MARTELLO

Martello Technologies Group Inc.

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

For the three months ended June 30, 2020

August 26, 2020

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 August 26, 2020.

This MD&A is a discussion and analysis of the financial condition and results of operations of Martello for the three months ended June 30, 2020 and 2019 ("Q1 FY21" and "FY21", and "Q1 FY20" and "FY20", respectively). This MD&A should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the years ended June 30, 2020 and 2019. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated.

The effective date of this MD&A is August 26, 2020, the date it was approved by the Board.

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;
- The impact of the COVID-19 pandemic on the global economy and markets, and on the Company's operations, business and financial performance;
- Economic conditions, including risks associated with foreign currency fluctuations;
- 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 open-source software adoption and compliance risks;
- Cybersecurity and privacy risks;
- 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 is a Canadian technology company that is listed on the TSX Venture Exchange (“TSXV”) following a reverse acquisition in 2018. Martello develops digital experience monitoring (DEM) software solutions for enterprises and managed service providers.

Martello’s mission is to become a leading vendor in the enterprise DEM market, providing the industry's clearest picture of the digital user experience. Digital experience monitoring is a Gartner-recognized market segment which includes vendors whose solutions provide insight into the user’s experience of cloud-based services such as Microsoft Teams or Office 365 productivity applications. These solutions provide insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with real user monitoring information, to provide a clearer picture of the user’s experience of the service. Martello has thousands of customers in more than 175 countries around the world. The Company has completed the acquisition of three companies since December 2017 to expand its product portfolio, engineering expertise and global sales capacity.

As of June 30, 2020, Martello had 120 active employees; 65 in Canada, 6 in the United States and 49 in EMEA.

History

On August 15, 2018, the Company completed a reverse acquisition and began trading on September 12, 2018 on the TSXV under the symbol “MTLO”.

Martello, formerly Newcastle Energy Corp. (“Newcastle”), was incorporated in 1981 under the Company Act (British Columbia) and has its registered and head office at 390 March Road, Suite 110, Ottawa, Ontario, Canada, K2K 0G7.

On December 15, 2017, Martello acquired Canadian Link Balancing / Software-Defined Wide-Area Network (“SD-WAN”) player and industry pioneer Elfiq Inc. (“Elfiq Networks” or “Elfiq”). In July 2020, Martello sold the network performance management segment to Adaptiv Networks for a price of $828k, for cash consideration of $424k and common shares of Adaptiv Networks. The Company divested this line of business to focus resources on its DEM strategy.

On November 1, 2018, Martello acquired Savision B.V. and its wholly owned subsidiaries (“Savision”). Savision is Netherlands-based and was founded in 2006. Savision provides enterprise service monitoring and analytics software that brings together metrics and events from multiple tools to present a unified view of the infrastructure that supports critical business services for companies.

On May 29~~8~~, 2020, Martello acquired GSX Participations SA (“GSX”), a provider of end-user experience monitoring software for Microsoft 365. GSX is headquartered in Geneva, Switzerland and has 37 employees and contractors.

Products

Martello develops products that monitor and analyze the user’s experience of cloud-based enterprise digital services such as unified communications and Microsoft 365. Martello’s products include UC performance analytics software and IT service monitoring and analytics software. Martello’s product portfolio includes subscription-based offerings (software as a service), and software license sales. Martello’s sales are both indirect, via distributors and value-added resellers, and direct to enterprises. End users enter into an end-user licensing agreement with Martello before using Martello software or services.

Martello is the provider of UC performance analytics software to Mitel’s channel. Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services. Martello’s end users are Mitel’s channel partners, service providers and enterprise users, and the Company’s software is used in Mitel’s own global network operations centre (NOC). Martello’s software is called Mitel Performance Analytics (“MPA”) when sold in the Mitel channel.

Martello has several products and technologies deployed in the field, including MPA, iQ, Live Maps, and GSX Gizmo. The Company maintains an active product development and enhancement program for those products that are part of its DEM portfolio, while providing ongoing support for legacy and other product offerings. Martello's product program prioritizes activities that will drive user growth, customer acquisition, partner management, and cross selling of products.

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.

Growth Strategy

Martello is focused on generating growth from the following areas:

a) Expanding its addressable market organically:
   i. As Mitel continues to grow its cloud unified communications as a service (UCaaS) offerings, Martello will align and grow its business with Mitel to meet its customers' needs. This will include driving adoption of MPA through the MiCloud Flex for Google Cloud Platform and developing support for additional Mitel call and collaboration platforms.
   ii. Developing iQ as a multi-tenant SaaS platform and expanding sales channels for this service monitoring and analytics platform. Potential growth channels for iQ include Microsoft Co-sell, Mitel managed service providers, and large global systems integrators.
b) Integrating GSX into Martello, while continuing to expand the market for GSX Gizmo, a Microsoft 365 end-user experience monitoring solution. This will include developing Gizmo as a multi-tenant cloud SaaS solution, which will help drive market expansion into small and medium sized businesses (SMBs) and managed service providers.
c) Launching Martello's Vantage Dx DEM solution suite, building brand awareness of Martello's DEM solutions while creating new opportunities to cross-sell our solutions into Microsoft, Mitel and other large channels.
d) Developing and growing strategic partnerships in areas where Martello's capabilities are complementary to others, to deliver a stronger business solution and outcome to the market. This includes the continued development of partnerships such as that with Paessler AG ("Paessler"), whereby Paessler and Martello are offering a combined solution to provide a simple, unified and service oriented view of the IT infrastructure.
e) Continuing to pursue a merger and acquisition strategy with a focus on innovative SaaS solutions that are accretive to Martello's mission to become a market-leading DEM vendor. Key criteria for targets include financial stability and an established recurring revenue stream.

While the company has strengthened its operational capacity and balance sheet in FY20 and Q1 FY21, the Company will continue to make the key necessary investments in technology, talent and systems to implement the above strategy and integrate GSX efficiently.

SIGNIFICANT DEVELOPMENTS

During Q1 FY21 the following significant developments occurred:

- In May 2020, Martello completed the acquisition of GSX Participations SA and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions Inc. ("**GSX**") (the **"GSX Acquisition"**). GSX provides end-user experience monitoring for Microsoft 365 users. The consideration for the acquisition was 22,000,000 common shares and CDN$12.0M cash for an aggregate consideration of $16.5M.
- In May 2020, concurrent with the closing of the GSX Acquisition, Martello closed a US$8M subordinated secured term loan provided by Vistara Capital Partners (the "Vistara Term Loan"), which partially funded the acquisition of GSX.
- In May 2020, Martello closed a bought deal public offering led by PI Financial Corp. and Eight Capital as co-lead underwriters on behalf of a syndicate of underwriters, for aggregate gross proceeds of $6.9M (the "Bought Deal Offering")
- In April 2020, the Company entered into a non-binding letter of intent with Bruce Linton and Terry Matthews, Co-Chairmen of the Company's Board of Directors to provide a $5.0M unsecured subordinated debt instrument.

The Unsecured Subordinated Loan has not been drawn on, but is expected to become available to the Company as an additional source of capital, subject to the parties agreeing to definitive terms.

- In June 2020, Martello retained PI Financial Corp. to provide market making services.
- In June 2020, Martello appointed Mike Danforth as VP, Global Partnerships and Sales.
- In June 2020, Martello closed a secured revolving credit facility from National Bank of Canada (the "National Bank revolver") for up to CDN$7.5M, pursuant to a credit agreement dated April 27, 2020. The revolving facility was undrawn as of June 30, 2020 and is available to Martello to draw upon from time to time to finance its day to day operations.

During Q1 FY20, the following significant developments occurred:

- In June 2019, Martello moved up 20 spots on the widely respected Branham300 listing of Canada's top ICT (Information and Communications Technology) companies.
- In June 2019, Martello announced that Leiden University Medical Center (LUMC) chose Martello's iQ IT visualization software for better control and insight into the performance of hybrid cloud-based services.
- In April 2019, the Company extended its agreement with Toronto-based Oak Hill Financial for investor relations activities.

EVENTS AFTER THE REPORTING PERIOD

On July 22, 2020, the Corporation completed the sale of the assets and certain liabilities of the NPM segment (as defined below) for gross proceeds of $828k, consistent of cash of $425k, a promissory note of $100k and shares in the acquiring company having a value of $303k.

On July 28, 2020, the Corporation issued 4,077,500 employee stock options.

BASIS OF PRESENTATION

The Company's condensed interim consolidated financial statements and accompanying notes have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial* Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The condensed interim consolidated financial statements should be read in conjunction with Martello's March 31, 2020 audited annual consolidated financial statements.

In the first quarter of the 2021 fiscal year the Company made a decision to divest the assets of the network performance management operating segment and entered into discussions with an interested party regarding the sale of a majority of the assets and directly associated liabilities of the network performance management segment ("NPM segment"). The sale was completed on July 22, 2020. As a result, the assets and liabilities of the NPM segment that were included in the sale are presented as held for sale at June 30, 2020 and the results of its operations are presented as discontinued operations for the three months ended June 30, 2020 and 2019. The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2 of the Corporation's FY20 annual consolidated financial statements, except as described below under "Accounting Policies".

Certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the "Non-IFRS Financial Measures" section below.

All amounts stated in this MD&A are in Canadian dollars unless otherwise indicated.

NON-IFRS FINANCIAL MEASURES

This MD&A includes certain non-IFRS financial measures, including EBITDA, Adjusted EBITDA, and MRR as defined below. These measures are used internally to evaluate our operating and financial performance. We believe that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate our operating results, underlying performance and prospects in a manner similar to management. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

FINANCIAL PERFORMANCE

Financial Highlights (in 000's)		**June 30, 2020**	June 30, 2019
		(Three months ended)	
Sales	$	3,327	2,758
Cost of Goods Sold		192	172
Gross Margin		**3,135**	**2,586**
Gross Margin	%	*94.2%*	*93.8%*
Operating Expenses		4,224	3,209
Loss from continuing operations		**(1,089)**	**(624)**
Other income/(expense)		(614)	(132)
Loss from continuing operations before income tax		**(1,703)**	**(756)**
Income tax recovery		48	79
Net loss from continuing operations		**(1,655)**	**(677)**
Loss from discontinued operations, net of tax		(423)	(213)
Net loss		**(2,078)**	**(890)**
Total Comprehensive loss	**$**	(2,127)	(971)
EBITDA (1)	**$**	**(1,270)**	**(706)**
Adjusted EBITDA (1)	**$**	**200**	**(498)**

Balance Sheet – Highlights

(in 000's)		**June 30, 2020**	March 31 2020
Cash and short-term investment	$	6,672	5,900
Working capital		754	3,692
Total Assets		51,344	25,242
Total Liabilities		26,835	10,147
Share capital and contributed surplus		43,533	34,507
Warrants		2,534	20
Accumulated deficit and other comprehensive income		(21,559)	(19,432)
Shares issued and outstanding	#	263,985,361	208,516,111

Highlights for the three months ended June 30, 2020 as compared to the same period in 2019:

- Q1 FY21 was an active and transformational quarter, as Martello strengthened its DEM strategy and balance sheet with the acquisition of GSX, the completion of a $6.9M bought deal, and closing of two new financing arrangements, while decreasing focus on its SD-WAN division, which was sold to Adaptiv Networks subsequent to Q1 FY21.
- Results for the three months ended June 30, 2020 reflect one month of results from the acquisition of GSX on May 29, 2020.
- Revenue of $3.33MM is 21% higher than the same quarter in the prior year ($2.76M). The acquisition of GSX contributed $599k to the increase year-over-year. Vantage Dx Monitoring – Mitel UC revenue increased by $99k (6%), offset by a decrease of $129k (14%) in revenue from Vantage Dx Analytics - IT Service Analytics.
- Revenue remains diversified, with Vantage Dx Monitoring – Mitel UC contributing 57% of revenues in Q1 FY21 (55% in Q1 FY20), Vantage Dx Monitoring – Microsoft 365 (GSX) contributing 18% of revenues in Q1 FY21 (nil in Q1 FY20) and Vantage Dx Analytics - IT Service Analytics contributing 25% in Q1 FY21 (28% in Q1 FY20). In Q1 FY20, the NPM segment contributed 17% of revenue. Note that the Q1 FY20 percentages reflect the inclusion of the NPM segment, which was reclassified to discontinued operations in Q1 FY21.
- Recurring revenue is 98% in the current quarter compared to 93% in the same period of FY20 (FY20 - 87% including the NPM segment). Vantage Dx Monitoring – Mitel UC revenue was 99% recurring in Q1 FY21 and 98% in Q1 FY20. Recurring revenue from Vantage Dx Analytics - IT Service Analytics increased from 84% in Q1 FY20 to 98% in Q1 FY21 as there were no perpetual license sales in FY21. Vantage Dx Monitoring – Microsoft 365 revenue was 93% recurring in Q1 FY21, excluding term licenses which are not recurring in nature although recognized over time.
- Monthly recurring revenue (MRR) increased to $1.46M in Q1 FY21, compared to $0.92M in Q1 FY20 ($0.82M excluding NPM segment MRR), an increase of 59%. The increase in MRR is due primarily to the addition of GSX revenues, which contributed $0.56M in MRR in June 2020. MRR is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. The MRR measure offers insight into the predictability of Martello's monthly recurring revenue.
- Gross margin as a percentage of revenue was 94.2%, compared to 93.8% in the comparative period. The increase is a result of lower sales commissions relating to IT Service Analytics software (decrease in bookings and commissionable support headcount) and a decrease in web service hosting costs in FY21 to deliver UC performance analytics software.
- Operating expenses increased by $1.02M from $3.21M in Q1 FY20 to $4.22M in Q1 FY21. The increase includes $0.68M in GSX operating expenses, including $0.13M in amortization of intangibles (nil in FY20) as well as $0.81M in costs relating to the acquisition of GSX. Excluding the impact of these items, operating expenses decreased by $0.47M (15%). This was due to a decrease of $0.24M in Research and Development and $0.25M in Sales and Marketing, resulting from a strategic initiative to reduce costs in view of the uncertainties around COVID, including delays in filling vacant positions, reduction in work hours and decision to reduce estimated FY21 bonuses. As well, travel and event costs were reduced due to cancellation of events and reduced travel in view of COVID.
- Loss from continuing operations was $1.09M compared to a loss of $0.62M in the same period of FY20, an increase of $0.47M. Amortization of GSX intangibles and acquisition related costs created increased expenses, while revenue increased and other operating expenses decreased.
- Loss from continuing operations before income tax increased from $0.76M in Q1 FY20 to $1.70M in Q1 FY21, an increase of $0.95M. In addition to the items above, the Company incurred $0.38M in financing fees associated with the National Bank revolving loan, higher interest expense on a new term loan, and foreign exchange losses.
- The loss from discontinued operations was $0.42M in Q1 FY21, an increase of $0.21M from Q1 FY20. The loss from discontinued operations represents the loss from the NPM segment. The increase is the result of accrued termination costs in the NPM segment, offset partially by cost-containment measures including furlough of certain employees in late May 2020.
- The Q1 FY21 net loss of $2.08M has increased from the same period in FY20 by $1.19M as a result of the items outlined above.
- Adjusted EBITDA (a non-IFRS measure) was a gain of $0.20M, compared to a loss of $0.50M in the same period

of FY20. The increase in Adjusted EBITDA is due to reclassification of the NPM segment as discontinued operations in the quarter and increase in gross margin, as well as the implementation of temporary measures in view of COVID risks, including a 15% salary reduction for most employees.

Non-IFRS financial measures

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 (added in Q1 FY21), impairment of goodwill and intangible assets, acquisition-related costs and foreign exchange gain/loss.

Monthly Recurring Revenue ("MRR") is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. Recurring revenue includes:

- Vantage Dx Monitoring – Mitel UC: fees earned on a monthly per-user basis, fees earned monthly from device usage and revenue from subscription to software licenses, and fees earned monthly on support for UC enterprise management software.
- Vantage Dx Analytics - IT Service Analytics: subscription sales, maintenance and support on the licenses for visualization of IT systems management data.
- Vantage Dx Monitoring – Microsoft 365 (GSX): subscription sales of end user experience monitoring software, including GSX Gizmo, a Microsoft 365 monitoring solution.

MRR is a common metric used by subscription software companies to indicate a normalized monthly revenue that is predictable and recurring in the near future and its definition is not guided by IFRS standards. Accordingly, MRR is unlikely to be comparable to similar measures presented by other issuers.

SUMMARY OF RESULTS

Note: The information contained in the following tables, including the Remaining balance and Variance calculations, is intended to assist in the year over year comparison and provide additional clarity on the year over year results.

Sales and Gross Margin

(in 000's)		**June 30, 2020**	June 30, 2019
		(Three months ended)	
Sales	$	3,327	2,758
Cost of Goods Sold		192	172
Gross Margin		**3,135**	**2,586**
Gross Margin		*94.2%*	*93.8%*

Sales represent:

(a) the sale of UC- performance management solutions for real-time communications;
(b) the sale of subscription and perpetual software licenses for visualization of IT systems management data, and maintenance and support services for these solutions; and
(c) the sale of subscription software licences and maintenance & support services for end user experience monitoring solutions, including GSX Gizmo, a Microsoft 365 monitoring solution.

Martello offers subscription sales (software as a service), product sales (network appliances) and software licence sales.

Martello's sales are both indirect, via distributors and value-added resellers, and direct to enterprises. Martello's UC performance analytics software is included in Mitel's premium software assurance plans (Mitel Performance Analytics or "MPA") and Martello earns a monthly fee for each subscriber to the plan.

Recurring revenue includes:

- Vantage Dx Monitoring – Mitel UC: fees earned on a monthly per-user basis, fees earned monthly from device usage and revenue from subscription to software licenses, and fees earned monthly on support for UC enterprise management software.
- Vantage Dx Analytics - IT Service Analytics: subscription software sales and maintenance and support services on the licenses for visualization of IT systems management data.
- Vantage Dx Monitoring – Microsoft 365 (GSX): subscription software sales of end user experience monitoring software, including GSX Gizmo, a Microsoft 365 monitoring solution.

Cost of goods sold represents the costs of hardware, delivery and installation, sales commissions and web hosting services.

Three months ended June 30, 2020

Sales and Gross Margin - Three months ended

(in 000's)		June 30, 2020			June 30, 2019	
		Total	**GSX**	**Remaining Balance***	**Total**	**Variance**
Sales	$	3,327	599	2,728	2,758	(29)
Cost of Goods Sold		192	78	113	172	(59)
Gross Margin		**3,135**	**521**	**2,615**	**2,586**	**29**
Gross Margin	%	*94.2%*	*86.9%*	*95.8%*	*93.8%*	*0.5%*

** To facilitate comparison with the three months ended June 30,2019, the Remaining balance represents the results of the Company's operations in Q1 FY21 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY20.*

Revenue increased 21% between Q1 FY21 and Q1 FY20. Excluding GSX, revenue decreased 1% between Q1 FY21 and Q1 FY20. An increase in Vantage Dx Monitoring – Mitel UC revenue (6%) was offset by decrease in revenue from Vantage Dx Analytics - IT Service Analytics (14%). The decrease in IT Service Analytics reflects a pattern of cautious spending in April and May as CIOs dealt with a series of emergent challenges related to COVID-19, including budget uncertainty. June marked a shift, as CIOs began to act on the need for reliable remote cloud collaboration capabilities to keep employees productive from any location in the world, resulting in new DEM deals.

In the IT Service Analytics business line, the Company continued to focus on recurring revenue and there were no perpetual sales in Q1 FY21 ($76k in Q1 FY22). As a result, recurring revenue increased from 84% in Q1 FY20 to 98% in Q1 FY21.

The gross margin at 94.2% (95.8% excluding GSX) is higher than 93.8% for the same period in FY20, as a result of higher gross margin on UC performance analytics (mainly due to revenue increasing at higher rate than COGS) and decrease in sales commissions for IT services analytics.

Segmented revenue information

The Company operates in three operating segments: 1) Vantage Dx Monitoring – Mitel UC; 2) Vantage Dx Analytics - IT Service Analytics; and 3) Vantage Dx Monitoring – Microsoft 365. Vantage Dx is the name of the Corporation's solution suite portfolio for digital experience monitoring and the operating segments have been renamed to align with the revised solution names. Vantage Dx Monitoring – Microsoft 365 is a new segment resulting from the GSX Acquisition. For operating segment reporting purposes, Vantage Dx Monitoring – Mitel UC was previously reported as Performance analytics and Vantage Dx Analytics – IT Service Analytics was previously reported as IT visualization. These 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.

Segmented revenue for the three months ended June 30, 2020 and 2019 is summarized as follows:

Sales - Three months ended

		June 30, 2020				June 30, 2019		
(in 000's)		**Vantage Dx Monitoring - Mitel UC**	**Vantage Dx Analytics - IT Service Analytics**	**Vantage Dx Monitoring - Microsoft 365**	**Total**	**Vantage Dx Monitoring - Mitel UC**	**Vantage Dx Analytics - IT Service Analytics**	**Total**
Revenue recognized at a point in time								
Hardware	$	21	-	-	21	5	-	5
Perpetual licenses		-	-	-	-	8	76	84
Training and professional services		0	13	-	13	23	74	97
Revenue recognized over time								
Subscription licenses		1,878	522	326	2,726	1,752	436	2,188
Maintenance and support		6	288	233	527	18	365	383
Term licenses		-	-	40	40	-	-	-
Total revenue		**1,905**	**823**	**599**	**3,327**	**1,806**	**952**	**2,758**

Vantage Dx Monitoring – Mitel UC revenue increased $99k (6%) from Q1 FY20 due to an increase in recurring revenue from the number of users for Mitel's premium software assurance program.

Vantage Dx Analytics - IT Service Analytics revenue declined $129k (14%) from Q1 FY20. As discussed above, lower bookings early in the quarter resulted from cautious spending by CIO's in face of COVID uncertainties. The decrease is also due in part to lower one-time perpetual license and training sales in Q1 FY21 as the Company continues to focus on the recurring subscription model. Subscription license revenue increased during the quarter.

Vantage Dx Monitoring – Microsoft 365 revenue was $599k in Q1 FY21. GSX was acquired in May 2020 and therefore the Q1 results include only one month of revenue.

Monthly Recurring Revenue ("MRR") grew to $1.46M in Q1 FY21 compared to $0.92M in Q1 FY20 ($0.82M excluding the NPM segment), an increase of 59%. The growth in MRR is due to the addition of GSX, which contributed $0.56M to MRR in Q1. In addition, there was a $74k increase in MRR from Vantage DX Monitoring - Mitel UC, while IT Service Analytics MRR remained flat year-over-year.

Expenses

Three months ended June 30, 2020

Expenses - Three months ended

(in 000's)		June 30, 2020			June 30, 2019	Decrease / (Increase)
		Total	**GSX**	**Remaining Balance***	**Total**	
Research and development	$	978	170	809	1,046	237
Sales and marketing		940	241	699	950	251
General and administrative		1,096	117	978	958	(21)
Depreciation		94	22	72	73	0
Amortization		277	131	147	152	5
Acquisition-related costs		839	0	839	31	(808)
TOTAL		**4,224**	**680**	**3,544**	**3,209**	**(335)**

** To facilitate comparison with the three months ended June 30,2019, the Remaining balance represents the results of the Company's operations in Q1 FY21 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY20.*

For the three months ended June 30, 2020, operating expenses increased by $1.02M ($0.34M excluding impact of GSX) compared to the same period in FY20.

Research and development ("R&D") expenses include compensation for the research and development team as well as any sub-contract costs and development tools. These costs are partially offset by government grants, primarily investment tax credits, which are earned from qualifying Scientific Research and Experimental Development ("SRED") expenditures, and by funding from the National Research Council of Canada Industrial Research Assistance Program ("NRC-IRAP").

- R&D expenses decreased $237K in Q1 from FY20 to FY21. The decrease in R&D costs in Q1 is due to higher NRC-IRAP, SRED and Covid-19 related funding in FY21 and a decrease related to strategic initiative to reduce costs in view of the uncertainties around COVID, including a decision to reduce work hours, travel and bonuses.

Sales and marketing costs include headcount related compensation (excluding sales commission accounted for in cost of goods sold) and marketing spend.

- Sales and Marketing expenses decreased $251K from Q1 FY20 to Q1 FY21. The decrease in spend in Q1 FY21 when compared to Q1 FY20 is mainly due to headcount vacancies in the current period, lower spending in travel and trade show-related activities, and a decrease in bonuses compared to prior period.

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

- General and administrative costs increased by $21K from Q1 FY20 to Q1 FY21. The increase was related to an increase in headcount, fees (recruitment of VP, Global Sales and Partnerships), partially offset by decreases related to strategic initiatives to reduce costs in view of the uncertainties around COVID, including a decision to reduce work hours, travel and bonus accrual.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. Excluding GSX, depreciation remained flat year-over-year.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. Excluding GSX, amortization remained flat year-over-year.

Acquisition related costs increased by $808K from Q1 FY20 to Q1 FY21. The increase year-over-year relates to costs of the acquisition of GSX, including financial, tax and technical due diligence, M&A advisor fees, and legal and other professional fees.

Loss from Operations

The loss from operations for the three months ended June 30, 2020 and 2019 was $1.09M and $0.62M, respectively, an increase of $0.47M. The loss from operations increased year-over-year for the three-month period mainly due to $0.81M increase in acquisition related cost associated with the acquisition of GSX and $0.13M in amortization of GSX intangibles, offset by decreases in other operating costs of $0.47M as described above.

Other Income/Expense

(in 000's)		**June 30, 2020**	June 30, 2019
		(Three months ended)	
Interest income	$	2	10
Interest expense		(135)	(48)
Financing Fees		(383)	-
Accretion of long-term debt		30	(15)
Foreign exchange loss		(129)	(79)
Other income		0	-
TOTAL	**$**	**(614)**	**(132)**

On May 25, 2020, the Company repaid the RBC term loan ($1.8M). On May 26, 2020, the Company drew on the Vistara Term Loan in the amount of USD$8.0M. The increase in interest expense for the quarter relates to one month of interest on the higher long-term debt balance, as well as a higher rate on the Vistara term loan (12.5%) as compared to the RBC term loan of 5.4%.

In the three months ended June 30, 2020, the Company incurred $383k in fees related to the National Bank Revolver. This reflects setup fees, advisory fees and professional and legal costs.

Accretion of long-term debt relates to implied interest on non-interest-bearing loans. The balance in Q1 FY 2021 includes an adjustment to accretion amount due to an extension of the term of the existing Fed Dev loan.

For the three months ended June 30, 2020, the Company had foreign exchange loss of $129K compared to a loss of $79K for the same period last year. Gains and losses relate to differences in exchange rates on foreign currency balances and income/expenses.

The revaluation of the forward contracts relates to losses on revaluation of foreign exchange forward contracts. During Q1 FY21 the Company outstanding forward contracts used to reduce exposure to fluctuations in the USD. These contracts are revalued at the end of each reporting period. The increase in the USD-CAD exchange rate at June 30 resulted in revaluation losses in both reporting periods. The loss from forward contracts at June 30, 2020 and 2019 was $59K and $150K, respectively. The remaining foreign exchange loss from foreign exchange transactions is attributable to fluctuations in foreign exchange transactions during the quarter.

Income Tax / Recovery

For the three months ended June 30, 2020, income tax recovery amounted to $0.05M compared to a recovery of $0.08M for the same period last year.

The tax recovery for Q1 FY 2020 relates primarily to the reversal of taxable temporary differences due to the amortization of intangibles and the tax benefit of losses deemed realisable.

Loss from Discontinued Operations, net of tax

The loss from discontinued operations was $0.42M in Q1 FY21, an increase of $0.21M from Q1 FY20. The loss from discontinued operations represents the loss from the NPM segment. The increase is the result of lower revenues, reduced income tax recovery and accrued termination costs in the NPM segment, offset partially by cost-containment measures including furlough of certain employees in late May 2020.

Other Comprehensive Income/(Loss)

In the three months ended June 30, 2020, the Company had other comprehensive loss of $0.05M (loss of $0.08M for the three months ended June 30, 2019). Other comprehensive income/(loss) reflects pension plan fair value adjustments as well as currency translation differences for Savision and GSX operations, for which EUR is the functional currency. During Q1 FY21 the decrease in CAD against EUR resulted in a loss of revaluation of the net assets of Savision, including goodwill and intangibles.

Net Loss and Comprehensive Loss

For the three months ended June 30, 2020, the net loss amounted to $2.08M compared to $0.89M net loss recorded in the same period last year.

The total comprehensive loss for the three months ended June 30, 2020 was $2.13M and a loss of $0.97M for the same period in FY20.

The key drivers for the increase in losses period over period are provided under Loss from Operations, Other Income/Expense, Loss from Discontinued Operations, Income Tax Recovery and Other Comprehensive Loss above.

Non-IFRS Financial Measures - EBITDA and Adjusted EBITDA

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. EBITDA is calculated as net loss before interest income, interest expense, accretion of long-term debt, income tax recovery, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA excluding share-based compensation expense, discontinued operations (Q1 FY21), impairment of goodwill and intangibles and foreign exchange gain/loss. In Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on an adjusted basis as described above.

The Company achieved positive Adjusted EBITDA of $0.20M in the three months ended June 30, 2020, compared to a loss of $0.50M in the same period ended June 30, 2019.

EBITDA and Adjusted EBITDA (in 000's)		June 30, 2020	June 30, 2019
		(Three months ended)	
Net loss	$	**(2,078)**	(890)
Interest income	(2)	(2)	(11)
Interest expense	(2)	135	52
Financing Fees	(2)	383	-
Accretion of long-term debt	(2)	(30)	16
Income tax recovery	(2)	(48)	(213)
Depreciation	(2)	94	81
Amortization	(2)	277	258
EBITDA	**(1)**	**(1,270)**	(706)
Loss from discontinued operations, net of tax	(2)	423	-
Foreign exchange (gain) loss	(2)	129	82
Other income	(2)	(0)	-
Share-based compensation expenses	(3)	79	95
Impairment of goodwill	(2)	-	-
Impairment of intangible assets	(2)	-	-
Acquisition-related costs	(2)	839	31
Adjusted EBITDA	**(1)**	**200**	(498)

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

(2) Per the Statements of loss and comprehensive loss. June 30, 2019 numbers are as previously reported and have not been restated to reflect impact of discontinued operations on this quarter

(3) Share-based compensation expense per the Statement of cash flows, excluding discontinued operations in Q1 FY21

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 June 30, 2020. 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 months ended June 30, 2020 and 2019, except that the results of Elfiq are shown as discontinued operations. Adjusted EBITDA for Q1 FY21 reflects the addback of discontinued operations in this quarter. Prior quarter Adjusted EBITDA has not been restated to reflect the impact of discontinued operations in prior quarters, as the decision to divest the assets of the NPM segment occurred in Q1 FY21. 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)		**Q1 FY21**	**Q4 FY20**	**Q3 FY20**	**Q2 FY20**	**Q1 FY20**	**Q4 FY19**
Sales	$	3,327	2,859	2,885	2,695	2,758	2,721
Cost of Goods Sold		192	123	160	180	172	174
Gross Margin		**3,135**	**2,737**	**2,725**	**2,515**	**2,586**	**2,547**
Expenses		4,224	6,916	3,563	3,314	3,209	3,108
Loss from operations		**(1,089)**	**(4,179)**	**(838)**	**(799)**	**(624)**	**(561)**
Other income/(expense)		(614)	128	(74)	(128)	(132)	122
Loss before income tax		**(1,703)**	**(4,051)**	**(913)**	**(927)**	**(756)**	**(439)**
Income tax recovery		48	(2)	101	84	79	149
Net loss from continuing operations		**(1,655)**	**(4,053)**	**(812)**	**(843)**	**(677)**	**(290)**
Loss from discontinued operations, net of tax		(423)	(415)	(516)	(654)	(213)	(779)
Net Loss		**(1,655)**	**(4,469)**	**(1,328)**	**(1,497)**	**(890)**	**(1,069)**
Total comprehensive loss	**$**	(2,127)	(3,869)	(1,231)	(1,773)	(971)	(1,547)
EBITDA [1]	**$**	**(1,270)**	**(4,075)**	**(1,018)**	**(1,156)**	**(706)**	**(843)**
Adjusted EBITDA [1][2]	**$**	**200**	**(153)**	**(835)**	**(985)**	**(498)**	**(827)**

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

(2) Adjusted EBITDA for Q1 FY21 reflects addback of discontinued operations

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

For the foreseeable future, the Company expects to continue financing its operations through raising equity capital and long-term debt to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business. In addition, the Company is focused on generating cashflow from operations while maintaining strong investment in research and development to maintain current revenue and drive increased growth.

In September 2018, the Company entered into an agreement with NRC-IRAP to fund up to $2.0M of development costs over three years for certain projects including the hiring of additional staff.

On November 1, 2018, in connection with the Savision acquisition, the company closed a loan facility with RBC and drew $3.0M on the term loan. On May 25, 2020, the remaining term loan balance of $1.8M was fully repaid.

On September 27, 2019, the Company completed a public offering, with gross proceeds of $4.6M (net proceeds of $4.0M) to identify and fund acquisitions, accelerate R&D activities, increase sales capacity and for general corporate purposes.

In Q1 FY21, the Company completed several transactions to both fund the GSX Acquisition and create further stability for the Company:

Bought Deal Offering

On May 26, 2020, the Corporation completed the Bought Deal Offering with a syndicate of investment dealers led by PI Financial (collectively, the "underwriters") for a total of 32,861,250 units (each, a "**Unit**") consisting of one common share of the Corporation and one common share purchase warrant at a price of $0.21 per unit, for gross proceeds of $6.9M. The proceeds were used to fund the acquisition of GSX.

Each warrant is exercisable into one common share at an exercise price of $0.30 per common share for a period of 36 months from the closing date. Commencing on May 26, 2021, if the daily volume weighted average exceeds $0.50, the Corporation may, upon providing written notice to the holders of the warrants, accelerate the expiry date of the warrants to the date that is 30 days following the date of such written notice.

In addition, the underwriters received a cash commission equal to 7% of the gross proceeds realized from the Offering. The Corporation granted the underwriters 1,643,063 broker compensation option units, exercisable to purchase Units at a price of $0.21 per compensation option unit for a period of 24 months from the closing date.

National Bank Revolver

On April 27, 2020, Martello Corp entered into a credit agreement with National Bank of Canada. This financing is comprised of a revolving facility and other ancillary facilities (the "Revolving Loan"). The Revolving Loan is based on a multiple of monthly recurring revenue, subject to certain adjustments, up to $7.5M, bears interest at a variable rate of prime plus 2.85% per annum and is repayable on demand. The facilities are secured by a senior security interest in and guarantees from Martello Corp and the Corporation, as well as Savision B.V. and its subsidiaries, GSX Participations Sàrl and its subsidiaries, Martello Technologies Incorporated, and Elfiq Inc. (the "Corporate Guarantors"). The facility is undrawn as of June 30, 2020.

Vistara Term Loan

On April 27, 2020, Martello Corp entered a term credit facility with Vistara Technology Growth Fund III Limited Partnership ("Vistara") (the "Vistara Credit Agreement"). Under the terms of the Vistara Credit Agreement, Vistara has provided a USD $8.0M subordinated secured term loan (the "Vistara Term Loan"). Along with the proceeds of the Bought Deal Offering the Vistara Term Loan was used to fund the GSX Acquisition.

The Vistara Term Loan is repayable within 36 months of closing and carries interest of the greater of (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity. The effective interest rate on the Term Loan is 20.40%. The Vistara Term Loan is secured by a subordinated security interest in and guarantees from the Corporate Guarantors.

As consideration for providing the Vistara Term Loan, Vistara received upon closing 12,777,273 bonus warrants to purchase Common Shares ("Bonus Warrants"). Each Bonus Warrant is exercisable into one Common Share at an exercise price of $0.22 per Bonus Share for up to 36 months from closing. If at any time, after four months and a day after the issue date, the volume weighted average price ("VWAP") of the Common Shares for any twenty (20) consecutive trading days on the TSXV, during which the total volume of common shares traded in such period exceeds 5,000,000, is equal to or exceeds $0.44, and the VWAP of the Common Shares for any five (5) consecutive trading days on the TSXV is equal to or exceeds $0.44 then all of the Bonus Warrants shall be deemed to be automatically exercised by Vistara on a cashless basis.

Unsecured Subordinated Loan

On April 29, 2020, the Corporation entered into a non-binding letter of intent with Bruce Linton, and Terry Matthews, through Wesley Clover International Corporation, Co-Chairmen of the Corporation's Board of Directors to provide a $5.0M unsecured subordinated debt instrument (the "Unsecured Subordinated Loan"). The Unsecured Subordinated

Loan has not been drawn on but is expected to become available to the Corporation as an additional source of capital, subject to the parties agreeing to definitive terms.

Cash and Working Capital

Cash and cash equivalents, including restricted cash and short-term investments, totaled $6.67M at June 30, 2020 compared to $5.90M at March 31, 2020. The increase is explained below under ***Cashflow Analysis***.

The following tables sets out the working capital position of the Company as at June 30, 2020 and March 31, 2020.

Liquidity Snapshot

(in 000's)		**June 30, 2020**	March 31, 2020
Current Assets	$	13,637	10,800
Current Liabilities		12,883	7,108
Net Working Capital		**754**	**3,692**

The decrease in working capital in Q1 FY21 was mainly due to the acquisition of GSX, which had a working capital deficit of approximately $3.4M on closing of the GSX Acquisition, offset in part by an increase in cash and short-term investments resulting from the financing transactions completed in Q1 FY21.

Long-Term Debt

As at June 30, 2020 long-term debt totaled $9.97M, including $0.13M due within one year. The debt is made up of:

- $9.3M Vistara Term Loan, bearing interest at 12.5% and repayable on May 26, 2023. This represents the initial draw of USD$8M, less related fees and warrant costs which are being amortized to the loan balance over the period to maturity, plus capitalized interest. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity.
- $0.56M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario (“FedDev”), to support commercialization activities for a specific project.
- $80k non-interest-bearing, unsecured loan from Canada Economic Development Agency.

Share Capital

In Q1 FY21, the following transactions in the share capital of Martello occurred:

- 32,861,250 units were issued in connection with the Bought Deal Offering. Each unit consisted of one share and one warrant (each, a “Unit”).
- 1,643,063 broker compensation option units were granted in connection with the Bought Deal Offering, providing the underwriters with the option to purchase Units for 24 months from May 26, 2020.
- 22,000,000 shares were issued in connection with the GSX Acquisition
- 12,777,273 bonus warrants were issued in connection with the Vistara Term Loan
- 118,000 options were forfeited (144,000 forfeited in Q1 FY20)
- no options were granted (nil in Q1 FY20)
- 608,000 options were exercised (nil in Q1 FY20)

Cash Flow Analysis

(in 000'S)		Three Months Ended June 30, 2020	2019
Operating activities			
Loss before income tax	$	(1,703)	(756)
Net loss from discontinued operations before income tax		(423)	(347)
Items not affecting cash		143	1,400
Total cash flows provided by (used in) operations		**(1,984)**	**298**
Investing Activities			
Purchase of short term investments		(350)	-
Sale of short-term investments		3,130	-
Additions to equipment and leasehold improvements		-	(48)
Acquisition of subsidiary, net of cash acquired		(11,589)	-
Total cash flows provided by (used in) investing activities		**(8,809)**	**(48)**
Financing activities			
Proceeds from issuance of common stock		4,959	-
Common stock issuance costs		(660)	-
Proceeds from exercise of stock options		72	-
Proceeds from issuance of warrants		1,942	-
Warrants issuance costs		(229)	-
Proceeds from long-term debt		10,976	12
Debt issuance costs		(827)	-
Repayment of long-term debt		(1,805)	(243)
Repayment of lease obligations		(78)	(50)
Total cash flows provided by (used in) financing activities		**14,349**	**(281)**
Net change in cash		**3,556**	**(31)**
Cash, beginning of period		2,900	6,649
Effects of currency translation on cash		(3)	(8)
Cash, end of period		**6,452**	**6,610**

Cash flows provided by (used in) operations were $1.98M for the three months ended June 30, 2020, compared to cash flows provided by operations of $0.30M for the three months ended June 30, 2019. The increase in cashflows used in operations of $2.28M is due to the following key factors:

- The loss before income tax and net loss from discontinued operations before income tax were $0.90M and $0.08M respectively higher in the three months ended June 30, 2020 compared to the same period in the prior year. The following items contribute to the loss before income tax and are not used as cashflow in operations:
  - Unrealized foreign exchange losses were $44k in the current quarter compared to a gain of $6k in the quarter ended June 30, 2020.
  - Depreciation and amortization increased by $0.18M in the current quarter.
  - The fair value of the hedge liability decreased by $0.09M in Q1 FY21.

In addition, the net change in operating components of working capital was a decrease of $0.41M for the three months of FY21 as compared to an increase of $0.96M in the prior year, which decreases the cashflow from operations year over year. This was due to the following:

- Trade and other accounts receivable increased by $0.13M at June 30, 2020, compared to a decrease of $0.31M in the three months ended June 30, 2019. In the three-month period ended June 30, 2020, accounts receivable increased mainly due to Savision's outstanding accounts receivable ($0.22M), and a decrease in accounts receivable from Mitel due to foreign exchange rates on USD receivables, as well as collection of outstanding receivables ($0.3M). These decreases were offset in part by timing of taxes receivable of $0.22M.

- Investment tax credits and grants receivable decreased by $0.09M in the quarter ended June 30, 2020 as compared to an increase of $0.48M in the quarter ended June 30, 2019, which is due to timing of claims submission and payments received.
- Prepaid expenses decreased by $0.17M in the three months ended June 30, 2020 as compared to a decrease of $0.15M in the three months ended June 30, 2019. The decrease in the current year relates to certain loan origination and financing fees prepaid at March 31, 2020 ($0.11M) that were reclassified to loan and financing costs accounts upon closing in Q1 FY 2021. The remaining decrease relates to regular amortization expensed on prepaid expenses balance. Prepaid expenses in Q1 FY 2020 reduced due to expensing of certain prepaid professional fees, research services, and travel and conference costs.
- Accounts payable and accrued liabilities decreased $0.40M during the three months ended June 30, 2020, compared to an increase of $0.05M in the prior year. The increase in Q1 FY 2020 relates to costs incurred for M&A. The decrease in FY21 is due to payment of GSX bonuses ($0.7M) outstanding at the acquisition date, which were assumed by Martello and reflected in purchase price adjustments, offset in part by an increase in payables related to M&A and financing related costs.
- Deferred revenue increased $13k during the three months ended June 30, 2020, compared to a decrease of $36K in the prior year. The increase during the 3 months ended June 30, 2020 is attributable to an increase in GSX deferred revenue, offset by a decrease in deferred revenues at Martello Corp ($82K) for revenues recognized during the period and a decrease in deferred revenue at Savision of $0.14M due to a decline in new and renewal bookings for maintenance & support for perpetual licenses and subscriptions.

Cashflows provided by (used in) investing activities were $8.81M for the quarter ended June 30, 2020 as compared to $0.05M for the quarter ended June 30, 2019. The use of cash in the current year resulted primarily from the GSX Acquisition net of cash acquired ($11.59M), offset by the sale of short-term investments (net $2.78M) whereas in FY20 there was $0.05M in additions to equipment and leasehold improvements.

Cashflows provided by (used in) financing activities were $14.35M for the quarter ended June 30, 2020, compared to $0.28M cashflows used in the quarter ended June 30, 2019. Cashflows provided by financing activities in FY21 included $10.98M in proceeds from the Vistara Term Loan, $6.9M in proceeds from the Bought Deal ($4.96M in common stock and $1.94M in warrants), partially offset by common stock and warrant issuance costs of $0.89M, debt issuance costs of $0.83M, and repayment of the RBC Term Loan of $1.81M.

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 is with a related party, as described in note 19 to the interim consolidated financial statements, *Related party transactions and balances*. The Corporation is also committed to a 3-year lease for office premises in Montreal, Quebec (the "Elfiq Lease") commencing November 1, 2019 and extending through to January 31, 2021. The purchaser of the assets described in note 5 to the interim consolidated financial statements is expected to enter into a sub-lease for the Elfiq Lease effective August 1, 2020, and the lease will be guaranteed by the Corporation. The Corporation is committed to a 5-year lease for office premises in Amsterdam, Netherlands commencing February 1, 2018 and extending through to January 31, 2023; and a lease in Kennett Square, Pennsylvania, USA with current lease expiring on March 31, 2021.

The amounts below exclude the Corporation's debt and lease related commitments which are disclosed, respectively, in Notes 14 and 15 of the condensed interim consolidated financial statements.

Fiscal year ended	$
2021	131
2022	117
Total	**247**

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2020 and 2019, 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.

ACQUISITION OF GSX

On May 29, 2020, through its subsidiary Martello Corp, the Company acquired 100% of the shares of GSX Participations SA, and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions Inc. ("**GSX**"). GSX provides end-user experience monitoring for Microsoft 365 users. The transaction was accounted for as a business combination. The fair values of the identifiable asset and liabilities acquired have been based on management's best estimates and valuation techniques as at the acquisition date.

As of June 30, 2020, the analysis of identified intangible assets and fair values is incomplete, as such all of the difference between the purchase consideration and the assets acquired and liabilities assumed has been allocated to goodwill and intangible assets. The estimated purchase price allocation remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed.

In total, the consideration for the transaction amounted to $16.55M which included $12.04M in cash and $4.51M for the issuance of 22,000,000 common shares.

The purchase price was allocated as follows:

Net assets (liabilities) acquired, other than undernoted items	(6,906,688)
Deferred tax liability	(207,977)
Goodwill and intangible assets acquired	23,668,099
Total purchase price	**16,553,434**

The net liabilities acquired included the following:

	$
Cash	454,127
Trade and other accounts receivable	1,383,713
Prepaid expenses	335,063
Equipment & leasehold improvements	97,830
Right-of-use assets	1,172,045
Total assets	**3,442,778**
Accounts payable and accrued liabilities	3,043,191
Deferred revenue	5,284,430
Lease obligation	1,190,906
Pension obligation	830,938
Total liabilities	**10,349,465**
Net liabilities acquired	**(6,906,688)**

The fair value and gross contractual amount of trade accounts receivable acquired was $1,383,713.

The net cash outflow on the acquisition of GSX is as follows:

	$
Consideration paid in cash	12,043,434
Less: Cash acquired	454,127
Net cash outflow	**11,589,307**

Goodwill arose in the acquisition of GSX because the cost of acquisition included a control premium and also reflected the benefit of expected revenue growth, diversification of product offering and future product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

For the period from May 29, 2020 to June 30, 2020, GSX accounted for $599,022 in sales and $191,167 in net loss.

DISCONTINUED OPERATIONS

In the first quarter of the 2021 fiscal year the Corporation initiated a review of the NPM segment. The Corporation made a decision to divest the assets of this segment and entered into discussions with an interested party regarding the sale of a majority of the assets and directly associated liabilities of the network performance management segment.

On June 1, 2020 the Corporation met the criteria to record the NPM segment as a discontinued operation. The sale was completed on July 22, 2020 for total proceeds of $828k, consisting of cash of $425k, a promissory note of $100k and shares in the acquiring company having a value of $303k.

As a result, the assets and liabilities of the NPM segment that were included in the sale were presented as held for sale at June 30, 2020 and the results of its operations are presented as discontinued operations for the three months ended June 30, 2020 as it was highly probable that as of June 30, 2020 the assets of the NPM segment would be disposed of through a sale.

The comparative results of the discontinued operations included in net loss for the year are set out below.

Statement of loss and comprehensive loss

	Three months ended	
	June 30, 2020	**June 30, 2019**
Income		
Sales	$ 310,560	$ 574,630
Cost of goods sold	43,373	72,598
Gross margin	267,187	502,032
Expenses		
Research and development	382,252	125,968
Sales and marketing	172,383	370,551
General and administrative	38,669	230,643
Depreciation	27,502	8,159
Amortization	71,105	106,252
Acquisition-related costs	358	-
	692,269	841,573
Loss from continuing operations	(425,082)	(339,541)
Other income/expense		
Interest income	-	1,134
Interest expense	(2,412)	(4,696)
Accretion of long-term debt	(3,131)	(1,248)
Foreign exchange gain (loss)	7,391	(2,531)
Loss before income tax	(423,234)	(346,882)
Income tax recovery	-	133,423
Net loss from discontinued operations	**(423,234)**	**(213,459)**

The assets held for sale and liabilities associated with assets held for sale are as follows:

Statements of financial position

		June 30 2020	March 31 2020
Assets held for sale			
Current assets			
Trade and other accounts receivable	$	294,759	317,909
Prepaid expenses		15,841	27,414
Inventories		157,404	182,468
Total current assets		468,004	527,791
Intangible assets		823,459	894,564
Equipment and leasehold improvements		88,225	97,776
Right-of-use assets		167,545	185,496
Total assets held for sale		**1,547,233**	**1,705,628**
Liabilities associated with assets held for sale			
Current liabilities			
Accounts payable and accrued liabilities		59,674	49,153
Current portion of deferred revenue		501,619	541,373
Current portion of lease obligation		69,516	69,516
Total current liabilities		630,809	660,041
Deferred revenue		209,616	224,797
Lease obligation		103,333	115,035
Total liabilities associated with assets held for sale		**943,758**	**999,874**

The following table presents the effect of the discontinued operations on the consolidated statement of cashflows:

	Three months ended	
	June 30, 2020	**June 30, 2019**
Cash (used in) provided by operating activities	(104,853)	75,299
Cash (used in) provided by financing activities	(14,110)	6,355
Net cash outflow	(118,963)	81,654

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and the Board of Directors, who control approximately 19% of the Company as at June 30, 2020. Included in accounts payable and accrued liabilities are balances as at June 30, 2020 totaling $82k (June 30, 2019 - $202K) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board was also the chairman of Mitel until November 30, 2018 and is the chair of Wesley Clover International Corporation ("Wesley Clover"). Wesley Clover owns 15% of the issued and outstanding common shares of the Company as at June 30, 2020.

The Company leases office premises from Wesley Clover. For the three months ended June 30, 2020, the Corporation paid rent to Wesley Clover International Corporation, which is reflected in the June 30, 2020 results as depreciation of right-of-use assets of $25k and $30k in rent expense (March 31, 2020 – $120k of rent expense). Included in accounts payable and accrued liabilities at June 30, 2020 is an account payable of $nil (March 31, 2020 - $nil) payable to Wesley Clover International Corporation. These transactions are in the normal course of operations and are recorded at fair value.

OUTLOOK

Martello's mission is to provide the industry's clearest picture of the digital user experience, as a leading vendor in the enterprise DEM market.

Remote work has become the 'new normal' in response to COVID-19, and has marked an inflection point in the shift towards a true digital era for the workplace, giving digital workplace tools and strategies a 'must-have' status, rather than 'nice to have'. With global workforces increasingly distributed, it is expected that digital workplace trends will continue to accelerate, as businesses look to implement digital replacements for in-person activities. In the Martello business, rapid growth in the user base for Microsoft Teams this spring and an accelerated move to cloud-based tools by enterprises has increased demand for digital experience monitoring solutions, as businesses seek better control and insight into how their users are experiencing these tools.

Third-party research released by Gartner in July 2020 validates the important role that DEM solutions play in accelerated digital workplace activities. In three reports, GSX/Martello is recognized as a key DEM vendor. On the need for DEM solutions, the *Hype Cycle for the Digital Workplace, 2020* report noted that "Organizations that implement DEM tools can not only benefit from better application performance and improved user experience, but also ultimately improve business outcomes in support of digital transformation."

Martello has several competitive advantages as it pursues dominance in this emerging growth market for DEM, including the capacity to correlate multiple data points to provide insight into performance problems and the user experience in a way that is deeper and more proactive than competitors, as well as the industry's most comprehensive approach to Microsoft 365 user experience monitoring.

Early Q1 FY21 results reflect spending caution as CIOs managed the emergent challenges of shifting workforces to remote work amidst operational uncertainty and budget restrictions. In June CIO's began to act on the need for reliable remote cloud collaboration capabilities to keep employees productive from any location in the world, resulting in new DEM deals. Martello's high margin, high recurring revenue model brings a core resilience to the business. This resilience positions Martello positively to grow monthly recurring revenue in response to a growing market opportunity. The Company's focus on monthly recurring revenue and reducing operating expenses yielded results in Q1 FY21, with 59% year-over-year MRR growth and positive Adjusted EBITDA, despite COVID-19 economic uncertainty.

Integration of GSX

In May 2020, to expand its DEM offering into the rapidly growing Microsoft 365 space, Martello completed the acquisition of Swiss-headquartered GSX, a Gartner-recognized DEM vendor that specializes in Microsoft 365. This strategic acquisition adds significantly to Martello's MRR and further diversifies Martello's revenue stream, while offering access to an addressable market of 200 million monthly active users of Microsoft 365.

The integration of GSX into the Martello business is a critical and complex factor in the success of this acquisition. As such, Martello has an integration team in place driving core initiatives and investments, particularly in product development and sales. The Company is focused on these core integration objectives, guided by a mandate to maintain and grow existing monthly recurring revenue streams.

Martello upgraded its senior sales capacity in June 2020, appointing Mike Danforth as VP, Global Sales and Partnerships, to drive growth for our DEM solutions in both the Mitel and Microsoft channels with global partners and through direct sales. Mr. Danforth has strong relationships with industry players like PWC, Salesforce, Accenture, Deloitte and Microsoft, and a proven track record of bringing value to customers and partners. Mr. Danforth is leading an integrated sales team that is focused on driving monthly recurring revenue through large direct and indirect deals with global systems integrators and managed service providers, including cross-selling iQ and Gizmo in the Microsoft ecosystem.

Product development activities continue to be focused on driving value for customers of Martello's DEM products, while expanding the addressable market for iQ and Gizmo into small and medium sized businesses (SMBs) and managed service providers with the development of cloud-based multi-tenancy for these products.

Martello continues to work closely with Mitel, to drive growth in MPA sales through both Premium Software Assurance attachment and the support of Mitel's cloud-hosted unified communication solutions, such as MiCloud Flex on Google Cloud. Martello earns a royalty on Mitel Premium Software Assurance and MiCloud Flex on Google Cloud Platform.

Although there is significant global economic uncertainty resulting from COVID-19 which may further impact operations, at this time the Company is confident that it retains sufficient available cash and working capital to fund organic growth over the next year.

ACCOUNTING POLICIES

There are no changes in the accounting policies used in preparing these condensed interim financial consolidated financial statements. The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2 of the Corporation's 2020 annual consolidated financial statements, with the additions as set out below:

Employee benefits

Wages, salaries and bonuses are recognized in the year in which the services are rendered by employees of the Corporation. Employee benefits also include defined benefit pension benefits for employees of GSX Participations SA. Assets and obligations and related costs of the defined benefit plan are accounted for using the following accounting policies:

- Defined benefit obligations are determined from actuarial calculations using the projected unit credit method.
- For the purposes of calculating the estimated rate of return on plan assets, assets are measured at fair value.
- Actuarial gains or losses arise from the difference between the effective yield of plan assets for a period and the expected yield on plan assets for the period, from changes in actuarial assumptions used to determine defined benefit obligations and from emerging experience that differs from the selected assumptions. Actuarial gains or losses are recognized under other comprehensive income (loss) in the period in which they occur.
- Net interest is recognized in the condensed interim consolidated statements of loss and comprehensive loss using the discount rate by reference to market yields at the valuation date and when plan assets and obligations are measured.
- Net defined benefit liability is determined based on the excess of plan obligations over plan assets.

Share based payments

For share-based compensation granted to non-employees, the expense is measured at the fair value of the compensation, except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted.

Equity instruments

The Corporation has adopted the residual value method with respect to the measurement of common shares and warrants issued as equity units. The amount assigned to the common share is the excess of the unit price over the value of the warrant determined by using an appropriate option pricing model

DEFINED BENEFITS RETIREMENT PLAN

On May 29, 2020 the Company acquired GSX, as described in note 6, and assumed its occupational defined benefits pension plan (the "GSX Plan"). Swiss law requires GSX to arrange for an affiliation contract with a pension fund provider to provide participants with at least occupational benefits. GSX has an affiliation contract with AXA collective foundation, Fondation LPP Suisse romande (Professional Invest) ("Collective Foundation" or "AXA") which covers actuarial risks and the pooling of assets for all affiliated companies. The governing bodies of the Collective Foundation are responsible for risk management and the investment of Plan assets, although investment decisions can be mandated to another party.

Retirement benefits, which are based on participant salaries, are funded by the employer and employee as a fixed percentage of the insured salaries. The Collective Foundation is able to adapt the contributions and benefits at any time. If the contract with AXA is cancelled, GSX would be required to affiliate with another pension provider.

The risks of invalidity and death prior to retirement are covered by insurance. The Plan exposes the Company to the following actuarial risks:

Investment risk – a Plan deficit would be created if the return achieved on plan assets is below the discount rate used to present value of the defined benefit liability.

Foreign exchange risk – the defined benefit obligation and Plan assets are denominated in Swiss francs. The Company is exposed to changes in the value of the Swiss franc relative to the Canadian dollar to the extent of the Plan surplus or deficit.

Interest rate risk – the discount rate used to present value the defined benefit obligation is based on high quality corporate bond yields. A decrease in bond yields would increase the defined benefit obligation.

Longevity and salary risks – increases in life expectancy or the salaries of Plan participants in excess of those used in the actuarial assumptions would increase the defined benefit obligation.

An actuarial valuation of the Plan assets and the present value of the defined benefit obligation was completed as at May 31, 2020 as part of the purchase accounting for the acquisition of GSX. The present value of the defined benefit obligation and the related service costs were measured using the projected unit credit method.

Retirement ages are defined by Swiss statute as 65 years for men and 64 years for women. It is assumed that 30% of retirees opt to take a lump sum instead of converting retirement assets into a lifelong pension. The significant actuarial assumptions included:

	May 31, 2020
Discount rate	0.40%
Long-term expected salary increase	1.00%
Average longevity at retirement age for Plan participants	LPP/BVG 2015 tables

Post-acquisition current service cost of $14,957 and net interest expense of $277 were recognized for the period ended June 30, 2020. The current service cost is included in the operating expenses on the condensed interim consolidated statements of loss and comprehensive loss. The net interest expense is included in interest expense.

At June 30, 2020, the Plan was in a deficit position of $818,015 (May 29, 2020 - $830,937). The movements in the defined benefit obligation for the period from acquisition to June 30, 2020 are as follows:

	$
Defined benefit obligation at April 1, 2020	-
Defined benefit obligation assumed on acquisition (note 6)	2,887,143
Current service cost	14,957
Interest cost	964
Foreign exchange translation	22,023
Defined benefit obligation June 30, 2020	**2,925,087**

The movements in Plan assets for the period from acquisition to June 30, 2020 are:

	$
Plan assets at April 1, 2020	-
Plan assets acquired (note 6)	2,056,207
Interest income	687
Return on plan assets, excluding interest income	34,348
Participant contributions	-
Employer contributions	-
Foreign exchange translation	15,830
Fair value of pension plan June 30, 2020	**2,107,072**

The Company's pension plan actual weighted average asset allocations by asset category were as follows:

	June 30, 2020	May 29, 2020
Debt securities	**39.03%**	38.59%
Real estate assets	**25.50%**	25.69%
Equity securities	**24.68%**	25.64%
Alternative investments	**9.72%**	9.58%
Cash and cash equivalents	**1.07%**	0.50%
Total	**100.00%**	100.00%

The fair values of the plan assets were determined based on the following methods:

Equity securities – generally quoted market prices in active markets
Debt securities – generally quoted market prices in active markets
Real estate assets – valued based on appraisal performed by a qualified external real estate appraiser
Alternative investments - generally quoted market prices in active markets
Cash and cash equivalents – generally recorded at cost which approximates fair value

Alternative investments are classified as Level 2 instruments and real estate assets as Level 3.

Reasonably possible changes in the discount rate and salaries would have the following effect on the defined benefit obligation, calculated using the projected unit credit method, at May 31, 2020.

	Defined benefit obligation, $	
	Increase 0.25%	Decrease 0.25%
Discount rate	2,772,519	3,057,622
	Decrease 0.25%	Increase 0.25%
Salary increase	2,877,468	2,942,344
	Decrease 0.25%	Increase 0.25%
Pension increase	2,909,068	2,909,068
	Decrease 1 year	Increase 1 year
Life expectancy	2,863,707	2,954,442

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation because the changes in discount rate and salary inputs would not occur in isolation of one another.

The weighted average duration of the obligation at June 30, 2020, which relates to active members, is 19.65 years.

The Corporation expects to make contributions to the Plan totaling $139,186 during the next 12 months.

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 financial statements of Martello for the three months ended June 30, 2020 relate to business combinations, determination of functional currencies, fair value of interest free debt, deferred tax assets and liabilities, current income tax assets and liabilities, share-based compensation and warrants, cost allocation of long-lived assets, evaluation of goodwill impairment, the assumptions underlying the actuarial valuation of the defined benefit pension plan, classification of discontinued operations and assets held for sale, 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.

The judgments, estimates and assumptions applied in the preparation of the condensed interim consolidated financial statements are the same as those disclosed in note 3 to the 2020 annual consolidated financial statements, with the addition of the following:

Defined-benefit pension plans

The Corporation has a defined benefit pension plan, mandated by Swiss law, that provides certain benefits to the employees of GSX Participations SA. The actuarial valuation of this plan is based on assumptions, which include discount rates, inflation, mortality rates, retirement probabilities, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the pension benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

FINANCIAL INSTRUMENTS

This section should be read in conjunction with the accompanying consolidated financial statements for the three months ended June 30, 2020 and 2019. The financial instruments of the Company are as follows:

(in 000's)		**June 30, 2020**	March 31, 2020
Financial assets			
Cash	$	6,452	2,900
Short term investment		220	3,000
Trade and other accounts receivable		3,987	3,734
Investment tax credits and grants receivable		681	377
Total financial assets		**11,340**	**10,010**

(in 000's)		**June 30, 2020**	March 31, 2019
Financial liabilities			
Accounts payable and accrued liabilities	$	5,124	2,526
Foreign exchange forward contract liabilitiy		59	150
Long-term debt (including current portion)		9,971	2,469
Total financial liabilities		**15,154**	**5,144**

As at the above dates, the carrying amounts and the fair values of financial assets and liabilities are equivalent.

The Company's primary risk management objective is to protect the Company's financial position and cash flows, in order to increase the Company's enterprise value. The Company is financed through a mixture of debt and equity. The Company is exposed to market risk, credit risk, interest rate risk, foreign exchange risk and liquidity 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. During the three months ended June 30, 2020, the Company had 5 contracts for derivative financial instruments (foreign exchange forward contracts) to manage foreign currency risk with the USD. As of June 30, 2020, the Company is committed under outstanding 2 foreign exchange forward contracts to sell USD, representing sales commitments of USD $1.2M. Currently, the Company has no derivative instruments to reduce its exposure to the EUR.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or contract. Martello has one major customer which increases the concentration of credit risk. The Company reduces its exposure to credit risk by performing credit assessments on a regular basis and granting credit upon a review of the credit history of the customer. The Company maintains strict credit policies and limits in respect to counterparties and does not expect future credit losses.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by reviewing its capital and operating requirements on an ongoing basis.

At June 30, 2020, the Company is exposed to interest rate risk as the Vistara Term Loan carries interest at a variable rate, being the greater of (i) 12.50% per annum; and (ii) the US prime rate plus 8.75% per annum. As at June 30, 2020, the US prime rate was 3.25% and the Company is paying interest at 12.50% per annum.

In addition, the Vistara Term Loan is denominated in USD. The Company is reviewing its exposure to interest rate risks and foreign currency risks and will seek to minimize its exposure to interest rate and currency rate fluctuations.

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

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

RISK FACTORS

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

COVID-19

On March 11, 2020, COVID-19 was declared as a pandemic by the World Health Organization. The spread of COVID-19 has significantly impacted the global economy, and the outbreak and efforts to contain the virus may have a significant impact on the Company's business and customers. The extent of the adverse impact of the pandemic on the global economy and markets will depend, in part, on the length and severity of the measures taken to limit the spread of the virus and, in part, on the size and effectiveness of the compensating measures taken by governments. A prolonged economic slowdown could result in purchase order delays or the inability to collect receivables and it is possible that in the future there will be negative impacts on the Company's operations that could have a material adverse effect on our financial results. Reduced IT budgets and spending in the early stages of COVID may have an impact on future revenues.

The Company is closely monitoring the current and potential effects and impact on its operations, business and financial performance, including liquidity and capital usage, in response to COVID-19 and has taken measures to minimize the effects, including 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 future developments which are highly uncertain and unknown at this time.

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 may invest more time and resources in developing competitive technology, products or solutions. 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. Success depends on customers' belief that there are technological, operational or cost benefits associated with Martello's products and services.

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.

Dependence on Mitel

As a channel partner, Mitel accounted for approximately 57% of the Company's revenue during the three months ended June 30, 2020 (55% for the three months ended June 30, 2019). Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services. The current agreement was originally signed on April 21, 2016 for an initial term of one year with automatic annual renewals, and was amended in January 2019 to expand the coverage of Martello's software to additional Mitel communications platforms, extending the term to provide products and services for an additional two years with automatic two year renewals thereafter, and increasing the fee per user that Martello receives on certain Mitel offerings.

Among other factors, if the relationship with Mitel changes, if Mitel's reliance on the Company's products is reduced because of changes to their business structure or strategy, if the Company is unable to provide suitable support for new or additional products and ongoing product updates or is unable to reach commercially agreeable pricing and other terms for support, or if Mitel business decreases, this could lead to a loss of a significant portion of the Company's business. This risk is mitigated by the Company's acquisition strategy, including the acquisition of Savision in November 2018 and the acquisition of GSX in May 2020.

Rapid Technological Change

The nature of Martello's industry is one of frequent new product introductions and evolving industry standards, which could cause the Company's hardware products and software solutions to become obsolete. 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.
- There is no assurance that research and development efforts will produce revenue in the near-term, if at all.

- International operations will result in increased operational, regulatory, tax, legal and other risks, including infectious diseases.
- The Company may need to raise additional capital in order to support the continued growth of the business. The interest of existing shareholders could be diluted, or restrictive covenants could be placed upon the Company by lenders. There is no assurance that sufficient capital will be available to fund future growth.
- The Company's success is dependent upon its ability to adapt its business model to keep pace with industry trends, and development of appropriate business and pricing models. Pricing changes or changes to sales models by Martello's competitors may also require the Company to reduce prices.
- The Company's products are highly technical and complex and can contain errors or security vulnerabilities. These could harm Martello's reputation, lead to returns of products or services and possibly reduced future sales.
- 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;
- The Company's success depends on the cooperation of its current and target hardware and software vendors and partners and on expected functionality of third-party hardware and software to ensure interoperability with the Company's products and to offer compatible products to end users.
- The Company relies on relationships with distributors, resellers, system vendors and systems integrators for a significant portion of its revenues. Disruptions to these channels could harm its business.
- The Company's investment tax credits from SRED have decreased and the timing of the application of the credits is negatively affected due to the Reverse Acquisition.
- The Company's success and future growth depends in part upon its ability to protect its intellectual property. The Company relies on a combination of patents, copyrights, trademarks, trade secret laws, contractual agreements, licenses and other methods to protect its intellectual property. There is no assurance that such measures will protect the Company's intellectual property, and despite its efforts to protect its trade secrets and proprietary rights, unauthorized parties may still infringe its intellectual property.
- The Company's commercial success depends, in part, upon the Company not infringing intellectual property rights owned by others. A number of the Company's competitors and other third parties have been issued patents, may have filed patent applications, or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of such patents. It cannot be determined with certainty whether any existing third-party patents, or the issuance of any third-party patents, would require the Company to alter its technology, obtain licenses or cease certain activities.
- The Company depends on its own IT systems and the IT systems of key SaaS providers to conduct a significant amount of its business operations. Breaches of the Company's cybersecurity systems or the systems of its vendors, partners or suppliers could seriously harm the business. Risks such as malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks may occur from inside or outside of the Company. It is increasingly difficult to identify and protect against these risks due to the rapidly evolving nature of the threats.
- Failure of the Company or its partners to comply with privacy policies, and privacy-related and data protection laws and regulations could result in proceedings and/or fines with adverse effect on the operating results and on the business.
- As the Company continues to develop its SaaS offerings, it will need to continue evolving processes to meet regulatory, intellectual property, open source software compliance and contractual and service compliance challenges. This requires significant investment and could affect operating results.
- The Company's SaaS offerings rely on third-party providers for data center space and colocation services. Should these services be disrupted or discontinued, it could result in a loss of current and future business to the Company.

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