



**TANTALUS SYSTEMS
HOLDING INC.**

**(formerly RiseTech Capital
Corp.)**

**Interim Condensed
Consolidated Financial
Statements**

For the three and six months ended
June 30, 2021 and 2020
(expressed in United States dollars)

(Unaudited)

MANAGEMENT'S RESPONSIBILITY

The management of Tantalus Systems Holding Inc. (formerly known as RiseTech Capital Corp.) is responsible for the preparation of the accompanying interim condensed consolidated financial statements. The interim condensed 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 with the Company's management to review the interim condensed consolidated financial statements. The audit committee has approved the interim condensed consolidated financial statements and reported its findings to the Board of Directors.

"Peter Londa"
Chief Executive Officer
August 16, 2021

"George Reznik"
Chief Financial Officer
August 16, 2021

TANTALUS SYSTEMS HOLDING INC.
(FORMERLY RISETECH CAPITAL CORP.)
Interim Condensed Consolidated Statements of Financial Position
Unaudited (Expressed in United States dollars)

	<i>Note</i>	June 30, 2021	December 31, 2020
Assets			
Current assets			
Cash		\$ 10,682,722	\$ 4,647,713
Accounts receivable	5	6,360,975	8,896,323
Investment tax credits receivable	6	1,194,824	1,207,868
Inventory	7	5,473,337	4,591,099
Prepaid expenses and other assets		1,111,567	1,375,263
Total current assets		24,823,425	20,718,266
Property and equipment	8	1,276,683	1,439,715
Intangible assets	9	164,033	374,673
Right of Use assets	10	3,661,284	992,880
Total assets		\$ 29,925,425	\$ 23,525,534
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 10,576,160	\$ 12,189,613
Deferred revenue and deposits		4,460,506	4,259,508
Lease liabilities	13	692,481	730,871
Bank loan	12	8,100,000	8,075,050
Total current liabilities		23,829,147	25,255,042
Lease liabilities	13	3,651,917	581,598
Total liabilities		27,481,064	25,836,640
Shareholders' equity (deficit)			
Share capital	14		
Common shares		79,426,147	71,475,662
Other capital reserves		39,910,130	39,590,453
Accumulated other comprehensive income		1,918,169	1,917,206
Deficit		(118,810,085)	(115,294,427)
Total shareholders' equity (deficit)		2,444,361	(2,311,106)
Total liabilities and shareholders' equity		\$ 29,925,425	\$ 23,525,534

See accompanying notes to interim condensed consolidated financial statements.

Commitments and contingencies (*Note 17*)
Subsequent events (*Note 24*)

Approved on behalf of the Board:

“John McEwen”
Director

“Peter Londa”
Director

TANTALUS SYSTEMS HOLDING INC.
(FORMERLY RISETECH CAPITAL CORP.)

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Unaudited (Expressed in United States dollars)

<i>Note</i>	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020	
Revenues	18	\$ 8,013,262	\$ 7,754,934	\$ 16,024,593	\$ 14,981,875
Cost of sales	7, 14(h), 18	4,221,177	3,920,843	8,630,496	7,771,245
		3,792,085	3,834,091	7,394,097	7,210,630
Expenses					
Sales and marketing	14(h), 19	1,184,401	1,280,361	2,568,015	2,810,854
Research and development	6, 14(h), 19	1,479,745	999,199	2,752,170	1,934,118
General and administrative	14(h), 19	1,125,171	996,203	4,364,222	2,044,341
Depreciation and amortization	8, 9, 10, 19	446,647	433,894	881,604	851,012
		4,235,964	3,709,657	10,566,011	7,640,325
Operating (loss) income		(443,879)	124,434	(3,171,914)	(429,695)
Other (expenses) earnings					
Foreign exchange (loss) gain		10,142	(115,831)	(3,926)	66,175
Finance expenses	15	(173,489)	(179,664)	(339,818)	(389,545)
Other income	20	-	1,432,055	-	1,612,910
		(163,347)	1,136,560	(343,744)	1,289,540
(Loss) income before income taxes		(607,226)	1,260,994	(3,515,658)	859,845
Income tax expense		-	-	-	-
(Loss) income for the period		(607,226)	1,260,994	(3,515,658)	859,845
Foreign currency translation adjustment		803	(3,034)	963	-
Total comprehensive (loss) income for the period		\$ (606,423)	\$ 1,257,960	\$ (3,514,695)	\$ 859,845
(Loss) earnings per share (basic)	16	\$ (0.02)	\$ 0.04	\$ (0.09)	\$ 0.02
(Loss) earnings per share (fully diluted)	16	\$ (0.02)	\$ 0.04	\$ (0.09)	\$ 0.02
Weighted average number of shares outstanding (basic)	16	38,859,050	35,539,171	38,056,868	35,539,171
Weighted average number of shares outstanding (fully diluted)	16	38,859,050	35,539,171	38,056,868	35,539,171

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.
(FORMERLY RISETECH CAPITAL CORP.)

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)

Unaudited (Expressed in United States dollars)

	Note	Common Shares		Other Capital	Accumulated	Deficit	Total
		Number	Amount	Reserves	Other Comprehensive Income		Shareholders' Deficit
Balance, December 31, 2019		35,539,171	\$ 74,556,543	37,436,376	\$ 1,926,003	\$ (116,779,274)	\$ (2,860,352)
Share cancellation	14 (e)	(1,865,651)	(3,080,881)	1,851,315	-	-	(1,229,566)
Share-based compensation	14 (h)	-	-	302,762	-	-	302,762
Foreign currency translation adjustment		-	-	-	(8,797)	-	(8,797)
Income for the year		-	-	-	-	1,484,847	1,484,847
Balance, December 31, 2020	14 (a)	33,673,520	\$ 71,475,662	39,590,453	\$ 1,917,206	\$ (115,294,427)	\$ (2,311,106)
Share-based compensation	14 (h)	-	-	258,476	-	-	258,476
Issuance of common shares under Private Placement	14 (c)	4,418,210	7,778,539	-	-	-	7,778,539
Share issuance costs	14 (c)	-	(1,154,054)	61,201	-	-	(1,092,853)
Shares issued for RiseTech merger	14 (b)	767,320	1,326,000	-	-	-	1,326,000
Foreign currency translation adjustment		-	-	-	963	-	963
Loss for the period		-	-	-	-	(3,515,658)	(3,515,658)
Balance, June 30, 2021	14 (a)	38,859,050	\$ 79,426,147	39,910,130	\$ 1,918,169	\$ (118,810,085)	\$ 2,444,361

See accompanying notes to interim condensed consolidated financial statements

TANTALUS SYSTEMS HOLDING INC.
(FORMERLY RISETECH CAPITAL CORP.)

Interim Condensed Consolidated Statements of Cash Flows

Unaudited (Expressed in United States dollars)

<i>Note</i>	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash provided by (used in)				
Operating Activities				
(Loss) income for the period	\$ (607,226)	\$ 1,260,994	\$ (3,515,658)	\$ 859,845
Items Not Affecting Cash:				
Unrealized foreign exchange loss	12,429	16,207	24,801	16,028
Depreciation of equipment	8 143,365	135,283	282,262	270,225
Amortization of intangible assets	9 187,716	178,769	373,564	353,299
Amortization of right-of-use asset	10 115,566	119,842	225,778	227,488
Share-Based compensation	14(h) 62,707	73,829	258,476	159,947
RiseTech reverse acquisition listing expense	4 -	-	1,188,175	-
Finance expenses	15 136,084	150,167	268,347	320,864
Changes in Non-Cash Operating Working Capital				
Accounts Receivable	5 (278,811)	(189,644)	2,535,348	2,288,090
Investment tax credits receivable	6 16,568	(200,000)	13,044	(725,000)
Inventories	7 (1,119,663)	(392,485)	(882,238)	282,526
Prepaid expenses and other assets	181,133	4,354	709,215	(9,519)
Accounts payable and accrued liabilities	11 846,852	1,418,121	(1,817,700)	(1,709,675)
Deferred revenue and deposits	(758,634)	(1,476,558)	200,998	(1,936,626)
Lease payments for interest	13 (24,299)	(39,572)	(49,661)	(75,280)
Interest paid on bank loan	12 (111,785)	(110,595)	(218,686)	(245,584)
Net Cash (used in) provided by Operating Activities	(1,197,998)	948,712	(403,935)	76,628
Investing Activities				
Purchase of equipment	8 (56,292)	(22,911)	(119,230)	(290,298)
Purchase of intangible assets	9 (74,699)	(63,643)	(162,924)	(175,085)
Cash acquired from RiseTech reverse acquisition	4 -	-	342,072	-
Net Cash (used in) provided by Investing Activities	(130,991)	(86,554)	59,918	(465,383)
Financing Activities				
Advances (repayments) of bank loan	12 24,950	(144,184)	24,950	126,385
Repayment of lease liabilities	13 (182,637)	(159,723)	(357,335)	(319,917)
Issuance of common shares under Private Placement	14(c) -	-	7,778,539	-
Share issuance costs	14(c) -	-	(1,092,853)	-
Net Cash (used in) provided by Financing Activities	(157,687)	(303,907)	6,353,301	(193,532)
Increase (decrease) in cash	(1,486,676)	558,251	6,009,284	(582,287)
Effect of foreign exchange on cash	(5,587)	(1,595)	25,725	12,829
Cash, beginning of period	12,174,985	4,241,972	4,647,713	5,368,086
Cash, end of period	\$ 10,682,722	\$ 4,798,628	\$ 10,682,722	\$ 4,798,628

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements

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

Three and six months ended June 30, 2021 and 2020

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 (see Note 4), and comparative figures presented in these interim condensed 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 and registered office is located in Burnaby, 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.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

1. Reporting Entity (continued)

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 six months ended June 30, 2021, the Company incurred comprehensive loss of \$3,514,695 and as at June 30, 2021 has a total shareholders' equity of \$2,444,361. Management has forecasted its cash flow requirements and believes that it has sufficient cash resources to support operations for at least the next twelve months from June 30, 2021.

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. The outbreak of COVID-19 towards the end of 2019 and through 2021 resulted in a change in global economic environment and may lead to further adverse changes in cash flows. 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.

2. Basis of Presentation

Statement of Compliance

These interim condensed consolidated 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 condensed consolidated 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, 2020 except as noted in Note 3 for changes and impact of new accounting policies adopted effective January 1, 2021. Accordingly, these interim condensed consolidated 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, 2020 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

Selected explanatory notes are included in the 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 TSH Canada Inc.

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

2. Basis of Presentation (continued)

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 condensed consolidated financial statements. The entities contained in the interim condensed 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

¹Dissolved March 4, 2021.

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 application of accounting policies, the reported amounts of assets and liabilities at the date of the interim financial statements, and the reported amounts of revenue and expenses during the reporting periods. The judgements, estimates and associated assumptions are based on historical experience and other factors that management considers to be relevant and are subject to uncertainty. Judgements, estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. 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 TSH Canada Inc.'s most recent audited consolidated financial statements for the year ended December 31, 2020, except for judgements pertaining to the adoption of new accounting policies effective on January 1, 2021 (Note 3). These interim condensed consolidated financial statements should be read in conjunction with TSH Canada Inc.'s audited consolidated financial statements for the year ended December 31, 2020, which were filed under the Company's profile on SEDAR at www.sedar.com.

These Board of Directors authorized these interim condensed consolidated financial statements for issue on August 16, 2021.

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

2. Basis of Presentation (continued)

COVID-19 Pandemic

The Company continues to actively monitor the current international and domestic impacts of and responses to the COVID-19 pandemic and its related risks and continues to prepare accordingly. As the situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known, an estimate of the financial effect on the Company is not practicable at this time.

The COVID-19 pandemic has developed rapidly in 2020 and 2021, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and the group's business in various ways inclusive of a reduction in the supply of goods and materials from the Company's contract manufacturer supplier which has affected its ability to continue the production of the Company's products as well as the reduction of economic activity/requirement to close its office facilities with the requirement for the large majority of its employees to work from home which has resulted in a significant reduction in sales/productivity during the periods ended June 30, 2021 and June 30, 2020.

Governments in the countries in which the Company operates have also announced the implementation of government assistance measures which might mitigate some of the impact of the COVID-19 pandemic on its results and liquidity. To the extent appropriate, the Company has applied for and received such government assistance in the countries in which it operates. The details of all of the arrangements that might be available to the Company and the period throughout which such arrangements will remain available are continuing to evolve and remain subject to uncertainty. The Company is continuing to assess the implications for its business when these arrangements are no longer available. Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience further negative results and liquidity restraints and incur additional impairments on its assets in future. The exact impact on the Company's existing and future activities cannot be predicted.

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

3. Significant Accounting Policies

The accounting policies followed in these interim condensed consolidated financial statements are the same as those applied in the Company's most recent audited consolidated financial statements for the year ended December 31, 2020, except as noted below for changes and impact of new accounting policies adopted effective January 1, 2021.

Conceptual Framework

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting which assists entities in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to more fully understand the standards. The revised conceptual framework includes the following clarifications and updates: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions and guidance, particularly for the definition of a liability; and, (d) clarifications on important items such as the role of stewardship, prudence and measurement uncertainty in financial reporting. The revised conceptual framework is effective for annual reporting periods beginning on or after January 1, 2021 and is applicable to the Company starting January 1, 2021. The adoption of this new standard has not had any impact on the amounts recognized in the Company's interim financial statements.

Definition of Material

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and 8 Accounting Policies, Changes in Accounting Estimates and Errors) to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and are applicable to the Company starting January 1, 2021. The adoption of this new standard does not have any impact on the amounts recognized in the Company's interim financial statements.

Amendments to IFRS 3 Business Combination

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3 Business Combination) which: (a) clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and (c) removes certain assessments and adds guidance and illustrative examples. The amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning in or after January 1, 2021 and to asset acquisitions that occur on or after the beginning of that period. The adoption of this new standard has not had any impact on the amounts recognized in the Company's interim financial statements.

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

4. Reverse acquisition of RiseTech by TSH Canada Inc.

On January 29, 2021, RiseTech acquired all of the outstanding shares of TSH Canada Inc. pursuant to a plan of arrangement and changed its name to Tantalus Systems Holding Inc.

Prior to closing of the plan of arrangement, the following transactions occurred on January 29, 2021:

- TSH Canada Inc. amalgamated with its parent company, Tantalus Systems Shareholder Inc. (“TSSI”), culminating in an amalgamated legal entity (“Amalco”). In conjunction with the amalgamation, shares of TSH Canada Inc. held by TSSI were allocated to the shareholders of TSSI. TSH Canada Inc. maintained continuity of interest of Amalco. In addition, the options of TSH Canada Inc. were transferred to Amalco in exchange for an equal amount of stock options of Amalco with the same terms.
- TSH Canada Inc. consolidated its outstanding shares prior to closing the transaction with RiseTech on a 0.826127371 basis resulting in a consolidated total of 33,673,520 common shares.
- TSH Canada Inc. closed a concurrent financing resulting in aggregate gross proceeds of CND\$9,940,973 by issuing a total of 4,418,210 common shares at a per share price of CND\$2.25
- RiseTech consolidated its outstanding shares prior to closing the transaction with the Company on a 0.06094549 basis resulting in a consolidated total of 767,320 common shares.
- RiseTech adopted an omnibus long term incentive plan (the “LTIP”) and subsequently (upon the closing of the plan of arrangement), each outstanding Amalco stock option and each outstanding RiseTech stock option were deemed cancelled and exchanged for stock options of RiseTech to be governed by the LTIP with terms and conditions of such options effectively identical to the terms and conditions in effect for such stock options immediately prior to the closing of the plan of arrangement.
- On January 29, 2021 upon culmination of the above transactions, RiseTech acquired all of the outstanding shares of Amalco and changed its name to Tantalus Systems Holding Inc. resulting in total common shares issued and outstanding of 38,859,050 (see Note 14(b)).

Upon completion of the transactions on January 29, 2021, the shareholders of RiseTech held less than 2% of the issued and outstanding shares of TSH Canada Inc. Under International Financial Reporting Standards (“IFRS”) RiseTech does not meet the definition of a business, as such the share exchange is considered to be a share-based payment in accordance with IFRS 2 *Share based Payments*. That is, the share exchange is measured at the fair value of the company acquired. Accordingly, the accounting for the share exchange is identical to that resulting from a reverse acquisition, except no goodwill is recorded. Under reverse acquisitions, the post reverse acquisition comparative historical financial

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

4. Reverse acquisition of RiseTech by TSH Canada Inc. (continued)

statements of the legal acquirer, RiseTech, are those of the legal acquiree, TSH Canada Inc., which is considered to be the accounting acquirer. These financial statements reflect the balance sheets, the results of operations and the cash flows of TSH Canada Inc. and its subsidiaries at their carrying amounts, since it is deemed to be the accounting acquirer.

The acquisition date fair value of the consideration transferred by the accounting acquirer, TSH Canada Inc., for its interest in the accounting acquiree, RiseTech of \$1,326,000 (or 767,320 common shares) is determined based on the fair value of the equity interest TSH Canada Inc. would have had to give to the owners of RiseTech, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares and contributed surplus respectively in the consolidated statement of financial position.

The net assets of RiseTech acquired on January 29, 2021 are as follows:

Cash	\$	342,072
Accounts payable and accrued liabilities		<u>(204,247)</u>
Net assets acquired	\$	137,825

In accordance with IFRS 2 *Share-Based Payments* any excess of the fair value of the shares issued by TSH Canada Inc. over the value of the net monetary assets of RiseTech is recognized in the consolidated statements of comprehensive loss.

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition:

RiseTech reverse acquisition listing expense	\$	1,188,175
Legal and professional fees - year ended December 31, 2020		460,291
Legal and professional fees - three months ended March 31, 2021		<u>272,975</u>
Total	\$	1,921,441

In addition to the above, TSH Canada Inc. incurred costs arising from the reverse acquisition with RiseTech relating to accounting related professional services, directors and officers tail insurance and transaction related compensation included in general and administrative costs for the six months ended June 30, 2021 of \$691,509 and for the year ended December 31, 2020 of \$721,557 relating to accounting related professional services.

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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Three and six months ended June 30, 2021 and 2020

5. Accounts Receivable

	June 30, 2021	December 31, 2020
Accounts receivable	\$ 6,637,579	\$ 9,172,927
Less: allowance for doubtful accounts	(276,604)	(276,604)
Net Accounts receivable	\$ 6,360,975	\$ 8,896,323

The Company did not have any accounts receivable balances from related parties as at June 30, 2021 and December 31, 2020, 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 June 30, 2021, the Company recorded credit losses of \$nil (June 30, 2020 - \$nil), in general and administrative expense.

Aging analysis of trade receivables is as follows:

	June 30, 2021	December 31, 2020
Not past due	\$ 4,101,607	\$ 3,700,327
31-90 days	982,947	4,112,489
91-180 days	263,014	626,047
Over 180 days	1,013,407	457,460
Total	\$ 6,360,975	\$ 8,896,323

TANTALUS SYSTEMS HOLDING INC.

(FORMERLY RISETECH CAPITAL CORP.)

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

6. Investment Tax Credits Receivable and Government Assistance

	June 30, 2021	December 31, 2020
Investment tax credits receivable	\$ 1,194,824	\$ 1,207,868

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 scientific research and experimental development expenditures ("SR&ED"), 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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Research and Development, Gross	\$ 1,479,745	\$ 1,199,199	\$ 2,832,170	\$ 2,659,118
Investment Tax Credit	-	(200,000)	(80,000)	(725,000)
Research and Development, Net	\$ 1,479,745	\$ 999,199	\$ 2,752,170	\$ 1,934,118

Canada Emergency Wage Subsidy Program

The Company applied for and received subsidies in the aggregate amount of \$1,432,055 and \$1,612,910 during the three and six months period ended June 30, 2020 pursuant to the Canada Emergency Wage Subsidy ("CEWS") program under the Government of Canada's COVID-19 Economic Response Plan. The Company did not receive any subsidies for the three and six months period ended June 30, 2021.

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Three and six months ended June 30, 2021 and 2020

7. Inventory

		June 30, 2021		December 31, 2020
Finished goods	\$	3,241,511	\$	2,929,154
Raw materials		2,231,826		1,661,945
Inventory	\$	5,473,337	\$	4,591,099

During the three months ended June 30, 2021 and June 30, 2020, inventory related amounts were charged to cost of sales of \$3,319,298 and \$2,900,586, respectively. During the six months ended June 30, 2021 and June 30, 2020, the Company charged \$6,883,765 and \$5,685,056, 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 three months ended June 30, 2021 and June 30, 2020 of \$37,379 and \$81,428, respectively, and during the six months ended June 30, 2021 and June 30, 2020 of \$63,372 and \$137,509, respectively.

An inventory obsolescence reserve of \$150,000 as at June 30, 2021 (\$150,000 as at December 31, 2020) 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, 2019	\$ 3,313,093	\$ 512,805	\$ 4,605,724	\$ 1,612,402	\$ 10,044,024
Additions	61,641	13,250	419,993	5,712	500,596
Balance, December 31, 2020	\$ 3,374,734	\$ 526,055	\$ 5,025,717	\$ 1,618,114	\$ 10,544,620
Additions	28,367	-	90,863	-	119,230
Balance, June 30, 2021	\$ 3,403,101	\$ 526,055	\$ 5,116,580	\$ 1,618,114	\$ 10,663,850

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8. Property & Equipment (continued)

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2019	\$ 3,187,590	\$ 412,878	\$ 3,830,261	\$ 1,136,135	\$ 8,566,864
Additions	75,329	32,352	235,064	195,296	538,041
Balance,					
December 31, 2020	\$ 3,262,919	\$ 445,230	\$ 4,065,325	\$ 1,331,431	\$ 9,104,905
Additions	34,627	12,829	137,989	96,817	282,262
Balance,					
June 30, 2021	\$ 3,297,546	\$ 458,059	\$ 4,203,314	\$ 1,428,248	\$ 9,387,167

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2020	\$ 111,815	\$ 80,825	\$ 960,392	\$ 286,683	\$ 1,439,715
Balance,					
June 30, 2021	\$ 105,555	\$ 67,996	\$ 913,266	\$ 189,866	\$ 1,276,683

9. Intangible assets

Cost	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2019	\$ 1,262,536	\$ 677,509	\$ 962,058	\$ 2,902,103
Additions	353,410	-	-	353,410
Balance,				
December 31, 2020	\$ 1,615,946	\$ 677,509	\$ 962,058	\$ 3,255,513
Additions	162,924	-	-	162,924
Balance,				
June 30, 2021	\$ 1,778,870	\$ 677,509	\$ 962,058	\$ 3,418,437

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9. Intangible assets (continued)

Accumulated Amortization	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2019	\$ 1,153,443	\$ 409,127	\$ 580,088	\$ 2,142,658
Additions	328,289	168,056	241,837	738,182
Balance,				
December 31, 2020	\$ 1,481,732	\$ 577,183	\$ 821,925	\$ 2,880,840
Additions	168,618	84,028	120,918	373,564
Balance,				
June 30, 2021	\$ 1,650,350	\$ 661,211	\$ 942,843	\$ 3,254,404

Net Book Value	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2020	\$ 134,214	\$ 100,326	\$ 140,133	\$ 374,673
Balance,				
June 30, 2021	\$ 128,520	\$ 16,298	\$ 19,215	\$ 164,033

10. Right-of-Use Assets

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

	June 30, 2021	December 31, 2020
Beginning Balance	\$ 992,880	\$ 1,152,875
Additions	2,894,182	357,441
Write-off due to lease cancellation	-	(79,155)
Amortization of ROU	(225,778)	(438,281)
Ending Balance	\$ 3,661,284	\$ 992,880

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11. Accounts Payable and Accrued Liabilities

	June 30, 2021	December 31, 2020
Trade payables and other payables	\$ 6,618,682	\$ 7,125,739
Accrued warranty (a)	596,272	575,660
Employee benefits	1,905,481	1,551,137
Vendor goods and services received	706,698	736,418
Professional fees	281,224	387,773
Other accrued liabilities	467,803	1,812,886
Total	\$ 10,576,160	\$ 12,189,613

- (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") to fund ongoing working capital requirements. The Company has a line of credit facility that had a maximum borrowing limit of approximately \$8,100,000 comprised of two line of credit facilities (that were expressed in different currencies) 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 11, 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 facility bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The facility has a maturity date of February 28, 2022. The credit facility is secured by a general security agreement and security over accounts receivable and inventory. As at June 30, 2021, the Company was in compliance with its financial covenants. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at June 30, 2021 of \$8,100,000 (\$8,075,050 as at December 31, 2020).

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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.

The Company decided to apply recognition exemptions to short-term leases of its equipment leases. Payments made under such equipment leases are expensed on a straight-line basis.

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 \$2,741,566, lease liability of \$3,187,085 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 for its Burnaby, BC long-term operating premises lease extension.

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

	June 30, 2021	December 31, 2020
Maturity Analysis – contractual undiscounted cash flows from minimum lease		
Less than one year	\$ 794,782	\$ 730,871
One to five years	2,792,947	751,693
More than five years	1,730,522	-
Total undiscounted lease liabilities	\$ 5,318,251	\$ 1,482,564

The following is a reconciliation of undiscounted lease liabilities at June 30, 2021 to the lease liabilities recognized at June 30, 2021:

Total undiscounted lease liabilities at June 30, 2021	\$ 5,318,251
Discounted using incremental borrowing rate	(973,853)
Total lease liabilities recognized under IFRS 16 at June 30, 2021	\$ 4,344,398

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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13. Lease Liabilities (continued)

The following tables present details of movement in the carrying value of the lease liabilities:

	June 30, 2021	December 31, 2020
Beginning Balance	\$ 1,312,469	\$ 1,582,976
Additions	3,339,701	357,441
Add: Interest	49,661	130,412
Less: Payments	(406,996)	(793,788)
Write-off due to lease cancellation	-	(95,489)
Impact of foreign exchange	49,563	130,917
Ending Balance	4,344,398	1,312,469
Less: Current portion	(692,481)	(730,871)
Non-current portion	\$ 3,651,917	\$ 581,598

		Three months ended June 30, 2021		Three months ended June 30, 2020		Six months ended June 30, 2021		Six months ended June 30, 2020
Amounts Recognized in Statements of Operations								
Finance charge on lease liabilities	\$	24,299	\$	39,572	\$	49,661	\$	75,280
Variable lease payments expensed		126,082		124,191		252,164		248,383
Expenses relating to equipment short term leases		597		3,579		1,195		7,487
Total amounts recognized in Statements of Operations	\$	150,978	\$	167,342	\$	303,020	\$	331,150

The aggregate of the Company's variable lease payments as at June 30, 2021 is as follows and reflect the estimated future payments of the variable operating costs of the long-term operating premises leases in Burnaby, Kanata, Raleigh and Norwalk.

2021	\$	252,164
2022		534,463
2023		547,906
2024		561,754
2025		488,457
2026		498,940
2027		513,908
2028		529,326
	\$	3,926,918

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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14. Share Capital

(a) Authorized share capital:

Unlimited common 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 38,859,050 common shares outstanding as at June 30, 2021 as indicated below:

	Number of common shares		Amount
Outstanding, January 1, 2020	35,539,171	\$	74,556,543
Cancellation of shares from settlement	(1,865,651)		(3,080,881)
Outstanding, December 31, 2020	33,673,520		71,475,662
Issuance of common shares under Private Placement	4,418,210		7,778,539
Share issuance costs	-		(1,154,054)
Shares issued for RiseTech merger	767,320		1,326,000
Outstanding, June 30, 2021	38,859,050	\$	79,426,147

The common shares have been retroactively adjusted for impact of the share consolidation by the Company on January 29, 2021 (see Note 14 (b)).

(b) Share Consolidation

On November 19, 2020, TSH Canada Inc., with TSSI, entered into a definitive agreement with RiseTech, pursuant to which RiseTech was to acquire all of the issued and outstanding shares of TSH Canada Inc. (following the amalgamation of TSH Canada Inc. and TSSI in accordance with the plan of arrangement) to complete an arm's length qualifying transaction in accordance with the policies of the TSX-V Exchange. Immediately prior to the closing of the qualifying transaction, on January 29, 2021, TSH Canada Inc. consolidated its outstanding common shares of 40,760,688 on a 0.826127371 basis resulting in a consolidated total of 33,673,520 common shares. RiseTech consolidated its outstanding shares prior to closing the transaction on a 0.06094549 basis resulting in a consolidated total of 767,320 common shares (see Note 4).

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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14. Share Capital (continued)

(c) Private Placement

Concurrent with the reverse acquisition with RiseTech on January 29, 2021, TSH Canada Inc. completed a private placement of 4,418,210 Subscription Receipts at a price of CND\$2.25 per Subscription Receipt for aggregate gross proceeds of CND\$9,940,973. Each Subscription Receipt was exchangeable and ultimately entitled the holder thereof to one common share of TSH Canada Inc. that was to be exchanged for one common share of the Company upon completion of the reverse acquisition with RiseTech representing approximately 11.37% of the issued and outstanding common shares of the Company on a non-diluted basis. Share issuance costs related to this transaction totaled \$1,154,054 (see Note 4), inclusive of 124,982 finders' warrants valued at CND\$0.626 each (totaling CND\$78,215 or US\$61,201), which have been recorded as share issuance costs and charged against share capital.

The concurrent financing completed on January 29, 2021 is summarized as follows:

Gross financing proceeds (CND\$ 9,940,973)	\$ 7,778,539
Capitalized costs	(1,092,853)
Broker warrants issued	(61,201)
Total financing costs	(1,154,054)
Net financing proceeds	\$ 6,624,485

(d) Finders Warrants

As part of the private placement equity financing which closed during the six months ended June 30, 2021, 124,982 finders' warrants valued at CND\$0.626 each totaling \$61,201 (CND\$78,215) have been recorded as share issuance costs and charged against share capital. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 50%, risk-free rate of 0.25%, dividend yield of 0% and weighted average life of two years.

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14. Share Capital (continued)

(e) Energate Arbitration

- (a) TSH Canada Inc. (along with TSSI, collectively, the “claimants”) engaged in an arbitration proceeding against the former shareholders of Energate Inc. (“Energate”) (the “respondent”) regarding breaches of representations and other conduct relating to TSH Canada Inc.’s acquisition of Energate on July 26, 2017. Two events occurred which resulted in the cancellation of 1,865,651 (2,258,309 on a pre-share consolidation basis) outstanding common shares of TSH Canada Inc.:

(1) The arbitrator delivered an award in the amount of CND\$3,000,000 to the claimants to be applied by cancelling common shares of the Company held by the respondent having a value equal to such amount in accordance with the terms of the share purchase agreement pursuant to which TSH Canada Inc. acquired Energate. Accordingly, TSH Canada Inc. cancelled 1,449,346 (1,754,386 on a pre-share consolidation basis) common shares of TSH Canada Inc. pursuant to a supplementary consent award executed by the arbitrator and effective as at July 8, 2020.

(2) The arbitrator issued a costs award in favor of TSH Canada Inc. for reimbursement of costs incurred in connection with the arbitration in the amount of CND\$861,709. The parties agreed that TSH Canada Inc. would cancel an additional 416,305 (503,923 on a pre-share consolidation basis) common shares of TSH Canada Inc. held by the former shareholders of Energate as settlement of the costs award executed by the arbitrator and effective as at September 25, 2020.

Costs relating to the aforementioned arbitration totaling \$105,508 and \$279,685 were incurred during the three and six months ended June 30, 2020, respectively.

(f) Stock Option Plan

The Company adopted the 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 (see Note 4). As at June 30, 2021, the LTIP allows for a maximum of 5,077,024 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.

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14. Share Capital (continued)

(f) Stock Option Plan (continued)

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, 2019	4,124,972	\$ 1.00
Granted during the period	777,836	\$ 1.00
Forfeited/expired during the period	(60,924)	\$ 1.00
Balance at December 31, 2020	4,841,884	\$ 1.00
RiseTech options exchanged in reverse acquisition	18,284	\$ 1.64
Granted during the period	212,000	\$ 2.21
Forfeited/expired during the period	(23,410)	\$ 1.00
Balance at June 30, 2021	5,048,758	\$ 1.05

As at June 30, 2021, 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:

	Options Outstanding	Options Exercisable	Exercise Price (CND\$)
	18,284	18,284	\$ 1.64
	112,000	-	\$ 2.25
	100,000	25,000	\$ 2.17
	4,818,474	3,534,025	\$ 1.00
Balance at June 30, 2021	5,048,758	3,577,309	\$ 1.01

During the period ended June 30, 2021 and June 30, 2020, the fair value of options granted was \$98,381 and \$124,684, respectively. Remaining unrecognized cost of the stock option plan of the Company as at June 30, 2021 and December 31, 2020 was \$209,096 and \$246,701, respectively. The weighted average remaining life expressed in years of outstanding options was 3.57 years as at June 30, 2021 and 4.06 years as at December 31, 2020.

As at June 30, 2021, the Company had total vested options of 3,577,309 with a weighted average price of CND\$1.01 and total vested options of 3,379,050 with a weighted average price of CND\$1.00 as at December 31, 2020. The stock options have been retroactively adjusted for impact of the share consolidation by the Company during the period.

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14. Share Capital (continued)

(f) Stock Option Plan (continued)

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:

	June 30, 2021	December 31, 2020
Risk free interest rate	0.39% - 0.60%	0.39%
Dividend yield	0%	0%
Expected life (in years)	1 to 7 years	5.5 to 7 years
Forfeiture rate	4.71%	4.79%
Volatility	50%	50%

(g) 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 and six months ended June 30, 2021, the Company issued nil and 74,074 RSU, respectively, with a fair value of nil and \$130,000. The RSU’s were fully vested with a one year term at issuance and its related costs were expensed in general and administrative expenses during the three months ended March 31, 2021 with nil related share-based expense during the three months ended June 30, 2021.

	Restricted Stock Units
Balance at December 31, 2020 and 2019	-
Granted during the period	74,074
Forfeited/expired during the period	-
Balance at June 30, 2021	74,074

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14. Share Capital (continued)

(g) Restricted Stock Units (continued)

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

	June 30, 2021
Risk free interest rate	0.39% - 0.60%
Dividend yield	0%
Expected life (in years)	1 year
Forfeiture rate	0.00%
Volatility	50%

(h) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU's granted was \$62,707 and \$73,829 during the three months ended June 30, 2021 and June 30, 2020, respectively, and \$258,476 and \$159,947 during the six months ended June 30, 2021 and June 30, 2020, respectively.

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

Three months ended June 30, 2021	Cost	Stock-based Compensation	Total
Cost of sales	\$ 4,219,097	\$ 2,080	\$ 4,221,177
Sales and marketing	1,174,351	10,050	1,184,401
Research and development	1,468,908	10,837	1,479,745
General and administrative	1,085,431	39,740	1,125,171
Total operating expenses	\$ 3,728,690	\$ 60,627	\$ 3,789,317
Total	\$ 7,947,787	\$ 62,707	\$ 8,010,494
Three months ended June 30, 2020	Cost	Stock-based Compensation	Total
Cost of sales	\$ 3,914,900	\$ 5,943	\$ 3,920,843
Sales and marketing	1,268,930	11,431	1,280,361
Research and development	986,694	12,505	999,199
General and administrative	952,253	43,950	996,203
Total operating expenses	\$ 3,207,877	\$ 67,886	\$ 3,275,763
Total	\$ 7,122,777	\$ 73,829	\$ 7,196,606

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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14. Share Capital (continued)

(h) Stock-based compensation expense (continued)

Six months ended June 30, 2021	Cost	Stock-based Compensation	Total
Cost of sales	\$ 8,625,574	\$ 4,922	\$ 8,630,496
Sales and marketing	2,548,435	19,580	2,568,015
Research and development	2,730,699	21,471	2,752,170
General and administrative	4,151,719	212,503	4,364,222
Total operating expenses	\$ 9,430,853	\$ 253,554	\$ 9,684,407
Total	\$ 18,056,427	\$ 258,476	\$ 18,314,903

Six months ended June 30, 2020	Cost	Stock-based Compensation	Total
Cost of sales	\$ 7,758,365	\$ 12,880	\$ 7,771,245
Sales and marketing	2,785,492	25,362	2,810,854
Research and development	1,906,790	27,328	1,934,118
General and administrative	1,949,964	94,377	2,044,341
Total operating expenses	\$ 6,642,246	\$ 147,067	\$ 6,789,313
Total	\$ 14,400,611	\$ 159,947	\$ 14,560,558

15. Finance Expenses

Period ended	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Accretion of interest on lease liability (note 13)	\$ 24,299	\$ 39,572	\$ 49,661	\$ 75,280
Interest expense on bank loan (note 12)	111,785	110,595	218,686	245,584
EDC insurance and other finance expenses	37,405	29,497	71,471	68,681
Total	\$ 173,489	\$ 179,664	\$ 339,818	\$ 389,545

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16. Loss per Share

(Loss) earnings per common share represents (loss) earnings 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 June 30, 2021	Three months ended June 30, 2020
Beginning balance at March 31, shares outstanding	38,859,050	35,539,171
Effect of shares issued in period	-	-
Weighted average number of shares (basic and diluted)	38,859,050	35,539,171

	Six months ended June 30, 2021	Six months ended June 30, 2020
Beginning balance at December 31, shares outstanding	33,673,520	35,539,171
Effect of shares issued related to RTO	648,619	-
Effect of shares issued in period	3,734,729	-
Weighted average number of shares (basic and diluted)	38,056,868	35,539,171

Diluted loss per share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Comprehensive (loss) income	\$ (606,423)	\$ 1,257,960	\$ (3,514,695)	\$ 859,845
Basic weighted average number of shares	38,859,050	35,539,171	38,056,868	35,539,171
Basic (loss) earnings per share	\$ (0.02)	\$ 0.04	\$ (0.09)	\$ 0.02
Diluted weighted average number of shares	38,859,050	35,539,171	38,056,868	35,539,171
Diluted (loss) earnings per share	\$ (0.02)	\$ 0.04	\$ (0.09)	\$ 0.02

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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

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17. Commitments and Contingencies

- (a) In the ordinary course of business, the Company may enter into performance bonds with customers as part of a sales contract. As at June 30, 2021, the Company had one performance bond for \$1,138,012 outstanding (December 31, 2020 - \$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 June 30, 2021, the Company had outstanding purchase order commitments of \$11,521,226 (December 31, 2020 - \$5,645,119).
- (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.

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
- 2) *The Utility Software Applications and Services Segment.* This segment is responsible for the sale of the Company's proprietary mission-critical software applications and a suite of professional services to support utilities. Revenue is generated from this segment through the sale of software licenses, 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.

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18. Segmented Information (continued)

A breakdown of revenues and cost of sales for each operating segment for the three and six months ended June 30, 2021 and June 30, 2020 is as follows:

Three months ended June 30, 2021	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 5,261,616	\$ 2,751,646	\$ -	\$ 8,013,262
Cost of sales	3,583,213	637,964	-	4,221,177
Gross profit	1,678,403	2,113,682	-	3,792,085
Operating expenses	-	-	4,235,964	4,235,964
Operating income (loss)	\$ 1,678,403	\$ 2,113,682	\$ (4,235,964)	\$ (443,879)

Three months ended June 30, 2020	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 4,878,336	\$ 2,876,598	\$ -	\$ 7,754,934
Cost of sales	3,170,248	750,595	-	3,920,843
Gross profit	1,708,088	2,126,003	-	3,834,091
Operating expenses	-	-	3,709,657	3,709,657
Operating income (loss)	\$ 1,708,088	\$ 2,126,003	\$ (3,709,657)	\$ 124,434

Six months ended June 30, 2021	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 10,633,599	\$ 5,390,994	\$ -	\$ 16,024,593
Cost of sales	7,202,557	1,427,939	-	8,630,496
Gross profit	3,431,042	3,963,055	-	7,394,097
Operating expenses	-	-	10,566,011	10,566,011
Operating income (loss)	\$ 3,431,042	\$ 3,963,055	\$ (10,566,011)	\$ (3,171,914)

Six months ended June 30, 2020	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 9,813,570	\$ 5,168,305	\$ -	\$ 14,981,875
Cost of sales	6,233,789	1,537,456	-	7,771,245
Gross profit	3,579,781	3,630,849	-	7,210,630
Operating expenses	-	-	7,640,325	7,640,325
Operating income (loss)	\$ 3,579,781	\$ 3,630,849	\$ (7,640,325)	\$ (429,695)

The Company earned revenues attributed to the following geographic regions based on the location of the customer:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
United States ¹	\$ 7,935,871	\$ 7,715,270	\$ 15,803,074	\$ 14,809,438
Canada	66,722	37,664	178,236	170,437
Others	10,669	2,000	43,283	2,000
Total	\$ 8,013,262	\$ 7,754,934	\$ 16,024,593	\$ 14,981,875

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

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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 June 30, 2021 and June 30, 2020, respectively, were \$742,693 and \$808,733, and for the six months ended June 30, 2021 and June 30, 2020, respectively, were \$1,593,572 and \$1,635,603.

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

Period ended	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Salaries and Benefits	\$ 2,746,599	\$ 2,296,357	\$ 5,644,204	\$ 4,464,138
Travel and meals	10,187	2,655	26,796	195,338
Depreciation and Amortization	446,647	433,894	881,604	851,011
Consulting and agent services	178,639	230,538	343,770	479,675
Facilities variable lease payments	126,838	124,973	274,044	295,251
Stock-based compensation	60,627	67,886	253,554	147,067
Marketing programs	33,710	67,390	48,883	302,896
Insurance	101,687	82,508	177,817	146,071
Office	91,028	49,381	131,682	54,110
Personnel programs and hiring costs	36,255	5,850	68,440	7,754
Information technology services and maintenance	45,594	59,866	97,733	96,231
Energate arbitration related costs (Note 14(e))	-	105,508	-	279,685
Amalgamation related costs (Note 4)	-	-	964,484	-
Excess purchase price over RiseTech net assets (Note 4)	-	-	1,188,175	-
Other expenses	358,153	182,851	464,825	321,098
Total	\$ 4,235,964	\$ 3,709,657	\$ 10,566,011	\$ 7,640,325

20. Other (Expenses) Earnings

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Foreign exchange gain (loss)	\$ 10,142	\$ (115,831)	\$ (3,926)	\$ 66,175
Finance expense	(173,489)	(179,664)	(339,818)	(389,545)
Covid-19 government assistance	-	1,432,055	-	1,612,910
Total other (expenses) earnings	\$ (163,347)	\$ 1,136,560	\$ (343,744)	\$ 1,289,540

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21. Capital Disclosures

TSH Canada Inc. was incorporated in 2017 which was the continuation of its predecessor company, Tantalus Systems Corp., which was founded in 1989 and raised capital throughout its operating history to fund the development of technology from initial concepts to commercially viable products, to attract and retain employees and to help TSH Canada Inc. access its target market. Over its 30-year history, TSH Canada Inc. raised multiple rounds of capital in the form of convertible debt and equity instruments giving rise to the shareholders' deficit over the years as the valuation of the business and corresponding values ascribed to previous rounds of financing changed over a 30-year period.

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 the Company's capital.

Deficiency and Liabilities	June 30, 2021	December 31, 2020
Other capital reserves	\$ 39,910,130	\$ 39,590,453
Accumulated other comprehensive income	\$ 1,918,169	\$ 1,917,206
Share capital	\$ 79,426,147	\$ 71,475,662
Deficit	\$ (118,810,085)	\$ (115,294,427)
Bank loan	\$ 8,100,000	\$ 8,075,050

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended June 30, 2021 and 2020

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 June 30, 2021 and December 31, 2020, 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 June 30, 2021 and December 31, 2020.

(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 June 30, 2021 and \$8,075,050 as at December 31, 2020. A potential percentage change in the bank's prime rate of 1.00% will have an impact of \$81,000 for the period ended June 30, 2021 and \$80,750 for the year ended December 31, 2020 on the Company's annual interest expense pertaining its line of credit facility.

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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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 the Company's accounts receivable as at June 30, 2021 and December 31, 2020 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 not have significant exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at June 30, 2021 and December 31, 2020. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a \$54,377 impact on net loss for the period ended June 30, 2021 and \$169,831 for the year ended December 31, 2020.

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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22. Financial instruments (continued)

(b) Financial risk management (continued)

(iii) Foreign currency exchange rate risk (continued)

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

		June 30, 2021		December 31, 2020
Cash	\$	2,176,472	\$	225,516
Accounts receivable		63,751		60,724
Accounts payable		(791,445)		(534,012)
Accrued liabilities		(905,009)		(700,533)
Bank loan		-		(750,000)
Total	\$	543,769	\$	(1,698,305)

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 June 30, 2021
Less than 90 days:		
Accounts payable and accrued liabilities	\$	10,576,160
Bank loan (note 12)	\$	8,100,000

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Notes to Interim Condensed Consolidated Financial Statements (continued)

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

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23. Related Party

Amalgamations 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 and six months ended June 30, 2021 and June 30, 2020 is as follows:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Short-term employee benefits	\$ 287,649	\$ 260,746	\$ 866,170	\$ 537,350
Share-based compensation	27,943	21,010	58,887	46,663
Total	\$ 315,592	\$ 281,756	\$ 925,057	\$ 584,013

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

24. Subsequent Events

- (a) On August 12, 2021, the Company closed an equity financing offering of 4.7 million common shares of the Company (the "Common Shares") at a price of CND\$2.25 per Common Share for gross proceeds of CND\$10.6 million (the "Offering") and estimated net proceeds of CND\$9.3 million. The Common Shares were offered by way of a short form prospectus filed in all of the provinces of Canada, excluding Quebec. The Company intends to use the estimated net proceeds of the Offering for strategic initiatives related to sales and marketing, research and development, and corporate development including potential future acquisitions and/or partnerships in addition to working capital investments and general corporate expenses.