

Unaudited condensed interim consolidated financial statements of

Martello Technologies Group Inc.

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

Martello Technologies Group Inc.

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

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Martello Technologies Group Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three and six months ended September 30, 2021 and 2020

Unaudited

(In Canadian dollars)

	Notes	September 30, 2021 (3 months ended)	September 30, 2020	September 30, 2021 (6 months ended)	September 30, 2020 (6 months ended)
Income					
Sales	5,6	\$ 4,413,305	\$ 4,395,098	\$ 8,813,865	\$ 7,722,153
Cost of goods sold		347,824	215,420	775,707	407,036
Gross margin		4,065,481	4,179,678	8,038,158	7,315,117
Expenses					
Research and development	7	1,563,173	1,216,403	3,298,815	2,194,884
Sales and marketing	7	1,701,856	1,288,378	3,662,901	2,228,252
General and administrative	7	1,228,768	1,520,343	2,577,415	2,615,995
Depreciation	14	109,517	142,400	221,283	236,534
Amortization		511,777	499,425	1,020,640	776,778
Acquisition-related costs		20,000	95,463	50,000	934,291
		5,135,091	4,762,412	10,831,054	8,986,734
Loss from operations		(1,069,610)	(582,734)	(2,792,896)	(1,671,617)
Other income (expense)					
Interest income	15	1,034	2,286	5,373	4,698
Interest expense	14	(475,959)	(594,002)	(940,714)	(728,808)
Financing fees		16,977	(21,728)	6,779	(404,517)
Accretion of long-term debt	13	(14,915)	(14,022)	(30,756)	15,997
Revaluation of forward contract		(24,096)	(59,433)	(15,161)	(149,800)
Foreign exchange gain (loss)		(135,298)	306,810	(182,930)	267,804
Other income		6,423	(9,815)	22,476	(9,464)
Loss from continuing operations before income tax		(1,695,444)	(972,638)	(3,927,829)	(2,675,707)
Income tax recovery (expense)		(23,370)	(67,578)	41,729	(19,745)
Net loss from continuing operations		(1,718,814)	(1,040,216)	(3,886,100)	(2,695,452)
Gain (loss) from discontinued operations, net of tax		-	103,063	-	(320,171)
Net loss		(1,718,814)	(937,153)	(3,886,100)	(3,015,623)
Other comprehensive income (loss) that may be reclassified to net income (loss):					
Cumulative translation adjustment		(94,508)	849,479	(60,433)	766,794
Pension plan remeasurement	15	-	-	(61,050)	-
Pension plan asset fair value adjustment	15	33,050	18,532	67,113	52,880
Total comprehensive loss		(1,780,272)	(69,142)	(3,940,470)	(2,195,949)
Weighted average shares outstanding					
Basic and diluted	16	302,596,958	264,601,839	302,498,958	247,194,513
Net loss per share from continuing operations					
Basic and diluted	8	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Net loss per share from discontinued operations					
Basic and diluted	8	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.00)
Net loss per share, basic and diluted	8	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of financial position

As at September 30, 2021 and March 31, 2021

Unaudited

(In Canadian dollars)

	Note	September 30, 2021	March 31, 2021
Assets			
Current assets			
Cash	9	\$ 4,660,791	\$ 8,349,904
Short-term investment		170,000	170,000
Trade and other accounts receivable	11	4,742,992	5,200,612
Investment tax credits and grants receivable	7	1,179,711	779,354
Prepaid expenses		596,294	511,888
Inventories		64,451	44,242
Foreign exchange forward contract asset		-	8,465
Lease receivable		76,145	67,127
Total current assets		11,490,384	15,131,592
Goodwill	10	19,413,473	19,435,937
Intangible assets		12,395,748	13,429,080
Equipment and leasehold improvements		247,201	300,025
Right-of-use assets	14, 18	887,631	1,044,441
Investment		303,750	303,750
Lease receivable		-	41,631
Total assets		44,738,187	49,686,456
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12, 18	3,036,677	4,157,139
Foreign exchange forward contract liability		6,696	-
Current portion of deferred revenue	5	5,142,174	5,857,364
Current portion of long-term debt	13	249,000	219,000
Current portion of lease obligation	14	343,775	394,048
Total current liabilities		8,778,322	10,627,551
Deferred revenue	5	1,936,210	1,573,308
Long-term debt	13,19	10,060,802	9,640,888
Lease obligation	14	670,903	801,008
Pension obligation	15	332,581	258,341
Deferred tax liability		16,304	150,552
Total liabilities		21,795,122	23,051,648
Shareholders' equity			
Share capital	16	46,354,454	46,313,516
Contributed surplus	16	3,394,177	3,186,388
Warrants	16	3,182,443	3,182,443
Accumulated other comprehensive income		92,547	146,917
Deficit		(30,080,556)	(26,194,456)
Total shareholders' equity		22,943,065	26,634,808
Total liabilities and equity		44,738,187	49,686,456

Approved by the Board on November 23, 2021 and signed on its behalf by:

Original signed "Colley Clarke" Director

Original signed "Michael Michalyshyn" Director

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity for the six months ended September 30, 2021 and 2020

(In Canadian Dollars)

	Notes	Shares outstanding	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive			Total shareholders' equity
						Other	Cumulative translation adjustment	Deficit	
		#	\$	\$	\$	\$	\$	\$	\$
Balance at April 1, 2020		208,516,111	31,780,139	19,500	2,726,868	-	391,216	(19,823,012)	15,094,711
Net loss for the period		-	-	-	-	-	-	(3,015,623)	(3,015,623)
Other comprehensive income		-	-	-	-	-	819,674	-	819,674
Total comprehensive loss for the period		-	-	-	-	-	819,674	(3,015,623)	(2,195,949)
Issuance of common stock	16	54,861,250	9,468,763	-	-	-	-	-	9,468,763
Issuance of Bonus Warrants	16	-	-	862,466	-	-	-	-	862,466
Issuance of Offering Warrants	16	-	-	1,942,100	-	-	-	-	1,942,100
Less: Transaction costs attributable to share and warrant issuance	16	-	(816,130)	(289,890)	-	-	-	-	(1,106,020)
Issuance of broker compensation option units	16	-	-	-	216,680	-	-	-	216,680
Exercise of warrants	16	274,285	40,171	(10,000)	-	-	-	-	30,171
Expiry of warrants		-	-	(9,500)	9,500	-	-	-	-
Exercise of stock options	16	3,322,665	605,877	-	(229,920)	-	-	-	375,957
Share-based compensation	16	-	-	-	238,333	-	-	-	238,333
Balance as at September 30, 2020		266,974,311	41,078,820	2,514,676	2,961,461	-	1,210,890	(22,838,635)	24,927,212
Balance at April 1, 2021		302,396,958	46,313,516	3,182,443	3,186,388	578,871	(431,954)	(26,194,456)	26,634,808
Net loss for the period		-	-	-	-	-	-	(3,886,100)	(3,886,100)
Actuarial gain on remeasurement	15	-	-	-	-	(61,050)	-	-	(61,050)
Pension plan fair value adjustment	15	-	-	-	-	67,113	-	-	67,113
Other comprehensive income		-	-	-	-	-	(60,433)	-	(60,433)
Total comprehensive loss for the period		-	-	-	-	6,063	(60,433)	(3,886,100)	(3,940,470)
Exercise of stock options	16	200,000	40,938	-	(15,737)	-	-	-	25,201
Share-based compensation	16	-	-	-	223,526	-	-	-	223,526
Balance as at September 30, 2021		302,596,958	46,354,454	3,182,443	3,394,177	584,934	(492,387)	(30,080,556)	22,943,065

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of cash flows

For the six months ended September 30, 2021 and 2020

(in Canadian Dollars)

	Note	September 30, 2021	September 30, 2020
Operating activities			
Net loss from continuing operations before income tax		\$ (3,927,830)	\$ (2,675,707)
Net loss from discontinued operations after income tax		-	(320,171)
Items not affecting cash:			
Depreciation	14	221,283	236,534
Amortization of intangible assets		1,020,640	776,778
Amortization of debt issuance cost		280,220	187,765
Change in fair value of hedge liability		15,161	(149,800)
Accretion of long-term debt	13	30,756	(15,997)
Share-based compensation	16	223,526	238,333
Deferred share units compensation	16	24,083	-
Defined benefit plan expense	15	82,584	55,053
Lease interest expense	14	14,794	21,006
Accrued interest expense		128,760	95,761
Unrealised foreign exchange gain (loss)		157,488	(277,664)
Net change in operating components of working capital	17	(1,695,862)	(3,283,770)
Total cash flows used in operating activities		(3,424,397)	(5,111,879)
Investing activities			
Purchase of short-term investments		-	(350,000)
Sale of short-term investments		-	3,130,000
Additions to equipment and leasehold improvements		(11,932)	(43,949)
Proceeds from sale of subsidiary		-	424,702
Business acquisition, net of cash acquired		-	(11,557,474)
Total net cash flows used in investing activities		(11,932)	(8,396,721)
Financing activities			
Proceeds from issuance of common stock		-	4,958,763
Common stock issuance costs		-	(660,437)
Proceeds from exercise of stock options	16	25,200	375,957
Proceeds from issuance of warrants		-	1,942,100
Warrants issuance costs		-	(228,902)
Proceeds from long-term debt		-	10,975,967
Debt issuance costs		-	(845,424)
Repayment of long-term debt	13	(102,000)	(1,805,332)
Repayment of lease obligations	14	(175,100)	(192,880)
Proceeds from exercise of warrants		-	30,171
Total cash flows provided by (used in) financing activities		(251,900)	14,549,983
Net change in cash		(3,688,229)	1,041,383
Cash, beginning of period		8,349,904	2,900,074
Effects of currency translation on cash		(884)	3,924
Cash, end of period		4,660,791	3,945,381

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

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

1. Corporate information

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

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

On April 1, 2021, Martello Technologies Corporation amalgamated with Savision Canada Limited and Elfiq Inc. (the “Amalgamating Corporations”) to form an amalgamated corporation, called Martello Technologies Corporation (the “Amalgamated Corporation”). Martello Technologies Corporation is a wholly owned subsidiary of the Corporation. All the properties and assets of the Amalgamating Corporations were continued as the properties and assets of the Amalgamated Corporation and the Amalgamated Corporation is liable, and will continue to be liable, for the obligations of Martello Technologies Corporation and the other Amalgamating Corporations to their creditors.

2. Basis of preparation and accounting policies

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and should be read in conjunction with the Corporation’s most recent annual audited consolidated financial statements, which are for the year ended March 31, 2021.

Comparative balances

The Company made certain changes to the presentation of comparative balances in the consolidated interim financial statement notes for the six months ended September 30, 2021. These changes are outlined below:

Note 11 – Trade and other receivable

The Corporation has changed the presentation of the aging of the accounts receivable balances to reflect the due date of the balances to the Corporation, rather than the age of the balances based on invoice dates. Note 11 contains further details of the presentation for both September 30, 2021, as well as at March 31, 2021.

Significant accounting policies

The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2 of the Corporation’s 2021 annual consolidated financial statements, except for the following addition to the policies as set out below:

Share based payments

On July 23, 2021, a Deferred Share Unit (“DSU”) Plan was established for certain directors (each, a “Participant”) in lieu of cash compensation. The DSUs are paid in cash not later than 90 days after the Participant ceases to be a director of the Corporation, based on the greater of (a) the five-day volume weighted average price of the Common Shares; and (b) the five-day average daily high and low board lot trading prices of the Common Shares (the “Market Price”) on the date the Participant ceases to be a director. The cost of the DSUs is measured initially at fair value based on the closing price of the Corporation’s common shares preceding the day the DSUs are granted. The cost of the DSUs is recognized as a liability in the condensed interim consolidated statements of financial position and as a general and administrative expense in the Condensed interim consolidated statements of loss and comprehensive loss. The liability is remeasured to fair value based on the Market Price of the Corporation’s common shares at each reporting date up to and including the settlement date, with changes in fair value recognized as an operating expense in the condensed interim

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

Basis of preparation and accounting policies (continued)

consolidated statements of loss and comprehensive loss.

3. Significant judgments and estimates

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

The judgments, estimates and assumptions applied in the preparation of these condensed interim consolidated financial statements are the same as those disclosed in note 3 to the 2021 annual audited consolidated financial statements.

4. Fair value measurement

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

Long-term debt is measured using observable interest rates at initial recognition and is categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts, which were entered into on March 9, 2021, represented a net liability of \$6,696 at September 30, 2021. The fair value is estimated using a market approach with forward exchange rates observable at the end of the reporting period and contract forward rates as inputs and is categorized within Level 2 of the fair value hierarchy. The hierarchy is described in Note 21 of the March 31, 2021 annual audited consolidated financial statements.

5. Revenue

The geographic location of revenues, based on the location of the Corporation's customers, is as follows:

	3 Months Ended		6 Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Revenue for the period ended				
Canada	1,416,197	1,569,756	2,741,914	2,989,433
United States	1,048,865	1,124,794	2,142,702	1,945,474
Europe	1,669,486	1,466,490	3,361,557	2,360,762
Asia	93,764	83,874	183,658	145,496
Latin America	21,584	3,542	42,948	11,025
Australia	138,544	130,937	276,844	241,884
Other	24,865	15,705	64,242	28,079
Total revenue	4,413,305	4,395,098	8,813,865	7,722,153

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

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

Revenue (continued)

	3 Months Ended		6 Months Ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Revenue at a point in time				
Hardware	2,126	965	51,866	22,267
Perpetual licenses	12,117	-	12,117	-
Training and professional services	17,163	87,472	48,099	100,119
Revenue recognized over time				
Subscription licenses	3,593,483	3,350,923	7,088,509	6,076,839
Maintenance and support	726,265	859,666	1,502,552	1,386,880
Term licenses	62,151	96,072	110,722	136,048
Total revenue	4,413,305	4,395,098	8,813,865	7,722,153

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

Deferred revenue is comprised of the following:

	September 30, 2021 \$	March 31, 2021 \$
Current portion of deferred revenue		
Subscription licenses	3,684,219	3,589,737
Maintenance and support	1,304,265	2,093,529
Term licenses	153,690	174,097
Deferred revenue		
Subscription licenses	1,226,836	1,002,225
Maintenance and support	406,325	438,665
Term licenses	303,049	132,417
Total deferred revenue	7,078,384	7,430,672

Non-current assets by geographic area are as follows:

	September 30, 2021	March 31, 2021
		\$
Canada	511,391	638,628
Netherlands	10,894,034	11,235,655
Switzerland	21,828,387	22,669,673
Other	13,991	10,908
Total non-current assets	33,247,803	34,554,864

6. Operating segment information

The Corporation has assessed that it operates in three operating segments, those being Monitoring – Mitel UC, Vantage DX Analytics – IT Service Analytics and Vantage DX Monitoring – Microsoft 365. 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.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

Operating segment information (continued)

	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Three months ended September 30, 2021	\$	\$	\$	\$
Revenue at a point in time				
Hardware	2,126	-	-	2,126
Perpetual licenses	12,117	-	-	12,117
Training and professional services	-	1,874	15,289	17,163
Revenue recognized over time				
Subscription licenses	1,772,051	569,282	1,252,150	3,593,483
Maintenance and support	15,504	183,536	527,225	726,265
Term licenses	-	-	62,151	62,151
Total revenue	1,801,798	754,692	1,856,815	4,413,305

	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Six months ended September 30, 2021	\$	\$	\$	\$
Revenue at a point in time				
Hardware	51,866	-	-	51,866
Perpetual licenses	12,117	-	-	12,117
Training and professional services	-	17,403	30,696	48,099
Revenue recognized over time				
Subscription licenses	3,566,959	1,132,129	2,389,421	7,088,509
Maintenance and support	31,939	379,206	1,091,407	1,502,552
Term licenses	-	-	110,722	110,722
Total revenue	3,662,881	1,528,738	3,622,246	8,813,865

	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Three months ended September 30, 2020	\$	\$	\$	\$
Revenue at a point in time				
Hardware	965	-	-	965
Training and professional services	65,177	9,402	12,893	87,472
Revenue recognized over time				
Subscription licenses	1,774,123	538,649	1,038,151	3,350,923
Maintenance and support	7,949	266,089	585,628	859,666
Term licenses	-	-	96,072	96,072
Total revenue	1,848,214	814,140	1,732,744	4,395,098

	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Six months ended September 30, 2020	\$	\$	\$	\$
Revenue at a point in time				
Hardware	22,267	-	-	22,267
Training and professional services	65,182	22,043	12,894	100,119
Revenue recognized over time				
Subscription licenses	3,652,338	1,060,639	1,363,862	6,076,839
Maintenance and support	13,842	554,075	818,963	1,386,880
Term licenses	-	-	136,048	136,048
Total revenue	3,753,629	1,636,757	2,331,767	7,722,153

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

Operating segment information (continued)

Sales and gross margin for the three and six months ended is as follows:

Three months ended September 30, 2021	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	1,801,798	754,692	1,856,815	4,413,305
Cost of goods sold	54,851	10,852	282,122	347,825
Gross margin	1,746,947	743,840	1,574,693	4,065,480

Six months ended September 30, 2021	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	3,662,881	1,528,738	3,622,246	8,813,865
Cost of goods sold	136,880	19,251	619,576	775,707
Gross margin	3,526,001	1,509,487	3,002,670	8,038,158

Three months ended September 30, 2020	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	1,848,214	814,140	1,732,744	4,395,098
Cost of goods sold	52,689	25,079	137,651	215,419
Gross margin	1,795,525	789,061	1,595,093	4,179,679

Six months ended September 30, 2020	Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	3,753,629	1,636,757	2,331,767	7,722,153
Cost of goods sold	137,021	54,057	215,958	407,036
Gross margin	3,616,608	1,582,700	2,115,809	7,315,117

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

- i. Research and development expense for the three and six months ended September 30, 2021 on the condensed interim consolidated statements of loss and comprehensive loss is recognized net of investment tax credits which total \$17,230 and \$27,460, respectively, (September 30, 2020 - \$135,711 and \$402,815, respectively) and investment grants recognized of \$200,899 and \$449,760, respectively (September 30, 2020 - \$217,576 and \$272,330, respectively).

The Corporation has investment tax credits and grants receivable balance at September 30, 2021 of \$1,179,711 (March 31, 2021 - \$779,354) which is comprised of funding receivable under Scientific Research and Experimental Development program, National Research Council of Canada Industrial Research Assistance Program and Credit d'Impôt en Faveur de la Recherche. The investment tax credits and grants are recognized when the expenditures are made and their realization is reasonably assured.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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

(in Canadian Dollars)

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

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

	Three months ended		Six months ended	
	September 30 2021	September 30 2020	September 30 2021	September 30 2020
	\$	\$		\$
Research and development				
Short-term employee benefits	1,527,169	1,679,186	3,228,381	2,934,304
Share-based payments	36,739	39,690	70,487	49,559
Sales and marketing				
Short-term employee benefits	1,077,890	1,133,009	2,562,958	1,921,495
Share-based payments	15,356	26,170	30,018	32,049
General and administrative				
Short-term employee benefits	584,642	757,581	1,213,820	1,217,148
Share-based payments	59,477	88,003	123,021	156,725
Total staff related expense	3,301,273	3,723,639	7,228,685	6,311,280

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

8. Loss per share

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

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

As at September 30, 2021 and 2020, all instruments were anti-dilutive.

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

	September 30, 2021	September 30, 2020
	#	#
Share options	19,489,389	21,217,161
Warrants	61,925,474	45,638,523
Broker compensation unit options	3,018,575	1,643,063
Total	84,433,438	68,498,747

9. Cash

	September 30, 2021	March 31, 2021
	\$	\$
Cash	4,570,935	8,321,976
Restricted cash	89,856	27,928
Total	4,660,791	8,349,904

Martello Technologies Group Inc.

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10. Goodwill

	\$
As at March 31, 2020	7,984,317
Additions from acquisitions of subsidiaries	12,199,794
Translation adjustments	(748,174)
As at March 31, 2021	19,435,937
Translation adjustments	(22,464)
As at September 30, 2021	19,413,473

11. Trade and other accounts receivable

The movements in the expected credit losses is as follows:

Movements in the expected credit losses	September 30, 2021	March 31, 2021
	\$	\$
Balance, beginning of period	12,080	22,631
Trade receivables written off	(1,962)	(52,330)
Additional allowance recognized	-	41,779
Balance, end of the period	10,118	12,080

The aging analysis of trade and other accounts receivable is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	over 90 days
	\$	\$	\$	\$	\$	\$
September 30, 2021	4,742,992	1,808,453	1,389,370	864,195	521,209	159,764
March 31, 2021	5,200,612	4,453,951	531,339	44,751	134,376	36,196

12. Accounts payable and accrued liabilities

	September 30, 2021	March 31, 2021
	\$	\$
Trade payables	896,425	1,558,641
Accrued key management compensation	153,402	145,370
Accrued professional fees	520,706	735,981
Salaries, benefits, and vacation payable	1,066,923	1,503,870
Commissions payable	36,330	61,875
Taxes payable	245,994	102,615
Other payables	116,897	48,787
Total	3,036,677	4,157,139

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13. Long-term debt

	September 30, 2021	March 31, 2021
	\$	\$
FedDev loan; advanced to support the commercialization of the Corporation's activities; non-interest bearing, unsecured and repayable in increasing monthly payments between January 2018 and December 2023. The effective interest rate is 10%.	454,378	522,371
Canada Economic Development Agency (CEDA), non-interest bearing, unsecured and repayable in 60 equal monthly payments commencing in February 2021. The effective interest rate is 16%.	81,265	86,516
Vistara Technology Growth Fund III Limited Partnership ("Vistara"), US \$8,000,000 subordinated secured term loan; repayable within 36 months of closing and carries interest of greater of: (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. The effective interest rate is 20.4%. The loan is secured by a subordinated security interest and guarantees from the Corporate Guarantors.	9,585,662	9,065,317
US Paycheck Protection Program loan ("PPP Loan"), facilitated by Bank of America; unsecured, interest accruing at 1% per annum and repayable upon maturity in March 2026.	188,497	185,684
Total long-term debt	10,309,802	9,859,888
Amounts due within one year	(249,000)	(219,000)
Long-term debt	10,060,802	9,640,888

14. Right-of-use assets

Right-of-use asset:	\$
Balance at March 31, 2021	1,044,441
Depreciation for the period	(154,776)
Foreign exchange translation	(2,034)
Balance at September 30, 2021	887,631
Lease obligation:	\$
Balance at March 31, 2021	1,195,056
Interest expense	14,794
Payments	(207,555)
Foreign exchange translation	12,383
Balance at September 30, 2021	1,014,678

For the three and six months ended September 30, 2021, the Corporation recognized \$77,736 and \$154,776, respectively (2020 - \$103,601 and \$165,675) as depreciation on right-of-use assets, and \$8,287 and \$14,794, respectively (2020 - \$12,514 and \$21,006) as interest expense on the lease liability.

In applying the practical expedient for short-term leases, the Corporation has excluded rent payments of \$114,736 (2020 - \$179,524) from the right-of-use asset and lease liability calculations.

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

The Corporation has applied judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis, which has a significant effect on the measurement of the lease liability and right-of-use assets recognized. Management considers many factors including any events that create an economic incentive to exercise a renewal option including expected future performance and past business practice. The Corporation has also exercised judgment in determining the incremental borrowing

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Right-of-use assets (continued)

rate based on the term, security, the lessee entity's economic environment, credit rating, level of indebtedness and asset specific adjustments.

15. Defined benefits retirement plan

For the three and six months ended September 30, 2021, the Corporation recognized \$42,635 and \$84,203, respectively (for three and six months ended September 30, 2020 - \$45,345 and \$60,302) in current service cost. Net interest expense of \$356 and net interest income of \$1,629 were recognized for the three and six-month periods ended September 30, 2021, respectively (three and six months ended September 30, 2020 – net interest income of \$5,526 and \$5,249, respectively). The current service cost is included in operating expenses on the condensed interim consolidated statements of loss and comprehensive loss. The net interest income is included in interest expense.

At September 30, 2021, the Plan was in a deficit position of \$332,581 (March 31, 2021 - \$258,341). 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 \$163,063 during the next 12 months.

16. Equity instruments

i. Warrants

During the six months ended September 30, 2021, no warrants were issued (six months ended September 30, 2020 – 45,638,523), no warrants were exercised (six months ended September 30, 2020 – 274,285) and no warrants expired (six months ended September 30, 2020 – 260,576).

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Equity instruments (continued)

At September 30, 2021 the Corporation's outstanding warrants consisted of the following:

Date of Issue	Expiry Date	Type	Exercise price	Number outstanding
			\$	#
May 26, 2020	May 26, 2023	First Offering	0.30	32,861,250
May 28, 2020	May 28, 2023	Bonus	0.22	12,777,273
March 18, 2021	March 18, 2023	Second Offering	0.30	15,131,700
March 18, 2021	March 18, 2023	Private Placement	0.30	1,155,251
				61,925,474

ii. Share-based payments

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

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

	Option exercise price	Total
	\$	#
Balance outstanding at March 31, 2021	0.11-0.38	17,854,992
Granted	0.11-0.19	2,892,000
Exercised	0.11-0.13	(200,000)
Forfeited	0.20-0.34	(849,000)
Expired	0.21-0.33	(208,603)
Balance outstanding at September 30, 2021		19,489,389

Options exercisable:

At September 30, 2021	0.11-0.38	11,000,138
At March 31, 2021	0.11-0.38	7,822,207

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Equity instruments (continued)

Grant date	Option exercise price \$	Number exercisable #	Remaining life Years
October 25, 2016	0.110	80,000	0.07
January 19, 2017	0.110	64,000	0.30
July 17, 2017	0.110	80,000	0.79
December 18, 2017	0.110	1,488,000	1.22
April 3, 2018	0.130	6,037,334	1.51
January 18, 2019	0.335	246,328	2.30
February 28, 2019	0.380	282,666	2.41
September 3, 2019	0.375	13,332	2.93
November 26, 2019	0.330	711,290	3.16
December 10, 2019	0.320	3,333	3.20
February 13, 2020	0.305	6,666	3.38
March 5, 2020	0.225	3,333	3.43
July 28, 2020	0.195	1,305,308	3.83
August 31, 2020	0.205	678,548	3.92
November 20, 2020	0.220	-	4.14
February 19, 2021	0.220	-	4.39
June 30, 2021	0.135	-	4.75
September 8, 2021	0.11-0.19	-	4.94
Weighted average	0.164		2.02
Total		11,000,138	

At September 30, 2021, the fair value of share-based compensation to be recognized as an expense in future periods totaled \$459,809 (March 31, 2021 - \$568,193). Share-based compensation expense for the period is disclosed in note 7.

In determining the amount of share-based compensation, the Corporation uses the Black-Scholes option pricing model to establish the fair value of options granted. 2,892,000 options were granted in the six months ended September 30, 2021. The fair value of options granted in the six months ended September 30, 2021 was established by applying the following assumptions:

	September 30, 2021
Stock price valuation	\$0.11-0.19
Exercise price	\$0.11-0.19
Risk-free interest rate	0.57-0.73%
Expected life in years	3.5
Expected dividend yield	0%
Volatility	76.96-78.49%
Fair value of options issued in the period	\$0.04-0.07

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

17. Supplementary cash flow information

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

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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Supplementary cash flow information (continued)

	Note	September 30, 2021 \$	September 30, 2020 \$
Net change in operating components of working capital:			
Trade and other accounts receivable	11	\$ 462,458	269,379
Investment tax credits and grants receivable	7	(401,440)	(380,573)
Prepaid expenses		(85,791)	206,798
Inventories		(20,209)	9,919
Accounts payable and accrued liabilities	12	(1,306,784)	(2,438,548)
Deferred revenue	5	(344,097)	(950,745)
Total		(1,695,863)	(3,283,770)

18. Related party transactions and balances

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

- For the six months ended September 30, 2021, the Corporation paid rent to Wesley Clover International Corporation, which is reflected as depreciation of right-of-use assets of \$24,600 and \$49,201 for the three and six-month period, respectively, (September 30, 2020 – \$24,600 and \$49,201).
- Included in accounts payable and accrued liabilities as at September 30, 2021 are balances totaling \$153,402 (March 31, 2021 - \$145,370) due to key management personnel for compensation and earned vacation pay.
- One of the co-chairmen is chairman of Wesley Clover International Corporation, a shareholder of the Corporation.
- The remuneration of directors and key management personnel during the three-and six month periods ended was as follows:

	Three months ended		Six months ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Salaries, wages and bonuses	493,161	572,011	961,035	992,822
Other employee benefits	14,233	12,270	28,180	20,797
Share-based compensation	63,209	26,762	135,660	104,735
Total	570,603	611,043	1,124,875	1,118,354

19. Financial risk management objectives and policies

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

Credit risk

Trade receivables at September 30, 2021 are presented net of an allowance for doubtful accounts of \$10,118 (March 31, 2021 - \$12,080). The Corporation's largest customer, which is included in Monitoring - Mitel UC segment reporting, accounted for revenue of \$1,739,715 and \$3,540,125 or approximately 39% and 40% of total revenue, for the three and six months ended September 30, 2021 (three and six months ended September 30, 2020 - \$1,840,330 and \$3,626,399 or 42% and 47%, respectively). At September 30, 2021 the account receivable from this customer totaled \$1,410,583 (March 31, 2021- \$1,345,309). The Corporation maintains strict credit policies and limits in respect to counterparties.

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Notes to condensed interim consolidated financial statements

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Financial risk management objectives and policies (continued)

Liquidity risk

The following table summarizes the maturities of financial instruments by the fiscal year on an undiscounted basis, including interest payments, as at September 30, 2021:

	2022	2023	2024	2025 and after	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,036,677	-	-	-	3,036,677
Lease obligation	223,612	291,866	242,481	352,962	1,110,922
Long-term debt	117,000	270,000	10,688,066	57,307	11,132,373
Total	3,377,289	561,866	10,930,547	410,269	15,279,972

Foreign currency risk

For the three and six months ended September 30, 2021, 99% of revenue were in foreign currencies (September 30, 2020 – 99% of revenue).

For the three and six months ended September 30, 2021, 50% and 45% of expenses were in foreign currencies, respectively (September 30, 2020 – 44% and 41%).

The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue and expense transactions are denominated in a currency other than the Canadian dollar, the Corporation's functional currency. The Corporation's net exposure to the USD and EUR is denominated in CAD and is summarized in the following table:

	September 30, 2021	March 31, 2021	September 30, 2021	March 31, 2021
	USD	USD	EUR	EUR
Cash and restricted cash	898,048	1,574,886	323,993	725,218
Trade and other accounts receivable	4,057,878	2,695,173	818,763	2,052,081
Accounts payable and accrued liabilities	(2,047,888)	(1,822,056)	(1,224,709)	(1,610,208)
Foreign exchange forward contract asset (liability)	(6,696)	8,465	-	-
Long-term debt	(10,719,156)	(10,481,284)	-	-
Net exposure	(7,817,814)	(8,024,816)	(81,953)	1,167,091

A 10% change of the US\$ against the CAD\$ at September 30, 2021 would have increased or decreased net loss by \$871,707 (March 31, 2021: \$808,801).

20. Capital management

Management defines capital as total shareholders' equity. The Board of Directors has not established capital benchmarks or other targets. There have been no changes in the Corporation's approach to capital management during the six months ended September 30, 2021. The Corporation will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

21. 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.

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Commitments (continued)

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

22. 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 the Corporation completed a non-brokered private placement of 8,403,362 common shares of the Corporation, for aggregate gross proceeds of \$1,000,000 (the "Private Placement") in connection with the Vistara Amendment. The Private Placement was subscribed for directly and indirectly by directors of the Corporation. In addition, the Corporation announced its intention to complete a second private placement of approximately \$1,000,000 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.