TANTALUS SYSTEMS HOLDING INC.

Interim Condensed Consolidated Financial Statements

For the three and six months ended
June 30, 2023 and 2022

(expressed in United States dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by the Canadian Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity's auditors.

MANAGEMENT'S RESPONSIBILITY

The management of Tantalus Systems Holding Inc. (the "Company") is responsible for the preparation of the accompanying interim condensed consolidated financial statements and the preparation and presentation of information in the Annual Report. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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.

"Peter Londa"
Chief Executive Officer
August 14, 2023

"George Reznik"
Chief Financial Officer
August 14, 2023

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Note		June 30, 2023		December 31, 2022
Assets					
Current assets					
Cash		$	4,944,416	$	5,850,914
Restricted cash	5		673,474		673,474
Accounts receivable	6		9,051,375		9,041,735
Investment tax credits receivable	7		-		2,824
Inventory	8		6,889,626		5,690,736
Prepaid expenses and other assets			1,727,110		1,534,615
Total current assets			23,286,001		22,794,298
Property and equipment	9		714,275		801,803
Intangible assets	10		6,598,213		6,983,140
Goodwill	4		3,445,149		3,445,149
Right of Use assets	11		3,005,311		3,335,361
Total assets		$	37,048,949	$	37,359,751
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities	12	$	14,904,875	$	12,359,785
Deferred revenue and deposits			5,385,401		4,619,450
Lease liabilities	14		859,626		858,643
Bank term loan - current portion	13		1,100,000		1,100,000
Bank working capital loan	13		7,694,311		8,100,000
Contingent consideration on Congruitive acquisition	4		2,458,702		2,458,702
Total current liabilities			32,402,915		29,496,580
Deferred revenue and deposits			402,333		503,994
Bank term loan - long term portion	13		597,143		1,162,857
Lease liabilities	14		2,424,440		2,617,621
Total liabilities			35,826,831		33,781,052
Shareholders' equity					
Share capital	15				
Common shares			88,142,625		88,142,625
Other capital reserves			41,254,069		41,029,122
Accumulated other comprehensive income			1,914,129		1,916,948
Deficit			(130,088,705)		(127,509,996)
Total shareholders' equity			1,222,118		3,578,699
Total liabilities and shareholders' equity		$	37,048,949	$	37,359,751

See accompanying notes to interim condensed consolidated financial statements.

Commitments and contingencies (*Note 18*)
Subsequent events (*Note 25*)

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)

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenues	***19***	$ 11,220,916	$ 9,075,464	$ 21,633,603	$ 18,366,942
Cost of sales	***8, 15(e), 19***	4,977,312	4,911,669	10,527,290	9,782,034
		6,243,604	4,163,795	11,106,313	8,584,908
Expenses					
Sales and marketing	***15(e), 20***	2,237,090	1,665,330	4,404,441	3,243,639
Research and development	***7, 15(e), 20***	2,115,870	2,299,889	3,991,326	4,264,565
General and administrative	***15(e), 20***	1,838,298	1,896,340	3,455,947	4,218,746
Depreciation and amortization	***9, 10, 11, 20***	459,624	551,225	918,384	1,044,394
		6,650,882	6,412,784	12,770,098	12,771,344
Operating loss		(407,278)	(2,248,989)	(1,663,785)	(4,186,436)
Other (expenses) earnings					
Foreign exchange (loss) gain		(121,683)	121,575	(147,433)	506,625
Finance expenses	***16***	(389,077)	(252,249)	(743,766)	(489,235)
		(510,760)	(130,674)	(891,199)	17,390
Loss before income taxes		(918,038)	(2,379,663)	(2,554,984)	(4,169,046)
Income tax expense		23,621	30,983	23,725	30,983
Loss for the period		(941,659)	(2,410,646)	(2,578,709)	(4,200,029)
Foreign currency translation adjustment		(3,156)	(1,861)	(2,819)	(1,356)
Total comprehensive loss for the period		$ (944,815)	$ (2,412,507)	$ (2,581,528)	$ (4,201,385)
Loss per share (basic and diluted)	***17***	$ (0.02)	$ (0.05)	$ (0.06)	$ (0.09)
Weighted average number of shares outstanding (basic and diluted)	***17***	44,595,942	44,588,196	44,595,942	44,399,519

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in United States dollars)

	Note	Common Shares Number	Common Shares Amount	Other Capital Reserves	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
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	15 (e)	-	-	773,478	-	-	773,478
Issuance of common shares from option exercise		18,074	14,125	-	-	-	14,125
Issuance of common shares from RSU exercise		74,074	-	-	-	-	-
Issuance of common shares in Congruitive acquisition	15 (b)	869,565	1,196,466	-	-	-	1,196,466
Foreign currency translation adjustment		-	-	-	(557)	-	(557)
Loss for the period		-	-	-	-	(5,195,416)	(5,195,416)
Balance, December 31, 2022	**15 (a)**	**44,595,942**	**$ 88,142,625**	**$ 41,029,122**	**$ 1,916,948**	**$ (127,509,996)**	**$ 3,578,699**
Share-based compensation	15 (e)	-	-	224,947	-	-	224,947
Foreign currency translation adjustment		-	-	-	(2,819)	-	(2,819)
Loss for the period		-	-	-	-	(2,578,709)	(2,578,709)
Balance, June 30, 2023	**15 (a)**	**44,595,942**	**$ 88,142,625**	**$ 41,254,069**	**$ 1,914,129**	**$ (130,088,705)**	**$ 1,222,118**

See accompanying notes to interim condensed consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Cash Flows

(*Expressed in United States dollars)*

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash (used in) provided by					
Operating Activities					
Loss for the period		$ (941,659)	$ (2,410,646)	$ (2,578,709)	$ (4,200,029)
Items Not Affecting Cash:					
Unrealized foreign exchange loss / (gain)		60,151	4,931	74,298	(433,958)
Depreciation of equipment	*9*	102,135	95,262	203,407	207,150
Amortization of intangible assets	*10*	192,464	287,521	384,927	523,044
Amortization of right-of-use asset	*11*	165,025	168,442	330,050	314,200
Share-Based compensation	*15(e)*	118,819	201,940	224,947	404,996
Finance expenses	*16*	313,299	228,598	627,776	411,991
Changes in Non-Cash Operating Working Capital					
Accounts Receivable	*6*	(772,843)	684,134	(9,640)	(715,272)
Investment tax credits receivable	*7*	2,824	(39,530)	2,824	11,245
Inventories	*8*	(1,085,924)	(67,365)	(1,198,890)	666,206
Prepaid expenses and other assets		52,527	(405,437)	(192,494)	(359,098)
Accounts payable and accrued liabilities	*12*	1,722,522	1,913,941	2,545,089	1,135,541
Deferred revenue and deposits		(2,009,476)	(2,003,708)	664,290	1,460,154
Lease payments for interest	*14*	(63,062)	(61,339)	(128,341)	(108,034)
Interest paid on bank loans	*13*	(250,237)	(167,259)	(499,435)	(303,957)
Net Cash (used in) provided by Operating Activities		(2,393,435)	(1,570,515)	450,099	(985,821)
Investing Activities					
Purchase of equipment	*9*	(41,867)	(69,063)	(115,879)	(74,251)
Purchase of intangible assets	*10*	-	(63,999)	-	(176,954)
Purchase of Congruitive, net of cash acquired	*4*	-	-	-	(5,685,531)
Net Cash used in Investing Activities		(41,867)	(133,062)	(115,879)	(5,936,736)
Financing Activities					
Repayments of working capital loan	*13*	(405,689)	-	(405,689)	-
Advance of term loan	*13*	-	-	-	3,300,000
Repayments of term loan	*13*	(282,857)	(282,858)	(565,714)	(471,429)
Repayment of lease liabilities	*14*	(150,501)	(139,884)	(276,393)	(267,441)
Issuance of common shares from option exercise	*15(c)*	-	-	-	8,133
Net Cash (used in) provided by Financing Activities		(839,047)	(422,742)	(1,247,796)	2,569,263
Decrease in cash		(3,274,349)	(2,126,319)	(913,576)	(4,353,294)
Effect of foreign exchange on cash		6,818	(89,457)	7,078	(41,502)
Cash, beginning of period		8,211,947	12,024,774	5,850,914	14,203,794
Cash, end of period		**$ 4,944,416**	**$ 9,808,998**	**$ 4,944,416**	**$ 9,808,998**

See accompanying notes to interim condensed consolidated financial statements.

Supplemental cash flow information (Note 24)

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.

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, Norwalk, Connecticut, United States and San Jose, California, United States.

2. Basis of Presentation

Statement of Compliance

These interim condensed consolidated financial statements (the "interim financial statements") 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, 2022 except as noted in Note 3, which describes the impact of new accounting policies adopted effective January 1, 2023. 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, 2022.

The Board of Directors authorized these interim financial statements for issue on August 14, 2023.

Presentation

These interim 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%

[1]Dissolved March 4, 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, 2022, except for judgements pertaining to the adoption of new accounting policies effective on January 1, 2023 (Note 3).

Going Concern

These interim 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, 2023, the Company incurred a comprehensive loss of $2,581,528 and generated cash flows for operating activities of $450,099. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of these interim financial statements, management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at June 30, 2023 and believes that it has sufficient cash resources to support operations for at least the next twelve months from June 30, 2023. The Company has a history of successive annual renewals of its Bank Loan (see Note 13) and the Bank Loan has been renewed on similar terms until February 27, 2024. In addition to the Company's cash of $4,944,416 as at June 30, 2023 , the Company has a base shelf prospectus filed on June 28, 2021 under which it has an ability to offer, issue and sell common shares, preferred shares, debt securities and warrants for up to an aggregate offering price of CND$50,000,000 in one or more transactions during the twenty five month period that this prospectus remains effective (subject to the Company's compliance with the applicable rules of the TSX and securities regulations required to access such base shelf prospectus) net of gross proceeds of CND$10,597,748 raised in August 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. These interim financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the interim statements of financial position classifications used and disclosures that might be necessary should the Company be unable to continue as a going concern.

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, 2022, except as noted below.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or noncurrent. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2023. The adoption of this amendment has not had any impact on the amounts recognized in the Company's interim financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The IASB has published Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments intended to help decide which accounting policies to disclose in their financial statements. The amendments:

- amended paragraphs 117-122 of IAS 1, Presentation of Financial Statements to require entities to disclose their material accounting policy information rather than their significant accounting policies; and
- amended IFRS Practice Statement 2 Making Materiality Judgements (Materiality Practice Statement) to explain and demonstrate the application of the 'four-step materiality process' to accounting policy disclosures by including guidance and examples on the application of materiality to accounting policy disclosures.

This amendment is effective for annual periods beginning on or after January 1, 2023. The adoption of this amendment has not had a material impact on the disclosure in the Company's interim financial statements.

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

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 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 and subsequently finalized on December 31, 2022.

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	$	10,119,641
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
Right of Use Asset		30,262
Intangible - technology		6,530,000
Intangible - customer relations		830,000
Intangible - intellectual property (trademarks and copyrights)		328,000
Accounts payable and accrued liabilities		(1,030,712)
Deferred tax liability		(854,204)
Lease liability		(33,333)
Fair value of deferred revenue		(589,325)
Fair value of assets and liabilities recognized	$	6,674,492
Goodwill	$	3,445,149

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 was at CND$1.76 per common share.

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

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.

Transaction costs of $936,960 ($586,960 incurred in 2022 and $350,000 incurred in 2021) 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.

5. Restricted Cash

Restricted cash of $673,474 pertains to collateral for a letter of credit facility of $2,693,895 from the Bank that is associated with a surety performance insurance bond secured in connection with a key customer contract. The surety performance insurance bond expires on February 8, 2024, unless released prior to this date (Note 18(a)).

6. Accounts Receivable

		June 30, 2023		**December 31, 2022**
Accounts receivable	$	9,602,979	$	9,593,339
Less: allowance for doubtful accounts		(551,604)		(551,604)
Net Accounts receivable	**$**	**9,051,375**	**$**	**9,041,735**

The Company did not have any accounts receivable balances from related parties as at June 30, 2023 and December 31, 2022, 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, 2023, the Company recorded credit losses of nil (June 30, 2022 - nil), in general and administrative expense.

Aging analysis of trade receivables is as follows:

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

6. Accounts Receivable (continued)

		June 30, 2023		December 31, 2022
Not past due	$	5,487,012	$	2,976,174
31-90 days		1,366,637		4,793,814
91-180 days		1,011,678		386,127
Over 180 days		1,186,048		885,620
Total	**$**	**9,051,375**	**$**	**9,041,735**

7. Investment Tax Credits Receivable and Government Assistance

		June 30, 2023		December 31, 2022
Investment tax credits receivable	**$**	**-**	**$**	**2,824**

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 June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Research and Development, Gross	$	2,115,870		2,339,419		3,991,326		4,539,095
Investment Tax Credit		-		39,530		-		274,530
Research and Development, Net	**$**	**2,115,870**	**$**	**2,299,889**	**$**	**3,991,326**	**$**	**4,264,565**

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

8. Inventory

		June 30, 2022		December 31, 2022
Finished goods	$	3,620,709	$	3,290,397
Raw materials		3,268,917		2,400,339
Inventory	**$**	**6,889,626**	**$**	**5,690,736**

During the three months ended June 30, 2023 and June 30, 2022, inventory related amounts were charged to cost of sales of $3,780,357 and $3,961,624, respectively. During the six months ended June 30, 2023 and June 30, 2022 the Company charged $8,193,411 and $7,934,964, 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, 2023 and June 30, 2022 of $200,406 and $23,970, respectively, and during the six months ended June 30, 2023 and June 30, 2022 of $234,996 and $25,024, respectively.

An inventory obsolescence reserve of $455,000 as at June 30, 2023 ($275,000 as at December 31, 2022) has been recorded.

9. 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, 2021	$	3,406,925	$	536,015	$	5,131,156	$	1,618,114	$	10,692,210
Additions		54,555		8,455		104,316		17,170		184,496
Balance, December 31, 2022	$	3,461,480	$	544,470	$	5,235,472	$	1,635,284	$	10,876,706
Additions		22,001		-		93,878		-		115,879
Balance, June 30, 2023	$	3,483,481	$	544,470	$	5,329,350	$	1,635,284	$	10,992,585

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

9. Property & Equipment (continued)

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2021	$ 3,331,307	$ 470,632	$ 4,344,368	$ 1,526,036	$ 9,672,343
Additions	51,311	26,587	286,963	37,699	402,560
Balance, December 31, 2022	$ 3,382,618	$ 497,219	$ 4,631,331	$ 1,563,735	$ 10,074,903
Additions	25,464	12,861	152,837	12,245	203,407
Balance, June 30, 2023	$ 3,408,082	$ 510,080	$ 4,784,168	$ 1,575,980	$ 10,278,310

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2022	$ 78,862	$ 47,251	$ 604,141	$ 71,549	$ 801,803
Balance, June 30, 2023	$ 75,399	$ 34,390	$ 545,182	$ 59,304	$ 714,275

10. Intangible assets

Cost	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2021	$ 1,998,567	$ -	$ 677,509	$ 962,058	$ 3,638,134
Additions	-	6,530,000	830,000	328,000	7,688,000
Balance, December 31, 2022	$ 1,998,567	$ 6,530,000	$ 1,507,509	$ 1,290,058	$ 11,326,134
Additions	-	-	-	-	-
Balance, June 30, 2023	$ 1,998,567	$ 6,530,000	$ 1,507,509	$ 1,290,058	$ 11,326,134

Accumulated Amortization	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2021	$ 1,838,077	$ -	$ 677,509	$ 962,058	$ 3,477,644
Additions	160,441	598,583	76,209	30,117	865,350
Balance, December 31, 2022	$ 1,998,518	$ 598,583	$ 753,718	$ 992,175	$ 4,342,994
Additions	-	326,500	41,878	16,549	384,927
Balance, June 30, 2023	$ 1,998,518	$ 925,083	$ 795,596	$ 1,008,724	$ 4,727,921

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

10. Intangible assets (continued)

Net Book Value	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2022	$ 49	$ 5,931,417	$ 753,791	$ 297,883	$ 6,983,140
Balance, June 30, 2023	$ 49	$ 5,604,917	$ 711,913	$ 281,334	$ 6,598,213

11. Right-of-Use Assets

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

	June 30, 2022	December 31, 2022
Beginning Balance	$ 3,335,361	$ 3,417,733
Additions	-	548,419
Amortization of ROU	(330,050)	(630,791)
Ending Balance	**$ 3,005,311**	**$ 3,335,361**

12. Accounts Payable and Accrued Liabilities

	June 30, 2023	December 31, 2022
Trade payables and other payables	$ 9,471,092	$ 7,297,125
Accrued warranty (a)	658,102	651,934
Employee benefits	1,918,257	1,722,222
Vendor goods and services received	1,486,811	1,207,362
Professional fees	957,430	714,443
Other accrued liabilities	413,183	766,699
Total	**$ 14,904,875**	**$ 12,359,785**

(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.

13. Bank Loan

Comerica Bank

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 "Bank Loan"). The loan agreement is comprised of a line of credit facility in United States dollars up to a maximum of $8,100,000 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. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at June 30, 2023 of $7,694,311 ($8,100,000 as at December 31, 2022). The facility bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The facility previously had a maturity date of February 27, 2023. The facility was renewed to extend the maturity date to February 27, 2024. In conjunction with entering a term loan with EDC (see below), the credit facility with Comerica Bank increased from $8,100,000 to $8,500,000.

The Company has a term loan with the Bank that 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"). The term loan had a balance of $1,697,143 as at June 30, 2023 ($2,262,857 as at December 31, 2022) and was subsequently paid in full with proceeds from the EDC Loan (see below).

The Bank Loan and Term Loan facilities are secured by a general security agreement and security over accounts receivable and inventory.

As of June 30, 2023, the Company was in compliance with its financial covenants.

Export Development Canada ("EDC")

On June 29, 2023, the Company entered into a debt facility with EDC of up to $7,000,000 (the "EDC Loan"). The EDC Loan has a six- year term with interest payable on a monthly basis during the initial 18 months with amortized principal and interest repayments through the remainder of the term. A portion of the EDC Loan was used pay the outstanding principal of the existing term loan with the Bank. The remainder of the EDC Loan will provide additional working capital and support the Company's research and development and related commercialization activities. The EDC Loan bears interest of United States prime interest rate plus 5.00% per annum. In conjunction with the EDC Loan, the Company incurred legal expenses of $80,000 during the three months ended June 30, 2023.

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

14. 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. Upon acquisition of Congruitive, the Company now has an operating premise in San Jose, California, United States ("San Jose") as well. 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 June 7, 2022, the Company extended the lease for its Raleigh, North Carolina, office facility from August 31, 2022 to October 31, 2027. This resulted in the addition of a Right-of-Use asset of $518,157, net lease liability of $543,157 and tenant allowance of $25,000.

Upon the acquisition of Congruitive on January 31, 2022, the Company now has an office facility in San Jose, California which was originally entered into on October 15, 2020 and is expected to expire on October 31, 2023. The San Jose lease resulted in the addition of a Right-of-Use asset of $30,262 as of January 31, 2022 with a cumulative adjustment to prior years' equity of $3,071 relating to the impact of IFRS 16.

The Company's Norwalk, Connecticut office facility was extended in 2021 and has a term ending January 1, 2026.

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:

		June 30, 2023		December 31, 2022
Maturity Analysis – contractual undiscounted cash flows from minimum lease				
Less than one year	$	771,148	$	762,152
One to five years		2,721,276		2,743,160
More than five years		346,280		626,651
Total undiscounted lease liabilities	**$**	**3,838,704**	**$**	**4,131,963**

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

14. Lease Liabilities (continued)

The following is a reconciliation of undiscounted lease liabilities at June 30, 2023 to the lease liabilities recognized at June 30, 2023:

Total undiscounted lease liabilities at June 30, 2023	**$**	**3,838,704**
Discounted using incremental borrowing rate		(554,638)
Total lease liabilities recognized under IFRS 16 at June 30, 2023	**$**	**3,284,066**

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

		June 30, 2023		**December 31, 2022**
Beginning Balance	$	**3,476,264**	$	**4,008,692**
Additions		-		576,490
Add: Interest		128,341		238,042
Less: Payments		(404,734)		(767,208)
Impact of foreign exchange		84,195		(579,752)
Ending Balance		3,284,066		3,476,264
Less: Current portion		(859,626)		(858,643)
Non-current portion	**$**	**2,424,440**	**$**	**2,617,621**

Amounts Recognized in Statements of Operations		**Three months ended June 30, 2023**		**Three months ended June 30, 2022**		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
Finance charge on lease liabilities	$	63,062	$	61,339	$	128,341	$	108,034
Variable lease payments expensed		136,976		133,616		273,953		267,232
Total amounts recognized in Statements of Operations	**$**	**200,038**	**$**	**194,955**	**$**	**402,294**	**$**	**375,266**

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

14. Lease Liabilities (continued)

The aggregate of the Company's variable lease payments as at June 30, 2023 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, Norwalk, and San Jose.

2023	$	273,953
2024		561,754
2025		488,457
2026		498,940
2027		513,908
2028		529,326
	$	**2,866,338**

15. 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 44,595,942 common shares outstanding as at June 30, 2023 as indicated below:

	Number of common shares		**Amount**
Outstanding, January 1, 2022	**43,634,229**	**$**	**86,932,034**
Issuance of common shares from option exercise	18,074		14,125
Issuance of common shares from RSU exercise	74,074		-
Issuance of common shares in Congruitive acquisition	869,565		1,196,466
Outstanding, December 31, 2022	**44,595,942**	**$**	**88,142,625**
Issuance of common shares from option exercise	-		-
Outstanding, June 30, 2023	**44,595,942**	**$**	**88,142,625**

15. Share Capital (continued)

(b) Issuance of Common Shares in Congruitive Acquisition

During the three months ended June 30, 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 CND$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.

(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 June 30, 2023, the LTIP allows for a maximum of 8,919,188 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 three months ended June 30, 2023, no shares were issued as a result of stock options being exercised (nil for the three months ended June 30, 2022). During the six months ended June 30, 2023, no shares were issued as a result of stock options being exercised (10,328 shares issued for the six months ended June 30, 2022 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:

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

15. Share Capital (continued)

(c) Stock Option Plan (continued)

	Number of Options		Weighted Average Exercise Price (CND$)
Balance at December 31, 2021	5,869,413	$	1.21
Granted during the period	1,219,646	$	1.35
Exercised during the period	(18,074)	$	1.00
Forfeited/expired during the period	(172,908)	$	1.00
Balance at December 31, 2022	6,898,077	$	1.24
Granted during the period	445,631	$	1.20
Forfeited/expired during the period	(56,624)	$	1.00
Balance at June 30, 2023	**7,287,084**	**$**	**1.24**

As at June 30, 2023, 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 Exerciseable		Exercise Price (CND$)
December 18, 2018	3,480,459	3,480,459	$	1.00
April 1, 2019	70,000	61,250	$	1.00
January 1, 2020	422,899	264,312	$	1.00
June 20, 2020	5,000	2,813	$	1.00
September 1, 2020	513,646	256,823	$	1.00
February 9, 2021	18,284	18,284	$	1.64
February 9, 2021	112,000	63,000	$	2.25
March 25, 2021	100,000	100,000	$	2.17
August 17, 2021	179,000	78,313	$	2.11
November 17, 2021	658,900	260,815	$	2.10
November 17, 2021	47,619	47,619	$	2.10
December 24, 2021	14,000	5,250	$	1.79
March 24, 2022	1,185,515	370,473	$	1.35
May 15, 2022	34,131	10,922	$	1.28
May 15, 2023	445,631	-	$	1.20
Balance at June 30, 2023	**7,287,084**	**5,020,333**	**$**	**1.15**

During the six month period ended June 30, 2023 and June 30, 2022, the fair value of options granted was $213,423 and $581,964, respectively. Remaining unrecognized cost of the LTIP as at June 30, 2023 and December 31, 2022 was $208,915 and $480,663, respectively. The weighted average remaining life expressed in years of outstanding options was 2.61 years as at June 30, 2023 and 3.32 years as at December 31, 2022.

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

15. Share Capital (continued)

(c) Stock Option Plan (continued)

As at June 30, 2023, the Company had total vested options of 5,020,333 with a weighted average price of CND$1.15 and total vested options of 4,304,712 with a weighted average price of CND$1.06 as at December 31, 2022.

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, 2023	**December 31, 2022**
Risk free interest rate	0.39% - 4.25%	0.39% - 2.75%
Dividend yield	0%	0%
Expected life (in years)	1 to 7 years	1 to 7 years
Forfeiture rate	6.51%	6.13%
Volatility	50% - 54.1%	50% - 54.1%

(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 six months ended June 30, 2022, RSU’s that were issued in 2021 and vested in one year after the date of issuance, vested in full and 74,074 common shares were issued by the Company. There were no RSU’s outstanding as at June 30, 2023.

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

15. Share Capital (continued)

(e) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU's granted was $118,819 and $201,940 during the three months ended June 30, 2023 and June 30, 2022, respectively and $224,947 and $404,996 during the six months ended June 30, 2023 and June 30, 2022, 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, 2023	**Cost**	**Stock-based Compensation**	**Total**
Cost of sales	$ 4,975,670	$ 1,642	$ 4,977,312
Sales and marketing	2,216,073	21,017	2,237,090
Research and development	2,102,315	13,555	2,115,870
General and administrative	1,755,693	82,605	1,838,298
	$ 6,074,081	$ 117,177	$ 6,191,258
Total	$ 11,049,751	$ 118,819	$ 11,168,570

Three months ended June 30, 2022	**Cost**	**Stock-based Compensation**	**Total**
Cost of sales	$ 4,911,435	$ 234	$ 4,911,669
Sales and marketing	1,622,258	43,072	1,665,330
Research and development	2,283,842	16,047	2,299,889
General and administrative	1,753,753	142,587	1,896,340
	$ 5,659,853	$ 201,706	$ 5,861,559
Total	$ 10,571,288	$ 201,940	$ 10,773,228

Six months ended June 30, 2023	**Cost**	**Stock-based Compensation**	**Total**
Cost of sales	$ 10,525,533	$ 1,757	$ 10,527,290
Sales and marketing	4,361,479	42,962	4,404,441
Research and development	3,969,827	21,499	3,991,326
General and administrative	3,297,218	158,729	3,455,947
	$ 11,628,524	$ 223,190	$ 11,851,714
Total	$ 22,154,057	$ 224,947	$ 22,379,004

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

15. Share Capital (continued)

(e) Stock-based compensation expense (continued)

Six months ended June 30, 2022		**Cost**		**Stock-based Compensation**		**Total**
Cost of sales	$	9,781,518	$	516	$	9,782,034
Sales and marketing		3,158,031		85,608		3,243,639
Research and development		4,231,471		33,094		4,264,565
General and administrative		3,932,968		285,778		4,218,746
	$	11,322,470	$	404,480	$	11,726,950
Total	$	21,103,988	$	404,996	$	21,508,984

16. Finance Expenses

Period ended		**Three months ended June 30, 2023**		**Three months ended June 30, 2022**		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
Accretion of interest on lease liability (*note 14*)	$	63,062	$	61,339	$	128,341	$	108,034
Interest expense on bank loan (*note 13*)		250,237		167,259		499,435		303,957
EDC insurance and other finance expenses		75,778		23,651		115,990		77,244
Total	**$**	**389,077**	**$**	**252,249**	**$**	**743,766**	**$**	**489,235**

17. 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:

	Six months ended June 30, 2023	**Six months ended June 30, 2022**
Beginning balance at December 31, shares outstanding	44,595,942	43,634,229
Effect of shares issued from Congruitive acquisition	-	719,806
Effect of shares issued from RSU exercise	-	5,566
Effect of shares issued from option exercise	-	39,918
Weighted average number of shares (basic and diluted)	**44,595,942**	**44,399,519**

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

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

17. Loss per Share (continued)

The weighted average number of common shares is as follows:

		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Net loss	$	(941,659)	$	(2,410,646)	$	(2,578,709)	$	(4,200,029)
Basic weighted average number of shares		44,595,942		44,588,196		44,595,942		44,399,519
Basic and dilutive loss per share	$	(0.02)	$	(0.05)	$	(0.06)	$	(0.09)

18. 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 June 30, 2023, the Company had one performance bond outstanding of $2,693,895 with which the Company has provided security through restricted cash representing 25% of such bond equaling $673,474 (Note 5) (December 31, 2022 - $2,693,895).

(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, 2023, the Company had outstanding purchase order commitments of $14,191,053 (December 31, 2022 - $15,966,669).

(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.

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

19. 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 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 and six months ended June 30, 2023 and June 30, 2022 is as follows:

Three months ended June 30, 2023	**Connected Devices and Infrastructure**	**Utility Software Applications and Services**	**Corporate**	**Total**
Revenues	$ 7,051,484	$ 4,169,432	$ -	$ 11,220,916
Cost of sales	4,141,419	835,893	-	4,977,312
Gross profit	2,910,065	3,333,539	-	6,243,604
Operating expenses	-	-	6,650,882	6,650,882
Operating income (loss)	**$ 2,910,065**	**$ 3,333,539**	**$ (6,650,882)**	**$ (407,278)**

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

19. Segmented Information (continued)

Three months ended June 30, 2022		**Connected Devices and Infrastructure**		**Utility Software Applications and Services**		**Corporate**		**Total**
Revenue	$	6,096,885	$	2,978,579	$	-	$	9,075,464
Cost of sales		4,152,965		758,704		-		4,911,669
Gross profit		1,943,920		2,219,875		-		4,163,795
Operating expenses		-		-		6,412,784		6,412,784
Operating income (loss)	**$**	**1,943,920**	**$**	**2,219,875**	**$**	**(6,412,784)**	**$**	**(2,248,989)**

Six months ended June 30, 2023		**Connected Devices and Infrastructure**		**Utility Software Applications and Services**		**Corporate**		**Total**
Revenues	$	14,100,197	$	7,533,406	$	-	$	21,633,603
Cost of sales		8,816,370		1,710,920		-		10,527,290
Gross profit		5,283,827		5,822,486		-		11,106,313
Operating expenses		-		-		12,770,098		12,770,098
Operating income (loss)	**$**	**5,283,827**	**$**	**5,822,486**	**$**	**(12,770,098)**	**$**	**(1,663,785)**

Six months ended June 30, 2022		**Connected Devices and Infrastructure**		**Utility Software Applications and Services**		**Corporate**		**Total**
Revenue	$	12,022,722	$	6,344,220	$	-	$	18,366,942
Cost of sales		8,288,736		1,493,298		-		9,782,034
Gross profit		3,733,986		4,850,922		-		8,584,908
Operating expenses		-		-		12,771,344		12,771,344
Operating income (loss)	**$**	**3,733,986**	**$**	**4,850,922**	**$**	**(12,771,344)**	**$**	**(4,186,436)**

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

		Three months ended June 30, 2023		**Three months ended June 30, 2022**		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
United States[1]	$	11,125,825	$	9,014,574	$	21,481,646	$	18,256,289
Canada		79,202		37,354		131,183		73,180
Others		15,889		23,536		20,774		37,473
Total	**$**	**11,220,916**	**$**	**9,075,464**	**$**	**21,633,603**	**$**	**18,366,942**

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

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

20. 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, 2023 and June 30, 2022, respectively, were $909,229 and $805,280, and for the six months ended June 30, 2023 and June 30, 2022, respectively, were $1,764,582 and $1,630,033.

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

Period ended	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Salaries and Benefits	$ 3,494,183	$ 3,307,174	$ 7,047,795	$ 6,373,199
Travel and meals	284,193	228,952	536,643	326,751
Depreciation and Amortization	459,624	551,225	918,384	1,044,394
Consulting and agent services	613,763	785,791	1,024,417	1,548,776
Facilities variable lease payments	68,716	121,146	150,616	264,383
Stock-based compensation	118,819	201,940	224,947	404,996
Marketing programs	438,729	109,785	836,390	260,144
Insurance	110,801	60,042	228,451	150,201
Office	115,271	232,807	272,843	398,934
Personnel programs and hiring costs	4,022	19,349	9,658	17,673
Information technology	276,781	60,782	441,825	133,222
Congruitive acquisition costs	-	-	-	586,960
Other expenses	665,980	733,790	1,078,129	1,261,711
Total	**$ 6,650,882**	**$ 6,412,784**	**$ 12,770,098**	**$ 12,771,344**

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

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		**June 30, 2023**		**December 31, 2022**
Other capital reserves	$	41,254,069	$	41,029,122
Accumulated other comprehensive income	$	1,914,129	$	1,916,948
Share capital	$	88,142,625	$	88,142,625
Deficit	$	(130,088,705)	$	(127,509,996)
Bank term loan	$	1,697,143	$	2,262,857
Bank working capital loan	$	7,694,311	$	8,100,000

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, 2023 and December 31, 2022, the carrying values of cash, restricted cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, and the bank term and working capital loans 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, 2023 and December 31, 2022.

(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 $7,694,311 as at June 30, 2023 and $8,100,000 as at December 31, 2022. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $76,943 for the period ended June 30, 2023 and $81,000 for the year ended December 31, 2022 on the annual interest expense pertaining to its line of credit facility.

22. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) **Interest rate risk (continued)**

The term loan bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly, and had a balance of $1,697,143 as at June 30, 2023 and $2,262,857 as at December 31, 2022. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $16,971 for the period ended June 30, 2023 and $22,629 for the year ended December 31, 2022 on the annual interest expense pertaining to its term loan.

(iii) **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 June 30, 2023 and December 31, 2022 is provided in Note 6.

(iv) **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 June 30, 2023 and December 31, 2022. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a $110,705 positive impact on net loss for the period ended June 30, 2023 and a $56,758 positive impact for the year ended December 31, 2022.

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:

		June 30, 2023		**December 31, 2022**
Cash	$	290,669	$	544,373
Accounts receivable		494,065		335,867
Accounts payable		(991,491)		(703,373)
Accrued liabilities		(900,289)		(744,443)
Total	**$**	**(1,107,046)**	**$**	**(567,576)**

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

(v) **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, 2023
Less than 90 days:		
Accounts payable and accrued liabilities	$	14,904,875

The Company has a loan agreement with Comerica Bank to fund ongoing working capital requirements since April 12, 2012 which is fully drawn. The Company has renewed on an annual basis since such date (see Note 13).

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

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 and six months ended June 30, 2023, and June 30, 2022 is as follows:

		Three months ended June 30, 2023		**Three months ended June 30, 2022**		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
Short-term employee benefits	$	551,953	$	476,494	$	914,947	$	841,123
Share-based compensation		50,917		42,511		90,655		140,865
Total	**$**	**602,870**	**$**	**519,005**	**$**	**1,005,602**	**$**	**981,988**

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 June 30, 2023 and June 30, 2022:

		Three months ended June 30, 2023		**Three months ended June 30, 2022**		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
Fair value of contingent consideration in Congruitive acquisition	$	-	$	-	$	-	$	2,458,702
Shares issued in Congruitive acquisition		-		-		-		1,196,466
Total	**$**	-	**$**	-	**$**	-	**$**	3,655,168

25. Subsequent Event

On July 20, 2023, the Company repaid the term loan with the Bank comprised of principal of $1,697,143 and accrued interest funded by EDC Loan proceeds of $2.0 million (Note 13).