

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, 2022

November 22, 2022



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 22, 2022, 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, 2022 and 2021 (“Q2 FY23” and “FY23” and “Q2 FY22” and “FY22”, respectively). This MD&A should be read in conjunction with the Company’s consolidated financial statements and accompanying notes for the period ended September 30, 2022. 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;
- Economic conditions, including risks associated with currency exchange rates, interest rates, inflation, taxes and geo political events;
- The impact of the COVID-19 pandemic on the global economy and markets, and on the Company’s operations, business and financial performance;
- 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 of open-source software adoption and compliance risks;
- Cybersecurity and privacy risks;
- Unplanned outages of the Company’s software and the broader IT ecosystems;
- 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 (TSXV: MTLO) optimizes the performance and user experience of enterprise cloud communications and productivity services, for more productive online calls, meetings and workflows. Our Vantage DX software as a service (SaaS) optimizes the Microsoft Modern Workplace by monitoring the Microsoft Teams and Microsoft 365 user experience from end-to-end, providing IT teams and service providers with actionable insight to efficiently resolve performance problems which are impacting the Microsoft 365 and Teams user experience. Modern Workplace Optimization is a segment of the broader market for digital experience monitoring (DEM) that is focused specifically on monitoring the Microsoft Teams and Microsoft 365 user experience.

With a longstanding history of providing monitoring solutions for unified communications leader Mitel Networks (“Mitel”), Martello’s expertise in managing the performance and user experience of real-time communications has created a competitive differentiator for the Company, particularly as the popularity of Teams Phone grows with the help of Microsoft Operator Connect partners. There are more than 270 million monthly active users of Microsoft Teams, and in its April 2022 Q3 FY22 results, Microsoft noted that “Teams usage has never been higher” and that Total Operator Connect minutes had increased 8X quarter over quarter. In a January 2022 report, Gartner predicted that by 2024, 20% of total Microsoft Teams active users will adopt telephony services for external calling on Teams.

Already the Microsoft-recommended provider of Modern Workplace Optimization SaaS, Martello’s mission is to make every Microsoft Teams and Microsoft 365 user’s experience productive.

As of September 30, 2022, Martello had 87 active employees: 49 in Canada, 4 in the United States and 34 in Europe, the Middle East and Africa (EMEA).

Products

Martello develops software that monitors, analyzes, reports on and optimizes the user’s experience of enterprise cloud communications and productivity services with a focus on Microsoft 365, Microsoft Teams and Mitel unified communications.

Martello’s products include:

Modern Workplace Optimization

The Modern Workplace Optimization business line includes the following products:

- **Vantage DX**, a single platform Modern Workplace Optimization suite which monitors and manages the Microsoft 365 and Microsoft Teams user experience. This solution provides insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with synthetic and real user monitoring information, to provide a clearer picture of the user’s experience of the service, with a particular focus on Microsoft 365 and Microsoft Teams. Vantage DX is sold to enterprise IT teams through direct sales or through channel partners.
- **Legacy Software Products**, which include Gizmo, iQ, LiveMaps and Domino. Customers of these software products continue to use these products and in many cases renew their subscriptions, but Martello is no longer actively selling these products outside of certain partnership arrangements.

Mitel

The Mitel business line includes the following product:

- **Mitel Performance Analytics (“MPA”)**, software which is developed by Martello and sold within Mitel to its channel partners and enterprise customers to manage the performance of Mitel unified communications solutions. Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services, and the Company’s software is used in Mitel’s own global network operations centre (NOC).

Martello's product portfolio includes subscription-based offerings and software license sales, including the provision of licenses and maintenance and support for certain legacy software products. 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.

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.

The Company maintains an active product development and enhancement program for Vantage DX and MPA, while providing ongoing support for legacy and other product offerings. Martello's product program prioritizes activities that will drive Microsoft user growth, customer acquisition, total addressable market expansion, partner engagement, and cross selling of products. Martello has thousands of customers in more than 65 countries around the world. The Company has acquired and integrated two companies (Savision B.V. "Savision" and GSX Participations SA "GSX") since November 2018, to expand its product portfolio, engineering expertise and global sales capacity.

Growth Strategy

Martello's objective is to generate net new recurring revenue growth, legacy revenue retention, EBITDA and positive cashflow that support our growth objectives. As a result, management is focused on the following activities:

I. Strengthening competitive advantage and expanding Vantage DX market share:

a. Product Innovation Driving Competitive Advantage

- i. Developing Microsoft Teams Phone features and functionality to bridge the 'visibility gap' for Microsoft Teams Phone monitoring and troubleshooting with greater insight into the components of a call, including session border controllers (SBCs).
- ii. Improving the Vantage DX user experience, including surfacing critical information with new dashboards, and improvements which further simplify deployment and management of the solution.
- iii. Improving the efficiency of customer activation with automation features.
- iv. Concluding trials with key Vantage DX prospects and converting these opportunities to customers, while leveraging customer feedback for continuous product improvement.
- v. Driving advancements in Martello's cloud-based architecture to achieve product and hosting efficiencies.

b. Develop Direct and Indirect Sales Channels and Accelerate Time to Revenue

- vi. Deepening Martello's engagement with Microsoft as a Managed Partner, jointly building a pipeline of sales opportunities and building awareness of Vantage DX amongst Microsoft's community of sellers and customers.
- vii. Driving sales via the Microsoft Azure marketplace, which simplifies the purchase process and incents Microsoft sellers to transact Vantage DX sales.
- viii. Expanding and developing new sales channels for Vantage DX, including large global systems integrators, Microsoft Operator Connect Partners such as Orange Business Systems, Mitel channel partners and value-added resellers.
- ix. Accelerate time to revenue for Vantage DX with initiatives including streamlining the sales and trial process, and disciplined management of core KPIs across the organization.

- II. Continuing to Align the Company's business with Mitel to meet its customers' needs.** This will include driving adoption of MPA by Mitel partners and customers and developing support for additional Mitel platforms. The Company will seek additional opportunities for sales growth within Mitel, including the sale of Vantage DX to Mitel partners who require a Microsoft Teams and Microsoft 365 monitoring solution.

The Company will continue to make the necessary investments in technology, talent, and systems to implement the above strategy. Although there is significant uncertainty created by global economic conditions including inflation which may further impact operations, at this time the Company believes operations can be funded by cash and other available funding sources.

SIGNIFICANT DEVELOPMENTS

During FY23 YTD the following significant developments occurred:

- In Q2 FY23 and subsequent to quarter-end, Martello won significant deals with a Fortune 100 food manufacturer with 80,000 employees, and a UK government department with more than 120,000 users.
- On September 20, 2022, Martello announced the launch of Vantage DX R3.7, which introduces AudioCodes session border controller (SBC) monitoring and out of the box Microsoft Teams Performance Overview Dashboards.
- On September 2, 2022, Martello announced the grant of 1,500,000 stock options to Chief Financial Officer Jim Clark, a one-time stock option grant associated with Mr. Clark's appointment in May 2022.
- On August 23, 2022 Martello announced an agreement with Co-Chairman Terry Matthews, through WCI for a USD \$1.5M (approximately CAD \$2M) subordinate loan.
- On August 17, 2022, Martello announced cost optimization measures as part of a strategy to accelerate positive cashflow and profitable revenue growth.
- On July 14, 2022, Martello announced a partnership with Datacom, a New Zealand headquartered IT services company, in which Datacom will offer Vantage DX to its customers.
- On June 16, 2022, Martello announced that it had entered into an amended agreement with Mitel Networks, extending the term to three years and simplifying the commercial licensing model under which the Mitel Performance Analytics (MPA) product is offered, to provide increased operational efficiency and ease for partners and customers.
- On April 28, 2022, Martello announced the appointment of Jim Clark as Chief Financial Officer, effective May 2, 2022.
- On April 7, 2022, Martello announced a global partnership with Orange Business Services in which Martello's Vantage DX SaaS platform will be integrated in the Orange Business Together with Microsoft portfolio.

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.
- On June 2, 2021, Martello announced the launch of its Global Partner Program to provide Microsoft 365 digital experience monitoring to resellers and managed service providers.
- On May 4, 2021, Martello launched a cloud-based multi-tenant platform for its Microsoft 365 digital experience monitoring software, to enable channel partners to host multiple customers using a single cloud instance of Martello's software.

Subsequent events

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, WCI 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.

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, 2022, audited annual consolidated financial statements.

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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Three months ended)		(Six months ended)	
Sales	\$ 3,840	4,413	8,018	8,814
Cost of Goods Sold	491	348	954	776
Gross Margin	3,349	4,065	7,064	8,038
<i>Gross Margin</i>	%	87.2%	92.1%	88.1%
Operating Expenses	4,689	5,135	9,713	10,831
Loss from operations	(1,340)	(1,070)	(2,649)	(2,793)
Other income/(expense)	(1,168)	(626)	(1,006)	(1,135)
Loss from continuing operations before income tax	(2,508)	(1,695)	(3,655)	(3,928)
Income tax recovery	87	(23)	8	42
Net loss	(2,421)	(1,719)	(3,647)	(3,886)
Total Comprehensive loss	\$ (2,661)	(1,780)	(4,604)	(3,940)
EBITDA (1)	\$ (1,431)	(601)	(2,590)	(1,727)
Adjusted EBITDA (1)	\$ (850)	(297)	(1,495)	(1,253)

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

Balance Sheet – Highlights

(in 000's)	September 30, 2022	March 31 2022
Cash and short-term investment	\$ 4,245	5,023
Working capital	(9,760)	2,267
Total Assets	39,313	41,935
Total Liabilities	24,103	22,259
Share capital and contributed surplus	52,548	52,411
Warrants	2,320	2,320
Accumulated deficit and other comprehensive income	(39,658)	(35,055)
Shares issued and outstanding	# 326,707,430	326,707,430

Highlights for the three months ended September 30, 2022 as compared to the same period in 2021:

- In Q2 FY23, Martello's Vantage DX SaaS, a leading-edge product within the Modern Workplace Optimization business line, reached 474k users. Q2 FY23 has seen a 252% increase in Vantage DX revenue (vs Q4 FY22) both from net new clients and conversion of clients from legacy products to Vantage DX. There are targeted plans to maximize the transition of certain users currently on legacy products to Vantage DX. Conversion rates will continue to vary by legacy product. Martello had 2.20M Microsoft users on its Modern Workplace Optimization (MWO) platform, a decrease of 0.70M (24%) compared to 2.90M in Q2 FY22. Within the broader market for digital experience monitoring, Martello is focused on optimizing the performance and user experience of the Microsoft Modern Workplace, which includes Microsoft Teams and Microsoft 365.
- Revenue of \$3.84M is \$0.57M (13%) lower than the same quarter in the prior year (\$4.41M). Normalizing for FX, revenue

is \$0.50M or 11% lower. The 11% decrease is primarily attributable to lower subscription licenses and maintenance and support on Legacy products.

- Revenue remains diversified with Modern Workplace Optimization products contributing 55% and Mitel contributing 45% in Q2 FY23 compared to 59% and 41% in the same period of FY22, respectively. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue increased to 99% in the Q2 FY23 compared to 98% in the same period of FY22. This is primarily attributable to the growing mix of license subscriptions vs perpetual licences.
- Monthly recurring revenue (MRR) is \$1.26M in Q2 FY23, compared to \$1.44M in Q2 FY22. The \$0.18M (12%) decrease is primarily attributable to declining subscription and maintenance and support on legacy products, a decrease in Mitel subscriptions and unfavourable FX. Normalizing for FX, MRR is 11% lower compared to Q2 FY22. 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 87%, compared to 92% in the comparative period. The decrease is primarily attributable to the higher cost of hosting software products on the cloud and an increase in the cost of inventory related to third-party software resale. Management is taking actions that are expected to result in a 52% decrease in the cost of hosting instances in the future. As the Company onboards new clients to instances, the variable cost will continue to decrease.
- Operating expenses were \$4.69M in Q2 FY23 compared to \$5.14M in Q2 FY22, a decrease of \$0.45M (9%). A decrease of \$0.27M was a result of cost optimization mainly driven by headcount reductions. Depreciation, amortization, and acquisition related costs were \$0.17M lower primarily driven by lower FX rate on EUR-CAD.
- Loss from operations was \$1.34M compared to a loss of \$1.07M in the same period of FY22, an increase of \$0.27M (25%) due to lower gross margin and partially offset by decrease in operating expenses as described above.
- Loss from continuing operations before income tax was \$2.51M in Q2 FY23 compared to a loss of \$1.70M in Q2 FY22, an increase of \$0.81M (48%). In addition to the items above, the Company incurred higher foreign exchange losses, losses on revaluation of forward contract and interest expense on three months of the term loan in Q2 FY23 compared to Q2 FY22.
- The net loss was \$2.42M in Q2 FY23 compared to \$1.72M in same period in FY22, an increase of \$0.70M (41%) as a result of the items outlined above as well as increase in income tax in Q2 FY23.
- Adjusted EBITDA (a non-IFRS measure) in Q2 FY23 was a loss of \$0.85M, compared to a loss of \$0.30M in the same period of FY22. An increase of \$0.55M (186%) is due to higher operating losses as described above.

Highlights for the six months ended September 30, 2022 as compared to the same period in 2021:

- Revenue of \$8.02M is 9% lower than the same period in the prior year (\$8.81M). Mitel revenue decreased by \$0.18M (5%) and Modern Workplace optimization decreased by \$0.62M (12%).
- Revenue remains diversified, with Mitel contributing 43% of revenues in the first six months of FY23 (42% in Q2 YTD FY22), and Modern Workplace optimization contributing 57% (58% in Q2 YTD FY22).
- Recurring revenue increased to 99% in the Q2 YTD FY23 compared to 97% in the same period of FY22. This is primarily attributable to the growing mix of license subscriptions vs perpetual licences and hardware sales.
- Gross margin as a percentage of revenue was 88%, compared to 91% in the comparative period. The decrease is a result of higher hosting costs and an increase in cost of inventory related to third party software resale. As mentioned above, Management is executing a four-point action plan to reduce hosting costs by 52%.
- Operating expenses were \$9.71M in Q2 YTD FY23 compared to \$10.83M in Q2 YTD FY22, a decrease of \$1.12M (10%). A reduction of \$0.78M was a result of cost optimization mainly driven by headcount reductions. Depreciation, amortization, and acquisition related costs were \$0.34M lower primarily driven by lower FX rate on EUR-CAD.
- Loss from operations was \$2.65M compared to a loss of \$2.79M in the same period of FY22, a decrease of \$0.14M. The main driver was the decrease in operating expenses partially offset by lower gross margin as described above.
- Loss from continuing operations before income tax increased from \$3.66M in Q2 YTD FY22 to \$3.93M in Q2 YTD FY23. In addition to the items above, the Company incurred the gain on issuance of the loan with Federal Economic Development Agency of Southern Ontario ("FedDev") partially offset by higher foreign exchange losses, loss on revaluation of forward contract and higher interest expense on six months of the term loan in Q2 YTD FY23 compared to Q2 YTD FY22.

- The Q2 YTD FY23 net loss of \$3.65M has decreased from the same period in FY22 by \$0.24M as a result of the items outlined above.
- Adjusted EBITDA loss (a non-IFRS measure) was \$1.49M, compared to a loss of \$1.25M in the same period of FY22. An increase of \$0.24M (19%) is due to higher operating losses as described above.

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.

In the three and six months ended September 30, 2022, the Company's Adjusted EBITDA loss was \$0.85M and \$1.49M compared to a loss of \$0.30M and \$1.25M respectively in the same period last year. The increase in Adjusted EBITDA loss is mainly due to lower gross margins.

EBITDA and Adjusted EBITDA (in 000's)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Three months ended)		(Six months ended)	
Net loss	\$ (2,421)	(1,719)	(3,647)	(3,886)
Interest income	(2)	(3)	(1)	(5)
Interest expense	(2)	567	476	1,076
Financing Fees	(2)	4	(17)	15
Accretion of long-term debt	(2)	41	15	63
Gain on receipt of FedDev loan	(2)	-	-	(1,036)
Income tax recovery	(2)	(87)	23	(8)
Depreciation	(2)	85	110	174
Amortization	(2)	384	512	780
EBITDA	(1)	(1,431)	(601)	(1,727)
Foreign exchange gain (loss)	(2)	412	135	734
Revaluation of forward contract	(2)	176	24	195
Other income (expense)	(2)	(29)	(6)	(34)
Share-based compensation expense	(3)	32	107	138
Deferred Stock Unit plan expense	(3)	(11)	24	61
Acquisition-related costs	(2)	-	20	-
Adjusted EBITDA	(1)	(850)	(297)	(1,495)

(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

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.

For the three months ended September 30, 2022, income from sales (\$3.84M) less revenue recognized at a point in time and other adjustments (\$0.05M) resulted in \$3.79M in quarterly recurring revenue and MRR of \$1.26M.

Reconciliation of Sales to MRR - 3 months ended

(in 000's)	September 30, 2022	September 30, 2021
Sales	\$ 3,840	4,413
Less: Revenue recognized at point in time	(19)	(31)
Less: Term licenses	(27)	(62)
Add: other adjustments	-	1
Quarterly Recurring Revenue	3,794	4,321
Monthly Recurring Revenue (MRR)	1,265	1,440

SUMMARY OF RESULTS

Note: The information contained in the following tables, including the 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 subscription and perpetual software licenses and maintenance and support services for visualization of IT systems management data and Microsoft 365 and Teams end user experience monitoring solutions, including GSX Gizmo and Vantage DX, and
- (b) the sale of Mitel Performance Analytics solutions for real-time communications.

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"). Martello earns a monthly fee for each subscriber to the plan. The new Vantage DX platform is an integration of products which includes IT analytics and GSX Gizmo.

Recurring revenue includes the components described above as MRR.

Cost of goods sold includes web hosting services, delivery and support costs, hardware, and third-party software costs.

Three and six months ended September 30, 2022

Gross Margin - Summary

(in 000's)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Three months ended)		(Six months ended)	
Sales	\$ 3,840	4,413	8,018	8,814
Cost of Goods Sold	491	348	954	776
Gross Margin	3,349	4,065	7,064	8,038
<i>Gross Margin</i>	<i>87.2%</i>	<i>92.1%</i>	<i>88.1%</i>	<i>91.2%</i>

Revenue decreased \$0.57M (13%) in Q2 FY23 compared to Q2 FY22 and \$0.80M (9%) in Q2 YTD FY23 compared to the same period last year. The gross margin at 87% in Q2 FY23 and 88% in Q2 YTD FY23 is slightly lower than 92% in Q2 FY22 and 91% in Q2 YTD FY23.

Segmented information

The Company operates two lines of business: 1) Modern Workplace Optimization (Vantage DX is the Corporation's solution suite portfolio for the monitoring, analytics and management of Microsoft 365 and Teams) and 2) Mitel. These lines of business engage in business activities from which they earn revenues from subscription and perpetual software licenses, maintenance and support, and training and professional services.

For line of business reporting purposes, Modern Workplace Optimization was previously reported as 2 segments: Vantage DX Analytics – IT Service Analytics and Vantage DX Monitoring – Microsoft 365. Mitel was previously reported as Monitoring – Mitel UC and Vantage DX Monitoring – Mitel UC.

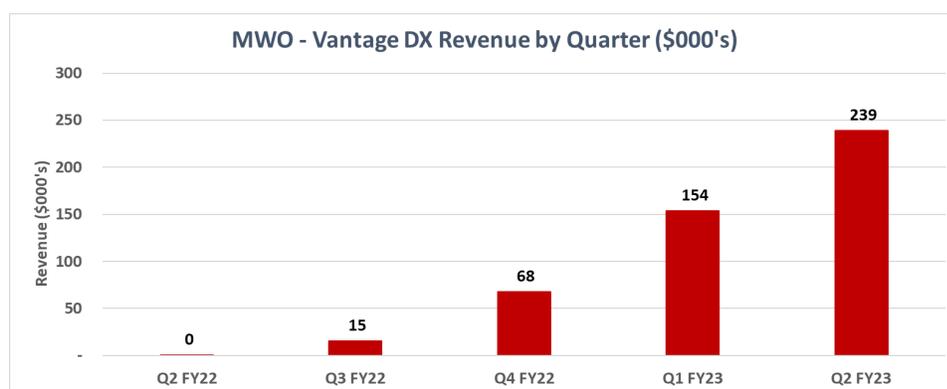
Three and six months ended September 30, 2022

Sales and Gross Margin - Three months ended

	September 30, 2022			September 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Sales	\$ 2,110	1,730	3,840	2,612	1,802	4,413
Cost of Goods Sold	449	42	491	293	55	348
Gross Margin	1,661	1,688	3,349	2,319	1,747	4,065
<i>Gross Margin</i>	% 79%	98%	87%	89%	97%	92%

Sales and Gross Margin - Six months ended

	September 30, 2022			September 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Sales	\$ 4,534	3,484	8,018	5,151	3,663	8,814
Cost of Goods Sold	878	76	954	639	137	776
Gross Margin	3,656	3,408	7,064	4,512	3,526	8,038
<i>Gross Margin</i>	% 81%	98%	88%	88%	96%	91%



Modern Workplace Optimization revenue decreased \$502k (19%) in Q2 FY23 compared to Q2 FY22 and \$617k (12%) in Q2 YTD FY23 compared to the same period last year. Vantage DX (as noted in the bar graph directly above) contributed \$239k in revenue in Q2 FY23(56% increase v. Q1 FY23 and 252% increase v. Q4 FY22) and 474k users. The expected decrease in subscriptions and maintenance and support on legacy products as well as an unfavourable EUR-CAD exchange rate in Q2 FY23 contributed to the

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

overall decline. Margin decreased to 79% in Q2 FY23 and 81% in Q2 YTD FY23 compared to 89% in Q2 FY22 and 88% in Q2 YTD FY22 due to higher costs of hosting customers on cloud (per earlier comments) and a cost of inventory increase on third party software re-sale.

Mitel revenue decreased \$72k (4%) in Q2 FY23 and \$179k (5%) in Q2 YTD FY23 compared to the same periods in FY22. The decrease is mainly due to decrease in users of Mitel's software assurance program. Gross margin increased to 98% in Q2 FY23 and 98% in Q2 YTD FY23 compared to 97% in Q2 FY22 and 96% in Q2 YTD FY23. This improvement is attributable to a lower mix of hardware sales within cost of goods sold and savings in hosting costs.

MRR Reconciliation - 3 months ended

	September 30, 2022			September 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Revenue	\$ 2,110	1,730	3,840	2,612	1,802	4,413
Adjustments:						
Less Revenue recognized at point in time						
Hardware	-	(1)	(1)	-	(2)	(2)
Perpetual licenses	-	-	-	-	(12)	(12)
Training and professional services	(16)	(2)	(18)	(17)	-	(17)
Less: Term licences	(27)	-	(27)	(62)	-	(62)
Add back: Maintenance and support adjustment	-	-	-	1	-	1
Quarterly Recurring Revenue	2,066	1,728	3,794	2,534	1,788	4,321
Monthly Recurring Revenue (MRR)	689	576	1,265	845	596	1,440

Monthly Recurring Revenue ("MRR") is \$1.26M in Q2 FY23 compared to \$1.44M in Q2 FY22. The \$0.18M (12%) decrease in MRR is primarily attributable to a churn on subscriptions and maintenance and support of legacy products, a decrease in Mitel subscriptions and unfavourable EUR-CAD FX translation. 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, 2022

Expenses - Three months ended

	September 30,		Increase / (Decrease)
	2022	2021	
(in 000's)			
	Total	Total	
Research and development	\$ 1,319	1,563	(245)
Sales and marketing	1,777	1,702	76
General and administrative	1,123	1,229	(105)
Depreciation	85	110	(24)
Amortization	384	512	(128)
Acquisition-related costs	-	20	(20)
TOTAL	4,689	5,135	(447)

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

Expenses - Six months ended

(in 000's)	September 30, 2022	September 30, 2021	Increase / (Decrease)
	Total	Total	
Research and development	\$ 2,946	3,299	(353)
Sales and marketing	3,453	3,663	(210)
General and administrative	2,359	2,577	(218)
Depreciation	174	221	(47)
Amortization	780	1,021	(240)
Acquisition-related costs	-	50	(50)
TOTAL	9,713	10,831	(1,118)

For the three and six months ended September 30, 2022, operating expenses decreased by \$0.45M and \$1.12M compared to the same period in FY22. Decrease in operating expenses is primarily due to cost optimization resulting in lower headcount in addition to favourable FX on EUR-CAD conversion.

Research and development (“R&D”) expenses include compensation for the research and development team as well as any sub-contract costs and development tools. These costs are partially offset by government grants, primarily investment tax credits, which are earned from qualifying Scientific Research and Experimental Development (“SRED”) expenditures and Credit d’Impôt en Faveur de la Recherche (“CIR”).

- R&D expenses decreased \$245K (16%) in Q2 FY23 compared to Q2 FY22 and \$353K (11%) in the six months of FY23 compared to FY22. In addition to the overall expense decreases explained above, the Q2 and YTD decrease is related to increase in government credits, reduced spend on market research due to integration of costs, lower patent filing fees and partially offset by higher spend on software subscriptions, travel, and consulting.

Sales and marketing costs include headcount related compensation and marketing spend.

- Sales and Marketing expenses increased \$76K (4%) in Q2 FY23 compared to Q2 FY22 and decreased \$210K (6%) in the six months of FY23 compared to FY22. In addition to the overall expense decreases explained above, the Q2 and YTD decrease has been offset by an increase in restructuring costs and hosting cost related to proof of value for Vantage DX.

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 \$105k (9%) in Q2 FY23 compared to Q2 FY22 and \$218K (8%) from the six months of FY23 to FY22. In addition to the overall expense decreases explained above, the Q2 and YTD decrease is related to lower spend in legal, consulting and investor relations fees partially offset by higher spend in tax and audit fees, travel, office costs and bank charges.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. The depreciation decreased by \$24k (22%) in Q2 FY23 compared to Q2 FY22 and \$47k (21%) from Q2 YTD FY23 to Q2 YTD FY22 primarily due to favourable FX rate on EUR-CAD conversion.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. The amortization decreased by \$128k (25%) in Q2 FY23 compared to Q2 FY22 and \$240K (24%) from YTD FY23 to YTD FY22 due to favourable EUR-CAD FX rates and full amortization of non-compete in Q3 FY22.

Acquisition related costs decreased by \$20K (100%) in Q2 FY23 compared to Q2 FY22 and \$50K (100%) from YTD FY23 to YTD FY22.

Loss from Operations

In Q2 FY23, the loss from operations was \$1.34M compared to a loss of \$1.07M in the same period of FY22, an increase of \$0.27M

(25%) primarily due to lower margin and partially offset by lower spend on operating expenses. In Q2 YTD FY23 the loss from operations was \$2.65M compared to a loss of \$2.79M in Q2 YTD FY22, a decrease of \$0.14M (5%) primarily due to lower spend on operating expenses partially offset by lower margin.

Other Income/Expense

(in 000's)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Three months ended)		(Six months ended)	
Interest income	\$ 3	1	6	5
Interest expense	(567)	(476)	(1,076)	(941)
Financing fees	(4)	17	(15)	7
Accretion of long-term debt	(41)	(15)	(63)	(31)
Gain on receipt of FedDev loan	-	-	1,036	-
Revaluation of forward contract	(176)	(24)	(195)	(15)
Foreign exchange loss	(412)	(135)	(734)	(183)
Other income	29	6	34	22
TOTAL	\$ (1,168)	(626)	(1,006)	(1,135)

For the three and six months ended September 30, 2022, the increase in interest expense is a result of an increase in interest payments related to the Vistara loan (increase in the US prime rate from 3.25% to 6.25%). In addition, the increase is also due to the accrued interest on WCI subordinate loan advanced in August 2022. Interest is accrued on WCI on the same terms as that of Vistara loan. The interest expense includes Vistara Term Loan and WCI subordinate loan interest as well as amortization of the loan and warrant origination fees associated with the Vistara Term Loan WCI loan.

On March 7, 2022, the Corporation entered into a new FedDev contribution agreement in total of \$2.5M. The funds provided under this contribution agreement are non-interest bearing, unsecured and are to be repaid over 72 months commencing on October 1, 2024. On May 16, 2022, the Corporation received a deposit of \$1.92M. An adjustment of \$1.04M was recorded to recognize the government grant within the loan at fair value upon inception which is recorded as a gain on receipt of FedDev loan.

For the three and six months ended September 30, 2022, the Company had foreign exchange losses of \$0.41M and \$0.73M respectively, compared to \$0.13M and \$0.18M, respectively for the same periods last year. The main driver for the foreign exchange loss for 6 months ending September 30, 2022, is the revaluation of the Vistara and WCI loans which are denominated in USD. The USD was stronger than CAD in September 30, 2022 compared to the prior year which resulted in a loss from revaluation of the outstanding USD loan. The USD rates were 1.37 in September 30, 2022 vs 1.27 in September 30, 2021, contributing to a loss of \$0.96M for the 6 months ending September 2022 compared to \$0.11M for the same period last year.

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, 2022 resulted in losses of \$0.17M and \$0.19M respectively compared to \$0.03M and \$0.02M, respectively, for the same periods last year mainly due to fluctuations in USD rates as mentioned above.

Income Tax Expense / Recovery

For the three and six months ended September 30, 2022, income tax amounted to a recovery \$0.09M and \$0.01M compared to an expense of \$0.02M and recovery of \$0.04M for the same period last year. This is mainly due to a decrease in deferred tax liability due to NOL used and lower balance for intangibles.

Other Comprehensive Income / Loss

In the three and six months ended September 30, 2022, the Company had other comprehensive loss of \$0.24M and \$0.96M compared to \$0.06M and \$0.05M for the same period last year. Included in other comprehensive income/(loss) are pension plan fair value adjustments, pension plan remeasurement/settlement, as well as currency translation differences for Savision and GSX operations, for which EUR is the functional currency. During Q2 YTD FY23, the increase in CAD against EUR resulted in higher loss

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, 2022, the net loss amounted to \$2.42M and \$3.65M compared to \$1.72M and \$3.89M in the same period last year.

The total comprehensive loss for the three and six months ended September 30, 2022, was \$2.66M and \$4.60M compared to \$1.78M and \$3.94M for the same periods last year.

The key drivers contributing to the losses are provided under Loss from Operations, Other Income/Expense, 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, 2022. 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 ended September 30, 2022 and 2021. 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 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22
Sales	\$ 3,840	4,178	4,271	4,455	4,413	4,401
Cost of Goods Sold	491	463	423	433	348	428
Gross Margin	3,349	3,715	3,848	4,021	4,065	3,973
Gross Margin %	87%	89%	90%	90%	92%	90%
Expenses	4,689	5,024	5,363	5,526	5,135	5,696
Loss from operations	(1,340)	(1,309)	(1,515)	(1,505)	(1,070)	(1,723)
Other income/(expense)	(1,168)	162	(537)	(742)	(626)	(509)
Loss before income tax	(2,508)	(1,147)	(2,052)	(2,247)	(1,695)	(2,232)
Income tax recovery	87	(79)	(109)	75	(23)	65
Net Loss	(2,421)	(1,226)	(2,161)	(2,173)	(1,719)	(2,167)
Total comprehensive loss	(2,661)	(1,943)	(2,917)	(2,794)	(1,780)	(2,160)
EBITDA ⁽¹⁾	(1,431)	(1,159)	(1,045)	(1,069)	(601)	(1,125)
Adjusted EBITDA ⁽¹⁾	(850)	(645)	(830)	(777)	(297)	(956)

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

Sales have been stable from Q1 FY22 through Q3 FY22 followed by a decrease in Q4 FY22 to Q2 FY23 primarily due to declining revenue on legacy products and unfavourable EUR-CAD exchange rate. Decrease in maintenance and support on perpetual licences due to shift to subscription model is being partially offset by subscription revenue. Vantage DX continues to grow quarter over quarter since the launch in Q3 FY22 and has been offset by an increasing decline in legacy products (ref comments above).

Cost of goods sold has increased in Q2 FY23 due to the increased number of Vantage customers on cloud compared to FY22. Decrease in Q2 FY22 was mainly due to vendor credits for cloud hosting costs for Gizmo.

Cost reductions over the last four quarters are primarily related to lower headcount due to attrition and cost optimization.

Other income and expense increases reflect the cost of financing and ongoing interest costs, as well as foreign exchange losses. Q1 FY23 income includes gain on the loan with FedDev.

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 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.

Federal Economic Development Agency of Southern Ontario

On March 7, 2022, the Corporation entered into a new FedDev contribution agreement in total of \$2.5M. The funds provided under this contribution agreement are non-interest bearing, unsecured and are to be repaid over 72 months commencing on October 1, 2024. On May 16, 2022, total the Corporation received a deposit of \$1.92M.

In addition, the Company entered into two debt facilities in 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, and Martello Technologies Incorporated (the "Corporate Guarantors"). The facility is undrawn as of September 30, 2022.

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 20.50%. 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.

On November 10, 2021 the Vistara Credit Agreement was amended (the “Vistara Amendment”). Under the terms of the Vistara Amendment, effective November 1, 2021 interest at the U.S. prime rate plus 8.75% per annum is payable monthly. In addition, the 12,777,273 Bonus Warrants previously issued to Vistara have been cancelled and a fee of U.S. \$0.4M was paid to Vistara. The cancellation resulted in \$0.3M recorded as a Financing fee to the consolidated statement of loss and comprehensive loss. The Vistara Amendment also sets out conditions for the Private Placement and includes adjustments to certain covenants. In connection with the Vistara Amendment, the Company issued 837,110 common shares to Vistara.

The Company also has in place a non-binding letter of intent with Bruce Linton and Terry Matthews, through WCI, 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.

On November 10, 2021, the Corporation completed the first tranche of a non-brokered private placement (the “Private Placement”). Under the Private Placement, the Corporation issued 8,403,362 common shares at a price of \$0.119 per common share, for aggregate gross proceeds of \$1,000,000. The Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation. In connection with the Vistara Amendment, the Company also issued 837,110 common shares to Vistara.

On January 27, 2022, the Corporation completed the second tranche of a non-brokered private placement (the “Second Private Placement”). Under the Second Private Placement, the Corporation issued 14,370,000 common shares at a price of \$0.10 per common share, for aggregate gross proceeds of \$1,437,000. The Second Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation.

On March 16, 2022, the Corporation completed the third tranche of the Private Placement. The Corporation issued 500,000 common shares at a price of \$0.10 per common share, for aggregate gross proceeds of \$50,000. The Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation.

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled \$4.24M at September 30, 2022 compared to \$5.02M at March 31, 2022. The increase is explained below under **Cashflow Analysis**.

The following tables sets out the working capital position of the Company as at September 30, 2022 and March 31, 2022.

Liquidity Snapshot

(in 000's)	September 30, 2022	March 31, 2022
Current Assets	\$ 10,730	11,168
Current Liabilities	20,490	8,901
Net Working Capital	(9,760)	2,267

The decrease in working capital in FY23 was mainly due to the Vistara loan of \$8.92M and WCI subordinate loan of \$2.06M reclassified as current liabilities in FY23 compared to FY22 as the loan is expected to be repayable by May 2023, offset by increase in investment tax credits receivable of \$0.41M and prepaid expenses of \$0.27M.

Debt

As at September 30, 2022 debt totaled \$12.25M, including \$11.27M due within one year. The debt is made up of:

- \$8.92M Vistara Term Loan, bearing interest at 15% 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. Effective November 2021, interest is payable monthly. Interest rate is from 12.5% since April 2022 to 15% at September 30, 2022. \$1.5M USD of the loan was repaid in August 2022.
- \$2.06M WCI subordinated loan advanced in August 2022 to pay down the Vistara loan, interest accrued at US prime rate plus 8.75% and to be paid at loan maturity on May 28, 2023.
- \$0.93M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev") under the Jobs and Growth Program.
- \$0.27M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities for a specific project.
- \$0.07M non-interest-bearing, unsecured loan from Canada Economic Development Agency.

Share Capital

In the first six months of FY23, the following transactions in the share capital of Martello occurred:

- 4,660,000 new options were granted (2,892,000 in Q2 YTD FY22)
- No options were exercised (200,000 in Q2 YTD FY22)
- 2,271,000 options were forfeited (849,000 in Q2 YTD FY22)
- No options expired (208,603 in Q2 YTD F22)

Cash Flow Analysis

(in 000'S)	Six months ended	
	September 30,	
	2022	2021
Operating activities		
Loss before income tax	\$ (3,655)	(3,928)
Items not affecting cash	1,575	2,199
Net change in operating components of working capital	(248)	(1,696)
Total cash flows used in operations	(2,328)	(3,424)
Total cash flows used in investing activities	155	(12)
Total cash flows provided by (used in) financing activities	1,604	(252)
Net change in cash	(569)	(3,688)
Cash, beginning of period	4,853	8,350
Effects of currency translation on cash	(46)	(1)
Cash, end of period	4,240	4,661

Cash flows used in operations were \$2.33M for the six months ended September 30, 2022, compared to \$3.42M for the six months ended September 30, 2021. The decrease in cashflows used in operations of \$1.01M is due to the following key factors:

- The net loss was \$3.66M in the six months ended September 30, 2022, compared to \$3.93M 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 \$1.1M in cashflows used in operations:
 - In the Q2 YTD FY23 the Corporation incurred \$0.82M of unrealized foreign exchange loss due to an unfavorable USD-CAD rate for revaluation of the Vistara and WCI loan which was denominated in USD. The USD rates were 1.3695 in September 30, 2022 vs 1.2727 in September 30, 2021.
 - Amortization of intangible assets decreased by \$0.24M in Q2 FY23. The decrease is due to the full amortization of intangible assets grouped as "Non-Compete" in Q2 YTD FY22 as against Nil amortization recorded for Q2 YTD FY23.
 - Change in fair value of hedge liability in FY23 represented a loss of \$0.19M due to a weaker CAD against USD rate in FY23, compared to \$0.02M for the six months ended FY22.

In addition, the net change in operating components of working capital was a decrease of \$0.25M for the six months of FY23 as compared to a decrease of \$1.69M in the prior year. This difference was due to the following:

- Trade and other accounts receivable decreased by \$0.23M in FY23, compared to a decrease of \$0.46M in FY22 primarily due to timing of collection of invoices.
 - Prepaid expenses increased by \$0.29M in the six months ended September 30, 2022 as compared to an increase of \$0.09M in the Six months ended September 30, 2021. The increase in FY23 is mainly due to prepaid fees for Core success silver program for a period of 3 years (\$0.20M). Accounts payable and accrued liabilities increased by \$0.32M during the six months ended September 30, 2022, compared to a decrease of \$1.31M in the prior year. The increase in Q2 YTD FY23 relates to timing of payment and processing of invoices of \$0.86M offset by decrease in accrued liabilities (\$0.27M), decrease in Bonus accrual (\$0.11M) and decrease in accrual for professional fees and taxes (\$0.15M). The decrease in FY22 relates to timing of payment of invoices and payroll and related benefits (\$1.0M) outstanding at March 31, 2021.
 - Deferred revenue decreased \$0.06M during the six months of FY23, compared to a decrease of \$0.34M in the prior year. The decrease in FY23 is due to a drop in deferred revenue due to existing contracts not renewing in Q1 or Q2 FY23 (\$2.13M) offset by net increase in existing customer deferred revenue who did renew in Q1 or Q2 (\$1.26M) and lower deferred revenue lost from existing customers than revenue earned from new customers by \$0.56M.

Cashflows from investing activities were \$0.16M for the six months ended September 30, 2022 as compared \$0.01M of cash used for the six months ended September 30, 2021. The major cashflow from investing activity in FY23 is from the sale of short-term investments (\$0.16M).

Cashflows provided by financing activities were \$1.60M of cash for the six months ended September 30, 2022, compared to \$0.25 of cash used for the six months ended September 30, 2021. Cashflows provided by financing activities in Q2 YTD FY23 is from the loan proceeds of FedDev loan (\$1.92M), proceeds from WCI subordinate loan (\$1.96M), offset with repayment of Vistara loan(\$1.96M). Cashflows used in financing activities in FY22 mainly included repayment of long-term debt (\$0.10M) and repayment of the lease obligation (\$0.18M).

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.

OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2022 and 2021, 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, 2022. Included in accounts payable and accrued liabilities are balances as at September 30, 2022 totaling \$0.41M (March 31, 2022 - \$0.33M) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board is chairman of WCI. WCI owns more than 10% of the issued and outstanding common shares of the Company as at September 30, 2022.

The Company leases office premises from WCI. For the six months ended September 30, 2022, the Corporation paid rent to WCI, which is reflected in the results for the three and six months ended September 30, 2022 as \$17K and \$35K in depreciation expense (three and six months ended September 30, 2021 - \$25K and \$49K respectively) and \$24K and \$24K in rent expense (three and six months ended September 30, 2021 - \$32K and \$61K respectively).

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

OUTLOOK

In the second half of fiscal 2023, Martello's focus is on building a profitable business over the coming quarters, driven by sales of Vantage DX, the company's flagship software as a service (SaaS) for the optimization of the Microsoft Teams and Microsoft 365 user experience. The consolidation of Martello's products into a single offering with Vantage DX provided the Company with an opportunity to reduce costs while maximizing the market opportunity for this solution. In Q2 FY23 and subsequent to quarter-end, this resulted in the significant deals with a Fortune 100 food manufacturer with 80,000 employees, and a UK government department with more than 120,000 users. At the end of Q2 FY23, there were 474,000 Microsoft users on the Vantage DX platform, in less than 12 months since the product became generally available. While Vantage DX continues to grow at a strong pace bolstered by a base of steady recurring revenue from the Mitel line of business, revenue continues to be impacted by the expected sunsetting of certain legacy product revenue, including a large legacy partner offboarding its users in Q2 FY23.

The first pillar of Martello's profitable growth strategy is increasing recurring revenue from sales of Vantage DX and optimizing the investment curve for this new offering. The company has adopted disciplined monitoring and management of core KPIs measuring the performance of its sales cycle to identify improvements which will accelerate this cycle. Key initiatives undertaken by the company as a result of this include streamlining the Vantage DX trial process, reducing Vantage DX hosting costs and pricing adjustments.

Vantage DX product development in Q2 FY23 is expected to contribute to the acceleration of the sales process. The September 2022 software release introduced new out of the box dashboards that provide rapid insight into the most critical Microsoft Teams-related issues impacting an organization's users. These dashboards simplify the presentation of the value proposition to prospects and can help shorten the trial cycle.

Key partnerships continue to drive opportunity for Martello and Vantage DX. Martello has partnered with some of the industry's largest players, including Microsoft and Orange. The sales pipeline driven by these partners continues to grow, and in Q2 FY23 the company closed its first significant sales deal with Orange.

The second pillar is the close management of cash. A key step in this was the cost optimization measures announced in August 2022, which involved the identification and elimination of approximately 20% or \$4M of annualized run rate costs. The full benefit of these cost reductions will be realized in Q3 FY23.

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, 2022.

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, 2022 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, 2022 and 2021.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized cost or FVTOCI are included with the carrying amount of such instruments. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as FVTPL are recognized immediately in profit or loss within the condensed interim consolidated statements of loss and comprehensive loss.

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, 2022, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD \$2.7M (March 31, 2022 - \$1M). 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, 2022, 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, 2022, the US prime rate was 6.25% and the Company is paying interest at 15% 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.

Global Economic Conditions and Inflation

Martello may be affected by worldwide economic conditions, such as economic impacts due to the Russian invasion of Ukraine. These impacts include higher interest rates and inflation, which can influence our ability to compete for talent as wage inflation increases, as well as the increased risk of cyber security breaches and attacks. Inflation could increase the Company's operating and other costs, which may result in increased losses.

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.

COVID-19

The Company continues to monitor the potential effects of the COVID-19 pandemic and impact on its operations, business and financial performance, including liquidity and capital usage. Measures were taken by the Company 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 a degree of uncertainty. Possible impacts of the ongoing COVID-19 pandemic may include: purchase order delays or the inability to collect receivables, changes to budgets and spending priorities as the post-COVID-19 economy evolves, and the possibility of reduced in-person interaction with customers should future waves impact business travel.

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.

The Ability to Manage Growth

Should the Company be successful in its efforts to acquire customers, through both direct and indirect channels, operations will need to scale effectively to meet the demand. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Mitel

As a strategic partner, Mitel accounted for approximately 40% and 42% of the Company's revenue during the three and six months ended September 30, 2022 (42% and 41% for the three and six months ended September 30, 2021). Martello and Mitel have entered into the Mitel Services Agreement regarding the use and resale of Martello software and services. The Mitel Services Agreement currently in effect was entered into on April 21, 2016 for an initial term of one year with automatic annual renewal. The Mitel Services Agreement was then amended in January 2019 to expand the coverage of Martello's software to additional Mitel communications platforms, extend the term of the agreement for an additional two years, with automatic two-year renewals thereafter and increases to the fee per user that Martello receives on certain Mitel offerings. On June 16, 2022, Martello announced that it had entered into an amended agreement with Mitel Networks, extending the term to three years and simplifying the commercial licensing model under which the Mitel Performance Analytics (MPA) product is offered, to provide increased operational efficiency and ease for partners and customers.

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.

In November 2021, Mitel and RingCentral, Inc. (“RingCentral”) announced a strategic partnership, pursuant to which RingCentral would become Mitel’s exclusive UCaaS partner. Mitel and RingCentral’s relationship could accelerate the migration of on-premises customers into RingCentral’s UCaaS offering. This risk is mitigated by the launch of the Company’s Vantage DX integrated solution and the launch of its indirect channel strategy and acquisition activities. The Company’s deepening relationship with Microsoft through the Microsoft Global Solutions Alliance Program (announced in August 2021) is a concrete step in this mitigation strategy.

Microsoft relationship

The Company participates in Microsoft’s Global Solutions Alliance Program. In connection therewith, the Company has agreed to supplemental terms to its customer agreement with Microsoft. These supplemental terms include, among other things, a commitment by the Company to spend \$4,000,000 on Microsoft Azure over a 60-month period. If the Microsoft Azure consumption is valued at less than \$4,000,000 over the first 48 months, the Company must pay Microsoft any remaining difference and any amount paid will be treated as a prepayment for Microsoft 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 Vistara Term Loan bears interest at a variable rate. 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. In addition, the Vistara Term Loan requires the Company to meet certain covenants and monthly payments. The Company’s inability to meet the covenants could result in increased interest expenses or in the case of non - financial covenants, may result in an event of default. An event of default if not cured within a prescribed time, could result in acceleration of the Vistara Term Loan and the ability of Vistara to enforce other rights and remedies pursuant to the terms of the loan agreement.

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.

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