TANTALUS SYSTEMS HOLDING INC.

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

For the three and nine months ended September 30, 2022

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 nine months ended September 30, 2022 compared with the three and nine months ended September 30, 2021 and in conjunction with the audited consolidated financial statements of the Company and related notes thereto for the year ended December 31, 2021. The information in this MD&A is current as of November 9, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022 and 2021 and the Company's consolidated financial statements for the year ended December 31, 2021 included with Tantalus' continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com.

The Company's unaudited interim condensed consolidated financial statements and notes thereto as at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") and are presented in United States ("US") dollars which is the functional currency of the Company. Certain dollar amounts in this MD&A have been rounded to the nearest millions or thousands of dollars.

Non-IFRS and Other Financial Measures

This MD&A also 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 "Reconciliation of Net (Loss) / Income to Adjusted EBITDA" for a quantitative reconciliation of EBITDA to the most directly comparable financial measure.
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> "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 "Reconciliation of Net (Loss) / Income to Adjusted EBITDA" for a quantitative reconciliation of Adjusted EBITDA to the most directly comparable financial measure.
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> "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” 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. 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 “Selected Financial Information” and “Liquidity” for a quantitative reconciliation of Adjusted Working Capital to the most directly comparable financial measure.

This MD&A refers to “Gross Profit Margin” which is a non-IFRS ratio. 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.

This MD&A refers to “Adjusted EBITDA Margin” which is a non-IFRS ratio. 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.

"Recurring Revenue” is comprised of the Company’s revenues 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 customer agreements at a point in time.

This MD&A refers to total expenses exclusive of depreciation and amortization, stock-based compensation, acquisition related costs and listing fee. Management believes this is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company.

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.

This MD&A was prepared by management of the Company and approved by its Board of Directors prior to its release. Unless otherwise stated, the Company has considered all information available to it through November 9, 2022 in preparing this MD&A. Additional information relating to the Company can be found on its website.

NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information” and “forward-looking statements” (collectively, “**forward-looking information**”) within the meaning of applicable securities laws. Forward-looking information may relate to our financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate and the impact of the ongoing global supply chain constraints of semiconductors and electronic components, inflationary pressures leading to higher costs to conduct business as well as the COVID-19 pandemic declared by the World Health Organization on March 11, 2020 (the “**COVID-19 Pandemic**”) thereon is forward-looking information.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects” or “does not expect”, “is expected”, “an opportunity exists”, “budget”, “scheduled”, “estimates”, “outlook”, “forecasts”, “projection”, “prospects”, “strategy”, “intends”, “anticipates”, “does not anticipate”, “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might”, “will”, “will be taken”, “occur” or “be achieved”, the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management’s expectations, estimates and projections regarding future events or circumstances based on currently available information.

This forward-looking information includes, among other things, statements relating to: expectations regarding industry trends and challenges; overall market growth rates and our growth rates and growth strategies; addressable markets for our solutions; 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 competitive position in our industry; growing revenue year-over-year by 20% - 25%, targeting approximately $38.5 to $40.0 million in 2022; our acquisition of Congruitive placing Tantalus at the forefront of helping utilities modernize their grids to prepare for the impact that electric vehicles and distributed energy resources will have on the resiliency and reliability of distribution grids; approximately US$27 million in revenue backlog anticipated to be generated during the year ending December 31, 2022; demand for the Congruitive solution is expected to grow significantly as electric vehicles and distributed energy resources adoption continues to expand rapidly in 2022; the Company is actively evaluating several other M&A opportunities along with additional strategic growth initiatives; the Company’s continued investment in the research and development of new products as well as the continuous enhancement of the Company’s existing products and software applications offering; and the earn-out payments in connection with the acquisition of Congruitive.

The forward-looking information contained herein is based on our opinions, estimates and assumptions considering our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances based on currently available information. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share and enter new markets; our ability to retain key personnel; our ability to execute on our expansion plans; our ability to continue investing in research and development to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management’s expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in the “Risk Factors” section of Tantalus’ Annual Information Form dated March 23, 2022 included with Tantalus’ continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com.

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.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of hereof (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

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, 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 helps 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 tied to upgrading metering infrastructure, the recent 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**s") 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).

Recent Operating Highlights:

Milestones: Tantalus delivered its 3 millionth distributed intelligent TRUEdge™ computing module to public power and electric cooperative utilities during Q3 of 2022. The milestone is significant in the evolution of modernizing distribution grids of community-oriented utilities. As more TRUEdge endpoints are deployed, our systems gather additional power quality and consumption data that not only improves our AI-enabled data analytics tools, but also leads to an increase in our annual recurring revenue.

Annual Recurring Revenue: Through the end of Q3, 2022 ARR grew to approximately $9.1 million, up from approximately $7.2 million at the end of Q3, 2021. The growth in ARR is tied 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 in January, 2022. Since 2016, the Compounded Annual Growth Rate ("**CAGR**") of the Company's ARR is approximately 19%.

Expansion of our User Community: Tantalus continued to demonstrate its ability to convert utilities from its sales pipeline by adding 14 new utilities year to date. The Company's total user community exceeds 265 customers.

Tantalus Grid Reliability Analytics (TGRA): Tantalus is currently engaged with over 40 members of its user community that are evaluating the Company's new AI-enabled data analytics offering. In addition to TGRA, we initiated a proof-of-concept for our second analytics tool that is centered on protecting power transformers. Given the urgency to extend asset life across the utility industry and the supply chain shortages for power transformers, the Company anticipates strong interest across our user community and the broader utility industry for this second analytics tool.

TRUSense™ IP 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 deploy next-generation metering infrastructure, deliver broadband services and integrate distributed resources, such as electric vehicle chargers, roof-top solar inverters and power walls. The Company initiated alpha-version testing at a utility and will be expanding our test plans over the coming weeks. The initiative has more than doubled the qualified sales pipeline of the Company and is expected to expand the Company's addressable market by over $1 billion.

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 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	Three months ended June 30, 2021	Three months ended March 31, 2021	Three months ended December 31, 2020
Revenue	$ 9,071,109	$ 9,075,464	$ 9,291,478	$ 7,610,356	$ 8,536,822	$ 8,013,262	$ 8,011,331	$ 9,312,793
Cost of sales	4,283,858	4,911,669	4,870,365	4,256,855	4,932,219	4,221,177	4,409,319	4,506,208
Gross Profit	4,787,251	4,163,795	4,421,113	3,353,501	3,604,603	3,792,085	3,602,012	4,806,585
Expenses	5,905,550	6,412,784	6,358,560	5,322,418	4,706,067	4,235,964	6,330,047	5,621,060
Operating loss	(1,118,299)	(2,248,989)	(1,937,447)	(1,968,917)	(1,101,464)	(443,879)	(2,728,035)	(814,475)
Other (expenses) earnings	(36,298)	(130,674)	148,064	(155,122)	(238,275)	(163,347)	(180,397)	(536,460)
Loss income before income taxes	(1,154,597)	(2,379,663)	(1,789,383)	(2,124,039)	(1,339,739)	(607,226)	(2,908,432)	(1,350,935)
Income tax expense	-	30,983	-	40,717	-	-	-	7,243
Loss income for the period	(1,154,597)	(2,410,646)	(1,789,383)	(2,164,756)	(1,339,739)	(607,226)	(2,908,432)	(1,358,178)
Loss earnings per share (basic and diluted)	(0.03)	(0.05)	(0.04)	(0.05)	(0.03)	(0.02)	(0.08)	(0.04)
Adjusted EBITDA	$ (384,123)	$ (1,495,824)	$ (654,262)	$ (1,272,109)	$ (580,535)	$ 65,475	$ 55,350	$ 817,363

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 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	Three months ended June 30, 2021	Three months ended March 31, 2021	Three months ended December 31, 2020
Loss income for the period	$ (1,154,597)	$ (2,410,646)	$ (1,789,383)	$ (2,164,756)	$ (1,339,739)	$ (607,226)	$ (2,908,432)	$ (1,358,178)
Finance expense (a)	283,137	252,249	236,986	145,383	142,999	173,489	166,329	163,677
Income taxes	-	30,983	-	40,717	-	-	-	7,243
Depreciation and amortization	535,362	551,225	493,169	282,658	381,475	446,647	434,957	425,977
EBITDA	(336,098)	(1,576,189)	(1,059,228)	(1,695,998)	(815,265)	12,910	(2,307,146)	(761,281)
Stock-based compensation (b)	198,814	201,940	203,056	139,150	64,454	62,707	195,769	72,242
Foreign exchange (c)	(246,839)	(121,575)	(385,050)	9,739	95,276	(10,142)	14,068	166,094
Other expenses (d)	-	-	-	-	-	-	-	206,689
Congruitive acquisition related costs (e)	-	-	586,960	275,000	75,000	-	-	-
Energate arbitration related costs (f)	-	-	-	-	-	-	-	(48,230)
RiseTech reverse acquisition listing expense (g)	-	-	-	-	-	-	1,188,175	-
Reverse acquisition legal, professional and related costs (h)	-	-	-	-	-	-	964,484	1,181,849
Adjusted EBITDA	$ (384,123)	$ (1,495,824)	$ (654,262)	$ (1,272,109)	$ (580,535)	$ 65,475	$ 55,350	$ 817,363

(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) Other expense pertains to net gain on Energate acquisition arbitration share cancellation and government assistance benefit received pertaining to the COVID-19 Pandemic.
(e) General and administrative expenses pertaining to the Company’s acquisition of Congruitive completed on January 31, 2022.
(f) General and administrative expenses pertaining to the Company’s arbitration proceeding with Energate shareholders.
(g) Reverse acquisition listing expense comprised of excess purchase price over RiseTech net assets acquired.
(h) Reverse acquisition costs comprised of legal and professional fees.

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

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Cash	$ 5,739,561	$ 9,808,998	$ 12,024,774	$ 12,174,985	$ 14,627,772	$ 10,682,722	$ 12,174,985	$ 4,647,713
Adjusted Working Capital	$ 4,223,455	$ 6,590,368	$ 8,963,488	$ 9,054,673	$ 15,562,545	$ 9,094,278	$ 9,054,673	$ 3,538,274
Total assets	$ 34,216,532	$ 37,771,907	$ 40,001,158	$ 27,193,349	$ 32,865,703	$ 29,925,425	$ 27,193,349	$ 23,525,534
Shareholders’ earnings (deficit)	$ 3,249,088	$ 4,198,813	$ 6,409,380	$ 2,988,077	$ 8,812,085	$ 2,444,361	$ 2,988,077	$ (2,311,106)

See Adjusted Working Capital calculation.

FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

Revenue

Revenue by Source		Three months ended September 30, 2022	%		Three months ended September 30, 2021	%		Nine months ended September 30, 2022	%		Nine months ended September 30, 2021	%
Connected Devices and Infrastructure	$	6,101,114	67%	$	6,183,304	72%	$	18,123,836	66%	$	16,816,903	68%
Utility Software Applications and Services		2,969,995	33%		2,353,518	28%		9,314,215	34%		7,744,512	32%
Total revenue	$	9,071,109	100%	$	8,536,822	100%	$	27,438,051	100%	$	24,561,415	100%

Revenue increased by 6% and by 12% for the three and nine months ended September 30, 2022, respectively, over the prior year periods. While favorable, the revenue growth during the three months ended September 30, 2022 did not meet internal expectations due to supply chain constraints and lower than expected contributions from Congruitive, which was acquired in January, 2022.

Revenue from the Company's Connected Devices and Infrastructure products decreased by 1% and increased 8% for the three and nine months ended September 30, 2022, respectively, over the prior year periods. While the growth in revenue from Connected Devices and Infrastructure for the nine months ended September 30, 2022 is in alignment with Management's guidance, the Company continues to navigate through supply chain constraints that led to production delays of our Connected Devices. The delays experienced in Q3 do not reflect lost revenue and are anticipated to be fulfilled before the end of Q4 of this year.

Revenue from the Company's Utility Software Applications and Services increased by 26% and 20% for the three and nine months ended September 30, 2022, respectively, over the prior year periods as deployments of the Company's solutions continue to expand, driving incremental software and services revenue opportunities. The increase in revenue from Utility Software Applications and Services is due to the Company's investments in research and development ("R&D") and acceleration of strategic initiatives to expand recurring revenue from its software and data analytics solutions. A portion of the increased contribution from Utility Software Applications and Services is attributable to the recent acquisition of Congruitive which contributed revenue of $296,629 and $975,769 during the three and nine months ended September 30, 2022, respectively.

Revenue by Type		Three months ended September 30, 2022	%		Three months ended September 30, 2021	%		Nine months ended September 30, 2022	%		Nine months ended September 30, 2021	%
Recurring Revenue	$	2,152,090	72%	$	1,722,273	73%	$	6,428,075	69%	$	5,108,785	66%
Other software and services revenue		817,905	28%		631,245	27%		2,886,140	31%		2,635,727	34%
Total Utility Software and Services revenue	$	2,969,995	100%	$	2,353,518	100%	$	9,314,215	100%	$	7,744,512	100%

As a subset of the revenue contributions from the Utility Software and Services segment, the Company's Recurring Revenue comprised 72% and 69% of total Utility Software and Services revenue during the three and nine months ended September 30, 2022, respectively, which increased over the prior year periods due to its increased customer base and its acquisition of Congruitive.

Revenue by Type		Three months ended September 30, 2022	%		Three months ended September 30, 2021	%		Nine months ended September 30, 2022	%		Nine months ended September 30, 2021	%
Recurring Revenue	$	2,152,090	24%	$	1,722,273	20%	$	6,428,075	23%	$	5,108,785	21%
Other revenue		6,919,019	76%		6,814,549	80%		21,009,976	77%		19,452,630	79%
Total revenue	$	9,071,109	100%	$	8,536,822	100%	$	27,438,051	100%	$	24,561,415	100%

Recurring Revenue comprised 24% and 23% of total revenue generated during the three and nine months ended September 30, 2022, respectively, which increased over the prior year periods due to expanding our user community, deploying additional devices and integrating the acquisition of Congruitive. As at September 30, 2022, the Company's ARR increased by 25% to approximately $9.1 million from approximately $7.2 million as at September 30, 2021 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 and nine months ended September 30, 2022 and 2021.

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

		Three months ended September 30, 2022	%		Three months ended September 30, 2021	%		Nine months ended September 30, 2022	%		Nine months ended September 30, 2021	%
United States (1)	$	8,951,287	99%	$	8,477,376	99%	$	27,207,576	99%	$	24,280,450	99%
Canada		109,785	1%		43,273	<1%		182,965	1%		221,509	1%
Other		10,037	<1%		16,173	<1%		47,510	<1%		59,456	<1%
	$	9,071,109	100%	$	8,536,822	100%	$	27,438,051	100%	$	24,561,415	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 September 30, 2022 is as follows:

Three months ended September 30, 2022		**Connected Devices and Infrastructure**	**%**		**Utility Software Applications and Services**	**%**		**Total**	**%**
Revenue	$	6,101,114	100%	$	2,969,995	100%	$	9,071,109	100%
Cost of sales		3,576,300	59%		707,558	24%		4,283,858	47%
Gross Profit	$	2,524,814	41%	$	2,262,437	76%	$	4,787,251	53%
Percentage of total Gross Profit		53%			47%			100%	

Three months ended September 30, 2021		**Connected Devices and Infrastructure**	**%**		**Utility Software Applications and Services**	**%**		**Total**	**%**
Revenue	$	6,183,304	100%	$	2,353,518	100%	$	8,536,822	100%
Cost of sales		4,220,232	68%		711,987	30%		4,932,219	58%
Gross Profit	$	1,963,072	32%	$	1,641,531	70%	$	3,604,603	42%
Percentage of total Gross Profit		54%			46%			100%	

Gross Profit Margin increased to 53% during the three months ended September 30, 2022 representing the highest Gross Profit Margin experienced to date by the Company. Our record Gross Profit Margin of 53% is compared to 42% during the prior year. The Company was able to offset ongoing inflationary pressures on supply chain and logistics costs through increased revenue contributions from its Utility Software Applications and Services segment as compared to the prior year period.

The Company's Gross Profit during the nine months ended September 30, 2022 is as follows:

Nine months ended September 30, 2022		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	18,123,836	100%	$	9,314,215	100%	$	27,438,051	100%
Cost of sales		11,865,036	65%		2,200,856	24%		14,065,892	51%
Gross Profit	$	6,258,800	35%	$	7,113,359	76%	$	13,372,159	49%
Percentage of total Gross Profit		47%			53%			100%	

Nine months ended September 30, 2021		Connected Devices and Infrastructure	%		Utility Software Applications and Services	%		Total	%
Revenue	$	16,816,903	100%	$	7,744,512	100%	$	24,561,415	100%
Cost of sales		11,422,789	68%		2,139,926	28%		13,562,715	55%
Gross Profit	$	5,394,114	32%	$	5,604,586	72%	$	10,998,700	45%
Percentage of total Gross Profit		49%			51%			100%	

Gross Profit Margin increased to 49% during the nine months ended September 30, 2022 as compared to 45% during the prior year.

Expenses

Tantalus has centralized its sales and marketing functions, its product development and R&D functions and its corporate management and corporate development functions for purposes of reporting expenses. 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 September 30, 2022	% of Revenue	Three months ended September 30, 2021	% of Revenue	Nine months ended September 30, 2022	% of Revenue	Nine months ended September 30, 2021	% of Revenue
Sales and marketing	$ 1,829,063	20%	$ 1,458,770	17%	$ 5,072,702	18%	$ 4,026,785	16%
Research and development	1,588,726	18%	1,397,237	16%	5,853,291	21%	4,149,407	17%
General and administrative	1,952,399	22%	1,468,585	17%	6,171,145	22%	5,832,807	24%
Depreciation and amortization	535,362	6%	381,475	4%	1,579,756	6%	1,263,079	5%
Total expenses	$ 5,905,550	65%	$ 4,706,067	55%	$ 18,676,894	68%	$ 15,272,078	62%
As a percentage of total revenue	65%		55%		68%		62%	

Sales and marketing expense 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 nine months ended September 30, 2022 over the prior year periods is primarily attributable to increased headcount to support long-term growth initiatives, additional travel to visit utility customers for business development and participation at in-person industry trade-shows and events as COVID-19 restrictions subside. 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.

Research and development expenses relate primarily to salaries and related benefit costs as well as materials related to the development of the Company's solutions. Research and development expenses increased during the three and nine months ended September 30, 2022 as compared to the prior year periods primarily due to the acquisition of Congruitive in January 2022 and the ongoing investment being made to design and develop the Company's previously announced TRUSense Gateway. The Company continues to invest in R&D to deliver key initiatives within its solution roadmap and to expand the portfolio of software applications and data analytics tools.

General and administrative expenses include executive and administrative staff, insurance, corporate variable compensation, accounting, legal and consulting fees as well as various general administrative costs. Beyond incurring additional expenses associated with acquisition of Congruitive in January 2022, the Company continues to absorb expenses associated with going public in 2021. General and administrative expense for the nine months ended September 30, 2022, also includes $586,960 in costs related to the acquisition of Congruitive and stock-based compensation expense of $426,414 (out of the total $603,810 of stock-based compensation expense for the nine months ended September 30, 2022), whereas the prior year period included $2.2 million of expenses associated with Tantalus' transaction to go public coupled with stock-based compensation expense of $246,200 (out of the total $322,930 of stock-based compensation for the nine months ended September 30, 2021).

		Three months ended September 30, 2022		Three months ended June 30, 2022		Three months ended September 30, 2021
Total expenses	$	5,905,550	$	6,412,784	$	4,706,067
Depreciation and amortization		(535,362)		(551,225)		(381,475)
Stock-based compensation		(198,814)		(201,940)		(64,454)
	$	5,171,374	$	5,659,619	$	4,260,138
As a percentage of total revenue		57%		61%		50%

The Company's total expenses exclusive of depreciation and amortization and stock-based compensation, decreased to $5.2 million for the three months ended September 30, 2022, as compared to $5.7 million in the three months ended June 30, 2022. The increase in total expenses over the prior year is primarily due to the absorption of the engineering, product marketing and senior executive team of Congruitive, the continued development of the TRUSense Gateway and other key R&D initiatives. The decline in total expenses over the prior quarter is primarily due to increased operating efficiency and targeted cost reduction being implemented by the Company. Cost reductions implemented during Q3 are anticipated to reduce operating expenses by approximately $1.0 million on an annualized basis. The cost reductions are primarily focused within our general and administrative functions. The Company believes that these cost reductions are prudent given the current economic environment and will not impact the long-term growth trajectory of Tantalus.

		Nine months ended September 30, 2022		Nine months ended September 30, 2021
Total expenses	$	18,676,894	$	15,272,078
Depreciation and amortization		(1,579,756)		(1,263,079)
Stock-based compensation		(603,103)		(316,634)
Congruitive acquisition costs		(586,960)		75,000
RiseTech reverse takeover costs and listing fee		-		(2,152,659)
	$	15,907,075	$	11,614,706
As a percentage of total revenue		58%		47%

The Company's total expenses, exclusive of depreciation and amortization, stock-based compensation, acquisition related costs, listing fees and Congruitive acquisition costs, increased to $15.9 million for the nine months ended September 30, 2022, as compared to $11.6 million in the prior nine months ended September 30, 2021. This increase in total expenses is primarily due to the absorption of the engineering, product marketing and senior executive team of Congruitive, the continued development of the TRUSense Gateway and other key R&D initiatives.

Depreciation and Amortization

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Depreciation and amortization	$ 97,411	$ 142,838	$ 304,561	$ 425,100
Amortization of intangible assets	286,385	128,560	809,429	502,124
Amortization of right-of-use assets	151,566	110,077	465,766	335,855
Total depreciation and amortization	$ 535,362	$ 381,475	$ 1,579,756	$ 1,263,079

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 increase in depreciation and amortization during the three and nine months ended September 30, 2022, over the prior year periods is primarily attributable to the increased amortization of intangible assets, including acquired intangible assets from Congruitive, and right of use assets.

Other Expenses

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Foreign exchange gain (loss)	$ 246,839	$ (95,276)	$ 753,464	(99,202)
Finance expense	(283,137)	(142,999)	(772,372)	(482,817)
Total other (expenses) earnings	$ (36,298)	$ (238,275)	$ (18,908)	$ (582,019)

Finance expense is comprised of interest expense and fees to Export Development Canada ("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 which accounted for most of the foreign exchange loss reported. The Company experienced a foreign exchange gain of $246,836 and $753,461 during the three and nine months ended September 30, 2022, which is primarily attributable to the foreign exchange impact on the Company's Canadian dollar denominated cash compared to a foreign exchange loss of $95,276 and $99,202 in the respective prior year periods.

Total Comprehensive Loss

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Operating loss	$ (1,118,296)	$ (1,101,464)	$ (5,304,732)	$ (4,273,378)
Total other (expenses) earnings	(36,301)	(238,275)	(18,911)	(582,019)
Income tax expense	-	-	(30,983)	-
Loss for the period	(1,154,597)	(1,339,739)	(5,354,626)	(4,855,397)
Foreign currency translation adjustment	66	(879)	(1,290)	84
Total comprehensive loss	$ (1,154,531)	$ (1,340,618)	$ (5,355,916)	$ (4,855,313)
(Loss) per share (basic and fully diluted)	$ (0.03)	$ (0.03)	$ (0.12)	$ (0.12)

Adjusted EBITDA

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Loss for the period	$ (1,154,597)	$ (1,339,739)	$ (5,354,626)	$ (4,855,397)
Finance expense (a)	283,137	142,999	772,372	482,817
Income taxes	-	-	30,983	-
Depreciation and amortization	535,362	381,475	1,579,756	1,263,079
EBITDA	(336,098)	(815,265)	(2,971,515)	(3,109,501)
Stock-based compensation (b)	198,814	64,454	603,810	322,930
Foreign exchange (c)	(246,839)	95,276	(753,464)	99,202
Congruitive acquisition related costs (d)	-	75,000	586,960	75,000
RiseTech reverse acquisition listing expense (e)	-	-	-	1,188,175
Reverse acquisition legal, professional and related costs (e)	-	-	-	964,484
Adjusted EBITDA	$ (384,123)	$ (580,535)	$ (2,534,209)	$ (459,710)

(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 (gain) / loss 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) Reverse acquisition listing expense comprised of excess purchase price over RiseTech net assets acquired and reverse acquisition costs comprised of legal and professional fees.

During the three and nine months ended September 30, 2022, the Company generated negative Adjusted EBITDA of ($384,123) representing negative 4% of revenue and of ($2,534,209) representing negative 9% of revenue, 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. Specifically, the Company is investing to build its next-generation TRUSense Gateway, which 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 after receiving positive feedback across its user community. The Company will also invest to accelerate the roadmap of Congruitive's offering with specific focus on building the necessary tools to help utilities integrate data from EV charging stations and DERs through the utility's firewall and into mission-critical systems. The Adjusted EBITDA of ($384,123) in the third quarter over the prior quarter ended June 30, 2022 of ($1.5 million) reflects the progress being made by the Company towards generating positive Adjusted EBITDA in future reporting periods.

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 September 30, 2022 decreased to $5.7 million from June 30, 2022 of $9.8 million due primarily to non-operational items with $0.7 million in restricted cash, $1.4 million from the repayment of bank debt, inclusive of $1.1 million of working capital line of credit facility principal repayment which remains available for future funding, and the impact from the change in working capital items, in particular deferred revenue arising from the timing of the Company's ARR customer billing cycle, during the third quarter.

To secure a key account win in 2022, the Company entered into a contract 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 August 8, 2023, unless the surety bond is released prior to this date.

The Company extended the term and related maturity date of its long-standing bank loan from Comerica to February 27, 2023 which it has renewed on a continuous annual basis since 2012. To support the acquisition of Congruitive, the Company also entered into a three-year term loan of $3.3 million on January 31, 2022.

The Company had Adjusted Working Capital as follows:

Adjusted Working Capital		**September 30, 2022**		**December 31, 2021**
Total current assets	$	19,925,342	$	26,427,657
Less: current liabilities		(23,821,887)		(20,953,001)
		(3,896,545)		5,474,656
Add: Bank loans - current portion		8,120,000		8,100,000
Adjusted Working Capital	$	4,223,455	$	13,574,656

Adjusted Working Capital as at September 30, 2022 decreased from December 31, 2021 due to the Company's investment in the Congruitive acquisition in addition to Adjusted EBITDA and capital expenditures during the nine months ended September 30, 2022.

Cash Flows

The Company generated total negative cash flow of $8.5 million, inclusive of negative cash flow from operations of $2,561,151, for the nine months ended September 30, 2022. Investing and financing activities within the nine months ended September 30, 2022 were primarily due to the acquisition of Congruitive.

Cash (used in) provided by :		**Nine months ended September 30, 2022**		**Nine months ended September 30, 2021**
Operating activities	$	(2,561,151)	$	(3,827,125)
Investing activities		(6,123,075)		(121,286)
Financing activities		415,956		13,930,898
Effect of foreign exchange on cash		(195,963)		(2,428)
(Decrease) increase in cash	**$**	**(8,464,233)**	**$**	**9,980,059**

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. 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 - trademarks and copyrights		328,000
Accounts payable and accrued liabilities		(1,030,712)
Lease liability		(33,333)
Fair value of deferred revenue		(589,325)
Fair value of assets and liabilities recognized	$	7,528,696
Goodwill	$	2,590,945

Equity Financings

The following table shows the total proceeds with estimated use of proceeds for the equity financings completed during 2021 compared with the use of proceeds to September 30, 2022, and estimated future use of proceeds:

	January 2021 Financing	August 2021 Financing	Total
Gross financing proceeds (CND$ 9,940,973 and CND$ 10,597,748 respectively)	$ 7,778,539	$ 8,503,633	$ 16,282,172
Capitalized costs	(1,092,853)	(907,486)	(2,000,339)
Broker warrants issued	(61,201)	(141,910)	(203,111)
Total financing costs	(1,154,054)	(1,049,396)	(2,203,450)
Net financing proceeds	$ 6,624,485	$ 7,454,237	$ 14,078,722
Strategic initiatives related to sales & marketing, research and development and corporate development	(1,038,679)	(2,200,000)	(3,238,679)
Congruitive acquisition cash consideration	(3,164,473)		(3,164,473)
Congruitive acquisition related costs	(275,000)		(275,000)
Reverse acquisition of RiseTech related costs	(2,146,333)	-	(2,146,333)
Net financing proceeds	$ -	$ 5,254,237	$ 5,254,237

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:

	September 30, 2022	September 30, 2021
Customer operations	24	24
Sales and marketing	22	18
Research and development	59	61
General and administration	21	22
Total	**126**	**125**

The increase in headcount reflects the addition of Congruitive staff members and additional investments in sales and marketing to support future growth of the Company.

Unlike other technology firms, the Company tends to be somewhat recession-proof as utilities are incentivized to upgrade and modernize their distribution grids to support the delivery of electricity, water and gas. While management does not believe a headcount reduction is appropriate relative to the growth of the business, management is pausing hiring given the broader economic climate and our deliberate push towards returning to positive Adjusted EBITDA.

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 September 30, 2022:

Contractual Obligations		Total		Less than 1 year		1 - 5 years		After 5 years
Accounts Payable and accrued liabilities	$	11,503,018	$	11,503,018	$	-	$	-
Bank loan(a)		7,020,000		7,020,000		-		-
Term loan(a)		2,545,714		1,100,000		1,445,714		-
Lease liabilities(b)		7,548,235		870,204		5,379,792		1,298,239
Total Contractual Obligations	**$**	**28,616,967**	**$**	**20,493,222**	**$**	**6,825,506**	**$**	**1,298,239**

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

In the ordinary course of business, the Company may enter into performance bonds with customers as part of a sales contract. As at September 30, 2022, the Company had one performance bond outstanding of $2,693,895.

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 September 30, 2022, the Company had outstanding purchase order commitments of $18,744,759.

Bank Loan

The Company has a loan agreement with Comerica Bank (the “Bank”) since April 12, 2012 to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date. The loan agreement was previously comprised of two line of credit facilities (expressed in USD and CND currencies and collectively, the “Bank Loan”) with respective maximum borrowing limits of $7,486,000 and CND$750,000 subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. On May 10, 2021, the Company consolidated its Bank Loan from two credit facilities into one line of credit facility in United States dollars up to a maximum of $8,100,000. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at September 30, 2022 of $7,020,000 ($8,100,000 as at December 31, 2021). The facility bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The credit facility is secured by a general security agreement and security over accounts receivable and inventory. The facility previously had a maturity date of February 28, 2022 and was renewed on January 31, 2022 to extend the maturity date to February 27, 2023 in conjunction with an amendment for an incremental term loan. The term loan carries a principal amount of $3,300,000 repayable over three years with the proceeds used for the Company’s acquisition of Congruitive as announced on February 1, 2022, and bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The term loan had a balance of $2,545,714 as at September 30, 2022 (nil as at December 31, 2021). The Company’s aggregate debt declined by $1.4 million during the third quarter to $9.6 million as of September 30, 2022 from June 30, 2022. As at September 30, 2022, the Company narrowly missed a debt facility covenant at September 30, 2022 for which a waiver was received from the bank to ensure Tantalus remains in good standing. The Company has had a decade long relationship with its senior lender and anticipates the annual renewal of its debt facilities in early 2023.

Facilities

Tantalus maintains five office locations across North America, including:

- Burnaby, British Columbia, Canada (headquarters) (“Burnaby”);
- Kanata, Ontario, Canada (“Kanata”);
- Norwalk, Connecticut, United States of America (“Norwalk”);

- Raleigh, North Carolina, United States of America ("Raleigh"); and
- San Jose, California, United States of America ("San Jose").

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, which was expected to expire on January 31, 2022, 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 has been expanded to a new office facility space in the building increased to approximately 2,350 square feet on May 1, 2021 which is to expire on January 1, 2026 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, which was expected to expire on August 31, 2022, has been 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 at September 30, 2022, compared to December 31, 2021 is as follows:

Assets		**September 30, 2022**		**December 31, 2021**		**Variance**
Cash	$	5,739,561	$	14,203,794	$	(8,464,233)
Restricted cash		673,474		-		673,474
Accounts receivable		6,394,223		5,343,724		1,050,499
Investment tax credits receivable		2,824		52,869		(50,045)
Inventory		5,337,685		5,687,407		(349,722)
Prepaid expenses and deposits		1,777,575		1,139,863		637,712
Total current assets	$	19,925,342	$	26,427,657	$	(6,502,315)
Property and equipment		829,473		1,019,867		(190,394)
Intangible assets		7,370,386		160,490		7,209,896
Goodwill		2,590,945		-		2,590,945
Right of Use assets		3,500,386		3,417,733		82,653
Total assets	**$**	**34,216,532**	**$**	**31,025,747**	**$**	**3,190,785**
Liabilities						
Accounts payable and accrued liabilities		11,503,018		8,974,662		2,528,356
Deferred revenue and deposits		3,363,075		3,151,790		211,285
Lease liabilities		835,794		726,549		109,245
Bank term loan - current portion		1,100,000		-		1,100,000
Bank loan		7,020,000		8,100,000		(1,080,000)
Total current liabilities	$	23,821,887	$	20,953,001	$	2,868,886
Deferred revenue and deposits		510,512		-		510,512
Contingent consideration on Congruitive acquisition		2,458,702		-		2,458,702
Lease liabilities		2,730,629		3,282,143		(551,514)
Total liabilities	**$**	**30,967,444**	**$**	**24,235,144**	**$**	**6,732,300**

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 August 8, 2023. 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 at September 30, 2022 of $6.4 million compared to $5.3 million as at December 31, 2021 which is primarily attributable to increased revenue experienced by the Company during the nine months ended September 30, 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 $3,000,000 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 at September 30, 2022, 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 nine months ended September 30, 2022 and September 30, 2021 are as follows:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Short-term employee benefits	$ 468,706	$ 617,670	$ 1,310,329	$ 1,483,840
Share-based compensation	75,371	22,281	271,595	81,168
Total	**$ 544,077**	**$ 639,951**	**$ 1,581,924**	**$ 1,565,008**

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.

	September 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash	$ 5,739,561	$ 5,739,561	$ 14,203,794	$ 14,203,794
Restricted cash	$ 673,474	$ 673,474	$ -	$ -
Accounts receivable	$ 6,394,223	$ 6,394,223	$ 5,343,724	$ 5,343,724
Investment tax credits receivable	$ 2,824	$ 2,824	$ 52,869	$ 52,869
Financial Liabilities				
Accounts payable and accrued liabilities	$ 11,503,018	$ 11,503,018	$ 8,974,662	$ 8,974,662
Bank loans	$ 9,565,714	$ 9,565,714	$ 8,100,000	$ 8,100,000

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 interim condensed consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. During the nine months ended September 30, 2022, the Company incurred a comprehensive loss of $5,355,916 and used cash flows for operating activities of $2,561,151. 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 condensed consolidated financial statements, management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at September 30, 2022 and believes that it has sufficient cash resources to support operations for at least the next twelve months from September 30, 2022. The Company has a history of successive annual renewals of its Bank Loan (see Bank Loan) and anticipates that the Bank Loan will be renewed prior to maturity on February 27, 2023. In addition to the Company's cash of $5,739,561 as at September 30, 2022, 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. The interim condensed consolidated financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the interim condensed consolidated statements of financial position classifications used and disclosures that might be necessary should the Company be unable to continue as a going concern.

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 September 30, 2022 and December 31, 2021. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a $119,317 impact on net loss as at September 30, 2022 and $413,392 as at December 31, 2021.

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 $7,020,000 as at September 30, 2022 and 8,100,000 as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $70,200 as at September 30, 2022 and $81,000 as at December 31, 2021 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 $2,545,714 as at September 30, 2022 and nil as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $25,457 for the period ended September 30, 2022 and nil for the year ended December 31, 2021 on the annual interest expense pertaining to its term loan.

DISCLOSURE OF OUTSTANDING SHARE DATA

As September 30, 2022 and at the date of this report, the following securities were outstanding:

	September 30, 2022	November 9, 2022
Shares	44,595,942	44,595,942
Stock options	6,908,314	6,903,939
Restricted stock units	-	-
Warrants	407,588	407,588

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its condensed consolidated financial statements in accordance with IFRS. In the preparation of these 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 base its estimates on past 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 ("FOB") basis upon shipment or providing access to 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 & materials or fixed fee basis. Revenue from installation and engineering services is recognized over time, using 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.

Business combination

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at acquisition date fair value. The identifiable assets acquired, and liabilities assumed that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

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

Goodwill

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

Intangible assets

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

Intangible Asset Life	
Technology	10 years
Customer relations	10 years
Trademarks and copyrights	10 years

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

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).

There were no changes in the Company's ICFR during the quarter ended September 30, 2022 that has materially affected, or is reasonably likely to materially affect, ICFR.

As of September 30, 2022, the scope of the Company's design of DC&P and ICFR has been limited to exclude controls, policies and procedures of Congruitive, which the Company acquired on January 31, 2022, as the Company has not yet completed evaluating these controls and procedures or designing and implementing any necessary changes.

The contribution of Congruitive to the Company's interim financial statements for the nine months ended September 30, 2022 was approximately 4% of consolidated sales and approximately 13% of consolidated net loss. Additionally, the total assets were approximately 1% of consolidated total assets. Additional information about the acquisition is provided in Note 4 to the Company's interim consolidated financial statements as at and for the nine months ended September 30, 2022.

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.sedar.com.