

Unaudited condensed interim consolidated financial statements of

Martello Technologies Group Inc.

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

Martello Technologies Group Inc.

“Notice to Reader”

The accompanying condensed unaudited interim consolidated financial statements of Martello Technologies Group Inc. for the three and six months ended September 30, 2024, and 2023 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Dated: November 14, 2024

“Jim Clark”

Jim Clark
Chief Executive Officer

“Nick Lungu”

Nick Lungu
Vice President Finance, Interim Chief Financial Officer

Martello Technologies Group Inc.

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

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three and six months ended September 30, 2024 and 2023

Unaudited

(In Canadian dollars)

	Notes	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
		(3 months ended)		(6 months ended)	
Income					
Sales	5,6	\$ 3,639,585	\$ 3,981,947	\$ 7,436,847	\$ 7,985,740
Cost of goods sold	6	509,076	506,307	1,005,352	987,146
Gross margin		3,130,509	3,475,640	6,431,495	6,998,594
Expenses					
Research and development	7	1,390,046	1,301,806	2,717,253	2,671,004
Sales and marketing	7	1,377,072	1,373,829	2,705,980	2,825,322
General and administrative	7	944,141	1,002,635	1,851,068	1,985,360
Depreciation	12	58,513	63,788	121,834	128,375
Amortization		427,438	416,207	848,341	833,518
		4,197,210	4,158,265	8,244,476	8,443,579
Loss from operations		(1,066,701)	(682,625)	(1,812,981)	(1,444,985)
Other income (expense)					
Interest income	13	2,556	4,249	5,519	8,340
Interest expense	11	(411,214)	(379,045)	(772,214)	(879,359)
Financing fees		(1,000)	(57,974)	(1,000)	(75,437)
Accretion of long-term debt	11	(46,785)	(41,983)	(90,355)	(82,889)
Gain on Fed Dev Loan	15	103,573	48,883	103,573	48,883
Revaluation of forward contract	4	14,430	(97,257)	11,434	(23,154)
Foreign exchange gain (loss)	17	112,052	(53,952)	108,981	(152,666)
Loss on investment		-	(303,750)	-	(303,750)
Other income		28,482	(4,383)	28,713	12,996
Loss before income tax		(1,264,607)	(1,567,837)	(2,418,330)	(2,892,021)
Income tax recovery		12,918	2,304	128,257	118,938
Net loss		(1,251,689)	(1,565,533)	(2,290,073)	(2,773,083)
Other comprehensive income (loss) that ma					
reclassified to net income (loss):					
Cumulative translation adjustment		62,815	(115,602)	7,833	(63,848)
Pension plan settlement	13	84,371	28,306	84,371	28,306
Total comprehensive loss		(1,104,503)	(1,652,829)	(2,197,869)	(2,808,625)
Weighted average shares outstanding	14	543,707,430	472,114,023	543,707,430	440,190,946
Net loss per share, basic and diluted	8	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of financial position As at September 30, 2024 and March 31, 2024

Unaudited

(In Canadian dollars)

	Note	September 30, 2024	March 31, 2024
Assets			
Current assets			
Cash		\$ 4,460,983	\$ 7,613,668
Short-term investment		107,145	104,980
Trade and other accounts receivable	9	4,089,533	3,405,791
Investment tax credits and grants receivable	7	272,031	271,419
Prepaid expenses		715,064	709,166
Inventories		38,375	39,297
Foreign exchange forward contract asset	20	4,875	-
Total current assets		9,688,006	12,144,321
Intangible assets		7,214,009	7,781,508
Equipment and leasehold improvements		72,371	78,640
Right-of-use assets	12	281,955	555,203
Total assets		17,256,341	20,559,672
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10,17	1,922,057	2,989,473
Foreign exchange forward contract liability	4	-	6,560
Current portion of deferred revenue	5	4,420,522	4,916,303
Current portion of long-term debt	11,17	90,000	-
Current portion of lease obligation	12,17	112,044	197,923
Total current liabilities		6,544,623	8,110,259
Deferred revenue	5	1,417,750	1,434,957
Long-term debt	5	10,499,912	9,643,250
Lease obligation	11,17	217,718	422,043
Pension obligation	13	4,982	96,327
Deferred tax liability		-	114,153
Total liabilities		18,684,985	19,820,989
Shareholders' equity			
Share capital	14	59,608,108	59,616,608
Contributed surplus	14	4,029,787	3,990,745
Warrants	14	2,319,977	2,319,977
Accumulated other comprehensive income		(394,431)	(486,635)
Deficit		(66,992,085)	(64,702,012)
Total shareholders' equity (deficiency)		(1,428,644)	738,683
Total liabilities and equity		17,256,341	20,559,672

Approved by the Board on November 14, 2024 and signed on its behalf by:

Original signed "Colley Clarke" _____ Director

Original signed "Don Smith" _____ Director

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity (deficiency) for the six months ended September 30, 2024 and 2023

(In Canadian Dollars)

	Notes	Shares		Warrants	Contributed surplus	Accumulated other comprehensive			Total shareholders' equity (deficiency)
		outstanding #	Share capital \$			Other \$	Cumulative translation adjustment \$	Deficit \$	
Balance at April 1, 2023		392,707,430	52,115,617	2,319,977	3,805,294	901,364	(1,451,645)	(58,958,114)	(1,267,507)
Net loss for the period		-	-	-	-	-	-	(2,773,083)	(2,773,083)
Pension plan settlement		-	-	-	-	28,306	-	-	28,306
Other comprehensive income		-	-	-	-	-	(63,848)	-	(63,848)
Total comprehensive loss		-	-	-	-	28,306	(63,848)	(2,773,083)	(2,808,625)
Issuance of common stock		86,000,000	4,300,000	-	-	-	-	-	4,300,000
Less: Transaction costs attributable to share issuance		-	(39,259)	-	-	-	-	-	(39,259)
Share-based compensation	14	-	-	-	184,823	-	-	-	184,823
Balance as at September 30, 2023		478,707,430	56,376,358	2,319,977	3,990,117	929,670	(1,515,493)	(61,731,197)	369,431
Balance at April 1, 2024		543,707,430	59,616,608	2,319,977	3,990,745	985,001	(1,471,636)	(64,702,012)	738,683
Net loss for the period		-	-	-	-	-	-	(2,290,073)	(2,290,073)
Pension plan settlement	13	-	-	-	-	84,371	-	-	84,371
Other comprehensive income		-	-	-	-	7,833	-	-	7,833
Total comprehensive loss		-	-	-	-	92,204	-	(2,290,073)	(2,197,869)
Less: Transaction costs attributable to share issuance		-	(8,500)	-	-	-	-	-	(8,500)
Share-based compensation	14	-	-	-	39,042	-	-	-	39,042
Balance as at September 30, 2024		543,707,430	59,608,108	2,319,977	4,029,787	1,077,205	(1,471,636)	(66,992,085)	(1,428,644)

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

Martello Technologies Group Inc.

Condensed interim consolidated statements of cash flows

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

	Note	September 30, 2024	September 30, 2023
Operating activities			
Net loss from operations before income tax		\$ (2,418,330)	\$ (2,892,021)
Items not affecting cash:			
Depreciation	12	121,834	128,375
Amortization of intangible assets		848,341	833,518
Amortization of debt issuance cost		13,541	115,139
Decrease (increase) in fair value of hedge liability		(11,434)	23,154
Loss on investment		-	303,750
Accretion of long-term debt	11	90,355	82,889
Gain on issuance of FedDev Loan	11	(103,573)	(48,883)
Share-based compensation	14	39,042	184,823
Deferred share units compensation	14	29,116	(1,406)
Defined benefit plan expense	13	10,405	28,175
Lease interest expense	12	35,284	45,791
Gain on termination of lease		(16,919)	-
Accrued interest expense	11	715,780	385,837
Accrued interest on guaranteed investment contract		(2,164)	(1,496)
Unrealised foreign exchange loss (gain)		(169,272)	75,722
Net change in operating components of working capital	19	(2,469,947)	27,166
Total cash flows used in operating activities		(3,287,941)	(709,467)
Investing activities			
Additions to equipment and leasehold improvements		(13,879)	-
Total cash flows used in investing activities		(13,879)	-
Financing activities			
Proceeds from issuance of common stock	18	-	4,300,000
Common stock issuance costs		(8,500)	(39,259)
Proceeds from long-term debt	15	250,000	5,215,632
Debt issuance costs		-	(81,248)
Repayment of long-term debt	15	-	(6,578,709)
Repayment of lease obligations	16	(133,331)	(133,293)
Total cash flows provided by financing activities		108,169	2,683,123
Net change in cash		(3,193,651)	1,973,656
Cash, beginning of period		7,613,668	2,117,652
Effects of currency translation on cash		40,966	(25,731)
Cash, end of period		4,460,983	4,065,577

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

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

1. Corporate information

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

2. Basis of preparation and accounting policies

The condensed interim consolidated financial statements have been prepared under the going concern assumption and using the historical cost basis, except for foreign exchange forward contracts which are measured at fair market value.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, and should be read in conjunction with the Corporation's most recent annual audited consolidated financial statements, which are for the year ended March 31, 2024.

Significant accounting policies

The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2.2 of the Corporation's annual audited consolidated financial statements for the year ended March 31, 2024.

3. Significant judgments and estimates

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

The judgments, estimates and assumptions applied in the preparation of these condensed interim consolidated financial statements are the same as those disclosed in note 3 to the 2024 annual audited consolidated financial statements.

4. Fair value measurement

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

Long-term debt is measured using observable interest rates at initial recognition and is categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts, which were entered into on April 22, 2024 represented a net asset of \$4,875 at September 30, 2024 (March 31, 2024 – net liability of \$6,560). The fair value is estimated using a market approach with forward exchange rates observable at the end of the reporting period and contract forward rates as inputs. Forward contracts are categorized within Level 2 of the fair value hierarchy. The hierarchy is described in Note 20 of the March 31, 2024 annual financial statements.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

5. Revenue

The geographic location of revenues, based on the location of its customers, is as follows:

	3 Months Ended		6 Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	\$	\$	\$	\$
Canada	1,375,545	1,384,171	2,767,492	2,772,734
United States	665,955	978,738	1,450,624	1,970,643
Europe	1,446,497	1,370,840	2,875,668	2,738,181
Asia	47,899	89,363	94,882	179,730
Latin America	97,378	143,415	21,482	29,779
Australia	6,311	15,025	226,699	291,948
Other	-	395	-	2,725
Total revenue	3,639,585	3,981,947	7,436,847	7,985,740

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

	3 Months Ended		6 Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	\$	\$	\$	\$
Revenue at a point in time				
Hardware	-	4,522	1,919	31,172
Training and professional services	19,963	29,679	53,145	36,383
Revenue recognized over time				
Subscription licenses	3,301,500	3,524,415	6,733,805	7,058,879
Maintenance and support	274,706	391,323	560,988	794,447
Term licenses	43,416	32,008	86,990	64,859
Total revenue	3,639,585	3,981,947	7,436,847	7,985,740

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

Deferred revenue is comprised of the following:

	September 30, 2024	March 31, 2024
	\$	\$
Current:		
Subscription licenses	3,621,572	3,937,037
Maintenance and support	696,897	853,124
Term licenses	102,053	126,142
Long-term:		
Subscription licenses	1,166,748	1,039,086
Maintenance and support	172,456	278,914
Term licenses	78,546	116,957
Total deferred revenue	5,838,272	6,351,260

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

Revenue (continued)

The following table summarized the contract acquisition cost activity during the year:

	September 30, 2024	March 31, 2024
	\$	\$
Balance, beginning of year	169,344	364,813
Additions	215,835	203,824
Amortization	(287,132)	(399,292)
Balance, end of year	98,047	169,344

Amortization of contract acquisition costs is recorded in Sales and marketing expense on the condensed interim consolidated statements of loss and comprehensive loss.

6. Operating segment information

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

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2024	\$	\$	\$
Revenue at a point in time			
Hardware	-	-	-
Training and professional services	19,963	-	19,963
Revenue recognized over time			
Subscription licenses	1,737,226	1,564,274	3,301,500
Maintenance and support	266,596	8,110	274,706
Term licenses	43,416	-	43,416
Total revenue	2,067,201	1,572,384	3,639,585

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2024	\$	\$	\$
Revenue at a point in time			
Hardware	-	1,919	1,919
Training and professional services	53,145	-	53,145
Revenue recognized over time			
Subscription licenses	3,476,317	3,257,488	6,733,805
Maintenance and support	545,425	15,563	560,988
Term licenses	86,990	-	86,990
Total revenue	4,161,877	3,274,970	7,436,847

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

Operating segment information (continued)

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2023	\$	\$	\$
Revenue at a point in time			
Hardware	-	4,522	4,522
Training and professional services	28,682	997	29,679
Revenue recognized over time	-		
Subscription licenses	1,781,395	1,743,020	3,524,415
Maintenance and support	383,466	7,857	391,323
Term licenses	32,008	-	32,008
Total revenue	2,225,551	1,756,396	3,981,947

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2023	\$	\$	\$
Revenue at a point in time			
Hardware	-	31,172	31,172
Training and professional services	34,917	1,466	36,383
Revenue recognized over time	-		
Subscription licenses	3,557,738	3,501,141	7,058,879
Maintenance and support	779,747	14,700	794,447
Term licenses	64,859	-	64,859
Total revenue	4,437,261	3,548,479	7,985,740

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

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2024	\$	\$	\$
Sales	2,067,201	1,572,384	3,639,585
Cost of goods sold	454,486	54,590	509,076
Gross margin	1,612,715	1,517,794	3,130,509

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2024	\$	\$	\$
Sales	4,161,877	3,274,970	7,436,847
Cost of goods sold	911,138	94,214	1,005,352
Gross margin	3,250,739	3,180,756	6,431,495

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

Operating segment information (continued)

	Modern Workplace Optimization	Mitel	Total
Three months ended September 30, 2023	\$	\$	\$
Sales	2,225,551	1,756,396	3,981,947
Cost of goods sold	448,256	58,051	506,307
Gross margin	1,777,295	1,698,345	3,475,640

	Modern Workplace Optimization	Mitel	Total
Six months ended September 30, 2023	\$	\$	\$
Sales	4,437,261	3,548,479	7,985,740
Cost of goods sold	867,851	119,295	987,146
Gross margin	3,569,410	3,429,184	6,998,594

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

- i. Research and development expense for the three and six months ended September 30, 2024 is net of investment tax credits recognized of \$17,309 and -\$7,789, respectively (September 30, 2023 - \$130,004 and \$288,751).

The Corporation has investment tax credits receivable of \$272,031 as of September 30, 2024 (March 31, 2024 – \$271,419) which are earned as a result of qualifying Crédit d'Impôt Recherche expenditure in France and qualifying Scientific Research and Experimental Development expenditures in Canada. The investment tax credits are recognized when the expenditures are made, and their realization is reasonably assured.

- ii. For the three and six months ended September 30, 2024, the total staff expenses are \$2,706,602 and \$5,228,340, respectively (September 30, 2023 - \$2,845,585 and \$5,871,621)

8. Loss per share

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

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

As at September 30, 2024 and 2023, all instruments were anti-dilutive.

The share options could potentially dilute basic net loss per share in the future but have not been included in diluted loss per share because their effect was anti-dilutive. Total share options at September 30, 2024 and 2023 were 33,224,143 and 35,609,746 respectively.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

9. Trade and other accounts receivable

There were no expected credit losses as of 30 September 2024 and 31st March 2024.

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

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	over 90 days
	\$	\$	\$	\$	\$	\$
September 30, 2024	4,089,533	3,196,131	688,363	205,039	-	-
March 31, 2024	3,405,791	3,241,731	164,060	-	-	-

10. Accounts payable and accrued liabilities

	September 30, 2024	March 31, 2024
	\$	\$
Trade payables	253,254	332,013
Accrued key management compensation	388,335	721,628
Accrued professional fees	280,798	414,785
Salaries, benefits, and vacation payable	755,417	1,126,536
Commissions payable	35,803	141,203
Taxes payable	62,219	70,411
Other payables	146,231	182,897
Total	1,922,057	2,989,473

11. Debt

	September 30, 2024	March 31, 2024
	\$	\$
FedDev loan - Jobs and Growth; advanced to support the commercialization of the Corporation's activities; non-interest bearing, unsecured and repayable in increasing monthly payments between April 2025 and March 2031. The incremental borrowing rate is 13.85%.	1,481,160	1,244,378
Wesley Clover International Loan: US 5,292,031 subordinated term loan advanced in three tranches in August 2022, May 2023 and Aug 2023 to pay down the Vistara loan, interest accrued at US Prime plus 8.75% and to be paid at loan maturity on Aug 28, 2026. The effective interest rate is 19.35%.	9,108,752	8,398,872
Total debt	10,589,912	9,643,250
Amounts due within one year	(90,000)	-
Long-term debt	10,499,912	9,643,250

On August 30, 2024, the Corporation received the final tranche of the Fed Dev loan – Jobs and Growth fund of \$250,000. An adjustment of \$103,573 was recorded to recognize the government grant within the loan at fair value upon inception. The present value will be accreted into other income (expenses) over the remaining term of the loan to accrete the loan back to its face value of \$250,000.

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

12. Right-of-use assets

Right-of-use asset:	\$
Balance at March 31, 2024	555,203
Additions	5,413
Depreciation for the period	(101,196)
Termination of Lease	(184,850)
Foreign exchange translation	7,385
Balance at September 30, 2024	281,955

Lease obligation:	\$
Balance at March 31, 2024	619,966
Additions	5,413
Interest expense	35,284
Payments	(133,331)
Termination of Lease	(216,688)
Foreign exchange translation	19,118
Balance at September 30, 2024	329,762

For the three and six months ended September 30, 2024, the Corporation recognized \$48,521 and \$101,196 respectively (September 30, 2023 - \$50,978 and \$101,664) as depreciation on right-of-use assets, and \$15,957 and \$35,284 respectively (September 30, 2023 - \$22,522 and \$45,791) as interest expense on the lease liability.

For the three and six months ended September 30, 2024, the Corporation recognized variable non-lease payment of \$26,140 and \$53,841, respectively (September 30, 2023 - \$27,066 and \$54,132, respectively).

Upon acquisition of GSX, the Company recognized two leases for GSX Participations SA and its wholly owned subsidiary, Martello Technologies France. GSX Participations SA lease commenced January 2019 and expires in December 2025 with an incremental borrowing rate of 2.47%. This lease was terminated when GSX Participations SA moved to a smaller office.

A new lease for the new office commenced in August 2022 and runs through to August 2027 with an incremental borrowing rate of 14.08%. GSX Participations SA is in the process of terminating this lease and is expected to be terminated in October 2024. Martello Technologies France lease commenced January 2019 and expires February 2025 with an incremental borrowing rate of 3.18%.

On September 1, 2024, the Company assigned its lease agreement to a new lessee, who assumed all rights and obligations under a new lease directly with the lessor, resulting in the early termination of the original lease. Consequently, the Company recognized a gain of \$31,838, which is included in other income in the financial statements for the period ended September 30, 2024. This reflects the difference between the carrying value of the right-of-use asset, amortized to \$184,850, and the remaining lease liability of \$216,688 at the time of termination.

To incentivize the new tenant, the Company agreed to pay two months' rent, covering the months of September and October 2024, totaling \$14,920. This expense is recognized in the statement of profit and loss and offset against gain on early termination of lease.

The Corporation had 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 with an incremental borrowing rate of 14.08%.

The Corporation has applied judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease-by-lease basis, which has a significant effect on the measurement of the lease liability

Martello Technologies Group Inc.

Notes to condensed interim consolidated financial statements

For the six months ended September 30, 2024 and 2023

(in Canadian Dollars)

Right-of-use assets (continued)

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

13. Defined benefits retirement plan

For the three and six months ended September 30, 2024, the Corporation recognized \$2,516 and \$9,774 respectively (for the three and six months ended September 2023 - \$12,389 and \$26,532, respectively) in current service cost. Net interest expense of \$271 and \$661 were recognized for the three and six months ended September 30, 2024 respectively (for three and six months ended September 30, 2023 - \$828 and \$1,643, respectively). The current service cost is included in the operating expenses on the condensed interim consolidated statements of loss and comprehensive loss. The net interest income/expense is included in interest expense.

On September 30, 2024, the Plan was in a deficit position of \$4,982 (March 31, 2024 - \$96,326). The movements in the defined benefit obligation for the period ending September 30, 2024, are as follows:

Defined benefit obligation at April 1, 2024	472,498
Current service cost	9,744
Interest cost	3,424
Administration cost	103
Foreign exchange translation	32,734
Participant contributions	4,077
Benefits paid	(495,951)
Defined benefit obligation Sept 30, 2024	26,629

The movements in Plan assets for the period ending September 30, 2024 are as follows:

Plan assets at April 1, 2024	376,171
Interest income	2,763
Participant contributions	4,077
Employer contributions	9,512
Foreign exchange translation	26,159
Benefits paid	(397,035)
Fair value of pension plan Sept 30, 2024	21,647

The Corporation is in the process of closing out the pension plan as there are no active employees in GSX Participations SA as of September 30, 2024.

14. Equity instruments

i. Warrants

During the six months ended September 30, 2024, no warrants were issued and no warrants expired (six months ended September 30, 2023 – \$Nil were issued and 32,861,250 expired).

At September 30, 2024 and 2023 the Corporation had no outstanding warrants.

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Equity instruments (continued)

ii. Share-based payments

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

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

	Option exercise price \$	Total #
Balance outstanding at March 31, 2023	0.05-0.38	22,089,555
Granted	0.05	20,715,000
Forfeited	0.05-0.38	(9,691,143)
Expired	0.13-0.38	(3,859,000)
Balance outstanding at March 31, 2024	0.05-0.33	29,254,412
Granted	0.05	6,960,000
Expired	0.05-0.33	(2,990,269)
Balance outstanding at September 30, 2024	0.05-0.33	33,224,143

Options exercisable:

At September 30, 2024	0.05-0.33	10,561,401
At March 31, 2024	0.05-0.33	6,930,658

Grant date	Option exercise price \$	Number exercisable #	Remaining life Years
November 26, 2019	0.330	740,476	0.16
July 28, 2020	0.195	135,000	0.82
August 31, 2020	0.205	634,667	0.92
June 30, 2021	0.135	20,000	1.75
January 13, 2022	0.060	333,330	2.29
May 2, 2022	0.050	1,000,000	2.59
January 12, 2023	0.050	3,934,622	3.28
February 14, 2023	0.050	254,997	3.38
May 29, 2023	0.050	3,508,309	3.66
November 21, 2023	0.050	-	4.15
February 14, 2024	0.050	-	4.38
June 25, 2024	0.050	-	4.74
Weighted average	0.081		2.92
Total		10,561,401	

At September 30, 2024, the fair value of share-based compensation to be recognized as an expense in future periods totaled \$194,014 (March 31, 2024 – \$185,978).

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Equity instruments (continued)

In determining the amount of share-based compensation, the Corporation uses the Black-Scholes option pricing model to establish the fair value of options granted. There were 6,960,000 options granted in the six months ended September 30, 2024 (September 30, 2023 – 18,635,000). The fair value of options granted in the six months ended September 30, 2024, was established by applying the following assumptions:

	September 30, 2024
Fair market value on grant date	\$0.02
Exercise price	\$0.05
Risk-free interest rate	3.68%
Expected life in years	3.5
Expected dividend yield	0%
Volatility	174.06%
Fair value of options issued in the periods	0.01699

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

15. Supplementary cash flow information

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

	Note	September 30, 2024	September 30, 2023
		\$	\$
Net change in operating components of working capital:			
Trade and other accounts receivable	11	(621,302)	1,060,933
Investment tax credits and grants receivable	8	9,293	397,079
Prepaid expenses		7,938	442,839
Inventories		923	20,314
Accounts payable and accrued liabilities	14	(1,143,438)	(845,340)
Deferred revenue	5	(723,361)	(1,048,659)
Total		(2,469,947)	27,166

16. Related party transactions and balances

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

- i. For the three and six months ended September 30, 2024, the Corporation paid rent to WCI, which is reflected in the results as depreciation of right-of-use assets of \$17,346 and \$34,693 respectively (September 30, 2023 – \$17,346 and \$34,693) and rent expense of \$23,870 and \$45,528 respectively (September 30, 2023 - \$20,700 and \$46,319)
- ii. On August 22, 2022, the Corporation obtained a subordinate loan from Wesley Clover International for US \$1,500,000 which was used to repay the Vistara loan. A second tranche of the WCI loan was received on May 25, 2023, for US \$792,031 to repay the Vistara loan and the loan term was

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Related party transactions and balances (continued)

- iii. extended to May 28, 2024. Further on August 8, 2023, the third tranche of the WCI loan was received for US \$3,000,000 to pay off the Vistara loan in full and it was agreed to extend the WCI loan maturity to August 28, 2026. Interest on the WCI loan accrue on the same terms as that of Vistara and will be paid at the maturity of the loan on August 28, 2026. For the three and six months ended September 30, 2024, interest of \$383,040 and \$715,780 respectively (September 30, 2023 – \$ 271,571 and \$385,837) were accrued and recorded on the consolidated statement of loss and comprehensive loss.
- iv. The chairman of Wesley Clover International Corporation is a shareholder of the Corporation.
- v. Included in accounts payable and accrued liabilities are balances as at September 30, 2024 totaling \$388,335 (March 31, 2024 - \$721,628) due to key management personnel for compensation, earned vacation pay and DSU expenses.
- vi. The remuneration of directors and key management personnel for the three and six months ended September 30, 2024 was as follows:

	3 Months ended		6 Months ended	
	September 30 2024	September 30 2023	September 30 2024	September 30 2023
	\$	\$	\$	\$
Salaries, wages and bonuses	610,859	544,636	1,147,551	1,169,129
Other employee benefits	17,364	13,184	31,765	26,335
Share-based compensation	31,418	79,774	80,217	125,774
Total	659,641	637,594	1,259,533	1,321,238

17. Financial risk management objectives and policies

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

Credit risk

Trade receivables at September 30, 2024 are presented net of an allowance for doubtful accounts of \$Nil (March 31, 2024 - \$Nil). The Corporation's largest customer, which is included in the Monitoring - Mitel UC segment reporting, accounted for revenue of \$1,516,039 and \$3,160,585 approximately 42% of total revenue, for the three and six months ended September 30, 2024 (three and six months ended September 30, 2023 - \$1,694,738 and \$3,420,904, 43%). At September 30, 2024 the account receivable from this customer totaled \$1,773,510 (March 31, 2024- \$1,293,596). The Corporation maintains strict credit policies and limits in respect to counterparties.

Liquidity risk

The following table summarizes the maturities of financial instruments by fiscal year on an undiscounted basis, including interest payments, as at September 30, 2024:

	2025	2026	2027	2028	Thereafter	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,922,057	-	-	-	-	1,922,057
Lease obligation	96,572	103,350	103,350	104,738	-	408,009
Debt liabilities	-	180,000	7,369,378	420,000	1,600,000	9,569,378
Total	2,018,629	283,350	7,472,728	524,738	1,600,000	11,899,445

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Financial risk management objectives and policies (continued)

Foreign currency risk

For the three and six months ended September 30, 2024, 99% of revenue were in foreign currencies (September 30, 2023 – 99% of revenue). For the three and six months ended September 30, 2024, 32% and 55% of expenses were in foreign currencies (September 30, 2023 – 30% and 33%).

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

	September 30, 2024	March 31, 2024	September 30, 2024	March 31, 2024
	USD	USD	EUR	EUR
Cash and restricted cash	3,186,656	2,076,996	500,054	1,430,506
Trade and other accounts receivable	878,925	2,797,419	3,460,406	761,558
Accounts payable and accrued liabilities	(3,944,991)	(3,691,424)	(989,172)	(1,065,355)
Foreign exchange forward contract asset (liability)	4,875	(6,560)	-	-
Long-term debt	(9,080,242)	(8,654,459)	-	-
Net exposure	(8,954,778)	(7,478,028)	2,971,288	1,126,709

A 10% change of the US\$ against the CAD\$ at September 30, 2024 would have increased or decreased net loss by \$598,349 (March 31, 2024: \$635,132).

18. Capital management

Management defines capital as total shareholders' equity. The Board of Directors has not established capital benchmarks or other targets. There have been no changes in the Corporation's approach to capital management during the six months ended September 30, 2024. The Corporation will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

19. Commitments

The Corporation entered into a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017, extending through to February 28, 2022. The lease was subsequently renewed, and the new maturity date is February 28, 2028. The lease is with a related party, as described in note 16 Related party transactions and balances.

Total lease commitments remaining for the year-ending March 31, 2025 is \$59,777.

On August 24, 2021, the Company signed a consumption commitment with Microsoft to use \$4,000,000 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 \$2,418,038 of eligible services since the contract date. The company projects to be within \$826,000 of the \$4,000,000 commitment by July 2025.

20. 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.