

Unaudited condensed interim consolidated financial statements of

Martello Technologies Group Inc.

For the three and six months ended September 30, 2022, and
2021

Martello Technologies Group Inc.

“Notice to Reader”

The accompanying condensed unaudited interim consolidated financial statements of Martello Technologies Group Inc. for the three and six months ended September 30, 2022, and 2021 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Dated: November 22, 2022

“Jim Clark”
Jim Clark
Chief Financial Officer

“John Proctor”
John Proctor
Chief Executive Officer

Martello Technologies Group Inc.

For the three and six months ended September 30, 2022 and 2021

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three and six months ended September 30, 2022 and 2021

Unaudited

(In Canadian dollars)

	Notes	September 30, 2022 (3 months ended)	September 30, 2021	September 30, 2022 (6 months ended)	September 30, 2021
Income					
Sales	5	\$ 3,839,980	\$ 4,413,305	\$ 8,018,171	\$ 8,813,865
Cost of goods sold	5,6	491,283	347,824	954,191	775,707
Gross margin		3,348,697	4,065,481	7,063,980	8,038,158
Expenses					
Research and development	7	1,318,656	1,563,173	2,946,296	3,298,815
Sales and marketing	7	1,777,428	1,701,856	3,453,097	3,662,901
General and administrative	7	1,123,480	1,228,768	2,359,146	2,577,415
Depreciation	12	85,267	109,517	174,079	221,283
Amortization		383,760	511,777	780,248	1,020,640
Acquisition-related costs		-	20,000	-	50,000
		4,688,591	5,135,091	9,712,866	10,831,054
Loss from operations		(1,339,894)	(1,069,610)	(2,648,886)	(2,792,896)
Other income (expense)					
Interest income	13	3,108	1,034	6,154	5,373
Interest expense	12	(566,674)	(475,959)	(1,075,509)	(940,714)
Financing fees		(3,670)	16,977	(14,760)	6,779
Accretion of long-term debt	11	(41,229)	(14,915)	(62,775)	(30,756)
Gain on Issuance of FedDev Loan	11	-	-	1,036,191	-
Revaluation of forward contract		(176,456)	(24,096)	(194,553)	(15,161)
Foreign exchange loss	17	(411,763)	(135,298)	(734,370)	(182,930)
Other income		28,558	6,423	33,536	22,476
Loss from continuing operations before income tax		(2,508,020)	(1,695,444)	(3,654,972)	(3,927,829)
Income tax recovery (expense)		87,443	(23,370)	8,325	41,729
Net loss		(2,420,577)	(1,718,814)	(3,646,647)	(3,886,100)
Other comprehensive income (loss) that may be reclassified to net income (loss):					
Cumulative translation adjustment		(243,142)	(94,508)	(1,058,067)	(60,433)
Pension plan remeasurement	13	-	-	95,232	(61,050)
Pension plan asset fair value adjustment	13	2,768	33,050	5,493	67,113
Total comprehensive loss		(2,660,951)	(1,780,272)	(4,603,989)	(3,940,470)
Weighted average shares outstanding	14	326,907,430	302,396,958	326,907,430	247,194,513
Basic and diluted					
Net loss per share from continuing operations	8	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Basic and diluted					
Net loss per share from discontinued operations	8	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Basic and diluted					
Net loss per share, basic and diluted	8	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of financial position

As at September 30, 2022 and March 31, 2022

Unaudited

(In Canadian dollars)

	Note	September 30, 2022	March 31, 2022
Assets			
Current assets			
Cash		\$ 4,239,512	\$ 4,853,218
Short-term investment		5,000	170,000
Trade and other accounts receivable	9	3,930,056	4,231,065
Investment tax credits and grants receivable	7	1,355,278	944,816
Prepaid expenses		1,157,014	887,910
Inventories		42,487	45,336
Lease receivable	19	777	35,394
Total current assets		10,730,124	11,167,739
Goodwill		17,646,483	18,310,397
Intangible assets		9,678,352	10,854,530
Equipment and leasehold improvements		147,066	180,165
Right-of-use assets	12	806,783	1,118,599
Investment		303,750	303,750
Total assets		39,312,558	41,935,180
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10,17	3,470,121	3,113,352
Foreign exchange forward contract liability		199,319	5,015
Current portion of deferred revenue	5	5,388,491	5,215,919
Current portion of long-term debt	11,17	11,267,353	270,000
Current portion of lease obligation	12,17	164,566	296,759
Total current liabilities		20,489,850	8,901,045
Deferred revenue	5	1,611,934	2,099,188
Long-term debt	11,17	979,927	9,903,581
Lease obligation	12,17	676,081	917,115
Pension obligation	13	278,611	358,643
Deferred tax liability		66,386	79,621
Total liabilities		24,102,789	22,259,193
Shareholders' equity			
Share capital	14	48,815,617	48,815,617
Contributed surplus	14	3,732,665	3,594,895
Warrants	14	2,319,977	2,319,977
Accumulated other comprehensive income		(2,243,329)	(1,285,987)
Deficit		(37,415,161)	(33,768,515)
Total shareholders' equity		15,209,769	19,675,987
Total liabilities and equity		39,312,558	41,935,180

Approved by the Board on November 22, 2022 and signed on its behalf by:

Original signed "Colley Clarke" Director

Original signed "Michael Michalyszyn" 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, 2022 and 2021

(In Canadian Dollars)

	Notes	Shares outstanding	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive		Deficit	Total shareholders' equity
						Other	Cumulative translation adjustment		
		#	\$	\$	\$	\$	\$	\$	\$
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	13	-	-	-	-	(61,050)	-	-	(61,050)
Pension plan fair value adjustment	13	-	-	-	-	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	14	200,000	40,938	-	(15,737)	-	-	-	25,201
Share-based compensation	14	-	-	-	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
Balance at April 1, 2022		326,707,430	48,815,617	2,319,977	3,594,895	616,336	(1,902,323)	(33,768,515)	19,675,987
Net loss for the period		-	-	-	-	-	-	(3,646,646)	(3,646,646)
Pension plan settlement	13	-	-	-	-	95,232	-	-	95,232
Pension plan fair value adjustment	13	-	-	-	-	5,493	-	-	5,493
Other comprehensive income		-	-	-	-	-	(1,058,067)	-	(1,058,067)
Total comprehensive loss for the period		-	-	-	-	100,725	(1,058,067)	(3,646,646)	(4,603,988)
Share-based compensation	14	-	-	-	137,770	-	-	-	137,770
Balance as at September 30, 2022		326,707,430	48,815,617	2,319,977	3,732,665	717,061	(2,960,390)	(37,415,161)	15,209,769

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, 2022 and 2021

(in Canadian Dollars)

	Note	September 30, 2022	September 30, 2021
Operating activities			
Net loss from continuing operations before income tax		\$ (3,654,972)	\$ (3,927,830)
Items not affecting cash:			
Depreciation	12	174,079	221,283
Amortization of intangible assets		780,248	1,020,640
Amortization of debt issuance cost		286,607	280,220
Decrease in fair value of hedge liability		194,304	15,161
Accretion of long-term debt	11	62,775	30,756
Gain on issuance of FedDev Loan	11	(1,036,191)	-
Share-based compensation	14	137,770	223,526
Deferred share units compensation	14	61,328	24,083
Defined benefit plan expense	13	52,408	82,584
Lease interest expense	12	39,977	14,794
Gain on termination of lease	12	(27,379)	-
Accrued interest expense	11	30,318	128,760
Unrealised foreign exchange loss		818,602	157,488
Net change in operating components of working capital	15	(247,549)	(1,695,862)
Total cash flows used in operating activities		(2,327,675)	(3,424,397)
Investing activities			
Sale of short-term investments		165,000	-
Additions to equipment and leasehold improvements		(9,647)	(11,932)
Total cash flows provided by (used in) investing activities		155,353	(11,932)
Financing activities			
Proceeds from exercise of stock options	14	-	25,200
Proceeds from long-term debt	11	3,880,133	-
Debt issuance costs	11	(24,465)	-
Repayment of long-term debt	11	(2,092,133)	(102,000)
Repayment of lease obligations	12	(159,157)	(175,100)
Total cash flows provided by (used in) financing activities		1,604,378	(251,900)
Net change in cash		(567,944)	(3,688,229)
Cash, beginning of period		4,853,218	8,349,904
Effects of currency translation on cash		(45,762)	(884)
Cash, end of period		4,239,512	4,660,791

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, 2022 and 2021

(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 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, except for foreign exchange forward contracts which are measured at fair market value.

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, 2022.

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 annual audited consolidated financial statements for the year ended March 31, 2022.

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 2022 annual audited consolidated financial statements.

4. Fair value measurement

The carrying amounts of the Corporation's cash, short-term investment, trade and other receivables, investment tax credits and grants receivable, foreign exchange contract, 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 July 15, 2022, represented a net liability of \$199,319 at September 30, 2022 (March 31, 2022 - \$5,015). 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. Forward contracts are categorized within Level 2 of the fair value hierarchy. The hierarchy is described in Note 22 of the March 31, 2022 annual audited consolidated financial statements.

5. Revenue

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Revenue for the period ended				
Canada	1,402,439	1,416,197	2,772,901	2,741,914
United States	955,401	1,048,865	2,076,636	2,142,702
Europe	1,245,301	1,669,486	2,713,126	3,361,557
Asia	64,944	93,764	145,717	183,658
Latin America	12,826	21,584	17,665	42,948
Australia	156,976	138,544	287,868	276,844
Other	2,093	24,865	4,258	64,242
Total revenue	3,839,980	4,413,305	8,018,171	8,813,865

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:

	3 Months Ended		6 Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Revenue at a point in time				
Hardware	659	2,126	4,969	51,866
Perpetual licenses	-	12,117	-	12,117
Training and professional services	17,923	17,163	37,487	48,099
Revenue recognized over time				
Subscription licenses	3,321,773	3,593,483	6,940,080	7,088,509
Maintenance and support	472,211	726,265	980,296	1,502,552
Term licenses	27,414	62,151	55,339	110,722
Total revenue	3,839,980	4,413,305	8,018,171	8,813,865

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, 2022	March 31, 2022
	\$	\$
Current portion of deferred revenue		
Subscription licenses	4,303,593	3,642,505
Maintenance and support	973,778	1,461,746
Term licenses	111,120	111,668
Long-term portion of deferred revenue		
Subscription licenses	1,146,720	1,438,141
Maintenance and support	268,967	414,267
Term licenses	196,247	246,780
Total deferred revenue	7,000,425	7,315,107

Revenue (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

Non-current assets by geographic area are as follows:

	September 30, 2022	March 31, 2022
	\$	\$
Canada	796,574	848,656
Netherlands	9,567,187	10,088,616
Switzerland	18,213,154	19,822,658
Other	5,519	7,511
Total non-current assets	28,582,434	30,767,441

6. Operating segment information

The Corporation has assessed that it operates in two LoB, those being Modern Workplace Optimization and Mitel. These LoB's engage in business activities from which they earn revenues from subscription and perpetual software licenses, hardware, maintenance and support, and training and professional services.

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2022	\$	\$	\$
Revenue at a point in time			
Hardware	-	659	659
Training and professional services	16,316	1,607	17,923
Revenue recognized over time			
Subscription licenses	1,603,269	1,718,504	3,321,773
Maintenance and support	462,997	9,214	472,211
Term licenses	27,414	-	27,414
Total revenue	2,109,996	1,729,984	3,839,980

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2022	\$	\$	\$
Revenue at a point in time			
Hardware	-	4,969	4,969
Training and professional services	30,781	6,706	37,487
Revenue recognized over time			
Subscription licenses	3,486,228	3,453,852	6,940,080
Maintenance and support	961,868	18,428	980,296
Term licenses	55,339	-	55,339
Total revenue	4,534,216	3,483,955	8,018,171

Operating segment information (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

	Modern Workplace Optimization	Mitel	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	17,163	-	17,163
Revenue recognized over time			
Subscription licenses	1,821,432	1,772,051	3,593,483
Maintenance and support	710,761	15,504	726,265
Term licenses	62,151	-	62,151
Total revenue	2,611,507	1,801,798	4,413,305

	Modern Workplace Optimization	Mitel	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	48,099	-	48,099
Revenue recognized over time			
Subscription licenses	3,521,550	3,566,959	7,088,509
Maintenance and support	1,470,613	31,939	1,502,552
Term licenses	110,722	-	110,722
Total revenue	5,150,984	3,662,881	8,813,865

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

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2022	\$	\$	\$
Sales	2,109,996	1,729,984	3,839,980
Cost of goods sold	449,161	42,122	491,283
Gross margin	1,660,835	1,687,862	3,348,697

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2022	\$	\$	\$
Sales	4,534,216	3,483,955	8,018,171
Cost of goods sold	878,328	75,863	954,191
Gross margin	3,655,888	3,408,092	7,063,980

Operating segment information (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

	Modern Workplace Optimization	Mitel	Total
	\$	\$	\$
Three months ended September 30, 2021			
Sales	2,611,507	1,801,798	4,413,305
Cost of goods sold	292,973	54,851	347,824
<hr/>			
Gross margin	2,318,534	1,746,947	4,065,481

	Modern Workplace Optimization	Mitel	Total
	\$	\$	\$
Six months ended September 30, 2021			
Sales	5,150,984	3,662,881	8,813,865
Cost of goods sold	638,826	136,880	775,707
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Gross margin	4,512,158	3,526,001	8,038,158

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, 2022, on the condensed interim consolidated statements of loss and comprehensive loss is recognized net of investment tax credits of nil, (September 30, 2021 - \$17,230 and \$27,460, respectively) and investment grants recognized of \$272,628 and \$462,745, respectively (September 30, 2021 - \$200,899 and \$449,7601)

The Corporation has investment tax credits receivable of \$1,355,278 as of September 30, 2022 (March 31, 2022 – \$944,816) which are earned as a result of qualifying Scientific Research and Experimental Development expenditures. The investment tax credits are recognized when the expenditures are made, and their realization is reasonably assured.

- ii. For the three and six months ended September 30, 2022, the total staff expenses are \$3,446,591 and \$6,726,689, respectively (September 30, 2021 – 3,292,144 and 7,228,685 respectively).

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, 2022 and 2021, 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.

Loss per share (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

	September 30, 2022	September 30, 2022
	#	#
Share options	26,710,389	19,489,389
Warrants	49,148,201	61,925,474
Broker compensation unit options	3,018,575	3,018,575
	78,877,165	84,433,438

9. Trade and other accounts receivable

The movements in the expected credit losses is as follows:

Movements in the expected credit losses	September 30, 2022	March 31, 2022
	\$	\$
Balance, beginning of period	18,481	12,080
Trade receivables written off	-	(12,080)
Additional allowance recognized	-	18,481
Balance, end of the period	18,481	18,481

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

	Past due but not impaired					
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	over 90 days
September 30, 2022	3,930,056	3,800,904	126,346	-	2,806	-
March 31, 2022	4,231,065	3,952,811	269,925	8,329	-	-

10. Accounts payable and accrued liabilities

	September 30, 2022	March 31, 2022
	\$	\$
Trade payables	1,166,523	302,843
Accrued key management compensation	409,866	326,316
Accrued professional fees	506,551	720,891
Salaries, benefits, and vacation payable	1,012,841	1,298,091
Commissions payable	28,625	34,464
Taxes payable	138,531	73,034
Other Payables	207,184	357,713
Total	3,470,121	3,113,352

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

11. Debt

	September 30, 2022 \$	March 31, 2022 \$
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 October 2023. The effective interest rate is	267,195	371,764
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%.	69,423	75,579
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 at the greater of: (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. The effective interest rate is 20.50%.	8,922,261	9,726,238
FedDev loan - Jobs and Growth; advanced to support the commercialization of the Corporation's activities; non-interest bearing, unsecured and repayable in increasing monthly payments between October 2024 and September 2030. The incremental borrowing rate is 13.85%.	925,309	-
Wesley Clover International Loan: US \$1,500,000 subordinated term loan advanced in August 2022 to pay down the Vistara loan, interest accrued at US Prime plus 8.75% and to be paid at loan maturity on May 28, 2023. The effective interest rate is 5.50%.	2,063,092	-
Total long-term debt	12,247,280	10,173,581
Amounts due within one year	(11,267,353)	(270,000)
Long-term debt	979,927	9,903,581

Martello and Terry Matthews through Wesley Clover International ("WCI") have agreed to a US \$1,500,000 subordinate loan which was advanced on August 22, 2022. Interest on the subordinate loan will accrue at US Prime plus 8.75%, consistent with the Vistara loan. Interest will accrue and be paid at loan maturity which is on May 28, 2023. The company used the WCI loan to pay down the Vistara loan of US \$1,500,000 on August 29, 2022.

12. Right-of-use assets

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

Right-of-use asset:	\$
Balance at March 31, 2022	1,118,599
Additions	275,205
Depreciation for the period	(132,653)
Termination of Lease	(431,977)
Foreign exchange translation	(22,391)
Balance at September 30, 2022	806,783

Lease obligation:	\$
Balance at March 31, 2022	1,213,871
Additions	275,205
Interest expense	39,977
Payments	(194,569)
Termination of Lease	(493,714)
Foreign exchange translation	(123)
Balance at September 30, 2022	840,647

For the three and six months ended September 30, 2022, the Corporation recognized \$64,961 and \$132,653, respectively (2021 - \$77,736 and \$154,776) as depreciation on right-of-use assets, and \$20,110 and \$39,977, respectively (2021 - \$8,287 and \$14,794) as interest expense on the lease liability.

In applying the practical expedient for short-term leases, the Corporation has excluded rent payments of \$64,794 (2021 - \$114,736) from the right-of-use asset and lease liability calculations.

In August 2022, GSX Participations SA moved offices in Switzerland, the Company exercised a right to early terminate the lease for old office premises in Geneva Switzerland, the remaining balance in the right-of-use asset and lease obligation was written off at the exercise date as reflected in the schedule above. The Corporation then entered into a new 5-year lease for office premises in Geneva, Switzerland commencing August 15, 2022.

When measuring lease liabilities, the Corporation discounted lease payments using incremental borrowing rates of between 2.47% and 5.40%, except for the renewed lease for office premises in Kanata, Ontario and the new GSX Participation SA lease that has an incremental borrowing rate of 14.08%.

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

13. Defined benefits retirement plan

For the three and six months ended September 30, 2021, the Corporation recognized \$19,852 and \$50,743, respectively (for three and six months ended September 30, 2021 - \$42,635 and \$84,203) in current service cost. Net interest expense of \$840 and \$1,666 were recognized for the three and six-month periods ended September 30, 2022, respectively (three and six months ended September 30, 2021 - net interest expense of \$356 and net interest income of \$1,629, 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/expense is included in interest expense.

At September 30, 2022, the Plan was in a deficit position of \$278,611 (March 31, 2022 - \$358,643). The movements in Defined benefit obligation for the period from March 31, 2022, to September 30, 2022, are:

Defined benefits retirement plan (continued)

Martello Technologies Group Inc.

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For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

	\$
Defined benefit obligation at April 1, 2022	1,471,929
Current service cost	50,743
Interest cost	7,481
Foreign exchange translation	37,575
Participant contributions	17,412
Benefits paid	(390,847)
Defined benefit obligation Sept 30, 2022	1,194,293

The movements in Plan assets for the period from March 31, 2022, to September 30, 2022, are:

	\$
Plan assets at April 1, 2022	1,113,286
Interest income	5,816
Return on plan assets, excluding interest income	5,493
Participant contributions	17,412
Employer contributions	40,626
Foreign exchange translation	28,665
Benefits paid	(295,616)
Fair value of pension plan Sept 30, 2022	915,682

The weighted average duration of the obligation at September 30, 2022, which relates to active members, is 19.70 years.

The Corporation expects to make contributions to the Plan totaling \$109,912 during the next 12 months.

14. Equity instruments

i. Warrants

During the six months ended September 30, 2022, no warrants were issued (six months ended September 30, 2021 – nil), no warrants were exercised (six months ended September 30, 2021 – nil) and no warrants expired (six months ended September 30, 2021 – nil).

At September 30, 2022 the Corporation's outstanding warrants consisted of the following:

<u>Date of Issue</u>	<u>Expiry Date</u>	<u>Type</u>	<u>Exercise price</u>	<u>Number outstanding</u>
			\$	#
May 26, 2020	May 26, 2023	First Offering	0.30	32,861,250
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
				49,148,201

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

Equity instruments (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

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(in Canadian Dollars)

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, 2022	0.06-0.38	24,346,389
Granted	0.03	4,660,000
Exercised		-
Forfeited	0.06-0.38	(2,271,000)
Expired		-
Balance outstanding at Sept 30, 2022		26,735,389

Options exercisable:

At September 30, 2022	0.03-0.38	12,994,312
At March 31, 2022	0.06-0.38	11,635,938

Grant date	Option exercise price \$	Number exercisable #	Remaining life Years
December 18, 2017	0.110	1,440,000	0.22
April 3, 2018	0.130	5,685,334	0.51
January 18, 2019	0.335	352,000	1.30
February 28, 2019	0.380	126,000	1.41
September 3, 2019	0.375	20,000	1.93
November 26, 2019	0.330	1,289,255	2.16
December 10, 2019	0.320	6,666	2.20
February 13, 2020	0.305	13,332	2.38
March 5, 2020	0.225	6,666	2.43
July 28, 2020	0.195	2,020,977	2.83
August 31, 2020	0.205	1,097,107	2.92
November 20, 2020	0.220	79,663	3.14
February 19, 2021	0.220	58,331	3.39
June 30, 2021	0.135	329,987	3.75
September 8, 2021	0.11-0.19	435,661	3.94
November 3, 2021	0.190	33,333	4.10
November 30, 2021	0.100	-	4.17
January 13, 2022	0.06-0.10	-	4.29
February 15, 2022	0.060	-	4.38
August 26, 2022	0.030	-	4.91
Weighted average	0.170		1.48
Total		12,994,312	

Equity instruments (continued)

At September 30, 2022, the fair value of share-based compensation to be recognized as an expense in

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future periods totaled \$290,657 (March 31, 2022 - \$440,442).

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. 4,660,000 options were granted in the six months ended September 30, 2022. The fair value of options granted in the six months ended September 30, 2022 was established by applying the following assumptions:

September 30, 2022	
Stock price valuation	\$0.03
Exercise price	\$0.03
Risk-free interest rate	3.39%
Expected life in years	3.5
Expected dividend yield	0%
Volatility	80.95%
Fair value of options issued in the periods	0.02

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.

15. Supplementary cash flow information

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

	Note	September 30, 2022	September 30, 2021
		\$	\$
Net change in operating components of working capital:			
Trade and other accounts receivable	9	231,802	462,458
Investment tax credits and grants receivable	7	(450,708)	(401,440)
Prepaid expenses		(291,519)	(85,791)
Inventories		2,849	(20,209)
Accounts payable and accrued liabilities	10	318,832	(1,306,783)
Deferred revenue	5	(58,805)	(344,097)
Total		(247,549)	(1,695,862)

16. Related party transactions and balances

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

- i. For the six months ended September 30, 2022, the Corporation paid rent to Wesley Clover International Corporation, which is reflected as depreciation of right-of-use assets of \$17,346 and \$34,693 for the three and six-month period, respectively, (September 30, 2021 – \$24,600 and \$49,201 respectively).
- ii. Included in accounts payable and accrued liabilities as at September 30, 2022 are balances totaling \$409,866 (March 31, 2022 - \$326,316) due to key management personnel for compensation and earned vacation pay.

Related party transactions and balances(continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

- iii. One of the co-chairmen is chairman of Wesley Clover International Corporation, a shareholder of the Corporation.
- iv. The remuneration of directors and key management personnel during the three-and six month period ended September 30 was as follows:

	Three months ended		Six months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
Salaries, wages and bonuses	436,910	438,276	808,353	934,287
Other employee benefits	12,784	13,890	24,723	27,836
Share-based compensation	(7,756)	86,946	114,083	156,252
Total	441,938	539,112	947,159	1,124,875

17. 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, 2022 are presented net of an allowance for doubtful accounts of \$18,481 (March 31, 2022 - \$18,481). The Corporation's largest customer, which is included in Mitel LoB, accounted for revenue of \$1,666,329 and \$3,357,698 or approximately 43% and 42% of total revenue, for the three and six months ended September 30, 2022 (three and six months ended September 30, 2021 - \$1,739,715 and \$3,540,125 or 39% and 40%, respectively). At September 30, 2022 the account receivable from this customer totaled \$1,413,971 (March 31, 2022- \$1,305,334). The Corporation maintains strict credit policies and limits in respect to counterparties.

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, 2022

	2023	2024	2025	2026	2027	2028	Total
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,470,121	-	-	-	-	-	3,470,121
Lease obligation	131,857	249,605	249,605	179,831	179,831	136,605	1,127,334
Debt liabilities	138,000	11,203,979	93,120	217,627	276,480	1,390,080	13,319,286
Total	3,739,978	11,453,584	342,725	397,458	456,311	1,526,685	17,916,741

Foreign currency risk

For the three and six months ended September 30, 2022, 99% of revenue were in foreign currencies (September 30, 2021 – 99% of revenue). For the three and six months ended September 30, 2022, 37% and 41% of expenses were in foreign currencies (September 30, 2021 – 50% and 45%).

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:

Financial risk management objectives and policies (continued)

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the three and six months ended September 30, 2022 and 2021

(in Canadian Dollars)

	September 30, 2022	March 31, 2022	September 30, 2022	March 31, 2022
	USD	USD	EUR	EUR
Cash and restricted cash	2,177,865	1,854,083	326,391	404,981
Trade and other accounts receivable	4,327,574	4,166,628	(273,522)	583,034
Accounts payable and accrued liabilities	(2,813,366)	(2,825,398)	(1,057,571)	(1,017,030)
Foreign exchange forward contract asset (liability)	199,319	22,864	-	-
Long-term debt	11,400,045	11,369,728	-	-
Net exposure	15,291,437	14,587,905	(1,004,702)	(29,015)

A 10% change of the US\$ against the CAD\$ at September 30, 2022 would have increased or decreased net loss by \$1,428,673 (March 31, 2022: \$903,010).

18. 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, 2022. 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.

19. 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 was subsequently renewed, and the new maturity date is February 28, 2028. The lease is with a related party, as described in note 16 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, 2023, is \$50,602.

20. Events after the reporting period

Stock option repricing

To retain valued team members and in the context of a recent significant drop in the trading price of the Company's Common Shares on the TSXV, certain number of the outstanding stock options no longer offer an adequate incentive to employees and officers of the Company, as currently priced. As a result, on November 14, 2022 the Board resolved that, subject to approval of the TSXV and approval of the Company's shareholders by way of disinterested shareholder approval at a Special Meeting on January 12, 2023, that up to 3,077,000 existing outstanding Options held by certain Insiders of the (Directors which includes the CEO are excluded from Option re-pricing), be repriced from between \$0.06 and \$0.335 per Common Share to \$0.05, and the expiry date of the Options be extended to November 15, 2027 regardless of the original grant date of the Options. The vesting of all repriced Options will be reset such that the Options shall vest annually over three years, commencing on November 15, 2022. Additional information regarding the Repricing will be available in the management information circular prepared in connection with the Special Meeting.

Private placement

As announced on November 15, 2022, the Corporation intends to complete a non-brokered private placement of common shares for aggregate gross proceeds of USD\$2,000,000. Martello will issue 54,000,000 Common Shares at a price of CDN\$0.05 per Common Share, which is a premium of 66.7% on the trading price of the Common Shares on the TSXV on November 15, 2022. The Private Placement is expected to close on or about January 24, 2023. Upon the completion of the Private Placement, Wesley Clover International would become a Control Person of the Corporation, as defined by the TSXV. Shareholders will be asked at a Special Meeting on January 12, 2022 to consider and, if thought fit, to approve a resolution creating a Control Person. More information will be provided in the management information circular prepared in connection with the Special Meeting.