



MARTELLO

Martello Technologies Group Inc.

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

For the three and nine months ended
December 31, 2020 and 2019.

February 17, 2021

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 February 17, 2021, the effective date of this MD&A.

This MD&A is a discussion and analysis of the financial condition and results of operations of Martello for the three and nine months ended December 31, 2020 and 2019 ("Q3 FY21" and "FY21", and "Q3 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 December 31, 2020 and 2019. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based on current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not facts but reflect the Company's current assumptions and expectations regarding future results or events.

These forward-looking statements are subject to several risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to risks and uncertainties related to:

- The performance of the Company's business and operations;
- The intention to grow the business and operations of the Company;
- Future liquidity, financial capacity and availability of future financing opportunities;
- 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”). 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, making every user’s digital experience productive, with a focus on Microsoft cloud-based digital enterprise services. Martello’s DEM solutions give IT teams actionable intelligence to proactively deliver a positive digital experience for users. 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 Microsoft 365 productivity applications. These solutions provide insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with synthetic 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 two companies with DEM solutions since November 2018, to expand its product portfolio, engineering expertise and global sales capacity.

As of December 31, 2020, Martello had 106 employees; 59 in Canada, 6 in the United States, and 41 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 a Canadian Link Balancing / Software-Defined Wide-Area Network (“SD-WAN”) company, Elfiq Inc. (“Elfiq Networks” or “Elfiq”). This business formed the network performance management segment of Martello. In July 2020, Martello sold the network performance management segment to Adaptiv Networks (“Adaptiv”) for a price of \$828k, including cash consideration of \$424k and common shares of Adaptiv. The Company divested this line of business in July 2020 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, 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 38 employees and contractors.

Products

Martello develops products that monitor and analyze the user’s experience of cloud-based enterprise digital services such as Microsoft 365 and unified communications. Martello’s products include user experience monitoring software for Microsoft 365, 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 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, total addressable market expansion, partner engagement, 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 revenue growth. A key driver of the Company's revenue growth is the number of Microsoft productivity suite users on the Company's software platform. To drive revenue growth, the Company is focused on the following activities:

- a) Reaching key product innovation milestones to expand the Company's addressable market:
 - a. Developing iQ and Gizmo as cloud-based multi-tenant SaaS platforms to establish new indirect GTM opportunities for these products with managed service providers and other partners. This creates an opportunity to bring small and medium sized enterprises onto Martello's DEM platform through these partners.
 - b. Adding new capabilities to its DEM solution portfolio to address the 'work from anywhere' digital workplace, including real user monitoring and end-to-end network visualization.
 - c. Improving the scalability of both Gizmo and iQ products, to accommodate cost-effective deployment by very large enterprises.
 - d. Expand sales channels for iQ and Gizmo. These channels include Microsoft Co-sell, Microsoft managed service providers, Mitel managed service providers and end customers, and large global systems integrators.
- b) Aligning and growing the Company's business with Mitel to meet its customers' needs as they shift from on-premise to cloud-based UCaaS solutions. This will include driving adoption of MPA through the MiCloud Flex Platform and developing support for additional Mitel call and collaboration platforms.
- 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. This includes converting customers using legacy products including Live Maps to DEM solutions such as iQ and Gizmo.
- 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 expanding the breadth and depth of Martello's DEM offering with technology that is 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 Martello has strengthened its operational capacity in FY21, the Company will continue to make the key necessary investments in technology, talent and systems to implement the above strategy. Although there is significant global economic uncertainty resulting from COVID-19 which may further impact operations, at this time the Company believes operations can be funded by available cash and other available funding sources.

SIGNIFICANT DEVELOPMENTS

During Q3 and YTD FY21 the following significant developments occurred:

- On December 22, 2020, Martello amended the stock option agreement with co-founder and former Director Niall Gallagher, accelerating the vesting and extending the expiry date for certain stock options which were awarded during the period that Mr. Gallagher was a Director of Martello.
- On November 18, 2020, former GSX CEO Antoine Leboyer was appointed to the Martello Board of Directors.

- On October 28, 2020, Martello announced the launch of Gizmo 2.0, with advanced Microsoft Teams video monitoring.
- On October 20, 2020, Martello announced the addition of more than 450,000 Microsoft users to its Gizmo platform since June 2020, reaching a total of 2 million users.
- In September 2020, Martello co-founder Niall Gallagher retired from the Company's Board of Directors.
- In September 2020, Martello announced it had reached Microsoft Gold Partner status, and had become Microsoft Co-Sell Prioritized.
- In July 2020, Martello subsidiary GSX was recognized as a digital experience monitoring vendor by industry research firm Gartner in three reports.
- In July 2020, Martello completed the sale of substantially all the assets and certain liabilities of the network performance management segment to Adaptiv, an arm's length Canadian SD-WAN company for gross proceeds of \$828k, consisting of cash of \$425k, a promissory note of \$100,000 and shares in the Adaptiv, having a value of \$303k.
- 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 May 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 December 31, 2020 and is available to Martello to draw upon from time to time to finance its day to day operations.
- 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 April 2020, Martello announced that partner Paessler AG launched PRTG Enterprise Monitor for businesses that need to monitor large IT infrastructures, a solution which includes the Martello iQ software.

During Q3 and YTD FY20, the following significant developments occurred:

- On November 26, 2019, Martello granted an aggregate of 2,063,491 stock options to directors and officers of the Company.
- On November 5, 2019, Martello announced its acceptance into the Microsoft Co-Sell Program.
- In September 2019, the Company issued 15,333,332 shares, for gross proceeds of \$4.6M (net proceeds \$3.99M) through an overnight marketed public offering (the "Public Offering") with a syndicate of underwriters led by Canaccord Genuity Corp, and including CIBC World Markets Inc. and PI Financial Corp.
- In September 2019, Martello announced that its unified communications performance analytics software is now monitoring more than one million users in Mitel's network operations center (NOC) as part of a managed service offering.
- In July 2019, Martello announced that it has teamed with Paessler AG to offer a service assurance solution to large enterprises and managed service providers (MSPs).
- In June 2019, Martello moved up 20 spots on the widely respected Branham300 listing of Canada's top ICT (Information and Communications Technology) companies.

EVENTS AFTER THE REPORTING PERIOD

On January 27, 2021 the Company entered into derivative financial instruments (foreign exchange collars) to manage USD foreign currency risk. Under these instruments, the Company is committed to sell \$150,000 per month for 6 months from April 1, 2021, if the USD/CAD rate goes above or below certain thresholds.

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 decided to divest the assets of the network performance management operating segment ("NPM segment"). The sale was completed on July 22, 2020. The sale of the NPM segment constitutes the sale of a separate major operating segment, and as a result the Company has reported the financial results as discontinued operations for all periods presented.

The significant accounting policies used in preparing these condensed interim consolidated financial statements are the same as those disclosed in note 2 of the Company's FY20 audited 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)	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	(Three months ended)		(Nine months ended)	
Sales	\$ 4,633	2,885	12,355	8,337
Cost of Goods Sold	309	160	716	512
Gross Margin	4,324	2,725	11,639	7,825
Gross Margin	% 93.3%	94.4%	94.2%	93.9%
Operating Expenses	5,449	3,563	14,436	10,086
Loss from operations	(1,125)	(838)	(2,797)	(2,261)
Other income/(expense)	(240)	(74)	(1,244)	(334)
Loss from continuing operations before income tax	(1,365)	(913)	(4,041)	(2,596)
Income tax recovery	(94)	101	(113)	263
Net loss from continuing operations	(1,459)	(812)	(4,154)	(2,332)
Loss from discontinued operations, net of tax	0	(516)	(320)	(1,383)
Net loss	(1,459)	(1,328)	(4,474)	(3,715)
Total Comprehensive loss	\$ (985)	(1,231)	(3,181)	(3,976)
EBITDA (1)	\$ (223)	(1,018)	(1,093)	(2,880)
Adjusted EBITDA (1)	\$ (262)	(835)	241	(2,319)

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

Balance Sheet – Highlights

(in 000's)	December 31, 2020	March 31 2020
Cash and short-term investment	\$ 4,048	5,900
Working capital	51	3,692
Total Assets	47,847	25,242
Total Liabilities	23,437	10,147
Share capital and contributed surplus	44,508	34,507
Warrants	2,515	20
Accumulated deficit and other comprehensive income	(22,613)	(19,432)
Shares issued and outstanding	# 269,823,056	208,516,111

Highlights for the three months ended December 31, 2020 as compared to the same period in 2019:

- In Q3 FY21, Martello reached 2.17 million Microsoft users on its Gizmo platform and completed the integration of GSX into Martello.
- Revenue of \$4.63M is 61% higher than the same quarter in the prior year (\$2.89M). The year over year increase reflects the acquisition of GSX, which contributed \$1.88M in Q3 FY21, and a \$97k (5%) increase in Vantage Dx Monitoring – Mitel UC revenue. These increases were offset by a decrease of \$232k (23%) in revenue from Vantage Dx Analytics - IT Service Analytics.
- Revenue remains diversified, with Vantage Dx Monitoring – Mitel UC contributing 43% of revenues in Q3 FY21 (56% in

Q3 FY20), Vantage Dx Monitoring – Microsoft 365 (GSX) contributing 41% of revenues in Q3 FY21 (nil in Q3 FY20) and Vantage Dx Analytics - IT Service Analytics contributing 17% in Q3 FY21 (30% in Q3 FY20). In Q3 FY20, the NPM segment contributed 14% of revenue.

- Recurring revenue is 96% in the current quarter compared to 94% in the same period of FY20, excluding the NPM segment. Vantage Dx Monitoring – Mitel UC revenue was 94% recurring in Q3 FY21 and 99.6% in Q3 FY20. Recurring revenue from Vantage Dx Analytics - IT Service Analytics increased from 85% in Q3 FY20 to 100% in Q3 FY21 as there were no perpetual license sales or professional services in FY21 (\$152k combined in Q3 FY20). Vantage Dx Monitoring – Microsoft 365 revenue was 95% recurring in Q3 FY21, excluding term licenses which are not recurring in nature although recognized over time.
- Monthly recurring revenue (MRR) increased to \$1.49M in Q3 FY21, compared to \$0.99M in Q3 FY20 (\$0.91M excluding NPM segment MRR), an increase of 51%. The increase in MRR is due to the addition of GSX revenues, which contributed \$0.61M in MRR in Q3. 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 93.3%, compared to 94.4% in the comparative period. The decrease is a result of slightly lower gross margin on Vantage Dx Monitoring – Microsoft 365 partially offset by a decrease in web service hosting costs in FY21 to deliver UC performance analytics software and lower sales commissions in IT Service Analytics.
- Operating expenses increased by \$1.89M, from \$3.56M in Q3 FY20 to \$5.45M in Q3 FY21. The increase includes \$1.99M in GSX operating expenses, including \$0.34M in amortization of intangibles from the acquisition of GSX (nil in FY20). Excluding the impact of GSX, operating expenses decreased by \$0.10M (3%). This was due primarily to decreases in Sales and Marketing and G&A expenses, partially offset by an increase of \$0.12M in Research and Development. Decreases resulted from a strategic initiative to reduce costs in view of the uncertainties around the COVID-19 pandemic, including delays in filling vacant positions, temporary reductions in salaries and work hours through the middle of Q3 FY21, and a decision to reduce estimated FY21 bonuses. As well, travel and event costs were reduced as a result of COVID-19. The increase in research and development is related to lower IRAP credits in Q3 FY21.
- Loss from operations was \$1.13M compared to a loss of \$0.84M in the same period of FY20, an increase of \$0.29M. Amortization of GSX intangibles increased expenses, while revenue increased and was partially offset by other operating expense increase related to GSX.
- Loss from continuing operations before income tax increased from \$0.91M in Q3 FY20 to \$1.37M in Q3 FY21, an increase of \$0.45M. In addition to the items above, the Company incurred higher interest expense on the new term loan partially offset by foreign exchange gains.
- The Q3 FY21 net loss of \$1.46M has slightly increased from the same period in FY20 (\$1.33M) as a result of the items outlined above. In addition, Q3 FY20 included a loss from discontinued operations of \$0.51M (nil in Q3 FY21), offset in part by changes to the tax recovery and expenses in Q3 FY21.
- Adjusted EBITDA (a non-IFRS measure) in Q3 FY21 is a loss of \$0.26M, compared to a loss of \$0.84M in the same period of FY20. The improvement in Adjusted EBITDA is due to the sale of the NPM segment in FY21, as well as the implementation of temporary measures in view of COVID-19 risks, including reduced hours and salaries for portion of the period and reduced travel and event costs.

Highlights for the nine months ended December 31, 2020 as compared to the same period in 2019:

- Results for the nine months ended December 31, 2020 reflect seven months of results from the acquisition of GSX on May 29, 2020.
- Revenue of \$12.36MM is 48% higher than the same period in the prior year (\$8.34M). GSX contributed \$4.22M to the increase year-over-year. Vantage Dx Monitoring – Mitel UC revenue increased by \$248k (5%), offset by a decrease of \$444k (16%) in revenue from Vantage Dx Analytics - IT Service Analytics.
- Revenue remains diversified, with Vantage Dx Monitoring – Mitel UC contributing 46% of revenues in the first nine months of FY21 (56% in Q3 YTD FY20), Vantage Dx Monitoring – Microsoft 365 (GSX) contributing 30% of revenues (nil in Q3 YTD FY20) and Vantage Dx Analytics - IT Service Analytics contributing 21% (29% in Q3 YTD FY20). The NPM segment contributed 15% in YTD FY20.
- Recurring revenue is 96% in the first nine months of FY21 compared to 95% in the same period of FY20. Vantage Dx

Monitoring – Mitel UC revenue was 97% recurring in Q3 YTD FY21 (99% in Q3 YTD FY20). Recurring revenue from Vantage Dx Analytics - IT Service Analytics increased from 88% in Q3 YTD FY20 to 99% in Q3 YTD FY21 as there were no perpetual license sales in YTD FY21. Vantage Dx Monitoring – Microsoft 365 revenue was 94% recurring in Q3 YTD FY21, excluding term licenses which are not recurring in nature although recognized over time.

- Gross margin as a percentage of revenue was 94.2%, compared to 93.9% in the comparative period. The increase is a result of lower sales commissions (IT Service Analytics software decrease in commissions and commissionable support headcount) and a decrease in web service hosting costs in FY21 to deliver UC performance analytics software partially offset by lower gross margin on the acquired Vantage Dx Monitoring – Microsoft 365 segment.
- Operating expenses increased by \$4.35M from \$10.09M in Q3 YTD FY20 to \$14.44M in Q3 YTD FY21. The increase includes \$4.61M in GSX operating expenses, including \$0.80M in amortization of intangibles (nil in FY20). In addition, the increase includes \$0.98M in costs relating to the acquisition of GSX. Excluding the impact of these items, operating expenses decreased by \$1.24M (12%). This was due to a decrease of \$0.22M in Research and Development and \$0.88M 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, temporary reductions in salaries and work hours through mid Q3FY21 and a 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 operations was \$2.80M compared to a loss of \$2.26M in the same period of FY20, an increase of \$0.54M. Amortization of GSX intangibles and acquisition related costs created increased expenses, partially offset by revenue net of other operating expenses from GSX.
- Loss from continuing operations before income tax increased from \$2.60M in Q3 YTD FY20 to \$4.04M in Q3 YTD FY21, an increase of \$1.44M. In addition to the items above, the Company incurred additional financing fees associated with the National Bank revolving loan and higher interest expense on the Vistara term loan partially offset by \$0.57M increase in foreign exchange gains.
- The loss from discontinued operations was \$0.32M in Q3 YTD FY21, a decrease of \$1.06M from Q3 YTD FY20. The loss from discontinued operations represents the loss from the NPM segment. The decrease is the result of wind down of operations in Q1 FY21 and sale in Q2 FY21, and cost-containment measures including furlough of certain employees in late May 2020 partially offset by termination costs.
- The Q3 YTD FY21 net loss of \$4.36M has increased from the same period in FY20 by \$0.64M as a result of the items outlined above.
- Adjusted EBITDA (a non-IFRS measure) for Q3 YTD FY21 was \$0.24M, compared to a loss of \$2.31M in the same period of FY20. The improvement in Adjusted EBITDA is due to reclassification of the NPM segment as discontinued operations, increase in gross margin and the implementation of temporary measures in view of COVID risks, including reduced hours and salaries 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 productivity suite 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

Gross Margin - Summary

(in 000's)	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	(Three months ended)		(Nine months ended)	
Sales	\$ 4,633	2,885	12,355	8,337
Cost of Goods Sold	309	160	716	512
Gross Margin	4,324	2,725	11,639	7,825
<i>Gross Margin</i>	93.3%	94.4%	94.2%	93.9%

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 productivity suite 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 the components described above as MRR.

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

Three months ended December 31, 2020

Sales and Gross Margin - Three months ended

(in 000's)	December 31, 2020			December 31, 2019	
	Total	GSX	Remaining Balance*	Total	Variance
Sales	\$ 4,633	1,883	2,750	2,885	(135)
Cost of Goods Sold	309	222	87	160	(73)
Gross Margin	4,324	1,661	2,663	2,725	(62)
<i>Gross Margin</i>	% 93.3%	88.2%	96.8%	94.4%	2.4%

* To facilitate comparison with the three months ended December 30, 2019, the Remaining balance represents the results of the Company's operations in Q3 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 and nine months ended December 31, 2020 and 2019

Revenue increased 61% between Q3 FY21 and Q3 FY20. Excluding GSX, revenue decreased 5% between Q3 FY21 and Q3 FY20. An increase in Vantage Dx Monitoring – Mitel UC revenue (5% - \$97k) due to perpetual licences sold in Q3 FY21 was offset by decrease in revenue from Vantage Dx Analytics - IT Service Analytics (23% - \$232k).

The decrease in IT Service Analytics is partially due to the Company's continued focus on subscription revenue. IT Service Analytics revenue in the prior year included \$0.1M of revenue from perpetual licenses, and \$52k in revenue from professional services. In addition, there has been an expected decline in maintenance and support revenue primarily relating to customers on the legacy LiveMaps product. With the decrease in perpetual license one-time revenue, recurring revenue in this segment increased from 85% in Q3 FY20 to 100% in Q3 FY21.

The gross margin at 93.3% (96.8% excluding GSX) is slightly lower than the same period in FY20 (94.4%). Excluding GSX, the gross margin is higher than Q3 FY20 as a result of a decrease in hosting costs for Mitel UC and a decrease in sales commissions for IT Service Analytics.

Nine months ended December 31, 2020

Sales and Gross Margin - Nine months ended

(in 000's)	December 31, 2020			December 31, 2019	
	Total	GSX	Remaining Balance*	Total	Variance
Sales	\$ 12,355	4,215	8,140	8,337	(197)
Cost of Goods Sold	716	438	278	512	(234)
Gross Margin	11,639	3,777	7,862	7,825	37
Gross Margin	% 94.2%	89.6%	96.6%	93.9%	2.7%

* To facilitate comparison with the nine months ended December 30, 2019, the Remaining balance represents the results of the Company's operations in Q3 YTD FY21 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY20.

Revenue increased 48% between Q3 YTD FY21 and Q3 YTD FY20. Excluding GSX, revenue decreased 3% between Q3 YTD FY21 and Q3 YTD FY20. Vantage Dx Monitoring – Mitel UC revenue grew 5% due to an increase in usage, training and perpetual licences, and was offset by a decrease in revenue from Vantage Dx Analytics - IT Service Analytics (16%).

As explained above, the Company's focus on subscription revenue resulted in a decrease in perpetual licenses and one-time training and professional services revenue of \$0.32M, from FY20 YTD to FY21 YTD. A pattern of cautious spending emerged at the end of last and beginning of this fiscal year as CIOs dealt with a series of emergent challenges related to COVID-19, including budget uncertainty. More recently, CIOs began to act on the need for reliable remote cloud collaboration capabilities to keep employees productive from any location in the world.

The gross margin at 94.2% (96.6% excluding GSX) is higher than 93.9% for the same period in FY20, as a result of higher gross margin on UC performance analytics (revenue increasing with lower spend on hosting and commissions) and decrease in sales commissions and third-party vendor costs 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 Company'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 and nine months ended December 31, 2020 and 2019 is summarized as follows:

Sales - Three months ended

	December 31, 2020				December 31, 2019		
	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
(in 000's)							
Revenue recognized at a point in time							
Hardware	\$ 1	-	-	1	3	-	3
Perpetual licenses	112	-	-	112	6	100	106
Training and professional services	(4)	4	9	9	(1)	52	51
Revenue recognized over time							
Subscription licenses	1,848	544	1,159	3,551	1,844	526	2,370
Maintenance and support	12	233	638	883	21	334	355
Term licenses	-	-	78	78	-	-	-
Total revenue	1,969	781	1,884	4,634	1,873	1,012	2,885

Vantage Dx Monitoring – Mitel UC revenue increased \$97k (5%) from Q3 FY20 due primarily to an increase in perpetual licences sold in FY21 and increased recurring revenue from the number of users for Mitel's premium software assurance program, partially offset by a decrease in the USD-CAD FX rate (the majority of the Mitel UC revenue is in USD).

Vantage Dx Analytics - IT Service Analytics revenue declined \$232k (23%) from Q3 FY20. Subscription license revenue slightly increased during the quarter while maintenance and support revenue is declining as a result of the change in focus from perpetual to subscription revenue and churn on the existing maintenance and support contracts, particularly related to the legacy product. As discussed above, lower bookings early in the year resulted from cautious spending by CIO's in face of COVID uncertainties impacted Q3 revenue both on recurring side as well as training & professional services revenue.

Vantage Dx Monitoring – Microsoft 365 revenue was \$1.9M in Q3 FY21. GSX was acquired in May 2020.

Monthly Recurring Revenue ("MRR") increased to \$1.49M in Q3 FY21 compared to \$0.99M in Q3 FY20 (\$0.91M excluding the NPM segment), an increase of 51%. The growth in MRR is due to the addition of GSX, which contributed \$0.61M to MRR in Q3. The balance relates to the increase in royalties from Vantage DX Monitoring - Mitel UC year-over-year (offset in part by the decrease in USD-CAD exchange rate) and increase in subscription license in IT Service Analytics, offset by reduced maintenance and support revenue related to the LiveMaps product.

Sales - Nine months ended

	December 31, 2020				December 31, 2019		
	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
(in 000's)							
Revenue recognized at a point in time							
Hardware	\$ 23	-	-	23	18	-	18
Perpetual licenses	112	-	-	112	39	176	215
Training and professional services	62	26	21	109	23	170	193
Revenue recognized over time							
Subscription licenses	5,500	1,604	2,522	9,626	5,337	1,472	6,809
Maintenance and support	26	787	1,457	2,270	58	1,044	1,102
Term licenses	-	-	214	214	-	-	-
Total revenue	5,723	2,417	4,214	12,354	5,475	2,862	8,337

Vantage Dx Monitoring – Mitel UC revenue increased \$248k (5%) from Q3 YTD FY20 due to an increase in recurring revenue from the number of users for Mitel's premium software assurance program, higher perpetual license revenue in Q3 YTD FY21 and new revenue for training offered in Q3 FY21.

Vantage Dx Analytics - IT Service Analytics revenue declined \$444k (16%) from Q3 YTD FY20. As discussed above, the Company continues to focus on recurring subscription revenue. The decrease is due in part to lower one-time perpetual license and

training sales in Q3 YTD FY21 and declining maintenance and support primarily on the legacy LiveMaps product, partially offset by an increase in subscription licenses driven by iQ sales. As discussed above, lower bookings early in the year resulting from cautious spending by CIOs in the face of COVID-19 uncertainties impacted YTD revenue.

Vantage Dx Monitoring – Microsoft 365 revenue was \$4.2M in Q3 YTD FY21. GSX was acquired in late May 2020 and therefore the YTD results include seven months of revenue.

Expenses

Three and nine months ended December 31, 2020

Expenses - Three months ended

(in 000's)	December 31, 2020			December 31, 2019	Decrease / (Increase)
	Total	GSX	Remaining Balance*	Total	
Research and development	\$ 1,490	318	1,172	1,051	(121)
Sales and marketing	1,734	960	774	967	193
General and administrative	1,510	298	1,212	1,263	51
Depreciation	147	65	82	74	(8)
Amortization	497	345	152	160	8
Acquisition-related costs	71	-	71	49	(22)
TOTAL	5,449	1,986	3,463	3,564	101

* To facilitate comparison with the three months ended December 31, 2019, the Remaining balance represents the results of the Company's operations in Q3 FY21 without contributions from GSX (acquired on May 29, 2020). The analysis compares the Remaining balance to the comparable period in FY20.

Expenses - Nine months ended

(in 000's)	December 31, 2020			December 31, 2019	Decrease / (Increase)
	Total	GSX	Remaining Balance*	Total	
Research and development	\$ 3,685	894	2,791	3,011	220
Sales and marketing	3,962	1,981	1,981	2,864	883
General and administrative	4,126	779	3,347	3,410	63
Depreciation	384	152	232	218	(14)
Amortization	1,274	803	471	473	2
Acquisition-related costs	1,005	-	1,005	110	(895)
TOTAL	14,436	4,609	9,827	10,086	259

* To facilitate comparison with the nine months ended December 31, 2019, the Remaining balance represents the results of the Company's operations in Q3 YTD 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 December 31, 2020, operating expenses increased by \$1.89M (\$0.10M decrease excluding impact of GSX) compared to the same period in FY20. For the nine months ended December 31, 2020, operating expenses increased by \$4.35M (decrease of \$0.26M 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") and Crédit d'impôt en Faveur de la Recherche ("CIR").

- Excluding the impact of GSX, R&D expenses increased \$121k in Q3 from FY20 to FY21 and decreased \$220k in the nine months of FY21 compared to FY20. The increase in R&D costs in Q3 FY21 is due to lower NRC-IRAP related funding. The YTD decrease is related to strategic initiative to reduce costs in view of the uncertainties around COVID-19, including a decision to reduce salaries and work hours temporarily, delay staffing of open positions, reduced 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 \$194k from Q3 FY20 to Q3 FY21 and \$883k in the nine months of FY20 to FY21. The decrease in spend is mainly due to headcount vacancies in the current period, lower spending in travel and trade show-related activities, and temporary reductions in work hours through the middle of Q3 FY21.

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

- General and administrative costs decreased by \$50k from Q3 FY20 to Q3 FY21 and \$63k from the nine months of FY20 to FY21. The decrease was related to strategic initiatives to reduce costs in view of the uncertainties around COVID, including a decision to temporarily reduce salaries and work hours through mid Q3 FY21, reduced travel and bonus accruals, partially offset by an increase in professional fees and software subscription costs.

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

Amortization relates to intangibles established on the acquisition of Savision and GSX. Excluding GSX, amortization was comparable year-over-year.

Acquisition related costs increased by \$22k from Q3 FY20 to Q3 FY21 and \$895k from the nine months of FY20 to FY21. The increase year-over-year relates 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 December 31, 2020 and 2019 was \$1.13M and \$0.84M, respectively, an increase of \$0.29M. The loss from operations increased year-over-year for the three-month period as a result of an increase in operating expenses (\$1.89M) related to the GSX acquisition, partially offset by decreases in other operating costs as described above, offset partially by an increase in revenue and gross margin as described above.

The loss from operations for the nine months ended December 31, 2020 and 2019 was \$2.80M and \$2.26M, respectively, an increase of \$0.54M. The loss from operations increased year-over-year for the nine-month period mainly due to GSX operating expenses of \$4.61M, including \$0.80M in amortization of GSX intangibles, and an increase of \$0.90M in acquisition related costs. These increases were partially offset by decreases in other operating costs of \$1.16M as described above as well as an increase in revenue and gross margin also described above.

Other Income/Expense

(in 000's)	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	(Three months ended)		(Nine months ended)	
Interest income	\$ 3	15	7	32
Interest expense	(491)	(45)	(1,220)	(158)
Financing fees	7	-	(397)	-
Accretion of long-term debt	(17)	(16)	(1)	(47)
Foreign exchange gain (loss)	282	(34)	400	(169)
Other income	(24)	5	(33)	7
TOTAL	\$ (240)	(75)	(1,244)	(335)

The increase in interest expense for the three and nine months ended December 31, 2020 relates to a change in the debt structure in FY21. In connection with the GSX acquisition in late May 2020, the Company repaid the RBC term loan (\$1.8M) and entered into the Vistara Term Loan, with a principal amount of USD\$8.0M. The increase in interest expense is due to the higher debt balance in Q3 and YTD FY21 compared to the prior year, a higher rate on the Vistara Term Loan (12.5%) as compared to

the RBC term loan (5.4%), and amortization of the loan and warrant origination fees associated with the Vistara Term Loan, which is also included in interest expense.

In the nine months ended December 31, 2020 the Company incurred financing fees related primarily to the National Bank Revolver, including setup fees, advisory fees and legal costs. As well, some financing fees were incurred in terminating the RBC term loan.

Accretion of long-term debt relates to implied interest on non-interest-bearing loans.

For the three and nine months ended December 31, 2020, the Company had foreign exchange gains of \$282k and \$400k respectively, compared to losses of \$34k and \$169k, respectively, for the same period last year. Gains and losses relate to differences in exchange rates on foreign currency balances and income/expenses, and revaluation of foreign exchange forward contracts. In the 9 months ending December 31, 2020, both the EUR and USD to CAD moved favourably, resulting in gains on foreign exchange transactions as well as unrealized gains and losses on revaluation of financial assets and liabilities denominated in USD and EUR. The main driver for the foreign exchange gains in Q3 FY21 is the revaluation of the Vistara USD loan balance, partially offset by the revaluation of cash and accounts receivable balances denominated in USD and EUR. In FY20 YTD, the USD and EUR weakened, as such, the assets denominated in foreign currency were revalued at a lower rate which resulted in losses.

Income Tax / Recovery

For the three and nine months ended December 31, 2020, income tax expense amounted to \$93k and \$113k, respectively, compared to an income tax recovery of \$100k and \$263k, respectively, for the same periods last year.

The tax expense for three and nine months in FY21 relates primarily to current income tax expense accrued for certain entities, partially offset by tax provisions by the reversal of taxable temporary differences due to the amortization of GSX and Savision intangibles and the tax benefit of losses deemed realisable.

In FY 2020 the income tax recoveries for the quarter were caused primarily by the reversal of taxable temporary difference due to the amortization of the Savision intangibles and the tax benefit of losses deemed realisable.

Loss from Discontinued Operations, net of tax

The loss from discontinued operations in Q3 FY21 was nil, and the loss for Q3 YTD was \$0.3MM, compared to losses of \$0.5M and \$1.4M for the same periods last year. The gain or loss from discontinued operations represents the results of the NPM segment. Prior to the sale, the NPM segment was operating at a loss, resulting in losses in the comparable quarters.

Other Comprehensive Income/(Loss)

In the three and nine months ended December 31, 2020, the Company had other comprehensive income of \$0.5M and \$1.3M, respectively. In the three and nine months ended December 31, 2019, the Company had other comprehensive income of \$0.1M and losses of \$0.3M, respectively. Included in other comprehensive income/(loss) are pension plan fair value adjustments (FY21), pension plan remeasurement, as well as currency translation differences for Savision and GSX operations, for which EUR is the functional currency. The pension plan remeasurement of \$0.4M in Q3 and YTD FY21 relates to a transfer of assets and related liabilities of a former employee of GSX. During Q3 FY21 the increase in CAD against EUR resulted in income on revaluation of the net assets of Savision and GSX, including goodwill and intangibles.

Net Loss and Comprehensive Loss

For the three and nine months ended December 31, 2020, the net loss amounted to \$1.4M and \$4.5M, respectively, compared to \$1.3M and \$3.7M net loss recorded in the same periods last year.

The total comprehensive loss for the three and nine months ended December 31, 2020 was \$1.0M and \$3.2M, respectively, compared to losses of \$1.2M and \$4.0M in the same periods of FY20.

The key drivers for the decrease 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.

For the three and nine months ended December 31, 2020 and 2019

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

In the three and nine months ended December 31, 2020, the Company's Adjusted EBITDA gain/(loss) was (\$0.26M) and \$0.24M respectively, compared to losses of \$0.84M and \$2.32M in the same periods ended December 31, 2019.

EBITDA and Adjusted EBITDA (in 000's)	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	(Three months ended)		(Nine months ended)	
Net loss	\$	(1,459)		(3,715)
Interest income	(2)	(3)	(15)	(33)
Interest expense	(2)	491	46	163
Financing Fees	(2)	(7)	-	-
Accretion of long-term debt	(2)	17	18	53
Income tax recovery	(2)	94	(101)	(397)
Depreciation	(2)	147	96	257
Amortization	(2)	497	266	792
EBITDA	(1)	(223)	(1,018)	(2,880)
Loss from discontinued operations, net of tax	(2)	-	-	-
Foreign exchange (gain) loss	(2)	(282)	33	171
Other income	(2)	24	(6)	(8)
Share-based compensation expenses	(3)	147	107	288
Acquisition-related costs	(2)	71	49	110
Adjusted EBITDA	(1)	(263)	(835)	(2,319)

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

(2) Per the Statements of loss and comprehensive loss. December 31, 2019 numbers are as previously reported and have not been restated to reflect impact of discontinued operations on YTD

(3) Share-based compensation expense per the Statement of cash flows, excluding discontinu

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 December 31, 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 nine months ended December 31, 2020 and 2019, except that the results of Elfiq are shown as discontinued operations. Beginning with Q1 FY21, Adjusted EBITDA reflects the addback of discontinued operations. Prior quarter Adjusted EBITDA has not been restated to reflect the impact of discontinued operations, as the decision to divest

For the three and nine months ended December 31, 2020 and 2019

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)	Q3 FY21	Q2 FY21	Q1 FY21	Q4 FY20	Q3 FY20	Q2 FY20
Sales	\$ 4,633	4,395	3,327	2,859	2,885	2,695
Cost of Goods Sold	309	215	192	123	160	180
Gross Margin	4,324	4,180	3,135	2,737	2,725	2,515
Expenses	5,449	4,762	4,224	6,916	3,563	3,314
Loss from operations	(1,125)	(583)	(1,089)	(4,179)	(838)	(799)
Other income/(expense)	(240)	(390)	(614)	128	(74)	(128)
Loss before income tax	(1,365)	(973)	(1,703)	(4,051)	(913)	(927)
Income tax recovery	(94)	(68)	48	(2)	101	84
Net loss from continuing operations	(1,459)	(1,040)	(1,655)	(4,053)	(812)	(843)
Gain (loss) from discontinued operations, net of tax	-	103	(423)	(415)	(516)	(654)
Net Loss	(1,459)	(1,040)	(1,655)	(4,469)	(1,328)	(1,497)
Total comprehensive loss	\$ (985)	(69)	(2,127)	(3,869)	(1,231)	(1,773)
EBITDA ⁽¹⁾	\$ (223)	400	(1,270)	(4,075)	(1,018)	(1,156)
Adjusted EBITDA ^{(1) (2)}	\$ (263)	304	200	(153)	(835)	(985)

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

(2) Adjusted EBITDA for 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 two years for certain projects including the hiring of additional staff. The agreement ended in August 2020.

In November 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 balance of \$1.8M was fully repaid.

In September 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 Company 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 Company 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 Company 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 Company 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 Company, 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 December 31, 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 Company entered a non-binding letter of intent with Bruce Linton, and Terry Matthews through Wesley Clover International Corporation, Co-Chairmen of the Company’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 Company 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 \$4.05M at December 31, 2020 compared to \$5.90M at March 31, 2020. The decrease is explained below under **Cashflow Analysis**.

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

Liquidity Snapshot		
(in 000's)	December 31, 2020	March 31, 2020
Current Assets	\$ 10,433	10,800
Current Liabilities	10,382	7,108
Net Working Capital	51	3,692

The decrease in working capital in FY21 was due in part to an increased working capital deficit resulting from the GSX acquisition, including negative working capital of approximately \$4.5M and assumed non-ordinary course liabilities of approximately \$1.3M. The purchase price was reduced for the non-ordinary course liabilities and for a portion of the assumed working capital deficit. In addition, working capital decreased due to cashflows used in operations, excluding the impact of the above mentioned GSX liabilities, as well as from the repayment of long-term debt of \$1.8M. Offsetting these reductions, working capital increased as a result of the net proceeds from the bought deal (\$6MM), net proceeds from the Vistara Term Loan (\$10.1M), proceeds from the exercise of stock options and proceeds from the sale of the net assets of the NPM segment.

Long-Term Debt

As at December 31, 2020 long-term debt totaled \$9.6M, including \$0.2M due within one year. The debt is made up of:

- \$9.0M 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.
- \$0.55M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities for a specific project.
- \$87k non-interest-bearing, unsecured loan from Canada Economic Development Agency.

Share Capital

In the first nine months of 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
- 1,116,705 options were forfeited (498,001 in Q3 YTD FY20)
- 6,376,167 options were granted (2,338,491 in Q3 YTD FY20)
- 6,165,331 options were exercised (1,115,496 in Q3 YTD FY20)
- 274,285 warrants were exercised (493,715 in Q3 YTD FY20)

In the first nine months of FY20, the following additional transactions in the share capital of Martello occurred:

- 15,333,332 shares were issued in connection with the Public Offering.

Cash Flow Analysis

(in 000's)	Nine Months Ended December 31,	
	2020	2019
Operating activities		
Loss before income tax	\$ (4,041)	(2,596)
Net loss from discontinued operations before income tax	(320)	(1,383)
Items not affecting cash	1,934	1,373
Net change in operating components of working capital	(2,938)	(939)
Total cash flows used in operations	(5,365)	(3,544)
Investing activities		
Purchase of short term investments	(350)	(4,000)
Sale of short-term investments	3,180	-
Additions to equipment and leasehold improvements	(44)	(105)
Proceeds from sale of subsidiary	425	-
Business acquisition, net of cash acquired	(11,557)	-
Total cash flows used in investing activities	(8,347)	(4,105)
Financing activities		
Proceeds from issuance of common stock	4,959	3,996
Common stock issuance costs	(660)	-
Proceeds from exercise of stock options	695	130
Proceeds from issuance of warrants	1,942	-
Warrants issuance costs	(229)	-
Proceeds from long-term debt	10,976	12
Debt issuance costs	(839)	-
Repayment of long-term debt	(1,835)	(731)
Repayment of lease obligations	(358)	(155)
Proceeds from exercise of warrants	30	54
Total cash flows provided by financing activities	14,681	3,307
Net change in cash	969	(4,342)
Cash, beginning of period	2,900	6,649
Effects of currency translation on cash	9	(13)
Cash, end of period	3,878	2,294

Cash flows used in operations were \$5.37M for the nine months ended December 31, 2020, compared to \$3.54M for the nine months ended December 31, 2019. The increase in cashflows used in operations of \$1.83M is due to the following key factors:

- For the nine months ended December 31, 2020, loss from continuing operations before income tax and net loss from discontinued operations before income tax were \$4.04M and \$0.32M, respectively (FY 2020 – losses of \$2.6M and \$1.38M, respectively).
- Items not affecting cash include depreciation, amortization, changes in the fair value of the hedge liability, share based compensation, defined benefit plan expense, accrued interest and unrealized foreign exchange gains and losses. In FY21, depreciation and amortization of intangible assets increased due to the GSX acquisition. In addition, items not affecting cash include the amortization of debt issuance cost related to the Vistara loan and defined benefit plan expense. There were no such items in FY20. Share-based compensation was slightly higher in FY21 due to stock option grants to new employees, and FY21 also included an increase in unrealized foreign exchange gains related to the Vistara loan denominated in USD.

- The net change in operating components of working capital was an increase of \$2.94M for the nine months of FY21 as compared to an increase of \$0.81M in the prior year, which increases the cash used in operations period-over-period. The following key items contributed to this increase:
 - Trade and other accounts receivable increased by \$50K in the nine months ended December 31, 2020, compared to an increase of \$370K in the same period last year. In Q3 YTD FY20, accounts receivable increased due to an increase in sales taxes receivable, resulting from timing of filings and collections, as well as timing differences in invoicing and collections in Q3 FY20.
 - Investment tax credits and grants receivable increased by \$0.18M in the nine months ended December 31, 2020 as compared to a decrease of \$0.13M in the nine months ended December 31, 2019. The increase in FY 2021 is due to the National Research Council of Canada Industrial Research Assistance Program (“NRC-IRAP”) credit of \$0.04M and Crédit d’Impôt en Faveur de la Recherche (CIR) at GSX France of \$0.19M, as well as the timing of claims submission and payments received.
 - Prepaid expenses decreased by \$0.34M in the nine months ended December 31, 2020 as compared to a decrease of \$0.03M in the nine months ended December 31, 2019. The decrease in the current year relates to certain loan origination and financing fees prepaid at March 31, 2020 (\$0.22M) that were reclassified to loan and financing costs accounts at closing. The remaining decrease relates to expensing of prepaid subscriptions and other services. Prepaid expenses in the nine months ended December 31, 2020 decreased due to expensing of certain prepaid professional fees, research services, and travel and conference costs.
 - Accounts payable and accrued liabilities decreased by \$2.14M during the nine months ended December 31, 2020, compared to a decrease of \$0.13M in the prior year. Of this decrease, \$1.3M related to a decrease in GSX accounts payable since the date of the acquisition. The purchase price was adjusted in relation to certain of these assumed payables. The remaining decrease in accounts payable and accrued liabilities relates primarily to payment of amounts accrued at March 31, 2020 for taxes, M&A fees and other professional fees, accrued compensation and benefits, and timing of trade payables and sales tax filings and receipts. The decrease in FY 2020 relates to income tax provision liability from Nettech segment.
 - Deferred revenue decreased \$0.92M during the nine months ended December 31, 2020, compared to a decrease of \$0.65M in the prior year. The decrease in FY21 is attributable primarily to a decrease in deferred revenue from Dx Monitoring – Microsoft 365 of \$0.7M, relating to contracts expiring in Q3 FY21, as well as an adjustment relating to a change in partner terms from subscription to royalty based revenue. In addition, there was a decrease of \$0.17M in IT Service Analytics, resulting in part from subscription contracts ending in Q3 FY21 and the above-mentioned lower bookings in IT Service Analytics in Q3 FY20.

Cashflows used in investing activities were \$8.35M for the nine months ended December 31, 2020 as compared to \$4.1M for the nine months ended December 31, 2019. The use of cash in the current year resulted primarily from the GSX Acquisition net of cash acquired (\$11.56M), net proceeds from the sale and purchase of short-term investments (\$2.83M) and proceeds from the sale of the NPM segment (\$0.42M), as well as \$44k in additions to equipment and leasehold improvements. In FY20, cashflows used in investing activities related to the purchase of short-term investments of \$4M and additions to equipment and leasehold improvements of \$0.11M.

Cashflows provided by financing activities were \$14.68M for the nine months ended December 31, 2020, compared to \$3.31M in the nine months ended December 31, 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 and \$0.70M in proceeds from the exercise of stock options. These were partially offset by common stock and warrants issuance costs of \$0.89M, debt issuance costs of \$0.84M, repayment of the RBC Term Loan of \$1.84M, and repayment of lease obligations of \$0.36M. In the same period in FY20, cashflows from financing activities reflected net proceeds of \$4.0M from the issuance of common stock and \$0.18M in proceeds from the exercise of stock options and warrants, offset by \$0.73M in repayment of long-term debt and \$0.16M repayments of lease obligations.

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 *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 October 31, 2022. The purchaser of the assets described in note 5 has entered into a sublease for the Elfiq Lease effective August 1, 2020, and the lease has been 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. During the three months ending September 30, 2020, the Corporation exercised its right to early terminate the current lease, which has a new maturity date of January 2021. The Corporation also has a lease in Kennett Square, Pennsylvania, USA expiring on March 31, 2021.

Fiscal year ended	\$
2021	31,826
2022	116,697
Total	148,523

OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 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 December 31, 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 \$16.5M which includes \$12.0M in cash and \$4.5M for the issuance of 22,000,000 common shares.

The purchase price was allocated as follows:

	\$
Net assets (liabilities) acquired, other than undemoted items	(6,630,453)
Deferred tax liability	(432,982)
Goodwill and intangible assets acquired	23,585,036
Total purchase price	16,521,601

The net liabilities acquired are as follows:

	\$
Cash	454,127
Trade and other accounts receivable	1,377,716
Prepaid expenses	335,063
Equipment & leasehold improvements	97,830
Right-of-use assets	1,172,045
Total assets	3,436,781
Accounts payable and accrued liabilities	3,072,900
Deferred revenue	4,972,490
Lease obligation	1,190,906
Pension obligation	830,938
Total liabilities	10,067,234
Net liabilities acquired	(6,630,453)

The fair value and gross contractual amount of trade accounts receivable acquired was \$1.42M.

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

	\$
Consideration paid in cash	12,011,601
Less: Cash and cash equivalents acquired	454,127
Net cash outflow	11,557,474

Goodwill arose in the acquisition of GSX because the cost of acquisition included a control premium and 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 December 31, 2020, GSX accounted for \$1.88M and \$4.22M in sales for three and nine months ended December 31, 2020. GSX recognized \$0.43M and \$1.01M of net loss for the three and nine months ended December 31, 2020, including amortization of intangibles of \$0.3M and \$0.8M, respectively.

DISCONTINUED OPERATIONS

In the first quarter of the 2021 fiscal year the Company initiated a review of the former network performance management operating segment ("NPM segment") and decided to divest the assets of this segment. The Company divested the assets of this segment on July 22, 2020. Details of the disposal are as follows:

Carrying amounts of net assets disposed of

	July 22, 2020
Assets	
Current assets	\$
Trade and other accounts receivable	295,772
Prepaid expenses	15,841
Inventories	157,404
Total current assets	469,017
Non-current assets	
Equipment and leasehold improvements	88,225
Intangible assets	821,168
Total assets	1,378,410
Liabilities	
Current liabilities	
Deferred revenue	497,595
Accounts payable and accrued liabilities	59,674
Lease obligation	5,394
Total current liabilities	562,663
Non-current liabilities	
Deferred revenue	203,370
Total liabilities	766,033
Net assets disposed of	612,377

Gain on Sale of NPM segment	\$
Cash proceeds of sale	424,702
Promissory note receivable	100,000
Shares of Adaptiv	303,750
Proceeds of sale	828,452
Net assets disposed of	(612,377)
Gain on disposal, before tax	216,075

The sale of the NPM segment constitutes the sale of a separate major operating segment, and as a result the Company has reported the financial results as discontinued operations for all periods presented.

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

For the three and nine months ended December 31, 2020 and 2019

	Three months ended		Nine months ended	
	December 31, 2020	December 30, 2019	December 31, 2020	December 31, 2019
Income				
Sales	\$ -	\$ 485,524	\$ 352,915	\$ 1,481,378
Cost of goods sold	-	83,547	55,194	240,805
Gross margin	-	401,977	297,721	1,240,573
Expenses				
Research and development	-	245,628	389,933	596,119
Sales and marketing	-	352,415	197,217	1,165,279
General and administrative	-	189,281	138,761	625,231
Depreciation	-	22,294	33,485	38,961
Amortization	-	106,252	71,376	318,756
	-	915,870	830,772	2,744,346
Loss from discontinued operations	-	(513,893)	(533,051)	(1,503,773)
Other income/expense				
Interest income	-	-	-	1,134
Interest expense	-	(1,026)	(4,560)	(5,722)
Accretion of long-term debt	-	(2,892)	(6,389)	(5,671)
Foreign exchange gain (loss)	-	741	7,755	(2,893)
Other income	-	1,414	-	769
Gain on disposal	-	-	216,074	-
Loss before income tax	-	(515,656)	(320,171)	(1,516,156)
Income tax recovery	-	-	-	133,423
Loss from discontinued operations	-	(515,656)	(320,171)	(1,382,733)

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

	Nine months ended	
	December 31, 2020	December 31, 2019
Cash used in operating activities	\$ (176,950)	\$ (76,475)
Cash (used in) provided by investing activities	424,702	(29,864)
Cash used in financing activities	(53,138)	(13,228)
Net cash inflow (outflow)	194,614	(119,567)

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 18% of the Company as at December 31, 2020. Included in accounts payable and accrued liabilities are balances as at December 31, 2020 totaling \$141k (March 31, 2020 - \$202k) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board is chairman of Wesley Clover International Corporation ("Wesley Clover"). Wesley Clover owns more than 10% of the issued and outstanding common shares of the Company as at December 31, 2020.

The Company leases office premises from Wesley Clover. For the three and nine months ended December 31, 2020, the Company paid rent to Wesley Clover, which is reflected in the December 31, 2020 and 2019 results as depreciation of right-of-use assets of \$25k and \$74k, respectively. These transactions are in the normal course of operations and are recorded at fair value.

OUTLOOK

Martello's mission is to be a leading vendor in the enterprise DEM market, making every user's digital experience exceptional and productive. The Company's DEM solutions give IT teams actionable intelligence to proactively deliver a positive digital experience for users.

A core focus for Martello is providing best-in-class digital experience monitoring solutions for Microsoft 365, the world's most popular cloud productivity suite. In addition to UC performance analytics, Martello's DEM suite includes a Microsoft monitoring solution (Gizmo) and digital experience analytics solution (iQ). On a combined basis, revenue from these two DEM solutions grew by 16% between Q2 and Q3 FY21.

Martello had 2.17 million Microsoft users on its platform as of December 31, 2020. In Q2 FY21, the Company reached 2 million Microsoft users and is targeting to increase this number by 60% by the end of FY22. Having completed the integration of GSX in Q3 FY21, Martello is well positioned to accelerate Microsoft user growth in FY22. According to Gartner in a July 2020 report, more than 50% of enterprises using Microsoft 365 will use a third-party monitoring tool to manage the user experience by 2024, up from just 10% today. The report recognizes Martello among just three companies that provide this solution today with a focus on Microsoft 365. To drive this growth and support the initiatives outlined herein, Martello will continue to make the necessary investments in product development, customer success and partnership development.

Product Development

Martello recognizes that product innovation is important to the Company's successful growth in FY22 and beyond. Projects in development through Q3 FY21 were focused on improving the scalability and differentiation of Martello's DEM solution, to expand the Company's addressable market.

Cloud-Based Multitenancy - The latest evolution of cloud-based multi-tenancy capabilities for Microsoft DEM will be available in Q2 FY22) and unlock the indirect channel of MSPs and their small and medium sized enterprise clients. Multi-tenancy allows a Martello managed service provider ("MSP") to view and manage multiple customers from a single instance of Martello's software, rather than logging into multiple instances. As a result, Martello can onboard MSPs and their customers easily and cost-effectively in the future, to drive additional revenue growth in FY22 and beyond.

Work from Anywhere Solutions (Real User Monitoring and End to End Network Path Visualization) - Recognising the increasingly distributed nature of today's workforce, Martello's Microsoft DEM product program is focused on meeting the demands of the 'work from anywhere' digital workforce. By adding Real User Monitoring, (expected to be released in Q2 FY22) and end-to end network visualization capabilities (expected to be released Q1 FY22) to its DEM platform, IT teams can quickly pinpoint whether problems are related to the cloud provider, ISP, or the user's network. This allows for better IT support of remote workers. These new capabilities, when combined with Martello's existing synthetic monitoring and digital experience analytics, differentiate Martello's DEM platform from competitors' offerings. As more enterprises deal with the challenges of remote workers, the addition of these capabilities is expected to increase the number of Microsoft users on Martello's DEM platform and increase the average cost per user over time.

Sales Activity

Martello's DEM platform improves the Microsoft 365 user experience for its customers, with a set of solutions that combine acquired products (Gizmo, iQ) with new product capabilities developed organically. Martello's total addressable market for its DEM solution includes the more than 200 million global users of Microsoft 365, representing approximately a million enterprises worldwide (Statista, April 2020).

Martello's sales strategy is focused on winning large enterprise sales deals, cross-selling and upselling its DEM solutions to its existing customer base and developing the Company's indirect sales network. In Q3 FY21, Martello announced the following enterprise sales deals:

- A global financial institution in Asia purchased a Gizmo subscription for more than 85,000 users, supporting their migration to Microsoft 365. This deal was won through a joint effort with Microsoft via their Co-Sell program.
- A European mechanical engineering company renewed their subscription for 5,000 Microsoft 365 users and added 2,000 more users to a new two-year subscription.
- One of the world's largest Microsoft partners signed a partnership deal with Martello earlier in the year, which resulted in the addition of almost 50,000 users in Q3 FY21 alone.

Both Savision BV (Vantage Dx Analytics - IT Service Analytics) and GSX (Vantage Dx Monitoring – Microsoft 365) were acquired by Martello with certain products which support legacy third-party technology. As a result, Martello is seeing declines in these revenue streams with some customers migrating to Martello's newer software platforms on renewal. In Q3 FY21, this amounted to a 16% decline in this legacy revenue stream quarter over quarter. Legacy revenue represents 17% of the Q3 FY21 revenue. In the short-term, Martello's overall growth rates will continue to be partially offset by a decline in the revenue related to these legacy products. There are minimal expenses related to this revenue.

Partnerships and Indirect Sales Channels

Martello has developed indirect sales channels for its products and is focused on expanding its MSP network. Having onboarded one of Microsoft's largest MSPs in 2020, the Company is actively recruiting new MSPs for its Microsoft 365 DEM solution. As these new MSPs are onboarded, the Company expects meaningful growth in the number of Martello DEM users. Sales from the OEM relationship with Paessler have remained strong, with organizations from a broad range of industries such as healthcare, government and telecommunications choosing their unique large enterprise monitoring and analytics solution, in subscription deals from 1-3 years in length.

Via the Microsoft Co-Sell program, the Company's gold partner status and other initiatives with Microsoft, Martello is further extending its reach across Microsoft globally. Martello's Co-Sell Prioritized status, provided to a select subset of Co-Sell vendors, entitles Martello to promote and showcase its solutions to millions of customers in Microsoft's commercial marketplace, access Microsoft marketing channels, and jointly sell innovative solutions to create valuable customer relationships. This provides greater access to Microsoft's enterprise, corporate and small and medium accounts, to grow Martello's partner and customer base and increase users on the Martello platform.

The Company's relationship with Mitel remains strong, with activities focused on growing Mitel Performance Analytics (MPA) sales in several key Mitel offerings. Martello is also working on strategies to sell iQ and Gizmo to Mitel customers and partners. Many of Mitel's partners also provide Microsoft 365 to their customers and can benefit from Martello's single vendor solution that monitors the performance of a customer's unified communications and productivity tools, maintaining the reliability of both. The early DEM solution that Martello has delivered to thousands of Mitel customer networks globally since 2010 has given Martello in-depth knowledge of and insight into managing the performance and user experience of real-time cloud services. This has provided the Company with a competitive advantage as it pursues its goal of DEM market leadership.

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 Company'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 Company. 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 Company 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.

Equity issuance costs directly attributable to the issue of common shares and warrants are shown as a deduction from the proceeds. For common shares and warrants issued as a unit, the equity issuance costs are allocated to the common shares and warrants based on the relative allocation of proceeds.

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:

	<u>May 31, 2020</u>
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 costs of \$45,345 and \$105,563 were recognized for the three and nine months ended December 31, 2020 along with net interest expense of \$800 and \$4,449, respectively, for the three and nine months ended December 31, 2020. The current service cost is included in operating expenses on the condensed interim consolidated statements of loss and comprehensive loss.

At December 31, 2020, the Plan was in a deficit position of \$399,473 (May 29, 2020 - \$830,938). The movements in the defined benefit obligation for the period ending September 30, 2020 are as follows:

	\$
Defined benefit obligation at April 1, 2020	-
Defined benefit obligation assumed on acquisition (note 6)	2,887,145
Current service cost	105,563
Interest cost	6,885
Foreign exchange translation	23,971
Remeasurement	(1,635,923)
Defined benefit obligation December 31, 2020	1,387,641

The movements in Plan assets for the period from acquisition to December 31, 2020 are:

Plan assets at April 1, 2020	-
Plan assets acquired (note 6)	2,056,207
Interest income	11,334
Return on plan assets, excluding interest income	45,041
Participant contributions	26,554
Employer contributions	68,041
Foreign exchange translation	16,653
Remeasurement	(1,235,662)
Fair value of pension plan December 31, 2020	988,168

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

	December 31, 2020	May 29, 2020
Debt securities	38.61%	38.59%
Real estate assets	24.75%	25.69%
Equity securities	25.16%	25.64%
Alternative investments	9.27%	9.58%
Cash and cash equivalents	2.21%	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, salary increases, pension or life expectancy would result in a change in the DBO to the following amounts, calculated using the projected unit credit method, as at December 31, 2020.

	Defined benefit obligation, \$	
	Increase 0.25%	Decrease 0.25%
Discount rate	2,787,981	3,074,675
	Decrease 0.25%	Increase 0.25%
Salary increase	2,893,516	2,958,754
	Decrease 0.25%	Increase 0.25%
Pension increase	2,925,292	2,925,292
	Decrease 1 year	Increase 1 year
Life expectancy	2,879,678	2,970,919

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 December 31, 2020, which relates to active members, is 19.65 years.

The Company expects to make contributions to the Plan totaling \$128,041 during the next 12 months.

CRITICAL ACCOUNTING ESTIMATES

The quarterly interim 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 condensed interim consolidated financial statements of Martello for the three and nine months ended December 31, 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 Company 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 and nine months ended December 31, 2020 and 2019. The financial instruments of the Company are as follows:

For the three and nine months ended December 31, 2020 and 2019

(in 000's)	December 31, 2020	March 31, 2020
Financial assets		
Cash	\$ 3,878	2,900
Short term investment	170	3,000
Trade and other accounts receivable	4,961	3,734
Investment tax credits and grants receivable	734	377
Foreign exchange forward contract asset	18	-
Total financial assets	9,761	10,010

(in 000's)	December 31, 2020	March 31, 2020
Financial liabilities		
Accounts payable and accrued liabilities	\$ 3,749	2,526
Foreign exchange forward contract liability	-	150
Long-term debt (including current portion)	9,643	2,469
Total financial liabilities	13,392	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 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 nine months ended December 31, 2020, the Company had 5 contracts for derivative financial instruments (foreign exchange forward contracts) to manage foreign currency risk with the USD. As of December 31, 2020, the Company is committed under outstanding 2 foreign exchange forward contracts to sell USD, representing sales commitments of USD \$0.4MM. 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 December 31, 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 December 31, 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, the length and severity of the second or future waves of the virus, and, in part, on the size and effectiveness of the compensating measures taken by governments. The prolonged economic slowdown has and may continue to result in purchase order delays or the inability to collect receivables and it is possible that there may be continued negative impacts on the Company's operations that could have a material adverse effect on our financial results. Reduced IT budgets and spending may impact revenues. With customer interactions having shifted entirely to virtual or digital platforms, there may be an impact on our ability to generate and convert leads, and on new and renewal sales.

The Company is closely monitoring the potential effects and impact on its operations, business and financial performance, including liquidity and capital usage, in response to COVID-19. Measures were taken to minimize the effects, including temporary salary reductions and reductions in discretionary spending. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on future developments which continue to be 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, including Microsoft, may invest more time and resources in developing competitive technology, products, or solutions. Other companies may have access to capital at a lower cost than Martello. The competitive environment could result in loss of market share.

Customer acceptance of products and services

The Company's product development and marketing efforts are directed toward products and services that enable businesses to innovate. 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 strategic partner, Mitel accounted for approximately 41% and 47% of the Company's revenue during the three and nine months ended December 31, 2020 (58% and 56% for the three and nine months ended December 31, 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, evolving industry standards and changing customer needs, which could cause the Company's hardware products and software solutions to become obsolete. COVID-19 has accelerated changes in customer IT environments and resulting solution needs, including accelerated adoption of technologies which enable 'work from anywhere'. The length or direction of Martello's development cycle may impact its ability to react to new technology trends and customer needs.

Currency Fluctuations

A substantial portion of the Company's sales, cost of sales and operating expenses are denominated in foreign currencies. The Company is exposed to changes in foreign currency rates and this could negatively impact revenue, profitability and cashflow.

Operating results may fluctuate significantly

There are many factors that influence the Company's operating results which are outside of its control. Past results should not be relied upon as an indication of future performance. Revenue and future operating results are difficult to predict even in the near term.

Failure to effectively manage product lifecycles

Failure to effectively manage product lifecycles, including introduction of new products, release of new features and transitioning customers from end-of-life products to new products, could result in customer dissatisfaction and impact the Company's operating results negatively.

Other Risk Factors

Other risk factors relating to the Company's business are summarized as follows:

- The Company's success is dependent on its ability to hire, retain and motivate qualified people to develop the solutions and services that respond to technological developments and evolving customer needs, and to execute on product and business strategies.
- 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.
- Martello's prospective customers have been distracted by recent public disclosure of security vulnerabilities in enterprise IT systems. This distraction causes delay in current purchasing decisions while they manage their own exposure to this risk and will increase their scrutiny of solutions like Martello's into the future.

- The Company's success is dependent upon its ability to execute its sales strategy, including execution of go to market strategies which include the development of both existing and new channels to market, and successful renewal of subscription licenses and maintenance and support contracts.
- The Company's success depends on the cooperation of its current and target hardware and software vendors and partners and on expected functionality of third-party hardware and software to ensure interoperability with the Company's products and to offer compatible products to end users.
- The Company relies on relationships with distributors, resellers, system vendors and systems integrators for a significant portion of its revenues. Disruptions to these channels could harm its business.
- The Company's investment tax credits from SRED have decreased and the timing of the application of the credits is negatively affected due to the Reverse Acquisition.
- The Company's success and future growth depends in part upon its ability to protect its intellectual property. The Company relies on a combination of patents, copyrights, trademarks, trade secret laws, contractual agreements, licenses and other methods to protect its intellectual property. There is no assurance that such measures will protect the Company's intellectual property, and despite its efforts to protect its trade secrets and proprietary rights, unauthorized parties may still infringe its intellectual property.
- The Company's commercial success depends, in part, upon the Company not infringing intellectual property rights owned by others. A number of the Company's competitors and other third parties have been issued patents, may have filed patent applications, or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of such patents. It cannot be determined with certainty whether any existing third-party patents, or the issuance of any third-party patents, would require the Company to alter its technology, obtain licenses or cease certain activities.
- The Company depends on its own IT systems and the IT systems of key SaaS providers to conduct a significant amount of its business operations. Breaches of the Company's cybersecurity systems or the systems of its vendors, partners or suppliers could seriously harm the business. Risks such as malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks may occur from inside or outside of the Company. It is increasingly difficult to identify and protect against these risks due to the rapidly evolving nature of the threats.
- Failure of the Company or its partners to comply with privacy policies, and privacy-related and data protection laws and regulations could result in proceedings and/or fines with adverse effect on the operating results and on the business.
- As the Company continues to develop its SaaS offerings, 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.