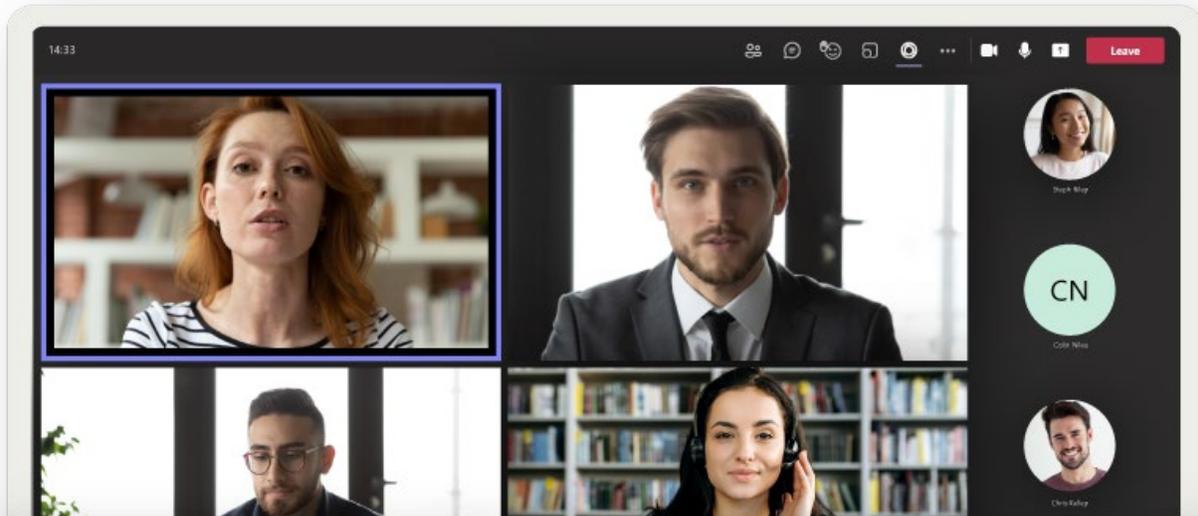


MARTELLO

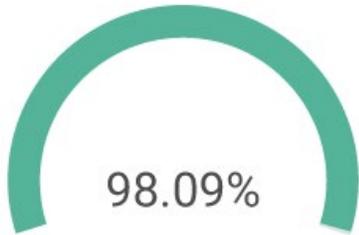
Martello Technologies Group, Inc.

Management's Discussion and Analysis of
Financial Condition and Results
of Operations ("MD&A")

For the three and six months ended
September 30, 2024



Good Call Rate



21,855

Total P2P Calls

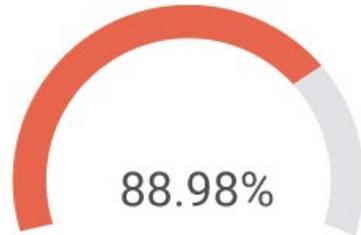
Good Call Rate



14,599

Total Conf. Calls

Good Call Rate



4,663

Total PSTN Calls

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 14, 2024, 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, 2024, and 2023 (“Q2 FY25” and “FY25” and “Q2 FY24” and “FY24”, respectively). This MD&A should be read in conjunction with the Company’s condensed unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2024, and the associated press release. 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 modern workplace by empowering enterprise IT teams to rapidly resolve Microsoft Teams, Microsoft 365, and Mitel performance issues – keeping businesses connected and productive. The Company's SaaS-based experience management software gives Managed Service Providers (MSP) and enterprise IT teams the tools they need to detect issues proactively, troubleshoot and resolve problems faster, and uphold the toughest SLAs while keeping costs under control. This adds up to a 60% reduction in support tickets and a 50-70% decrease in support headcount, according to a recent cost-savings model developed by Enable UC, an analyst firm.

Solving IT problems requires clear visibility and good information. Both can be in short supply when it comes to Microsoft 365 and Teams, and there's often too much complexity – too many screens and tools with no integration and incomplete visibility. Microsoft's native performance monitoring tools provide good data after the fact on performance issues occurring in the Microsoft data center or at user endpoints, but they are lacking in visibility when it comes to the networks that connect them. Martello's flagship product, Vantage DX, lets IT get ahead of problems with tools to:

- Stay ahead of problems with proactive monitoring to detect issues before they impact users
- Pinpoint the root cause of problems in minutes, not hours, with end-to-end visibility for faster, higher confidence troubleshooting
- Gain instant insights to effortlessly optimize Microsoft 365 and control costs, no coding required
- Vantage DX also drives new growth and profit opportunities for MSPs. With Vantage DX, MSPs can increase ARR by creating new value-added Microsoft 365 services, differentiate their offerings with a strong customer experience, and improve margins by optimizing their Microsoft 365 operations.

Martello is also the provider of the Mitel Performance Analytics ("MPA") performance management 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. Mitel's installed base doubled in 2024 with its acquisition of Unify. Martello is tightly partnered with Mitel on expanding MPA and introducing Vantage DX.

As of September 30, 2024, Martello had 72 active employees: 50 in Canada, 4 in the United States and 18 in Europe, the Middle East and Africa (EMEA).

Products

Martello develops experience management software for Microsoft Teams, Microsoft 365 and Mitel UC that detects potential performance issues before they impact users of these enterprise cloud communications and collaboration systems. The Company's solutions help IT teams move from reactive to proactive to rapidly resolve issues and optimize the user experience.

Martello's products include:

Modern Workplace Optimization

The Modern Workplace Optimization business line includes the following products:

- **Vantage DX** is a SaaS-based digital experience management solution purpose-built for Microsoft 365 and Teams. It enables IT teams and MSPs to get ahead of Microsoft performance problems with:
 - **Proactive monitoring** which detects problems before they impact users, with synthetic testing to simulate user behaviors, automated prioritization, and early warning of outages in the Microsoft data centers, usually about an hour ahead of Microsoft acknowledging the issue.
 - **End-to-end visibility** with network path tracing which Vantage DX correlates with data from multiple Microsoft management tools to find the real root-cause quickly.
 - **Instant insights** to effortlessly optimize Microsoft 365, with SLA management, identification of trends to optimize Teams usage, license allocation and performance, and quick visibility of vendor performance.

Vantage DX is sold to enterprise IT teams through direct sales or as part of complete Microsoft 365 solutions offered by MSPs that want to grow ARR, differentiate their services and boost operational margins, including Mitel channel partners.

- **Legacy Software Products**, which include Gizmo, iQ, LiveMaps and Domino. Customers of these software products continue to use them 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 the Company's 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. Martello has established processes to earn and keep the trust of the market leading customers who purchase Vantage DX and is committed to industry-standard certifications that demonstrate how we manage data security and privacy for customers using our Vantage DX SaaS solution. Martello has completed a SOC 2 Type 1 audit for Vantage DX and is pursuing a SOC2 Type 2 audit.

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 enable partners including MSPs, drive Microsoft and Mitel user growth, and increase customer acquisition and retention.

Growth Strategy

Martello's growth strategy is focused on delivering innovative experience management solutions that deliver tangible value to customers and partners, including MSPs. Successful execution of the Company's strategy aims to drive shareholder value in the form of recurring revenue, earnings growth and positive cashflow. Management is focused on the following activities:

Lead the Industry with Innovative Microsoft Teams Experience Management Solutions

Expand Vantage DX user base through direct and indirect channels:

- Continue to work alongside partners to increase the pipeline of Vantage DX sales opportunities, both from the partner's installed base and from new business. These partners include Orange Business Systems, Yorktel, CGI, Mitel and Mitel channel partners.
- Invest in go to market initiatives to acquire, onboard and activate new qualified value-added reseller (VAR), managed service provider (MSP) and referral partners, including Microsoft Operator Connect and Mitel channel partners, enabling and empowering these partners to develop a pipeline of sales opportunities.
- Increase market demand for Vantage DX in targeted regional markets through search engine and conversion rate optimization, digital marketing, outbound prospecting, social media and other marketing initiatives.
- Provide a smooth buying experience and streamlined sales cycle for Vantage DX prospects with a guided online product demo and a paid Product Value Test (PVT) to provide an assessment of value in the customer's environment.

- Continue to convert strategic Legacy product customers to the newer Vantage DX platform when possible.
- Drive sales via online marketplaces, including the Microsoft Azure marketplace, to access an additional sales channel in which to transact Vantage DX sales.

Enable Customer Success and Differentiate with Vantage DX Product Innovation

- Lead the industry with solutions that introduce experience management to Microsoft Teams premium features, helping customers to realize enhanced return on their investment in Microsoft Teams Rooms, Teams Phone and Copilot, exploiting Martello's unique expertise in real-time communications experience management.
- Execute on a multi-phase Artificial Intelligence (AI) Strategy to relieve the burden of IT teams responsible for the digital user experience. Martello's AI strategy consists of five steps: event detection, root cause analysis, remediation playbooks, remediation automation and impact assessment.
- Enable customers to use Vantage DX more effectively and securely with SOC2 certification and enhancements that simplify deployment and reduce sales friction.
- Elevate the Vantage DX customer experience with programmatic account management tactics including selling a portfolio of value-add professional services, to ensure customer retention.
- Drive advancements in Martello's cloud-based architecture to achieve product and hosting efficiencies benefitting both direct and indirect channels.

Drive Demand and Revenue within the Mitel Ecosystem

- Work closely with Mitel to increase adoption of MPA through certain existing Mitel programs.
- Expand the footprint of MPA into the Unify customer base with a medium-term strategy that addresses the entire addressable market of 75M users in Mitel's customer base following its acquisition of Unify.
- Drive demand for Vantage DX in the Mitel and Unify ecosystem, with Mitel partners and Mitel professional services organization.
- Align development of MPA with Mitel to meet its customers' needs, including developing support for new Mitel platforms and deepening existing Mitel platform support with new features and capabilities that add value to Mitel and its partner ecosystem.

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 first two quarters of the 2025 fiscal year, the following significant developments occurred:

- On June 27, 2024, Martello announced the grant of 6,500,000 stock options to certain directors of the Company.
- On June 26, 2024, the Company announced the launch of the industry's first experience management solution for Copilot for Microsoft 365.
- On June 20, 2024, the Company announced the appointment of Nicolae (Nick) Lungu as Interim Chief Financial Officer, effective June 21, 2024.
- On June 3, 2024, the Company announced the resignation of Director Mike Galvin for personal reasons, effective May 31, 2024.
- On April 1, 2024, Jim Clark was appointed Chief Executive Officer and Director of Martello, and software industry executive Alec Saunders was appointed to the Company's Board of Directors, as announced on March 27, 2024.

In the first two quarters of the 2024 fiscal year, 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.
- 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. 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 11.5 million stock options to certain Directors and Officers of the Company.
- On June 23, 2023, Martello announced the closing of the second tranche of a non-brokered private placement of 12 million common shares in the capital of the Company at a price of CAD \$0.05 per Common Share for aggregate gross proceeds of CAD \$0.6 million.
- On May 26, 2023, Martello announced the extension of debt agreements with Vistara and WCI to September 28, 2023. WCI extended an additional USD \$0.79 million 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 million common shares in the capital of the Company at a price of CAD \$0.05 per Common Share for aggregate gross proceeds of CAD \$0.6 million.
- 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 \$1.2 million, in which the Company expected to issue 24 million Common Shares at a price of CAD \$0.05 per Common Share in two tranches for aggregate gross proceeds of CAD \$1.2 million. 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 million common shares in the capital of the Company at a price of CAD \$0.05 per Common Share for aggregate gross proceeds of CAD \$0.6 million. 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.

Subsequent events

On November 4, 2024, the Corporation entered into a derivative financial instrument to manage its exposure to USD foreign currency risk related to USD-denominated commitments. The Corporation has committed to sell a total of USD \$1,200,000 (USD \$200,000 per month for six months) starting January 16, 2025.

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, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(Three months ended)		(Six months ended)	
Sales	\$ 3,640	3,982	7,437	7,986
Cost of Goods Sold	509	506	1,005	987
Gross Margin	3,131	3,476	6,431	6,999
<i>Gross Margin</i>	%	86.0%	87.3%	86.5%
Operating Expenses	4,197	4,158	8,244	8,444
Loss from operations	(1,067)	(683)	(1,813)	(1,445)
Other income/(expense)	(198)	(885)	(605)	(1,447)
Loss before income tax	(1,265)	(1,568)	(2,418)	(2,892)
Income tax recovery	13	2	128	119
Net loss	(1,252)	(1,566)	(2,290)	(2,773)
Total Comprehensive loss	\$ (1,105)	(1,653)	(2,198)	(2,809)
EBITDA (1)	\$ (426)	(358)	(694)	(646)
Adjusted EBITDA (1)	\$ (582)	(99)	(775)	(300)

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

Balance Sheet – Highlights

(in 000's)	September 30, 2024	March 31, 2024
Cash and short-term investment	\$ 4,568	7,719
Working capital	3,143	4,034
Total Assets	17,256	20,560
Total Liabilities	18,685	19,821
Share capital and contributed surplus	63,638	63,607
Warrants	2,320	2,320
Accumulated deficit and other comprehensive income	(67,387)	(65,189)
Shares issued and outstanding	# 543,707,430	543,707,430

Highlights for the three months ended September 30, 2024, as compared to the same period in 2023:

- In Q2 FY25, Vantage DX monthly recurring revenue ("MRR") increased by 5% (compared to Q2 FY24). 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 \$3.64 million in Q2 FY25 is \$0.34 million (9%) lower than the same quarter in the prior year (\$3.98 million). Normalizing for FX, revenue is \$0.41 million or 11% 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 57% and Mitel contributing 43% in Q2 FY25 compared to 56% and 44% respectively in Q2 FY24. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q2 FY25 and in Q2 FY24.
- Monthly recurring revenue is \$1.19 million in Q2 FY25, compared to \$1.30 million in Q2 FY24. The \$0.11 million (9%) decrease is primarily attributable to changes in the mix of Mitel's software assurance program and churn on Legacy product subscriptions and maintenance and support and partially offset by favourable foreign exchange translation. Normalizing for FX, MRR is 11% lower compared to Q2 FY24. 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 86% in Q2 FY25, compared to 87% in Q2 FY24. The decrease in gross margin was primarily driven by an increase in mix of Vantage DX compared to Mitel and Legacy products. 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 \$4.20 million in Q2 FY25 compared to \$4.16 million in Q2 FY24, an increase of \$0.04 million (1%). The increase in OPEX is driven by an increase in software cost, marketing and advertising and professional fees and partially offset by lower headcount costs and related variable compensation.
- Loss from operations was \$1.07 million compared to a loss of \$0.68 million in the same period of FY25, an increase of \$0.39 million (56%) primarily attributable to a decrease in revenue as well as an increase in operating expenses as described above.
- Loss before income tax was \$1.27 million in Q2 FY25 compared to a loss of \$1.57 million in Q2 FY24, a decrease of \$0.30 million (19%). In addition to the items above, the Company did not incur any loss on investment and had higher gains on foreign exchange and revaluation of forward contracts.
- The net loss was \$1.25 million in Q2 FY25 compared to \$1.57 million in same period in Q2 FY24, a decrease of \$0.32 million (20%) because of items outlined.
- Adjusted EBITDA (a non-IFRS measure) in Q2 FY25 was a loss of \$0.58 million, compared to a loss of \$0.10 million in the same period of FY24, which is attributable to the items described above.

Highlights for the six months ended September 30, 2024, as compared to the same period in 2023

- Aggregate revenue of \$7.44 million in Q2 YTD FY25 is \$0.55M (7%) lower than the same quarter in the prior year (\$7.99 million). Normalizing for FX, revenue is \$0.69 million or 9% 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 both Q2 YTD FY25 and Q2 YTD FY24. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q2 YTD FY25 and FY24.
- Gross margin as a percentage of revenue was 87% in Q2 YTD FY25, compared to 88% in Q2 YTD FY24. Higher delivery and support cost and hosting costs are primarily offset by lower cost of inventory of third-party software subscription resale in Q2 YTD FY25 compared to Q2 YTD FY24. 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 \$8.24 million in Q2 YTD FY25 compared to \$8.44 million in Q2 YTD FY24, a decrease of \$0.20 million (2%). The decrease in OPEX is a result of lower headcount costs partially offset by lower government grants and higher spend on professional fees.

For the three and six months ended September 30, 2024 and 2023

- Loss from operations was \$1.81 million compared to a loss of \$1.45 million in the same period of FY24, an increase of \$0.36 million (25%) primarily attributable to lower sales and partially offset by operating expense reductions described above.
- Loss before income tax was \$2.42 million in Q2 YTD FY25 compared to a loss of \$2.89 million in Q2 YTD FY24, a decrease of \$0.47 million (16%). In addition to the items above, the Company did not incur any loss on investment and had higher gains on foreign exchange and lower interest expense in Q2 YTD FY25.
- The net loss was \$2.29 million in Q2 YTD FY25 compared to \$2.77 million in same period in FY24, a decrease of \$0.48 million (17%) primarily due to lower sales and partially offset by decrease in operating and other expenses.
- Adjusted EBITDA (a non-IFRS measure) in Q2 YTD FY25 was a loss of \$0.78M, compared to a loss of \$0.30 million in the same period of FY24. The \$0.48M (158%) increase in a loss 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 intangible assets, acquisition-related costs and foreign exchange gain/loss.

In the three and six months ended September 30, 2024, the Company's Adjusted EBITDA loss was \$0.58 million and \$0.78 million compared to a loss of \$0.10 million and \$0.30 million respectively in the same period last year. The increase in Adjusted EBITDA loss in FY25 is primarily due to lower sales in FY25.

EBITDA and Adjusted EBITDA (in 000's)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(Three months ended)		(Six months ended)	
Net loss	\$ (1,252)	(1,566)	(2,290)	(2,773)
Interest income	(2)	(3)	(6)	(8)
Interest expense	(2)	411	772	879
Financing Fees	(2)	1	1	75
Accretion of long-term debt	(2)	47	90	83
Loss on investment	(2)	-	-	304
Gain on Fed Dev loan	(2)	(104)	(104)	(49)
Income tax recovery	(2)	(13)	(128)	(119)
Depreciation	(2)	59	122	128
Amortization	(2)	427	848	834
EBITDA	(1)	(426)	(694)	(646)
Foreign exchange gain (loss)	(2)	(112)	(109)	153
Revaluation of forward contract	(2)	(14)	(11)	23
Other income	(2)	(28)	(29)	(13)
Share-based compensation expense	(3)	(5)	39	185
Deferred Stock Unit plan expense	(3)	3	29	(1)
Adjusted EBITDA	(1)	(582)	(775)	(300)

(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 soon. 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, 2024	September 30, 2023
Sales	\$ 3,640	3,982
Less: Revenue recognized at point in time	(20)	(34)
Less: Term licenses	(43)	(32)
Quarterly Recurring Revenue	3,576	3,916
Monthly Recurring Revenue (MRR)	1,192	1,305

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 and value-added resellers, and direct to enterprises. The new Vantage DX platform is an integration of acquired technologies 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, 2024

Gross Margin - Summary

(in 000's)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(Three months ended)		(Six months ended)	
Sales	\$ 3,640	3,982	7,437	7,986
Cost of Goods Sold	509	506	1,005	987
Gross Margin	3,131	3,476	6,431	6,999
<i>Gross Margin</i>	<i>86.0%</i>	<i>87.3%</i>	<i>86.5%</i>	<i>87.6%</i>

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, 2024

Sales and Gross Margin - Three months ended

(in 000's)	September 30, 2024			September 30, 2023			
	Modern			Modern			
	Workplace Optimization	Mitel	Total	Workplace Optimization	Mitel	Total	
Sales	\$	2,067	1,572	3,640	2,226	1,756	3,982
Cost of Goods Sold		454	55	509	448	58	506
Gross Margin		1,613	1,518	3,131	1,777	1,698	3,476
<i>Gross Margin</i>	<i>%</i>	<i>78.0%</i>	<i>96.5%</i>	<i>86.0%</i>	<i>79.9%</i>	<i>96.7%</i>	<i>87.3%</i>

Sales and Gross Margin -Six months ended

(in 000's)	September 30, 2024			September 30, 2023			
	Modern			Modern			
	Workplace Optimization	Mitel	Total	Workplace Optimization	Mitel	Total	
Sales	\$	4,162	3,275	7,437	4,437	3,548	7,986
Cost of Goods Sold		911	94	1,005	868	119	987
Gross Margin		3,251	3,181	6,431	3,569	3,429	6,999
<i>Gross Margin</i>	<i>%</i>	<i>78.1%</i>	<i>97.1%</i>	<i>86.5%</i>	<i>80.4%</i>	<i>96.6%</i>	<i>87.6%</i>

Within the Modern Workplace Optimization segment, Vantage DX growth continues. Vantage DX contributed \$0.62 million in revenue in Q2 FY25 (3% increase v. Q2 FY24) and \$1.23 million in Q2 YTD FY25 (10% increase v. Q2 YTD FY24). Legacy products decreased \$0.18 million (11%) in Q2 FY25 compared to Q2 FY24 and \$0.38 million in Q2 YTD FY25 (12% decrease v. Q2 YTD FY24). The expected decrease in license, maintenance and support revenue on Legacy products was partially offset by favourable FX (EUR-CAD and USD-CAD) in FY25. Modern Workplace Optimization margin slightly decreased in Q2 FY25 and Q2 YTD FY25 compared to the same period in FY24. Gross margin remained relatively stable year-over-year with a marginal decrease attributable to the higher cost of delivery and support in Q2 FY25 and hosting software products on the cloud in Q2 FY25 and Q2 YTD FY25.

Mitel revenue decreased \$0.18 million (10%) in Q2 FY25 compared to the same period in FY24 and \$0.27 million (8%) in Q2 YTD FY25 compared to the same period in FY24. The decrease is attributable to a variance in the mix of revenue from various Mitel Performance Analytics offerings and partially offset by favourable FX rates (USD-CAD). Gross margin remained stable in Q2 FY25 and Q2 YTD FY25 compared to the same period in FY24. Gross margin remained relatively stable year-over-year with a marginal increase in Q2 YTD FY25 attributable to a lower mix of hardware sales and delivery and support costs within cost of goods sold.

For the three and six months ended September 30, 2024 and 2023

MRR Reconciliation - 3 months ended

	September 30, 2024			September 30, 2023		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Revenue	\$ 2,067	1,572	3,640	2,226	1,756	3,982
Adjustments:						
Less Revenue recognized at point in time						
Hardware	-	-	-	-	(5)	(5)
Training and professional services	(20)	-	(20)	(29)	(1)	(30)
Less: Term licences	(43)	-	(43)	(32)	-	(32)
Quarterly Recurring Revenue	2,004	1,572	3,576	2,165	1,751	3,916
Monthly Recurring Revenue (MRR)	668	524	1,192	722	584	1,305

MRR is \$1.19 million in Q2 FY25 compared to \$1.30 million in Q2 FY24. The \$0.11 million (9%) decrease in MRR is primarily attributable to changes in the mix of Mitel's software assurance program and churn on Legacy product subscriptions and maintenance/support partially offset by favourable foreign exchange translation.

Expenses

Three and six months ended September 30, 2024

Expenses - Three months ended

(in 000's)	September 30, 2024	September 30, 2023	Increase / (Decrease)
Research and development	\$ 1,390	1,302	88
Sales and marketing	1,377	1,374	3
General and administrative	944	1,003	(58)
Depreciation	59	64	(5)
Amortization	427	415	12
TOTAL	4,197	4,158	40

Expenses - Six months ended

(in 000's)	September 30, 2024	September 30, 2023	Increase / (Decrease)
Research and development	\$ 2,717	2,671	46
Sales and marketing	2,706	2,825	(119)
General and administrative	1,851	1,985	(134)
Depreciation	122	128	(7)
Amortization	848	834	15
TOTAL	8,244	8,444	(198)

For the three and six months ended September 30, 2024, operating expenses increased by \$0.04 million (1%) and decreased by \$0.20 million (2%) respectively compared to the same period in FY24. Lower average headcount and related compensation costs across all functions partially offset by decrease in government grants impacted both Q2 FY25 and Q2 YTD FY25.

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 increased \$0.09 million (7%) in Q2 FY25 compared to Q2 FY24 and \$0.05 million (2%) in Q2 YTD FY25 compared to Q2 YTD FY24. The increase in spend is attributable to lower government grants in FY25 compared to FY24 partially offset by lower headcount compensation costs.

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

- Sales and Marketing remained flat in Q2 FY25 compared to Q2 FY24 and decreased \$0.12 million (4%) in Q2 YTD FY25 compared to Q2 YTD FY24. The decrease in Q2 FY25 spend is attributable to lower headcount and variable compensation costs and partially offset by an increase in consulting, software and 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 \$0.06 million (6%) in Q2 FY25 compared to Q2 FY24 and decreased \$0.13 million (7%) in Q2 YTD FY25 compared to Q2 YTD FY24. The decrease is attributable to lower headcount and variable compensation costs partially offset by an increase in professional fees and software subscriptions.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. The depreciation remained consistent from Q2 FY25 to Q2 FY24 and Q2 YTD FY25 and Q2 YTD FY24.

Amortization of intangible assets relates to intangibles established on former acquisitions. The amortization expense increased by \$0.01 million (3%) from Q2 FY25 to Q2 FY24 and \$0.02 million (2%) from Q2 YTD FY25 to Q2 YTD FY24 due to increase in EUR-CAD FX.

Loss from Operations

In Q2 FY25, the loss from operations was \$1.07 million compared to a loss of \$0.68 million in the same period of FY24, an increase of \$0.39 million (56%). In Q2 YTD FY25 the loss from operations was \$1.81 million compared to a loss of \$1.45 million in Q2 YTD FY24, an increase of \$0.36M (25%). The increase in net loss from operations in Q2 FY25 and Q2 YTD FY25 is primarily due to decrease in sales in both Q2 FY25 and Q2 YTD FY25 as described above partially offset by lower operating expenses in Q2 YTD FY25.

Other Income/Expense

(in 000's)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	<u>(Three months ended)</u>		<u>(Six months ended)</u>	
Interest income	\$ 3	4	6	8
Interest expense	(411)	(379)	(772)	(879)
Financing fees	-	(58)	(1)	(75)
Accretion of long-term debt	(47)	(42)	(90)	(83)
Gain on receipt of FedDev loan	104	49	104	49
Revaluation of forward contract	14	(97)	11	(23)
Foreign exchange gain (loss)	112	(54)	109	(153)
Loss on investment	-	(304)	-	(304)
Other income	28	(4)	29	13
TOTAL	\$ (197)	(885)	(605)	(1,447)

For the fiscal year ended 2025, interest expense solely pertains to WCI loan. In contrast, the prior year's interest expense (FY 2024) comprised interest on both Vistara Term loan and the WCI loan as well as the amortization of loan origination fees and warrant costs associated with these loans. Notably, the Vistara Term Loan was fully repaid on August 9, 2023.

The decrease in interest expense for the six months ended September 30, 2024, compared to the same period in 2023, is attributable to the absence of the amortization costs related to Vistara loan origination, whereas the prior year's quarter included two months of such amortization. All Vistara loan origination costs and warrants were fully amortized by May 2023. For the three

months ended September 30, 2024, the interest expense increased compared to the same period in Q2FY24 due to increase in WCI loan balance from interest accruals offset by a 50 bps decrease in US prime rate in September 2024.

For the three and six months ended September 30, 2024, the Company reported a foreign exchange gain of \$0.11 million, compared to a loss of \$0.05 million and \$0.15 million for the same periods last year. The primary cause of the foreign exchange loss/gain is the fluctuation in USD and EUR exchange rates. The USD and EUR rates to CAD as of September 30, 2024 were 1.3522 and 1.5129 (March 31, 2024 - 1.3542 and 1.4579) whereas as of September 30, 2023 the rates were 1.3579 and 1.4353 (March 31, 2023 - 1.3545 and 1.4742), respectively.

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.

To mitigate the impact of USD-denominated revenue, the Company has entered into foreign exchange forward contracts with a financial institution. Revaluation of these forward contracts for the three and six months ended September 30, 2024, resulted in gain of \$0.01 million and \$0.01 million, compared to loss of \$0.01 million and \$0.02 million for the same period last year, mainly due to the fluctuations in USD rates mentioned above. Also, the total commitments as of September 30, 2024, were for \$0.90 million versus \$3.83 million for the same period last year.

Other Comprehensive Income / Loss

For the three and six months ended September 30, 2024, the Company reported other comprehensive gain of \$0.15 million and \$0.09 million compared to loss of \$0.09 million and \$0.04 million for the same period last year. Other comprehensive income/(loss) includes pension plan fair value adjustments, pension plan remeasurement/settlement, and currency translation differences for acquired operations where the functional currency is EUR.

During the three and six months ended September 30, 2024, the strengthening of the EUR against CAD resulted in income on revaluation of the net assets of the acquired operations, including on the intangibles. For the three and six months ended September 30, 2023, the weakening of EUR against CAD resulted in loss on revaluation of the net assets, including on the intangibles. The EUR to CAD exchange rate was 1.5130 on September 30, 2024, (September 30, 2023 - 1.4353) and 1.4759 on March 31, 2024 (March 31, 2023 - 1.4742).

Net Loss and Comprehensive Loss

For the three and six months ended September 30, 2024, the net loss amounted to \$1.25 million and \$2.29 million compared to \$1.57 million and \$2.77 million in the same period last year. The total comprehensive loss for the three and six months ended September 30, 2024, was \$1.10 million and \$2.20 million compared to \$1.65 million and \$2.81 million for the same period 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, 2024. 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, 2024, and 2023. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

For the three and six months ended September 30, 2024 and 2023

Quarterly Financial Information (in 000s)	Q2	Q1	Q4	Q3	Q2	Q1
	FY25	FY25	FY24	FY24	FY24	FY24
Sales	\$ 3,640	3,797	3,808	3,979	3,982	4,004
Cost of Goods Sold	509	496	482	473	506	481
Gross Margin	3,131	3,301	3,326	3,506	3,476	3,523
Gross Margin %	86%	87%	87%	88%	87%	88%
Expenses	4,197	4,047	4,567	4,414	4,158	4,285
Loss from operations	(1,067)	(746)	(1,242)	(909)	(683)	(762)
Other income/(expense)	(198)	(407)	(459)	(257)	(885)	(562)
Loss before income tax	(1,265)	(1,154)	(1,700)	(1,166)	(1,568)	(1,324)
Income tax recovery (expense)	13	115	0	(105)	2	117
Net loss	(1,252)	(1,038)	(1,700)	(1,271)	(1,566)	(1,208)
Total comprehensive loss	(1,105)	(1,093)	(1,770)	(1,101)	(1,653)	(1,156)
EBITDA ⁽¹⁾	(426)	(268)	(886)	(267)	(358)	(288)
Adjusted EBITDA ⁽¹⁾	(582)	(192)	(791)	(397)	(99)	(201)

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

Quarterly sales trend represents the declining revenue on legacy products and Mitel, partially offset by the growth of Vantage DX. The decline in Legacy products and Mitel 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 users and the cost of third-party software resold by Martello increases.

Cost reductions are the planned outcome of on-going cost optimization actions.

Other income and expense increases reflect the cost of financing and ongoing interest costs, as well as foreign exchange losses.

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.

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled \$4.46 million at September 30, 2024 compared to \$7.72 million at March 31, 2024. The increase is explained below under **Cashflow Analysis**.

The following table presents the Company's working capital position of the Company as at September 30, 2024 and March 31, 2024:

Liquidity Snapshot

(in 000's)	September 30, 2024	March 31, 2024
Current Assets	\$ 9,689	12,144
Current Liabilities	6,545	8,110
Net Working Capital	3,143	4,034

The decrease in net working capital for FY25 was primarily driven by the cash used in operations.

Debt

As at September 30, 2024 debt totaled \$10.59 million, including \$0.09 million due within one year. The debt is made up of:

- \$9.11 million WCI subordinated loan initially advanced in August 2022, with additional second and third tranche received in May 2023 and August 2023, respectively. Interest accrues at the US prime rate plus 8.75% and is payable at the loan maturity date on May 28, 2026. Fees related to the debt issuance are amortized on straight-line basis over the term of the loan.
- \$1.48 million non-interest bearing, unsecured loan from FedDev under the Jobs and Growth Program. Payments on this loan will commence in April 2025, until March 2031.

Share Capital

During the six months of FY25, the following transactions in the share capital of Martello occurred:

- 6,960,000 new options were granted.
- 2,990,269 options expired.

During the 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.

Cash Flow Analysis

(in 000'S)	Six months ended September 30,	
	2024	2023
Operating activities		
Loss before income tax	\$ (2,418)	(2,892)
Items not affecting cash	1,600	2,155
Net change in operating components of working capital	(2,470)	27
Total cash flow used in operations	(3,288)	(709)
Total cash flows used in investing activities	(14)	-
Total cash flows provided by financing activities	108	2,683
Net change in cash	(3,194)	1,974
Cash, beginning of period	7,614	2,118
Effects of currency translation on cash	41	(26)
Cash, end of period	4,461	4,066

Cash flows used in operations were \$3.29 million for the six months ended September 30, 2024, compared to \$0.71million for the six months ended September 30, 2023. The increase in cashflows used in operations of \$2.58 million is mainly due to the following factors:

The net loss was \$2.42 million for the six months ended September 30, 2024, compared to \$2.89 million for the previous year.

The net change in operating components of working capital was a decrease of \$2.47million for the six months of FY25 as compared to an increase of \$0.03 million for the previous year. This is primarily due to increase in Trade and accounts receivable by \$0.62 million in FY25 compared to a decrease of \$1.06 million in FY24 due to timing of collection of invoices.

Cashflows used in investing activities were \$0.01 million for the six months ended September 30, 2024, as compared to \$Nil for the previous year. The cashflow used in investing activity in FY25 is in the purchase of fixed asset.

Cashflows provided by financing activities were \$0.11 million for the six months ended September 30, 2024, compared to \$2.68 million for the previous year. Cashflows provided by financing activities for FY25 is from the proceeds of Fed Dev loan of \$0.25million offset by the repayment of lease obligations of \$0.13 million. Cashflows provided by financing activities for FY24 is from private placement of \$4.30 million, proceeds from WCI loan of \$5.11 million, offset with repayment of Vistara loan of \$6.45 million.

COMMITMENTS

The Corporation entered a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017. 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.

On August 24, 2021, the Company signed a consumption commitment with Microsoft to use \$4 million of eligible services within 4 years 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. At September 30, 2024, the Company has consumed \$2.58 million of eligible services since the contract date. The Company currently projects to be within \$0.83 million of the \$4 million commitment by July 2025.

OFF BALANCE SHEET ARRANGEMENTS

At September 30, 2024 and 2023, 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 are members of the Company's executive management team and the Board of Directors, who control approximately 51.55% of the Company as at September 30, 2024.

As of September 30, 2024, accounts payable and accrued liabilities include amounts totaling \$0.39 million (March 31, 2024 - \$0.72 million) owed to key management personnel for compensation and accrued vacation pay.

Additionally, the Chair of the Company's Board is chairman of WCI. As of September 30, 2024, WCI holds 51.55% of the issued and outstanding common shares of the Company as at September 30, 2024.

The Company leases office premises from WCI. For the three and six months ended September 30, 2024, the Corporation paid rent to WCI, which is reflected in the results for the three and six months ended September 30, 2024, as \$0.02 million and \$0.05 million (September 30, 2023 - \$0.02 million and \$0.05 million, respectively) and \$0.02 million and \$0.03 million in depreciation of right-of-use assets (September 30, 2023 - \$0.02 million and \$0.03 million, respectively).

For the three and six months ended September 30, 2024, the Corporation accrued interest on the subordinate loan from WCI of \$0.38 million and \$0.72 million (September 30, 2023 - \$0.27 million and \$0.39 million, respectively) in the interim consolidated statement of loss and comprehensive loss.

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

OUTLOOK

Microsoft Teams has become essential for communication and collaboration, serving over 320 million users globally. Its significance continues to grow as Microsoft expands the platform with premium services to boost productivity. As of Q1 FY25, nearly 75% of Teams Enterprise customers now invest in Premium, Phone, or Rooms, and close to 70% of Fortune 500 companies are adopting Microsoft 365 Copilot (Microsoft financial results, October 31, 2024).

As businesses invest heavily in these premium services to support hybrid work and improve customer satisfaction, they face challenges such as poor video and audio quality in Teams calls and meetings, which disrupts productivity. Maximizing the value of these services, which can be complex to implement and manage, has become a priority. Key factors such as user devices, ISP quality, local networks, and Microsoft's service performance all impact the Teams experience.

To address these challenges, Martello offers Vantage DX, a digital experience management solution purpose-built for Microsoft 365 and Teams. Vantage DX proactively monitors Teams performance, providing early warnings before issues can impact calls or meetings. It's the first solution of its kind for user experience management of Microsoft 365 Copilot, and offers capabilities for Teams Phone and Microsoft Teams Rooms, underscoring the Company's commitment to enhancing collaboration and productivity across hybrid workforces.

A recent cost model by analyst firm Enable UC highlights the operational savings possible with Vantage DX, stating that IT teams can cut Microsoft Teams support tickets by up to 60% and reduce support headcount by 50-80%, depending on organization size. Vantage DX enables these savings through proactive monitoring to detect performance issues early and faster troubleshooting to optimize IT resources.

Martello Partner Network

Many businesses rely on Microsoft's global network of over 500,000 partners to manage their Microsoft 365 and Teams services. For these partners, Vantage DX offers a way to differentiate their offerings, reduce costs, and increase revenue. According to IDC's "[Microsoft Partners: Driving Economic Value and AI Maturity](#)" study, every \$1 in Microsoft revenue generates \$8.45 in services revenue and \$10.93 in software revenue for partners, with generative AI and Microsoft Copilot accelerating this opportunity further.

The *Martello Partner Network*, launched in November 2024, is designed to drive new growth and profitability for Microsoft 365 partners. Partner-driven opportunities represent a growing part of the Company's sales pipeline, as MSPs and other channel partners seek to set themselves apart in the competitive Microsoft 365 and Teams services market. Established partnerships, including Orange and Yorktel, remain a key source of sales pipeline. Additionally, the Company's relationship with Mitel has enabled a multi-service approach to performance and experience management, which now covers both Microsoft Teams and Mitel solutions, with potential to expand with Mitel's acquisition of Unify.

As Martello enters the second half of FY25, the focus is on empowering the partner channel to drive recurring revenue. The Company's growth strategy includes product innovations to enhance experience management for Teams premium services and new features based on partner feedback. Martello will continue to generate demand through digital marketing, awareness-building activities, and engagement with third-party influencers, analysts, and Microsoft MVPs.

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, 2024.

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, 2024 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 and intangible assets impairment, 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, 2024, and 2023.

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 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, 2024, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD \$0.9 million (September 30, 2023 - \$3.83 million). 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, 2024, 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, 2024, the US prime rate was 8% and the Company is accruing interest at 16.75% 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 42% of the Company's revenue during the six months ended September 30, 2024 (43% for the six months ended September 30, 2023). 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. This risk is mitigated by the Company's Vantage DX direct and indirect sales strategy.

Microsoft relationship

Martello participates in the Microsoft AI Cloud Partner Program and its Vantage DX software is an IP Co-Sell solution. 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 million on Microsoft Azure over a 60-month period. If the Microsoft Azure consumption is valued at less than \$4 million 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. Certain of the Company's product features integrate with Microsoft technologies via APIs or other methods. If these technologies change or are eliminated by Microsoft, this can cause a disruption in the operation of Martello's software. Martello mitigates this risk through its partnership with Microsoft, monitoring of the Martello software, and a product roadmap which continues to improve the software.

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. The Company relies on third-party services for collecting and processing of customer data. Should these services be disrupted, changed, or discontinued, it could result in a loss of current and future business to the Company.

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 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. Martello mitigates this risk through industry best-practice internal processes and the adoption of SOC-2 compliant policies. Martello has successfully completed a SOC-2 type 1 audit and is currently completing a SOC-2 type audit.
- 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.