



**TANTALUS SYSTEMS
HOLDING INC.**

**Interim Condensed
Consolidated Financial
Statements**

For the three months ended
March 31, 2022 and 2021
(expressed in United States dollars)

MANAGEMENT'S RESPONSIBILITY

The management of Tantalus Systems Holding Inc. (the "Company") is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted under International Financial Reporting Standards and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial reports are properly maintained to provide accurate reliable financial statements.

The Company's audit committee is comprised entirely of independent directors and is appointed by the Board of Directors annually. The committee meets annually with the Company's management and independent auditors to review the consolidated financial statements and the independent auditors report. The audit committee has approved the consolidated financial statements and reported its findings to the Board of Directors.

"Peter Londa"
Chief Executive Officer
May 10, 2022

"George Reznik"
Chief Financial Officer
May 10, 2022

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	<i>Note</i>		March 31, 2022	December 31, 2021
Assets				
Current assets				
Cash		\$	12,024,774	\$ 14,203,794
Accounts receivable	5		7,408,261	5,343,724
Investment tax credits receivable	6		2,094	52,869
Inventory	7		4,961,546	5,687,407
Prepaid expenses and other assets			1,097,597	1,139,863
Total current assets			25,494,272	26,427,657
Property and equipment	8		921,115	1,019,867
Intangible assets	9		7,725,922	160,490
Goodwill	4		2,587,874	-
Right of Use assets	10		3,271,975	3,417,733
Total assets			\$ 40,001,158	\$ 31,025,747
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	11	\$	9,226,974	\$ 8,974,662
Deferred revenue and deposits			6,594,479	3,151,790
Lease liabilities	13		709,331	726,549
Bank term loan - current portion	12		1,100,000	-
Bank working capital loan	12		8,100,000	8,100,000
Total current liabilities			25,730,784	20,953,001
Deferred revenue and deposits			610,498	-
Bank term loan - long term portion	12		2,011,429	-
Contingent consideration on Congruitive acquisition	4		2,458,702	-
Lease liabilities	13		2,780,365	3,282,143
Total liabilities			33,591,778	24,235,144
Shareholders' equity				
Share capital	14			
Common shares			88,136,633	86,932,034
Other capital reserves			40,458,700	40,255,644
Accumulated other comprehensive income			1,918,010	1,917,505
Deficit			(124,103,963)	(122,314,580)
Total shareholders' equity			6,409,380	6,790,603
Total liabilities and shareholders' equity			\$ 40,001,158	\$ 31,025,747

See accompanying notes to interim condensed consolidated financial statements.

Commitments and contingencies (Note 17)

Approved on behalf of the Board:

“*John McEwen*”

Director

“*Peter Londa*”

Director

TANTALUS SYSTEMS HOLDING INC.
Consolidated Statements of Operations and Comprehensive (Loss) Income
(Expressed in United States dollars)

	<i>Note</i>	Three months ended March 31, 2022	Three months ended March 31, 2021
Revenues	<i>18</i>	\$ 9,291,478	\$ 8,011,331
Cost of sales	<i>7, 14(e), 18</i>	4,870,365	4,409,319
		4,421,113	3,602,012
Expenses			
Sales and marketing	<i>14(e), 19</i>	1,578,309	1,383,614
Research and development	<i>6, 14(e), 19</i>	1,964,676	1,272,425
General and administrative	<i>14(e), 19</i>	2,322,406	3,239,051
Depreciation and amortization	<i>8, 9, 10, 19</i>	493,169	434,957
		6,358,560	6,330,047
Operating loss		(1,937,447)	(2,728,035)
Other earnings (expenses)			
Foreign exchange gain (loss)		385,050	(14,068)
Finance expenses	<i>15</i>	(236,986)	(166,329)
		148,064	(180,397)
Loss before income taxes		(1,789,383)	(2,908,432)
Income tax expense		-	-
		(1,789,383)	(2,908,432)
Loss for the period		(1,789,383)	(2,908,432)
Foreign currency translation adjustment		505	160
Total comprehensive loss for the period		\$ (1,788,878)	\$ (2,908,272)
Loss per share (basic and diluted)	<i>16</i>	\$ (0.04)	\$ (0.08)
Weighted average number of shares outstanding (basic and diluted)	<i>16</i>	44,206,602	37,245,775

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in United States dollars)

	Common Shares		Other Capital Reserves	Accumulated Other Comprehensive Income		Deficit	Total Shareholders' (Deficit) Equity
	Number	Amount					
Balance, December 31, 2020	33,673,520	\$ 71,475,662	\$ 39,590,453	\$ 1,917,206	\$ (115,294,427)	\$ (2,311,106)	
Share-based compensation	-	-	462,080	-	-	462,080	
Issuance of common shares from financing	9,128,320	16,282,172	0	-	-	16,282,172	
Issuance of common shares from option exercise	65,069	51,650	0	-	-	51,650	
Share issuance costs	-	(2,203,450)	203,111	-	-	(2,000,339)	
Shares issued for RiseTech merger	767,320	1,326,000	-	-	-	1,326,000	
Foreign currency translation adjustment	-	-	-	299	-	299	
Loss for the period	-	-	-	-	(7,020,153)	(7,020,153)	
Balance, December 31, 2021	43,634,229	\$ 86,932,034	\$ 40,255,644	\$ 1,917,505	\$ (122,314,580)	\$ 6,790,603	
Share-based compensation	-	-	203,056	-	-	203,056	
Issuance of common shares from option exercise	10,328	8,133	-	-	-	8,133	
Issuance of common shares from RSU exercise	74,074	-	-	-	-	-	
Issuance of common shares in Congruitive acquisition	869,565	1,196,466	-	-	-	1,196,466	
Foreign currency translation adjustment	-	-	-	505	-	505	
Loss for the period	-	-	-	-	(1,789,383)	(1,789,383)	
Balance, March 31, 2022	44,588,196	\$ 88,136,633	\$ 40,458,700	\$ 1,918,010	\$ (124,103,963)	\$ 6,409,380	

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

	<i>Note</i>	Three months ended March 31, 2022	Three months ended March 31, 2021
Cash provided by (used in)			
Operating Activities			
(Loss) income for the period		\$ (1,789,383)	\$ (2,908,432)
Items Not Affecting Cash:			
Unrealized foreign exchange (gain) / loss		(438,889)	12,372
Depreciation of equipment	8	111,888	138,897
Amortization of intangible assets	9	235,523	185,848
Amortization of right-of-use asset	10	145,758	110,212
Share-Based compensation	14(j)	203,056	195,769
RiseTech reverse acquisition listing expense		-	1,188,175
Finance expenses	15	183,393	132,263
Changes in Non-Cash Operating Working Capital			
Accounts Receivable	5	(1,399,406)	2,814,159
Investment tax credits receivable	6	50,775	(3,524)
Inventories	7	733,571	237,425
Prepaid expenses and other assets		46,339	528,082
Accounts payable and accrued liabilities	11	(778,400)	(2,664,552)
Deferred revenue and deposits		3,463,862	959,632
Lease payments for interest	13	(46,695)	(25,362)
Interest paid on bank loan	12	(136,698)	(106,901)
Net Cash provided by Operating Activities		584,694	794,063
Investing Activities			
Purchase of equipment	8	(5,188)	(62,938)
Purchase of intangible assets	9	(112,955)	(88,225)
Purchase of Congruitive, net of cash acquired	5	(5,685,531)	-
Net cash acquired from RiseTech reverse acquisition		-	342,072
Net Cash (used in) provided by Investing Activities		(5,803,674)	190,909
Financing Activities			
Advance of term loan	4, 12	3,300,000	-
Repayments of term loan	12	(188,571)	-
Repayment of lease liabilities	13	(127,557)	(174,698)
Issuance of common shares from financing		-	7,778,539
Issuance of common shares from option exercise	14(c)	8,133	-
Share issuance costs		-	(1,092,853)
Net Cash provided by Financing Activities		2,992,005	6,510,988
(Decrease) increase in cash		(2,226,975)	7,495,960
Effect of foreign exchange on cash		47,955	31,312
Cash, beginning of period		14,203,794	4,647,713
Cash, end of period		\$ 12,024,774	\$ 12,174,985

See accompanying notes to consolidated financial statements.

Supplemental cash flow information (Note 24)

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

1. Reporting Entity

On January 29, 2021, RiseTech Capital Corp. (a Canadian company previously listed on the TSX Venture Exchange (“TSX-V”) under the symbol "RTCC.P") ("RiseTech") acquired all of the outstanding shares of TSH Canada Inc. (formerly known as Tantalus Systems Holding Inc.) pursuant to a plan of arrangement and RiseTech changed its name to Tantalus Systems Holding Inc. (the "Company" or “Tantalus”).

Upon completion of the transaction on January 29, 2021, the shareholders of RiseTech held less than 2% of the issued and outstanding shares of the Company and as a result, TSH Canada Inc.’s former shareholders controlled the Company resulting in a reverse take-over acquisition (“RTO”). The resulting financial statements are presented as a continuation of the financial statements of TSH Canada Inc., reflecting the acquisition of RiseTech on a reverse acquisition basis on January 29, 2021, and comparative figures presented in these consolidated financial statements are those of TSH Canada Inc.

RiseTech was incorporated on February 26, 2018 under the Business Corporations Act of British Columbia. The predecessor entity that was operating the business of TSH Canada Inc. was incorporated under the provisions of the Canada Business Corporations Act.

On February 9, 2021, the common shares of the Company began trading on the TSX-V under the symbol “GRID”. On May 10, 2021, the Company graduated to the Toronto Stock Exchange (“TSX”) with the common shares of the Company continuing to trade under the symbol “GRID” with related delisting from the TSX-V.

The Company is a smart grid technology company that transforms aging one-way grids into future-proofed multi-directional grids that improve the efficiency, reliability and sustainability of public power and electric cooperative utilities and the communities they serve. Tantalus’ business operations are in Canada and in the United States.

The Company’s head office is located in Burnaby, Canada. The Company’s registered office is located in Vancouver, Canada. The Company’s direct and indirect operating subsidiaries have offices in Ottawa, Ontario, Canada; Raleigh, North Carolina, United States and Norwalk, Connecticut, United States.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

2. Basis of Presentation

Statement of Compliance

These interim condensed consolidated financial statements (the “interim financial statements”), which have been approved by the Board of Directors, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). These interim financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company’s annual financial statements as at and for the year ended December 31, 2021 except as noted in Note 3, which describes the impact of new accounting policies adopted effective January 1, 2022. Accordingly, these interim financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company’s annual financial statements as at and for the year ended December 31, 2021.

The Board of Directors authorized these interim financial statements for issue on May 10, 2022.

Presentation

These consolidated financial statements are presented in United States dollars. The functional currency of the operating entities is the United States dollar, with the exception of Energate Inc., where the functional currency is the Canadian dollar (“CND”).

Selected explanatory notes are included in these interim financial statements to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements of the Company.

These interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim financial statements. The entities contained in the interim financial statements are as follows:

Company Entity	Active	Country of Incorporation	Ownership Interest
TSH Canada Inc.	Yes	Canada	100%
Tantalus Systems Corp.	Yes	Canada	100%
Tantalus Systems Inc.	Yes	U.S.	100%
Energate Inc.	Yes	Canada	100%
Energate, Corp. ¹	No	U.S.	N/A
DLC Systems, Inc. d/b/a			
Congruitive	Yes	U.S.	100%

¹Dissolved March 4, 2021.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

2. Basis of Presentation (continued)

Use of Judgements, Estimates and Assumptions

The preparation of these interim financial statements in accordance with IAS 34 requires management to use judgement and make estimates and assumptions that affect the amounts reported in these interim financial statements. Actual results could differ from these estimates due to changes in interest rates, foreign exchange rates, inflation, and economic conditions.

The areas of significant judgement and estimation were identified in the Company's most recent audited consolidated financial statements for the year ended December 31, 2021, which were filed under the Company's profile on SEDAR at www.sedar.com, except for judgements pertaining to the adoption of new accounting policies effective on January 1, 2022 (Note 3).

Going Concern

These interim condensed consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. During the three months ended March 31, 2022, the Company incurred comprehensive loss of \$1,788,878 and generated cash flows for operating activities of \$584,694. Management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at March 31, 2022 and believes that it has sufficient cash resources to support operations for at least the next twelve months from March 31, 2022.

The continuity of the Company as a going concern is dependent on its ability to achieve positive cash flow from operations, to maintain or obtain additional debt or equity financing and to achieve and maintain profitable operations. These interim condensed consolidated financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the interim condensed consolidated statements of financial position classifications used and disclosures that might be necessary should the Company be unable to continue as a going concern.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

3. Significant Accounting Policies

The accounting policies followed in these interim financial statements are the same as those applied in the Company's most recent audited consolidated financial statements for the year ended December 31, 2021, except as noted below.

Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment -Proceeds before Intended Use (Amendments to IAS 16). The amendments provide guidance on the accounting for sale proceeds and the related production costs for items a company produces and sells in the process of making an item of property, plant and equipment (PPE) available for its intended use. Specifically, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022 and are applicable to the Company starting January 1, 2022. The adoption of the amendment does not have any impact on the Company's interim financial statements.

Business combination

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at acquisition date fair value. The identifiable assets acquired and liabilities assumed that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. Acquisition-related costs are recognized in profit or loss as incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year. Any contingent consideration is measured at fair value at the acquisition date. If contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity. Other contingent consideration is re-measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes to the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

3. Significant Accounting Policies (continued)

Goodwill

Goodwill, representing the excess of the consideration paid for entities acquired over the fair values of the assets acquired and liabilities assumed, is initially measured at cost and is not amortized. After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is tested annually for impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost and intangible assets acquired in a business combination are recognized at fair value at the date of acquisition. Intangible assets include customer agreements and relationships, and technologies. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense for finite life intangible assets is recognized in profit or loss. Intangible assets with indefinite lives are not amortized, however they are tested annually or more frequently when circumstances indicate that the carrying value may not be recoverable. Intangible assets are amortized over their estimated useful lives, on a straight-line basis, as follows:

<u>Intangible Asset</u>	<u>Life</u>
Technology	10 years
Customer relationships	10 years
Trademarks and copyrights	10 years

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

4. Congruitive Acquisition

On January 31, 2022, the Company completed its acquisition of all the outstanding and issued common shares of DLC Systems, Inc. d/b/a Congruitive (“Congruitive”). Congruitive’s signature software solution, Congruence.IQ™ (“C.IQ™”), is a software platform that enables the interoperability of a wide range of devices. The addition of Congruitive enhances the Company’s position at the forefront of helping utilities modernize their grids to prepare for the impact of Electric Vehicles (“EVs”) and Distributed Energy Resources (“DERs”) on the resiliency and reliability of distribution grids.

The Company determined that Congruitive represented a business as the assets were an integrated set of activities with inputs, processes and outputs. Accordingly, the acquisition was accounted for as a business combination using the acquisition method whereby the assets acquired, and the liabilities assumed were recorded at fair value. At acquisition date the fair values assigned to intangible assets, goodwill and the deferred tax liabilities were measured on a provisional basis.

The following table summarizes the balances of each major class of consideration transferred, the recognized amounts of the identifiable assets acquired and liabilities assumed, and the resulting value of goodwill.

Consideration transferred	
Cash consideration	\$ 6,464,473
Fair value of share consideration	1,196,466
Fair value of contingent consideration payable	2,458,702
Total consideration	<u>\$ 10,119,641</u>
Fair value of assets and liabilities recognized	
Cash	\$ 778,942
Accounts receivable	665,131
Inventory	7,710
Prepaid and other deposits	4,073
Property and equipment	7,948
Intangible - technology	6,530,000
Intangible - customer relations	830,000
Intangible - trademarks and copyrights	328,000
Accounts payable and accrued liabilities	(1,030,712)
Fair value of deferred revenue	(589,325)
Fair value of assets and liabilities recognized	<u>\$ 7,531,767</u>
Goodwill	<u>\$ 2,587,874</u>

The fair value of common shares transferred as consideration is based on the five day weighted average quoted share price prior to the date the shares were issued, which is at CDN\$1.76 per common share.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

4. Congruitive Acquisition (continued)

The fair value of the contingent consideration payable was based on an estimated weighted probability of certain revenue targets being met in the 2-year period following the acquisition date. The additional consideration could range from nil to \$5,000,000.

The accounts receivables acquired are comprised of trade receivables.

The fair value of the acquired intangible assets comprised of technology, customer relations and trademarks is determined using a discounted cash flow method at a discount rate of 22%.

Goodwill arising from the acquisition is attributable mainly to the skills and technical talent of Congruitive's work force and the synergies expected to be achieved from integrating Congruitive into the Company's existing business. The expertise of Congruitive's workforce and the integration of its technology will enable Tantalus to bolster its presence in its utility market.

Due to the timing of the acquisition, the fair values assigned to intangible assets and goodwill are measured on a provisional basis and may be revised by the Company as additional information is received.

Revenue of \$287,927 and net loss of \$119,004 from the acquired operations of Congruitive are included in the consolidated statement of loss and comprehensive loss from the date of acquisition to March 31, 2022. Had the acquisition of Congruitive occurred on January 1, 2022, the consolidated revenue would have increased by \$130,881 and the consolidated net loss would have increased by \$459,855 for the period ended March 31, 2022. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same as if the acquisition had occurred on January 1, 2022.

Transaction costs of \$936,960 were incurred in connection with the acquisition including a success fee of \$450,000 and legal and professional fees of \$346,140, recognized in the consolidated statement of loss and comprehensive loss.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

5. Accounts Receivable

	March 31, 2022	December 31, 2021
Accounts receivable	\$ 7,759,865	\$ 5,695,328
Less: allowance for doubtful accounts	(351,604)	(351,604)
Net Accounts receivable	\$ 7,408,261	\$ 5,343,724

The Company did not have any accounts receivable balances from related parties as at March 31, 2022 and December 31, 2021, respectively.

The Company has an agreement with Export Development Canada (“EDC”) whereby EDC agreed to provide 90% insurance coverage for the Company’s invoiced sales, up to a maximum of \$3,000,000 with certain customers excluded from this coverage.

During the period ended March 31, 2022, the Company recorded credit losses of nil (March 31, 2021 - \$nil), in general and administrative expense.

Aging analysis of trade receivables is as follows:

	March 31, 2022	December 31, 2021
Not past due	\$ 3,370,420	\$ 2,459,704
31-90 days	1,266,438	1,524,544
91-180 days	1,706,927	282,714
Over 180 days	1,416,080	1,428,366
Total	\$ 7,759,865	\$ 5,695,328

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

6. Investment Tax Credits Receivable and Government Assistance

	March 31, 2022	December 31, 2021
Investment tax credits receivable	\$ 2,094	\$ 52,869

The Company had access to certain Canadian federal and provincial tax incentives for qualified research and development in Canada. Certain research and development activities and related expenditures performed by the Company qualify for funding reimbursement from the Canadian government subsidy programs inclusive of the National Research Council of Canada Industrial Research Assistance Program (“IRAP”) and other investment tax credits. These investment tax credits are recorded as a reduction to the related expenditures in the fiscal year when there is reasonable assurance that such credits will be realized.

The impact on the Company’s research and development government assistance through investment tax credits is as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Research and Development, Gross	2,199,676	1,352,425
Investment Tax Credit	235,000	80,000
Research and Development, Net	\$ 1,964,676	\$ 1,272,425

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

7. Inventory

	March 31,	December 31,
	2022	2021
Finished goods	\$ 2,586,843	\$ 3,142,264
Raw materials	2,374,703	2,545,143
Inventory	\$ 4,961,546	\$ 5,687,407

During the three months ended March 31, 2022 and March 31, 2021 the Company charged \$3,973,340 and \$3,564,467, respectively, of inventory related amounts to cost of sales.

Management assesses the valuation of inventory at the end of each period resulting in valuation adjustments accounted for in the respective period based upon management estimates. During the period, inventories were reviewed for obsolescence as part of ongoing operations. Inventory adjustments for obsolescence were recorded in cost of sales during the period ended March 31, 2022 and March 31, 2021 of \$1,055 and \$25,994, respectively.

An inventory obsolescence reserve of \$225,000 as at March 31, 2022 (\$225,000 as at December 31, 2021) has been recorded.

8. Property & Equipment

The following table presents details of movement in the carrying value of equipment by type:

Cost	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2020	\$ 3,374,734	\$ 526,055	\$ 5,025,717	\$ 1,618,114	\$ 10,544,620
Additions	32,191	9,960	105,439	0	147,590
Balance,					
December 31, 2021	\$ 3,406,925	\$ 536,015	\$ 5,131,156	\$ 1,618,114	\$ 10,692,210
Additions	-	-	5,188	-	5,188
Acquired from Congruitive	-	-	658,717	-	658,717
Balance,					
March 31, 2022	\$ 3,406,925	\$ 536,015	\$ 5,795,061	\$ 1,618,114	\$ 11,356,115

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

8. Property & Equipment (continued)

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2020	\$ 3,262,919	\$ 445,230	\$ 4,065,325	\$ 1,331,431	\$ 9,104,905
Additions	68,388	25,402	279,043	194,605	567,438
Balance,					
December 31, 2021	\$ 3,331,307	\$ 470,632	\$ 4,344,368	\$ 1,526,036	\$ 9,672,343
Additions	14,935	6,701	70,174	20,078	111,888
Acquired from Congruitive	-	-	650,769	-	650,769
Balance,					
March 31, 2022	\$ 3,346,242	\$ 477,333	\$ 5,065,311	\$ 1,546,114	\$ 10,435,000

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2021	\$ 75,618	\$ 65,383	\$ 786,788	\$ 92,078	\$ 1,019,867
Balance,					
March 31, 2022	\$ 60,683	\$ 58,682	\$ 729,750	\$ 72,000	\$ 921,115

9. Intangible assets

Cost	Computer Software	Acquired Software	Customer Relations	Intellectual Property	Total
Balance,					
December 31, 2020	\$ 1,615,946	\$ -	\$ 677,509	\$ 962,058	\$ 3,255,513
Additions	382,621	-	-	-	382,621
Balance,					
December 31, 2021	\$ 1,998,567	\$ -	\$ 677,509	\$ 962,058	\$ 3,638,134
Additions	112,955	-	-	-	112,955
Acquired from Congruitive	-	6,530,000	830,000	328,000	7,688,000
Balance,					
March 31, 2022	\$ 2,111,522	\$ 6,530,000	\$ 1,507,509	\$ 1,290,058	\$ 11,439,089

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

9. Intangible assets (continued)

Accumulated Amortization	Computer Software	Acquired Software	Customer Relations	Intellectual Property	Total
Balance,					
December 31, 2020	\$ 1,481,732	\$ -	\$ 577,183	\$ 821,925	\$ 2,880,840
Additions	356,345	-	100,326	140,133	596,804
Balance,					
December 31, 2021	\$ 1,838,077	\$ -	\$ 677,509	\$ 962,058	\$ 3,477,644
Additions	107,390	-	-	-	107,390
Acquired from Congruitive	-	108,833	13,833	5,467	128,133
Balance,					
March 31, 2022	\$ 1,945,467	\$ 108,833	\$ 691,342	\$ 967,525	\$ 3,713,167

Net Book Value	Computer Software	Acquired Software	Customer Relations	Intellectual Property	Total
Balance,					
December 31, 2020	\$ 160,490	\$ 0	\$ 0	\$ 0	\$ 160,490
Balance,					
March 31, 2022	\$ 166,055	\$ 6,421,167	\$ 816,167	\$ 322,533	\$ 7,725,922

10. Right-of-Use Assets

The following table presents details of movement in the carrying value of the right-of-use asset:

	March 31, 2022	December 31, 2021
Beginning Balance	\$ 3,417,733	\$ 992,880
Additions	-	2,806,348
Amortization of ROU	(145,758)	(381,495)
Ending Balance	\$ 3,271,975	\$ 3,417,733

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

11. Accounts Payable and Accrued Liabilities

	March 31,		December 31,
	2022		2021
Trade payables and other payables	\$ 4,739,052	\$	4,819,576
Accrued warranty (a)	585,664		807,017
Employee benefits	1,984,476		1,677,352
Vendor goods and services received	553,089		551,899
Professional fees	864,500		684,485
Other accrued liabilities	500,193		434,333
Total	\$ 9,226,974	\$	8,974,662

- (a) Management accrues product warranty costs as products are sold to provide for the repair or replacement of defective products. The accrual is based on known warranty issues when a loss is probable and can be reasonably estimated. Accrual for unidentified warranty issues is based on an assessment of historical experience.

12. Bank Loan

The Company has a loan agreement with Comerica Bank (the “Bank”) since April 12, 2012 to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date. The loan agreement was previously comprised of two line of credit facilities (expressed in USD and CND currencies and collectively, the “Bank “Loan”) with respective maximum borrowing limits of \$7,486,000 and CND\$750,000 subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. On May 10, 2021, the Company consolidated its Bank Loan from two credit facilities into one line of credit facility in United States dollars up to a maximum of \$8,100,000. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at March 31, 2022 of \$8,100,000 (\$8,100,000 as at December 31, 2021). The facility bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The credit facility is secured by a general security agreement and security over accounts receivable and inventory. The facility previously had a maturity date of February 28, 2022 and was renewed on January 31, 2022 to extend the maturity date to February 27, 2023 in conjunction with an amendment for an incremental term loan.

The term loan carries a principal amount of \$3,300,000 repayable over three years with the proceeds used for the Company’s acquisition of Congruitive as announced on February 1, 2022 (see Note 4) and bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The term loan had a balance of \$3,111,429 as at March 31, 2022 (nil as at December 31, 2021).

As at March 31, 2022, the Company was in compliance with its financial covenants.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

13. Lease Liabilities

The Company has leases with respect to its operating premises in Burnaby, British Columbia, Canada (“Burnaby”), Kanata, Ontario, Canada (“Kanata”), Raleigh, North Carolina, United States (“Raleigh”) and Norwalk, Connecticut, United States (“Norwalk”) in addition to equipment leases. With the exception of short-term and low-value leases, leases are reflected on the balance sheet as a right-of-use asset and a lease liability.

On May 1, 2021, the Company expanded its Norwalk, Connecticut office facility for the remainder of the term ending January 1, 2026 resulting in the addition of a Right-of-Use asset and related lease liability of \$152,616 and the estimated future payments of the related undiscounted variable operating costs of \$8,920 pertaining to this expansion of this office facility lease.

On June 4, 2021, the Company entered into an amendment to extend the maturity date of the lease for its Burnaby, BC office facility from January 31, 2022 to January 31, 2029. This resulted in the addition of a Right-of-Use asset of \$2,735,411, net lease liability of \$3,099,250 and leasehold inducements of \$445,519. The estimated future payments of the related undiscounted variable operating costs are \$3,396,783 pertaining to this extension.

Below is a summary of the activity related to the Company’s fixed minimum operating premises and short-term equipment lease liabilities:

	March 31, 2022	December 31, 2021
Maturity Analysis – contractual undiscounted cash flows from minimum lease		
Less than one year	\$ 651,583	\$ 727,473
One to five years	2,461,857	2,762,975
More than five years	1,112,383	1,400,096
Total undiscounted lease liabilities	\$ 4,225,823	\$ 4,890,544

The following is a reconciliation of undiscounted lease liabilities at March 31, 2022 to the lease liabilities recognized at March 31, 2022:

Total undiscounted lease liabilities at March 31, 2022	\$ 4,225,823
Discounted using incremental borrowing rate	(736,127)
Total lease liabilities recognized under IFRS 16 at March 31, 2022	\$ 3,489,696

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

13. Lease Liabilities (continued)

The following table presents details of movement in the carrying value of the lease liabilities:

	March 31, 2022	December 31, 2021
Beginning Balance	\$ 4,008,692	\$ 1,312,469
Additions	-	3,251,866
Add: Interest	46,695	83,964
Less: Payments	(174,252)	(694,451)
Write-off due to lease cancellation	-	-
Impact of foreign exchange	(391,439)	54,844
Ending Balance	3,489,696	4,008,692
Less: Current portion	(709,331)	(726,549)
Non-current portion	\$ 2,780,365	\$ 3,282,143

	Three months ended March 31, 2022	Three months ended March 31, 2021
Amounts Recognized in Statements of Operations		
Finance charge on lease liabilities	\$ 46,695	\$ 25,362
Variable lease payments expensed	133,616	126,082
Expenses relating to equipment short term leases	-	598
Total amounts recognized in Statements of Operations	\$ 180,311	\$ 152,042

The aggregate of the Company's variable lease payments as at March 31, 2022 is as follows and reflects the estimated future payments of the variable operating costs of the long-term operating premises leases in Burnaby, Kanata, Raleigh and Norwalk.

2022	\$	400,848
2023		547,906
2024		561,754
2025		488,457
2026		498,940
2027		513,908
2028		529,326
	\$	3,541,139

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

14. Share Capital

(a) Authorized share capital:

Unlimited common shares, with no par value.

Unlimited preferred shares, with no par value.

The holders of common shares are entitled to one vote per share, to receive dividends when declared and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to Shareholders.

The Company has 44,588,196 common shares outstanding as at March 31, 2022 as indicated below:

	Number of common shares	Amount
Outstanding, January 1, 2021	33,673,520	\$ 71,475,662
Issuance of common shares from financing	9,128,320	16,282,172
Share issuance costs	-	(2,203,450)
Shares issued upon stock option exercise	65,069	51,650
Shares issued for RiseTech merger	767,320	1,326,000
Outstanding, December 31, 2021	43,634,229	86,932,034
Issuance of common shares from option exercise	10,328	8,133
Issuance of common shares from RSU exercise	74,074	-
Issuance of common shares in Congruitive acquisition	869,565	1,196,466
Outstanding, March 31, 2022	44,588,196	\$ 88,136,633

(b) Issuance of Common Shares in Congruitive Acquisition

During the three months ended March 31, 2022, 869,565 common shares of Tantalus were issued for \$1,196,466 as part of the purchase price of the Congruitive Acquisition (see Note 4) and was based on a share price of CDN\$1.76 (US\$1.38), calculated with reference to the volume weighted average trading price of Tantalus' common shares on the TSX over the previous five trading days ended January 28, 2022 and exchange rates over the same period.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

14. Share Capital (continued)

(c) Stock Option Plan

The Company adopted the Omnibus Long Term Incentive Plan (“LTIP”) that was effective as of the closing of the plan of arrangement pursuant to which the Company may grant stock options to provide incentives to eligible persons. As at March 31, 2022, the LTIP allows for a maximum of 7,771,810 common shares to be available under the plan.

The stock options are settled by way of issuance of common shares. The exercise price of stock options is determined by a committee of the Board of Directors, or if no committee is appointed, the Board of Directors, and shall not be less than fair market value of a common share. The expiry date of stock options is designated on the date of grant and shall be no later than 10-years from the date of grant. Unless otherwise approved by the Board of Directors, the stock options typically vest over a 4-year term with 25% of the options vesting after 12-months and the remaining 75% of the options vesting monthly in equal amounts over the following 36-months.

During the period ended March 31, 2022, 10,328 shares were issued as a result of stock options being exercised with an exercise price of CND\$1.00 for gross proceeds of \$8,133.

Stock option activity under the former stock option plan of TSH Canada Inc. and the LTIP, as its successor option plan, is provided below:

	Number of Options	Weighted Average Exercise Price (CND\$)
Balance at December 31, 2020	4,841,884	\$ 1.00
RiseTech options exchanged in reverse acquisition	18,284	\$ 1.64
Granted during the period	1,111,519	\$ 2.12
Exercised during the period	(65,069)	\$ 1.00
Forfeited/expired during the period	(37,205)	\$ 1.00
Balance at December 31, 2021	5,869,413	\$ 1.21
Granted during the period	1,185,515	\$ 1.35
Exercised during the period	(10,328)	\$ 1.00
Forfeited/expired during the period	(19,336)	\$ 1.00
Balance at March 31, 2022	7,025,264	\$ 1.23

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

14. Share Capital (continued)

(c) Stock Option Plan (continued)

As at March 31, 2022, the number of stock options outstanding and exercisable and the exercise price, adjusted for the share consolidation which occurred on January 29, 2021, was as follows:

Option Grant Date	Options Outstanding	Options Exercisable	Exercise Price (CND\$)
December 18, 2018	3,698,401	3,698,401	\$ 1.00
April 1, 2019	70,000	52,500	\$ 1.00
January 1, 2020	422,899	211,450	\$ 1.00
June 20, 2020	5,000	2,188	\$ 1.00
September 1, 2020	513,646	192,617	\$ 1.00
February 9, 2021	18,284	18,284	\$ 1.64
February 9, 2021	112,000	28,000	\$ 2.25
March 25, 2021	100,000	100,000	\$ 2.17
August 17, 2021	179,000	-	\$ 2.11
November 17, 2021	658,900	-	\$ 2.10
November 17, 2021	47,619	47,619	\$ 2.10
December 24, 2021	14,000	-	\$ 1.79
March 24, 2022	1,185,515	-	\$ 1.35
Balance at March 31, 2022	7,025,264	4,351,059	\$ 1.05

During the period ended March 31, 2022 and March 31, 2021, the fair value of options granted was \$564,289 and \$98,381, respectively. Remaining unrecognized cost of the LTIP as at March 31, 2022 and December 31, 2021 was \$983,719 and \$694,144, respectively. The weighted average remaining life expressed in years of outstanding options was 3.97 years as at March 31, 2022 and 3.65 years as at December 31, 2021.

As at March 31, 2022, the Company had total vested options of 4,351,059 with a weighted average price of CND\$1.05 and total vested options of 4,301,945 with a weighted average price of CND\$1.04 as at December 31, 2021. The stock options have been retroactively adjusted for impact of the share consolidation by the Company during the year.

The fair value of the options granted was estimated on the date of grant using the Black- Scholes option-pricing model with the following assumptions:

	March 31, 2022	December 31, 2021
Risk free interest rate	0.39%	0.39% - 0.60%
Dividend yield	0%	0%
Expected life (in years)	1 to 7 years	1 to 7 years
Forfeiture rate	3.95%	4.07%
Volatility	50%	50%

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

14. Share Capital (continued)

(d) Restricted Stock Units

Under the LTIP, the Company may grant restricted stock units (“RSU”) subject to approval by the Company’s board of directors which have a vesting period and RSU term as determined by the Company’s board of directors.

During the three months ended March 31, 2021, the Company issued 74,074 RSU with a fair value of \$130,000. The RSU’s vested in full one year after the date of issuance. The RSU related costs were expensed in general and administrative expenses in the period ended March 31, 2021. During the three months ended March 31, 2022, the RSU’s vested in full and 74,074 common shares were issued by the Company as soon as practicable after the vesting date.

	Restricted Stock Units
Balance at December 31, 2021	74,074
Granted during the period	-
Exercised during the period	(74,074)
Balance at March 31, 2022	-

(e) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU’s granted was \$203,056 and \$195,769 during the three months ended March 31, 2022 and March 31, 2021, respectively.

The Company has allocated the above stock-based compensation expense by respective function of each respective employees and directors as follows:

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

14. Share Capital (continued)

(e) Stock-based compensation expense (continued)

Three months ended March 31, 2022	Cost	Stock-based Compensation	Total
Cost of sales	\$ 4,870,083	\$ 282	\$ 4,870,365
Sales and marketing	1,535,773	42,536	1,578,309
Research and development	1,947,629	17,047	1,964,676
General and administrative	2,179,215	143,191	2,322,406
	<u>\$ 5,662,617</u>	<u>\$ 202,774</u>	<u>\$ 5,865,391</u>
Total	<u>\$ 10,532,700</u>	<u>\$ 203,056</u>	<u>\$ 10,735,756</u>
Three months ended March 31, 2021	Cost	Stock-based Compensation	Total
Cost of sales	\$ 4,406,477	\$ 2,842	\$ 4,409,319
Sales and marketing	1,374,084	9,530	1,383,614
Research and development	1,261,791	10,634	1,272,425
General and administrative	3,066,288	172,763	3,239,051
	<u>\$ 5,702,163</u>	<u>\$ 192,927</u>	<u>\$ 5,895,090</u>
Total	<u>\$ 10,108,640</u>	<u>\$ 195,769</u>	<u>\$ 10,304,409</u>

15. Finance Expenses

Period ended	Three months ended March 31, 2022	Three months ended March 31, 2021
Accretion of interest on lease liability (note 13)	\$ 46,695	\$ 25,362
Interest expense on bank loan (note 12)	136,698	106,901
EDC insurance and other finance expenses	53,593	34,066
Total	\$ 236,986	\$ 166,329

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

16. Loss per Share

Loss per common share represents loss for the period divided by the weighted average number of common shares outstanding during the period. The weighted average number of common shares is as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Beginning balance at December 31, shares outstanding	43,634,229	33,673,520
Effect of shares issued related to RTO	-	528,599
Effect of shares issued related to RTO financing	-	3,043,656
Effect of shares issues from Congruitive acquisition	566,683	-
Effect of shares issues from RSU exercise	696	-
Effect of shares issues from option exercise	4,994	-
Weighted average number of shares (basic and diluted)	44,206,602	37,245,775

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of the dilutive securities.

The weighted average number of common shares is as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net loss	\$ (1,788,878)	\$ (2,908,272)
Basic weighted average number of shares	44,206,602	37,245,775
Basic and dilutive loss per share	\$ (0.04)	\$ (0.08)

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

17. Commitments and Contingencies

- (a) In the ordinary course of business, the Company may deliver performance and/or payment bonds to customers in connection with a sales contract. As at March 31, 2022, the Company had no performance bonds outstanding (December 31, 2021 - \$1,138,012).
- (b) In the ordinary course of business, the Company enters into purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As at March 31, 2022, the Company had outstanding purchase order commitments of \$15,991,469 (December 31, 2021 - \$13,325,090).
- (c) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.
- (d) In the ordinary course of business, indemnification provisions are included in agreements with the Company's customers. Generally, such indemnification provisions are subject to limitations of liability provisions that exclude certain damages from what the Company may be obligated to indemnify the Customer for in connection with the agreement and/or set a cap on the Company's indemnification obligation tied to revenue generated from such agreement. In certain limited instances, the Company's indemnification obligation may not be subject to such aforementioned limitations and/or caps. As a matter of practice, the Company's customer agreements generally include provisions pursuant to which its customers indemnify the Company for certain potential liabilities that may arise in connection with or relating to the agreements between the parties.

18. Segmented Information

Operating segments

The Company's revenues are derived through two operating segments, including:

- 1) *The Connected Devices and Infrastructure Segment*. This segment is responsible for the sale of the Company's proprietary edge computing modules that are integrated into multiple devices deployed across a utility's distribution grid including meters, sensors, street lighting fixtures and distribution automation equipment. Revenue generated from this segment also includes the sale of the Company's proprietary multi-relay load control switches and a suite of communications infrastructure devices that are deployed to deliver an industrial network-of-things / IoT smart grid including base stations, repeaters and collectors; and

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

18. Segmented Information (continued)

- 2) *The Utility Software Applications and Services Segment.* This segment is responsible for the sale of the Company’s proprietary mission-critical enterprise software applications AI enabled data analytics and a suite of professional services to support utilities. Revenue is generated from this segment through the sale of software licenses, software as a service (“SaaS”), hosting services, professional services (including project management, deployment, installation, and engineering support), and post-contract technical support and annual software maintenance services.

Corporate includes all operating expenses of the Company.

Information regarding the operations of each operating segment is included below. Performance is based on revenue less cost of sales.

A breakdown of revenues and cost of sales for each operating segment for the three months ended March 31, 2022 and March 31, 2021 is as follows:

Three months ended March 31, 2022	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 5,921,837	\$ 3,369,641	\$ -	\$ 9,291,478
Cost of sales	4,133,424	736,941	-	4,870,365
Gross profit	1,788,413	2,632,700	-	4,421,113
Operating expenses	-	-	6,358,560	6,358,560
Operating income (loss)	\$ 1,788,413	\$ 2,632,700	\$ (6,358,560)	\$ (1,937,447)

Three months ended March 31, 2021	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 5,371,983	\$ 2,639,348	\$ -	\$ 8,011,331
Cost of sales	3,619,344	789,975	-	4,409,319
Gross profit	1,752,639	1,849,373	-	3,602,012
Operating expenses	-	-	6,330,047	6,330,047
Operating income (loss)	\$ 1,752,639	\$ 1,849,373	\$ (6,330,047)	\$ (2,728,035)

Revenues attributed to the following geographic regions based on the location of the customer is as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
United States ¹	\$ 9,241,715	\$ 7,867,203
Canada	35,826	111,514
Others	13,937	32,614
Total	\$ 9,291,478	\$ 8,011,331

(1) United States includes revenues attributed to the US Virgin Islands based in the Caribbean basin.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

19. Expenses by Nature

Total salaries and wages as well as other personnel and contractor related expenses included in Cost of Sales for the three months ended March 31, 2022 and March 31, 2021, respectively, were \$824,753 and \$850,859.

The Company's operating expenses by nature are as follows:

Period ended	Three months ended March 31, 2022	Three months ended March 31, 2021
Salaries and Benefits	\$ 3,066,025	\$ 2,897,605
Travel and meals	97,799	16,609
Depreciation and Amortization	493,169	434,957
Consulting and agent services	762,985	165,131
Facilities variable lease payments	143,237	147,206
Stock-based compensation	203,056	192,927
Marketing programs	150,359	15,173
Insurance	90,159	76,130
Office	166,127	40,654
Personnel programs and hiring costs	(1,676)	32,185
Information technology services and maintenance	72,440	52,139
Amalgamation related costs (Note 4)	-	964,484
Excess purchase price over RiseTech net assets (Note 4)	-	1,188,175
Congruitive acquisition costs	586,960	-
Other expenses	527,921	106,672
Total	\$ 6,358,560	\$ 6,330,047

20. Other Earnings (Expenses)

	Three months ended March 31, 2022	Three months ended March 31, 2021
Foreign exchange loss	\$ 385,050	\$ (14,068)
Finance expense	(236,986)	(166,329)
Total other earnings (expenses)	\$ 148,064	\$ (180,397)

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

21. Capital Disclosures

The Company's capital management objective is to ensure that the Company is capitalized in a manner which appropriately supports working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position, and to that end, the Company regularly assesses its capital management practices in response to changing economic conditions. The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, business expansion and other strategic objectives.

The following schedule details the components of capital:

Deficiency and Liabilities	March 31, 2022	March 31, 2021
Other capital reserves	\$ 40,458,700	\$ 40,255,644
Accumulated other comprehensive income	\$ 1,918,010	\$ 1,917,505
Share capital	\$ 88,136,633	\$ 86,932,034
Deficit	\$ (124,103,963)	\$ (122,314,580)
Bank term loan	3,111,429	-
Bank working capital loan	\$ 8,100,000	\$ 8,100,000

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

22. Financial instruments

(a) Financial assets and liabilities

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment.

As at March 31, 2022 and December 31, 2021, the carrying values of cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities and the bank loan approximate their fair value due to their ability to be promptly liquidated, their short term to maturity, or their use of market rates.

Financial instruments are analyzed using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets and liabilities carried at amortized cost are considered Level 2 instruments, because while observable prices and inputs are available, they are not quoted in an active market. There has not been any transfer between fair value hierarchy levels during the periods ended March 31, 2022 and December 31, 2021.

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- interest rate risk;
- credit risk;
- foreign currency exchange rate risk; and
- liquidity risk.

(i) Interest rate risk

All of the Company's financial assets and liabilities are non-interest bearing except for cash which generates interest income at market rates. The credit facilities bear interest at a floating rate based on the bank's prime rate and had a balance of \$8,100,000 as at March 31, 2022 and \$8,100,000 as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of \$81,000 for the period ended March 31, 2022 and \$81,000 for the year ended December 31, 2021 on the annual interest expense pertaining to its line of credit facility.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

22. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash, investment tax credits receivable and accounts receivable. Credit risk pertaining to the Company's accounts receivable is the risk of financial loss if a customer fails to meet its contractual obligations and arises from the Company's receivables. Accounts receivable primarily consist of trade accounts receivable from utilities companies which have low risk of default. With respect to accounts receivable, the Company engages EDC to perform ongoing credit evaluations of the Company's customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics.

The aging of accounts receivable as at March 31, 2022 and December 31, 2021 is provided in Note 5.

(iii) Foreign currency exchange rate risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations.

The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at March 31, 2022 and December 31, 2021. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a \$92,680 negative impact on net loss for the period ended March 31, 2022 and a \$413,392 negative impact for the year ended December 31, 2021.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

22. Financial instruments (continued)

(b) Financial risk management (continued)

(iii) Foreign currency exchange rate risk (continued)

The consolidated statements of financial position include the following amounts denominated in Canadian dollars at their equivalent US dollar amounts:

	March 31, 2022	March 31, 2021
Cash	\$ 2,305,607	\$ 6,160,796
Accounts receivable	212,843	36,883
Accounts payable	(745,122)	(733,735)
Accrued liabilities	(846,530)	(813,547)
Bank loan	-	(750,000)
Total	\$ 926,798	\$ 3,900,397

At present, the Company does not have any formal policy for hedging against foreign currency exchange rate risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company constantly monitors its operations and cash flows to ensure that current and future obligations will be met when due.

The maturities of the Company's financial liabilities are as follows:

	As at March 31, 2022
Less than 90 days:	
Accounts payable and accrued liabilities	\$ 9,226,974

The Company has a loan agreement with Comerica Bank to fund ongoing working capital requirements since April 12, 2012 which the Company has renewed on an annual basis since such date.

TANTALUS SYSTEMS HOLDING INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

Unaudited (Expressed in United States dollars, unless otherwise indicated)

Three months ended March 31, 2022 and 2021

23. Related Party

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note. The following table discloses the compensation amount of the Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's executive officers. The remuneration of key management for the three months ended March 31, 2022 and December 31, 2021 is as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Short-term employee benefits	\$ 364,629	\$ 578,521
Share-based compensation	98,354	30,944
Total	\$ 462,983	\$ 609,465

Compensation of the key management personnel includes salaries and non-cash benefits.

24. Supplemental Cash Flow Information

The following are non-cash investing activities that occurred during the periods ended March 31, 2022 and March 31, 2021:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Fair value of contingent consideration in Congruitive acquisition	\$ 2,458,702	\$ -
Shares issued in Congruitive acquisition	1,196,466	-
Total	\$ 3,655,168	\$ -