

Consolidated financial statements of

Martello Technologies Group Inc.

For the years ended March 31, 2022 and 2021

Martello Technologies Group Inc.

For the years ended March 31, 2022 and 2021

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

Independent Auditor's Report

To the Shareholders of
Martello Technologies Group Inc.

Opinion

We have audited the consolidated financial statements of Martello Technologies Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Amy deRidder.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
June 28, 2022

Martello Technologies Group Inc.

Consolidated statements of loss and comprehensive loss

For the years ended March 31, 2022 and 2021

(In Canadian dollars)

	Notes	March 31, 2022	March 31, 2021
Income			
Sales	7,8	\$ 17,539,803	\$ 16,831,486
Cost of goods sold	8,9	1,632,403	1,197,298
Gross margin		15,907,400	15,634,188
Expenses			
Research and development	10	6,638,388	5,092,185
Sales and marketing	10	7,384,597	6,081,536
General and administrative	10	5,337,579	5,730,524
Depreciation	14,18	428,380	512,094
Amortization	15	1,881,624	1,872,223
Acquisition-related costs		50,000	1,110,110
		21,720,568	20,398,672
Loss from operations		(5,813,168)	(4,764,484)
Other income (expense)			
Interest income		5,350	9,366
Interest expense		(1,888,948)	(1,700,727)
Financing fees	17	(318,050)	(423,179)
Accretion of long-term debt	17	(59,457)	(15,982)
Revaluation of forward contract	22	(13,480)	8,465
Foreign exchange gain (loss)	24	(358,833)	510,862
PPP loan forgiveness	17	184,354	-
Other income (expense)		35,260	(23,141)
Loss from continuing operations before income tax		(8,226,972)	(6,398,820)
Income tax recovery	11	7,663	347,547
Net loss from continuing operations		(8,219,309)	(6,051,273)
Loss from discontinued operations, net of tax	5	-	(320,171)
Net loss		(8,219,309)	(6,371,444)
Other comprehensive income (loss) that may be reclassified to net income (loss):			
Cumulative translation adjustment		(1,470,369)	(823,170)
Pension plan remeasurement	19	38,776	551,860
Pension plan asset fair value adjustment	19	(1,311)	27,011
Total comprehensive loss		(9,652,213)	(6,615,743)
Weighted average shares outstanding	20	308,682,325	259,212,012
Basic and diluted			
Net loss per share from continuing operations	12		
Basic and diluted		\$ (0.03)	\$ (0.02)
Net loss per share from discontinued operations	12		
Basic and diluted		\$ (0.00)	\$ (0.00)
Net loss per share, basic and diluted	12	\$ (0.03)	\$ (0.03)

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

Martello Technologies Group Inc.

Consolidated statements of financial position

As at March 31, 2022 and 2021

(In Canadian dollars)

	Note	March 31, 2022	March 31, 2021
Assets			
Current assets			
Cash		\$ 4,853,218	\$ 8,349,904
Short-term investment		170,000	170,000
Trade and other accounts receivable	13	4,231,065	5,200,612
Investment tax credits and grants receivable	10	944,816	779,354
Prepaid expenses		887,910	511,888
Inventories		45,336	44,242
Foreign exchange forward contract asset	22	-	8,465
Lease receivable	18	35,394	67,127
Total current assets		11,167,739	15,131,592
Goodwill	15	18,310,397	19,435,937
Intangible assets	15	10,854,530	13,429,080
Equipment and leasehold improvements	14	180,165	300,025
Right-of-use assets	18	1,118,599	1,044,441
Investment	5	303,750	303,750
Lease receivable	18	-	41,631
Total assets		41,935,180	49,686,456
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	3,113,352	4,157,139
Foreign exchange forward contract liability	22	5,015	-
Current portion of deferred revenue	7	5,215,919	5,857,364
Current portion of long-term debt	17	270,000	219,000
Current portion of lease obligation	18	296,759	394,048
Total current liabilities		8,901,045	10,627,551
Deferred revenue	7	2,099,188	1,573,308
Long-term debt	17	9,903,581	9,640,888
Lease obligation	18	917,115	801,008
Pension obligation	19	358,643	258,341
Deferred tax liability	11	79,621	150,552
Total liabilities		22,259,193	23,051,648
Shareholders' equity			
Share capital	20	48,815,617	46,313,516
Contributed surplus	20	3,594,895	3,186,388
Warrants	20	2,319,977	3,182,443
Accumulated other comprehensive income		(1,285,987)	146,917
Deficit		(33,768,515)	(26,194,456)
Total shareholders' equity		19,675,987	26,634,808
Total liabilities and equity		41,935,180	49,686,456

Approved by the Board on June 28, 2022 and signed on its behalf by:

Original signed "Colley Clarke" Director

Original signed "Michael Michalyshyn" Director

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

Martello Technologies Group Inc.

Consolidated statements of changes in shareholders' equity for the years ended March 31, 2022 and 2021 (In Canadian Dollars)

	Shares outstanding	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive		Deficit	Total shareholders' equity
					Other	Cumulative translation adjustment		
	#	\$	\$	\$	\$	\$	\$	\$
Balance at April 1, 2020	208,516,111	31,780,139	19,500	2,726,868	-	391,216	(19,823,012)	15,094,711
Net loss for the period	-	-	-	-	-	-	(6,371,444)	(6,371,444)
Actuarial gain on remeasurement	-	-	-	-	551,860	-	-	551,860
Pension plan fair value adjustment	-	-	-	-	27,011	-	-	27,011
Other comprehensive income	-	-	-	-	-	(823,170)	-	(823,170)
Total comprehensive loss for the period	-	-	-	-	578,871	(823,170)	(6,371,444)	(6,615,743)
Issuance of common stock	87,435,152	14,890,688	-	-	-	-	-	14,890,688
Issuance of Offering Warrants	-	-	1,629,581	-	-	-	-	1,629,581
Issuance of Bonus Warrants	-	-	1,942,100	-	-	-	-	1,942,100
Less: Transaction costs attributable to share and warrant issuance	-	(1,518,319)	(389,238)	-	-	-	-	(1,907,557)
Issuance of compensation option units	-	-	-	337,083	-	-	-	337,083
Exercise of compensation option units	6,079	2,078	-	(802)	-	-	-	1,277
Exercise of warrants	274,285	40,171	(10,000)	-	-	-	-	30,171
Expiry of warrants	-	-	(9,500)	9,500	-	-	-	-
Exercise of stock options	6,165,331	1,118,758	-	(423,369)	-	-	-	695,389
Share-based compensation	-	-	-	537,107	-	-	-	537,107
Balance as at March 31, 2021	302,396,958	46,313,516	3,182,443	3,186,388	578,871	(431,954)	(26,194,456)	26,634,808
Balance at April 1, 2021	302,396,958	46,313,516	3,182,443	3,186,388	578,871	(431,954)	(26,194,456)	26,634,808
Net loss for the period	-	-	-	-	-	-	(8,219,309)	(8,219,309)
Actuarial gain on remeasurement	-	-	-	-	38,776	-	-	38,776
Pension plan fair value adjustment	-	-	-	-	(1,311)	-	-	(1,311)
Other comprehensive income	-	-	-	-	-	(1,470,369)	-	(1,470,369)
Total comprehensive loss for the period	-	-	-	-	37,465	(1,470,369)	(8,219,309)	(9,652,213)
Issuance of common stock	24,110,472	2,487,000	-	-	-	-	-	2,487,000
Issuance of Offering Warrants	-	-	-	-	-	-	-	-
Issuance of Bonus Warrants	-	-	-	-	-	-	-	-
Less: Transaction costs attributable to share and warrant issuance	-	(25,836)	-	-	-	-	-	(25,836)
Cancellation of warrants	-	-	(862,466)	-	-	-	645,250	(217,215)
Issuance of compensation option units	-	-	-	-	-	-	-	-
Exercise of compensation option units	-	-	-	-	-	-	-	-
Exercise of warrants	-	-	-	-	-	-	-	-
Expiry of warrants	-	-	-	-	-	-	-	-
Exercise of stock options	200,000	40,937	-	(15,736)	-	-	-	25,200
Share-based compensation	-	-	-	424,243	-	-	-	424,243
Balance as at March 31, 2022	326,707,430	48,815,617	2,319,977	3,594,895	616,336	(1,902,323)	(33,768,515)	19,675,987

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

Martello Technologies Group Inc.

Consolidated statements of cash flows

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

	Note	March 31, 2022	March 31, 2021
Operating activities			
Net loss from continuing operations before income tax		\$ (8,226,972)	\$ (6,398,820)
Net loss from discontinued operations before income tax		-	(320,171)
Items not affecting cash:			
Depreciation	14, 18	428,380	545,579
Amortization of intangible assets	15	1,881,624	1,943,599
Amortization of debt issuance cost	17	563,707	470,057
Change in fair value of hedge liability	22	13,480	(158,265)
Warrant cancellation fee	17	287,000	-
Accretion of long-term debt	17	59,457	24,372
Share-based compensation	16, 20	424,243	537,107
Deferred share units compensation	16	168,583	-
Defined benefit plan expense	19	138,272	168,535
Lease interest expense	18	26,506	42,886
Accrued interest expense	17	150,520	233,003
Unrealised foreign exchange (gain) loss		169,095	(897,436)
Loss on disposal of intangible assets	15	-	2,020
Loss on disposal of capital assets	14	890	29,721
Net change in operating components of working capital	21	(736,919)	(2,572,081)
Total cash flows used in operating activities		(4,652,134)	(6,349,894)
Investing activities			
Purchase of short-term investments		-	(350,000)
Sale of short-term investments		-	3,180,000
Additions to equipment and leasehold improvements	14	(14,342)	(52,981)
Proceeds from sale of subsidiary	5	-	424,702
Business acquisition, net of cash acquired	6	-	(11,557,474)
Total net cash flows used in investing activities		(14,342)	(8,355,753)
Financing activities			
Proceeds from issuance of common stock	20	2,487,000	10,380,689
Common stock issuance costs	20	(25,836)	(1,181,235)
Proceeds from exercise of stock options	20	25,200	695,389
Proceeds from issuance of warrants	20	-	3,571,681
Warrants issuance costs	20	-	(389,238)
Warrant cancellation fee	17, 20	(503,884)	-
Proceeds from long-term debt	17, 20	-	10,299,183
Debt issuance costs	20	-	(838,806)
Exercise of compensation options	20	-	1,277
Repayment of long-term debt	17	(219,000)	(1,882,333)
Loan forgiveness	17	(184,354)	-
Repayment of lease obligations	18	(348,488)	(480,849)
Proceeds from exercise of warrants		-	30,171
Total cash flows provided by financing activities		1,230,638	20,205,929
Net change in cash		(3,435,838)	5,500,282
Cash, beginning of period		8,349,904	2,900,074
Effects of currency translation on cash		(60,848)	(50,452)
Cash, end of period		4,853,218	8,349,904

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

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

1. Corporate information

Martello Technologies Group Inc., formerly Newcastle Energy Corp. (the “Corporation”) was incorporated under the Company Act (British Columbia) in 1981. The Corporation’s registered office and principal place of business is 390 March Rd. #110, Ottawa, Ontario, Canada K2K 0G7. The Corporation’s common shares are traded on the TSX Venture Exchange (“TSXV”) under the trading symbol MTLO.

The Corporation has one wholly-owned subsidiary, Martello Technologies Corporation (“Martello Corp”), which has seven wholly-owned operating subsidiaries: Martello Technologies Incorporated, Netvitesse SAS, Savision B.V, Savision Inc, GSX Groupware Solutions, Inc., GSX Participations SA, and SARL GSX Groupware Solutions.

Martello Corp was incorporated in 2009 under the provisions of the Canada Business Corporations Act (“CBCA”). Martello Technologies Incorporated was incorporated in the state of Delaware in 2010. Netvitesse SAS is a limited liability company incorporated and operating in France.

On December 15, 2017 Martello Corp acquired Elfiq Inc. Elfiq is incorporated and operated in Montreal, Quebec. On July 22, 2020 Martello divested the assets of Elfiq Inc, the details of which can be found in Note 5.

On November 1, 2018 Martello Corp. acquired 100% of the shares of Savision B.V., and its wholly owned subsidiaries Savision Canada Limited and Savision, Inc. (“Savision”). Savision B.V. is incorporated and operating in the Netherlands. Savision Canada Limited was incorporated in 2011 under the provisions of the CBCA. Savision, Inc. was incorporated in the state of Delaware in 2011.

On May 29, 2020, the Corporation 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 Participations SA was incorporated in Switzerland in 2008. Sàrl GSX Groupware Solutions was incorporated in France in 2008 and GSX Groupware Solutions, Inc. was incorporated in the state of Massachusetts in 2003. Disclosures regarding acquisition of GSX are included in Note 6 - Business acquisitions.

On April 1, 2021, Martello Technologies Corporation amalgamated with Savision Canada Limited and Elfiq Inc. (the “Amalgamating Corporations”) to form an amalgamated corporation, called Martello Technologies Corporation (the “Amalgamated Corporation”). Martello Technologies Corporation is a wholly- owned subsidiary of the Corporation. All the properties and assets of the Amalgamating Corporations were continued as the properties and assets of the Amalgamated Corporation and the Amalgamated Corporation is liable, and will continue to be liable, for the obligations of Martello Technologies Corporation and the other Amalgamating Corporations to their creditors.

The Corporation and its subsidiaries develop and sell software products and solutions that optimize the performance of real-time applications on cloud and enterprise networks, while giving IT teams and service providers control and visibility of their entire IT infrastructure from a single platform.

2. Basis of preparation and significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared on a historical cost basis, except for foreign exchange forward contracts and investments, which are measured at fair market value.

The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* (IFRS) in effect on closing date of March 31, 2022.

The consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on June 28, 2022.

The consolidated financial statements include the financial position and results of operations of the companies described in Note 1.

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

Basis of preparation and significant accounting policies (continued)

2.2 Summary of significant accounting policies

The following accounting policies have been applied consistently to both periods presented.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent corporation using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions, if any, are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

(c) Foreign currency translation

The Corporation's consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currencies of the subsidiaries are as follows:

<u>Entity</u>	<u>Functional currency</u>
Martello Technologies Corporation, Canada	Canadian dollar
Martello Technologies Incorporated, USA	Canadian dollar
Netvitesse SAS, France	Canadian dollar
Savision BV, Netherlands	Euro
GSX Participations SA	Euro
Sarl GSX Groupware Solutions	Euro
GSX Groupware Solutions, Inc	United States Dollar

Income and expenses of subsidiaries with a different functional currency than the Corporation's presentation currency are translated into the Corporation's functional currency at the average exchange rate for the reporting period and assets and liabilities are translated at the closing rate of the reporting period. Equity balances are translated at historical rate. Exchange differences arising from the translation are recognized in Other comprehensive income (loss).

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

Transactions in foreign currencies are initially recorded by the Corporation's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are taken to the consolidated statements of net loss and comprehensive loss. Revenues and expenses are translated at average monthly rates in effect when they were earned or incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the original transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(d) Revenue recognition

The Corporation and its subsidiaries develop and sell products and solutions that optimize the performance of real-time applications on cloud and enterprise networks, while giving IT teams and service providers control and visibility of their entire IT infrastructure from a single platform.

The Corporation's sales and performance obligations occur both over time and at a point in time.

Revenue for perpetual software licenses, training and professional services is recognized at a point in time, being when the buyer takes control of the asset or when the reseller or buyer has either: accepted the software and hardware in accordance with the sales contract; the acceptance provisions have lapsed; or the Corporation has objective evidence that all criteria for acceptance have been satisfied. A receivable is recognized when the software or hardware are delivered as this is the point in time that payment of the consideration by the buyer becomes unconditional because only the passage of time is required before the payment is due.

Revenues are recognized over a period of time for subscription licenses and maintenance services. The period for recognizing license and maintenance revenue commences when control of the software license has transferred or services have commenced, being when the software license is delivered to the buyer.

The Corporation sells term licenses which include maintenance, updates and upgrades for a defined length of time. Revenues from these term licenses are recognized over the expected life of the customer, which has been assessed by management to be a period of 5 years.

Consideration received in advance of satisfying performance obligations is recorded as deferred revenue.

The Corporation's product is sometimes sold with volume discounts based on aggregate sales over a period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal to revenues will not occur. A contract liability, if any, is recognized for expected volume discounts payable to resellers in relation to sales made until the end of the reporting period.

Certain resellers have some discretion over the channel and price to resell the products and take control of the goods and services before delivery to the end user and are therefore considered to be the principal. The Corporation records gross revenues as the principal and net revenues when it is not the principal in a transaction.

Where the Corporation acts as a reseller, the costs for the subscription product and other cost are recorded over time on a straight-line basis in cost of sales, over the same period during which the related revenue is recognized.

The Corporation's assurance and non-assurance warranty obligations are to provide an exchange or repair for faulty software or hardware products under the standard warranty terms and conditions. In addition, the Corporation will provide updates on an ongoing basis under the non-assurance warranty. The non-assurance warranty terms are recognized under IFRS 15

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

Revenue from Contracts with Customers as a performance obligation recognized over a period of time.

The Corporation determines the standalone selling price by considering its overall pricing objectives and market conditions. As the Corporation's go-to-market strategies evolve, the Corporation may modify its pricing practices in the future, which could result in changes in relative standalone selling prices.

(e) Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operation and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of loss and comprehensive loss.

(f) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Corporation operates and generates taxable income or operating losses.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of Loss and comprehensive loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate in accordance with IFRIC 23 *Uncertainty over Income Tax Treatments*.

Deferred tax

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

(g) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the Corporation becomes party to the contractual provisions of the financial instrument.

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

(in Canadian Dollars)

Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized cost or FVTOCI are included with the carrying amount of such instruments. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as FVTPL are recognized immediately in profit or loss within the consolidated statements of Loss and comprehensive loss.

(h) Classification and subsequent measurement

Financial assets

The Corporation classifies its financial assets in the following measurement categories:

- i. Those to be measured subsequently at amortized cost
- ii. Those to be measured subsequently at fair value through other comprehensive income (FVTOCI)
- iii. Those to be measured subsequently at fair value through profit or loss (FVTPL)

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Corporation's financial assets comprise cash, short-term investments, trade and other accounts receivable, investments, each of which is presented at amortized cost.

i. Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a financial asset that is subsequently measured at amortized cost and is not a part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

ii. Fair value through other comprehensive income (FVTOCI):

Assets that are held for collection of contractual cashflows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income (OCI). When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from accumulated other comprehensive income to profit or loss and recognized in other income (expense). Interest income from these financial assets is included in interest income using the effective interest rate method.

iii. Fair value through profit or loss (FVPTL):

Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of Loss and comprehensive loss within other income (expense) in the period in which it arises. Interest income from these financial assets is included in finance income.

The Corporation reclassifies financial assets when and only when its business model for managing those assets changes.

Impairment

The Corporation assesses, on a forward-looking basis, the expected credit losses associated with its

Martello Technologies Group Inc.

Notes to consolidated financial statements

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(in Canadian Dollars)

Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Corporation applies the simplified approach and recognizes expected lifetime credit losses at each reporting date.

Financial liabilities

Subsequent measurement of financial liabilities depends on their classification, as described below:

i. Amortized cost

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, lease obligations, line of credit and long-term debt. The effective interest method is used to measure financial liabilities at amortized cost and are classified as liabilities on the statement of financial position.

ii. Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments.

Gains and losses on financial liabilities at FVTPL are recognized in the consolidated statement of loss and comprehensive loss.

(i) Embedded derivatives

Embedded derivative is separated from its host contract and accounted for as a derivative or the entire contract is to be measured at FVTPL. The Corporation did not hold any embedded derivatives during the periods presented.

(j) Derivative financial instruments

The Corporation enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in Statement of loss and comprehensive loss.

(k) Treasury shares

The Corporation's shares which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statements of loss and comprehensive loss on the purchase, sale, issue, or cancellation of the Corporation's own equity instruments. Any difference between the carrying amount and the consideration is recognized within equity in contributed surplus.

(l) Equipment & leasehold improvements

Equipment and leasehold improvements are stated at cost, net of accumulated depreciation. Such cost includes the cost of replacing part of the equipment, leasehold improvements and furniture and fixtures. When significant parts of equipment, leasehold improvements and furniture and fixtures are required to be replaced in intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Repair and maintenance costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

Computer equipment	5 to 7 years
Leasehold improvements	Lesser of the lease term or useful life of the asset
Furniture and fixtures	10 years

An item of equipment and leasehold improvements and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(m) Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the following terms:

Customer relationship	7-10 years
Technology	5-10 years
Brand	indefinite
Non- compete	3 years

These assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of loss and comprehensive loss.

Indefinite-lived intangible assets are assessed for impairment at least annually, or more frequently if indicators arise.

(n) Leases

Operating lease payments net of any lease inducements are recognized as an expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at an amount equal to the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the

Martello Technologies Group Inc.

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Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently measured at cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the shorter of the lease term or useful economic life of the asset. The lease term includes periods covered by an option to extend if the Corporation is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the unpaid lease payments as at the commencement date, discounted using the Corporation's incremental borrowing rate unless the interest rate implicit in the lease is known. The Corporation's incremental borrowing rate for a lease is the rate that the Corporation would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if there is a change in future lease payments arising from a change in an index or rate; there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee; or the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. On remeasurement, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or directly in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(o) Research and development

Research and development costs are expensed as incurred, based on an assessment of the criteria of IAS 38 *Intangible Assets* not being achieved.

(p) Impairment of non-financial assets

Non-financial assets, including equipment and leasehold improvements and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU").

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal, and its value in use. Impairment losses, if any, are recognized in the consolidated statements of loss and comprehensive loss in those expense categories consistent with the function and nature of the impaired asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. In determining fair value less costs of disposal, an appropriate valuation model is used.

(q) Goodwill

Goodwill is measured as the excess of the sum of the fair value of the consideration for an acquisition over the net fair values of the identifiable tangible and intangible assets acquired and the liabilities assumed. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is allocated to the CGU to which it relates.

Goodwill is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by

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Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU on a prorata basis. Any goodwill impairment is recorded in the statement of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(r) *Inventories*

Inventories consist of devices and other parts held for sale and are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

(s) *Cash and cash equivalents*

Cash and cash equivalents comprise cash and short-term deposits with an original maturity of three months or less. The Corporation uses the indirect method of reporting cash flow from operating activities.

(t) *Provisions*

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of loss and comprehensive loss net of any reimbursement as other income (expense). If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in the consolidated statements of loss and comprehensive loss.

(u) *Government grants and assistance*

Government grants and assistance are recognized when there is reasonable assurance that the grant or assistance will be received, and all attached conditions will be complied with. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. When government assistance is received which relates to expenses of future periods, the amount is deferred and amortized to income as the related expenditures are incurred.

(v) *Revolving credit facility costs*

Origination costs related to undrawn revolving facilities are fully expensed as incurred.

(w) *Earnings per share*

Basic earnings per share is calculated by dividing the net income and comprehensive income or loss for the period by the weighted average number of common shares outstanding during the period. The Corporation uses the treasury stock method for calculating the dilutive effect of the outstanding stock options and other dilutive securities. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options are used to repurchase common shares at the average market price during the period.

(x) *Share-based payments*

The Corporation has a stock option plan as described in Note 20. The Corporation accounts for share-based payment options granted to directors, management, employees, and consultants using the fair

Martello Technologies Group Inc.

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Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black-Scholes valuation model. In accordance with the fair value method, the Corporation recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to the contributed surplus account. Consideration paid by employees on the exercise of share-based compensation is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus.

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

On July 23, 2021, a Deferred Share Unit (“DSU”) Plan was established for certain directors (each, a “Participant”) in lieu of cash compensation. The DSUs are paid in cash not later than 90 days after the Participant ceases to be a director of the Corporation, based on the greater of (a) the five-day volume weighted average price of the Common Shares; and (b) the five-day average daily high and low board lot trading prices of the Common Shares (the “Market Price”) on the date the Participant ceases to be a director. The cost of the DSUs is measured initially at fair value based on the closing price of the Corporation’s common shares preceding the day the DSUs are granted. The cost of the DSUs is recognized as a liability in the consolidated statements of financial position and as a general and administrative expense in the consolidated statements of loss and comprehensive loss. The liability is remeasured to fair value based on the Market Price of the Corporation’s common shares at each reporting date up to and including the settlement date, with changes in fair value recognized as an operating expense in the consolidated statements of loss and comprehensive loss.

(y) Employee benefits

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

- i. Defined benefit obligations are determined from actuarial calculations using the projected unit credit method.
- ii. For the purposes of calculating the estimated rate of return on plan assets, assets are measured at fair value.
- iii. 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.
- iv. Net interest is recognized in consolidated statements of loss and comprehensive loss calculated using the discount rate by reference to market yields at the valuation date and when plan assets and obligations are measured.
- v. Net defined benefit liability is determined based on the excess of plan obligations over plan assets.

(z) Equity instruments

The Corporation has adopted the residual value method with respect to the measurement of common

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Basis of preparation and significant accounting policies (continued)

Summary of significant accounting policies (continued)

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 within the statement of changes in shareholders' equity. 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.

3. Significant judgments and estimates

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

The following are the critical judgments, other than those involving estimates, that management has made in applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Business combinations

Judgment is required to assess whether an acquiree consists of a business. Whether a transaction meets the definition of a business combination or not, identifying the intangible assets acquired also requires judgement.

Estimating the acquisition date fair values of intangible assets acquired, and the fair values of contingent consideration or compensation for post-acquisition services, requires considerable estimation.

Functional currencies

Determining the functional currency for an entity requires the weighing of all facts and circumstances in order to make a judgment as to the primary economic environment in which the entity operates.

Judgments made in relation to deferred tax assets

The Corporation recognizes deferred tax assets only to the extent that it considers it probable that those assets will be recoverable. The Corporation makes assumptions about when deferred tax assets are probable to reverse, the extent to which it is probable that temporary differences will reverse and whether or not there will be sufficient taxable profits available to realize the tax assets when they do reverse.

In making these judgments, the Corporation continually evaluates the magnitude and duration of any past losses, current profitability and whether it is sustainable, and earnings forecasts.

Sources of estimation uncertainty, including assumptions made about the future, are described in the following sections:

Fair value of interest-free debt

The Corporation has secured interest-free debt. Initial recognition of such debt is at fair value which requires management to estimate a market interest rate for comparable long-term debt.

Revenue recognition

Application of the accounting principles related to the measurement and recognition of revenue requires the Corporation to make judgments and estimates. Revenue arrangements may be comprised of multiple performance obligations. Judgment is required in determining the performance obligations that exist in an arrangement and the nature of these deliverables. Revenue recognition requires the consideration of the contract to be allocated to the elements on the basis of standalone selling price of each respective

Martello Technologies Group Inc.

Notes to consolidated financial statements

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Significant judgments and estimates (continued)

performance obligation. Judgment and estimates are required when determining the relative fair value of elements utilizing standalone prices for similar deliverables where they exist or internally generated estimates of standalone price.

Share-based compensation, equity, and warrants

Share-based compensation and warrants are recognized at fair value. Management has estimated fair values using the Black-Scholes option pricing model or the barrier options model, as appropriate, using various assumptions and inputs as described in note 2. The fair value calculated is most sensitive to the estimated volatility and common share price.

Useful Life of long-lived assets

Determining the period over which the Corporation benefits from the use of its tangible and intangible assets requires estimation and use of a systematic methodology. Management reviews the estimated useful lives and the rates applied at the end of each reporting period.

Impairment of goodwill and intangible assets

The recoverable amounts of the Corporation's CGUs are determined based on the greater of their fair value less costs of disposal and value in use. These calculations, which include a discounted cash flow model, require the use of estimates. Valuations are highly dependent on the inputs used, estimates and assumptions made by management including assumptions of a long-term nature regarding discount rates, projected revenues, royalty rates and margins derived from past experience, actual operating results and budgets, and revenue multiples. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Classification of non-current assets held for sale and discontinued operations

The classification of a non-current asset held for sale is based on an assessment of whether the asset or disposal group is available for sale in its present condition and the sale is highly probable. In assessing the classification, management uses judgment to evaluate the circumstances and determine whether these criteria are met. These circumstances are reviewed regularly to determine whether the classification is appropriate.

Defined-benefit pension plans

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

4. Fair value measurement

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

Long-term debt is measured using observable interest rates at initial recognition and is categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts, which were entered into on November 3, 2020, represented a net liability of \$5,015 as at March 31, 2022 (2021 – \$(8,475)). The fair value is estimated using a market approach with forward exchange rates observable at the end of the reporting period and contract forward rates as inputs and is categorized within Level 2 of the fair value hierarchy.

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Fair value measurement (continued)

In July 2020, as a result of the Company's sale of certain assets of network performance management operating segment ("NPM segment") to Adaptiv Networks Inc. ("Adaptiv"), the Company received cash consideration of \$424,702 and common shares of Adaptiv valued at \$303,750. The investment is valued as using FVTPL. The fair value of this investment is determined using level 3 inputs. There were no losses or gains recognized during the year ended March 31, 2022

5. Discontinued Operations

In the first quarter of the 2021 fiscal year the Corporation initiated a review of the former NPM segment and the Corporation 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	59,673
Lease obligation	5,394
Total current liabilities	562,662
Non-current liabilities	
Deferred revenue	203,370
Total liabilities	766,032
Net assets disposed of	612,378
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	(612,378)
Gain on disposal, before tax	216,074

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

The results of the discontinued operations included in net loss for the year ended March 31, 2021 are set out below:

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Discontinued operations (continued)

	March 31, 2021
Income	
Sales	\$ 352,915
Cost of goods sold	55,194
Gross margin	297,721
Expenses	
Research and development	389,933
Sales and marketing	197,217
General and administrative	138,761
Depreciation	33,485
Amortization	71,376
	830,772
Loss from operations	(533,051)
Other income (expense)	
Interest expense	(4,560)
Financing fees	(6,389)
Foreign exchange gain (loss)	7,755
Gain on disposal	216,074
Loss before income tax	(320,171)
Income tax recovery	-
Loss from discontinued operations	(320,171)

The following table presents the effect of the discontinued operations on the consolidated statements of cash flows:

	March 31, 2021
Cash (used in) provided by operating activities	\$ (176,950)
Cash (used in) provided by investing activities	424,702
Cash used in financing activities	(53,138)
Net cash inflow	194,614

6. Business acquisitions

On May 29, 2020, the Corporation purchased 100% of the issued and outstanding shares of GSX Participations SA and its wholly owned subsidiaries, Sàrl GSX Groupware Solutions and GSX Groupware Solutions, Inc. (the "GSX Acquisition"). GSX provides end-user experience monitoring for Microsoft productivity suite users, including 365. GSX was acquired to extend the Corporation's Digital Experience Monitoring ("DEM") capabilities into the Microsoft Office 365 market. The transaction was accounted for as a business combination.

In total, the consideration for the transaction amounted to \$16,521,601 which included \$12,011,601 in cash and \$4,510,000 for the issuance of 22,000,000 common shares.

The purchase price was allocated as follows:

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

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Business acquisitions (continued)

	\$
Net assets (liabilities) acquired, other than undemoted items	(6,590,059)
Deferred tax liability	(410,874)
Customer relationships	6,579,430
Technology	4,743,310
Goodwill	12,199,794
Total purchase price	16,521,601

The net liabilities acquired included the following:

	\$
Cash	454,127
Trade and other accounts receivable	1,418,110
Prepaid expenses	335,063
Equipment & leasehold improvements	97,830
Right-of-use assets	1,172,045
Total assets	3,477,175
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	(6,590,059)

The fair value and gross contractual amount of trade accounts receivable acquired was \$1,047,945.

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

For the period from May 29, 2020 to March 31, 2021, GSX accounted for \$6,010,477 in sales. GSX also recognized \$1,525,175 of net loss for the period ended March 31, 2021.

The purchase price allocation was finalized at March 31, 2021. Changes between the initial assessment reported at June 30 and March 31, 2021 comprise of an increase to trade receivables of \$34,397 and increase in accounts payable of \$29,709.

Martello Technologies Group Inc.

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7. Revenues

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

	March 31, 2022	March 31, 2021
	\$	\$
Revenue for the period ended		
Canada	5,481,219	5,805,611
United States	4,456,830	4,105,761
Europe	6,574,808	5,940,841
Asia	354,547	341,304
Latin America	58,977	50,460
Australia	536,397	536,198
Other	77,025	51,311
Total revenue	17,539,803	16,831,486

The Corporation's revenue can be analyzed between the different revenues and basis of recognition, as follows:

	March 31, 2022	March 31, 2021
	\$	\$
Revenue at a point in time		
Hardware	102,460	25,843
Perpetual licenses	14,344	128,721
Training and professional services	66,615	116,431
Revenue recognized over time		
Subscription licenses	14,404,872	13,174,262
Maintenance and support	2,745,918	3,115,511
Term licenses	205,594	270,718
Total revenue	17,539,803	16,831,486

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

Deferred revenue is comprised of the following:

	March 31, 2022	March 31, 2021
	\$	\$
Current portion of deferred revenue		
Subscription licenses	3,642,505	3,589,738
Maintenance and support	1,461,746	2,093,529
Term licenses	111,668	174,097
Long-term portion of deferred revenue		
Subscription licenses	1,438,141	1,002,226
Maintenance and support	414,267	438,665
Term licenses	246,780	132,417
Total deferred revenue	7,315,107	7,430,672

Martello Technologies Group Inc.

Notes to consolidated financial statements

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Revenues (continued)

Non-current assets by geographic area are as follows:

	March 31, 2022	March 31, 2021
	\$	\$
Canada	848,656	638,628
Netherlands	10,088,616	11,235,655
Switzerland	19,822,658	22,669,673
Other	7,511	10,908
Total non-current assets	30,767,441	34,554,864

8. Operating segment information

The Corporation has assessed that it operates in three operating segments, those being Vantage DX Monitoring – Mitel UC, Vantage DX Analytics – IT Service Analytics and Vantage DX Monitoring – Microsoft 365. Vantage Dx is the name of the Corporation's solution suite portfolio for digital experience monitoring and the operating segments have been renamed to align with the revised solution names. Vantage Dx Monitoring – Microsoft 365 is a new segment resulting from the GSX Acquisition. For operating segment reporting purposes, Vantage Dx Monitoring – Mitel UC was previously reported as Performance analytics and Vantage Dx Analytics – IT Service Analytics was previously reported as IT visualization. These segments engage in business activities from which they earn revenues from subscription and perpetual software licenses, hardware, maintenance and support, and training and professional services.

	Vantage DX Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Year ended March 31, 2022	\$	\$	\$	\$
Revenue at a point in time				
Hardware	102,460	-	-	102,460
Perpetual licenses	14,344	-	-	14,344
Training and professional services	1,925	19,223	45,467	66,615
Revenue recognized over time				
Subscription licenses	7,072,485	2,241,962	5,090,425	14,404,872
Maintenance and support	55,740	714,204	1,975,974	2,745,918
Term licenses	-	-	205,594	205,594
Total revenue	7,246,954	2,975,389	7,317,460	17,539,803

	Vantage DX Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
Year ended March 31, 2021	\$	\$	\$	\$
Revenue at a point in time				
Hardware	25,843	-	-	25,843
Perpetual licenses	128,721	-	-	128,721
Training and professional services	61,895	25,737	28,799	116,431
Revenue recognized over time				
Subscription licenses	7,373,275	2,149,304	3,651,683	13,174,262
Maintenance and support	56,976	999,258	2,059,277	3,115,511
Term licenses	-	-	270,718	270,718
Total revenue	7,646,710	3,174,299	6,010,477	16,831,486

Sales and gross margin for the year ended is as follows:

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Operating segment information (continued)

Year ended March 31, 2022	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	7,246,954	2,975,389	7,317,460	17,539,803
Cost of goods sold	233,777	58,061	1,340,565	1,632,403
Gross margin	7,013,177	2,917,328	5,976,895	15,907,400

Year ended March 31, 2021	Vantage Dx Monitoring - Mitel UC	Vantage Dx Analytics - IT Service Analytics	Vantage Dx Monitoring - Microsoft 365	Total
	\$	\$	\$	\$
Sales	7,646,710	3,174,299	6,010,477	16,831,486
Cost of goods sold	269,906	113,923	813,469	1,197,298
Gross margin	7,376,804	3,060,376	5,197,008	15,634,188

9. Cost of goods sold

Cost of goods sold consisted of the following:

	Mar 31, 2022	Mar 31, 2021
	\$	\$
Commissions and license fees	488,910	362,670
Cloud storage services	603,402	446,979
Reseller/distribution costs	454,268	336,960
Hardware costs	75,548	42,160
Others	10,275	8,529
Total cost of goods sold	1,632,403	1,197,298

10. Additional disclosures related to the statement of loss and comprehensive loss

- i. Research and development expense for the year ended March 31, 2022 is net of investment tax credits recognized in total of \$50,000 (2021 - \$303,520) and investment grants recognized of \$881,460 (2021 - \$620,404).

The Corporation has investment tax credits receivable of \$944,816 (March 31, 2021 - \$722,707) which are earned as a result of qualifying Scientific Research and Experimental Development expenditures, and investment grants receivable of zero balance as at March 31, 2022 (March 31, 2021 - \$56,647), which are earned as a result of expenditures permitted under the grant agreement. The investment tax credits and grants are recognized when the expenditures are made and their realization is reasonably assured.

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Additional disclosures related to the statement of loss and comprehensive loss (continued)

ii. Employee benefits and share-based payments consist of the following amounts:

	March 31, 2022	March 31, 2021
	\$	\$
Research and development		
Short-term employee benefits	6,549,330	5,520,032
Share-based payments	131,188	116,221
Sales and marketing		
Short-term employee benefits	4,870,120	4,604,366
Share-based payments	86,277	80,554
General and administrative		
Short-term employee benefits	2,460,608	2,293,876
Share-based payments	206,809	340,332
Total staff related expense	14,304,332	12,955,381

Research and development employee costs above are presented prior to any government grants and investment tax credits.

11. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to losses before income taxes, shown as follows:

	March 31, 2022	March 31, 2021
	\$	\$
Current income tax		
Current income tax expense	58,812	132,325
Deferred income tax		
Deferred income tax recovery	(66,475)	(479,872)
Income tax recovery recognized in net loss	(7,663)	(347,547)

	March 31, 2022	March 31, 2021
	\$	\$
Net accounting income (loss) before income taxes	(8,226,972)	(6,554,629)
Expected Canadian statutory income tax rate (26.5%)	26.5%	26.5%
Expected income tax expense (recovery)	(2,180,148)	(1,736,977)
Permanent non-deductible amounts	276,386	195,733
Increase/(Decrease) in unrecognized tax assets	1,607,093	600,547
Provision to return true-up (current and deferred)	43,268	124,051
Foreign tax rate differential	115,123	378,092
Change in substantively enacted tax rate on opening temp differences	2,420	31,820
Tax rate difference on current items	93,479	44,611
Other	34,717	14,576
Income tax expense (recovery)	(7,663)	(347,547)

Deferred tax liabilities

Deferred income taxes reflect the impact of loss carryforwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The effect of temporary differences and loss carryforwards that give rise to significant portions of the deferred tax liability,

Martello Technologies Group Inc.

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Income Taxes (continued)

which has been recognized during the years ended March 31, 2022 and 2021 are as follows:

	March 31, 2021	Recognized in Business Combination	Recognized in OCI (foreign currency translation)	Recognized in Profit and Loss	March 31, 2022
Non-capital loss carry-forwards	1,999,471	-	(57,415)	(101,560)	1,840,495
Fixed Assets	(25,364)	-	-	25,364	-
Deferred revenue	(5,441)	-	(38)	5,479	-
Lease Liability	-	-	-	61,528	61,528
Right-to-use assets	(58,114)	-	-	(12,726)	(70,840)
Foreign Exchange gain or loss	(19,372)	-	-	1,724	(17,648)
Intangibles	(2,282,328)	-	60,712	353,199	(1,868,417)
SR&ED expenditure pool	254,246	-	1,197	(255,443)	-
Other	(13,650)	-	-	(11,090)	(24,740)
Deferred Tax Liability Recognized in Statement of Financial Position	(150,552)	-	4,457	66,475	(79,621)

	March 31, 2020	Recognized in Business Combination	Recognized in OCI (foreign currency translation)	Recognized in Profit and Loss	March 31, 2021
	\$	\$	\$	\$	\$
Non-capital loss carry-forwards	841,347	1,189,376	(81,712)	50,460	1,999,471
Fixed Assets	(18,087)	-	-	(7,277)	(25,364)
Deferred revenue	(37,596)	(14,146)	565	45,736	(5,441)
Right-to-use assets and leasehold inducement	(145,484)	-	529	86,841	(58,114)
Lease Liability	156,925	-	(546)	(156,379)	-
Foreign Exchange gain or loss	(10,536)	-	-	(8,836)	(19,372)
Intangibles	(1,242,044)	(1,586,105)	97,618	448,203	(2,282,328)
SR&ED Expenditure Pool / Capitalized R&D	229,787	-	(10,315)	34,774	254,246
Other	-	-	-	(13,650)	(13,650)
Deferred tax liability recognized in statement of financial position	(225,688)	(410,875)	6,139	479,872	(150,552)

The unrecognized temporary differences of the Corporation are comprised of:

	March 31, 2022	March 31, 2021
	\$	\$
Fixed Assets	5,605	91,157
Capitalized professional fees	14,939	15,725
Capital Losses	796,950	796,950
Federal and Ontario ITCs Research and Development Tax Credit	1,273,148	480,813
SR&ED Expenditure Pool	2,889,762	1,846,240
Non-capital loss carry forward	11,243,168	6,380,999
Financing Costs	2,582,083	925,023
Other (includes reserves)	612,209	1,211,994
Total	19,417,864	11,748,901

As at March 31, 2022, the Corporation has approximately \$2,889,000 (2021 - \$1,846,000) of eligible research and development expenditures (net of current year federal investment tax credits) which may be used to reduce future years' Canadian taxable income. These expenditures carry forward with no expiry limitation. The Corporation has the following non-capital losses available to reduce future years' taxable income at March 31, 2022, which expire as follows:

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Income Taxes (continued)

Year	Non-capital losses \$
2022	-
2024	-
2025	157,254
2026	918,284
2027	1,584,865
2028	4,639,724
2029	-
2030	-
2031	22,829
2032	145,821
2033	183,654
2034	160,647
2035	123,525
2036	-
2037	90,263
2038	227,973
2039	830,314
2040	2,640,098
2041	1,861,429
2042	3,588,318
Indefinite	4,496,209
Total non capital losses carry forward	21,671,206

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized, the deferred tax asset is not recognized.

12. Loss per share

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

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

The following securities could potentially dilute basic net loss per share in the future but have not been included in diluted loss per share because their effect was anti-dilutive:

	March 31, 2022	March 31, 2021
	#	#
Share options	25,020,389	17,854,992
Warrants	49,148,201	61,925,474
Broker compensation unit options	3,018,575	3,018,575
	77,187,165	82,799,041

Martello Technologies Group Inc.

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13. Trade and other accounts receivable

The movements in the expected credit losses are as follows:

Movements in the expected credit losses	March 31, 2022	March 31, 2021
	\$	\$
Balance, beginning of period	12,080	22,631
Trade receivables written off	(12,080)	(52,330)
Additional allowance recognized	18,481	41,779
Balance, end of the period	18,481	12,080

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

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	> 90 days
			\$	\$	\$	\$
March 31, 2022	4,231,065	3,934,330	269,109	8,046	-	19,580
March 31, 2021	5,200,612	4,453,950	531,339	44,751	134,376	36,196

14. Equipment and leasehold improvements

	March 31, 2021	Additions	Disposals	Translation adjustments	March 31, 2022
	\$	\$	\$	\$	\$
Cost					
Computer equipment	720,993	2,409	(10,625)	(39,394)	694,632
Software	11,270	8,310	-	(443)	19,137
Leasehold improvements	153,086	-	-	(666)	152,420
Furniture and fixtures	201,211	3,623	-	(2,782)	202,052
Total	1,086,560	14,342	(10,625)	(43,285)	1,068,241

	March 31, 2021	Depreciation	Disposals	Translation adjustments	March 31, 2022
	\$	\$	\$	\$	\$
Accumulated depreciation					
Computer equipment	536,061	75,041	(9,735)	(16,685)	584,682
Software	10,979	1,108	-	(443)	11,644
Leasehold improvements	112,959	34,333	-	(310)	146,982
Furniture and fixtures	126,536	21,485	-	(3,251)	144,768
Total	786,535	131,967	(9,735)	(20,690)	888,076

Net book value	300,025	180,165
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	March 31, 2020	Additions	Disposals	Acquisition of subsidiary	Translation adjustments	March 31, 2021
	\$	\$	\$	\$	\$	\$
Cost						
Computer equipment	720,423	50,810	(281,535)	248,046	(16,751)	720,993
Software	11,370	-	-	-	(100)	11,270
Leasehold improvements	146,243	-	(10,796)	18,113	(474)	153,086
Furniture and fixtures	226,643	2,170	(75,483)	49,751	(1,870)	201,211
Total	1,104,679	52,980	(367,814)	315,910	(19,195)	1,086,560

Martello Technologies Group Inc.

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Equipment and leasehold improvements (continued)

	March 31, 2020	Depreciation	Disposals	Acquisition of subsidiary	Translation adjustments	March 31, 2021
	\$	\$	\$	\$	\$	\$
Accumulated depreciation						
Computer equipment	469,451	72,686	(186,939)	188,116	(7,252)	536,062
Software	10,615	778	-	-	(414)	10,979
Leasehold improvements	74,587	37,986	(8,911)	9,502	(206)	112,958
Furniture and fixtures	114,870	23,372	(39,655)	20,461	7,488	126,536
Total	669,523	134,822	(235,505)	218,079	(384)	786,535
Net book value	435,156			97,831		300,025

15. Intangible assets and goodwill

Intangible assets

A continuity of the intangible assets for the years ended March 31, 2022 and 2021, is as follows:

	March 31, 2021	Acquisition of subsidiary	Disposals	Translation Adjustments	March 31, 2022
	\$	\$	\$	\$	\$
Cost					
Website	6,000	-	-	-	6,000
Customer relationships	7,177,528	-	-	(415,612)	6,761,915
Technology	6,917,441	-	-	(400,553)	6,516,888
Brand	1,121,627	-	-	(64,948)	1,056,680
Non-compete	936,906	-	-	(54,251)	882,655
Total	16,159,502	-	-	(935,365)	15,224,138

	March 31, 2021	Amortization	Disposals	Translation Adjustments	March 31, 2022
	\$	\$	\$	\$	\$
Accumulated amortization					
Website	5,609	391	-	-	6,000
Customer relationships	1,005,235	996,542	-	(102,375)	1,899,402
Technology	964,847	702,608	-	(85,905)	1,581,550
Brand	-	-	-	-	-
Non-compete	754,731	182,083	-	(54,158)	882,656
Total	2,730,422	1,881,624	-	(242,438)	4,369,608
Net book value	13,429,080				10,854,530

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

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Intangible assets and goodwill (continued)

	March 31, 2020	Acquisition of subsidiary	Disposals	Translation Adjustments	March 31, 2021
	\$	\$	\$	\$	\$
Cost					
Website	6,000	-	-	-	6,000
Customer relationships	2,779,939	6,579,430	(1,912,000)	(269,841)	7,177,528
Technology	3,354,577	4,743,310	(891,000)	(289,446)	6,917,441
Brand	1,246,704	-	(64,000)	(61,077)	1,121,627
Non-compete	987,924	-	-	(51,018)	936,906
Total	8,375,144	11,322,740	(2,867,000)	(671,382)	16,159,502

	March 31, 2020	Amortization	Disposals	Translation Adjustments	March 31, 2021
	\$	\$	\$	\$	\$
Accumulated amortization					
Website	3,262	2,347	-	-	5,609
Customer relationships	1,462,650	943,487	(1,354,476)	(46,426)	1,005,235
Technology	958,703	683,298	(630,911)	(46,243)	964,847
Brand	56,889	3,556	(60,445)	-	-
Non-compete	466,520	326,079	-	(37,868)	754,731
Total	2,948,024	1,958,767	(2,045,832)	(130,537)	2,730,422

Net book value	5,427,120				13,429,080
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Goodwill

The net change in goodwill is as follows:

	Vantage DX Analytics IT Service Analytics	Vantage DX Monitoring - Microsoft 365	Total
	\$	\$	\$
As at March 31, 2020	7,984,317	-	7,984,317
Additions from acquisitions of subsidiaries	-	12,199,794	12,199,794
Translation adjustments	(412,324)	(335,850)	(748,174)
As at March 31, 2021	7,571,993	11,863,944	19,435,937
Translation adjustments	(438,455)	(687,085)	(1,125,540)
As at March 31, 2022	7,133,538	11,176,859	18,310,397

At March 31, 2022 and 2021, management assessed the recoverable amount of goodwill and intangible assets.

Vantage Dx Analytics – IT Service Analytics

Management reviewed the recoverable amount of goodwill and intangible assets for the CGU. The recoverable amount was assessed by reference to value in use (“VIU”) calculation. The fair value was assessed by reference to discounted cash flow projections reflecting management’s assessment of projected operating results for a five-year period, including projected growth rates of 3.5-64.6% reflecting growth from new channels and integration of products, and a discount rate of 13.7% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.5% terminal growth rate. Future estimated growth rates were validated by reviewing reasonableness of pricing, independent market and industry data, and sales achieved to date.

Management concluded that an impairment charge was not required in the Vantage Dx Analytics – IT Service Analytics segment.

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Intangible assets and goodwill (continued)

Management estimates that an increase in the terminal growth rate by 0.5%, an increase in the average growth rate for the initial five-year period to 30.9% per year, or a decrease in the discount rate by 0.2% would reduce the headroom in the CGU to nil but would not result in an impairment charge.

The carrying value of the intangible assets of this segment at March 31, 2022 and 2021 was \$ 2,949,988 and \$3,650,007 respectively.

Vantage Dx Monitoring – Microsoft 365

The recoverable amount of the CGU was assessed by reference to value in use calculation which uses cash flow projections reflecting management's assessment of projected operating results for a five-year period, including projected growth rates of 3-28.4% reflecting growth from new channels, and a discount rate of 12.4% per annum. Cash flows beyond that five-year period have been extrapolated using a steady 3.0% terminal growth rate. Future estimated growth rates were validated by reviewing reasonableness of pricing, independent market and industry data, and sales achieved to date. Management concluded that an impairment charge was not required in the Vantage Dx Monitoring – Microsoft 365 segment.

Management estimates a consistent terminal growth rate by 3%, a decrease in the average growth rate for the initial five-year period to 4.5% per year, or an increase in the discount rate by 0.9% would reduce the headroom in the CGU to nil but would not result in an impairment charge.

The carrying value of the intangible assets of this segment at March 31, 2022 and Mar 31, 2021 was \$7,904,542 and \$9,779,073 respectively.

16. Accounts payable and accrued liabilities

	March 31, 2022	March 31, 2021
	\$	\$
Trade payables	302,843	1,558,641
Accrued key management compensation	326,316	158,248
Accrued professional fees	720,891	735,981
Salaries, benefits, and vacation payable	1,298,091	1,490,992
Commissions payable	34,464	61,875
Taxes payable	73,034	102,615
Other payables	357,713	48,787
Total	3,113,352	4,157,139

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17. Long-term debt

As at March 31, 2020	2,468,847
Funds received	11,172,747
Costs of borrowing	(1,230,283)
Accretion of long-term debt (CEDA+FedDev)	24,373
Accretion of long-term debt - Vistara	233,002
Foreign exchange revaluation	(924,466)
Principal repaid	(1,884,332)
As at March 31, 2021	9,859,888
Funds received	-
Costs of borrowing	563,707
Accretion of long-term debt (CEDA+FedDev)	59,457
Accretion of long-term debt - Vistara	149,605
Foreign exchange revaluation	(55,722)
Principal repaid	(219,000)
PPP Loan forgiveness	(184,354)
As at March 31, 2022	10,173,581
Current portion of long term debt	270,000
Non-current portion of long-term debt	9,903,581
Balance, March 31, 2022	10,173,581

	March 31, 2022	March 31, 2021
	\$	\$
Current		
CEDA	24,000	24,000
FedDev loan	246,000	195,000
	270,000	219,000
Long-term		
FedDev loan	125,764	327,371
CEDA	51,579	62,516
Vistara loan	9,726,238	9,065,318
PPP loan	-	185,683
	9,903,581	9,640,888
Total Long-term debt	10,173,581	9,859,888

The schedule of undiscounted principal payments is as follows:

	\$
2023	270,000
2024	10,568,418
2025	24,000
2026	33,307
2027	-
Total	10,895,725

FedDev loan

The Corporation has a loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities by funding eligible and supported costs for the submitted project. The funds provided under this contribution agreement are non-interest bearing, unsecured and are to be repaid

Martello Technologies Group Inc.

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Long-term debt (continued)

over 60 months commencing on January 1, 2018. The loan was repayable at \$500 in each of the first 12 months, \$1,000 in each of the following 12 months and \$20,333 in each month of the remaining months of the loan. The carrying value of the loan recorded to date has been determined by applying a discount rate of 10%. The interest-free portion is deemed to be a government grant under IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The loan was amended effective April 1, 2020 and the maturity date was extended to October 1, 2023. In addition, the payment schedule was modified as follows: no payments for 6 months following the effective date, monthly payments of \$10,000 for the following 3 months, \$15,000 for the following 12 months, \$20,000 for the following 12 months, \$22,000 for the following 9 months, with a final payment of \$23,000 on the new maturity date of October 1, 2023.

An adjustment of \$291,748 was recorded to recognize the government grant within the loan at fair value upon inception. After reflecting the terms of the amendment, the remaining adjustment is \$128,420 at April 1, 2020. The present value will be accreted into other income (expenses) over the remaining term of the loan to accrete the loan back to its face value of \$671,000.

CEDA Loan

The Corporation has a loan from Canada Economic Development Agency. The loan is non-interest bearing, unsecured and repayable in 60 equal monthly payments, commencing February 2021. The carrying value of the loan recorded has applied a discount rate of 16%. The interest-free portion is deemed to be a government grant under IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*. An adjustment of \$61,466 was recorded to recognize the government grant within the loan upon inception at fair value. The present value is being accreted into other income (expenses) over the remaining term of the loan to accrete the loan back to its face value of \$108,000.

National Bank of Canada revolving credit facility

On April 27, 2020, the Corporation 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 \$7,500,000, 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 Technologies Corporation and the Corporation, as well as Savision B.V. and its subsidiaries, GSX Participations Sàrl and its subsidiaries, Martello Technologies Incorporated, and Elfiq Inc. (the "Corporate Guarantors"). The financing costs expensed during the year ended March 31, 2021 in relation to the Revolving Loan totaled \$397,449. As at March 31, 2022, the Revolving Loan had not been drawn.

Vistara loan

On April 27, 2020, the Corporation 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 provided a US \$8,000,000 subordinated secured term loan (the "Term Loan"). Along with the proceeds of the short-form prospectus bought deal offering closed May 26, 2020 (the "Offering") (see Note 20) the Term Loan was used to pay the cash portion of the purchase price for the GSX Acquisition.

The Term Loan is repayable within 36 months of closing and carries interest at 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 19.70%. The Term Loan is secured by a subordinated security interest in and guarantees from the Corporate Guarantors.

As consideration for providing the 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

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Long-term debt (continued)

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.

Issuance costs relating to the Vistara Credit Agreement are allocated between the Term Loan and Bonus Warrants based on the relative fair value of each. Issuance costs related to the Term Loan are netted against the Term Loan and amortized over the life of the loan. Issuance costs related to the Bonus Warrants are netted against the value of the warrants in shareholders' equity.

On November 10, 2021 the Vistara Credit Agreement was amended (the "Vistara Amendment"). Under the terms of the Vistara Amendment, effective November 1, 2021 interest at the U.S. prime rate plus 8.75% per annum is payable monthly. In addition, the 12,777,273 Bonus Warrants previously issued to Vistara have been cancelled and a fee of U.S. \$400,000 was paid to Vistara (the "Warrant Cancellation Fee"). The cancellation resulted in \$287,000 recorded as a Financing fee to the consolidated statement of loss and comprehensive loss. The Vistara Amendment also sets out conditions for the Private Placement and includes adjustments to certain covenants. In connection with the Vistara Amendment, the Company issued 837,110 common shares to Vistara.

US Paycheck Protection Program loan

On March 18, 2021, the Corporation received a US Paycheck Protection Program loan ("PPP Loan"), facilitated by Bank of America. The loan is unsecured, with interest accruing at 1% per annum. Principal and interest are repayable upon maturity in March 2026.

On October 6, 2021 the PPP loan balance was forgiven. As a result of the forgiveness, the Corporation recognized a gain of \$184,354 on the forgiveness of the loan in the consolidated statements of loss and comprehensive loss.

Royal Bank of Canada loan

The Corporation received a loan from Royal Bank of Canada in 2018. This financing was comprised of a term loan of \$3,000,000, a revolving facility and other ancillary facilities. The term loan had an interest rate of 5.40% per annum with an effective interest rate of 7.06%. The loan was repayable over a term of 36 months beginning on February 1, 2019. The facilities were secured by a general security agreement on the property of Martello Corp as well as secured guarantees from Elfiq Inc (amalgamated as of April 1, 2021 with Martello Technologies Corporation) and Martello Technologies Inc., Savision B.V. and its subsidiaries, and the Corporation itself. On May 25, 2020 the term loan was fully repaid and the facilities were terminated.

18. Right-of-use assets

Right-of-use asset:	\$
Balance at March 31, 2021	1,044,441
Additions	416,315
Depreciation for the period	(296,413)
Foreign exchange translation	(45,744)
Balance at March 31, 2022	1,118,599
Lease obligation:	\$
Balance at March 31, 2021	1,195,056
Additions	426,315
Interest expense	26,506
Payments	(431,852)
Foreign exchange translation	(2,151)
Balance at March 31, 2022	1,213,874

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Right-of-use assets (continued)

For the year-ended March 31, 2022, the Corporation recognized \$296,413 (2021 - \$365,206) as depreciation on right-of-use assets and \$26,506 (2021 - \$42,886) as interest expense on the lease liability.

In applying the practical expedient for short-term leases, the Corporation has excluded rent payments of \$81,090 (2021 - \$129,727) from the right-of-use asset and lease liability calculations.

The Corporation had entered into a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017 extending through to February 28, 2022. The lease was subsequently renewed, and the new maturity date is February 28, 2028.

When measuring lease liabilities, the Corporation discounted lease payments using incremental borrowing rates of between 2.47% and 5.40% except for the renewed lease that has an incremental borrowing rate of 14.08%

The Corporation has applied judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease-by-lease basis, which has a significant effect on the measurement of the lease liability and right-of-use assets recognized. Management considers many factors including any events that create an economic incentive to exercise a renewal option including expected future performance and past business practice. The Corporation has also exercised judgment in determining the incremental borrowing rate based on the term, security, the lessee entity's economic environment, credit rating, level of indebtedness and asset specific adjustments.

Effective August 1, 2020, the Corporation subleased its office space in Montreal to the purchaser of the assets of the network performance management segment, as described in Note 5. The lease remains guaranteed by the Corporation. As a result, the right-of-use asset for the office space in Montreal was reclassified to lease receivable in the Consolidated statements of financial position. The balance of lease receivable at March 31, 2022 is 35,394 (2021- \$108,758).

In January 2021, the Company exercised a right to early terminate a lease for office premises in Amsterdam, Netherlands. The remaining balance in the right-of-use asset and lease obligation was written off at the exercise date as reflected in the schedule above.

Upon acquisition of GSX, the Company recognized two leases for GSX Participations SA and its wholly owned subsidiary, Sàrl GSX Groupware Solutions. GSX Participations SA lease commenced January 2019 and runs through to December 2025 with an incremental boring rate of 2.47%. Sàrl GSX Groupware Solutions lease commenced January 2019 and expires February 2025 with an incremental borrowing rate of 2.47%.

19. 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:

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Defined benefits retirement plan (continued)

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 March 31, 2022. 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 include:

	March 31, 2022	March 31, 2021
Discount rate	0.90%	0.40%
Long-term expected salary increase	1.00%	1.00%
Average longevity at retirement age for Plan participants	LPP/BVG 2020	LPP/BVG 2015

The LPP/BVG 2020 tables are Swiss generational tables were used for the calculation purposes and are the most up-to-date tables available in Switzerland for private pension funds.

The current service cost of \$137,331 was recognized for the year ended March 31, 2022 (2021 – \$147,469) along with net interest expense of \$941 and negative return on plan assets of \$1,311 for the year ended March 31, 2022 (2021 - \$4,718 of net interest income and positive return on plan assets of \$27,527 respectively). The current service cost is included in operating expenses on the consolidated statements of loss and comprehensive loss. The net interest income is included in interest income. The return on plan assets is included in other comprehensive income (loss).

At March 31, 2022, the Plan was in a deficit position of \$358,643 (March 31, 2021 - \$258,341).

The movements in the defined benefit obligation for the year ended March 31, 2022 are as follows:

	\$
Defined benefit obligation at April 1, 2021	1,039,523
Current service cost	137,331
Interest cost	4,722
Administration cost	1,703
Foreign exchange translation	57,274
Participant contributions	86,059
Remeasurement	145,317
Defined benefit obligation March 31, 2022	1,471,929

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Defined benefits retirement plan (continued)

The movements in the defined benefit obligation for the period from acquisition to March 31, 2021 are as follows:

	\$
Defined benefit obligation at April 1, 2020	-
Defined benefit obligation assumed on acquisition (note 6)	2,887,145
Current service cost	147,469
Interest cost	8,556
Foreign exchange translation	(50,506)
Remeasurement	(1,953,141)
Defined benefit obligation March 31, 2021	1,039,523

The movements in Plan assets for the year ended March 31, 2022 are:

	\$
Plan assets at April 1, 2021	781,182
Interest income	3,780
Return on plan assets, excluding interest income	(1,311)
Participant contributions	45,929
Employer contributions	107,155
Foreign exchange translation	(7,542)
Remeasurement	184,093
Fair value of pension plan March 31, 2022	1,113,286

The movements in Plan assets for the period from acquisition to March 31, 2021 are:

	\$
Plan assets at April 1, 2020	-
Plan assets acquired (note 6)	2,056,207
Interest income	13,274
Return on plan assets, excluding interest income	27,527
Participant contributions	36,720
Employer contributions	90,847
Foreign exchange translation	(36,983)
Remeasurement	(1,406,410)
Fair value of pension plan March 31, 2021	781,182

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

	March 31, 2022	March 31, 2021
Debt securities	28.25%	38.75%
Real estate assets	23.67%	22.83%
Equity securities	32.68%	26.11%
Alternative investments	10.99%	9.58%
Cash and cash equivalents	4.41%	2.73%
Total	100.00%	100.00%

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Defined benefits retirement plan (continued)

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

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 March 31, 2022.

	Defined benefit obligation, \$	
	Increase 0.25%	Decrease 0.25%
Discount rate	1,403,359	1,547,005
	Decrease 0.25%	Increase 0.25%
Salary increase	1,446,544	1,495,353
	Decrease 0.25%	Increase 0.25%
Pension increase	1,445,735	1,499,763
	Decrease 1 year	Increase 1 year
Life expectancy	1,457,451	1,486,475

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

The weighted average duration of the obligation at March 31, 2022, which relates to active members, is 19.7 years.

The Corporation expects to make contributions to the GSX Plan totaling \$106,408 during the next 12 months.

20. Equity instruments

i. Common shares

The Corporation is authorized to issue an unlimited number of common shares with no par value.

The holders of the common shares are entitled to receive non-cumulative dividends, as may be determined by the Board of Directors.

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Equity instruments (continued)

	Number of shares	Amount
	#	\$
Common Shares		
Balance at March 31, 2021	302,396,958	46,313,516
Issuance of common stock	24,110,472	2,487,000
Less: Transaction costs attributable to share issuance	-	(25,836)
Exercise of options	200,000	40,937
Balance at March 31, 2022	326,707,430	48,815,617

On November 10, 2021, the Corporation completed the first tranche of a non-brokered private placement (“the Private Placement”). Under the Private Placement, the Corporation issued 8,403,362 common shares at a price of \$0.119 per common share, for aggregate gross proceeds of \$1,000,000. The Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation.

In connection with the Vistara Amendment, the Company also issued 837,110 common shares to Vistara (Note 17)

On January 27, 2022, the Corporation completed the second tranche of the Private Placement. The Corporation issued 14,370,000 common shares at a price of \$0.10 per common share, for aggregate gross proceeds of \$1,437,000. The Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation.

On March 16, 2022, the Corporation completed the third tranche of the Private Placement. The Corporation issued 500,000 common shares at a price of \$0.10 per common share, for aggregate gross proceeds of \$50,000. The Private Placement was subscribed for entirely, either directly or indirectly, by insiders of the Corporation.

ii. Warrants

During the year ended March 31, 2022, no warrants were issued (2021 – 61,925,474).

At March 31, 2022, the Corporation’s outstanding warrants consisted of the following:

Date of Issue	Expiry Date	Type	Exercise price	Number outstanding
			\$	#
May 26, 2020	May 26, 2023	First Offering	0.30	32,861,250
March 18, 2021	March 18, 2023	Second Offering	0.30	15,131,700
March 18, 2021	March 18, 2023	Private Placement	0.30	1,155,251
				49,148,201

Of the warrants issued on February 27, 2015, 274,285 were exercised during the year ended March 31, 2021 (2020 – 493,715) and the remaining 260,576 expired during the year ended March 31, 2021. (2020 – nil).

First Offering Warrants

As part of the share issuance of 32,861,250 common shares on May 26, 2020, 32,861,250 warrants were issued with an exercise price of \$0.30 and an expiry date of May 26, 2023 (the “First Offering Warrants”) Commencing on May 26, 2021, if the daily volume weighted average exceeds \$0.50, the Corporation may, upon providing written notice to the holders of the warrants, accelerate the expiry date of the First Offering Warrants to the date that is 30 days following the date of such written notice.

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Equity instruments (continued)

In determining the value of the First Offering Warrants, the barrier option model was used. The First Offering Warrants were valued at \$0.0591 per warrant. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.29%
Expected term	3 years
Volatility	75.1%
Expected dividend yield	0%

Second Offering Warrants

As part of the share issuance of 30,263,400 common shares on March 18, 2021, 15,131,700 warrants were issued with an exercise price of \$0.30 and an expiry date of March 18, 2023 (the "Second Offering Warrants")

In determining the value of the Second Offering Warrants, the barrier option model was used. The Second Offering Warrants were valued at \$0.0471 per warrant. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.27%
Expected term	2 years
Volatility	83.1%
Expected dividend yield	0%

Concurrent Private Placement Warrants

As part of the share issuance of 2,310,502 common shares on March 18, 2021, 1,155,251 warrants were issued with an exercise price of \$0.30 and an expiry date of March 18, 2023 (the "Private Placement Warrants")

In determining the value of the Private Placement Warrants, the barrier option model was used. The Private Placement Warrants were valued at \$0.0471 per warrant. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.27%
Expected term	2 years
Volatility	83.1%
Expected dividend yield	0%

Bonus Warrants

As consideration for providing the Term Loan, on May 28, 2020 Vistara received 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 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.

In determining the value of the Bonus Warrants as non-employee share-based compensation, the barrier option model was used. The Bonus Warrants were valued at \$0.0675 per warrant.

The total value of the warrants has been netted against the Term Loan and will be amortized over the term of the debt through interest expense in the consolidated statements of loss and comprehensive loss. The assumptions used to value the warrants were as follows:

Risk-free interest rate	0.29%
Expected term	3 years
Volatility	74.9%

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Equity instruments (continued)

Expected dividend yield 0%

These warrants were cancelled on November 10, 2021 and a fee of U.S. \$400,000 was paid to Vistara (Note 17)

iii. Broker compensation option units

In connection with the First Offering, the Corporation granted the underwriters 1,643,063 broker compensation option units ("First Broker Option Units"), exercisable to purchase Units at a price of \$0.21 per First Broker Option Unit for a period of 24 months from the closing date. On November 19, 2020, 6,079 compensation option units were exercised.

In determining the value of the First Broker Option Units as non-employee share-based compensation, the Black-Scholes option pricing model was used. The Broker Option Units were valued at \$0.131 per First Broker Option Unit. The assumptions used to determine the value of the First Broker Option Units are as follows:

Market value of a First Broker Option Unit	\$0.2741
Exercise Price	\$0.21
Risk-free interest rate	0.30%
Expected term	24 months
Volatility	73.9%
Expected dividend yield	0%

The market value of the First Broker Option Unit was determined by adding the value of a Broker Warrant and the market value of a common share at the date of closing of the First Offering.

In connection with the Second Offering, the Corporation granted the underwriters 1,381,591 broker compensation option units ("Second Broker Option Units"), exercisable to purchase Units at a price of \$0.19 per Second Broker Option Unit for a period of 24 months from the closing date.

In determining the value of the Second Broker Option Units as non-employee share-based compensation, the Black-Scholes option pricing model was used. The Second Broker Option Units were valued at \$0.087 per Second Broker Option Unit. The assumptions used to determine the value of the Second Broker Option Units are as follows:

Market value of a Second Broker Option Unit	\$0.17
Exercise Price	\$0.19
Risk-free interest rate	0.27%
Expected term	24 months
Volatility	83.15%
Expected dividend yield	0%

iv. Share-based payments

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

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Equity instruments (continued)

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

	Option exercise price \$	Total #
Balance outstanding at March 31, 2020	0.11-0.38	18,665,993
Granted	0.20-0.22	6,581,167
Exercised	0.11-0.13	(6,165,331)
Forfeited	0.11-0.38	(1,226,837)
Balance outstanding at March 31, 2021	0.11-0.38	17,854,992
Granted	0.06-0.19	8,687,000
Exercised	0.11-0.13	(200,000)
Forfeited	0.11-0.34	(1,643,000)
Expired	0.11-0.33	(352,603)
Balance outstanding at March 31, 2022		24,346,389

Options exercisable:

At March 31, 2022	0.11-0.38	11,635,938
At March 31, 2021	0.11-0.38	7,822,207

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Equity instruments (continued)

Grant date	Option exercise price \$	Number exercisable #	Remaining life Years
July 17, 2017	0.110	80,000	0.30
December 18, 2017	0.110	1,488,000	0.72
April 3, 2018	0.130	5,813,334	1.01
January 18, 2019	0.335	352,000	1.80
February 28, 2019	0.380	424,000	1.92
September 3, 2019	0.375	13,332	2.43
November 26, 2019	0.330	1,422,588	2.66
December 10, 2019	0.320	6,666	2.70
February 13, 2020	0.305	13,332	2.88
March 5, 2020	0.225	6,666	2.93
July 28, 2020	0.195	1,212,811	3.33
August 31, 2020	0.205	665,215	3.42
November 20, 2020	0.220	79,663	3.64
February 19, 2021	0.220	58,331	3.89
June 30, 2021	0.135	-	4.25
September 8, 2021	0.11-0.19	-	4.44
November 3, 2021	0.190	-	4.60
November 30, 2021	0.100	-	4.67
January 13, 2022	0.06-0.10	-	4.79
February 15, 2022	0.060	-	4.88
Weighted average	0.180		1.64
Total		11,635,938	

At March 31, 2022, the fair value of share-based compensation to be recognized as an expense in future periods totaled \$440,442 (March 31, 2021– \$568,193). Share-based compensation expense for the period is disclosed in note 10.

In determining the amount of share-based compensation, the Corporation uses the Black-Scholes option pricing model to establish the fair value of options granted. 8,687,000 options were granted in the year ended March 31, 2022. The fair value of options granted in the year ended March 31, 2022 was established by applying the following assumptions:

	March 31, 2022	March 31, 2021
Stock price valuation	\$0.06-0.19	\$0.20-0.22
Exercise price	\$0.06-0.19	\$0.20-0.22
Risk-free interest rate	0.56-1.27%	0.29-0.38%
Expected life in years	3.5	3.5
Expected dividend yield	0%	0%
Volatility	76.44-78.49%	76.30-79.31%
Fair value of options issued in the periods	\$0.02-0.07	\$0.11-0.12

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

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21. Supplementary cash flow information

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

	Note	March 31, 2022 \$	March 31, 2021 \$
Net change in operating components of working capital:			
Trade and other accounts receivable	13	843,316	(426,726)
Investment tax credits and grants receivable	10	(211,857)	(214,333)
Prepaid expenses		(415,150)	343,789
Inventories		(1,094)	40,770
Accounts payable and accrued liabilities	16	(1,277,114)	(1,572,176)
Deferred revenue	7	324,980	(743,405)
Total		(736,919)	(2,572,081)

22. Fair values

Set out below is a table by class of the Corporation's financial instruments that are carried in the consolidated financial statements.

	March 31, 2022 \$	March 31, 2021 \$
Financial assets		
Cash	4,853,218	8,349,904
Short-term investments	170,000	170,000
Trade and other accounts receivable	4,231,065	5,200,612
Investment tax credits and grants receivable	944,816	779,354
Investment	303,750	303,750
Foreign exchange forward contract asset	-	8,465
Lease receivable	35,394	108,758
Total financial assets	10,538,243	14,920,843

	March 31, 2022 \$	March 31, 2021 \$
Financial liabilities		
Accounts payable and accrued liabilities	3,113,352	4,157,139
Foreign exchange forward contract liability	5,015	-
Lease obligation	1,213,874	1,195,056
Long-term debt (including current portion)	10,173,581	9,859,888
Total financial liabilities	14,505,822	15,212,083

The fair value of the financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- Cash, short-term investments, trade and other accounts receivable, investment tax credits and grants receivable, lease receivable, accounts payable and accrued liabilities approximate fair value at their carrying amounts due to the short-term maturities of these instruments.

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Fair values (continued)

- b. Long-term debt and lease obligations have a fair value which is based on the present value
- c. of future interest and principal payments, using the applicable discount rates.
- d. Investments represent the Investment made in Adaptiv (Note 4) that are valued using level 3 inputs.

The market interest rates that would apply to the Corporation's long-term debt is not significantly different from the effective interest rates used to amortize these debts. Therefore, the carrying amounts are comparable to fair values.

The Corporation's foreign exchange forward contracts are remeasured at fair value at each reporting period.

Fair value hierarchy

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Long-term debt is valued under the Level 2 hierarchy.

The fair value of foreign exchange forward contracts represented a liability as at March 31, 2022 of \$5,015 and an asset as at March 31, 2021 of \$8,465. This fair value is estimated using a market approach with forward exchange rates observable at the end of the reporting period and contract forward rates as inputs and is categorized within Level 3 of the fair value hierarchy.

23. Related party transactions and balances

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

- i. For the year-ended March 31, 2022, the Corporation paid rent to Wesley Clover International Corporation, which is reflected in the results as depreciation of right-of-use assets of \$85,984 and \$124,770 in rent expense (March 31, 2021 – \$98,402 depreciation of right-of-use assets and \$112,843 of rent expense). Included in accounts payable and accrued liabilities as at March 31, 2022 is an advance rent for April 2022 amounting to \$19,262 (March 31, 2021 - Nil) to Wesley Clover International Corporation.
- ii. One of the co-chairmen of the Corporation is a chairman of Wesley Clover International Corporation, a shareholder of the Corporation.
- iii. Included in accounts payable and accrued liabilities are balances as at March 31, 2022 totaling \$327,474 (March 31, 2021 - \$158,248) due to key management personnel for compensation, earned vacation pay and DSU expenses.

Martello Technologies Group Inc.

Notes to consolidated financial statements

For the years ended March 31, 2022 and 2021

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Related party transactions and balances (continued)

iv. The remuneration of directors and key management personnel during the year was as follows:

	March 31, 2022	March 31, 2021
	\$	\$
Salaries, wages and bonuses	1,628,425	1,665,808
Other employee benefits	53,778	48,549
Share-based compensation	409,342	381,184
Total	2,091,545	2,095,542

24. Financial risk management objectives and policies

Transactions from operations that give rise to the recognition of financial instruments on the statement of financial position may result in an entity assuming or transferring financial risk to another party. The Corporation's primary risk management objective is to protect the Corporation's statement of financial position and cash flows, in order to increase the Corporation's enterprise value.

The Corporation is exposed to credit risk, liquidity risk and market risks (related to foreign exchange rates). The Corporation is not exposed to any interest rate or other market risks. There have been no changes to these risk exposures since the prior period, except as noted.

The Corporation's senior management and Board of Directors oversees the management of these risks. It is the Corporation's policy that no trading in instruments for speculative purposes shall be undertaken. The Board of Directors reviews and defines policies for managing each of these risks which are summarized below.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument asset or customer contract, leading to a financial loss to the Corporation. Trade receivables as at March 31, 2022 are presented net of an allowance for expected credit losses of \$18,481 (March 31, 2020 - \$12,080). The Corporation's largest customer, which is included in Vantage Dx Monitoring – Mitel UC, accounted for revenue of \$7,004,111, or approximately 40% of total revenue, for the year ended March 31, 2022 (March 31, 2021 - \$7,402,022 or 44%). At March 31, 2022 the account receivable from this customer totaled \$1,305,334 (March 31, 2021 - \$1,345,309). The Corporation maintains strict credit policies and limits in respect to counterparties.

Liquidity risk

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

The following table summarizes the maturities of financial instruments as at March 31, 2022:

	2023	2024	2025	2026	2027	2028	Total
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,113,352	-	-				3,113,352
Lease obligation	370,330	328,000	328,000	217,539	103,350	104,738	1,451,957
Long-term debt	270,000	10,568,418	24,000	33,307			10,895,725
Total	3,753,682	10,896,418	352,000	250,846	103,350	104,738	15,461,034

Market risk

Market risk is the risk that the fair value or future cash flows related to a financial instrument will fluctuate

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Financial risk management objectives and policies (continued)

because of changes in market prices. Market price exposures include foreign currency exchange rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue and expense transactions are denominated in a currency other than the Canadian dollar, the Corporation's functional currency.

During the year ended March 31, 2022, 99% of revenue and 46% of expenses were in foreign currencies (March 31, 2021 - 93% of revenue and 46% of expenses). Transactions in foreign currencies also require the Corporation to hold significant working capital balances in foreign currencies. The effect of translating financial instrument receivables and payables each period gives rise to foreign exchange gains and losses that are recognized in net loss.

The Corporation's exposure to foreign currency exchange rates is primarily to the United States dollar (USD) and the Euro (EUR).

During the year ended March 31, 2021, the Corporation entered into derivative financial instruments (foreign exchange forward contracts) to manage foreign currency risk with the USD. As at March 31, 2022, the Corporation is committed under outstanding foreign exchange forward contracts to sell USD (representing commitments of USD \$1,000,000). The Corporation does not enter into any derivative instruments to reduce its exposure to the EUR.

The Corporation's net exposure to the USD and EUR is denominated in CAD and is summarized in the following table:

	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	USD	USD	EUR	EUR
Cash and restricted cash	1,089,318	1,574,886	379,490	725,218
Trade and other accounts receivable	3,119,131	2,695,173	1,231,624	2,052,081
Accounts payable and accrued liabilities	(2,386,856)	(1,822,056)	(1,088,067)	(1,610,208)
Foreign exchange forward contract asset (liability)	(5,015)	8,465	-	-
Long-term debt	(11,369,728)	(11,405,806)	-	-
Net exposure	(9,553,150)	(8,949,338)	523,047	1,167,091

A 10% change of the US\$ and EUR€ against the CAD\$ at March 31, 2022 would have increased or decreased net loss by \$903,010 (March 31, 2021: \$808,801)

25. Capital management

Management defines capital as total shareholders' equity. The Board of Directors has not established capital benchmarks or other targets. There have been no changes in the Corporation's approach to capital management during the year ended March 31, 2022. The Corporation will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

26. Commitments

The Corporation entered into a 5-year lease for office premises in Kanata, Ontario, Canada commencing March 1, 2017 extending through to February 28, 2022. The lease was subsequently renewed, and the new maturity date is February 28, 2028. The lease is with a related party, as described in note 18 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 Corporation has subleased the Elfiq Lease to a third party and the lease has been guaranteed by

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Commitments (continued)

the Corporation.

Total lease commitments remaining for the year-ending March 31, 2023, is \$101,204.

27. Events after the reporting period

Federal Economic Development Agency of Southern Ontario

On March 7, 2022, the Corporation has entered into a new FedDev contribution agreement in total of \$2,500,000. The funds provided under this contribution agreement are non-interest bearing, unsecured and are to be repaid over 72 months commencing on October 1, 2024. On May 16, 2022, the Corporation received a deposit of \$1,920,000.