



Martello Technologies Group Inc.

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

For the three months ended
June 30, 2022

August 23, 2022



The following Management Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) of Martello Technologies Group Inc. (“Martello” or the “Company”) was prepared by Management and approved by the Board of Directors of the Company (the “Board”) as of August 23, 2022, the effective date of this MD&A.

This MD&A is a discussion and analysis of the financial condition and results of operations of Martello for the three months ended June 30, 2022 and 2021 (“Q1 FY23”, and “Q1 FY22”, respectively). This MD&A should be read in conjunction with the Company’s consolidated financial statements and accompanying notes for the year ended March 31, 2022. All amounts in the MD&A are stated in Canadian dollars, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

- The performance of the Company’s business and operations;
- The intention to grow the business and operations of the Company;
- Future liquidity, financial capacity and availability of future financing opportunities;
- Economic conditions, including risks associated with currency exchange rates, Interest rates, inflation, taxes and geo political events;
- The impact of the COVID-19 pandemic on the global economy and markets, and on the Company’s operations, business and financial performance;
- Competition in a continuously evolving industry;
- Customer acceptance of new products;
- Operations in international markets;
- The Company’s ability to respond to rapid technological changes with new products and services;
- The Company’s ability to successfully realize value from acquisitions;
- The return on investment from research & development investments;
- The Company’s ability to protect and enforce its intellectual property, and risks of potential claims of intellectual property infringement by third parties;
- The Company’s ability to manage product and service lifecycles;
- The Company’s ability to execute on sales strategies, including developing existing and new channels to market;
- Effective management of open-source software adoption and compliance risks;
- Cybersecurity and privacy risks;
- The ability of the Company’s products to operate effectively with those of its customers; and
- The dependence of the Company’s business on Mitel Networks Corp. and its affiliates (“Mitel”), a key partner.

A more complete discussion of these and other risks can be found in “Risk Factors”.

With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions are reasonable, undue reliance should not be placed on the forward-looking statements, because there can be no assurance that the anticipated results or developments will be realized. Actual results can vary from the results projected and such variances may be material and adverse.

The Company does not undertake to update or revise any forward-looking statements, whether a result of new information, future events or otherwise, except as required by law.

COMPANY OVERVIEW

Martello (TSXV: MTLO) optimizes the performance and user experience of enterprise cloud communications and productivity services, for more productive online calls, meetings and workflows. Our software as a service (SaaS) optimizes the Microsoft Modern Workplace by monitoring the Microsoft Teams and Microsoft 365 user experience from end-to-end, providing IT teams and service providers with actionable insight to efficiently resolve performance problems which are impacting the Microsoft 365 and Teams user experience. Modern Workplace Optimization is a segment of the broader market for digital experience monitoring, or DEM that is focused specifically on monitoring the Microsoft Teams and Microsoft 365 user experience.

With a longstanding history of providing monitoring solutions for unified communications leader Mitel Networks (“Mitel”), Martello’s expertise in managing the performance and user experience of real-time communications has created a competitive differentiator for the Company, particularly as the popularity of Teams phone calls grows with the help of Microsoft Operator Connect partners. There are more than 270 million monthly active users of Microsoft Teams, and in its April 2022 Q3 FY22 results, Microsoft noted that “Teams usage has never been higher” and that Total Operator Connect minutes had increased 8X quarter over quarter. In a January 2022 report, Gartner predicted that by 2024, 20% of total Microsoft Teams active users will adopt telephony services for external calling on Teams.

Already the Microsoft-recommended provider of Modern Workplace Optimization SaaS, Martello’s mission is to make every Microsoft Teams and Microsoft 365 user’s experience productive.

As of June 30, 2022, Martello had 98 active employees: 63 in Canada, 5 in the United States and 30 in Europe, the Middle East and Africa (EMEA).

Products

Martello develops software that monitors, analyzes, reports and optimizes the user’s experience of enterprise cloud communications and productivity services with a focus on Microsoft 365, Microsoft Teams and Mitel unified communications.

Martello’s products include:

- **Vantage DX**, a single platform Modern Workplace Optimization suite which monitors and manages the Microsoft 365 and Microsoft Teams user experience. This solution provides insight that goes beyond traditional application or network monitoring tools, by correlating network performance data with synthetic and real user monitoring information, to provide a clearer picture of the user’s experience of the service, with a particular focus on Microsoft 365 and Microsoft Teams.
- **Mitel Performance Analytics (“MPA”)**, software which is developed by Martello and sold within Mitel to its channel partners and enterprise customers to manage the performance of Mitel unified communications solutions. Martello and Mitel have entered into agreements regarding the use and resale of Martello software and services, and the Company’s software is used in Mitel’s own global network operations centre (NOC).

Martello’s product portfolio includes subscription-based offerings and software license sales, including the provision of licenses and maintenance and support for certain legacy software products. Martello’s sales are direct to enterprises and indirect, via value-added resellers and global systems integrators. End users enter into an end-user licensing agreement with Martello before using Martello software.

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

The Company maintains an active product development and enhancement program for Vantage DX and MPA, while providing ongoing support for legacy and other product offerings. Martello’s product program prioritizes activities that will drive Microsoft user growth, customer acquisition, total addressable market expansion, partner engagement, and cross selling of products.

Martello has thousands of customers in more than 65 countries around the world. The Company has acquired and integrated two companies since November 2018, to expand its product portfolio, engineering expertise and global sales capacity.

Growth Strategy

Martello's objective is to generate recurring revenue growth, revenue retention and positive cashflow. As a result, management is focused on the following activities:

I. Strengthening competitive advantage and expanding market share in the Microsoft Modern Workplace environment:

a. Product Innovation Driving Competitive Advantage

- i. Developing Microsoft Teams Phone features and functionality to bridge the 'visibility gap' for Microsoft Teams Phone monitoring and troubleshooting with greater insight into the components of a call, including session border controllers (SBCs).
- ii. Improving the Vantage DX user experience, including surfacing critical information with new dashboards, and improvements which further simplify deployment and management of the solution.
- iii. Improving the efficiency of customer activation with automation features.
- iv. Concluding trials with key Vantage DX prospects and converting these opportunities to customers, while leveraging customer feedback for continuous product improvement.
- v. Drive advancements in Martello's cloud-based architecture to achieve product efficiencies.

b. Develop Direct and Indirect Sales Channels and Accelerate Time to Revenue

- vi. Deepening Martello's engagement with Microsoft as a Managed Partner, jointly building a pipeline of sales opportunities and building awareness of Vantage DX amongst Microsoft's community of sellers and customers.
- vii. Driving sales via the Microsoft Azure marketplace, which simplifies the purchase process and incents Microsoft sellers to transact Vantage DX sales.
- viii. Expanding and developing new sales channels for Vantage DX, including large global systems integrators, Microsoft Operator Connect Partners such as Orange Business Systems and value-added resellers.
- ix. Accelerate time to revenue for Vantage DX with initiatives including streamlining the sales and trial process, and disciplined management of core KPIs across the organization.

II. Continuing to Align the Company's business with Mitel to meet its customers' needs. This will include driving adoption of MPA through Mitel's communication and collaboration platforms, developing support for additional Mitel platforms and seeking additional opportunities for sales growth within Mitel.

The Company will continue to make the necessary investments in technology, talent, and systems to implement the above strategy. Although there is significant uncertainty created by global economic conditions including inflation which may further impact operations, at this time the Company believes operations can be funded by cash and other available funding sources.

SIGNIFICANT DEVELOPMENTS

In Q1 FY23 the following significant developments occurred:

- On June 16, 2022, Martello announced that it had entered into an amended agreement with Mitel Networks, extending the term to three years and simplifying the commercial licensing model under which the Mitel Performance Analytics (MPA) product is offered, to provide increased operational efficiency and ease for partners and customers
- On April 28, 2022, Martello announced the appointment of Jim Clark as Chief Financial Officer, effective May 2, 2022.
- On April 7, 2022, Martello announced a global partnership with Orange Business Services in which Martello's Vantage DX SaaS platform will be integrated in the Orange Business Together with Microsoft portfolio.

In Q1 FY22 the following significant developments occurred:

- On June 2, 2021, Martello announced the launch of its Global Partner Program to provide Microsoft 365 digital experience monitoring to resellers and managed service providers.
- On May 4, 2021, Martello launched a cloud-based multi-tenant platform for its Microsoft 365 digital experience monitoring software, to enable channel partners to host multiple customers using a single cloud instance of Martello's software.

Subsequent events

Subordinate loan

Martello and Terry Matthews through Wesley Clover International ("WCI") have agreed to a USD \$1.5M (~CAD \$2M) subordinate loan. Interest will accrue at US Prime plus 8.75%, consistent with the Vistara loan. Interest will accrue and be paid at loan maturity. Maturity is May 28, 2023. The company will use the WCI loan to pay down the Vistara loan. This will allow Martello the lead time to grow the revenue trajectory while meeting the Vistara loan covenants through to maturity.

BASIS OF PRESENTATION

The Company's condensed interim consolidated financial statements and accompanying notes have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The condensed interim consolidated financial statements should be read in conjunction with Martello's March 31, 2022 audited annual consolidated financial statements.

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

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

NON-IFRS FINANCIAL MEASURES

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

FINANCIAL PERFORMANCE

Financial Highlights (in 000's)	June 30, 2022	June 30, 2021
	(Three months ended)	
Sales	\$ 4,178	4,401
Cost of Goods Sold	463	428
Gross Margin	3,715	3,973
Gross Margin	% 88.9%	90.3%
Operating Expenses	5,024	5,696
Loss from operations	(1,309)	(1,723)
Other income/(expense)	162	(509)
Loss from continuing operations before income tax	(1,147)	(2,232)
Income tax recovery	(79)	65
Net loss	(1,226)	(2,167)
Total Comprehensive loss	\$ (1,943)	(2,160)
EBITDA (1)	\$ (1,159)	(1,125)
Adjusted EBITDA (1)	\$ (645)	(956)

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

Balance Sheet – Highlights

(in 000's)	June 30, 2022	March 31 2022
Cash and short-term investment	\$ 5,841	5,023
Working capital	(7,165)	2,267
Total Assets	42,029	41,935
Total Liabilities	24,190	22,259
Share capital and contributed surplus	52,516	52,411
Warrants	2,320	2,320
Accumulated deficit and other comprehensive income	(36,998)	(35,055)
Shares issued and outstanding	# 326,707,430	326,707,430

Highlights for the three months ended June 30, 2022 as compared to the same period in 2021:

- In Q1 FY23, Martello reached 2.66M Microsoft users on its Modern Workplace Optimization platform, a decrease of 0.10M (4%) compared to 2.76M in Q1 FY22. Within the broader market for digital experience monitoring, Martello is focused on optimizing the performance and user experience of the Microsoft Modern Workplace, which includes Microsoft Teams and Microsoft 365.
- Revenue of \$4.18M is \$0.22M (5%) lower than the same quarter in the prior year (\$4.40M). Normalizing for FX Revenue is \$79K or 1.8% lower. The 1.8% reduction is primarily attributable to reductions in maintenance and support on Legacy products predominantly offset by gains in subscription licenses.
- Revenue remains diversified with Modern Workplace Optimization products contributing 58% and Mitel contributing 42%.
- Recurring revenue increased to 99% in the Q1 FY23 compared to 97% in the same period of FY22. This is primarily

attributable to the growing mix of license subscriptions vs hardware sales.

- Monthly recurring revenue (MRR) is \$1.38M in Q1 FY23, compared to \$1.43M in Q1 FY22. The \$0.05M (4%) decrease is primarily attributable to FX, declining maintenance and support on legacy products and a marginal decrease in Mitel subscriptions. Normalizing for FX, MRR is 0.4% lower QoQ. MRR is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter. The MRR measure offers insight into the predictability of Martello's monthly recurring revenue.
- Gross margin as a percentage of revenue was 89%, compared to 90% in the comparative period. The decrease is primarily attributable to higher cost of hosting on cloud.
- Operating expenses were \$5.02M in Q1 FY23 compared to \$5.70M in Q1 FY22, a decrease of \$0.67M (12%). A reduction in OPEX of \$506K was a mix of lower HC costs and Vendor spend. Depreciation, amortization and acquisition related costs were \$165K lower primarily driven by lower FX rate on EUR-CAD.
- Loss from operations was \$1.31M compared to a loss of \$1.72M in the same period of FY22, a decrease of \$0.41M (24%) due to lower operating expenses as described above.
- Loss from continuing operations before income tax was \$1.15M in Q1 FY23 compared to a loss of \$2.23M in Q1 FY22, a decrease of \$1.09M (49%) due to lower loss from operations as described above and the gain on the FV of the loan with Federal Economic Development Agency of Southern Ontario ("FedDev").
- The net loss was \$1.15M in Q1 FY23 compared to \$2.17M in same period in FY22, a decrease of \$1.02M (47%) as a result of the items outlined above as well as decrease in income tax in Q1 FY23.
- Adjusted EBITDA (a non-IFRS measure) in Q1 FY23 was a loss of \$0.65M, compared to a loss of \$0.96M in the same period of FY22, a decrease of \$0.31M (32%) is due to lower operating losses as described above.

Non-IFRS financial measures

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

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

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

In the three months ended June 30, 2022, the Company's Adjusted EBITDA loss was \$0.65M compared to a loss of \$0.96M in the same period last year. The increase in Adjusted EBITDA in Q1 year-over-year is mainly due to lower operating expenses in Q1 of FY23.

EBITDA and Adjusted EBITDA (in 000's)		June 30, 2022	June 30, 2021
		(Three months ended)	
Net loss	\$	(1,226)	(2,167)
Interest income	(2)	(3)	(4)
Interest expense	(2)	509	465
Financing Fees	(2)	11	10
Accretion of long-term debt	(2)	22	16
Gain on receipt of FedDev loan	(2)	(1,036)	-
Income tax recovery	(2)	79	(65)
Depreciation	(2)	89	112
Amortization	(2)	396	509
EBITDA	(1)	(1,159)	(1,125)
Foreign exchange gain (loss)	(2)	323	48
Revaluation of forward contract	(2)	18	(9)
Other income (expense)	(2)	(5)	(16)
Share-based compensation expense	(3)	106	116
Deferred Stock Unit plan expense	(3)	72	-
Acquisition-related costs	(2)	-	30
Adjusted EBITDA	(1)	(645)	(956)

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

(2) Per the Statements of loss and comprehensive loss.

(3) Per the Statement of cash flows, excluding discontinued operations effective in Q1 FY23

Monthly Recurring Revenue ("MRR") is a non-IFRS measure and represents average monthly recurring revenues earned in a fiscal quarter and is a common metric used by subscription software companies to indicate a normalized monthly revenue that is predictable and recurring in the near future. MRR is unlikely to be comparable to similar measures presented by other issuers. MRR is calculated as sales for the period, less revenue recognized at a point in time or that is non-recurring in nature plus certain adjustments resulting from purchase price accounting, divided by the number of months in the quarter.

For the three months ended June 30, 2022, income from sales (\$4.18M) less revenue recognized at a point in time and other adjustments (\$0.05M) resulted in \$4.13M in quarterly recurring revenue and MRR of \$1.38M.

Reconciliation of Sales to MRR - 3 months ended		
(in 000's)	June 30, 2022	June 30, 2021
Sales	\$ 4,178	4,401
Less: Revenue recognized at point in time	(24)	(81)
Less: Term licenses	(28)	(49)
Add: other adjustments	-	9
Quarterly Recurring Revenue	4,126	4,280
Monthly Recurring Revenue (MRR)	1,375	1,427

SUMMARY OF RESULTS

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

Sales and Gross Margin

Sales represent:

- (a) the sale of subscription and perpetual software licenses and maintenance and support services for visualization of IT systems management data and Microsoft 365 and Teams end user experience monitoring solutions, including GSX Gizmo and Vantage DX, and
- (b) the sale of Mitel performance management solutions for real-time communications

Martello offers subscription sales (software as a service) and software licence sales. Martello's sales are both indirect, via distributors and value-added resellers, and direct to enterprises. Martello's UC performance analytics software is included in Mitel's premium software assurance plans (Mitel Performance Analytics or "MPA"). Martello earns a monthly fee for each subscriber to the plan. The new Vantage DX platform is an integration of products which includes IT analytics and GSX Gizmo.

Recurring revenue includes the components described above as MRR.

Cost of goods sold represents sales and distributor commissions, web hosting services and hardware.

Three months ended June 30, 2022

Gross Margin - Summary		
(in 000's)	June 30, 2022	June 30, 2021
	(Three months ended)	
Sales	\$ 4,178	4,401
Cost of Goods Sold	463	428
Gross Margin	3,715	3,973
Gross Margin	88.9%	90.3%

Revenue decreased \$0.22M (5%) in Q1 FY23 compared to Q1 FY22. The gross margin at 89% in Q1 FY23 is slightly lower than 90% in the same period of FY22.

Segmented information

The Company operates two lines of business: 1) Modern Workplace Optimization [Vantage DX is the name of the Corporation's solution suite portfolio for the monitoring, analytics and management of Microsoft 365 and Teams] and 2) Mitel.

engage in business activities from which they earn revenues from subscription and perpetual software licenses, hardware, maintenance and support, and training and professional services.

For line of business reporting purposes, Modern Workplace Optimization was previously reported as 2 segments: Vantage DX Analytics – IT Service Analytics and Vantage DX Monitoring – Microsoft 365. Mitel was previously reported as Monitoring – Mitel UC and Vantage DX Monitoring – Mitel UC.

Three months ended June 30, 2022

Sales and Gross Margin - Three months ended

	June 30, 2022			June 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Sales	\$ 2,424	1,754	4,178	2,539	1,861	4,401
Cost of Goods Sold	429	34	463	346	82	428
Gross Margin	1,995	1,720	3,715	2,194	1,779	3,973
Gross Margin	% 82%	98%	89%	86%	96%	90%

Sales - Three months ended

	June 30, 2022			June 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Revenue recognized at a point in time						
Hardware	\$ -	4	4	-	50	50
Training and professional services	14	5	20	31	-	31
Revenue recognized over time						
Subscription licenses	1,883	1,735	3,618	1,700	1,795	3,495
Maintenance and support	499	9	508	760	16	776
Term licenses	28	-	28	49	-	49
Total revenue	2,424	1,754	4,178	2,539	1,861	4,401

Modern Workplace Optimization revenue decreased \$115k (5%) in Q1 FY23 compared to Q1 FY22 mainly due to an unfavourable EUR-CAD exchange rate in Q1 FY23. Decrease in maintenance and support revenues due to shift from perpetual to subscription revenue as well as churn on the existing contracts related to legacy products is offset by an increase in subscription license revenue on a constant currency basis. Margin decreased to 82% in Q1 FY23 compared to 86% in Q1 FY22 due to higher costs of hosting customers on cloud and cost of inventory related to third party software re-sale.

Mitel revenue decreased \$107k (6%) in Q1 FY23 compared to Q1 FY22. The decrease is mainly due to lower users for Mitel's premium software assurance program and non-recurring revenue (hardware). Gross margin increased to 98% in Q1 FY23 compared to 96% in Q1 FY22 mainly due to lower cost of goods sold related to inventory as a result of lower hardware sales and savings in hosting costs.

MRR Reconciliation - 3 months ended

	June 30, 2022			June 30, 2021		
	Modern Workplace Optimization	Mitel	Total	Modern Workplace Optimization	Mitel	Total
(in 000's)						
Revenue	\$ 2,424	1,754	4,178	2,539	1,861	4,401
Adjustments:						
Less Revenue recognized at point in time						
Hardware	-	(4)	(4)	-	(50)	(50)
Training and professional services	(14)	(5)	(20)	(31)	-	(31)
Less: Term licences	(28)	-	(28)	(49)	-	(49)
Add back: Subscription licences haircut	-	-	-	4	-	4
Add back: Maintenance and support haircut	-	-	-	4	-	4
Quarterly Recurring Revenue	2,382	1,745	4,126	2,469	1,811	4,280
Monthly Recurring Revenue (MRR)	794	582	1,375	823	604	1,427

Monthly Recurring Revenue ("MRR") is \$1.38M in Q1 FY23 compared to \$1.43M in Q1 FY22. The \$0.05M (4%) decrease in MRR is primarily attributable to a decrease in Mitel subscriptions, churn on maintenance and support of legacy products and unfavourable EUR-CAD FX translation. MRR is a non-IFRS measure and represents average monthly recurring revenue earned in a fiscal quarter.

Expenses

Three months ended June 30, 2022

Expenses - Three months ended			
(in 000's)	June 30, 2022	June 30, 2021	Increase / (Decrease)
	Total	Total	
Research and development	\$ 1,628	1,736	(108)
Sales and marketing	1,676	1,961	(285)
General and administrative	1,236	1,349	(113)
Depreciation	89	112	(23)
Amortization	396	509	(112)
Acquisition-related costs	0	30	(30)
TOTAL	5,024	5,696	(672)

For the three months ended June 30, 2022, operating expenses decreased by \$0.67M (12%) compared to the same period in FY22. Decrease in operating expenses is primarily due to lower headcount and favourable FX on EUR-CAD conversion.

Research and development ("R&D") expenses include compensation for the research and development team as well as any sub-contract costs and development tools. These costs are partially offset by government grants, primarily investment tax credits, which are earned from qualifying Scientific Research and Experimental Development ("SRED") expenditures and Credit d'Impôt en Faveur de la Recherche ("CIR").

- R&D expenses decreased \$108K (6%) in Q1 FY23 compared to Q1 FY22. Lower headcount and favourable FX EUR-CAD conversion are partially offset by higher spend on software subscriptions, consulting, travel and lower government credits in Q1 FY23.

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

- Sales and Marketing expenses decreased \$285K (15%) in Q1 FY23 compared to Q1 FY22. Lower headcount and favourable FX EUR-CAD conversion are partially offset by higher spend on marketing events, travel and consulting.

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

- General and administrative costs decreased by \$113k (8%) in Q1 FY23 compared to Q1 FY22. In addition to the lower headcount, the Q1 decrease is related to lower spend in legal, consulting and investor relations fees.

Depreciation relates to property, plant and equipment, as well as depreciation of right-of-use assets in accordance with IFRS 16. The depreciation decreased by \$23k (21%) in Q1 FY23 compared to Q1 FY22 primarily due to favourable FX rate on EUR-CAD conversion.

Amortization of intangible assets relates to intangibles established on the acquisition of Savision and GSX. The amortization decreased by \$112k (22%) in Q1 FY23 compared to Q1 FY22 due to favourable EUR-CAD FX rates and full amortization of non-compete in Q3 FY22.

Acquisition related costs decreased by \$30K (100%) in Q1 FY23 compared to Q1 FY22.

Loss from Operations

In Q1 FY23, the loss from operations was \$1.31M compared to a loss of \$1.72M in the same period of FY22, a decrease of \$0.41M (24%) primarily due to lower spend on operating expense.

Other Income/Expense

(in 000's)	June 30, 2022	June 30, 2021
	(Three months ended)	
Interest income	\$ 3	4
Interest expense	(509)	(465)
Financing fees	(11)	(10)
Accretion of long-term debt	(21)	(16)
Gain on receipt of FedDev loan	1,036	-
Revaluation of forward contract	(18)	9
Foreign exchange gain (loss)	(323)	(48)
Other income	5	16
TOTAL	\$ 162	(510)

For the three months ended June 30, 2022, the increase in interest expense is a result of increase in interest payments for Vistara loan due to rise in US prime rate from 3.25% to 4.75% in Q1 FY23. The interest expense includes Vistara Term Loan interest of 13.5% as well as amortization of the loan and warrant origination fees associated with the Vistara Term Loan.

On March 7, 2022, the Corporation has entered into a new FedDev contribution agreement in total of \$2.5M. 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 \$1.92M. An adjustment of \$1.04M was recorded to recognize the government grant within the loan at fair value upon inception which is recorded as a gain on receipt of FedDev loan.

For the three months ended June 30, 2022, the Company had foreign exchange loss of \$0.32M, compared to \$0.04M for the same period last year. The main driver for the foreign exchange loss for the 3 months ending June 30, 2022, is the revaluation of Vistara USD loan. The USD was stronger than CAD in June 30, 2022 compared to the prior year which resulted in a loss from revaluation of the outstanding USD loan. The USD rates were 1.29 in June 30, 2022 vs 1.24 in June 30, 2021.

Income Tax Expense / Recovery

For the three months ended June 30, 2022, income tax amounted to an expense \$0.08M compared to a recovery of \$0.07M for the same period last year. In Q1 FY23 there was an increase in deferred tax liability due to lower NOL and lower balance for intangibles. The Q1 FY22 amount relates primarily to the reversal of the deferred tax liability for GSX as the benefit of the NOL matched the future tax liability of the intangible assets.

Other Comprehensive Income / Loss

In the three months ended June 30, 2022, the Company had other comprehensive loss of \$0.72M compared to a gain of \$0.01M for the same period last year). Included in other comprehensive income/(loss) are pension plan fair value adjustments, pension plan remeasurement/settlement, as well as currency translation differences for Savision and GSX operations, for which EUR is the functional currency. During Q1 FY23, the increase in CAD against EUR resulted in loss on revaluation of the net assets of Savision and GSX including goodwill and intangibles.

Net Loss and Comprehensive Loss

For the three months ended June 30, 2022, the net loss amounted to \$1.23 compared to \$2.17M in the same period last year.

The total comprehensive loss for the three months ended June 30, 2022, was \$1.94M compared to \$2.16M for the same periods last year.

The key drivers contributing to the losses are provided under Loss from Operations, Other Income/Expense, Loss from Discontinued Operations, Income Tax Recovery and Other Comprehensive Loss above.

SELECTED QUARTERLY INFORMATION

The following table presents certain unaudited financial information for each of the six fiscal quarters up to and including the quarter ended June 30, 2022. The information has been derived from our unaudited quarterly condensed interim consolidated financial statements, which in management's opinion have been prepared on a basis consistent with the consolidated financial statements for the three -months ended June 30, 2022 and 2021. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

Quarterly Financial Information (in 000s)	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY21
Sales	\$ 4,178	4,271	4,455	4,413	4,401	4,476
Cost of Goods Sold	463	423	433	348	428	481
Gross Margin	3,715	3,848	4,021	4,065	3,973	3,995
Gross Margin %	89%	90%	90%	92%	90%	89%
Expenses	5,024	5,363	5,526	5,135	5,696	5,963
Loss from operations	(1,309)	(1,515)	(1,505)	(1,070)	(1,723)	(1,968)
Other income/(expense)	162	(537)	(742)	(626)	(509)	(390)
Loss before income tax	(1,147)	(2,052)	(2,247)	(1,695)	(2,232)	(2,358)
Income tax recovery	(79)	(109)	75	(23)	65	461
Net loss from continuing operations	(1,226)	(2,161)	(2,173)	(1,719)	(2,167)	(1,897)
Gain (loss) from discontinued operations, net of tax	-	-	-	-	-	(0)
Net Loss	(1,226)	(2,161)	(2,173)	(1,719)	(2,167)	(1,897)
Total comprehensive loss	(1,943)	(2,917)	(2,794)	(1,780)	(2,160)	(3,435)
EBITDA ⁽¹⁾	(1,159)	(1,045)	(1,069)	(601)	(1,125)	(1,112)
Adjusted EBITDA ⁽¹⁾⁽²⁾	(645)	(830)	(777)	(297)	(956)	(985)

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

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

Sales have been stable from Q4 FY21 through Q3 FY22 followed by a decrease in Q4 FY22 and Q1 FY23 primarily due to declining EUR-CAD exchange rate. Decrease in maintenance and support on perpetual licences due to shift to subscription model is being offset by increasing subscription revenue.

Cost of goods sold has increased in Q1 FY23 due to increasing number of Vantage customers on cloud compared to FY22. Decrease in Q2 FY22 was mainly due to vendor credits for cloud hosting costs for Gizmo. Decrease in Q1 FY22 was a result of R&D efforts on cloud-based multitenancy, driving some cost optimization.

Cost reductions over the last four quarters are primarily related to lower headcount due to attrition.

Other income and expense increases reflect the cost of financing and ongoing interest costs, as well as foreign exchange losses. Q1 FY23 income includes gain on the loan with FedDev.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

In Q1 FY21, the Company completed several transactions to both fund the GSX Acquisition and create further stability for the Company, including a bought deal offering for gross proceeds of \$6.9M (the "Bought Deal Offering"). Concurrently, in connection with the GSX Acquisition, 22,000,000 common shares were issued as part of the purchase price.

Federal Economic Development Agency of Southern Ontario

On March 7, 2022, the Corporation has entered into a new FedDev contribution agreement in total of \$2.5M. 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, total the Corporation received a deposit of \$1.92M.

In addition, the Company entered into two debt facilities in Q1 FY21:

a) National Bank Revolver

On April 27, 2020, Martello Corp entered into a credit agreement with National Bank of Canada. This financing is comprised of a revolving facility and other ancillary facilities (the "Revolving Loan"). The Revolving Loan is based on a multiple of monthly recurring revenue, subject to certain adjustments, up to \$7.5M, bears interest at a variable rate of prime plus 2.85% per annum and is repayable on demand. The facilities are secured by a senior security interest in and guarantees from Martello Corp and the Company, as well as Savision B.V. and its subsidiaries, GSX Participations Sàrl and its subsidiaries, and Martello Technologies Incorporated (the "Corporate Guarantors"). The facility is undrawn as of March 31, 2021.

b) Vistara Term Loan

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

The Vistara Term Loan is repayable within 36 months of closing and carries interest of the greater of (i) 12.50% per annum; and (ii) the U.S. prime rate plus 8.75% per annum calculated monthly in arrears on the outstanding principal. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity. The effective interest rate on the Term Loan is 19.70%. The Vistara Term Loan is secured by a subordinated security interest in and guarantees from the Corporate Guarantors.

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

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. \$0.4M was paid to Vistara. The cancellation resulted in \$0.3M 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.

The Company also has in place a non-binding letter of intent with Bruce Linton and Terry Matthews, through Wesley Clover International Corporation, Co-Chairmen of the Company's Board of Directors to provide a \$5.0M unsecured subordinated debt instrument (the "Unsecured Subordinated Loan"). The Unsecured Subordinated Loan has not been drawn on but is expected to become available to the Company as an additional source of capital, subject to the parties agreeing to definitive terms.

In Q4 FY21, the Company completed a second bought deal offering for gross proceeds of \$5.75M, as well as a concurrent private placement for gross proceeds of \$0.44M.

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.

On January 27, 2022 the Corporation completed the second tranche of a non-brokered private placement (the "Second Private Placement"). Under the Second 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 Second 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.

Cash and Working Capital

Cash and cash equivalents, including restricted cash, totaled \$5.67M at June, 2022 compared to \$4.85M at March 31, 2022. The increase is explained below under **Cashflow Analysis**.

The following tables sets out the working capital position of the Company as at June 30, 2022 and March 31, 2022.

Liquidity Snapshot		
(in 000's)	June 30, 2022	March 31, 2022
Current Assets	\$ 12,716	11,168
Current Liabilities	19,881	8,901
Net Working Capital	(7,165)	2,267

The decrease in working capital in Q1 FY23 was mainly due to the Vistara loan of \$10.19M reclassified as current liabilities in Q1 FY23 compared to Q1 FY22 as the loan is expected to be repayable by May 2023, offset by increase in investment tax credits receivable and prepaid expenses of \$0.28M and an increase in current deferred revenue of \$0.30M. In Q1 FY23, the Company received a deposit of \$1.92M from the Federal Economic Development Agency of Southern Ontario.

Debt

As at June 30, 2022 debt totaled \$11.47M, including \$10.46M due within one year. The debt is made up of:

- \$10.19M Vistara Term Loan, bearing interest at 13.5% and repayable on May 26, 2023. This represents the initial draw of USD\$8M, less related fees and warrant costs which are being amortized to the loan balance over the period to maturity, plus capitalized interest. Interest is payable monthly at 10% with the balance being added to the loan principal and payable at maturity. Effective November 2021, interest is payable monthly with no addition of interest to loan principal.
- \$0.32M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev"), to support commercialization activities for a specific project.
- \$0.07M non-interest-bearing, unsecured loan from Canada Economic Development Agency.
- \$0.89M non-interest bearing, unsecured loan from the Federal Economic Development Agency of Southern Ontario ("FedDev") under the Jobs and Growth Program

Share Capital

In Q1 FY23, the following transactions in the share capital of Martello occurred:

- No new options were granted (1,330,000 in Q1 FY22)
- No options were exercised (200,000 in Q1 FY22)
- 350,000 options were forfeited (446,000 in Q1 FY22)

Cash Flow Analysis

(in 000'S)	Three months ended June 30,	
	2022	2021
Operating activities		
Loss before income tax	\$ (1,147)	(2,232)
Items not affecting cash	200	993
Net change in operating components of working capital	24	(532)
Total cash flows used in operations	(923)	(1,771)
Total cash flows used in investing activities	(2)	-
Total cash flows provided by (used in) financing activities	1,772	(115)
Net change in cash	848	(1,886)
Cash, beginning of period	4,853	8,350
Effects of currency translation on cash	(30)	(2)
Cash, end of period	5,671	6,464

Cash flows used in operations were \$0.92M for the three months ended June 30, 2022, compared to \$1.77M for the three months ended June 30, 2021. The decrease in cashflows used in operations of \$0.85M is due to the following key factors:

- The net loss was \$1.15M in the three months ended June 30, 2022, compared to \$2.23M for the same period in the prior year. Several items contribute to the loss before income tax and are not used as cashflow used in operations. Key changes in these items year over year are as follows, resulting in the decrease of \$0.85M in cashflows used in operations:

In the Q1 YTD FY23 the Corporation incurred \$0.34M of unrealized foreign exchange loss due to an unfavorable USD vs CAD rate for revaluation of the Vistara loan which was denominated in USD. The USD rates were 1.2913 in June 30, 2022 vs 1.2421 in June 30, 2021. Amortization of intangible assets decreased by \$0.11M in Q1 FY23. The decrease is due to the full amortization of intangible assets grouped as “Non-Compete” in Q1 FY22 as against Nil amortization recorded for Q1 FY23. In addition, the net change in operating components of working capital was a decrease of \$0.02M for the three months of FY23 as compared to an increase of \$0.53M in the prior year. This difference was due to the following:

- Trade and other accounts receivable increased by \$0.56M in FY23, compared to a decrease of \$0.45M in FY22 due primarily to timing of collection of invoices.
- Prepaid expenses increased by \$0.13M in the three months ended June 30, 2022 as compared to an increase of \$0.02M in the three months ended June 30, 2021. The increase in Q1 FY23 is due to increase in prepaid insurance of \$0.05M and higher prepaid subscription fees paid for integrated reporting for Office 365 of \$0.06M.
- Accounts payable and accrued liabilities increased by \$0.43M during the three months ended June 30, 2022, compared to a decrease of \$0.44M in the prior year. The increase in Q1 FY23 relates to timing of payment and processing of invoices of \$0.83M offset by decrease in accrued liabilities (\$0.19M) and decrease in Bonus accrual (\$0.20M). The decrease in Q1 FY22 relates to timing of payment of invoices (\$0.35M) and trade and professional fees accruals (\$0.40M) at March 31, 2021, offset by an increase in payroll and related benefits and taxes accrued of \$0.36M.
- Deferred revenue increased \$0.47M during the three months of FY23, compared to a decrease of \$0.33M in the prior year. This increase is due net increase in existing customer deferred revenue who did renew in Q1 FY23 by \$1.20M, lower deferred revenue lost from existing customers than revenue earned from new customers by \$0.54M offset by drop in deferred revenue due to existing contracts not renewing in Q1 FY23 by \$1.52M. The decrease during the 3 months ended June 30, 2021 is attributable to customers that did not renew their subscription and the remaining balance related to overall draw down on the existing deferred revenue.

Cashflows provided by financing activities were \$1.77M of cash for the three months ended June 30, 2022, compared to \$0.14 of cash used for the three months ended June 30, 2021. Cashflows provided by financing activities in Q1 FY23 is from the loan proceeds of FeDev loan of \$1.92M, offset with repayment of long-term debt \$0.06M and repayment of lease obligations of \$0.82M. Cashflows used in financing activities in FY22 included repayment of long-term debt of \$0.05M, repayment of the lease obligation of \$0.09M offset by \$0.03 in proceeds from exercise of stock options

COMMITMENTS

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

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

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2022 and 2021, Martello did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations of the Company, including, and without limitation, such considerations as liquidity and capital resources.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and the Board of Directors, who control approximately 19% of the Company as at June 30, 2022. Included in accounts payable and accrued liabilities are balances as at June 30, 2022 totaling \$0.38M (March 31, 2022 - \$0.33M) due to key management personnel for compensation and earned vacation pay.

In addition, the Co-Chair of the Company's Board is chairman of Wesley Clover International Corporation ("Wesley Clover"). Wesley Clover owns more than 10% of the issued and outstanding common shares of the Company as at June 30, 2022.

The Company leases office premises from Wesley Clover. For the three months ended June 30, 2022, the Corporation paid rent to Wesley Clover, which is reflected in the results for the three months ended June 30, 2022 as \$17K in depreciation expense (three months ended June 30, 2021 - \$25K) and \$0.63K in rent expense (three months ended June 30, 2021 - \$29K).

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

OUTLOOK

Buoyed by the momentum of Microsoft Teams adoption and the development of key partnerships and sales channels, Martello is focused on accelerating the pace at which it converts growing demand for Vantage DX into bookings and revenue. This requires improved operational excellence internally, to drive velocity in recurring revenue and accelerate positive cashflow from operations. Launched with the hiring of CFO Jim Clark in May 2022, among the key initiatives in this program was the cost optimization measures announced in August 2022, to better align the Company's operations towards accelerating the path to profitable growth and maximizing shareholder value.

To accelerate bookings and revenue growth, the Company continues to expand the number of opportunities in its sales pipeline as well as reducing or eliminating the Vantage DX trial cycle to convert prospects and customers into paid Vantage DX customers as efficiently as possible.

At the same time, having invested in the development of large sales channels, Martello will leverage key partners Microsoft, Orange and Datacom to drive more opportunities into its sales pipeline and close them faster with the support of these significant industry players.

Martello continues to be an engaged and fast-moving Microsoft partner, with resources in both Microsoft and Martello dedicated to the success of the partnership. Sales activity with Microsoft continues to be strong, with the number of co-sell calls and opportunities continually increasing. Martello is leveraging joint marketing opportunities with Microsoft in customer events at Microsoft offices, at global and regional Microsoft events, through webinars and digital marketing campaigns. Martello is a sponsor of the Microsoft Ignite event in Q3 FY23, historically Microsoft's largest event of the year for customers and partners.

The global partnership with Microsoft Operator Connect partner Orange Business Services continues to evolve, with several joint sales deals in the pipeline and joint marketing plans in place. Martello will work closely with Orange Business Services to bring Vantage DX to their Microsoft Teams customer base as efficiently as possible.

On July 14, 2022, Martello announced a partnership with Datacom, a New Zealand headquartered IT services company. The partnership enables Datacom to offer Vantage DX to its customers as part of its Microsoft Teams managed service, and to resell the software to customers. Martello has already closed its first sales deal with Datacom and is actively engaged with this new partner to accelerate the joint go to market for Vantage DX for Datacom's Australasian customers.

ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are disclosed in note 2 of the Company's audited annual consolidated financial statements for the year ended March 31, 2022.

CRITICAL ACCOUNTING ESTIMATES

The audited annual consolidated financial statements of Martello are prepared in accordance with IFRS. Management makes estimates and assumptions and uses judgment in applying these accounting policies and reporting the amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The outcome of these uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Significant judgments in the consolidated financial statements of Martello for the year ended March 31, 2022 relate to business combinations, determination of functional currencies, fair value of interest free debt, revenue recognition, share-based compensation, equity, and warrants, useful life of long-lived assets, evaluation of goodwill and intangible assets impairment, classification of discontinued operations, the assumptions underlying the actuarial valuation of the defined benefit pension plan, the determination of the appropriate lease terms and the assessment of revenues occurring at a point in time, over a period of time or based on usage. For further details, reference should be made to Note 3 of the consolidated financial statements for the years ended March 31, 2022 and 2021.

FINANCIAL INSTRUMENTS

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

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

The Company's primary risk management objective is to protect the Company's financial position and cash flows to increase the Company's enterprise value. The Company is financed through a mixture of debt and equity. The Company is exposed to credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk. The Company's senior management and Board oversee the management of these risks.

Market risk is the risk of fluctuation in the fair value of future cash flows because of changes in market prices, including foreign exchange rates. As a substantial portion of the Company's sales are in United States dollar (USD) and the Euro (EUR), the Company is exposed to risk of changes in foreign exchange rates. As of June 30, 2022, the Company is committed under foreign exchange forward contracts to sell USD, representing sales commitments of USD \$1M (March 31, 2022 - \$1M). Currently, the Company has no derivative instruments to reduce its exposure to the EUR.

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

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

At June 30, 2022, the Company is exposed to interest rate risk as the Vistara Term Loan carries interest at a variable rate, being the greater of (i) 12.50% per annum; and (ii) the US prime rate plus 8.75% per annum. As at June 30, 2022, the US prime rate was 4.75% and the Company is paying interest at 13.50% per annum.

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

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

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

RISK FACTORS

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

Global Economic Conditions and Inflation

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

Competition

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

Customer acceptance of products and services

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

COVID-19

The Company continues to monitor the potential effects of the COVID-19 pandemic and impact on its operations, business and financial performance, including liquidity and capital usage. Measures were taken by the Company early in COVID-19 to minimize the effects, including temporary salary reductions and reductions in discretionary spending. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on ongoing developments which continue to create a degree of uncertainty. Possible impacts of the ongoing COVID-19 pandemic may include: purchase order delays or the inability to collect receivables, changes to budgets and spending priorities as the post-COVID-19 economy evolves, and the possibility of reduced in-person interaction with customers should future waves impact business travel.

Risks inherent in acquisitions

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

The Ability to Manage Growth

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

Dependence on Mitel

As a strategic partner, Mitel accounted for approximately 42% and 41% of the Company's revenue during the three and twelve months ended March 31, 2022 (43% and 45% for the three and twelve months ended March 31, 2021). Martello and Mitel have entered into the Mitel Services Agreement regarding the use and resale of Martello software and services. The Mitel Services Agreement currently in effect was entered into on April 21, 2016 for an initial term of one year with automatic annual renewal. The Mitel Services Agreement was then amended in January 2019 to expand the coverage of Martello's software to additional Mitel communications platforms, extend the term of the agreement for an additional two years, with automatic two-year renewals thereafter and increases to the fee per user that Martello receives on certain Mitel offerings.

Among other factors, if the relationship with Mitel changes, if Mitel's reliance on the Company's products is reduced because of changes to their business structure or strategy, if the Company is unable to provide suitable support for new or additional products and ongoing product updates or is unable to reach commercially agreeable pricing and other terms for support, or if Mitel business decreases, this could lead to a loss of a significant portion of the Company's business.

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

Microsoft relationship

The Company participates in Microsoft's Global Solutions Alliance Program. In connection therewith, the Company has agreed to supplemental terms to its customer agreement with Microsoft. These supplemental terms include, among other things, a commitment by the Company to spend \$4,000,000 on Microsoft Azure over a 60-month period. If the Microsoft Azure consumption is valued at less than \$4,000,000 over the first 48 months, the Company must pay Microsoft any remaining difference and any amount paid will be treated as a prepayment for Microsoft Azure consumption for the following 12 months. The Company's consumption of Microsoft Azure is dependent on maintaining DEM revenue growth, including migration and growth of customers on the Vantage DX product suite and execution of sales and channel strategies.

Rapid Technological Change

The nature of Martello's industry is one of frequent new product introductions, evolving industry standards and changing customer needs, which could cause the Company's hardware products and software solutions to become obsolete. COVID-19 has accelerated changes in customer IT environments and resulting solution needs, including accelerated adoption of technologies which enable 'work from anywhere'. The length or direction of Martello's development cycle may impact its ability to react to new technology trends and customer needs.

Currency Fluctuations

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

Operating results may fluctuate significantly

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

Failure to effectively manage product lifecycles

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

Vistara Term Loan

The Vistara Term Loan bears interest at a variable rate. Increases in market interest rates could increase the carrying cost of the debt and impact the Company's ability to refinance the debt on maturity. In addition, the Vistara Term Loan requires the Company to meet certain covenants and monthly payments. The Company's inability to meet the covenants could result in increased interest expenses or in the case of non - financial covenants, may result in an event of default. An event of default if not cured within a prescribed time, could result in acceleration of the Vistara Term Loan and the ability of Vistara to enforce other rights and remedies pursuant to the terms of the loan agreement.

Other Risk Factors

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

- The Company's success is dependent on its ability to hire, retain and motivate qualified people to develop the solutions and services that respond to technological developments and evolving customer needs, and to execute on product and business strategies. Global competition for technical resources has increased significantly due to work from anywhere policies. This may make it challenging for the Company to attract and retain qualified resources.
- There is no assurance that research and development efforts will produce revenue in the near-term, if at all.
- International operations will result in increased operational, regulatory, tax, legal and other risks, including infectious diseases.
- The Company may need to raise additional capital in order to support the continued growth of the business. The interest of existing shareholders could be diluted, or restrictive covenants could be placed upon the Company by lenders. There is no assurance that sufficient capital will be available to fund future growth.
- The Company's success is dependent upon its ability to adapt its business model to keep pace with industry trends, and development of appropriate business and pricing models. Pricing changes or changes to sales models by Martello's competitors may also require the Company to reduce prices.
- The Company's products are highly technical and complex and can contain errors or security vulnerabilities. These could harm Martello's reputation, lead to returns of products or services and possibly reduced future sales.
- Public disclosure of security vulnerabilities in enterprise IT systems has caused a heightened awareness of potential vulnerabilities in software, resulting in increased scrutiny of solutions like Martello's.
- The Company's success is dependent upon its ability to execute its sales strategy, including execution of go to market strategies which include the development of both existing and new channels to market, and successful renewal of subscription licenses and maintenance and support contracts.
- The Company's success depends on the cooperation of its current and target hardware and software vendors and partners and on expected functionality of third-party hardware and software to ensure interoperability with the Company's products and to offer compatible products to end users.
- The Company relies on relationships with distributors, resellers, system vendors and systems integrators for a significant portion of its revenues. Disruptions to these channels could harm its business.
- The Company's investment tax credits from SRED have decreased and the timing of the application of the credits is negatively affected due to the Reverse Acquisition.
- The Company's success and future growth depends in part upon its ability to protect its intellectual property. The Company relies on a combination of patents, copyrights, trademarks, trade secret laws, contractual agreements, licenses and other methods to protect its intellectual property. There is no assurance that such measures will protect the Company's intellectual property, and despite its efforts to protect its trade secrets and proprietary rights, unauthorized parties may still infringe its intellectual property.
- The Company's commercial success depends, in part, upon the Company not infringing intellectual property rights owned by others. A number of the Company's competitors and other third parties have been issued patents, may have filed patent applications, or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of such patents. It cannot be determined with certainty whether any existing third-party patents, or the issuance of any third-party patents, would require the Company to alter its technology, obtain licenses or cease certain activities.

- The Company depends on its own IT systems and the IT systems of key SaaS providers to conduct a significant amount of its business operations. Breaches of the Company's cybersecurity systems or the systems of its vendors, partners or suppliers could seriously harm the business. Risks such as malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks may occur from inside or outside of the Company. It is increasingly difficult to identify and protect against these risks due to the rapidly evolving nature of the threats.
- Failure of the Company or its partners to comply with privacy policies, and privacy-related and data protection laws and regulations could result in proceedings and/or fines with adverse effect on the operating results and on the business.
- As the Company continues to develop its SaaS offerings, it will need to continue evolving processes to meet regulatory, intellectual property, open-source software compliance and contractual and service compliance challenges. This requires significant investment and could affect operating results.
- The Company's SaaS offerings rely on third-party providers for data center space and colocation services. Should these services be disrupted or discontinued, it could result in a loss of current and future business to the Company.

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