MARTELLO

Empowering IT for your modern workplace.

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, 2023

November 21, 2023

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 21, 2023, 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, 2023 and 2022 ("Q2 FY24"and "FY24" and "Q2 FY23" and "FY23", 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, 2023. 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 geopolitical events;
- The impact of a pandemic (e.g., COVID-19) 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's mission is to optimize the power of the modern workplace by empowering enterprise IT teams to rapidly resolve Microsoft 365, Microsoft Teams and Mitel performance issues. The Company's software monitors and optimizes the performance of enterprise cloud communications and collaboration systems for better call, meeting and workflow experiences.

Martello's Vantage DX software as a service (SaaS) is the only comprehensive, out-of-the box performance monitoring solution for Microsoft 365 and Teams. The Microsoft-preferred monitoring solution, Vantage DX monitors 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 user experience.

Martello is also the provider of the Mitel Performance Analytics ("MPA") monitoring solution for unified communications ("UC") leader Mitel. The Company has been partnered with Mitel for more than 10 years and its MPA solution monitors and manages thousands of Mitel deployments worldwide.

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 continues to grow. There are more than 320 million monthly active users of Microsoft Teams (as of October 24, 2023, per Microsoft Q1 FY24 Financial Results). Microsoft Teams Rooms revenue has grown by triple-digits for nine consecutive quarters and more than 10,000 customers now use Teams Premium. Approximately 80M are using Microsoft Teams Phone, the calling feature of Microsoft Teams. Among those, more than 12M use Microsoft PSTN calling, which allows users to conduct Teams calls via a telephone system. Martello's Vantage DX supports all enterprise Microsoft Teams users.

Already the Microsoft-recommended provider of Modern Workplace Optimization SaaS, Martello's vision is that every user of modern workplace solutions has a solid user experience. Anywhere. Anytime.

As of September 30, 2023, Martello had 73 active employees: 45 in Canada, 5 in the United States and 23 in Europe, the Middle East and Africa (EMEA).

Products

Martello develops software that monitors and optimizes the user's experience of enterprise cloud communications and collaboration systems to help IT teams rapidly prioritize and resolve issues, with a focus on Microsoft 365, Microsoft Teams and Mitel UC.

Martello's products include:

Modern Workplace Optimization

The Modern Workplace Optimization business line includes the following products:

- **Vantage DX**, the only comprehensive, out-of-the box performance monitoring solution for Microsoft 365 and Teams. A Microsoft preferred solution, Vantage DX monitors and manages the Microsoft 365 and Microsoft Teams user experience from end-to-end. 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 Microsoft service. Vantage DX is sold to enterprise IT teams through direct sales or 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. Martello is no longer actively selling these products to net new Customers and/or partnership arrangements. Certain legacy product customers have been converted to the newer Vantage DX platform.

Mitel

- The Mitel business line includes the Mitel Performance Analytics (MPA) product, software which is developed by Martello and sold by Mitel to its channel partners and enterprise customers to manage the performance of Mitel UC 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 also offers professional services in connection with the trial and deployment of certain of its software products. 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 support for certain legacy product offerings. Martello's product program prioritizes activities that will drive Microsoft and Mitel user growth, customer acquisition, total addressable market expansion, partner engagement, and cross selling of products. 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 vision is that every user of modern workplace solutions has a fantastic experience – anytime, anywhere. In FY24 the Company will drive demand for its Vantage DX solution, which empowers enterprise IT teams to rapidly resolve Microsoft 365 and Teams issues, while continuing to develop its partnership with Mitel. Achievement of this strategy would bring shareholder value in the form of recurring revenue and earnings growth, and positive cashflow. Management is focused on the following activities:

Accelerate Vantage DX Revenue Growth

Maximize direct and indirect channels into our ideal customer profile, including:

- Deepening Martello's engagement with Microsoft, building a pipeline of sales opportunities leveraging IP Co-Sell Top Tier Status and generating awareness of Vantage DX amongst Microsoft's community of sellers and customers.
- Driving sales via the Microsoft Azure marketplace, which simplifies the purchase process and incents Microsoft sellers to transact Vantage DX sales.
- Developing existing channel partner relationships to drive sales pipeline, including Operator Connect partner Orange Business Systems and CGI, an IT and business consulting firm.
- Strategically selecting a small number of new channel partners based on the criteria established in Martello's FY24 strategic plan for the ideal customer and partner profile. These partners may include managed service providers (MSPs), global systems integrators and large Mitel channel partners.
- Retain certain strategic Legacy product customers by converting them to the newer Vantage DX platform, and when this is not possible, take steps to retain the Legacy business and revenue.

Delight Customers and Drive Competitive Advantage with Vantage DX Product Innovation

- Extend Vantage DX functionality to support the pace of innovation in Microsoft Teams. Exploit Martello's competitive advantage in real-time communications performance management with capabilities such as Microsoft Teams Room (MTR) monitoring and visibility into the performance of session border controllers (SBCs).
- Improve the Vantage DX user experience, including surfacing important Microsoft Call Quality Dashboard (CQD) information in Vantage DX dashboards, making it easier to detect critical issues and root causes.
- Implement improvements which further simplify deployment and management of the solution. Improve the efficiency of customer activation with automation features.

- Accelerate time to revenue with standardized and hands-on Vantage DX trials and converting these opportunities to customers efficiently with professional services offerings.
- Drive advancements in Martello's cloud-based architecture to achieve product and hosting efficiencies.

Continue to Develop Martello's Business with Mitel and Mitel Partners

- Align development of MPA with Mitel to meet its customers' needs, including developing support for new Mitel platforms (such as acquired UC platforms) and deepening existing Mitel platform support with new features and capabilities.
- Develop long-term strategies to address the market opportunity created by Mitel's acquisition of Unify, which has doubled Mitel's installed base to 75M users. These strategies could include offering Vantage DX to Unify partners and customers and developing monitoring support for Unify UC platforms in MPA.
- Help Mitel drive increased adoption of MPA by Mitel partners and customers by identifying critical new product features and opportunities to optimize GTM and MPA offerings, and by providing ongoing marketing and educational support for MPA within the Mitel channel.
- 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 has the resources to continue to make value add investments in technology, talent, partnerships and systems to implement the above strategy.

SIGNIFICANT DEVELOPMENTS

In the fiscal 2024 year to date, the following significant developments occurred:

- On September 21, 2023, Martello announced that the Company's Board of Directors nominated Paul Butcher as a Director, pending shareholder approval at the Annual General and Special Meeting of Shareholders ("AGM") on September 27, 2023.
- On September 7, 2023, Martello announced the resignation of Antoine Leboyer, the former CEO of GSX from Martello's Board of Directors, to focus on mentoring startup founders and undertake a project to create a focused large language model for Hebrew texts.
- On August 9, 2023, Martello announced the repayment of outstanding sums of approximately USD $3M due to Vistara Technology Growth Fund III Limited Partnership ("Vistara") pursuant to a credit agreement entered on April 27, 2020, for a term credit facility to fund the purchase of GSX. The Company also announced that Wesley Clover International Corporation ("WCI"), the investment firm controlled by Martello Chairman Terence Matthews had provided an additional USD $3M in credit to facilitate the repayment of the Vistara Term Loan. As part of the WCI Loan Amendment, WCI agreed to extend the WCI Loan under current terms to August 28, 2026, and will accrue interest until the maturity date of the loan agreement.
- On July 13, 2023, Martello announced the closing of a non-brokered private placement of common shares in the capital of the Company, issuing 50,000,000 Common Shares at a price of CAD $0.05 per Common Share, for aggregate gross proceeds of CAD $2,500,000. The sole subscriber in the Private Placement was WCI.
- On June 30, 2023, Martello announced that it had granted 11,500,000 stock options to certain Directors and Officers of the Company, pursuant to the Omnibus Long Term Incentive Plan approved by shareholders of the Company at the AGM on September 28, 2022.
- On June 23, 2023, Martello announced the closing of the second tranche of a non-brokered private placement of 12,000,000 common shares in the capital of the Company at a price of CAD $0.05 per Common Share for aggregate gross proceeds of CAD $600,000.
- On May 26, 2023, Martello announced the extension of debt agreements with Vistara and WCI to September 28, 2023. WCI extended an additional USD $792,030 under the same terms, for payment of the Vistara Term Loan.
- On May 24, 2023, Martello announced the closing of the first tranche of a non-brokered private placement of 12,000,000 common shares in the capital of the Company at a price of CAD $0.05 per Common Share for aggregate gross proceeds of CAD $600,000.

- On May 15, 2023, Martello announced the pricing of a non-brokered private placement of common shares in the capital of the Company for aggregate gross proceeds of approximately CAD $1,200,000, in which the Company expected to issue 24,000,000 Common Shares at a price of CAD $0.05 per Common Share in two tranches for aggregate gross proceeds of CAD $1,200,000. The sole subscriber was WCI. On April 20, 2023, Martello announced the closing of the second tranche of a non-brokered private placement of 12,000,000 common shares in the capital of the Company at a price of CAD $0.05 per Common Share for aggregate gross proceeds of CAD $600,000. The sole subscriber was WCI.
- On April 19, 2023, Martello announced that the latest release of MPA included softphone voice quality monitoring, supporting hybrid work models.

As of September 30, 2022 (FY23 year to date), the following significant developments had occurred:

- 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 Terence 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 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.

Subsequent events

On November 2, 2023, the Chief Executive Officer departed the Company. Jim Clark, currently the Chief Financial Officer at Martello Technologies Group Inc., assumed the additional role of Interim CEO.

The Company has evaluated subsequent events through the filing of the interim consolidated financial statements and Management Discussion and Analysis and determined that there have been no other events that have occurred since the balance sheet date and until the balance sheet release date.

BASIS OF PRESENTATION

The Company’s consolidated financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

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 may not 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, 2023**	September 30, 2022	**September 30, 2023**	September 30, 2022
		(Three months ended)		(Six months ended)	
Sales	$	3,982	3,840	7,986	8,018
Cost of Goods Sold		506	491	987	954
Gross Margin		**3,476**	**3,349**	**6,999**	**7,064**
Gross Margin	%	*87.3%*	*87.2%*	*87.6%*	*88.1%*
Operating Expenses		4,158	4,689	8,444	9,713
Loss from operations		**(683)**	**(1,340)**	**(1,445)**	**(2,649)**
Other income/(expense)		(885)	(1,168)	(1,447)	(1,006)
Loss before income tax		**(1,568)**	**(2,508)**	**(2,892)**	**(3,655)**
Income tax recovery		2	87	119	8
Net loss		**(1,566)**	**(2,421)**	**(2,773)**	**(3,647)**
Total Comprehensive loss	$	(1,653)	(2,661)	(2,809)	(4,604)
EBITDA (1)	$	**(358)**	**(1,431)**	**(646)**	**(2,590)**
Adjusted EBITDA (1)	$	**(99)**	**(850)**	**(2,513)**	**(2,860)**

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

Balance Sheet – Highlights

(in 000's)		**September 30, 2023**	March 31, 2023
Cash and short-term investment	$	4,169	2,219
Working capital		1,867	(8,244)
Total Assets		18,586	20,154
Total Liabilities		18,216	21,422
Share capital and contributed surplus		60,366	55,921
Warrants		2,320	2,320
Accumulated deficit and other comprehensive income		(62,317)	(59,508)
Shares issued and outstanding	#	478,707,430	392,707,430

Highlights for the three months ended September 30, 2023, as compared to the same period in 2022:

- In Q2 FY24, Vantage DX monthly recurring revenue ("MRR") increased by 142% (compared to Q2 FY23). Vantage DX is the leading-edge software product within the Modern Workplace Optimization business line, and its MRR growth is driven by sales to net new clients as well as a strategy to convert clients from legacy products to Vantage DX. Aggregate revenue of $3.98M in Q2 FY24 is $0.14M (4%) higher than the same quarter in the prior year ($3.84M). Normalizing for FX, revenue is $0.07M or 2% lower. This decrease is primarily attributable to a decrease in Legacy product subscription licenses and maintenance and support.

- Revenue remains diversified with Modern Workplace Optimization products contributing 56% and Mitel contributing 44% in Q2 FY24 compared to 55% and 45% in the same period of FY23, respectively. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q2 FY24 compared to 99% in Q2 FY23.
- Monthly recurring revenue is $1.31M in Q2 FY24, compared to $1.27M in Q2 FY23. The $0.04M (3%) increase is primarily attributable to favourable foreign exchange (FX). Normalizing for FX, MRR is 2% lower compared to Q2 FY23. This decrease is primarily attributable to declining subscription and maintenance and support on legacy products. 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 revenue.
- Gross margin as a percentage of revenue was 87%, consistent with the comparative period in FY23. Lower hosting costs are offset by an increase in the costs of third-party software subscription resale. Management continues to execute actions that will further decrease the cost of hosting instances in the future. As the Company onboards new clients to existing Cloud instances, the cost per client will continue to decrease.
- Operating expenses were $4.16M in Q2 FY24 compared to $4.69M in Q2 FY23, a decrease of $0.53M (11%). The decrease in OPEX is a result of the Q2 FY23 cost optimization actions which included headcount reductions combined with lower spend on professional fees, office costs, marketing, and advertising.
- Loss from operations was $0.68M compared to a loss of $1.34M in the same period of FY23, a decrease of $0.66M (49%) primarily attributable to cost optimization actions as described above.
- Loss before income tax was $1.57M in Q2 FY24 compared to a loss of $2.51M in Q2 FY23, a decrease of $0.94M (37%). In addition to the items above, the Company had a lower FX loss in Q2 FY24, lower interest expenses due to the full amortization of the Vistara loan in May 2023, lower loss on the revaluation of forward contracts and gain on issuance of the loan with Federal Economic Development Agency of Southern Ontario ("FedDev") partially offset by loss on investment.
- The net loss was $1.57M in Q2 FY24 compared to $2.42M in same period in FY23, a decrease of $0.86M (35%), because of items outlined above, partially offset by a decrease in income tax recovery in Q2 FY24.
- Adjusted EBITDA (a non-IFRS measure) in Q2 FY24 was a loss of $0.10M, compared to a loss of $0.85M in the same period of FY23. The $0.75M (88%) decrease is attributable to the items described above.

Highlights for the six months ended September 30, 2023, as compared to the same period in 2022:

- Aggregate revenue of $7.99M in Q2 YTD FY24 is $0.03M (0%) lower than the same quarter in the prior year ($8.02M). Normalizing for FX, revenue is $0.45M or 6% lower. This decrease is primarily attributable to a decrease in Legacy product subscription licenses and maintenance and support.
- Revenue remains diversified with Modern Workplace Optimization products contributing 56% and Mitel contributing 44% in Q2 YTD FY24 compared to 57% and 43% in the same period of FY23, respectively. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q2 YTD FY24 compared to 99% in Q2 YTD FY23.
- Gross margin as a percentage of revenue was 88% in Q2 YTD FY24, consistent with the comparative period in FY23. Lower hosting costs are primarily offset by higher cost of inventory of third-party software subscription resale in Q2 YTD FY24 compared to Q2 YTD FY23. Management continues to execute actions that will further decrease the cost of hosting instances in the future. As the Company onboards new clients to existing Cloud instances, the cost per client will continue to decrease.
- Operating expenses were $8.44M in Q2 YTD FY24 compared to $9.71M in Q2 YTD FY23, a decrease of $1.27M (13%). The decrease in OPEX is a result of the FY23 Q2 cost optimization actions primarily through headcount reductions combined with lower spend on professional fees, marketing, and advertising.
- Loss from operations was $1.45M compared to a loss of $2.65M in the same period of FY23, a decrease of $1.20M (45%) primarily attributable to cost optimization actions described above.
- Loss before income tax was $2.89M in Q2 YTD FY24 compared to a loss of $3.66M in Q2 YTD FY23, a decrease of $0.76M

(21%). In addition to the items above, the Company had gains on issuance of the loan with FedDev in Q2 YTD FY23 and loss on investment in Q2 FY24 partially offset by lower foreign exchange loss and lower interest expense in Q2 YTD FY24.

- The net loss was $2.77M in Q2 YTD FY24 compared to $3.65M in same period in FY23, a decrease of $0.87M (24%) because of the cost optimization actions listed above, plus an increase in income tax recovery in Q2 YTD FY24.
- Adjusted EBITDA (a non-IFRS measure) in Q2 YTD FY24 was a loss of $2.51M, compared to a loss of $2.86M in the same period of FY23. The $0.35M (12%) decrease is attributable to the items 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, 2023, the Company's Adjusted EBITDA loss was $0.10M and $2.51M compared to a loss of $0.85M and $2.86M, respectively, in the same period last year. The decrease in Adjusted EBITDA loss is due to lower operating expenses.

EBITDA and Adjusted EBITDA (in 000's)		**September 30, 2023**	September 30, 2022	**September 30, 2023**	September 30, 2022
		(Three months ended)		(Six months ended)	
Net loss	$	**(1,566)**	(2,421)	**(2,773)**	(3,647)
Interest income	(2)	(4)	(3)	(8)	(6)
Interest expense	(2)	379	567	879	1,076
Financing Fees	(2)	58	4	75	15
Accretion of long-term debt	(2)	42	41	83	63
Loss on investment	(2)	304	-	304	-
Gain on receipt of FedDev loan	(2)	(49)	-	(49)	(1,036)
Income tax recovery	(2)	(2)	(87)	(119)	(8)
Depreciation	(2)	64	85	128	174
Amortization	(2)	416	384	834	780
EBITDA	**(1)**	**(358)**	(1,431)	**(646)**	(2,590)
Foreign exchange gain (loss)	(2)	54	412	153	734
Revaluation of forward contract	(2)	97	176	23	195
Other income	(2)	4	(29)	(13)	(34)
Share-based compensation expense	(3)	105	32	185	138
Deferred Stock Unit plan expense	(3)	(1)	(11)	(1)	61
Adjusted EBITDA	**(1)**	**(99)**	(850)	**(2,513)**	(2,860)

(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

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 calculated as sales for the fiscal quarter, less revenue recognized at a point in time or that is non-recurring in nature divided by the number of months in the quarter.

Reconciliation of Sales to MRR - 3 months ended

(in 000's)		**September 30, 2023**	**September 30, 2022**
Sales	$	3,982	3,840
Less: Revenue recognized at point in time		(34)	(19)
Less: Term licenses		(32)	(27)
Quarterly Recurring Revenue		3,916	3,794
Monthly Recurring Revenue (MRR)		**1,305**	**1,265**

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, perpetual software licenses and related maintenance and support as well as training and professional services for Microsoft 365 and Teams end user experience monitoring solutions, including Vantage DX, and
(b) the sale of Mitel Performance Analytics software, hardware, training and professional services.

Martello's primary source of revenue is subscription - based license sales. Martello's sales are both indirect via managed services providers, distributors and value-added resellers, and direct to enterprises. The new Vantage DX platform is an integration of acquired technologies (primarily Savision and GSX) coupled with Martello developed high demand functionality. 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.

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, 2023

Gross Margin - Summary

(in 000's)		**September 30, 2023**	September 30, 2022	**September 30, 2023**	September 30, 2022
		(Three months ended)		(Six months ended)	
Sales	$	3,982	3,840	7,986	8,018
Cost of Goods Sold		506	491	987	954
Gross Margin		**3,476**	**3,349**	**6,999**	**7,064**
Gross Margin		*87.3%*	*87.2%*	*87.6%*	*88.1%*

Explanations for period changes in Revenue and margin are provided in the financial performance section above.

Segmented information

The Company operates two lines of business: 1) Modern Workplace Optimization includes; Vantage DX (Martello's software solution for comprehensive, out-of-the box performance monitoring of Microsoft 365 and Teams) as well as Legacy Software

Products (includes Gizmo, iQ, LiveMaps and Domino) and 2) Mitel (includes the MPA product, software which is developed by Martello and sold by Mitel to its channel partners and enterprise customers to monitor and manage the performance of Mitel UC solutions). These lines of business engage in business activities from which they earn revenues primarily from subscription as well as perpetual software licenses, maintenance and support, training and professional services and hardware.

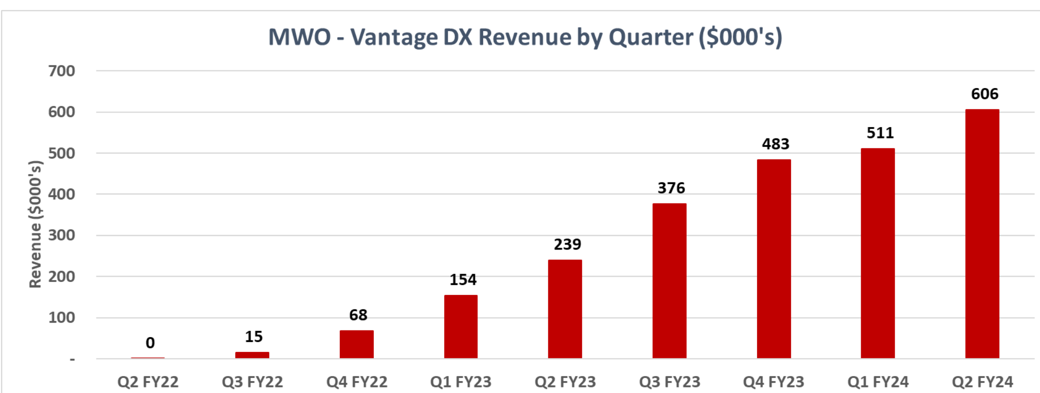
Three and six months ended September 30, 2023

Sales and Gross Margin - Three months ended

		September 30, 2023			September 30, 2022		
(in 000's)		Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
Sales	$	2,226	1,756	3,982	2,110	1,730	3,840
Cost of Goods Sold		448	58	506	449	42	491
Gross Margin		1,777	1,698	3,476	1,661	1,688	3,349
Gross Margin	*%*	*79.9%*	*96.7%*	*87.3%*	*78.7%*	*97.6%*	*87.2%*

Sales and Gross Margin - Six months ended

		September 30, 2023			September 30, 2022		
(in 000's)		Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
Sales	$	4,437	3,548	7,986	4,534	3,484	8,018
Cost of Goods Sold		868	119	987	878	76	954
Gross Margin		3,569	3,429	6,999	3,656	3,408	7,064
Gross Margin	*%*	*80.4%*	*96.6%*	*87.6%*	*80.6%*	*97.8%*	*88.1%*



Within the Modern Workplace Optimization segment, Vantage DX growth continues. As illustrated in the bar graph directly above, Vantage DX contributed $606k in revenue in Q2 FY24 (19% increase v. Q1 FY24 and 153% increase v. Q2 FY23). Legacy products decreased $251k (13%) in Q2 FY24 compared to Q2 FY23. The expected decrease in license, maintenance and support revenue on Legacy products was compounded by the exceptional decline attributable to the winding down of a legacy partner and partially offset by favourable FX (EUR-CAD and USD-CAD) in FY24. Modern Workplace Optimization margin slightly increased in Q2 FY24 remained flat in Q2 YTD FY24 compared to the same periods in FY23. Gross margin remained relatively stable year-over-year with a marginal increase in Q2 FY24 attributable to the lower cost of hosting software products on the cloud.

Mitel revenue increased $26k (2%) in Q2 FY24 and $65k (2%) in Q2 YTD FY24 compared to the same period in FY23. The increase is mainly due to favourable FX rates (USD-CAD) partially offset by decrease in users of Mitel's software assurance program. Gross margin remained relatively stable year-over-year with a marginal decrease attributable to a higher mix of hardware sales within cost of goods sold partially offset by higher revenue.

MRR Reconciliation - 3 months ended

		September 30, 2023			September 30, 2022		
(in 000's)		Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
Revenue	$	**2,226**	**1,756**	**3,982**	**2,110**	**1,730**	**3,840**
Adjustments:							
Less Revenue recognized at point in time							
Hardware		-	(5)	(5)	-	(1)	(1)
Training and professional services		(29)	(1)	(30)	(16)	(2)	(18)
Less: Term licences		(32)	-	(32)	(27)	-	(27)
Quarterly Recurring Revenue		**2,165**	**1,751**	**3,916**	**2,066**	**1,728**	**3,794**
Monthly Recurring Revenue (MRR)		**722**	**584**	**1,305**	**689**	**576**	**1,265**

MRR is $1.31M in Q2 FY24 compared to $1.27M in Q2 FY23. The $0.04M (3%) increase in MRR is primarily attributable to a favourable foreign exchange translation partially offset by churn on Legacy product subscriptions and maintenance/support. Mitel is marginally favourable based on favourable foreign exchange translation.

Expenses

Three and six months ended September 30, 2023

(in 000's)		September 30, 2023	September 30, 2022	Increase / (Decrease)
Research and development	$	1,302	1,319	(17)
Sales and marketing		1,374	1,777	(404)
General and administrative		1,003	1,123	(121)
Depreciation		64	85	(21)
Amortization		416	383	33
TOTAL		**4,158**	**4,689**	**(529)**

(in 000's)		September 30, 2023	September 30, 2022	Increase / (Decrease)
Research and development	$	2,671	2,946	(275)
Sales and marketing		2,825	3,453	(628)
General and administrative		1,985	2,359	(374)
Depreciation		128	174	(46)
Amortization		834	780	53
TOTAL		**8,444**	**9,713**	**(1,268)**

For the three and six months ended September 30, 2023, operating expenses decreased by $0.53M (11%) and $1.27M (13%) compared to the same period in FY23. Decrease in operating expenses is primarily due to cost optimization resulting in lower headcount professional fees across all functions.

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, Credit D'Impôt en

Faveur de la Recherche (“CIR”) and le Crédit D’impôt Innovation (“CII”).

- R&D expenses decreased $17K (1%) in Q2 FY24 compared to Q2 FY23 and $275K (9%) in the six months of FY23 compared to FY23. The decrease in spend is attributable to cost optimization actions taken in Q2 FY23 as described above and partially offset by lower investment tax credits.

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

- Sales and Marketing expenses decreased $404K (23%) in Q2 FY24 compared to Q2 FY23 and $628K (18%) in the six months of FY24 compared to FY23. The decrease in spend is attributable to cost optimization actions taken in Q2 FY23 as described above in addition to a decrease in marketing and advertising spend.

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 $121k (11%) in Q2 FY24 compared to Q2 FY23 and $374K (16%) from the six months of FY24 to FY23. The decrease in spend is attributable to cost optimization actions taken in Q2 FY23 as described above.

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 $21k (25%) in Q2 FY24 compared to Q2 FY23 and $46k (26%) from Q2 YTD FY24 to Q2 YTD FY23 primarily due to decrease in right-of-use assets due to lease changes.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. The amortization increased by $33k (9%) in Q2 FY24 compared to Q2 FY23 and $53K (7%) from YTD FY24 to YTD FY23 due to increase in EUR-CAD FX.

Loss from Operations

In Q2 FY24, the loss from operations was $0.68M compared to a loss of $1.34M in the same period of FY23, a decrease of $0.66M (49%). In Q2 YTD FY24 the loss from operations was $1.45M compared to a loss of $2.65M in Q2 YTD FY23, a decrease of $1.20M (45%). The decrease in net loss from operations is primarily due to reduction in the OPEX because of the Q2 F23 cost optimization actions.

Other Income/Expense

(in 000's)		**September 30, 2023**	September 30, 2022	**September 30,** 2023	September 30, 2022
		(Three months ended)		(Six months ended)	
Interest income	$	4	3	8	6
Interest expense		(379)	(567)	(879)	(1,076)
Financing fees		(58)	(4)	(75)	(15)
Accretion of long-term debt		(42)	(41)	(83)	(63)
Gain on receipt of FedDev loan		49	-	49	1,036
Revaluation of forward contract		(97)	(176)	(23)	(195)
Foreign exchange loss		(54)	(412)	(153)	(734)
Loss on investment		(304)	-	(304)	-
Other income		(4)	29	13	34
TOTAL	**$**	**(885)**	**(1,168)**	**(1,447)**	**(1,006)**

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 and WCI loan. For the three and six months ended September 30, 2023, the decrease in interest expense is a result of full amortization of these origination costs as of May 31, 2023, compared to six months of amortization booked for September 30, 2022.

On March 7, 2022, the Corporation entered 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. For the six months ended September 30, 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 six months ended September 30, 2023, the Corporation received a deposit of $0.11M with a related gain of $0.05M.

For the three and six months ended September 30, 2023, the Company had foreign exchange losses of $0.05M and $0.15M, respectively, compared to $0.41M and $0.73M, 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 total loan outstanding in USD as of September 30, 2023, was lower than the balance as of September 30, 2022, resulting in lower foreign exchange loss incurred. In addition, the USD exchange rate to CAD, increased significantly during FY23 whereas they were mostly stable in FY24. The USD to CAD exchange rates increased to 1.37 as of September 30, 2022, from 1.25 as of March 31, 2022. In FY2024, the USD to CAD exchange rates were 1.36 as of September 30, 2023, compared to 1.35 as of March 31, 2023.

The Company has entered 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, 2023, resulted in losses of $0.10M and $0.02M, respectively, compared to $0.17M and $0.19M, respectively, for the same periods last year mainly due to fluctuations in USD rates as mentioned above.

The loss on investment for the three and six months ended September 30, 2023, represents management's decision to write down the value of investment in Adaptive shares.

Other Comprehensive Income / Loss

In the three and six months ended September 30, 2023, the Company had other comprehensive loss of $0.09M and $0.04M compared to $0.24M and $0.96M 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. For the three and six months ended September 30, 2023, the weakening of CAD against EUR resulted in loss on revaluation of the net assets of Savision and GSX including goodwill and intangibles. The EUR to CAD exchange rates as of September 2023 were 1.4353 (September 2022 – 1.34) and as of March 31, 2023, were 1.47 (March 31, 2022 – 1.39)

Net Loss and Comprehensive Loss

For the three and six months ended September 30, 2023, the net loss amounted to $1.57M and $2.77M compared to $2.42M and $3.65M in the same period last year.

The total comprehensive loss for the three and six months ended September 30, 2023, was $1.65M and $2.81M compared to $2.66M and $4.60M 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, 2023. 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, 2023, and 2022. 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 FY24**	**Q1 FY24**	**Q4 FY23**	**Q3 FY23**	**Q2 FY23**	**Q1 FY23**
Sales	$	3,982	4,004	4,027	4,054	3,840	4,178
Cost of Goods Sold		506	481	452	447	491	463
Gross Margin		**3,476**	**3,523**	**3,575**	**3,607**	**3,349**	**3,715**
Gross Margin %		**87%**	**88%**	**89%**	**89%**	**87%**	**89%**
Expenses		4,158	4,285	4,685	23,365	4,689	5,024
Loss from operations		**(683)**	**(762)**	**(1,110)**	**(19,758)**	**(1,340)**	**(1,309)**
Other income/(expense)		(885)	(562)	(438)	(367)	(1,168)	162
Loss before income tax		**(1,568)**	**(1,324)**	**(1,548)**	**(20,125)**	**(2,508)**	**(1,147)**
Income tax recovery (expense)		2	117	213	(83)	87	(79)
Net Loss		**(1,566)**	**(1,208)**	**(1,335)**	**(20,208)**	**(2,421)**	**(1,226)**
Total comprehensive income (loss)		(1,653)	(1,156)	(1,236)	(18,614)	(2,661)	(1,943)
EBITDA (1)		**(358)**	**(288)**	**(522)**	**(18,838)**	**(1,431)**	**(1,159)**
Adjusted EBITDA (1)		**(99)**	**(201)**	**(549)**	**(168)**	**(850)**	**(645)**

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

(2) Adjusted EBITDA for FY22 reflects addback of discontinued operations

Quarterly sales trend represents the declining revenue on legacy products, partially offset by the growth of Vantage DX. The Mitel business continues to maintain the historical run rate. The decline in Legacy products is discussed above.

Cost of goods sold fluctuates based on certain factors, including the decline of higher margin legacy products, the volume of Vantage DX clients scales and the cost of third-party software resold by Martello increases.

Cost reductions are the planned outcome of cost optimization actions taken in Q2 FY23. Q3 FY23 expenses include $19.16M in impairment of goodwill and intangible assets.

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 value of the FedDev loan.

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 cash from Operations, equity capital and long-term debt to provide sufficient cash for scaling of the business.

FY 2024 activities

a) Wesley Clover International Corporation A&R Loan and Vistara Loan Payment

On May 25, 2023, WCI increased the August 2022 subordinate loan to the Company by USD $0.79 million. These proceeds were used to repay a portion of the existing Vistara loan. On August 9, 2023, the Company received USD $3M from WCI which was used to pay off the Vistara loan in full. In addition to this, the maturity of the WCI was extended to August 28,2026.

During the six months ended September 30, 2023, the Company completed its third and fourth tranches of the subscription agreement with Terence H. Matthews through WCI dated February 23, 2023 and issued 24,000,000 common shares at a price of $0.05 per common share for aggregate gross proceeds of $1,200,000. US $500,000 of the proceeds were used to pay a portion of the Vistara loan.

On July 12, 2023, the Company completed another subscription agreement through WCI and issued 50,000,000 common shares at a price of $0.05 per common share for aggregate gross proceeds of $2,500,000.

b) Fed Dev loan **–** During the six months ended September 30, 2023, the company received $0.11 million in Fed Dev loans funds in relation to the Jobs and Growth program as the fourth tranche.

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled $4.17M at September 30, 2023 compared to $2.23M at March 31, 2023. The increase is explained below under ***Cashflow Analysis***.

The following tables sets out the working capital position of the Company as at September 30, 2023 and March 31, 2023.

(in 000's)	**September 30, 2023**	March 31, 2023
Current Assets	$ 9,373	9,438
Current Liabilities	7,506	17,682
Net Working Capital	**1,867**	**(8,244)**

The increase in net working capital in FY24 was mainly due to and decrease in current liabilities as of September 30,2023 as the Vistara loan was paid off in full in FY24. The WCI loan which was recorded as current liabilities as of March 31, 2023 was reclassified as long term debt as the maturity of the loan was extended to August 28, 2026.

Debt

As at September 30, 2023 debt totaled $8.95M, including $0.02M due within one year. The debt is made up of:

- $7.70M WCI subordinated loan initially advanced in August 2022. Further, second and third tranches of the loan were received in May 2023 and August 2023 respectively, which were used 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, 2026. Fees related to the debt issuance are amortized on straight line basis over the term of the loan.
- $1.23M non-interest bearing, unsecured loan from FedDev under the Jobs and Growth Program.
- $0.02M non-interest bearing, unsecured loan from FedDev, to support commercialization activities for a specific project.

Share Capital

In the first six months of FY24, the following transactions in the share capital of Martello occurred:

- 86,000,000 new shares were issued through private placements.
- 18,635,000 new options were granted.
- 1,338,809 options were forfeited.
- 3,776,000 options expired.

- 32,861,250 warrants issued in connection with the First offering expired.

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

- 4,660,000 new options were granted.
- 2,271,000 options were forfeited.
- 1,636,984 broker compensation units expired in connection with the First offering.

Cash Flow Analysis

(in 000'S)		Six months ended September 30, 2023	2022
Operating activities			
Loss before income tax	$	(2,892)	(3,655)
Items not affecting cash		2,155	1,575
Net change in operating components of working capital		27	(248)
Total cash flow used in operations		**(709)**	**(2,328)**
Total cash flows provided by investing activities		**-**	**155**
Total cash flows provided by financing activities		**2,683**	**1,604**
Net change in cash		**1,974**	**(568)**
Cash, beginning of period		2,118	4,853
Effects of currency translation on cash		(26)	(46)
Cash, end of period		**4,066**	**4,240**

Cash flows used in operations were $0.71M for the six months ended September 30, 2023, compared to $2.33M for the six months ended September 30, 2022. The decrease in cashflows used in operations of $1.62M is mainly due to decrease in net loss by $0.76M for the six months ended September 30, 2023, compared to the prior period. The net loss was $2.89M in the six months ended September 30, 2023, compared to $3.66M for the same period in the prior year. In addition to this a gain on loan issuance of $1.04M for the six months ended September 30, 2022, offset by decrease in foreign exchange losses by $ 0.74M also accounted for the decrease in cash flow from operations.

Cashflows from investing activities were $Nil for the six months ended September 30, 2023, as compared $0.16M of cash used for the six months ended September 30, 2022. The major cashflow from investing activity in FY23 is from the sale of short-term investments ($0.17M), offset by purchase of fixed asset ($0.01M)

Cashflows provided by financing activities were $2.68M for the six months ended September 30, 2023, compared to $0.16M for the six months ended September 30, 2022. Cashflows provided by financing activities for FY24 is from private placement of ($4.30M), proceeds from WCI ($5.11M), offset with repayment of Vistara loan ($6.45M). Cashflows provided by financing activities in 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).

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. Total non-lease expense expected for the year-ending March 31, 2024 is $51,238.

On August 24, 2021, the Company signed a consumption commitment with Microsoft to use $4,000,000 of eligible services within 4 years (by end of July 2025) from the agreement date. On maturity date, the Company is obligated to prepay the difference between the commitment amount and total invoiced amount and any future invoices will be applied towards the prepayment amount. As at September 30, 2023, the Company has consumed $1,490,000 of eligible services since the contract date. The company currently projects a $800,000 shortfall of the $4,000,000 commitment.

OFF BALANCE SHEET ARRANGEMENTS

At September 30, 2023 and 2022, 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 45.6% of the Company as at September 30, 2023. Included in accounts payable and accrued liabilities are balances as at September 30, 2023 totaling $0.41M (March 31, 2023 - $0.33M) due to key management personnel for compensation and earned vacation pay.

In addition, the 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, 2023.

The Company leases office premises from WCI. For the six months ended September 30, 2023, the Corporation paid rent to WCI, which is reflected in the results for the three and six months ended September 30, 2023 as $17K and $35K in depreciation expense (three and six months ended September 30, 2022 - $17K and $35K respectively) and $21K and $46K in rent expense (three and six months ended September 30, 2022 - $24K and $24K, respectively).

For the three and six months ended September 30, 2023, the Corporation accrued interest on the subordinate loan from WCI of $ 273,828 and $388,094 respectively (September 30, 2022 – $Nil) in the interim consolidated statement of loss and comprehensive loss.

Effective October 24, 2022, the Corporation entered into an agreement with Wesley Clover Services North America for procuring Development, Security, and Operations services and technical services for the Martello Technologies platform. For the three and six months ended September 30, 2023 expense of $Nil and $14K respectively (six months ended September 30, 2022 - $Nil) has been recorded on the consolidated statements of loss and comprehensive loss.

In August 2022, the Company and Terence Matthews through WCI signed a subordinated term loan of US $1.5 million, which accrued interest at US Prime plus 8.75%. In FY24, WCI increased the loan to Martello, which totaled $7.78 million at September 30, 2023.

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

OUTLOOK

Amid a global slowdown in the technology sector due in part to recession fears, Martello's total addressable market continues to expand and activity with large telcos holds promise for the future.

Total Addressable Market Growth

The rapid growth of Microsoft Teams continues, reaching 320M monthly active users in October 2023, with Microsoft Teams Rooms revenue experiencing triple-digit growth and Microsoft Teams Premium gaining significant traction. The capabilities in Teams have become mission-critical to the productivity of today's hybrid workforce, and Martello's customers look to Martello to ensure their investments in these exciting new tools drive productivity in their organizations. The Microsoft-recommended Vantage DX solution monitors the performance of Microsoft Teams and the quality of the user's experience, transforming support of the Teams platform from reactive to proactive and ensuring that as businesses realize a strong return in their investment in new Teams features such as Microsoft Teams Rooms. Martello won large enterprise clients for Vantage DX in the twelve months ending September 30, 2023, including a government department with more than 100,000 users and a former legacy product client in the professional services sector with more than 400,000 users. The Company continues to execute on strategies to expand its pipeline of direct sales opportunities and opportunities with channel partners, as described in 'Growth Strategy' above,

Product Category Outlook

Within its business lines, Martello operates across three product categories: Vantage DX, Mitel, and Legacy Products.

In Q2 FY24, the Vantage DX product experienced year-over-year MRR growth as the company continues to invest in this flagship solution, which was launched in late 2021 and has become a Microsoft Preferred Solution. Recession fears have impacted the pace of Vantage DX growth in Q2 FY24, as the product evaluation processes of large enterprise clients has become increasingly rigorous for all software vendors and extends the sales cycle. The Company has several strategies to address this, including targeted demand generation to further expand pipeline, and continuing to develop relationships with telco and operator connect partners, as described in more detail below.

The Mitel product category remains a steady source of recurring revenue for the Company. There are two key opportunities for future Martello growth in the Mitel channel. The first is expansion of the Mitel Performance Analytics addressable market with Mitel's acquisition of Unify, making Mitel the second-largest UC business in the world. Mitel has more than doubled their user base to 75 million users in 100 countries, along with 5,500 service providers, resellers, and other strategic partners. Martello has a strong track record of executing successful go to market strategies by supporting acquired Mitel UC platforms. The second growth opportunity in the Mitel channel is in sales of Vantage DX to Mitel channel partners. Thousands of Mitel partners also sell Microsoft Teams or offer it as a managed service, and many are looking for additional services revenue opportunities. Martello is in discussions with some Mitel channel partners who are longstanding users of Mitel Performance Analytics to bring Vantage DX into their services operations.

While the Legacy product category experienced larger than expected declines in FY23, in FY24 the pace of this decline has slowed, as recession concerns have made enterprises slower to change vendors or upgrade software. While Martello doesn't actively sell Legacy products, management of these customer accounts has helped identify several opportunities to convert to the newer Vantage DX platform, and Martello will continue to execute on this Vantage DX sales strategy in FY24.

Large Telcos, Global Systems Integrators and Microsoft Operator Connect Partners

Large channel partners such as telcos, global systems integrators and Microsoft Operator Connect partners represent a strong opportunity for Martello. Their clients represent millions of users on Microsoft Teams, and Vantage DX can provide a new recurring services revenue stream and improve their own service operations. Martello is partnered with Orange Business Systems, a Microsoft Operator Connect partner. There are 76 Operator Connect partners globally, selected by Microsoft to provide Microsoft Teams Phone capabilities to businesses. Martello is in discussions with Operator Connect partners in Canada, the US and the UK. The Company is also onboarding a large global systems integrator.

The Cost of Inaction: Global Microsoft Teams Performance Trends Report

Only 16% of Teams user experience problems are reported to IT, and the *Global Microsoft Teams Performance Trends and Business Impact* report released by Martello in Q2 FY24 surfaces the unseen productivity leakages caused by these under-reported issues, which are caused by problems such as WiFi strength, bandwidth and network switching concerns. In a 5,000-employee business, there are more than 40,000 failed or poor Teams calls annually, costing more than $500,000 in lost employee productivity and IT troubleshooting time. The report, which Martello is sharing with clients and prospects, also shows that 62% of the problems that negatively affect the Teams user experience are caused by local issues – which means that IT teams can fix them if they know where and when they are happening. Martello provides the action plan and tools to address these issues, reduce productivity leakage and its cost to businesses.

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, 2023.

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, 2023 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, 2023, and 2022.

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, 2023, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD $3.83M (March 31, 2023 - $4.95M). 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.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does have interest rate risk related to its term loans. At September 30, 2023, the Company is exposed to interest rate risk as the WCI term loans carry 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. At September 30, 2023, the US prime rate was 8.50% and the Company is accruing interest at 17.25% per annum on the WCI loan where the interest is payable on loan maturity. The WCI 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 including geopolitical events. The impacts may be realized in 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.

Global pandemic

The Company continues to monitor for potential pandemics (e.g., COVID-19) and the impact on its operations, business, and financial performance, including liquidity and capital usage. In the case of COVID-19, measures were taken by the Company early 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.

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 44% of the Company's revenue during the three months ended September 30, 2023 (45% for the three months ended September 30, 2022). 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, including the intended acquisition of Atos Unify, announced by Mitel in January 2023. 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 as an IP Co-Sell Top Tier partner. 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 customer growth, including migration and growth of customers on the Vantage DX product suite and execution of sales and channel strategies.

***Rapid Technological Chan*ge**

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.

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 and target large enterprises with specific security assessment requirements of software vendors, it will need to continue evolving processes to meet regulatory, corporate security assessment, intellectual property, open-source software compliance and contractual and service compliance challenges. This requires significant investment and could affect operating results. The Company anticipates addressing security requirements by pursuing industry security certifications.
- 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.