TANTALUS SYSTEMS HOLDING INC.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

August 14, 2023

For the three and six months ended June 30, 2023

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of Tantalus Systems Holding Inc. (together with its subsidiaries and predecessors, the "**Company**", "**we**" or "**Tantalus**") is provided to assist our readers in assessing our financial condition and our financial performance, including our liquidity and capital resources, as at and for the three and six months ended June 30, 2023 compared with the three and six months ended June 30, 2022. The information in this MD&A is current as of August 14, 2023, and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2023 and 2022 and the Company's audited consolidated financial statements as of December 31, 2022, included with Tantalus' continuous disclosure filings with Canadian securities regulatory authorities available at www.sedarplus.ca.

The Company's unaudited interim condensed consolidated financial statements and notes thereto as at June 30, 2023 and for the three and six months ended June 30, 2023 and 2022 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee, and are presented in United States ("US") dollars which is the functional currency of the Company. Where balances are also expressed in Canadian dollars ("**CND$**") in this MD&A, an average foreign exchange rate of 0.7447 and 0.7421 for the three and six months ended June 30, 2023 (0.7834 and 0.7866 for three and six months ended June 30, 2022) for income statement items and a foreign exchange rate of 0.7553 as at June 30, 2023 (0.7760 as at June 30, 2022 and 0.7383 as of December 31, 2022) for balance sheet items has been applied. Certain dollar amounts in this MD&A have been rounded to the nearest millions or thousands of dollars.

This MD&A was prepared by management of the Company and approved by its Board of Directors prior to its release.

Non-IFRS and Other Financial Measures

This MD&A refers to the following non-IFRS measures:

> "EBITDA" is comprised as income (loss) less interest, income tax and depreciation and amortization. Management believes that EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See "Selected Financial Information - Reconciliation of Net (Loss) Income to Adjusted EBITDA", "Trailing Eight Quarter Selected Financial Information - Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA" and "Financial Results for the Three and Six Months Ended June 30, 2023 – Adjusted EBITDA" for a quantitative reconciliation of EBITDA to the most directly comparable financial measure.

“Adjusted EBITDA” is comprised as income (loss) less interest, income tax, depreciation, amortization, stock-based compensation, foreign exchange gain (loss) and other income / expenses not attributable to the operations of the Company. Management believes that Adjusted EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See “Selected Financial Information - Reconciliation of Net (Loss) Income to Adjusted EBITDA”, “Trailing Eight Quarter Selected Financial Information - Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA” and “Financial Results for the Three and Six Months Ended June 30, 2023 – Adjusted EBITDA” for a quantitative reconciliation of Adjusted EBITDA to the most directly comparable financial measure.

“Gross Profit” is comprised as the Company’s revenues less cost of sales. Management believes that Gross Profit is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See “Selected Financial Information” and “Financial Results for the Three and Six Months Ended June 30, 2023 – Gross Profit” for a quantitative reconciliation of Gross Profit to the most directly comparable financial measure.

“Adjusted Working Capital” is comprised as current assets less current liabilities exclusive of the Company’s bank loan and contingent consideration on the Congruitive acquisition. Management believes Adjusted Working Capital is a useful indicator for investors, and is used by management, for evaluating the operating liquidity to the Company. See “Liquidity and Capital Resources - Cash, Restricted Cash, and Adjusted Working Capital” for a quantitative reconciliation of Adjusted Working Capital to the most directly comparable financial measure.

This MD&A also refers to the following non-IFRS ratios:

“Gross Profit Margin” is comprised of Gross Profit expressed as a percentage of the Company’s revenues. Management believes that Gross Profit Margin is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company.

“Adjusted EBITDA Margin” is comprised of Adjusted EBITDA expressed as a percentage of the Company’s revenues. Management believes that Adjusted EBITDA Margin is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company.

This MD&A also refers to the following supplementary financial measures:

"Recurring Revenue” is comprised of the Company’s revenues recognized in a period that are recurring in nature and attributable to its analytics and other software as a service (“SaaS”) offering, hosting services, software maintenance and technical support agreement services.

“Annual Recurring Revenue” or “ARR” is comprised of the Company’s Recurring Revenue as expressed on an annualized revenue basis attributable to its analytics and other software as a service (“SaaS”) offering, hosting services, software maintenance and technical support agreement services customer agreements at a point in time.

The non-IFRS measures and non-IFRS ratios described above do not have a standardized meaning under IFRS and may not be comparable to a similar measure disclosed by other issuers.

NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information” within the meaning of applicable securities laws. Forward-looking information is generally identifiable by use of the words “believes”, “may”, “plans”, “will”, “anticipates”, “intends”, “could”, “estimates”, “expects”, “forecasts”, “projects” and similar expressions, and the negative of such expressions. Forward-looking information in this MD&A includes statements regarding: expectations regarding industry trends and challenges; exchange rate fluctuations; overall market growth rates and our growth rates and growth strategies; addressable markets for our solutions; expectations regarding the future demand for and adoption of distributed energy resources, extended asset life, distribution grid technology and electric vehicles; expectations regarding supply chain shortages; expectations regarding the development of and demand for the TRUSense™ Gateway (as defined below); the achievement of advances in and expansion of our offerings and markets; the growth of the Company's sales pipeline (including the Company's ability to close sales in the current sales pipeline); expectations regarding our revenue and the revenue generation potential of our products, services and other solutions; our business plans and strategies; our ability to achieve positive cash flow from operations, maintain or obtain additional debt or equity financing and achieve and maintain profitable operations; the sufficiency of the Company's cash resources to support operations for the next twelve months; continuing as a going concern; the future use of remaining proceeds from equity financing; our competitive position in our industry; our acquisition of Congruitive (as defined below) placing Tantalus at the forefront of helping utilities modernize their grids to prepare for the impact that electric vehicles and distributed energy resources are expected to have on the resiliency and reliability of distribution grids; expectations that the demand for the Congruitive solution will grow significantly as electric vehicles and distributed energy resources adoption expands; the expectation that TRUEdge® technology will improve our evaluation of additional strategic growth initiatives; and our continued investment in the research and development of new products as well as the continuous enhancement of our existing products and software applications offering.

In connection with the forward-looking information contained in this MD&A, we have made numerous assumptions, regarding, among other things: our ability to capitalize on growth opportunities and implement our growth strategy; our ability to retain key personnel; our ability to maintain existing customer relationships and to continue to expand our customers' use of our products solutions; our ability to acquire new customers; our ability to enhance our offerings to remain at the forefront of our industry; the impact of competition; the successful integration of Congruitive and future acquisitions; the absence of material adverse changes in our business, our industry or the global economy; and that the risks and uncertainties described under the "Risk Factors" section of Tantalus' Annual Information Form dated March 31, 2023 will not materialize. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant uncertainties and contingencies.

Additionally, there are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained herein. Known risk factors include, but are not limited to, the factors described in the "Risk Factors" section of Tantalus' Annual Information Form dated March 31, 2023.

If any of these risks or uncertainties materialize, or if the opinions, estimates, or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above should be considered carefully by prospective investors.

All forward-looking information herein is qualified in its entirety by this cautionary statement, and we disclaim any obligation to revise or update any such forward-looking information or to publicly announce the result of any revisions to any of the forward-looking information contained herein to reflect future results, events or developments, except as required by law.

DESCRIPTION OF BUSINESS

Tantalus is a smart grid technology company that helps build sustainable utilities by modernizing distribution grids. By deploying Tantalus' smart grid platform to access, transport and analyze granular data, utilities can transform their legacy distribution grids into future-proofed, multi-directional grids that not only improve the reliability and efficiency of the utility in the near term, but also lay the foundation to prepare utilities for the long-term needs of society. The Company's solutions include a comprehensive industrial Internet-of-Things ("IoT") smart grid network, edge-computing endpoints, and a suite of enterprise software applications that are used across all departments within a utility and artificial-intelligence ("AI")-enabled data analytics to help utilities proactively anticipate and manage their grids. Tantalus' solutions also help water utilities identify leaks and automate the delivery and billing of water and gas. By leveraging Tantalus' technology solutions, utilities are positioned to transform their distribution grids into an intelligent network of connected devices that:

- safely and reliably delivers electricity, water and gas to residential, commercial and industrial customers and communities;

- prepares for the broad adoption of renewable and distributed energy resources such as solar panels, distributed storage and electric vehicles which impact the flow of power across existing one-way distribution grids;

- empowers the utility to efficiently respond to service interruptions resulting from severe storms or major events;

- enables proactive and personalized engagement with the utility's customers and members; and

- integrates on a single smart grid communication network with multiple applications creating a smarter community.

Tantalus is at the forefront of delivering a next-generation smart grid platform that delivers interoperability across the entire distribution grid, enabling utilities to access data seamlessly and securely from edge devices that can be integrated into and analyzed by mission-critical operating systems. Today, Tantalus is gathering over 30 billion data points of evolving consumption patterns and power quality. By accessing granular power quality data from a broader set of connected devices, Tantalus is utilizing Artificial Intelligence-enabled data analytics to specifically help utilities pinpoint vulnerabilities across the grid, proactively manage distribution equipment, reduce the risk of failures, effectively implement vegetation management and mitigate the risk of outages and wildfires. The Company is actively expanding its enterprise software capabilities and AI-enabled data analytics to harness the power of the data that is accessible through Tantalus' solutions.

While the Company's heritage is tied to upgrading metering infrastructure, the acquisition of Congruitive, on January 31, 2022, accelerates and expands Tantalus' smart grid platform and empowers utilities to connect, command and control electric vehicle ("**EV**") charging stations and distributed energy resources ("**DER**s"), such as solar panels, battery wall and microgrids. As Tantalus continues to invest in research and development, the Company is quickly building a comprehensive solution that will enable utilities to digitize their distribution grids in order to manage their systems from the very edge all the way to their mission-critical systems to truly become sustainable.

Tantalus is a publicly traded company listed on the Toronto Stock Exchange (TSX: GRID).

Q2 2023 HIGHLIGHTS

Annual Recurring Revenue: As of June 30, 2023, ARR grew to approximately $10.5 million (CND$14.1 million), representing 17% growth over the prior year period. ARR recognized in the quarter represented 25% of total revenue. The growth in ARR is resulting from the Company’s ability to add new customers each quarter to our user community and from securing licenses to our data analytics offering (via a SaaS model). Since 2016, the compounded annual growth rate of the Company’s ARR is approximately 19%.

Expansion of our User Community: Tantalus added five new utilities in Q2 2023, bringing the user community to 283 utilities.

Order Conversions from Sales Pipeline: The Company converted an additional $5.2 million (CND$6.9 million) in orders from our sales pipeline in Q2 2023. The Company set a new milestone for orders converted during the first six months of a calendar year at $22.6M (CND$30.4 million).

TRUSense Gateway Progress: The Company continues to make progress in developing its TRUSense Gateway, which is anticipated to be a market-leading solution to assist utilities in deploying next-generation metering infrastructure, delivering broadband services, accessing granular advanced power quality metrics to protect assets and integrating distributed resources located behind the meter, such as EV chargers, roof-top solar inverters and power walls. The Company completed alpha-version testing with eight utilities and initiated UL certification efforts during Q2 2023. The initiative has more than doubled the qualified sales pipeline of the Company and is expected to expand the Company’s total addressable market opportunity.

Partnerships: During Q2 2023, the Company entered into a reseller agreement with Jesstec Industries Inc. (“Jesstec”). The agreement expands Tantalus’ commitment to the Canadian utility industry while providing Jesstec with the ability to offer industry leading smart grid solutions to existing and prospective customers.

Securing of EDC Term Loan: Tantalus secured a term loan with Export Development Canada (“EDC”) of up to $7.0 million to support the launch of the TRUSense Gateway solution as well as provide additional working capital. In addition to supporting growth initiatives, a portion of the EDC loan was used to pay the outstanding principal of the existing term loan with Comerica. Additionally, the Company’s existing credit facility with Comerica Bank was increased from $8.1 million to $8.5 million, providing more flexibility to manage working capital moving forward.

Addition of Board Member: At the Company’s annual general meeting of shareholders on June 27, 2023, Greg Williams was elected to the Board of Directors of the Company. Greg brings over 40 years of experience in the electric utility industry, serving on several boards of companies in the electric industry as well as being a recent retiree as General Manager of Appalachian Electric Cooperative.

TUC Conference: The Tantalus User Conference (“TUC”) was held in Louisville, Kentucky and provided an opportunity to showcase a number of innovations, including the TRUSense Gateway, Transformer Analytics, and the Congruitive software platform.

TRAILING EIGHT QUARTER SELECTED FINANCIAL INFORMATION

The Company's quarterly operating results have varied in the past and may vary in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter. Selected quarterly information of the results of the Company's operations is as follows:

	Three months ended June 30, 2023	Three months ended March 31, 2023	Three months ended December 31, 2022	Three months ended September 30, 2022	Three months ended June 30, 2022	Three months ended March 31, 2022	Three months ended December 31, 2021	Three months ended September 30, 2021
Revenue	$ 11,220,916	$ 10,412,687	$ 12,164,972	$ 9,071,109	$ 9,075,464	$ 9,291,478	$ 7,610,356	$ 8,536,822
Cost of sales	4,977,312	5,549,978	6,640,844	4,283,858	4,911,669	4,870,365	4,256,855	4,932,219
Gross Profit	6,243,604	4,862,709	5,524,128	4,787,251	4,163,795	4,421,113	3,353,501	3,604,603
Expenses	6,650,882	6,119,216	5,909,095	5,905,550	6,412,784	6,358,560	5,322,418	4,706,067
Operating loss	(407,278)	(1,256,507)	(384,967)	(1,118,299)	(2,248,989)	(1,937,447)	(1,968,917)	(1,101,464)
Other (expenses) earnings	(510,760)	(380,439)	(368,403)	(36,298)	(130,674)	148,064	(155,122)	(238,275)
Loss before income taxes	(918,038)	(1,636,946)	(753,370)	(1,154,597)	(2,379,663)	(1,789,383)	(2,124,039)	(1,339,739)
Income tax expense (recovery)	23,621	104	(912,580)	-	30,983	-	40,717	-
(Loss) income for the period	(941,659)	(1,637,050)	159,210	(1,154,597)	(2,410,646)	(1,789,383)	(2,164,756)	(1,339,739)
(Loss) earnings per share (basic and diluted)	(0.02)	(0.04)	0.00	(0.03)	(0.05)	(0.04)	(0.05)	(0.03)
Adjusted EBITDA	$ 251,165	$ (691,619)	$ 103,646	$ (384,123)	$ (1,495,824)	$ (654,262)	$ (1,272,109)	$ (580,535)

Basic and fully diluted shares have been retroactively adjusted for impact of the share consolidation by the Company on January 29, 2021.

Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA

	Three months ended June 30, 2023	Three months ended March 31, 2023	Three months ended December 31, 2022	Three months ended September 30, 2022	Three months ended June 30, 2022	Three months ended March 31, 2022	Three months ended December 31, 2021	Three months ended September 30, 2021
(Loss) income for the period	$ (941,659)	$ (1,637,050)	$ 159,210	$ (1,154,597)	$ (2,410,646)	$ (1,789,383)	$ (2,164,756)	$ (1,339,739)
Finance expense (a)	389,077	354,689	297,713	283,137	252,249	236,986	145,383	142,999
Income taxes	23,621	104	(912,580)	-	30,983	-	40,717	-
Depreciation and amortization	459,624	458,760	318,945	535,362	551,225	493,169	282,658	381,475
EBITDA	(69,337)	(823,497)	(136,712)	(336,098)	(1,576,189)	(1,059,228)	(1,695,998)	(815,265)
Stock-based compensation (b)	118,819	106,128	169,668	198,814	201,940	203,056	139,150	64,454
Foreign exchange (c)	121,683	25,750	70,690	(246,839)	(121,575)	(385,050)	9,739	95,276
Congruitive acquisition related costs (d)	-	-	-	-	-	586,960	275,000	75,000
EDC loan related legal costs (e)	80,000	-	-	-	-	-	-	-
Adjusted EBITDA	$ 251,165	$ (691,619)	$ 103,646	$ (384,123)	$ (1,495,824)	$ (654,262)	$ (1,272,109)	$ (580,535)

(a) Finance expense comprised of interest and related finance expense on bank loan and lease liabilities.
(b) Stock-based non-cash compensation expense.
(c) Foreign exchange comprised of unrealized (gain) / loss from non-functional currency assets and liabilities.
(d) General and administrative expenses pertaining to the Company's acquisition of Congruitive completed on January 31, 2022.
(e) Legal fees pertaining to the EDC loan.

Selected quarterly excerpts from the Company's statement of financial position are as follows:

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Cash	$ 4,944,416	8,211,947	5,850,914	5,739,561	$ 9,808,998	$ 12,024,774	$ 14,203,794	$ 14,627,772
Adjusted Working Capital	$ 2,136,099	3,362,870	4,956,420	4,223,455	$ 6,590,368	$ 8,963,488	$ 13,574,656	$ 15,562,545
Total assets	$ 37,048,949	38,930,821	37,359,751	34,216,532	$ 37,771,907	$ 40,001,158	$ 31,025,747	$ 32,865,703
Shareholders' equity	$ 1,222,118	2,048,114	3,578,699	3,249,088	$ 4,198,813	$ 6,409,380	$ 6,790,603	$ 8,812,085

Adjusted Working Capital	June 30, 2023	March 31, 2022	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Total current assets	$ 23,286,001	$ 24,750,116	$ 22,794,298	$ 19,925,342	$ 23,131,694	$ 25,494,272	$ 26,427,657	$ 28,051,808
Less: current liabilities	(32,402,915)	(30,587,246)	(27,037,878)	(23,821,887)	(25,741,326)	(25,730,784)	(20,953,001)	(20,589,263)
	(9,116,914)	(5,837,130)	(4,243,580)	(3,896,545)	(2,609,632)	(236,512)	5,474,656	7,462,545
Add: Bank loans - current portion	8,794,311	9,200,000	9,200,000	8,120,000	9,200,000	9,200,000	8,100,000	8,100,000
Add: Contingent consideration	2,458,702	-	-	-	-	-	-	-
Adjusted Working Capital	$ 2,136,099	$ 3,362,870	$ 4,956,420	$ 4,223,455	$ 6,590,368	$ 8,963,488	$ 13,574,656	$ 15,562,545

FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

Revenue

Revenue by Source		Three months ended June 30, 2023	%		Three months ended June 30, 2022	%		Six months ended June 30, 2023	%		Six months ended June 30, 2022	%
Connected Devices and Infrastructure	$	7,051,484	63%	$	6,096,885	67%	$	14,100,197	65%	$	12,022,722	65%
Utility Software Applications and Services		4,169,432	37%		2,978,579	33%		7,533,406	35%		6,344,220	35%
Total revenue	$	11,220,916	100%	$	9,075,464	100%	$	21,633,603	100%	$	18,366,942	100%

Revenue increased by 24% and by 18% for the three and six months ended June 30, 2023, respectively, over the prior year periods. The increases in revenue are due to the fulfillment of customer orders and increased activity with the Company's user community.

Revenue from the Company's Connected Devices and Infrastructure products increased by 16% and 17% for the three and six months ended June 30, 2023, respectively, over the prior year periods. The Company continues to work with its user community to accelerate the deployment of its edge-computing devices.

Revenue from the Company's Utility Software Applications and Services increased by 40% and 19% for the three and six months ended June 30, 2023, respectively, over the prior year periods. The increase was primarily tied to successfully migrating a pilot of C.IQ Connect to a full license of the software platform with an investor-owned utility.

Revenue by Type		Three months ended June 30, 2023	%		Three months ended June 30, 2022	%		Six months ended June 30, 2023	%		Six months ended June 30, 2022	%
Recurring Revenue	$	2,813,527	67%	$	2,176,446	73%	$	4,926,625	65%	$	4,267,995	67%
Other Utility Software Applications and Services revenue		1,355,905	33%		802,133	27%		2,606,781	35%		2,076,224	33%
Total Utility Software Applications and Services revenue	$	4,169,432	100%	$	2,978,579	100%	$	7,533,406	100%	$	6,344,220	100%

As a subset of the revenue contributions from the Utility Software Applications and Services segment, the Company's Recurring Revenue represented 67% and 65% of total Utility Software Applications and Services revenue during the three and six months ended June 30, 2023, respectively. Total Recurring Revenue recognized during the three and six months ended June 30, 2023, increased by 29% and 15% over the prior year period as deployments of the Company's Connected Devices leads to incremental software and services revenue opportunities.

Revenue by Type		Three months ended June 30, 2023	%		Three months ended June 30, 2022	%		Six months ended June 30, 2023	%		Six months ended June 30, 2022	%
Recurring Revenue	$	2,813,527	25%	$	2,176,446	24%	$	4,926,625	23%	$	4,267,995	23%
Other revenue		8,407,389	75%		6,899,018	76%		16,706,978	77%		14,098,947	77%
Total revenue	$	11,220,916	100%	$	9,075,464	100%	$	21,633,603	100%	$	18,366,942	100%

As at June 30, 2023, the Company's ARR increased to approximately $10.5 million (CND$14.1 million), representing 17% growth over the prior year period. The growth in ARR was due to additional conversions of new utilities from the sales pipeline, ongoing efforts to secure licenses to the Company's first data analytics offering (SaaS model) and the acquisition of Congruitive.

No single customer represented more than 10% of total revenues for the three months ended June 30, 2023 and 2022.

The Company generated revenues attributed to the following geographical regions based on the location of the customer:

		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	99%	$	9,014,574	99%	$	21,481,646	99%	$	18,256,289	99%
Canada		79,202	1%		37,354	<1%		131,183	1%		73,180	<1%
Other		15,889	<1%		23,536	<1%		20,774	<1%		37,473	<1%
	$	11,220,916	100%	$	9,075,464	100%	$	21,633,603	100%	$	18,366,942	100%

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

Gross Profit

The Company's Gross Profit during the three months ended June 30, 2023 is as follows:

Three months ended June 30, 2023		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	7,051,484	100%	$	4,169,432	100%	$	11,220,916	100%
Cost of sales		4,141,419	59%		835,893	20%		4,977,312	44%
Gross Profit	$	2,910,065	41%	$	3,333,539	80%	$	6,243,604	56%
Percentage of total Gross Profit		47%			53%			100%	

Three months ended June 30, 2022		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	6,096,885	100%	$	2,978,579	100%	$	9,075,464	100%
Cost of sales		4,152,965	68%		758,704	25%		4,911,669	54%
Gross Profit	$	1,943,920	32%	$	2,219,875	75%	$	4,163,795	46%
Percentage of total Gross Profit		47%			53%			100%	

Gross Profit Margin increased to 56% during the three months ended June 30, 2023 as compared to 46% during the prior year period. The increase in Gross Profit Margin is primarily attributable to the increased revenue contribution from the Company's Software and Services. The Company also instituted a price increase on Connected Devices and Infrastructure products to offset inflationary pressure across its supply chain.

The Company's Gross Profit during the six months ended June 30, 2023, is as follows:

Six months ended June 30, 2023		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	14,100,197	100%	$	7,533,406	100%	$	21,633,603	100%
Cost of sales		8,816,370	63%		1,710,920	23%		10,527,290	49%
Gross Profit	$	5,283,827	37%	$	5,822,486	77%	$	11,106,313	51%
Percentage of total Gross Profit		48%			52%			100%	

Six months ended June 30, 2022		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	12,022,722	100%	$	6,344,220	100%	$	18,366,942	100%
Cost of sales		8,288,736	69%		1,493,298	24%		9,782,034	53%
Gross Profit	$	3,733,986	31%	$	4,850,922	76%	$	8,584,908	47%
Percentage of total Gross Profit		43%			57%			100%	

The Gross Profit Margin increased to 51% during the six months ended June 30, 2023, as compared to 47% during the prior year period. The increase in Gross Profit Margin is attributable to the revenue mix of connected devices as well as additional contributions from software and services.

Expenses

For reporting purposes, Tantalus organizes its operating expenses into three primary categories, including: sales and marketing, research and development and general and administrative functions. Tantalus currently develops connected devices, enterprise software applications and data analytics through its employees and contractors. Tantalus relies on third-party contract manufacturers to build and assemble its hardware products.

	Three months ended June 30, 2023	% of Revenue	Three months ended June 30, 2022	% of Revenue	Six months ended June 30, 2023	% of Revenue	Six months ended June 30, 2022	% of Revenue
Sales and marketing	$ 2,237,090	20%	$ 1,665,330	18%	$ 4,404,441	20%	$ 3,243,639	18%
Research and development	2,115,870	19%	2,299,889	25%	3,991,326	18%	4,264,565	23%
General and administrative	1,838,298	16%	1,896,340	21%	3,455,947	16%	4,218,746	23%
Depreciation and amortization	459,624	4%	551,225	6%	918,384	4%	1,044,394	6%
Total expenses	$ 6,650,882	59%	$ 6,412,784	71%	$ 12,770,098	59%	$ 12,771,344	70%
As a percentage of total revenue	59%		71%		59%		70%	

Total expenses include depreciation and amortization, share based compensation expense and expenses attributable to the Company's acquisition of Congruitive during 2022. The increase in expenses for the three months ended June 30, 2023 over the prior year period is largely attributable to expenses associated with the Company's investment in the development and commercialization of its new TRUSense Gateway product offering and decrease for the six months ended June 30, 2023 over the prior year period is largely attributable to expenses associated with the acquisition of Congruitive in January 2022 of $0.6 million. The Company also witnessed increases in expenses associated with incremental business travel and the Company's first in-person user conference since the onset of the COVID-19 pandemic.

Sales and marketing expenses consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing and branding, advertising costs and facilities. The increase in sales and marketing expense for the three and six months ended June 30, 2023, over the prior year periods is primarily attributable to increased marketing activities, additional travel to visit utility customers for business development and participation at in-person industry trade-shows and events, including the Company's annual users conference. As momentum continues to develop across the utility industry, Tantalus anticipates making further investments in sales and marketing to expand its presence and position itself for broader growth in the future.

R&D expenses are primarily attributable to salaries and related personnel costs as well as materials related to the development of the Company's solutions. R&D expenses decreased during the three and six months ended June 30, 2023, as compared to the prior year periods. The decrease in R&D expenses as compared to the prior year periods is primarily due to the timing of the Company's R&D activities, inclusive of external third-party vendor and contractor costs. The Company has cumulatively invested approximately $6.6 million to date to June 30, 2023 to build its next-generation TRUSense Gateway. The TRUSense Gateway is anticipated to be a market-leading product enabling utilities to not only digitize the distribution grid, but also provide connectivity, command and control of EV charging stations and DERs deployed behind the meter. The Company is also investing to expand its data analytics SaaS offering capabilities. The Company is enhancing its Congruitive offering to help utilities integrate data from EV charging stations and DERs through the utility's firewall and into mission-critical systems.

General and administrative expenses include executive and administrative staff, insurance, corporate variable compensation, office expenses, accounting, legal and consulting fees. General and administrative expense for the three and six months ended June 30, 2023, also includes stock-based compensation expense of $82,605 and $158,729, respectively, and $80,000 in legal fees associated with the EDC Loan, which was secured on June 29, 2023. On a comparative basis, the General and administrative expenses incurred during the prior year period included $586,960 in costs related to the acquisition of Congruitive, coupled with stock-based compensation expense of $142,587 and $285,778 for the three and six months ended June 30, 2022, respectively.

		Three months ended June 30, 2023		Three months ended March 31, 2023		Three months ended June 30, 2022
Total expenses	$	6,650,882	$	6,119,216	$	6,412,784
Depreciation and amortization		(459,624)		(458,760)		(551,225)
Stock-based compensation		(118,819)		(106,128)		(201,940)
	$	6,072,439	$	5,554,328	$	5,659,619
As a percentage of total revenue		54%		53%		62%

The Company's total expenses, exclusive of depreciation and amortization and stock-based compensation, was $6.1 million for the three months ended June 30, 2023, as compared to $5.6 million in the three months ended March 31, 2023, and $5.7 million for the three months ended June 30, 2022. The increase in total expenses during the three months ended June 30, 2023, over the prior year period is primarily due continued development and commercialization of the TRUSense Gateway and other key R&D initiatives and TUC.

Depreciation and Amortization

		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Depreciation and amortization	$	102,135	$	95,262	$	203,407	$	207,150
Amortization of intangible assets		192,464		287,521		384,927		523,044
Amortization of right-of-use assets		165,025		168,442		330,050		314,200
Total depreciation and amortization	$	459,624	$	551,225	$	918,384	$	1,044,394

The Company's depreciation and amortization is attributable to the property and equipment, intangible assets and right-of-use assets pertaining to its facility leases. The decrease in depreciation and amortization during the three and six months ended June 30, 2023, over the prior year period is primarily attributable to the decreased amortization of intangible assets, including acquired intangible assets from Congruitive as well as slightly decreased amortization of right of use assets.

Other Expenses

		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Foreign exchange (loss) gain	$	(121,683)	$	121,575	$	(147,433)		506,625
Finance expense		(389,077)		(252,249)		(743,766)		(489,235)
Total other (expenses) earnings	$	(510,760)	$	(130,674)	$	(891,199)	$	17,390

Finance expense is comprised of interest expense and fees to EDC on the Company's bank loan and lease liabilities.

The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated into its U.S. dollar functional currency. The Company experienced a foreign exchange loss of $121,683 and $147,433 during the three and six months ended June 30, 2023, which is primarily attributable to the foreign exchange impact on the Company's Canadian dollar denominated cash compared to a foreign exchange gain of $121,575 and $506,625 in the respective prior year periods. The prior year period also included the revaluation of the Burnaby office lease liability which was renewed at this time.

Total Comprehensive Loss

		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Operating loss	$	(407,278)	$	(2,248,989)	$	(1,663,785)	$	(4,186,436)
Total other (expenses) earnings		(510,760)		(130,674)		(891,199)		17,390
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	$	(944,815)	$	(2,412,507)	$	(2,581,528)	$	(4,201,385)
Loss per share (basic and fully diluted)	$	(0.02)	$	(0.05)	$	(0.06)	$	(0.09)

Adjusted EBITDA

		Three months ended June 30, 2023		Three months ended June 30, 2022		Six months ended June 30, 2023		Six months ended June 30, 2022
Loss income for the period	$	(941,659)	$	(2,410,646)	$	(2,578,709)	$	(4,200,029)
Foreign exchange		121,683		(121,575)		147,433		(506,625)
Finance expense (a)		389,077		252,249		743,766		489,235
Depreciation and amortization		459,624		551,225		918,384		1,044,394
Income taxes		23,621		30,983		23,725		30,983
Stock-based compensation		118,819		201,940		224,947		404,996
Sub-total prior to below items		171,165		(1,495,824)		(520,454)		(2,737,046)
Corporate development costs (b)		-		-		-		586,960
EDC loan related legal costs (c)		80,000		-		80,000		-
Adjusted EBITDA	$	251,165	$	(1,495,824)	$	(440,454)	$	(2,150,086)

(a) Finance expense comprised of interest and related finance expense on bank loans and lease liabilities (see Financial Statements).
(b) Share-based non-cash compensation expense (see Financial Statements).
(c) Foreign exchange comprised of unrealized loss / (gain) from non-functional currency assets and liabilities (see Financial Statements).
(d) General and administrative expenses pertaining to the Company's acquisition of Congruitive completed on January 31, 2022 (see note 4 in the Financial Statements).
(e) Legal fees pertaining to the EDC loan.

During the three and six months ended June 30, 2023, the Company generated Adjusted EBITDA of $251,165 representing 2% of revenue and negative $440,454, respectively. As momentum continues to build across the utility industry, management believes it is in the best interest of the business to make near-term investments in R&D and sales and marketing to expand the capabilities of the Company which impact Adjusted EBITDA.

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

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.

Cash, Restricted Cash, and Adjusted Working Capital

Cash as at June 30, 2023 decreased to $4.9 million from December 31, 2022 of $5.9 million, The closing cash balance of $4.9 million excludes $0.7 million of restricted cash, which is tied to a performance bond for a utility deployment. The reduction in cash during the quarter is primarily tied to the timing of revenue within the quarter which impacted working capital, accounting for deferred revenue and increased financing expenses.

With respect to the restricted cash of $0.7 million, the Company entered into a contract in 2022 that required a surety performance insurance bond (referred to as a surety bond). To secure the surety bond, the Company had to allocate $0.7 million of cash to a restricted cash account. While using cash as collateral for a surety bond is uncharacteristic of the Company's approach, it was decided by management to use cash on our balance sheet to secure the necessary surety bond for this strategic account win. The collateral of $0.7 million will be reflected as restricted cash on our statements of financial position through February 8, 2024, unless the surety bond is released prior to this date.

The Company's long-standing bank loan from Comerica (the "Bank") matures on February 27, 2024. This facility has been renewed on an annual basis since 2012. To support the acquisition of Congruitive, the Company also entered a three-year term loan of $3.3 million on January 31, 2022 (the "Term Loan").

The Company also secured a debt facility with EDC on June 29, 2023 of up to $7.0 million of capital which will be used to refinance the Term Loan, provide additional working capital and to fund the TRUSense Gateway development and commercialization.

The Company had Adjusted Working Capital as follows:

Adjusted Working Capital		**June 30, 2023**		**December 31, 2022**
Total current assets	$	23,286,001	$	22,794,298
Less: current liabilities		(32,402,915)		(29,496,580)
		(9,116,914)		(6,702,282)
Add: Bank loans - current portion		8,794,311		9,200,000
Add: Contingent consideration on Congruitive acquisition		2,458,702		2,458,702
Adjusted Working Capital	$	2,136,099	$	4,956,420

Adjusted Working Capital as of June 30, 2023, decreased from December 31, 2022, primarily due to Adjusted EBITDA, capital expenditures, increased finance expense due to higher interest rates and the repayment of the term loan principal during the six months ended June 30, 2023.

Cash Flows

The Company consumed $0.9 million of cash during the six months ended June 30, 2023. While the Company generated positive $0.5 million of cash from operations, the Company witnessed negative cash flow from investing and financing activities. Within the investing activities, the Company purchased computer and other equipment to support its operations. Within financing activities, the Company made principal repayments on its line of credit and term loan facilities in addition to making payments associated with its lease liabilities.

Cash provided by (used in):		**Six months ended June 30, 2023**		**Six months ended June 30, 2022**
Operating activities	$	450,099	$	(985,821)
Investing activities		(115,879)		(5,936,736)
Financing activities		(1,247,796)		2,569,263
Effect of foreign exchange on cash		7,078		(41,502)
Decrease in cash	**$**	**(906,498)**	**$**	**(4,394,796)**

Acquisition of Congruitive

On January 31, 2022, the Company completed its acquisition of all the outstanding and issued common shares of Congruitive. 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

Equity Financings

The Company did not pursue or execute an equity financing during the six months ended June 30, 2023 or during 2022. The following table reflects the estimated use of proceeds for the equity financing completed during August 2021 compared with the use of proceeds to June 30, 2023, and estimated future use of proceeds:

August 2021 Financing (in US$)	**Estimated Use of Proceeds**	**Use of Proceeds as at June 30, 2023**	**Estimated Future Use of Proceeds**
Strategic initiatives related to sales & marketing, research and development and corporate development	$ 5,300,000	$ 4,900,000	$ 400,000

The Company anticipates the future use of the remaining proceeds to be used for investment in its future new product initiatives, incremental sales and marketing activities, general working capital purposes and for potential future strategic initiatives.

Staffing Levels

The following table summarizes the Company's headcount, consisting of employees, by functional group:

	June 30, 2023	**June 30, 2022**
Customer operations	24	24
Sales and marketing	23	22
Research and development	61	60
General and administration	16	21
Total	**124**	**127**

Tantalus is an equal opportunity employer and promotes a culture of inclusion and diversity. The Company monitors its progress through various programs and policies. Tantalus offers wages and a range of company-paid benefits that it believes are competitive with other companies in its industry.

Commitments

The Company has the following commitments as at June 30, 2023:

Contractual Obligations	**Total**	**Less than 1 year**	**1 - 5 years**	**After 5 years**
Accounts Payable and accrued liabilities	$ 14,904,875	$ 14,904,875	$ -	$ -
Bank loan[(a)]	7,694,311	7,694,311	-	-
Term loan[(a)]	1,697,143	1,100,000	597,143	-
Lease liabilities[(b)]	6,705,042	1,045,101	5,313,661	346,280
Total Contractual Obligations	**$ 31,001,371**	**$ 24,744,287**	**$ 5,910,804**	**$ 346,280**

(a) – See "Bank Loan" below.
(b) – See facilities below and includes estimated variable operating expenses associated with leases.

The Company may enter performance bonds with customers as part of a sales contract. As of June 30, 2023, the Company had one performance bond outstanding of $2,693,895.

In the ordinary course of business, the Company enters 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 of June 30, 2023, the Company had outstanding purchase order commitments of $14,191,053.

Bank Loans

Comerica Bank ("Comerica" or the "Bank")

The Company has a loan agreement with the Bank since April 12, 2012, to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date. The loan agreement is comprised of a line of credit facility in United States dollars up to a maximum of $8,100,000 originally 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 of 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 and is secured by a general security agreement and security over accounts receivable and inventory. The facility previously had a maturity date of February 27, 2023. The facility has been renewed to extend the maturity date to February 27, 2024. In conjunction with entering into a term loan with EDC (see below), the credit facility with Comerica 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, and bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The term loan had a balance of $1,697,143 as of 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).

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

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 to pay the outstanding principal of the existing term loan with Comerica. 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.

Facilities

Tantalus maintains five office locations across North America, including:

- Burnaby, British Columbia, Canada (headquarters);
- Kanata, Ontario, Canada;
- Norwalk, Connecticut, United States of America;
- Raleigh, North Carolina, United States of America; and

- San Jose, California, United States of America.

Each office is based on a lease with a third-party building manager or landlord and are with arm's length parties.

Tantalus' Burnaby office lease, of approximately 32,000 square feet was entered into on August 1, 2014. The Burnaby office lease was extended by the Company on June 4, 2021, to expire January 31, 2029 resulting in an incremental lease liability of $3.1 million on June 4, 2021 exclusive of related variable operating expenses.

Tantalus' Kanata office lease, of approximately 8,200 square feet was entered into on November 1, 2017 and is expected to expire on February 1, 2025.

Tantalus' Norwalk office lease, of approximately 800 square feet was entered into on March 1, 2018 and expires on January 1, 2026. The Norwalk office lease was expanded to approximately 2,350 square feet on May 1, 2021, resulting in an incremental lease liability of $152,616.

Tantalus' Raleigh office lease, of approximately 5,602 square feet was entered into on February 1, 2016. The Raleigh office lease was extended by the Company on June 7, 2022, to expire October 31, 2027, resulting in an incremental lease liability of $0.5 million on June 7, 2022, exclusive of related variable operating expenses.

Upon the acquisition of Congruitive in Q1 2022, Tantalus assumed the lease of their San Jose office of approximately 700 square feet, and which was entered into on October 15, 2020, and is expected to expire on October 31, 2023.

FINANCIAL POSITION

The Company's financial position as of June 30, 2023, compared to December 31, 2022 is as follows:

Assets		June 30, 2023		December 31, 2022		Variance
Cash	$	4,944,416	$	5,850,914	$	(906,498)
Restricted cash		673,474		673,474		-
Accounts receivable		9,051,375		9,041,735		9,640
Investment tax credits receivable		-		2,824		(2,824)
Inventory		6,889,626		5,690,736		1,198,890
Prepaid expenses and deposits		1,727,110		1,534,615		192,495
Total current assets	$	23,286,001	$	22,794,298	$	491,703
Property and equipment		714,275		801,803		(87,528)
Intangible assets		6,598,213		6,983,140		(384,927)
Goodwill		3,445,149		3,445,149		-
Right of Use assets		3,005,311		3,335,361		(330,050)
Total assets	**$**	**37,048,949**	**$**	**37,359,751**	**$**	**(310,802)**
Liabilities						
Accounts payable and accrued liabilities		14,904,875		12,359,785		2,545,090
Deferred revenue and deposits		5,385,401		4,619,450		765,951
Lease liabilities		859,626		858,643		983
Bank term loan - current portion		1,100,000		1,100,000		-
Bank loan		7,694,311		8,100,000		(405,689)
Contingent consideration on Congruitive acquisition		2,458,702		2,458,702		-
Total current liabilities	$	32,402,915	$	29,496,580	$	2,906,335
Deferred revenue and deposits		402,333		503,994		(101,661)
Bank term loan - long term portion		597,143		1,162,857		(565,714)
Lease liabilities		2,424,440		2,617,621		(193,181)
Total liabilities	**$**	**35,826,831**	**$**	**33,781,052**	**$**	**2,045,779**

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 conjunction with a contract from a key customer. The surety performance insurance bond expires on February 8, 2024. Using cash as collateral for a surety performance insurance bond is uncharacteristic of the Company's approach but was necessary to secure a strategic account.

Accounts Receivable

The Company had accounts receivable as of June 30, 2023, of $9.1 million compared to $9.0 million as at December 31, 2022. The Company has an agreement with EDC whereby EDC agreed to provide 90% insurance coverage for the Company's invoiced sales up to a maximum of $3.0 million with certain customers excluded from this coverage.

OTHER ITEMS

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than as disclosed in the Company's interim condensed consolidated financial statements as of June 30, 2023, inclusive of Note 14 Lease Liabilities and Note 18 Commitments and Contingencies.

Transactions with Related Parties

Related parties are comprised of the Company's key management. The remuneration of key management of the Company for the three and six months ended June 30, 2023 and June 30, 2022 are 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 compensation	$	551,953	$	476,494	$	914,947	$	841,123
Share-based payments		50,917		42,511		90,655		140,865
	$	602,870	$	519,005	$	1,005,602	$	981,988

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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. The following financial instruments are all measured at amortized cost. The fair value of each approximates the carrying value due to their short-term nature.

		June 30, 2023				December 31, 2022		
		Carrying Value		Fair Value		Carrying Value		Fair Value
Financial Assets								
Cash	$	4,944,416	$	4,944,416	$	5,850,914	$	5,850,914
Restricted cash	$	673,474	$	673,474	$	673,474	$	673,474
Accounts receivable	$	9,051,375	$	9,051,375	$	9,041,735	$	9,041,735
Investment tax credits receivable	$	-	$	-	$	2,824	$	2,824
Financial Liabilities								
Accounts payable and accrued liabilities	$	14,904,875	$	14,904,875	$	12,359,785	$	12,359,785
Bank loans	$	9,391,454	$	9,391,454	$	10,362,857	$	10,362,857

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash trade receivables and investment tax credits receivable. With respect to trade and other receivables, 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within one month.

Going Concern

The 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, 2023, the Company incurred a comprehensive loss of $2,581,528 and generated cash flows for operating activities of positive $498,679. 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 consolidated 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 "Bank Loan") and the Bank Loan has been renewed until February 27, 2024. In addition to the Company's cash of $4.9 million, the Company also has access to additional capital under the EDC term loan. 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 pursuant to the base shelf prospectus.

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 consolidated financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the consolidated statements of financial position classifications used and disclosures that might be necessary should the Company be unable to continue as a going concern.

Foreign Currency 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 impact on net loss as at June 30, 2023 and $56,758 as at December 31, 2022.

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 as of June 30, 2023, and $81,000 as of December 31, 2022 on the Company's annual interest expense pertaining its line of credit facility.

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 of June 30, 2023, and $2,262,857 as of 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.

DISCLOSURE OF OUTSTANDING SHARE DATA

As June 30, 2023, and at the date of this report, the following securities were outstanding:

	June 30, 2023	August 14, 2023
Shares	44,595,942	44,595,942
Stock options	7,287,084	7,255,354
Restricted stock units	-	-
Warrants	282,606	282,606

Each stock option and warrant is exercisable for one common share of the Company, subject to customary adjustments.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its interim condensed consolidated financial statements in accordance with IFRS. In the preparation of these interim condensed consolidated financial statements, Tantalus is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. To the extent that there are material differences between these estimates and actual results, the Company's financial condition or results of operations would be affected. Tantalus bases its estimates on experience and other assumptions that the Company believes are reasonable under the circumstances and re-evaluates these estimates on an ongoing basis.

Revenue Recognition

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 or 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 (“PCS”).

Revenue from the sale of the Company’s connected devices and infrastructure network products and utility software application licenses is recognized at a point in time when control of the hardware products and software is transferred to the customers, primarily upon delivery on a freight on board basis upon shipment or providing access to the customer.

Installation services are for the installation of the Company’s connected devices and infrastructure network products and utility software applications. Engineering services are primarily consulting, implementation and integration services entered into either on a time and materials or fixed fee basis. Revenue from installation and engineering services is recognized over time, using the input method to measure progress towards complete satisfaction of the service.

Revenue from PCS is recognized rateably over the term of the PCS. Any unrecognized revenue is recorded in deferred revenue.

The Company recognizes revenue when it satisfies performance obligations under the terms of its contracts, and control of its products is transferred to its customers in an amount that reflects the considerations the Company expects to receive from its customers in exchange for those products.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company’s contracts often include a number of promised goods or services. Many of the Company’s goods and services are distinct from other performance obligations and accounted for as separate performance obligations. When an arrangement involves multiple products and is negotiated as a package solution, the Company accounts for it as a single performance obligation. A good or service is distinct if the customer can benefit from it on its own or together with other components of the Company’s products, and the Company’s promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. In determining the transaction price of contract with a customer, the Company considers the effects of consideration payable by the customer. If a contract has more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on estimated relative standalone selling prices of the goods and services.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") which provide reasonable assurance that (i) material information relating to the Company is made known to them by others within the Company, and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

In addition, the CEO and CFO have designed or caused to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework the CEO and CFO used to design the Company's ICFR is the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (the "COSO Framework").

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, an evaluation of the effectiveness of the Company's DC&P as of June 30, 2023, was carried out. The evaluation was carried out under the supervision of, and with the participation of, the CEO and CFO. Based on this evaluation, the CEO and CFO concluded that the Company's DC&P were effective as of June 30, 2023.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, an evaluation of the effectiveness of the Company's ICFR as of June 30, 2023, was carried out. The evaluation was carried out within the criteria set forth by the COSO Framework and under the supervision of, and with the participation of, the CEO and the CFO. Based on this evaluation, the CEO and CFO concluded that the Company’s ICFR were effective as of June 30, 2023.

There were no changes in the Company’s ICFR during the quarter ended June 30, 2023, that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

OTHER INFORMATION

Additional information relating to the Company, including the Company’s Annual Information Form, is available on SEDAR+ at www.sedarplus.ca.