

MARTELLO

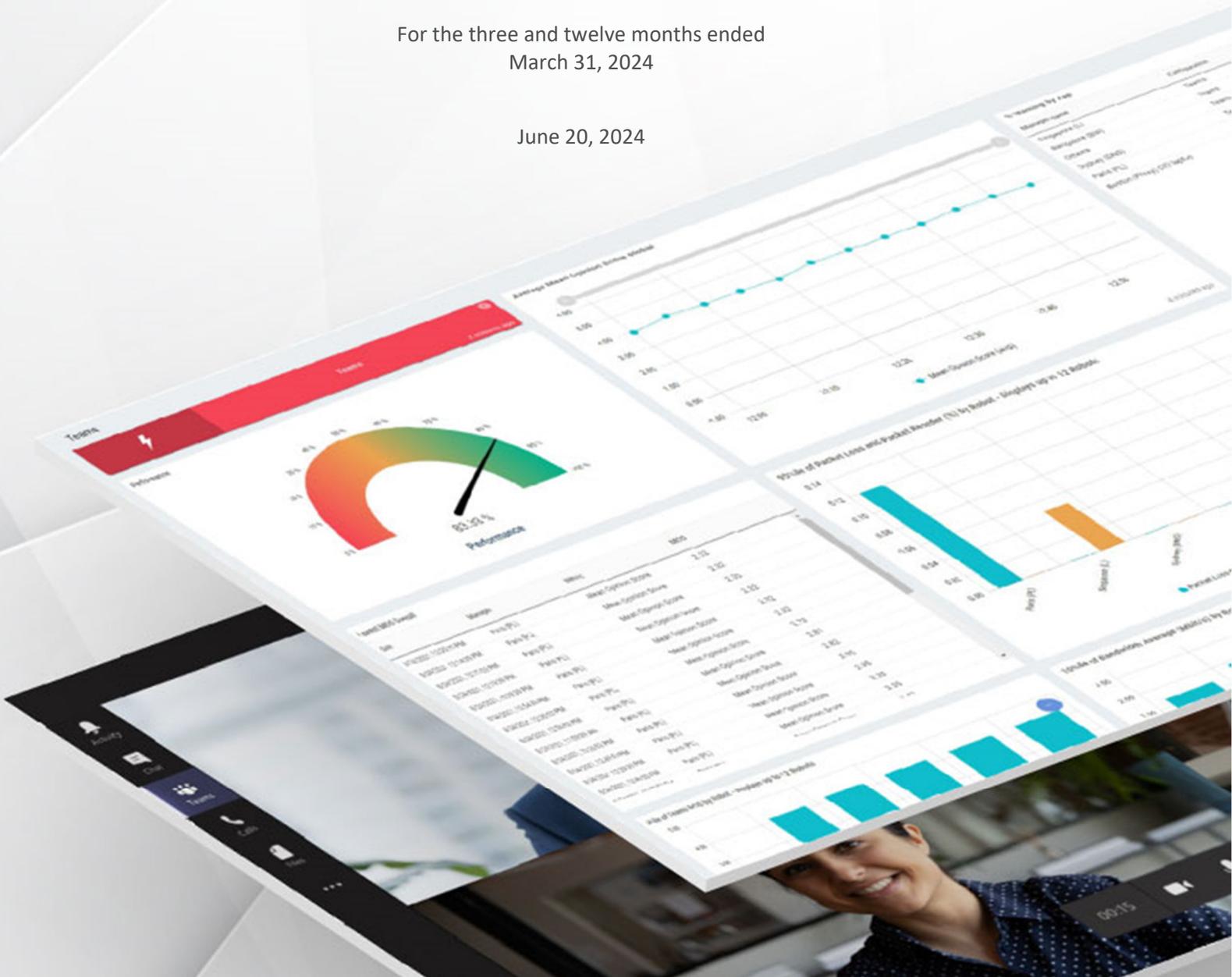
Empowering IT for your modern workplace.

Martello Technologies Group, Inc.

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

For the three and twelve months ended
March 31, 2024

June 20, 2024



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 June 20, 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 twelve months ended March 31, 2024, and 2023 (“Q4 FY24” and “FY24” and “Q4 FY23” and “FY23”, respectively). This MD&A should be read in conjunction with the Company’s consolidated financial statements and accompanying notes for the period ended March 31, 2024. 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 365, Microsoft Teams and Mitel performance issues. The Company's software monitors and optimizes the performance of enterprise cloud communications and collaboration systems for more productive call, meeting and workflow experiences.

Martello's Vantage DX software as a service (SaaS) is the only comprehensive, out-of-the box performance monitoring solution for Microsoft 365 and Teams. Vantage DX monitors the Microsoft Teams and Microsoft 365 user experience from end-to-end, providing IT teams and service providers with actionable insight to efficiently resolve performance problems which are impacting the user experience.

Martello is also the provider of the Mitel Performance Analytics ("MPA") 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.

Martello's expertise in managing the performance and user experience of real-time communications has created a competitive differentiator for the Company in a growing market for Microsoft Teams. There are 320 million monthly active users of Microsoft Teams (as of October 24, 2023, per Microsoft Q1 FY24 Financial Results). In their Q3 FY24 Financial Results Earnings Call, Microsoft noted that the number of Microsoft Teams Rooms surpassed 1 million for the first time and said that Teams Phone continues to be the market leader in cloud calling, now with over 20 million PSTN users, up nearly 30% year-over-year Microsoft PSTN calling allows users to conduct Teams calls via a telephone system. Martello's Vantage DX supports enterprises using any of these Microsoft Teams capabilities.

Martello's vision is that every user of modern workplace solutions has a solid user experience. Anywhere. Anytime.

As of March 31, 2024, Martello had 73 active employees: 48 in Canada, 5 in the United States and 20 in Europe, the Middle East and Africa (EMEA).

Products

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

Martello's products include:

Modern Workplace Optimization

The Modern Workplace Optimization business line includes the following products:

- **Vantage DX**, the only comprehensive, out-of-the box performance monitoring solution for Microsoft 365 and Teams. Vantage DX monitors and manages the Microsoft 365 and Microsoft Teams user experience from end-to-end. This solution provides insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with synthetic and real user monitoring information, to provide a clearer picture of the user's experience of the Microsoft service. Vantage DX is sold to enterprise IT teams through direct sales or channel partners.
- **Legacy Software Products**, which include Gizmo, iQ, LiveMaps and Domino. Customers of these software products continue to use these products and, in many cases, renew their subscriptions. Martello is no longer actively selling these products to net new Customers and/or partnership arrangements. Certain legacy product customers have been converted to the newer Vantage DX platform.

Mitel

- The Mitel business line includes the Mitel Performance Analytics (MPA) product, software which is developed by Martello and sold by Mitel to its channel partners and enterprise customers to manage the performance of Mitel UC solutions.

Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services, and the Company's software is used in Mitel's own global network operations centre (NOC).

Martello's product portfolio includes subscription-based offerings and software license sales, including the provision of licenses and maintenance and support for certain legacy software products. Martello also offers professional services in connection with the trial and deployment of certain of its software products. End users enter into an end-user licensing agreement with Martello before using Martello software.

Martello's products are developed internally and are not subject to material regulatory approvals. Martello follows industry best practices in its development methodology as appropriate, to ensure scalability, security and standards compliance of its products and services.

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

Growth Strategy

In FY24 the Company focused on driving demand for its Vantage DX solution while continuing to develop its partnership with Mitel and Mitel's channel partners, to bring shareholder value in the form of recurring revenue, earnings growth and positive cashflow. Management is focused on the following activities:

Accelerate Vantage DX Revenue Growth

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

- Working with qualified partners who match Martello's ideal partner profile to build a pipeline of Vantage DX sales opportunities, both from the partner's install base and from new business. These partners include Orange Business Systems, Yorktel, CGI and Mitel channel partners.
- Driving sales via the Microsoft Azure marketplace, which simplifies the purchase process and incents Microsoft sellers to transact Vantage DX sales.
- Investing in US market expansion to target the significant proportion of Microsoft 365 users in the United States, including direct and channel sales activities.
- Retain certain strategic Legacy product customers by converting them to the newer Vantage DX platform, and when this is not possible, take steps to retain the Legacy business and revenue.

Delight Customers and Drive Competitive Advantage with Vantage DX Product Innovation

- Extend Vantage DX functionality to support the pace of innovation in Microsoft Teams. Exploit Martello's competitive advantage in real-time communications performance management with capabilities such as Microsoft Teams Room (MTR) monitoring, visibility into the performance of session border controllers (SBCs) and a remote compared to in-office user performance dashboard to support hybrid workplaces.
- Improve the Vantage DX user experience, including surfacing important Microsoft Call Quality Dashboard (CQD) information in Vantage DX dashboards, making it easier to detect critical issues and root causes.
- Implement improvements which further simplify deployment and management of the solution. Improve the efficiency of customer activation with automation features.
- Accelerate time to revenue with standardized and hands-on Vantage DX trials and leverage professional services to efficiently convert opportunities to customers.
- Drive advancements in Martello's cloud-based architecture to achieve product and hosting efficiencies.

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

- Align development of MPA with Mitel to meet its customers' needs, including developing support for new Mitel platforms (such as acquired UC platforms) and deepening existing Mitel platform support with new features and capabilities that add value to Mitel and its partner ecosystem.
- Develop long-term strategies to address the market opportunity created by Mitel's acquisition of Unify, which has doubled Mitel's installed base to 75M users. These strategies could include offering Vantage DX to Unify partners and customers and developing monitoring support for Unify UC platforms in MPA.
- Help Mitel drive increased adoption of MPA by their channel partners and customers. This can be achieved by identifying critical new MPA product features and opportunities, and by providing ongoing marketing and educational support for MPA within the Mitel channel.
- Seek additional opportunities for sales growth within Mitel, including the sale of Vantage DX to Mitel partners who require a Microsoft Teams and Microsoft 365 monitoring solution.

The Company has the resources to continue to make value add investments in technology, talent, partnerships, and systems to implement the above strategy.

SIGNIFICANT DEVELOPMENTS

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

- On March 27, 2024, Martello announced the closing of a non-brokered private placement of common shares in the capital of the Company, for aggregate gross proceeds of CAD \$1.5 million. Pursuant to the Private Placement, Martello issued 30 million Common Shares at a price of CAD \$0.05 per Common Share. The sole subscriber in the Private Placement was Wesley Clover International Corporation ("WCI"), a corporation controlled by Terence Matthews, Chairman of Martello.
- On March 26, 2024, Martello announced the appointments of Jim Clark as Chief Executive Officer and Director and software industry executive Alec Saunders to the Company's Board of Directors, effective April 1, 2024.
- On February 28, 2024, Martello announced a partnership with leading US-headquartered managed services provider Yorktel, a Microsoft Operator Connect partner.
- On December 21, 2023, Martello announced the grant of 1 million stock options to Paul Butcher, a director of the Company. The stock option grant is associated with Mr. Butcher's appointment in September 2023.
- On December 14, 2023, Martello announced the closing of a non-brokered private placement of common shares in the capital of the Company for aggregate gross proceeds of CAD\$1.75 million. The sole subscriber in the Private Placement was WCI, a corporation controlled by Terence Matthews, Chairman of Martello.
- On November 6, 2023, Martello announced the departure of Chief Executive Officer John Proctor. Jim Clark, the Company's Chief Financial Officer assumed the additional role of Interim CEO.
- On September 21, 2023, Martello announced that the Company's Board of Directors nominated Paul Butcher as a Director, pending shareholder approval at the Annual General and Special Meeting of Shareholders ("AGM") on September 27, 2023.
- On September 7, 2023, Martello announced the resignation of Antoine Leboyer, the former CEO of GSX from Martello's Board of Directors, to focus on mentoring startup founders and undertake a project to create a focused large language model for Hebrew texts.
- On August 9, 2023, Martello announced the repayment of outstanding sums of approximately USD \$3 million due to Vistara Technology Growth Fund III Limited Partnership ("Vistara") pursuant to a credit agreement entered on April 27, 2020, for a term credit facility to fund the purchase of GSX. The Company also announced that WCI had provided an additional USD \$3 million 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 million Common Shares at a price of CAD \$0.05 per Common Share, for aggregate gross proceeds of CAD \$2.5 million. 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, pursuant to the Omnibus Long Term Incentive Plan approved by shareholders of the Company at the AGM on September 28, 2022.
- On June 23, 2023, Martello announced the closing of the second tranche of a non-brokered private placement of 12 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.

As of March 31, 2023, the following significant developments had occurred:

- On March 27, 2023, the Company announced the closing of the first tranche of a non-brokered private placement totalling CAD \$0.6 million for aggregate gross proceeds of approximately CAD \$1.2 million.
- On March 27, 2023, Martello announced new Microsoft Teams Room monitoring and analytics capabilities in the latest release of Vantage DX.
- On March 13, 2023, the Company announced the pricing of its non-brokered private placement of common shares in the capital of the Company, stating that Martello expects to issue 24 million Common Shares at a price of CAD \$0.05 per Common Share, in two tranches closing in March and April 2023.
- On February 14, 2023, Martello announced a non-brokered private placement of common shares in the capital of the Company, to be completed in four equal tranches in March, April, May, and June for aggregate gross proceeds of approximately CAD \$2.4 million. The sole subscriber in the Private Placement is WCI, a corporation controlled by Terence Matthews, Chairman of Martello.
- On February 13, 2023, Martello announced the resignations of Bruce Linton, the Co-Chairman of the Company, and Directors Mike Michalyshyn and Jennifer Camelon.
- On January 23, 2023, Martello announced the close of a non-brokered private placement of common shares in the capital of the Company subscribed by WCI for aggregate gross proceeds of approximately USD \$2 million.
- On January 12, 2023, through a Special Meeting, shareholders approved the stock option re-pricing and extension and the creation of a control person pursuant to a USD \$2 million private placement.
- On December 30, 2022, the Company and National Bank of Canada agreed to terminate an existing revolving facility. Under the terms of the current amendment, the Company is permitted a facility of up to \$0.4 million in respect of foreign exchange contracts and up to \$0.1 million in respect of corporate credit card services.
- On December 5, 2022, Martello's board of directors approved the repricing and expiry date extension of up to 3,077,000 outstanding stock options. The repricing and extension exclude directors.
- On November 16, 2022, Martello announced a USD\$2 million private placement pursuant to which Wesley Clover International Corporation ("WCI"), a corporation controlled by Terence Matthews, would become a Control Person of the Company (as such term is defined in the policies of the TSX Venture Exchange, subject to TSXV and disinterested shareholder approval).
- In Q2 FY23 Martello won a significant deal with a Fortune 100 food manufacturer with 80,000 employees, and in Q3 FY23 won a UK government department with more than 120,000 users.
- On September 20, 2022, Martello announced the launch of Vantage DX R3.7, which introduces AudioCodes session

border controller (SBC) monitoring and out of the box Microsoft Teams Performance Overview Dashboards.

- On September 2, 2022, Martello announced the grant of 1.5 million stock options to Chief Financial Officer Jim Clark, a one-time stock option grant associated with Mr. Clark's appointment in May 2022.
- On August 23, 2022, Martello announced an agreement with Co-Chairman Terry Matthews, through WCI for a USD \$1.5 million (approximately CAD \$2 million) subordinate loan.
- On August 17, 2022, Martello announced cost optimization measures as part of a strategy to accelerate positive cashflow and profitable revenue growth.
- On July 14, 2022, Martello announced a partnership with Datacom, a New Zealand headquartered IT services company, in which Datacom will offer Vantage DX to its customers.
- On June 16, 2022, Martello announced that it had entered into an amended agreement with Mitel Networks, extending the term to three years and simplifying the commercial licensing model under which the Mitel Performance Analytics (MPA) product is offered, to provide increased operational efficiency and ease for partners and customers.
- On April 28, 2022, Martello announced the appointment of Jim Clark as Chief Financial Officer, effective May 2, 2022.
- On April 7, 2022, Martello announced a global partnership with Orange Business Services in which Martello's Vantage DX SaaS platform will be integrated in the Orange Business Together with Microsoft portfolio.

Subsequent events

Forward Contracts

On April 22, 2024, the Corporation entered a derivative financial instrument to manage its exposure to USD foreign currency risk for commitments of USD \$1.8 million. Under these instruments, the Corporation is committed to sell USD monthly starting on June 3, 2024, if the USD/CAD rate goes above or below certain thresholds.

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)	March 31, 2024	March 31, 2023	March 31, 2024	March 31, 2023
	(Three months ended)		(Twelve months ended)	
Sales	\$ 3,808	4,027	15,773	16,099
Cost of Goods Sold	482	452	1,943	1,854
Gross Margin	3,326	3,575	13,830	14,246
<i>Gross Margin</i>	%	87.3%	88.8%	87.7%
Operating Expenses	4,567	4,685	17,425	37,762
Loss from operations	(1,242)	(1,110)	(3,595)	(23,517)
Other income/(expense)	(459)	(438)	(2,163)	(1,811)
Loss before income tax	(1,700)	(1,548)	(5,759)	(25,328)
Income tax recovery (expense)	0	213	15	138
Net loss	(1,700)	(1,335)	(5,744)	(25,190)
Total Comprehensive loss	\$ (1,770)	(1,236)	(5,680)	(24,454)
EBITDA (1)	\$ (886)	(522)	(1,799)	(21,950)
Adjusted EBITDA (1)	\$ (791)	(549)	(1,487)	(2,213)

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

Balance Sheet – Highlights

(in 000's)	March 31, 2024	March 31, 2023
Cash and short-term investment	\$ 7,719	2,219
Working capital	4,034	(8,244)
Total Assets	20,560	20,154
Total Liabilities	19,821	21,422
Share capital and contributed surplus	63,607	55,921
Warrants	2,320	2,320
Accumulated deficit and other comprehensive income	(65,189)	(59,508)
Shares issued and outstanding	# 543,707,430	392,707,430

Highlights for the three months ended March 31, 2024, as compared to the same period in 2023:

- In Q4 FY24, Vantage DX monthly recurring revenue (“MRR”) increased by 19% (compared to Q4 FY23). Vantage DX is the leading-edge software product within the Modern Workplace Optimization business line, and its MRR growth is driven by sales to net new clients as well as a strategy to convert clients from legacy products to Vantage DX.
- Aggregate revenue of \$3.81 million in Q4 FY24 is \$0.22 million (5%) lower than the same quarter in the prior year (\$4.03 million). Normalizing for FX, revenue is \$0.24 million or 6% lower. This decrease is primarily attributable to a decrease in Legacy product subscription licenses and maintenance and support.

- Revenue remains diversified with Modern Workplace Optimization products contributing 56% and Mitel contributing 44% in Q4 FY24 compared to 55% and 45% in the same period of FY23, respectively. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q4 FY24 compared to 99% in Q4 FY23.
- Monthly recurring revenue is \$1.25 million in Q4 FY24, compared to \$1.33 million in Q4 FY23. The \$0.08 million (6%) decrease is primarily attributable to declining subscription and maintenance and support on legacy products. Normalizing for FX, MRR is 7% lower compared to Q4 FY23. MRR is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. The MRR measure offers insight into the predictability of Martello's revenue.
- Gross margin as a percentage of revenue was 87% in Q4 FY24, compared to 89% in Q4 FY23. 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 \$4.57 million in Q4 FY24 compared to \$4.68 million in Q4 FY23, a decrease of \$0.11 million (2%). The decrease in OPEX is driven by lower spend on professional fees (consulting, tax, audit and recruitment), lower HC related costs, partially offset by lower government incentives and an increase in variable pay compensation.
- Loss from operations was \$1.24 million compared to a loss of \$1.11 million in the same period of FY23, an increase of \$0.13 million (12%) primarily attributable to decrease in gross margin and partially offset by lower operating expenses as described above.
- Loss before income tax was \$1.7 million in Q4 FY24 compared to a loss of \$1.55 million in Q4 FY23, a decrease of \$0.15 million (10%). In addition to the items above, the Company had lower interest expenses partially offset by loss on FX and on the revaluation of forward contracts in Q4 FY24.
- The net loss was \$1.70 million in Q4 FY24 compared to \$1.33 million in same period in FY23, an increase of \$0.37 million (27%), because of items outlined above in addition to a lower income tax recovery in Q4 FY24.
- Adjusted EBITDA (a non-IFRS measure) in Q4 FY24 was a loss of \$0.79 million, compared to a loss of \$0.55 million in the same period of FY23. The \$0.24 million (44%) increase in a loss is attributable to the items described above.

Highlights for the twelve months ended March 31, 2024, as compared to the same period in 2023:

- Aggregate revenue of \$15.77 million in Q4 YTD FY24 is \$0.33 million (2%) lower than the same quarter in the prior year (\$16.10 million). Normalizing for FX, revenue is \$0.62 million or 5% 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 Q4 YTD FY24 and Q4 YTD FY23. The Mitel segment continues to be a large and stable source of revenue and margin.
- Recurring revenue is 98% in Q4 YTD FY24 compared to 99% in Q4 YTD FY23.
- Gross margin as a percentage of revenue was 88% in Q4 YTD FY24, compared to 89% in Q4 YTD FY23. 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 \$17.43 million in Q4 YTD FY24 compared to \$37.76 million in Q4 YTD FY23, a decrease of \$20.34 million (54%). The decrease in OPEX is driven by impairment of goodwill and intangible assets in Q3 FY23 in addition to a decrease due to headcount reductions combined with lower spend on professional fees, marketing, and advertising partially offset by an increase in variable pay compensation and lower government credits.
- Loss from operations was \$3.60 million compared to a loss of \$23.52 million in the same period of FY23, a decrease of \$19.92M (85%) primarily attributable to impairment of goodwill and intangibles assets in Q3 FY23.
- Loss before income tax was \$5.76 million in Q4 YTD FY24 compared to a loss of \$25.33 million in Q4 YTD FY23, a decrease of \$19.57 million (77%). In addition to the items above, the Company had gains on issuance of the loan with FedDev in Q4 YTD FY23 and loss on investment in Q2 FY24 partially offset by lower interest expense and foreign exchange loss in Q4 YTD FY24.
- The net loss was \$5.74 million in Q4 YTD FY24 compared to \$25.19 million in same period in FY23, a decrease of \$19.45 million (77%) because of items outlined above partially offset by lower income tax recovery in Q4 YTD FY24.

- Adjusted EBITDA (a non-IFRS measure) in Q4 YTD FY24 was a loss of \$1.49 million, compared to a loss of \$2.21 million in the same period of FY23. The \$0.72 million (33%) decrease is attributable to the items described above.

Non-IFRS financial measures

The Company's "EBITDA" and "Adjusted EBITDA" are non-IFRS financial measures used by management that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on an adjusted basis as described above.

EBITDA is a non-IFRS financial measure and is defined as net loss before interest income, interest expense, accretion of long-term debt, income tax recovery, depreciation and amortization of intangible assets.

ADJUSTED EBITDA is a non-IFRS financial measure and is calculated as EBITDA excluding share-based compensation expense, loss from discontinued operations, impairment of goodwill and intangible assets, acquisition-related costs and foreign exchange gain/loss.

In the three and twelve months ended March 31, 2024, the Company's Adjusted EBITDA loss was \$0.79 million and \$1.49 million compared to a loss of \$0.55 million and \$2.21 million, respectively, in the same period last year. The decrease in Adjusted EBITDA in Q4 FY24 is primarily due to lower sales while increase in Q4 YTD FY24 is primarily driven by lower operating expenses.

EBITDA and Adjusted EBITDA (in 000's)		March 31, 2024	March 31, 2023	March 31, 2024	March 31, 2023
		(Three months ended)		(Twelve months ended)	
Net loss	\$	(1,700)	(1,335)	(5,744)	(25,190)
Interest income	(2)	(1)	(19)	(15)	(29)
Interest expense	(2)	386	576	1,647	2,295
Financing Fees	(2)	5	10	81	186
Accretion of long-term debt	(2)	27	39	153	151
Loss on investment	(2)	-	-	304	-
Gain on Fed Dev loan	(2)	(83)	(62)	(132)	(1,131)
Income tax recovery	(2)	(0)	(213)	(15)	(138)
Depreciation	(2)	64	68	256	308
Amortization	(2)	417	414	1,668	1,598
EBITDA	(1)	(886)	(522)	(1,799)	(21,950)
Foreign exchange gain (loss)	(2)	72	(31)	119	417
Revaluation of forward contract	(2)	52	(61)	22	(20)
Other income	(2)	2	(14)	(14)	(57)
Share-based compensation expense	(3)	(68)	54	185	210
Deferred Stock Unit plan expense	(3)	38	26	(1)	23
Impairment of goodwill	(2)	-	-	-	18,935
Impairment of intangible assets	(2)	-	-	-	229
Adjusted EBITDA	(1)	(791)	(549)	(1,487)	(2,213)

(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)	March 31, 2024	March 31, 2023
Sales	\$ 3,808	4,027
Less: Revenue recognized at point in time	(39)	(7)
Less: Term licenses	(31)	(34)
Quarterly Recurring Revenue	3,738	3,986
Monthly Recurring Revenue (MRR)	1,246	1,329

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 (primarily Savision and GSX) coupled with Martello developed high demand functionality. Martello's UC performance analytics software is included in Mitel's premium software assurance plans (Mitel Performance Analytics or MPA). Martello earns a monthly fee for each subscriber to the plan.

Recurring revenue includes the components described above as MRR.

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

Three and twelve months ended March 31, 2024

Gross Margin - Summary

(in 000's)	March 31, 2024	March 31, 2023	March 31, 2024	March 31, 2023
	(Three months ended)		(Twelve months ended)	
Sales	\$ 3,808	4,027	15,773	16,099
Cost of Goods Sold	482	452	1,943	1,854
Gross Margin	3,326	3,575	13,830	14,246
<i>Gross Margin</i>	<i>87.3%</i>	<i>88.8%</i>	<i>87.7%</i>	<i>88.5%</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 twelve months ended March 31, 2024

Sales and Gross Margin - Three months ended

	March 31, 2024			March 31, 2023		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Sales	\$ 2,125	1,683	3,808	2,226	1,801	4,027
Cost of Goods Sold	421	53	473	416	37	452
Gross Margin	1,705	1,630	3,334	1,810	1,764	3,575
<i>Gross Margin</i>	% 80.2%	96.9%	87.6%	81.3%	98.0%	88.8%

Sales and Gross Margin -Twelve months ended

	March 31, 2024			March 31, 2023		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Sales	\$ 8,775	6,998	15,773	8,952	7,147	16,099
Cost of Goods Sold	1,710	233	1,943	1,702	152	1,854
Gross Margin	7,065	6,765	13,830	7,250	6,995	14,246
<i>Gross Margin</i>	% 80.5%	96.7%	87.7%	81.0%	97.9%	88.5%

Within the Modern Workplace Optimization segment, Vantage DX growth continues. Vantage DX contributed \$0.61 million in revenue in Q4 FY24 (20% increase v. Q1 FY24 and 27% increase v. Q4 FY23). Legacy products decreased \$0.23 million (13%) in Q4 FY24 compared to Q4 FY23. The expected decrease in license, maintenance and support revenue on Legacy products was partially offset by favourable FX (EUR-CAD and USD-CAD) in FY24. Modern Workplace Optimization margin slightly decreased in Q4 FY24 and Q4 YTD FY24 compared to the same periods in FY23. Gross margin remained relatively stable year-over-year with a marginal decrease in Q4 FY24 attributable to the higher cost of hosting software products on the cloud.

Mitel revenue decreased \$0.12 million (7%) in Q4 FY24 and \$0.15 million (2%) in Q4 YTD FY24 compared to the same period in FY23. The decrease is attributable to a minor variance in the mix of revenue from various Mitel Performance Analytics offerings and partially offset by favourable FX rates (USD-CAD). Gross margin slightly decreased in Q4 FY24 and Q4 YTD FY24 compared to the same periods in FY23. Gross margin remained relatively stable year-over-year with a marginal decrease in Q4 FY24 attributable to a higher mix of hardware sales and installation and delivery support costs within cost of goods sold.

For the three and twelve months ended March 31, 2024 and 2023

MRR Reconciliation - 3 months ended

	March 31, 2024			March 31, 2023		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Revenue	\$ 2,125	1,682	3,808	2,226	1,801	4,027
Adjustments:						
Less Revenue recognized at point in time						
Hardware	-	(2)	(2)	-	(1)	(1)
Training and professional services	(36)	-	(36)	(4)	(2)	(6)
Less: Term licences	(31)	-	(31)	(34)	-	(34)
Quarterly Recurring Revenue	2,058	1,680	3,738	2,188	1,798	3,986
Monthly Recurring Revenue (MRR)	686	560	1,246	729	599	1,329

MRR is \$1.25 million in Q4 FY24 compared to \$1.33 million in Q4 FY23. The \$0.08 million (6%) decrease in MRR is primarily attributable to a decrease in users 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 twelve months ended March 31, 2024

Expenses - Three months ended

	March 31, 2024	March 31, 2023	Increase / (Decrease)
(in 000's)			
Research and development	\$ 1,668	1,445	224
Sales and marketing	1,480	1,477	3
General and administrative	938	1,282	(344)
Depreciation	64	68	(4)
Amortization	417	413	5
TOTAL	4,567	4,684.5	(116)

Expenses - Twelve months ended

	March 31, 2024	March 31, 2023	Increase / (Decrease)
(in 000's)			
Research and development	\$ 5,584	5,658	(75)
Sales and marketing	5,916	6,625	(710)
General and administrative	4,002	4,408	(407)
Depreciation	256	308	(52)
Amortization	1,668	1,598	70
Impairment of goodwill	-	18,935	(18,935)
Impairment of intangible assets	-	229	(229)
TOTAL	17,425	37,762	(20,336)

For the three and twelve months ended March 31, 2024, operating expenses decreased by \$0.11 million (11%) and \$20.34 million (54%) compared to the same period in FY23. For the twelve months ended March 31, 2024, operating expenses before impairment decreased by \$1.17 million (6%) compared to the same period in FY23. Decrease in operating expenses is primarily due to cost optimization resulting in lower headcount and professional fees across all functions and partially offset by increase in variable compensation across all functions and lower government credits.

Impairment loss: Management reviewed the recoverable amount of goodwill and intangible assets for the CGU in Q4 FY23. The recoverable amount was assessed by reference to the value in use (“VIU”) calculation. The fair value was assessed by reference to discounted cash flow projections reflecting management’s assessment of projected operating results for a five-year period.

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 \$0.22 million (15%) in Q4 FY24 compared to Q4 FY23 and decreased \$0.08 million (1%) in the twelve months of FY24 compared to FY23. The decrease in spend is attributable to cost optimization actions as described above and partially offset by lower investment tax credits in FY24 compared to FY23. Q4 FY24 increase is primarily driven by YTD adjustment to reduce investment tax credits.

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

- Sales and Marketing expenses remained consistent in Q4 FY24 compared to Q4 FY23 and decreased by \$0.71 million (11%) in the twelve months of FY24 compared to FY23. The decrease in spend is attributable to cost optimization actions as described above in addition to a decrease in marketing and advertising spend.

General and administrative costs include headcount related compensation, board compensation, rent and professional and other fees related to corporate activities.

- General and administrative costs decreased \$0.34 million (27%) in Q4 FY24 compared to Q4 FY23 and \$0.41 million (9%) from the twelve months of FY24 to FY23. The decrease in Q4 FY24 is attributable to cost optimization actions as described above and partially offset by increase in severance costs in Q4 YTD FY24.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. The depreciation decreased by \$0.05 million (17%) from Q4 YTD FY24 to Q4 YTD FY23 primarily due to decrease in right-of-use assets due to lease changes.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. The amortization increased by \$0.07 million (4%) from YTD FY24 to YTD FY23 due to increase in EUR-CAD FX.

Loss from Operations

In Q4 FY24, the loss from operations was \$1.24 million compared to a loss of \$1.11 million in the same period of FY23, an increase of \$0.13 million (12%). The increase in net loss from operations in Q4 FY24 is primarily due to lower sales partially offset by reduction in OPEX. In Q4 YTD FY24 the loss from operations was \$3.60 million compared to a loss of \$23.52 million in Q4 YTD FY23, a decrease of \$19.92 million (85%). The decrease in net loss from operations in FY24 is primarily due to impairment of goodwill and intangible assets in Q3 FY23 in addition to reduction in the OPEX because of the Q2 F23 cost optimization actions.

Other Income/Expense

(in 000's)	March 31, 2024	March 31, 2023	March 31, 2024	March 31, 2023
	<u>(Three months ended)</u>		<u>(Twelve months ended)</u>	
Interest income	\$ 1	19	15	29
Interest expense	(386)	(576)	(1,647)	(2,295)
Financing fees	-	(10)	(81)	(186)
Accretion of long-term debt	(27)	(39)	(153)	(151)
Gain on receipt of FedDev loan	83	62	132	1,131
Revaluation of forward contract	(52)	61	(22)	20
Foreign exchange gain (loss)	(72)	31	(119)	(417)
Loss on investment	-	-	(304)	-
Other income	(2)	14	14	57
TOTAL	\$ (454)	(438)	(2,163)	(1,811)

The interest expense includes Vistara Term Loan and WCI subordinate loan interest as well as amortization of the loan and warrant origination fees associated with the Vistara Term Loan and WCI loan. For the three and twelve months ended March 31, 2024, the decrease in interest expense is a result of full amortization of these origination costs as of May 31, 2023, compared to twelve months of amortization booked for March 31, 2023.

For the three- and twelve-months ending March 31, 2024, the Company experienced lower financing fees related to its loan and credit facilities compared to the previous year. For these periods in 2024, the Company incurred no fees and \$0.08 million, respectively, versus \$0.01 million and \$0.19 million for the same periods the previous year.

On March 7, 2022, the Corporation entered into a new FedDev contribution agreement in total of \$2.5 million. The funds provided under this agreement are non-interest bearing, unsecured, and are to be repaid over 72 months starting on April 1, 2025. As of March 31, 2024, the Corporation received a total deposit of \$2.25 million. An adjustment of \$1.26 million was recorded to recognize the government grant within the loan at fair value upon inception, which is recorded as a gain on receipt of FedDev loan. For the twelve months ended March 31, 2024, the Corporation received a deposit of \$0.14 million with a related gain of \$0.06 million, compared to a deposit of \$2.11 million received as of March 31, 2023, with a related gain of \$1.13 million. Additionally, an adjustment to the fair value and gain of \$0.07 million was recorded in FY24 due to an amendment that extended the loan term by six months.

For the three and twelve months ended March 31, 2024, the Company reported a foreign exchange loss of \$0.07 million and \$0.12 million, respectively, compared to a gain of \$0.03 million and \$0.42 million for the same periods last year. The primary cause of the foreign exchange loss is the revaluation of the Vistara and WCI loans, which are denominated in USD. The USD to CAD exchange rate increased during FY23 rising from 1.2529 on March 31, 2022, to 1.3545 on Mar 31, 2023, whereas it remained relatively stable in FY24, at 1.3542 on March 31, 2024, compared to 1.3545 on March 31, 2023.

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 twelve months ended March 31, 2024, resulted in losses of \$0.05 million and \$0.02 million, respectively, compared to gain of \$0.06 million and loss of \$0.02 million for the same periods last year, mainly due to the fluctuations in USD rates.

The investment loss for the three and twelve months ended March 31, 2024, reflects management's decision to write down the value of investment in Adaptive shares.

Other Comprehensive Income / Loss

For the three and twelve months ended March 31, 2024, the Company reported other comprehensive income of \$0.07 million and \$0.06 million, respectively, compared to \$0.10 million and \$0.74 million for the same periods last year. Other comprehensive income/(loss) includes pension plan fair value adjustments, pension plan rereasurement/settlement, and currency translation differences for acquired operations where the functional currency is EUR.

During these periods, the weakening of the CAD against the EUR resulted in a loss on the revaluation of the net assets of the acquired operations, including goodwill and intangibles. The EUR to CAD exchange rate was 1.4579 on March 31, 2024, and 1.4742 on March 31, 2023 (March 31, 2022 – 1.3922).

Net Loss and Comprehensive Loss

For the three and twelve months ended March 31, 2024, the net loss amounted to \$1.70 million and \$5.74 million, respectively, compared to \$1.33 million and \$25.19 million, in the same respective periods last year. The total comprehensive loss for the three and twelve months ended March 31, 2024, was \$1.77 million and \$5.68 million, respectively, compared to \$1.24 million and \$24.45 million for the same respective periods last year. The key drivers contributing to the losses are provided under Loss from Operations, Other Income/Expense, Income Tax Recovery and Other Comprehensive Loss above.

SELECTED QUARTERLY INFORMATION

The following table presents certain unaudited financial information for each of the six fiscal quarters up to and including the quarter ended March 31, 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 twelve -months ended March 31, 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.

Quarterly Financial Information (in 000s)	Q4	Q3	Q2	Q1	Q4	Q3
	FY24	FY24	FY24	FY24	FY23	FY23
Sales	\$ 3,808	3,979	3,982	4,004	4,027	4,054
Cost of Goods Sold	482	473	506	481	452	447
Gross Margin	3,326	3,506	3,476	3,523	3,575	3,607
Gross Margin %	87%	88%	87%	88%	89%	89%
Expenses	4,567	4,414	4,158	4,285	4,685	23,365
Loss from operations	(1,242)	(909)	(683)	(762)	(1,110)	(19,758)
Other income/(expense)	(459)	(257)	(885)	(562)	(438)	(367)
Loss before income tax	(1,700)	(1,166)	(1,568)	(1,324)	(1,548)	(20,125)
Income tax recovery (expense)	0	(105)	2	117	213	(83)
Net Loss	(1,700)	(1,271)	(1,566)	(1,208)	(1,335)	(20,208)
Total comprehensive income (loss)	(1,770)	(1,101)	(1,653)	(1,156)	(1,236)	(18,614)
EBITDA ⁽¹⁾	(886)	(267)	(358)	(288)	(522)	(18,838)
Adjusted EBITDA ⁽¹⁾	(791)	(397)	(99)	(201)	(549)	(168)

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

The Company’s objectives in managing its liquidity and capital structure are to generate sufficient cash to fund the Company’s operating objectives, including organic growth and growth through acquisitions. The Company’s ability to reach sustained profitability is dependent on successful implementation of the business strategy. While management is confident in the success and profitability of the business, there can be no assurance that Martello will generate enough revenue to reach sustained profitability.

To date, the Company has financed its operations through the revenue generated from the sale of its products and services, issuance of common shares, raising of long-term debt, as well as the receipt of government loans, and investment tax credits.

For the foreseeable future, the Company expects to continue financing its operations through cash from Operations, equity capital and long-term debt to provide sufficient cash for scaling of the business.

FY 2024 activities

- On May 25, 2023, WCI increased the August 2022 subordinate loan to the Company by USD \$0.79 million. These proceeds were used to repay a portion of the existing Vistara loan. On August 9, 2023, the Company received USD \$3 million from WCI which was used to pay off the Vistara loan in full. In addition to this, the maturity of the WCI was extended to August 28, 2026.
- During the twelve months ended March 31, 2024, the Company completed its third and fourth tranches of the subscription agreement with Terence H. Matthews through WCI dated February 23, 2023, and issued 24 million common shares at a price of \$0.05 per common share for aggregate gross proceeds of \$1.2 million. US \$0.5 million of the proceeds were used to pay a portion of the Vistara loan.
- On July 13, 2023, the Corporation entered into a private placement for shares with Terence H. Matthews through Wesley Clover International Corporation to issue 50 million common shares for total proceeds of \$2.5 million.
- On December 14, 2023, and March 27, 2024, the Corporation completed other private placements with Terence H. Matthews through Wesley Clover International Corporation to issue 35 million and 30 million common shares for total proceeds of \$1.75 million and \$1.5 million, respectively.
- Fed Dev loan – During the twelve months ended March 31, 2024, the Company received \$0.14 million in Fed Dev loans funds in relation to the Jobs and Growth program as the fourth and fifth tranches.

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled \$7.72 million at March 31, 2024 compared to \$2.22 million at March 31, 2023. The increase is explained below under **Cashflow Analysis**.

The following table presents the Company’s working capital position of the Company as at March 31, 2024 and March 31, 2023:

<u>(in 000's)</u>	March 31, 2024	March 31, 2023
Current Assets	\$ 12,145	9,438
Current Liabilities	<u>8,110</u>	<u>17,682</u>
Net Working Capital	4,034	(8,244)

The increase in net working capital for FY24 was primarily driven by the funds received from private placements. On liabilities side, the decrease in current liabilities as of March 31, 2024, was mainly due to the refinancing of the debt which extended the maturity

date to August 28, 2026. Consequently, the outstanding loan at March 31, 2024 was reclassified as long-term liabilities section of the balance sheet.

Debt

As at March 31, 2024 debt totaled \$9.64 million, comprised of:

- \$8.40 million WCI subordinated loan initially advanced in August 2022, with additional second and third tranche received in May 2023 and August 2023, respectively. These funds were used to pay down the Vistara loan. Interest accrues at the US prime rate plus 8.75% and is payable at the loan's maturity on May 28, 2026. Fees related to the debt issuance are amortized on straight line basis over the term of the loan.
- \$1.24 million non-interest bearing, unsecured loan from FedDev under the Jobs and Growth Program. Payments on this loan will commence on April 2025, until March 2031.

Share Capital

During FY24, the following transactions in the share capital of Martello occurred:

- 151,000,000 new shares were issued through private placements.
- 20,715,000 new options were granted.
- 9,691,143 options were forfeited.
- 3,859,000 options expired.
- 32,861,250 warrants issued in connection with the First offering expired.

During FY23, the following transactions in the share capital of Martello occurred:

- 5,615,000 new options were granted.
- 6,406,834 options were forfeited.
- 1,440,000 options expired.
- 12,944,000 options repriced.
- 3,018,575 broker compensation units expired in connection with the First offering.
- 16,286,951 warrants issued in connection with the First offering and private placement of March 18, 2021 expired.

Cash Flow Analysis

(in 000'S)	Twelve months ended	
	March 31,	
	2024	2023
Operating activities		
Loss before income tax	\$ (5,759)	(25,328)
Items not affecting cash	3,840	21,868
Net change in operating components of working capital	1,666	(1,388)
Total cash flow used in operations	(253)	(4,848)
Total cash flows provided by investing activities	(20)	60
Total cash flows provided by financing activities	5,795	2,024
Net change in cash	5,521	(2,764)
Cash, beginning of period	2,118	4,853
Effects of currency translation on cash	(25)	29
Cash, end of period	7,614	2,118

Cash flows used in operations were \$0.25 million for the year ended March 31, 2024, compared to \$4.85 million for the year ended March 31, 2023. The decrease in cashflows used in operations of \$4.60 million is mainly due to the decrease in net loss by \$19.57 million for the twelve months ended March 31, 2024, compared to the prior period. The net loss was \$5.76 million in the year ended March 31, 2024, compared to \$25.33 million for the previous year. In addition, a gain on loan issuance of \$1.13 million for the year ended March 31, 2023, partially offsetting the impairment of intangibles and goodwill of \$19.16 million also accounted for the decrease in cash flow used in operations.

Cashflows used in investing activities were \$0.02 million for the year ended March 31, 2024, as compared \$0.06 million of cash provided by investing activities for the year ended March 31, 2023. The major cashflow from investing activity in FY23 is from the sale of short-term investments (\$0.17 million), offset by purchase of fixed asset (\$0.01 million) and purchase of short-term investments (\$0.10 million). In FY24, the major cashflow used in investing activity was for the purchase of fixed asset (\$0.02 million).

Cashflows provided by financing activities were \$5.79 million for the year ended March 31, 2024, compared to \$2.02 million for the year ended March 31, 2023. Cashflows provided by financing activities for FY24 is from private placement of (\$7.55 million), loan proceeds from WCI (\$5.25 million), offset with repayment of Vistara loan (\$6.60 million) and repayment of lease obligations of \$0.27 million. Cashflows provided by financing activities in FY23 is from the issue of common stock (\$3.3 million), loan proceeds of FedDev loan (\$2.11 million), proceeds from WCI subordinate loan (\$1.96 million), offset with repayment of Vistara loan (\$4.63 million) and repayment of lease obligations of \$0.31 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 21 Related party transactions and balances. Total non-lease expense expected for the year-ending March 31, 2025, is \$0.1 million.

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 the total invoiced amount, and any future invoices will be applied towards the prepayment amount. At March 31, 2024, the Company has consumed \$1.9 million of eligible services since the contract date. The Company currently projects to be within \$0.5 million of the \$4 million commitment by July 2025.

OFF BALANCE SHEET ARRANGEMENTS

At March 31, 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 March 31, 2024.

As of March 31, 2024, accounts payable and accrued liabilities include amounts totaling \$0.72 million (March 31, 2023 - \$0.34 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 March 31, 2024, WCI holds 51.55% of the issued and outstanding common shares of the Company as at March 31, 2024.

The Company leases office premises from WCI. For the year ended March 31, 2024, the Corporation paid rent to WCI, which is reflected in the results for the three and twelve months ended March 31, 2024 as \$0.02 million and \$0.07 million in depreciation expense (three and twelve months ended March 31, 2023 - \$0.02 million and \$0.07 million, respectively) and \$0.02 million and \$0.10 million in rent expense (three and twelve months ended March 31, 2023 - \$0.03 million and \$0.08 million, respectively).

For the three and twelve months ended March 31, 2024, the Corporation accrued interest on the subordinate loan from WCI of \$0.36 million and \$1.12 million, respectively (March 31, 2023 - \$0.11 million and \$0.24 million, respectively) in the consolidated statement of loss and comprehensive loss.

Effective October 24, 2022, the Corporation entered into an agreement with Wesley Clover Services North America for procuring Development, Security, and Operations services and technical services for the Martello Technologies platform. For the three and twelve months ended March 31, 2024, expense of \$Nil, respectively (March 31, 2023 - \$0.07 million and \$0.14 million, respectively) has been recorded on the consolidated statements of loss and comprehensive loss.

In August 2022, the Company and Terence Matthews through WCI signed a subordinated term loan of US \$1.5 million, which accrued interest at US Prime plus 8.75%. In FY24, WCI increased the loan to Martello, which totaled \$7.93 million at March 31, 2024.

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

OUTLOOK

Microsoft Teams has become the linchpin of enterprise communications and collaboration, now considered the most critical application in most organizations. For IT teams, this criticality has amplified the complexity involved in delivering reliable service to users. Behind the scenes, there are many factors that can influence whether a Teams meeting, or call goes well, including the user's endpoint device and ISP, the local corporate network and the Microsoft service itself.

In March 2024, Microsoft announced a 99.999% Microsoft Teams SLA uptime guarantee for Teams Phone, the service that allows enterprises to use the PSTN to conduct Teams calls. While this move signals the importance of delivering a reliable service, its focus on Teams Phone doesn't address the 2.7 billion minutes of Teams meetings that happen every day.

Martello's Vantage DX was launched in 2021 to address this problem. The software-as-a-service proactively detects problems impacting the Microsoft Teams user experience, often before the user even experiences a problem. It provides IT teams with data and tools to resolve the problem faster, and to optimize the overall experience for users. Recognizing the power of Artificial Intelligence (AI) technologies to relieve the burden of IT teams responsible for the digital user experience, Martello is developing an AI strategy with the vision of embedding even more powerful analytics and proactive problem-solving in the Vantage DX solution.

While Vantage DX experiences early-stage growth in the rapidly growing Microsoft Teams market, it is one of three distinct Martello product lines, each with different growth profiles. The Legacy product line represents 40% of the Company's revenue and is declining by design as Martello sunsets these products. It is expected that growth of Vantage DX will exceed the decline of Legacy product revenue in the future. The Mitel product line represents 44% of the Company's revenue, with single digit year-over-year growth rates in FY24. Martello's top line growth reflects these growing, declining and stable product lines.

Martello's focus as the Company enters the 2025 fiscal year is on driving sales of Vantage DX, through direct and indirect channels. In FY24 Martello made significant improvements to its operations, to ensure the right systems, processes and people are in place to drive growth in this business line. The Company is investing in building its channel business in FY25, recruiting, and activating managed service providers (MSPs) and resellers. In Q4 FY24 Martello added US-headquartered MSP Yorktel to its slate of partners, closing a sales deal with a large North American multinational investment management firm with more than 40 locations globally to manage the Teams user experience for 5,000 employees. The Company continues to expand its partnership with Orange Business Services, closing a sales deal with a global packaging business in Q4 FY24 through this partnership.

Martello continues to grow its partnership with Mitel, signing an MSP agreement in Q4 FY24 for Vantage DX. Interest from Mitel channel partners in Vantage DX is developing, with a growing pipeline of sales deals as these partners seek out opportunities to expand their Microsoft Teams service offerings. Mitel and Martello continue to work closely together to expand the capabilities of the MPA software and extend its value to partners and customers.

Product innovation underpins Martello's growth strategy. In the last quarter of FY24 new capabilities were introduced that help IT teams managing a hybrid workforce to understand the Teams performance experience by remote compared to in-office employees. Looking ahead to FY25, innovation is focused on the growing Teams Phone market, where Martello has a competitive differentiator due to its extensive expertise in real-time communication performance management. As discussed above, development efforts will also be focused on data clarity and the use of AI to surface performance anomalies. Martello's AI strategy consists of five steps: event detection, root cause analysis, remediation playbooks, remediation automation and impact assessment.

Martello began the 2025 fiscal year with the appointment of Jim Clark as Chief Executive Officer (CEO) and Alec Saunders to the Board of Directors. Mr. Clark previously served as Interim CEO, optimizing Martello's organizational structure and attracting high caliber talent to the Company while overseeing improvements to Martello's sales and demand generation processes. Mr. Saunders is a software executive and entrepreneur who currently leads partner strategy for sustainability at Microsoft. In his 17-year tenure at Microsoft, he has held progressively senior roles in partner strategy and development for early-stage products, startups and business applications. He has founded three companies and served as VP Ecosystem and Developer Relations at Blackberry.

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, evaluation of goodwill and intangible assets impairment, classification of discontinued operations, the assumptions underlying the actuarial valuation of the defined benefit pension plan, the determination of the appropriate lease terms and the assessment of revenues occurring at a point in time, over a period of time or based on usage. For further details, reference should be made to Note 3 of the consolidated financial statements for the years ended March 31, 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 March 31, 2024, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD \$1.80 million (March 31, 2023 - \$4.95 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 March 31, 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 March 31, 2024, the US prime rate was 8.50% and the Company is accruing interest at 17.25% per annum on the WCI loan where the interest is payable on loan maturity. The WCI term loan is denominated in USD. The Company is reviewing its exposure to interest rate risks and foreign currency risks and will seek to minimize its exposure to interest rate and currency rate fluctuations.

Financial assets and financial liabilities are initially measured at fair value and are subsequently measured at amortized cost, or at fair value through comprehensive income or through profit and loss.

The forward contracts are measured at fair value through profit and loss. All other financial assets and liabilities are measured at amortized cost.

RISK FACTORS

Martello's operations are subject to many factors that may cause results to differ from expectations. Below is a summary of the risk factors, in addition to those noted above.

Global Economic Conditions and Inflation

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

Competition

The industry in which the Company is positioned is rapidly evolving and the Company faces intense competition for its products and services. Other companies, including Microsoft, may invest more time and resources in developing competitive technology, products, or solutions. Other companies may have access to capital at a lower cost than Martello. The competitive environment could result in loss of market share.

Customer acceptance of products and services

The Company's product development and marketing efforts are directed toward products and services that enable businesses to innovate or operate effectively, and that have value to those businesses. Success depends on customers' belief that there are technological, operational, or cost benefits associated with Martello's products and services.

Global pandemic

The Company continues to monitor for potential pandemics (e.g., COVID-19) and the impact on its operations, business, and financial performance, including liquidity and capital usage. In the case of COVID-19, measures were taken by the Company early to minimize the effects, including temporary salary reductions and reductions in discretionary spending. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on ongoing developments which continue to create a degree of uncertainty.

Risks inherent in acquisitions

The Company has acquired assets and may acquire assets, products or businesses in the future that it believes will complement or augment its existing business. Risks associated with acquisition activity include failure to successfully realize value from acquisitions, including greater than expected product integration or development challenges, costs and delays, disruption and diversion from the existing business, challenges of integration and retention of key personnel, unanticipated costs or liabilities associated with the new business, and inappropriate valuations of the acquired assets or business. These risks could have a material adverse impact on liquidity, capital resources and operations of the Company.

The Ability to Manage Growth

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

Dependence on Mitel

As a strategic partner, Mitel accounted for 43% of the Company's revenue during the twelve months ended March 31, 2024 (43% for the twelve months ended March 31, 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.

In November 2021, Mitel and RingCentral, Inc. ("RingCentral") announced a strategic partnership, pursuant to which RingCentral would become Mitel's exclusive UCaaS partner. Mitel and RingCentral's relationship could accelerate the migration of on-premises customers into RingCentral's UCaaS offering. This risk is mitigated by the launch of the Company's Vantage DX integrated solution and the launch of its indirect channel strategy. Mitel's acquisition activities also address this risk, with Mitel's acquisition of Unify in October 2023 expanding Martello's total addressable market. The Company's deepening relationship with Microsoft through the Microsoft Global Solutions Alliance Program (announced in August 2021) is another concrete step in this mitigation 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.

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.
- 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.