLA Reporting.

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.

All of the Company's research and development activities are undertaken in-house. The Company has invested in its development team and continues to seek to recruit top talent.

Growth Strategy

Martello is focused on generating recurring revenue growth. A key driver and leading indicator of the Company's revenue growth is the number of Microsoft productivity suite users on Martello's software platform. The Company is focused on the following activities to increase revenues:

- I. **Further developing the Vantage DX DEM solution suite to deepen Martello's competitive advantage:**
 - a. *Product Innovation Driving Competitive Advantage*
 - i. Concluding trials with key Vantage DX prospects and converting these opportunities to customers, while leveraging customer feedback for continuous product improvement.
 - ii. Continue to develop cloud-based multi-tenancy for Vantage DX, including the Proactive Microsoft 365 Monitoring and Advanced Troubleshooting products. This initiative makes it more cost-effective for Martello to onboard partners and their customers.
 - iii. Developing features which improve the Vantage DX value proposition, including broadening the suite of synthetic and real user monitoring capabilities, and customer self-care capabilities.
 - b. *Commercial Activity – Direct and Indirect Sales Channels*
 - i. Building brand awareness of Vantage DX while executing on marketing and sales campaigns to continue developing a pipeline of Vantage DX sales opportunities, including converting customers using legacy Martello products to DEM solutions.
 - ii. Developing and expanding strategic partnerships in areas where Martello's capabilities are complementary to others, to deliver a stronger business solution and outcome to the market including a focus on Martello's relationship with Microsoft through the Global Solutions Alliance Program.
 - iii. Achieving 'transact-ready' status on the Microsoft Azure marketplace, which simplifies the purchase process and incents Microsoft sellers to transact Vantage DX sales.
 - iv. Expanding and developing sales channels for Vantage DX, including large global systems integrators, value-added resellers and managed service providers.
- II. **Continuing to Align the Company's business with Mitel to meet its customers' needs.** This will include driving adoption of MPA through Mitel's communication and collaboration platforms, developing support for additional Mitel platforms and seeking additional opportunities for sales growth within Mitel.
- III. **Continuing to pursue a merger and acquisition strategy** with a focus on expanding the breadth and depth of Martello's DEM offering with technology that is accretive to Martello's mission to become a market-leading DEM vendor. Key criteria for targets include financial stability and an established recurring revenue stream.

While Martello has strengthened its operational capacity over the last 18 months, the Company will continue to make investments in technology, talent, and systems to implement the above strategy. Although there is significant global economic uncertainty

resulting from COVID-19 which may further impact operations, at this time the Company believes operations can be funded by cash and other available funding sources.

Business Objectives and Milestones:

The milestones below represent incremental investment to accomplish the Company's objectives and are in addition to funds from operations which are also allocated to these activities.

The key activities are progressing as planned and the Company expects to meet the key milestones outlined below.

Business Objective and Incremental Investment	Key Milestones – R&D	Key Milestones - Sales, Marketing & Delivery	Key Activities	Status September 30, 2021
Pursue innovation to defend and expand market share, including the launch of the Vantage Dx DEM solution suite. \$2,800,000	Vantage Dx Architecture and Alpha Trials Completed (April 2021 – Sept 2021) Vantage Dx Commercial Launch (Sept 2021 – June 2022)	Sales & marketing launch of Vantage Dx to the Market (April – December 2021) Expand Capacity to Sell to Large Enterprises (April – December 2021)	<ul style="list-style-type: none"> Develop and launch ‘work from anywhere’ capabilities development, including real user monitoring (RUM) and active network path monitoring (ANPM). Improve the scalability of both Gizmo and iQ products, for cost-effective deployment by very large enterprises. Build brand awareness of Vantage Dx while creating new opportunities to cross-sell Martello’s solutions into Microsoft, Mitel and other large channels. Develop marketing campaigns and increase delivery and training team resources to execute on sales commitments in various regions. Convert customers using legacy products, including Live Maps, to DEM solutions such as iQ and Gizmo. Add enterprise sales personnel in three regions (Americas, Europe and Asia-Pacific) to manage sales to large enterprises and partners. 	<ul style="list-style-type: none"> Vantage DX Launched with controlled availability on September 15, 2021. ‘Work from anywhere’ capabilities including RUM and ANPM launched as part of Vantage DX. Scalability improvements completed in Q4 FY21. Marketing campaigns and brand awareness activities began in Q2 FY22 with the launch of Vantage DX and continue through Q3 FY22. Cross-sell and upsell campaigns ongoing throughout FY22. Expenditures (use of bought deal proceeds): \$ to September 30, 2021 \$500,000
Expand Martello’s	Cloud-Based Multitenancy	Recruit, Onboard and Facilitate MSPs	<ul style="list-style-type: none"> Develop iQ and Gizmo as cloud-based multi-tenant 	<ul style="list-style-type: none"> Continuous improvement on cloud-

<p>addressable market with indirect sales channels and strategic partnerships.</p> <p>\$400,000</p>	<p>(April 2021-Sept 2021)</p>	<p>and Resellers on Vantage Dx (October 2021 – March 2022)</p>	<p>SaaS platforms to establish new indirect GTM opportunities for these products with MSPs and other partners.</p> <ul style="list-style-type: none"> • Expand sales channels for iQ and Gizmo, including Microsoft Co-sell, Microsoft MSPs, Mitel MSPs and end customers, and large global systems integrators. • Add Partner Managers to recruit and onboard new MSP and Reseller Partners focused on Microsoft 365 & Teams offerings. • Pursue GTM activities in four key markets: 1) SMB, 2) Commercial Mid-Market 3) Enterprise and 4) Government and Public Sector. • Implement partner portal to manage Reseller and MSP Partners globally and drive revenue growth. • Develop and implement training and on-boarding material for easy channel partner self-serve adoption through online resources. • Continued development of partnerships such as that with Paessler AG. 	<p>based multitenancy for Vantage DX products as part of ongoing cost reductions associated with onboarding partners and customers.</p> <ul style="list-style-type: none"> • Sales channels for Vantage DX (including former iQ and Gizmo products) expanded with the Microsoft Global Solutions Alliance Program. • Direct GTM activities focused on Enterprise and Government in Q2 FY22, with indirect activity focused on opportunities with Microsoft, strategic partnership and large global systems integrators. • Sales team resourced to manage the Microsoft relationship and recruit and onboard new partners. • Training materials developed in Q2 FY22 to support the launch of Vantage DX. • Continued development of Paessler partnership through joint marketing and sales activities such as webinars in Q2 FY22. • Expenditures (use of bought deal proceeds) to September 30, 2021: \$50,000
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<p>Aligning and growing the Company's business with Mitel.</p> <p>\$300,000</p>	<p>Mitel Development (April 2021 – March 2022)</p> <p>Sustaining development release (May 2021)</p> <p>Feature release (Sept 2021), focused on supporting and growing Mitel's evolving MPA program</p>	<p>Pursue GTM strategies for Martello Microsoft DEM solutions for Mitel channel (April 2021 – March 2022)</p> <p>Launch MPA product releases, for sales growth in key addressable Mitel market segments (May-Sept 2021)</p> <p>Strategic relationship management to advance Martello product program in Mitel ecosystem. (April 2021 – March 2022)</p>	<ul style="list-style-type: none"> • Drive adoption of MPA with key improvements that make the solution more readily adoptable for a greater proportion of Mitel's customer base. • Enhancements to support Mitel's evolving program and retain existing MPA clients, including: <ul style="list-style-type: none"> • Middleware updates; • Enhancements to support Mitel's UCaaS MiCloud Flex program; and • Developing support for additional Mitel call and collaboration platforms. Joint marketing to Mitel's channel of resellers, MSPs and direct customers on value of incremental MPA product improvements, to drive increased attachment. 	<p>Expenditures (use of bought deal proceeds): \$0 100,000 as of September 30, 2021</p> <ul style="list-style-type: none"> • Sustaining development release – completed Q1 FY22. • Feature release scheduled for Q3 FY22. • Ongoing joint marketing, including Partner Enablement Kit email nurture campaign.
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Implementation of the above business objectives is expected to be completed within 12-24 months following the Offering, and each is progressing on the anticipated timeline and budget.

To achieve these business objectives, the Company will continue to invest in strategic partnership development programs and resources and R&D resources to accelerate opportunities in Microsoft and other channels and expand the scope of enterprise opportunities.

In addition to the above objectives the Company is continuing to pursue a merger and acquisition strategy with a focus on expanding the breadth and depth of Martello's DEM offering. At this time, there are no contemplated acquisitions nor any discussions regarding a potential acquisition.

SIGNIFICANT DEVELOPMENTS

During FY22 YTD the following significant developments occurred:

- On September 15, 2021, Martello launched Vantage DX, a new single platform DEM suite designed to optimize the 'work from anywhere' Microsoft 365 and Teams user experience.
- On September 8, 2021, Martello announced the grant of an aggregate of 600,000 stock options to certain officers of the Company. In addition, the Company announced that it has launched a Deferred Share Unit (DSU) Plan in which Martello outside Directors can elect to receive up to 100% of their compensation in DSUs rather than cash.
- On August 25, 2021, Martello announced that the Company was invited to join the Microsoft Global Solutions Alliance program at the invitation of Microsoft, as a Strategic Global Independent Software Vendor (GISV) Partner.

During FY21 YTD the following significant developments occurred:

- In September 2020, Martello co-founder Niall Gallagher retired from the Company's Board of Directors.

- In September 2020, Martello announced it had reached Microsoft Gold Partner status, and had become Microsoft Co-Sell Prioritized.
- In July 2020, Martello subsidiary GSX was recognized as a digital experience monitoring vendor by industry research firm Gartner in three reports.
- In July 2020, Martello completed the sale of substantially all the assets and certain liabilities of the network performance management segment to Adaptiv, an arm's length Canadian SD-WAN company for gross proceeds of \$828k, consisting of cash of \$425k, a promissory note of \$100k and shares in Adaptiv, having a value of \$303k.
- In June 2020, Martello retained PI Financial Corp. to provide market making services.
- In June 2020, Martello hired and appointed Mike Danforth as VP, Global Partnerships and Sales.
- In May 2020, Martello completed the acquisition of GSX Participations SA and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions Inc. ("**GSX**") (the "**GSX Acquisition**"). GSX provides end-user experience monitoring for Microsoft 365 users. The consideration for the acquisition was 22,000,000 common shares and CDN\$12.0M cash for an aggregate consideration of \$16.5M.
- In May 2020, concurrent with the closing of the GSX Acquisition, Martello closed a US\$8M subordinated secured term loan provided by Vistara Capital Partners (the "Vistara Term Loan"), which partially funded the acquisition of GSX.
- In May 2020, Martello closed a bought deal public offering, for aggregate gross proceeds of \$6.9M (the "First Bought Deal Offering")
- In May 2020, Martello closed a secured revolving credit facility from National Bank of Canada (the "National Bank Revolver") for up to CDN\$7.5M, pursuant to a credit agreement dated April 27, 2020. The revolving facility was undrawn as of June 30, 2021 and is available to Martello to draw upon from time to time to finance its day-to-day operations.
- In April 2020, the Company entered into a non-binding letter of intent with Bruce Linton and Terry Matthews, Co-Chairmen of the Company's Board of Directors to provide a \$5.0M unsecured subordinated debt instrument (the "Unsecured Subordinated Loan"). The Unsecured Subordinated Loan has not been drawn on but is expected to become available to the Company as an additional source of capital, subject to the parties agreeing to definitive terms.
- In April 2020, Martello announced that partner Paessler AG launched PRTG Enterprise Monitor for businesses that need to monitor large IT infrastructures, a solution which includes the Martello iQ software.

EVENTS AFTER THE REPORTING PERIOD

PPP Loan Forgiveness

Subsequent to September 30, 2021 the PPP loan was forgiven as proceeds from the loan were used for qualifying expenses. As a result of the forgiveness, the Corporation recognized a gain of approximately \$185,000 on the forgiveness of the loan in the consolidated statements of loss and comprehensive loss.

Private Placement

Subsequent to September 30, 2021 Martello completed a non-brokered private placement of 8,403,362 common shares of, for aggregate gross proceeds of \$1.0M (the "Private Placement") in connection with the Vistara Amendment. The Private Placement was subscribed for directly and indirectly by directors of Martello. In addition, the Company announced its intention to complete a second private placement of approximately \$1.0M by January 31, 2022, also in connection with the Vistara Amendment.

Amendments to Vistara Credit Agreement and Revolving Loan

Subsequent to September 30, 2021 the Vistara Credit Agreement was amended (the "Vistara Amendment"). The Vistara Amendment provides Martello with more flexible prepayment terms, adjust certain covenants to be growth-oriented, terminates the 12,777,273 common share purchase warrants previously issued to Vistara, and sets out the conditions for the Private Placement. In connection with the Vistara Amendment, Martello issued 837,110 common shares to Vistara.

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, 2021 audited annual consolidated financial statements.

In Q2 FY21 the Company divested the assets of the network performance management operating segment (the "NPM Segment"). As a result, the results of the NPM Segment operations are presented as discontinued operations for the three and six months ended September 30, 2020. 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 FY21 annual consolidated financial statements, except as described below under "Accounting Policies".

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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(Three months ended)		(Six months ended)	
Sales	\$ 4,413	4,395	8,814	7,722
Cost of Goods Sold	348	215	776	407
Gross Margin	4,065	4,180	8,038	7,315
<i>Gross Margin</i>	92.1%	95.1%	91.2%	94.7%
Operating Expenses	5,135	4,762	10,831	8,987
Loss from operations	(1,070)	(583)	(2,793)	(1,672)
Other income/(expense)	(626)	(390)	(1,135)	(1,004)
Loss from continuing operations before income tax	(1,695)	(973)	(3,928)	(2,676)
Income tax recovery	(23)	(68)	42	(20)
Net loss from continuing operations	(1,719)	(1,040)	(3,886)	(2,695)
Loss from discontinued operations, net of tax	-	103	-	(320)
Net loss	(1,719)	(937)	(3,886)	(3,016)
Total Comprehensive loss	\$ (1,780)	(69)	(3,940)	(2,196)
EBITDA (1)	\$ (601)	400	(1,727)	(870)
Adjusted EBITDA (1)	\$ (297)	304	(1,253)	504

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

Balance Sheet – Highlights

(in 000's)	September 30, 2021	March 31 2021
Cash and short-term investment	\$ 4,831	8,520
Working capital	2,712	4,504
Total Assets	44,738	49,686
Total Liabilities	21,795	23,052
Share capital and contributed surplus	49,749	49,500
Warrants	3,182	3,182
Accumulated deficit and other comprehensive income	(29,988)	(26,048)
Shares issued and outstanding	# 302,596,958	302,396,958

Highlights for the three months ended September 30, 2021 as compared to the same period in 2020:

- In Q2 FY22, Martello reached 2.9 million Microsoft users on its DEM platform.
- Revenue of \$4.41M is \$0.01M higher than the same quarter in the prior year (\$4.40M). Growth in Vantage Dx Monitoring – Microsoft 365 (GSX) of \$0.12M (7%) was partially offset by a decrease of \$59k (7%) in Vantage Dx Analytics - IT Service Analytics revenue due to churn on legacy Live Maps product maintenance and support, and a \$46k (3%) decrease in Monitoring – Mitel UC revenue related to lower USD-CAD FX rate (the majority of the Mitel UC revenue is in USD).
- Revenue remains diversified, with Monitoring – Mitel UC contributing 41% of revenues in Q2 FY22 (42% in Q2 FY21), Vantage Dx Monitoring – Microsoft 365 (GSX) contributing 42% of revenues in Q2 FY22 (39% in Q2 FY21) and Vantage Dx Analytics - IT Service Analytics contributing 17% in Q2 FY22 (19% in Q2 FY21).
- Recurring revenue is 98% in the current quarter compared to 96% in the same period of FY21 due to lower training and professional services revenue in the current quarter compared to the prior year.
- Monthly recurring revenue (MRR) is \$1.44M in Q2 FY22, compared to \$1.42M in Q2 FY21, an increase of 1%. The increase in MRR is due to an increase in subscription licenses in IT Service Analytics and Microsoft 365 (GSX), partially offset by a decrease in royalties from Monitoring - Mitel UC (decrease in USD-CAD exchange rate) and a decrease of maintenance and support revenue. 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 92%, compared to 95% in the comparative period. The decrease is a result of lower gross margin on Vantage Dx Monitoring – Microsoft 365 driven by higher hosting costs and sales commissions, partially offset by a decrease in web service hosting costs to deliver UC performance analytics software and lower sales commissions in IT Service Analytics.
- Operating expenses increased by \$0.37M, from \$4.76M in Q2 FY21 to \$5.13M in Q2 FY22. Costs relating to the acquisition decreased \$0.08M year-over-year. Other operating expenses increased by \$0.45M (10%). In Q2 FY21 the Company implemented a strategic cost reduction initiative in view of COVID related uncertainties, including delays in filling vacant positions, and temporary reductions in compensation. Increases in spending in Q2 FY22 related to increased R&D and sales investment, compensation costs associated with return to full salaries in Q3 FY21, market research, office equipment and software, and professional fees as well as lower government incentives (IRAP and COVID related). These were partially offset by a decrease in G&A costs related to optimization of support functions.
- Loss from operations was \$1.07M compared to a loss of \$0.58M in the same period of FY21, an increase of \$0.49M. The increase in sales was offset by increased cost of goods sold and operating expenses as described above.
- Loss from continuing operations before income tax increased from \$0.97M in Q2 FY21 to \$1.69M in Q2 FY22 (\$0.72M). The Company incurred higher losses on foreign exchange partially offset by lower financing fees and interest expense on the Vistara term loan.
- The Q2 FY22 net loss of \$1.72M has increased from the same period in FY21 (\$0.94M) as a result of the items outlined above. In addition, Q2 FY21 included a gain from discontinued operations of \$0.10M (nil in Q2 FY22).
- Adjusted EBITDA (a non-IFRS measure) in Q2 FY22 is a loss of \$0.30M, compared to a gain of \$0.30M in the same period

of FY21. The decrease in Adjusted EBITDA is due to higher operating losses, excluding the impacts of the increased amortization of GSX intangibles.

Highlights for the six months ended September 30, 2021 as compared to the same period in 2020:

- Results for the six months ended September 30, 2020 reflect four months of results from the acquisition of GSX on May 29, 2020.
- Revenue of \$8.81MM is 14% higher than the same period in the prior year (\$7.72M). GSX contributed \$1.29M to the increase year-over-year. Vantage Dx Monitoring – Mitel UC revenue decreased by \$91k (2%) and Vantage Dx Analytics - IT Service Analytics decreased by \$108k (7%).
- Revenue remains diversified, with Vantage Dx Monitoring – Mitel UC contributing 42% of revenues in the first six months of FY22 (49% in Q2 YTD FY21), Vantage Dx Monitoring – Microsoft 365 (GSX) contributing 17% of revenues (30% in Q2 YTD FY21) and Vantage Dx Analytics - IT Service Analytics contributing 17% (21% in Q2 YTD FY21).
- Recurring revenue is 97% in the first six months of both FY22 and FY21.
- Gross margin as a percentage of revenue was 91%, compared to 95% in the comparative period. The decrease is a result of higher hosting costs and sales and distributor commissions in Vantage Dx Monitoring – Microsoft 365 and an increase in cost of inventory for Monitoring – Mitel UC due to increase in hardware sales, partially offset by a decrease in web service hosting costs to deliver UC performance analytics software and lower sales commissions in IT Service Analytics.
- Operating expenses increased by \$1.85M from \$8.99M in Q2 YTD FY21 to \$10.83M in Q2 YTD FY22. The increase includes \$0.95M increase in GSX operating expenses due to the acquisition in late May 2020 and is partially offset by decrease of \$0.88M in costs relating to the acquisition of GSX. An increase in spending in Q2 FY22 related to increased R&D and sales investments, costs associated with return to full salaries in Q3 FY21, increased spending on office equipment and software, market research costs, and an increase in professional fees related to tax and legal and lower government incentives (IRAP and Covid related), partially offset by a decrease in General and Administrative costs related to restructuring and optimization of support functions.
- Loss from operations was \$2.79M compared to a loss of \$1.67M in the same period of FY21, an increase of \$1.12M. The increase in sales was offset by increased cost of goods sold and operating expenses as described above.
- Loss from continuing operations before income tax increased from \$2.68M in Q2 YTD FY21 to \$3.93M in Q2 YTD FY22. In addition to the items above, the Company incurred higher interest expense on six months of the term loan in Q2 YTD FY22 compared to 4 months in Q2 YTD FY21, and foreign exchange losses.
- The loss from discontinued operations in the prior year represents the loss from the NPM segment. The segment was sold in Q2 FY21 and there are no ongoing operations in FY22.
- The Q2 YTD FY22 net loss of \$3.89M has increased from the same period in FY21 by \$0.87M as a result of the items outlined above.
- Adjusted EBITDA loss (a non-IFRS measure) was \$1.25M, compared to a gain of \$0.50M in the same period of FY21. The decrease in Adjusted EBITDA is due to higher operating losses, excluding the impacts of the increased amortization of GSX intangibles.

Non-IFRS financial measures

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. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on an adjusted basis as described above.

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, loss from discontinued operations, impairment of goodwill and intangible assets, acquisition-related costs and foreign exchange gain/loss.

For the three and six months ended September 30, 2021 and 2020

In the three and six months ended September 30, 2021, the Company's Adjusted EBITDA loss was \$0.30M and \$1.25M respectively, compared to a gain of \$0.30M and \$0.50M respectively in the same period last year. The decrease in Adjusted EBITDA is due to higher operating losses driven by increase in cost of goods sold and operating expenses.

EBITDA and Adjusted EBITDA (in 000's)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(Three months ended)		(Six months ended)	
Net loss	\$ (1,719)	(937)	(3,886)	(3,016)
Interest income	(2)	(1)	(2)	(5)
Interest expense	(2)	476	594	729
Financing Fees	(2)	(17)	22	405
Accretion of long-term debt	(2)	15	14	(16)
Income tax recovery	(2)	23	68	20
Depreciation	(2)	110	142	237
Amortization	(2)	512	499	1,021
EBITDA	(1)	(601)	400	(1,727)
Gain (loss) from discontinued operations, net of tax	(2)	-	(103)	320
Foreign exchange gain (loss)	(2)	135	(307)	(268)
Revaluation of forward contract	(2)	24	59	15
Other income (expense)	(2)	(6)	10	(22)
Share-based compensation expense	(3)	107	149	224
Deferred Stock Unit plan expense	(3)	24	-	24
Acquisition-related costs	(2)	20	95	50
Adjusted EBITDA	(1)	(297)	304	(1,253)

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

(2) Per the Statements of loss and comprehensive loss.

(3) Per the Statement of cash flows, excluding discontinued operations effective in Q2 FY21 and Q2 YTD FY21

Monthly Recurring Revenue ("MRR") is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter and is a common metric used by subscription software companies to indicate a normalized monthly revenue that is predictable and recurring in the near future. MRR is unlikely to be comparable to similar measures presented by other issuers. MRR is calculated as sales for the period, less revenue recognized at a point in time or that is non-recurring in nature plus certain adjustments resulting from purchase price accounting, divided by the number of months in the quarter. Recurring revenue includes:

- Monitoring – Mitel UC: 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.
- Vantage Dx Analytics - IT Service Analytics: subscription sales, maintenance and support on the licenses for visualization of IT systems management data.
- Vantage Dx Monitoring – Microsoft 365 (GSX): subscription sales of end user experience monitoring software, including GSX Gizmo, a Microsoft productivity suite monitoring solution.

For the three months ended September 30, 2021, income from sales (\$4.41M) less revenue recognized at a point in time and other adjustments (\$0.09M) resulted in \$4.32M in quarterly recurring revenue and MRR of \$1.44M.

For the three and six months ended September 30, 2021 and 2020

Reconciliation of Sales to MRR - 3 months ended

(in 000's)	September 30, 2021	September 30, 2020
Sales	\$ 4,413	4,395
Less: Revenue recognized at point in time	(31)	(88)
Less: Term licenses	(62)	(96)
Add: other adjustments	1	50
Quarterly Recurring Revenue	4,321	4,260
Monthly Recurring Revenue (MRR)	1,440	1,420

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 results.

Sales and Gross Margin

Sales represent:

- (a) the sale of UC - performance management solutions for real-time communications;
- (b) the sale of subscription and perpetual software licenses for visualization of IT systems management data, and maintenance and support services for these solutions; and
- (c) the sale of subscription software licences and maintenance & support services for end user experience monitoring solutions, including GSX Gizmo, a Microsoft productivity suite monitoring solution.

Martello offers subscription sales (software as a service) 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. The new Vantage DX platform is an integration of products which include IT analytics and GSX Gizmo.

Recurring revenue includes the components described above as MRR.

Cost of goods sold represents sales and distributor commissions, web hosting services and hardware.

Gross Margin - Summary

(in 000's)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(Three months ended)		(Six months ended)	
Sales	\$ 4,413	4,395	8,814	7,722
Cost of Goods Sold	348	215	776	407
Gross Margin	4,065	4,180	8,038	7,315
<i>Gross Margin</i>	<i>92.1%</i>	<i>95.1%</i>	<i>91.2%</i>	<i>94.7%</i>

Three and six months ended September 30, 2021

Revenue increased \$0.01M (0%) between Q2 FY21 and FY22. The gross margin at 92.1% is lower than the same period in FY21 (95.1%).

Sales and Gross Margin - Six months ended

(in 000's)	September 30, 2021			September 30, 2020			Increase / (Decrease)
	Total	GSX	Remaining Balance*	Total	GSX	Remaining Balance*	
Sales	\$ 8,814	3,622	5,192	7,722	2,332	5,390	(198)
Cost of Goods Sold	776	619	156	407	216	191	(35)
Gross Margin	8,038	3,002	5,036	7,315	2,116	5,199	(164)
<i>Gross Margin</i>	% 91.2%	82.9%	97.0%	94.7%	90.7%	96.5%	0.5%

* To facilitate comparison with the six months ended September 30, 2021, the Remaining balance represents the results of the Company's operations in Q2 YTD FY22 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY21.

Revenue increased 14% between Q2 YTD FY22 and Q2 YTD FY21. Excluding GSX, revenue decreased 4% between Q2 YTD FY22 and Q2 YTD FY21. The gross margin at 94.7% (96.5% excluding GSX) is higher than 93.5% for the same period in FY21.

Segmented information

The Company operates in three operating segments: 1) Monitoring – Mitel UC; 2) Vantage Dx Analytics - IT Service Analytics; and 3) Vantage Dx Monitoring – Microsoft 365. Vantage Dx is the name of the Corporation's solution suite portfolio for digital experience monitoring. For operating segment reporting purposes, Monitoring – Mitel UC was previously reported as Vantage Dx Monitoring – Mitel UC. 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.

Three and six months ended September 30, 2021

Sales and Gross Margin - Three months ended

(in 000's)	September 30, 2021				September 30, 2020			
	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Sales	\$ 1,802	755	1,857	4,413	1,848	814	1,733	4,395
Cost of Goods Sold	55	11	282	348	53	25	138	215
Gross Margin	1,747	744	1,575	4,065	1,795	789	1,595	4,180
<i>Gross Margin</i>	% 97%	99%	85%	92%	97%	97%	92%	95%

Sales and Gross Margin - Six months ended

(in 000's)	September 30, 2021				September 30, 2020			
	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Sales	\$ 3,663	1,529	3,622	8,813	3,754	1,637	2,332	7,722
Cost of Goods Sold	137	19	620	776	137	54	216	407
Gross Margin	3,526	1,509	3,002	8,038	3,617	1,583	2,116	7,315
<i>Gross Margin</i>	% 96%	99%	83%	91%	96%	97%	91%	95%

For the three and six months ended September 30, 2021 and 2020

Sales - Three months ended

	September 30, 2021				September 30, 2020			
	Monitoring -	Vantage Dx	Vantage Dx	Total	Monitoring -	Vantage Dx	Vantage Dx	Total
	Mitel UC	Analytics - IT Service	Monitoring - Microsoft		Mitel UC	Analytics - IT Service	Monitoring - Microsoft	
(in 000's)		Analytics	365		Analytics	365		
Revenue recognized at a point in time								
Hardware	\$ 2	-	-	2	1	-	-	1
Perpetual licenses	12	-	-	12	-	-	-	-
Training and professional services	-	2	15	17	65	9	13	87
Revenue recognized over time								
Subscription licenses	1,772	569	1,252	3,593	1,774	539	1,038	3,351
Maintenance and support	16	184	527	726	8	266	586	860
Term licenses	-	-	62	62	-	-	96	96
Total revenue	1,802	755	1,857	4,413	1,848	814	1,733	4,395

Sales - Six months ended

	September 30, 2021				September 30, 2020			
	Monitoring -	Vantage Dx	Vantage Dx	Total	Monitoring -	Vantage Dx	Vantage Dx	Total
	Mitel UC	Analytics - IT Service	Monitoring - Microsoft		Mitel UC	Analytics - IT Service	Monitoring - Microsoft	
(in 000's)		Analytics	365		Analytics	365		
Revenue recognized at a point in time								
Hardware	\$ 52	-	-	52	22	-	-	22
Perpetual licenses	12	-	-	12	-	-	-	-
Training and professional services	-	17	31	48	65	22	13	100
Revenue recognized over time								
Subscription licenses	3,567	1,132	2,389	7,089	3,652	1,061	1,364	6,077
Maintenance and support	32	379	1,091	1,503	14	554	819	1,387
Term licenses	-	-	111	111	-	-	136	136
Total revenue	3,663	1,529	3,622	8,814	3,754	1,637	2,332	7,722

Monitoring – Mitel UC revenue decreased \$46k (2%) from Q2 FY21 and \$91k (2%) from Q2 YTD FY21 due to lower USD-CAD FX rate (the majority of the Mitel UC revenue is in USD). The FX rate impact was partially offset by an increase in recurring revenue from the number of users for Mitel’s premium software assurance program, maintenance and support related to licences sold in FY21 and hardware sold in Q2 FY22. Gross margin remained consistent with Q2 FY21 at 97% and Q2 YTD FY21 at 96%.

Vantage Dx Analytics - IT Service Analytics revenue decreased \$59k (7%) from Q2 FY21 and \$108k (7%) from Q2 YTD FY21. Maintenance and support revenues are decreasing as a result of the change from perpetual to subscription revenue in prior years and resulting churn on the existing maintenance and support contracts primarily related to the LiveMaps product. This decrease was partially offset by an increase in subscription license revenue related to the iQ product. Margin slightly increased in Q2 and Q2 YTD FY22 to 99% from 97% in Q2 and Q2 YTD FY21 due to lower commissions.

Vantage Dx Monitoring – Microsoft 365 revenue increased \$124k (7%) from Q2 FY21 and \$1,291k (55%) from Q2 YTD FY21. GSX was acquired in late May 2020 and therefore the YTD FY21 results include only four months of revenue. Subscriptions related to the MSFT product have increased, partially offset by a slight decrease in maintenance and support and term licences on the legacy product. Margin decreased in Q2 FY22 to 85% (92% in Q2 FY21) and 83% for Q2 YTD FY22 (91% in Q2 YTD FY21 due to higher sales and distributor commissions and an increase in hosting costs related to more cloud-based customers).

For the three and six months ended September 30, 2021 and 2020

MRR Reconciliation - 3 months ended

(in 000's)	September 30, 2021				September 30, 2020			
	Monitoring -	Vantage Dx	Vantage Dx	Total	Monitoring -	Vantage Dx	Vantage Dx	Total
	Mitel UC	Analytics - IT	Monitoring -		Mitel UC	Analytics - IT	Monitoring -	
		Service	Microsoft		Service	Microsoft		
		Analytics	365		Analytics	365		
Revenue	1,802	755	1,857	4,413	1,848	814	1,733	4,395
Adjustments:								
Less Revenue recognized at point in time								
Hardware	(2)	-	-	(2)	(1)	-	-	(1)
Perpetual licenses	(12)	-	-	(12)	-	-	-	-
Training and professional services	-	(2)	(15)	(17)	(65)	(9)	(13)	(87)
Less: Term licences	-	-	(62)	(62)	-	-	(96)	(96)
Add back: Subscription licences haircut	-	-	-	-	-	-	29	29
Add back: Maintenance and support haircut	-	-	1	1	-	-	20	20
Quarterly Recurring Revenue	1,788	753	1,781	4,321	1,782	805	1,673	4,260
Monthly Recurring Revenue (MRR)	596	251	594	1,440	594	268	558	1,420

Monthly Recurring Revenue (“MRR”) is \$1.44M in Q2 FY22 compared to 1.42M in Q2 FY21. The increase in MRR is due to an increase in subscription licenses in IT Service Analytics, and an increase Microsoft 365 partially offset by lower royalties from Monitoring - Mitel UC as a result of a lower USD-CAD exchange rate and a decrease of maintenance and support on legacy products. MRR is a non-IFRS measure and represents average monthly recurring revenue earned in a fiscal quarter.

Expenses

Three and six months ended September 30, 2021

Expenses - Three months ended

(in 000's)	September 30, 2021	September 30, 2020	Increase / (Decrease)
	Total	Total	
Research and development	\$ 1,563	1,216	347
Sales and marketing	1,702	1,288	413
General and administrative	1,229	1,520	(292)
Depreciation	110	142	(33)
Amortization	512	499	12
Acquisition-related costs	20	95	(75)
TOTAL	5,136	4,762	374

Expenses - Six months ended

(in 000's)	September 30, 2021			September 30, 2020			Increase / (Decrease)
	Total	GSX	Remaining Balance*	Total	GSX	Remaining Balance*	
Research and development	\$ 3,299	847	2,453	2,195	576	1,619	834
Sales and marketing	3,663	1,685	1,978	2,228	1,021	1,207	770
General and administrative	2,577	221	2,357	2,616	481	2,135	222
Depreciation	221	121	101	237	87	149	(49)
Amortization	1,021	696	325	777	458	319	6
Acquisition-related costs	50	-	50	934	-	934	(884)
TOTAL	10,832	3,570	7,262	8,987	2,624	6,363	900

* To facilitate comparison with the six months ended September 30, 2020, the Remaining balance represents the results of the Company's operations in FY22 and FY21 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY21.

For the three months and six months ended September 30, 2021, operating expenses increased by \$0.37M and \$1.85M (\$0.90M excluding GSX) respectively compared to the same period in FY21. Lower spending in FY21 was driven by a strategic initiative to reduce costs in view of the uncertainties around COVID, including delays in filling vacant positions, and temporary reductions in compensation and work hours. Increase in spending across all departments in FY22 was mainly driven by higher compensation costs following the return to full salaries and lower government incentives (IRAP and COVID 19 related in FY21).

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, funding from the National Research Council of Canada Industrial Research Assistance Program (“NRC-IRAP”) through August 2020, and Credit d’Impôt en Faveur de la Recherche (“CIR”).

- R&D expenses increased \$347K from Q2 FY21 to Q2 FY22 and \$834K (excluding the impact of GSX) in the six months of FY22 compared to FY21. In addition to the overall expense increases explained above, the Q2 increase is related to incremental headcount, higher spend on software subscriptions and patent filing fees.

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 \$413K from Q2 FY21 to FY22 and \$770K (excluding the impact of GSX) in the six months of FY21 to FY22. In addition to increases driven by return to full salary as described above, the Q2 and YTD increase is related to increase in headcount, investment in sales related software, increase in marketing & event costs and fees related to trademarks.

General and administrative costs include headcount related compensation, board compensation, rent and professional and other fees related to corporate activities.

- General and administrative costs decreased by \$292k from Q2 FY21 to FY22 and increased by \$222K (excluding the impact of GSX) from the six months of FY21 to FY22. In addition to the increases explained above, the Q2 decrease is related to lower spend in consulting, subcontractors, salaries and software costs related to optimization of resources following the acquisition of GSX. Q2 YTD increase is related to incremental spend in software & hardware and insurance, partially offset by lower spend on tax, audit and consulting fees.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. The decrease in depreciation by \$33k from Q2 FY21 to FY22 and \$49k (excluding the impact of GSX) for Q2 YTD is due to the termination of a lease in Amsterdam in Q4 FY21.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. Excluding GSX, amortization was comparable between FY22 and FY21.

Acquisition related costs decreased by \$75K from Q2 FY21 to Q2 FY22 and \$884k from Q2 YTD FY21 to Q2 YTD FY22. The FY21 costs relate to the acquisition of GSX, including financial, tax and technical due diligence, M&A advisor fees, and legal and other professional fees.

Loss from Operations

In Q2 FY22, the loss from operations was \$1.07M compared to a loss of \$0.58M in the same period of FY21, and in Q2 FY22 YTD the loss from operations was \$2.79M compared to a loss of \$1.67M in Q2 FY21 YTD. For both periods, the increase in sales was offset by increased cost of goods sold and operating expenses as described above.

Other Income/Expense

(in 000's)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(Three months ended)		(Six months ended)	
Interest income	\$ 1	2	5	5
Interest expense	(476)	(594)	(941)	(729)
Financing fees	17	(22)	7	(405)
Accretion of long-term debt	(15)	(14)	(31)	16
Revaluation of forward contract	(24)	(59)	(15)	(150)
Foreign exchange gain (loss)	(135)	307	(183)	268
Other income	6	(10)	22	(9)
TOTAL	\$ (626)	(390)	(1,135)	(1,004)

Interest expense decreased from \$594k in Q2 FY21 to \$476k in Q2 FY22. This was due to a catch-up adjustment in interest expense in Q2 FY21. For the six months ended September 30, 2021, the increase in interest expense is a result of entering into the Vistara Term Loan in Q1 FY21. In connection with the GSX acquisition in late May 2020, the Company repaid the RBC term loan (\$1.8M) and entered into the Vistara Term Loan, with a principal amount of USD \$8.0M. The interest expense is higher in the 6 months ending September 30, 2021 as there is 6 months of interest reflected during this period compared to 4 months in the same period of FY21. The interest expense includes Vistara Term Loan interest of 12.5% as well as amortization of the loan and warrant origination fees associated with the Vistara Term Loan.

During the period ended September 30, 2020, the Company also incurred financing fees related primarily to the National Bank Revolver, including setup fees, advisory fees and legal costs. As well, certain fees were incurred in terminating the RBC term loan.

For the three and six months ended September 30, 2021, the Company had foreign exchange losses of \$135K and \$183K, respectively, compared to gains of \$307K and \$268K, respectively for the same periods last year. The main driver for the foreign exchange loss for the 6 months ending September 30, 2021, is the revaluation of the Vistara USD loan. On the current reporting date, USD was stronger than CAD compared to the rate on March 31, 2021, which resulted in a loss from revaluation of the outstanding USD loan.

In the 6 months ending September 30, 2020, the CAD strengthened against both the EUR and USD, resulting in gains on foreign exchange transactions as well as on revaluation of the Euro and USD denominated values at September 30, 2020.

The Company has entered into foreign exchange forward contracts with a financial institution to hedge cash flows associated with revenue denominated in USD. Revaluation of the forward contracts for the three and six months ended September 30, 2021 resulted in losses for the three and six months ended September 30, 2020 and 2021.

Income Tax Expense / Recovery

For the three and six months ended September 30, 2021, income tax amounted to an expense of \$0.02M and a recovery of \$0.04M, respectively compared to an expense of \$0.07M and \$0.02M, respectively, for the same periods last year. In Q2 FY22 there was a reversal of a deferred tax liability due to NOL used, and a decrease in deferred tax liability due to amortization of intangibles.

Loss from Discontinued Operations, net of tax

The loss from discontinued operations for the three and six-months ending September 30, 2021 was \$0, compared to the gain of \$0.1M from Q2 FY21 and the loss of 0.32M for Q2 YTD FY 21. The loss from discontinued operations represents the results of the NPM segment, the net assets of which were sold in Q2 FY21.

Other Comprehensive Income / Loss

In the three and six months ended September 30, 2021, the Company had other comprehensive loss of \$0.06M and \$0.05M, respectively, (gain of \$0.87M and \$0.82M for the three and six months ended September 30, 2020). Included in other comprehensive income/(loss) are pension plan fair value adjustments, pension plan remeasurement, as well as currency translation differences for Savision and GSX operations, for which EUR is the functional currency. During Q2 FY21, the increase in CAD against EUR resulted in income on revaluation of the net assets of Savision and GSX including goodwill and intangibles.

Net Loss and Comprehensive Loss

For the three and six months ended September 30, 2021, the net loss amounted to \$1.72M and \$3.89M compared to \$0.94M and \$3.02M net loss recorded in the same periods last year.

The total comprehensive loss for the three and six months ended September 30, 2021 was \$1.8M and \$3.94M, respectively, compared to \$0.07M and \$2.20M for the same periods last year.

The key drivers contributing to the losses are provided under Loss from Operations, Other Income/Expense, Loss from Discontinued Operations, Income Tax Recovery and Other Comprehensive Loss above.

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, 2021. The information has been derived from our unaudited quarterly condensed interim 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 September 30, 2021 and 2020. 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 FY22	Q1 FY22	Q4 FY21	Q3 FY21	Q2 FY21	Q1 FY21
Sales	\$ 4,413	4,401	4,476	4,633	4,395	3,327
Cost of Goods Sold	348	428	481	309	215	192
Gross Margin	4,065	3,973	3,995	4,324	4,180	3,135
Expenses	5,135	5,696	5,963	5,449	4,762	4,224
Loss from operations	(1,070)	(1,723)	(1,968)	(1,125)	(583)	(1,089)
Other income/(expense)	(626)	(509)	(390)	(240)	(390)	(614)
Loss before income tax	(1,695)	(2,232)	(2,358)	(1,365)	(973)	(1,703)
Income tax recovery	(23)	65	461	(94)	(68)	48
Net loss from continuing operations	(1,719)	(2,167)	(1,897)	(1,459)	(1,040)	(1,655)
Gain (loss) from discontinued operations, net of tax	-	-	(0)	-	103	(423)
Net Loss	(1,719)	(2,167)	(1,897)	(1,459)	(937)	(2,078)
Total comprehensive loss	(1,780)	(2,160)	(3,435)	(985)	(69)	(2,127)
EBITDA ⁽¹⁾	(601)	(1,125)	(1,112)	(223)	400	(1,270)
Adjusted EBITDA ^{(1) (2)}	(297)	(956)	(985)	(262)	304	200

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

(2) Adjusted EBITDA for FY21 reflects addback of discontinued operations

The acquisition of GSX in May 2020 (Q1 FY21) resulted in sales growth in Q2 and Q3 FY21. Sales have been stable from Q4 FY21 through Q2 FY22 in part due to lower USD-CAD FX rate (the majority of the Mitel UC revenue is in USD, which represents 41% of the current Q2 FY22 revenue). While revenue from DEM products is growing, it has also been offset by declines in legacy products acquired in the GSX and Savision acquisitions.

Cost of goods sold decreased in Q2 FY22 compared to the prior two quarters as a result of a decrease in cloud hosting costs for Gizmo. This is due to R&D efforts on cloud-based multitenancy, driving some cost optimization. Prior quarters had seen steady increases with more users in a cloud environment, increases in amortized commission costs and cost of inventory re-sold in the Microsoft 365 (GSX) segment.

In Q1 FY21 a strategic decision was made to reduce costs in face of uncertainty related to COVID and this continued through mid Q3 FY21. The operating expenses increased in Q2 FY21 as they reflect a full quarter with GSX, and Q3 FY21 reflects a return to full salaries, an increase in spend in marketing and investments in sales software, combined with lower government credits (IRAP and Covid related) in the subsequent periods. The sequential decrease between Q1 and Q2 FY22 is mainly related to reduced headcount due to attrition, and adjustments to vacation, pension cost and other compensation costs.

Other income and expense increases reflect the cost of new financing in Q1 FY21 and ongoing interest costs, as well as foreign exchange losses YTD FY22.

Gain/loss from discontinued operations reflects results of the NPM segment, which was disposed of in Q2 FY21.

Temporary reductions in operating expenses due to COVID uncertainty resulted in positive adjusted EBITDA in Q1 – Q2 FY21. Gradual increase in investments in headcount, infrastructure and lead generation in the subsequent periods is reflected in increasing adjusted EBITDA losses in the subsequent periods. The decrease in the Adjusted EBITDA loss sequentially from Q1 FY22 to Q2 FY22 is due to lower cost of goods sold and operating expenses as discussed above.

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 revenue generated from the sale of its products and services, issuance of common shares, raising of long-term debt, as well as the receipt of government loans, and investment tax credits.

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 November 2018, in connection with the Savision acquisition, the company closed a loan facility with RBC and drew \$3.0M on the term loan. In May 2020, the remaining balance of \$1.8M was fully repaid.

In September 2019, the Company completed a public offering, with gross proceeds of \$4.6M (net proceeds of \$4.0M) to identify and fund acquisitions, accelerate R&D activities, increase sales capacity and for general corporate purposes.

In Q1 FY21, the Company completed several transactions to both fund the GSX Acquisition and create further stability for the Company, including a bought deal offering for gross proceeds of \$6.9M (the "Bought Deal Offering"). Concurrently, in connection with the GSX Acquisition, 22,000,000 common shares were issued as part of the purchase price.

In addition, the Company entered into two debt facilities Q1 FY21.

a) National Bank Revolver

On April 27, 2020, Martello Corp 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 \$7.5M, 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 Company, 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 facility is undrawn as of March 31, 2021.

b) Vistara Term Loan

On April 27, 2020, Martello Corp 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 has provided a USD \$8.0M subordinated secured term loan (the "Vistara Term Loan"). Along with the proceeds of the Bought Deal Offering the Vistara Term Loan was used to fund the GSX Acquisition.

The Vistara Term Loan is repayable within 36 months of closing and carries interest of 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 Vistara Term Loan is secured by a subordinated security interest in and guarantees from the Corporate Guarantors.

As consideration for providing the Vistara 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.

The Company also has in place a non-binding letter of intent with Bruce Linton, and Terry Matthews through Wesley Clover International Corporation, Co-Chairmen of the Company’s Board of Directors to provide a \$5.0M unsecured subordinated debt instrument (the “Unsecured Subordinated Loan”). The Unsecured Subordinated Loan has not been drawn on but is expected to become available to the Company as an additional source of capital, subject to the parties agreeing to definitive terms.

In Q4 FY21, the Company completed a second bought deal offering for gross proceeds of \$5.75M, as well as a concurrent private placement for gross proceeds of \$0.44M.

Cash and Working Capital

Cash and cash equivalents, including restricted cash and short-term investments, totaled \$4.83M at September 30, 2021 compared to \$8.52M at March 31, 2021. The decrease is explained below under **Cashflow Analysis**.

The following tables sets out the working capital position of the Company as at September 30, 2021 and March 31, 2021.

Liquidity Snapshot

(in 000's)	September 30, 2021	March 31, 2021
Current Assets	\$ 11,490	15,132
Current Liabilities	8,778	10,628
Net Working Capital	2,712	4,504

The decrease in working capital in Q2 YTD FY22 was mainly due to cash used in operations of \$3.4M which includes payment of lease obligation, interest and principal on the loan offset by the increase in investment tax credits receivable of \$0.4M and decrease in deferred revenue of \$0.7M.

Long-Term Debt

As at September 30, 2021 long-term debt totaled \$10.3M, including \$0.25M due within one year. The debt is made up of:

- \$9.58M Vistara Term Loan, bearing interest at 12.5% and repayable on May 26, 2023. This represents the initial draw of USD\$8M, less related fees and warrant costs which are being amortized to the loan balance over the period to maturity, plus capitalized interest. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity.
- \$0.45M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario (“FedDev”), to support commercialization activities for a specific project.
- \$0.81M non-interest-bearing, unsecured loan from Canada Economic Development Agency.
- \$0.18M unsecured promissory note under the Paycheck Protection Program in the United States, facilitated by Bank of America. The promissory note has a term of 5 years, maturing in March 2026. The loan accrues interest at a fixed annual rate of 1% due on maturity.

Share Capital

In the first six months of FY22, the following transactions in the share capital of Martello occurred:

- 2,892,000 new options were granted (6,127,167 in Q2 YTD FY21)
- 200,000 options were exercised (3,322,665 in Q2 YTD FY21)
- 849,000 options were forfeited (253,334 in Q2 YTD FY21)
- 208,603 options expired (0 in Q2 YTD F21)
- No warrants were exercised (274,285 in Q2 YTD FY21)

In the first six months of FY21, the following additional transactions in the share capital of Martello occurred:

- 32,861,250 units were issued in connection with the Bought Deal Offering. Each unit consisted of one share and one warrant (each, a "Unit").
- 22,000,000 shares were issued in connection with the GSX Acquisition
- 1,643,063 broker compensation option units were granted in connection with the Bought Deal Offering, providing the underwriters with the option to purchase Units for 24 months from May 26, 2020.
- 12,777,273 bonus warrants were issued in connection with the Vistara Term Loan

Cash Flow Analysis

(in 000'S)	Six months ended September 30,	
	2021	2020
Operating activities		
Loss before income tax	\$ (3,928)	(2,676)
Net loss from discontinued operations before income tax	-	(320)
Items not affecting cash	2,199	1,168
Net change in operating components of working capital	(1,696)	(3,284)
Total cash flows used in operations	(3,424)	(5,112)
Total cash flows used in investing activities	(12)	(8,397)
Total cash flows provided by (used in) financing activities	(252)	14,550
Net change in cash	(3,688)	1,041
Cash, beginning of period	8,350	2,900
Effects of currency translation on cash	(1)	4
Cash, end of period	4,661	3,945

Cash flows used in operations were \$3.42M for the six months ended September 30, 2021, compared to \$5.11M for the six months ended September 30, 2020. The decrease in cashflows used in operations of \$1.69M is due to the following key factors:

- The net loss was \$3.89M in the six months ended September 30, 2021, compared to \$3.01M for the same period in the prior year. Several items contribute to the loss before income tax and are not used as cashflow used in operations. Key changes in these items year over year are as follows, resulting in the decrease of \$1.69M in cashflows used in operations:
 - Amortization of intangible assets increased by \$0.24M in Q2 YTD FY22. The increase is due to 6 months of amortization of GSX intangible assets in FY22 compared to 4 months in Q2 YTD FY21.
 - Amortization of debt issuance cost increased from \$188K for the six months of FY21 to \$280k for the same period of FY22. This relates to the Vistara Term Loan; there were 4 months of costs in Q2 YTD FY21 as the loan was awarded in May 2020, compared to six months in FY22.

- Change in fair value of hedge liability in Q2 YTD FY21 represented a loss of \$150K due to a weaker CAD against USD rate, compared to a loss of \$15K for the 6 months ended Q2 YTD FY22 due to a more favorable exchange rate between CAD and USD.
- In the Q2 YTD FY22 the Corporation incurred \$157K of unrealized foreign exchange loss due to a more unfavorable exchange rate between CAD and EUR for revaluation of intangible assets as well as unfavorable USD vs CAD rate for revaluation of the Vistara loan which was denominated in USD. In the Q2 YTD FY21, the total unrealized foreign exchange gain of \$278K. During this period, the USD and EUR to CAD moved favorably, resulting in gains on foreign exchange transactions.

In addition, the net change in operating components of working capital was a decrease of \$1.69 for the six months of FY22 as compared to a decrease of \$3.28M in the prior year. This difference was due to the following:

- Trade and other accounts receivable decreased by \$0.46M in Q2 YTD FY22, compared to a decrease of \$0.27M in Q2 YTD FY21 due primarily to timing of collection of invoices and sales tax receivable. In addition, in Q2 FY21, accounts receivable decreased mainly due to collection of GSX accounts receivable (\$0.35M).
- Prepaid expenses increased by \$0.09M in the six months ended September 30, 2021 as compared to a decrease of \$0.21M in the six months ended September 30, 2020. The FY22 increase is due to timing of commission and insurance payments. The decrease in FY21 related primarily to loan origination and financing fees prepaid at March 31, 2020 (\$0.11M) that were reclassified to loan and financing costs accounts upon closing in Q1 FY2021. The remaining decrease relates to expensing of prepaid subscriptions and other services.
- Accounts payable and accrued liabilities decreased \$1.31M during the six months ended September 30, 2021, compared to a decrease of \$2.44M in the prior year. The decrease in FY22 relates to timing of payment of invoices and payroll and related benefits (\$1.0M) outstanding at March 31, 2021. The decrease in FY21 was due primarily to a \$1.4M decrease in GSX accounts payable, including payment of bonuses and commissions to GSX employees and subcontractors of \$0.80M (assumed by Martello in the acquisition and reflected in purchase price adjustments), accrued payroll and related taxes of \$0.25M and payment of professional fees and other payables. In addition, the decrease is attributable to payments of M&A costs and professional fees of \$0.5M, and timing of payroll and related payments, sales taxes and board fees.
- Deferred revenue decreased \$0.35M during the six months of FY22, compared to a decrease of \$0.95M in the prior year. Deferred revenue decreases through Q2 are expected as there are a large number of contracts with renewal dates in Q3 FY21. FY22 new bookings offset some of these decreases.

Cashflows used in investing activities were \$12K for the six months ended September 30, 2021 as compared to \$8.40M for the six months ended September 30, 2020. The use of cash in the prior year resulted primarily from the GSX Acquisition net of cash acquired (\$11.6M), offset by the sale of short-term investments (net \$2.78M).

Cashflows provided by (used in) financing activities were \$0.25M use of cash for the six months ended September 30, 2021, compared to \$14.55M cash inflow for the six months ended September 30, 2020. Cashflows used in financing activities in Q2 YTD FY22 reflect repayment of long-term debt (\$102k) and repayment of lease obligations of \$175k. Cashflows provided by financing activities in FY21 included \$10.98M in proceeds from the Vistara Term Loan, \$6.9M in proceeds from the Bought Deal (\$4.96M in common stock and \$1.94M in warrants), partially offset by common stock and warrant issuance costs of \$0.89M, debt issuance costs of \$0.85M, repayment of the RBC Term Loan of \$1.81M and repayment of the lease obligation of \$0.19M.

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 18 *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 Corporation has subleased the Elfiq Lease to a third party and the lease has been guaranteed by the Corporation.

Total lease commitments remaining for the year-ending March 31, 2022 is \$53,044.

OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2021 and 2020, 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.

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 19% of the Company as at September 30, 2021. Included in accounts payable and accrued liabilities are balances as at September 30, 2021 totaling \$153k (March 31, 2021 - \$145k) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board is chairman of Wesley Clover International Corporation ("Wesley Clover"). Wesley Clover owns more than 10% of the issued and outstanding common shares of the Company as at September 30, 2021.

The Company leases office premises from Wesley Clover. For the three and six months ended September 30, 2021, the Corporation paid rent to Wesley Clover, which is reflected in the results for the three and six months ended September 30, 2021 as \$25K and \$49K in depreciation expense, respectively (three months and six months ended September 30, 2020 - \$25K and \$49K, respectively) and \$33K and \$61K in rent expense (three and six months ended September 30, 2020 - \$24K and \$55K, respectively).

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

OUTLOOK

Martello's addressable market has grown considerably as adoption of Microsoft Teams has skyrocketed by more than 200% since the start of the COVID-19 pandemic, reaching 250M monthly active users in July 2021. Enterprise IT activity in this period focused on rapidly deploying Microsoft Teams in order to keep a newly remote workforce productive. In Q2 FY22, Martello began to see a shift in IT focus, with growing demand for solutions to optimize Microsoft Teams performance and ensure a consistently reliable user experience. As dependence on Microsoft Teams for organizational productivity has deepened, IT teams struggle to deliver a reliable user experience with the increased complexity of managing both remote and office-based users. As hybrid models have brought more employees back to the office, their Microsoft Teams habits remain unchanged, and the influx of video conferencing has strained office networks. Since the launch of Vantage DX in September, many of Martello's prospective customers have these challenges in common.

Vantage DX Sales Pipeline and Trials

The launch of the Vantage DX single platform DEM solution for Microsoft Teams aligned with broader industry hybrid work trends and growing demand for Microsoft Teams user experience optimization solutions. This catalyzed interest in Vantage DX resulting in increased demand, with an increasing number of prospective customers undertaking trials of Vantage DX. Martello's go to market strategy for Vantage DX is to demonstrate 'day 1' value to prospects, by immediately identifying and prioritizing an organization's most critical problems impacting Microsoft Teams performance and giving them the tools to resolve the problems quickly.

Partnerships

Martello was invited to join the Microsoft Global Solutions Alliance program in Q2 FY22, and the Company's engagement with Microsoft through this program has helped to identify and target the highest value and most strategic partnerships to pursue, with Microsoft's support. The Company's focus in Q2 FY22 and subsequent to the quarter has been on developing and advancing relationships with these prospective partners.

The Company is making progress towards key milestones in its engagement with Microsoft as part of the Microsoft Global Solutions Alliance program, including becoming transact-ready on the Microsoft Azure marketplace. Becoming transact-ready means that Microsoft sellers will be incented to sell Vantage DX via the Azure marketplace. The Company is actively engaged with multiple

teams within Microsoft to enhance awareness of Martello. The program is expected to provide Martello with access to Microsoft sales and marketing channels.

The announcement of a strategic partnership between Mitel and Ring Central subsequent to Q2 FY22 is not expected to have a near-term impact on Martello's MPA business with Mitel. While the partnership makes Ring Central the exclusive UCaaS provider to Mitel's customers, the majority of Martello's MPA business is driven by the on-premises segment of Mitel's business, which Mitel is now expected to focus its resources on. Martello continues to work closely with Mitel to develop support for its communication and collaboration platforms and to bring more Mitel customers and partners globally onto the MPA UC performance analytics platform.

ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are disclosed in note 2 of the Company's audited annual consolidated financial statements for the year ended March 31, 2021.

DEFINED BENEFITS RETIREMENT PLAN

At September 30, 2021, the Plan was in a deficit position of \$0.33M (March 31, 2021 - \$0.26M). The movements in Defined benefit obligation for the period from March 31, 2021 to September 30, 2021 are:

	\$
Defined benefit obligation at April 1, 2021	1,039,523
Current service cost	84,203
Interest cost	2,489
Foreign exchange translation	63,524
Participant contributions	11,418
Benefits transferred in	246,561
Defined benefit obligation September 30, 2021	1,447,718

The movements in Plan assets for the period from March 31, 2021 to September 30, 2021 are:

	\$
Plan assets at April 1, 2021	781,182
Interest income	4,118
Return on plan assets, excluding interest income	67,290
Participant contributions	21,500
Employer contributions	59,076
Foreign exchange translation	(3,317)
Assets transferred in	185,288
Fair value of pension plan September 30, 2021	1,115,137

The weighted average duration of the obligation at September 30, 2021, which relates to active members, is 19.65 years.

The Corporation expects to make contributions to the Plan totaling \$0.16M during the next 12 months.

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 consolidated financial statements of Martello for the year ended March 31, 2021 relate to business combinations, determination of functional currencies, fair value of interest free debt, revenue recognition, share-based compensation, equity, and warrants, useful life of long-lived assets, evaluation of goodwill and intangible assets impairment, classification of discontinued operations, the assumptions underlying the actuarial valuation of the defined benefit pension plan,

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 the years ended March 31, 2021 and 2020.

FINANCIAL INSTRUMENTS

This section should be read in conjunction with the accompanying consolidated financial statements for the three and six months ended September 30, 2021 and 2020. The financial instruments of the Company are as follows:

(in 000's)	September 30, 2021	March 31, 2021
Financial assets		
Cash	\$ 4,661	8,350
Short-term investments	170	170
Trade and other accounts receivable	4,743	5,201
Investment tax credits and grants receivable	1,180	779
Investment	304	304
Foreign exchange forward contract asset	-	8
Lease receivable	76	109
Total financial assets	11,133	14,921

(in 000's)	September 30, 2021	March 31, 2021
Financial liabilities		
Accounts payable and accrued liabilities	\$ 3,037	4,157
Foreign exchange forward contract liability	7	-
Lease obligation	1,015	1,195
Long-term debt (including current portion)	10,310	9,860
Total financial liabilities	14,368	15,212

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 to increase the Company's enterprise value. The Company is financed through a mixture of debt and equity. The Company is exposed to credit risk, liquidity risk, market risk, foreign exchange risk, interest rate 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. As of September 30, 2021, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD \$1.5M. 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.

At September 30, 2021, the Company is exposed to interest rate risk as the Vistara Term Loan carries interest at a variable rate, being the greater of (i) 12.50% per annum; and (ii) the US prime rate plus 8.75% per annum. As at September 30, 2021, the US prime rate was 3.25% and the Company is paying interest at 12.50% per annum.

In addition, the Vistara Term Loan is denominated in USD. The Company is reviewing its exposure to interest rate risks and foreign currency risks and will seek to minimize its exposure to interest rate and currency rate fluctuations.

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.

COVID-19

On March 11, 2020, COVID-19 was declared as a pandemic by the World Health Organization. The spread of COVID-19 has significantly impacted the global economy, and the outbreak and efforts to contain the virus may have a significant impact on the Company's business and customers. The extent of the adverse impact of the pandemic on the global economy and markets will depend, in part, on the length and severity of the measures taken to limit the spread of the virus, the length and severity of the second or future waves of the virus, and, in part, on the size and effectiveness of the compensating measures taken by governments. The prolonged economic slowdown has and may continue to result in purchase order delays or the inability to collect receivables and it is possible that there may be continued negative impacts on the Company's operations that could have a material adverse effect on our financial results. Changes to budgets and spending priorities as the post-COVID-19 economy evolves may impact revenues. With customer interactions having shifted entirely to virtual or digital platforms, there may be an impact on our ability to generate and convert leads, and on new and renewal sales.

The Company continues to monitor the potential effects and impact on its operations, business and financial performance, including liquidity and capital usage, resulting from COVID-19. Measures were taken early in COVID-19 to minimize the effects, including temporary salary reductions and reductions in discretionary spending. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on ongoing developments which continue to create uncertainty.

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, including Microsoft, may invest more time and resources in developing competitive technology, products, or solutions. Other companies may have access to capital at a lower cost than Martello. 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 or operate effectively, and that have value to those businesses. 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 has acquired assets and 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 failure to successfully realize value from acquisitions, including greater than expected product integration or development challenges, 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

As a strategic partner, Mitel accounted for approximately 39% and 40% of the Company's revenue during the three and six months ended September 30, 2021 (42% and 47% for the three and six months ended September 30, 2020). 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, 2016 for an initial term of one year with automatic annual renewals and was amended in January 2019 to expand 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. The change in the Mitel/RingCentral relationship could accelerate the migration of on-premises customers into RingCentral's UCaaS offering. This risk is mitigated by the Company's initiatives to bring Vantage Dx, our integrated solution, to market, the launch of our indirect channel strategy and acquisition activities. The recently announced relationship with Microsoft is a concrete step in this mitigation strategy.

Microsoft relationship

In connection with the Company's participation in Microsoft's Global Solutions Alliance Program, the Company has agreed to supplemental terms to the Microsoft Customer Agreement which include, among other things, a commitment by the Company to spend \$4MM on Microsoft Azure over a 60-month period. If the Microsoft Azure consumption is valued at less than \$4MM over the first 48 months, the Company must pay Microsoft any remaining difference and any amount paid will be treated as a prepayment for Azure consumption for the following 12 months. The Company's consumption of Microsoft Azure is dependent on maintaining DEM revenue growth, including migration and growth of customers on the Vantage Dx product suite and execution of sales and channel strategies.

Rapid Technological Change

The nature of Martello's industry is one of frequent new product introductions, evolving industry standards and changing customer needs, which could cause the Company's hardware products and software solutions to become obsolete. COVID-19 has accelerated changes in customer IT environments and resulting solution needs, including accelerated adoption of technologies which enable 'work from anywhere'. 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.

Vistara Term Loan

The Company has debt (Vistara Term Loan) which bears interest at a variable rate and requires the Company to meet certain covenants. Increases in market interest rates could increase the carrying cost of the debt and impact the Company's ability to refinance the debt on maturity. Inability to meet the covenants could result in acceleration of the loan.

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. Global competition for technical resources has increased significantly due to work from anywhere policies. This may make it challenging for the Company to attract and retain qualified resources.
- 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, including infectious diseases.
- 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.
- Public disclosure of security vulnerabilities in enterprise IT systems has caused a heightened awareness of potential vulnerabilities in software, resulting in increased scrutiny of solutions like Martello's.
- The Company's success is dependent upon its ability to execute its sales strategy, including execution of go to market strategies which include the development of both existing and new channels to market, and successful renewal of subscription licenses and maintenance and support contracts.
- 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.
- Inflation could increase the Company's operating and other costs, which may result in increased losses.

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