



# **TANTALUS SYSTEMS HOLDING INC.**

## **Interim Condensed Consolidated Financial Statements**

For the three and nine months ended  
September 30, 2023 and 2022  
*(expressed in United States dollars)*  
*(Unaudited)*

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

## MANAGEMENT'S RESPONSIBILITY

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

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

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

"Peter Londa"  
Chief Executive Officer  
November 7, 2023

"George Reznik"  
Chief Financial Officer  
November 7, 2023

# TANTALUS SYSTEMS HOLDING INC.

## Consolidated Statements of Financial Position

*(Expressed in United States dollars)*

	<i>Note</i>	September 30, 2023	December 31, 2022
<b>Assets</b>			
Current assets			
Cash		\$ 4,208,294	\$ 5,850,914
Restricted cash	5	673,474	673,474
Accounts receivable	6	8,291,312	9,041,735
Investment tax credits receivable	7	-	2,824
Inventory	8	8,170,926	5,690,736
Prepaid expenses and other assets		1,687,103	1,534,615
<b>Total current assets</b>		<b>23,031,109</b>	<b>22,794,298</b>
Property and equipment	9	725,100	801,803
Intangible assets	10	6,405,750	6,983,140
Goodwill	4	3,445,149	3,445,149
Right of Use assets	11	2,840,286	3,335,361
<b>Total assets</b>		<b>\$ 36,447,394</b>	<b>\$ 37,359,751</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 16,299,672	\$ 12,359,785
Deferred revenue and deposits		3,305,818	4,619,450
Lease liabilities	14	854,656	858,643
Bank term loan - current portion	13	-	1,100,000
Bank working capital loan	13	7,369,311	8,100,000
Contingent consideration on Congruitive acquisition	4	2,458,702	2,458,702
<b>Total current liabilities</b>		<b>30,288,159</b>	<b>29,496,580</b>
Deferred revenue and deposits		402,333	503,994
Bank term loan - long term portion	13	-	1,162,857
EDC loan		3,000,000	-
Lease liabilities	14	2,226,970	2,617,621
<b>Total liabilities</b>		<b>35,917,462</b>	<b>33,781,052</b>
Shareholders' equity			
Share capital	15		
Common shares		88,142,625	88,142,625
Other capital reserves		41,359,371	41,029,122
Accumulated other comprehensive income		1,913,960	1,916,948
Deficit		(130,886,024)	(127,509,996)
<b>Total shareholders' equity</b>		<b>529,932</b>	<b>3,578,699</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 36,447,394</b>	<b>\$ 37,359,751</b>

*See accompanying notes to interim condensed consolidated financial statements.*

Approved on behalf of the Board:

“John McEwen”  
Director

“Peter Londa”  
Director

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

	<i>Note</i>	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues	<i>19</i>	\$ 10,143,287	\$ 9,071,109	\$ 31,776,890	\$ 27,438,051
Cost of sales	<i>8, 15(e), 19</i>	4,718,621	4,283,858	15,245,911	14,065,892
		5,424,666	4,787,251	16,530,979	13,372,159
<b>Expenses</b>					
Sales and marketing	<i>15(e), 20</i>	1,916,536	1,829,063	6,320,977	5,072,702
Research and development	<i>7, 15(e), 20</i>	2,000,305	1,588,726	5,991,631	5,853,291
General and administrative	<i>15(e), 20</i>	1,549,907	1,952,399	5,005,854	6,171,145
Depreciation and amortization	<i>9, 10, 11, 20</i>	461,728	535,362	1,380,112	1,579,756
		5,928,476	5,905,550	18,698,574	18,676,894
<b>Operating loss</b>		(503,810)	(1,118,299)	(2,167,595)	(5,304,735)
<b>Other (expenses) earnings</b>					
Foreign exchange (loss) gain		58,456	246,839	(88,977)	753,464
Finance expenses	<i>16</i>	(396,646)	(283,137)	(1,140,412)	(772,372)
Other income	<i>7(b)</i>	44,681	-	44,681	-
		(293,509)	(36,298)	(1,184,708)	(18,908)
<b>Loss before income taxes</b>		(797,319)	(1,154,597)	(3,352,303)	(5,323,643)
Income tax expense		-	-	23,725	30,983
Loss for the period		(797,319)	(1,154,597)	(3,376,028)	(5,354,626)
Foreign currency translation adjustment		(169)	66	(2,988)	(1,290)
<b>Total comprehensive loss for the period</b>		\$ (797,488)	\$ (1,154,531)	\$ (3,379,016)	\$ (5,355,916)
<b>Loss per share (basic and diluted)</b>	<i>17</i>	\$ (0.02)	\$ (0.03)	\$ (0.08)	\$ (0.12)
<b>Weighted average number of shares outstanding (basic and diluted)</b>	<i>17</i>	44,595,942	44,593,332	44,595,942	44,465,073

See accompanying notes to interim condensed consolidated financial statements.

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

	Note	Common Shares		Other Capital	Accumulated	Deficit	Total Shareholders' Equity
		Number	Amount	Reserves	Other Comprehensive Income		
<b>Balance, December 31, 2021</b>		<b>43,634,229</b>	<b>\$ 86,932,034</b>	<b>\$ 40,255,644</b>	<b>\$ 1,917,505</b>	<b>\$ (122,314,580)</b>	<b>\$ 6,790,603</b>
Share-based compensation	15 (e)	-	-	773,478	-	-	773,478
Issuance of common shares from option exercise		18,074	14,125	-	-	-	14,125
Issuance of common shares from RSU exercise		74,074	-	-	-	-	-
Issuance of common shares in Congruitive acquisition	15 (b)	869,565	1,196,466	-	-	-	1,196,466
Foreign currency translation adjustment		-	-	-	(557)	-	(557)
Loss for the period		-	-	-	-	(5,195,416)	(5,195,416)
<b>Balance, December 31, 2022</b>	<b>15 (a)</b>	<b>44,595,942</b>	<b>\$ 88,142,625</b>	<b>\$ 41,029,122</b>	<b>\$ 1,916,948</b>	<b>\$ (127,509,996)</b>	<b>\$ 3,578,699</b>
Share-based compensation	15 (e)	-	-	330,249	-	-	330,249
Foreign currency translation adjustment		-	-	-	(2,988)	-	(2,988)
Loss for the period		-	-	-	-	(3,376,028)	(3,376,028)
<b>Balance, September 30, 2023</b>	<b>15 (a)</b>	<b>44,595,942</b>	<b>\$ 88,142,625</b>	<b>\$ 41,359,371</b>	<b>\$ 1,913,960</b>	<b>\$ (130,886,024)</b>	<b>\$ 529,932</b>

See accompanying notes to interim condensed consolidated financial statements.

# TANTALUS SYSTEMS HOLDING INC.

## Consolidated Statements of Cash Flows

(Expressed in United States dollars)

Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
<b>Cash (used in) provided by</b>				
Operating Activities				
Loss for the period	\$ (797,319)	\$ (1,154,597)	\$ (3,376,028)	\$ (5,354,626)
Items Not Affecting Cash:				
Unrealized foreign exchange loss / (gain)	(24,754)	282	49,544	(433,676)
Depreciation of equipment	9	104,240	97,411	307,647
Amortization of intangible assets	10	192,463	286,385	577,390
Amortization of right-of-use asset	11	165,025	151,566	495,075
Share-Based compensation	15(e)	105,302	198,814	330,249
Finance expenses	16	349,251	249,290	977,027
Changes in Non-Cash Operating Working Capital				
Accounts Receivable	6	760,063	329,904	750,423
Investment tax credits receivable	7	-	38,800	2,824
Inventories	8	(1,281,300)	(308,774)	(2,480,190)
Prepaid expenses and other assets		40,007	(249,541)	(152,487)
Accounts payable and accrued liabilities	12	1,394,797	362,102	3,939,886
Deferred revenue and deposits		(2,079,583)	(1,327,682)	(1,415,293)
Lease payments for interest	14	(60,251)	(62,271)	(188,592)
Interest paid on bank loans	13	(289,000)	(187,019)	(788,435)
<b>Net Cash used in Operating Activities</b>	<b>(1,421,059)</b>	<b>(1,575,330)</b>	<b>(970,960)</b>	<b>(2,561,151)</b>
Investing Activities				
Purchase of equipment	9	(115,065)	(31,968)	(230,944)
Purchase of intangible assets	10	-	(154,371)	-
Purchase of Congruitive, net of cash acquired	4	-	-	(5,685,531)
<b>Net Cash used in Investing Activities</b>	<b>(115,065)</b>	<b>(186,339)</b>	<b>(230,944)</b>	<b>(6,123,075)</b>
Financing Activities				
Repayments of working capital loan	13	(325,000)	(1,080,000)	(730,689)
Advance of term loan	13	-	-	3,300,000
Repayments of term loan	13	(1,697,143)	(282,857)	(2,262,857)
Advance of EDC loan	13	3,000,000	-	3,000,000
Increase in restricted cash	5	-	(673,474)	-
Repayment of lease liabilities	14	(171,314)	(122,968)	(447,707)
Issuance of common shares from option exercise	15(c)	-	5,992	-
<b>Net Cash provided by (used in) Financing Activities</b>	<b>806,543</b>	<b>(2,153,307)</b>	<b>(441,253)</b>	<b>415,956</b>
Decrease in cash	(729,581)	(3,914,976)	(1,643,157)	(8,268,270)
Effect of foreign exchange on cash	(6,541)	(154,461)	537	(195,963)
Cash, beginning of period	4,944,416	9,808,998	5,850,914	14,203,794
<b>Cash, end of period</b>	<b>\$ 4,208,294</b>	<b>\$ 5,739,561</b>	<b>\$ 4,208,294</b>	<b>\$ 5,739,561</b>

See accompanying notes to interim condensed consolidated financial statements.

Supplemental cash flow information (Note 24)

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements

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

Three and six months ended September 30, 2023 and 2022

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### 1. Reporting Entity

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

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

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

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

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

The Company’s head office is located in Burnaby, Canada. The Company’s registered office is located in Vancouver, Canada. The Company’s direct and indirect operating subsidiaries have offices in Ottawa, Ontario, Canada; Raleigh, North Carolina, United States, and Norwalk, Connecticut, United States. The Company had an office in San Jose, California, United States until October 31, 2023.

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

## 2. Basis of Presentation

### *Statement of Compliance*

These interim condensed consolidated financial statements (the “interim financial statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). These interim financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company’s annual financial statements as at and for the year ended December 31, 2022 except as noted in Note 3, which describes the impact of new accounting policies adopted effective January 1, 2023. Accordingly, these interim financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company’s annual financial statements as at and for the year ended December 31, 2022.

The Board of Directors authorized these interim financial statements for issue on November 7, 2023.

### *Presentation*

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

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

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

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

<sup>1</sup>Dissolved March 4, 2021.



# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### 2. Basis of Presentation (continued)

#### *Use of Judgements, Estimates and Assumptions*

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

The areas of significant judgement and estimation were identified in the Company's most recent audited consolidated financial statements for the year ended December 31, 2022, except for judgements pertaining to the adoption of new accounting policies effective on January 1, 2023 (Note 3).

#### *Going Concern*

These interim financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. During the nine months ended September 30, 2023, the Company incurred a comprehensive loss of \$3,379,016 and used cash flows for operating activities of \$970,960. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of these interim financial statements, management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at September 30, 2023 and believes that it has sufficient cash resources to support operations for at least the next twelve months from September 30, 2023. The Company has a history of successive annual renewals of its Bank Loan (see Note 13) and the Bank Loan has been renewed on similar terms until February 27, 2024. In addition to the Company's cash of \$4,208,294 as at September 30, 2023, the Company has a base shelf prospectus filed on June 28, 2021 under which it has an ability to offer, issue and sell common shares, preferred shares, debt securities and warrants for up to an aggregate offering price of CND\$50,000,000 in one or more transactions during the twenty five month period that this prospectus remains effective (subject to the Company's compliance with the applicable rules of the TSX and securities regulations required to access such base shelf prospectus) net of gross proceeds of CND\$10,597,748 raised in August 2021.

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### 3. Significant Accounting Policies

The accounting policies followed in these interim financial statements are the same as those applied in the Company's most recent audited consolidated financial statements for the year ended December 31, 2022, except as noted below.

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

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

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

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

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

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

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

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 4. Congruitive Acquisition

On January 31, 2022, the Company completed its acquisition of all the outstanding and issued common shares of DLC Systems, Inc. d/b/a Congruitive (“Congruitive”). Congruitive’s signature software solution, Congruence.IQ™ (“C.IQ™”), is a software platform that enables the interoperability of a wide range of devices.

The Company determined that Congruitive represented a business as the assets were an integrated set of activities with inputs, processes and outputs. Accordingly, the acquisition was accounted for as a business combination using the acquisition method whereby the assets acquired, and the liabilities assumed were recorded at fair value. At acquisition date the fair values assigned to intangible assets, goodwill and the deferred tax liabilities were measured on a provisional basis and subsequently finalized on December 31, 2022.

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

Consideration transferred	
Cash consideration	\$ 6,464,473
Fair value of share consideration	1,196,466
Fair value of contingent consideration payable	2,458,702
Total consideration	<u>\$ 10,119,641</u>
Fair value of assets and liabilities recognized	
Cash	\$ 778,942
Accounts receivable	665,131
Inventory	7,710
Prepaid and other deposits	4,073
Property and equipment	7,948
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	<u>\$ 6,674,492</u>
Goodwill	<u>\$ 3,445,149</u>

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 4. Congruitive Acquisition (continued)

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

Transaction costs of \$936,960 (\$586,960 incurred in 2022 and \$350,000 incurred in 2021) were incurred in connection with the acquisition including a success fee of \$450,000 and legal and professional fees of \$346,140, recognized in the consolidated statement of loss and comprehensive loss.

### 5. Restricted Cash

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

### 6. Accounts Receivable

	September 30, 2023	December 31, 2022
Accounts receivable	\$ 8,842,916	\$ 9,593,339
Less: allowance for doubtful accounts	(551,604)	(551,604)
<b>Net Accounts receivable</b>	<b>\$ 8,291,312</b>	<b>\$ 9,041,735</b>

The Company did not have any accounts receivable balances from related parties as at September 30, 2023 and December 31, 2022, respectively.

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

During the period ended September 30, 2023, the Company recorded credit losses of nil (September 30, 2022 - nil), in general and administrative expense.

Aging analysis of trade receivables is as follows:

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 6. Accounts Receivable (continued)

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Not past due	\$ 4,701,377	\$ 2,976,174
31-90 days	1,823,038	4,793,814
91-180 days	456,276	386,127
Over 180 days	1,310,621	885,620
<b>Total</b>	<b>\$ 8,291,312</b>	<b>\$ 9,041,735</b>

### 7. Investment Tax Credits Receivable and Government Assistance

#### (a) Investment Tax Credits Receivable

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Investment tax credits receivable</b>	<b>\$ -</b>	<b>\$ 2,824</b>

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

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

	<b>Three months ended September 30, 2023</b>	<b>Three months ended September 30, 2022</b>	<b>Nine months ended September 30, 2023</b>	<b>Nine months ended September 30, 2022</b>
Research and Development, Gross	\$ 2,000,305	1,588,726	5,991,631	6,127,821
Investment Tax Credit	-	-	-	274,530
<b>Research and Development, Net</b>	<b>\$ 2,000,305</b>	<b>\$ 1,588,726</b>	<b>\$ 5,991,631</b>	<b>\$ 5,853,291</b>

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 7. Investment Tax Credits Receivable and Government Assistance (continued)

#### (b) Government Assistance Other Income

##### *United States Employee Retention Credit (ERC)*

The Company applied for and received subsidies in the aggregate amount of \$44,681 during the three months ended September 30, 2023, pursuant to the United States Employee Retention Credit (ERC), a refundable tax credit for businesses and tax-exempt organizations that had employees and were affected during the COVID-19 pandemic. In order to qualify for the ERC, among other things, United States employers must have experienced the required decline in gross receipts during the eligibility periods during 2020 or the first three calendar quarters of 2021. Management believes there is reasonable assurance that the Company has met the eligibility requirements of the ERC and properly made claims for the subsidies received thereunder, and thus has recognized governmental grant other income of \$44,681 during the three months ended September 30, 2023, pertaining to the ERC regarding COVID-19.

### 8. Inventory

	September 30, 2022	December 31, 2022
Finished goods	\$ 5,109,232	\$ 3,290,397
Raw materials	3,061,694	2,400,339
<b>Inventory</b>	<b>\$ 8,170,926</b>	<b>\$ 5,690,736</b>

During the three months ended September 30, 2023 and September 30, 2022, inventory related amounts were charged to cost of sales of \$3,440,590 and \$3,507,281, respectively. During the nine months ended September 30, 2023 and September 30, 2022 the Company charged \$11,634,001 and \$11,449,956, respectively, of inventory related amounts to cost of sales.

Management assesses the valuation of inventory at the end of each period resulting in valuation adjustments accounted for in the respective period based upon management estimates. During the period, inventories were reviewed for obsolescence as part of ongoing operations. Inventory adjustments for obsolescence were recorded in cost of sales during the three months ended September 30, 2023 and September 30, 2022 of \$85,595 and \$59,549, respectively, and during the nine months ended September 30, 2023 and September 30, 2022 of \$320,591 and \$84,574, respectively.

An inventory obsolescence reserve of \$515,000 as at September 30, 2023 (\$275,000 as at December 31, 2022) has been recorded.

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 9. Property & Equipment

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

Cost	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2021	\$ 3,406,925	\$ 536,015	\$ 5,131,156	\$ 1,618,114	\$ 10,692,210
Additions	54,555	8,455	104,316	17,170	184,496
Balance,					
December 31, 2022	\$ 3,461,480	\$ 544,470	\$ 5,235,472	\$ 1,635,284	\$ 10,876,706
Additions	30,487	3,460	196,997	-	230,944
Balance,					
September 30, 2023	\$ 3,491,967	\$ 547,930	\$ 5,432,469	\$ 1,635,284	\$ 11,107,650

  

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2021	\$ 3,331,307	\$ 470,632	\$ 4,344,368	\$ 1,526,036	\$ 9,672,343
Additions	51,311	26,587	286,963	37,699	402,560
Balance,					
December 31, 2022	\$ 3,382,618	\$ 497,219	\$ 4,631,331	\$ 1,563,735	\$ 10,074,903
Additions	37,243	18,879	233,144	18,381	307,647
Balance,					
September 30, 2023	\$ 3,419,861	\$ 516,098	\$ 4,864,475	\$ 1,582,116	\$ 10,382,550

  

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2022	\$ 78,862	\$ 47,251	\$ 604,141	\$ 71,549	\$ 801,803
Balance,					
September 30, 2023	\$ 72,106	\$ 31,832	\$ 567,994	\$ 53,168	\$ 725,100

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 10. Intangible assets

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

Accumulated Amortization	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance,					
December 31, 2021	\$ 1,838,077	\$ -	\$ 677,509	\$ 962,058	\$ 3,477,644
Additions	160,441	598,583	76,209	30,117	865,350
Balance,					
December 31, 2022	\$ 1,998,518	\$ 598,583	\$ 753,718	\$ 992,175	\$ 4,342,994
Additions	-	489,750	62,816	24,824	577,390
Balance,					
September 30, 2023	\$ 1,998,518	\$ 1,088,333	\$ 816,534	\$ 1,016,999	\$ 4,920,384

Net Book Value	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance,					
December 31, 2022	\$ 49	\$ 5,931,417	\$ 753,791	\$ 297,883	\$ 6,983,140
Balance,					
September 30, 2023	\$ 49	\$ 5,441,667	\$ 690,975	\$ 273,059	\$ 6,405,750

### 11. Right-of-Use Assets

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

	September 30, 2022	December 31, 2022
<b>Beginning Balance</b>	\$ 3,335,361	\$ 3,417,733
Additions	-	548,419
Amortization of ROU	(495,075)	(630,791)
<b>Ending Balance</b>	<b>\$ 2,840,286</b>	<b>\$ 3,335,361</b>



# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 12. Accounts Payable and Accrued Liabilities

	September 30, 2023	December 31, 2022
Trade payables and other payables	\$ 9,403,689	\$ 7,297,125
Accrued warranty (a)	621,655	651,934
Employee benefits	1,994,535	1,722,222
Vendor goods and services received	2,854,447	1,001,402
Professional fees	587,969	920,403
Other accrued liabilities	837,377	766,699
<b>Total</b>	<b>\$ 16,299,672</b>	<b>\$ 12,359,785</b>

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

### 13. Bank Loan

#### Comerica Bank

The Company has a loan agreement with Comerica Bank (the “Bank”) since April 12, 2012 to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date (the “Bank Loan”). The loan agreement is comprised of a line of credit facility in United States dollars up to a maximum of \$8,100,000 subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at September 30, 2023 of \$7,369,311 (\$8,100,000 as at December 31, 2022). The facility bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The facility previously had a maturity date of February 27, 2023. The facility was renewed to extend the maturity date to February 27, 2024. In conjunction with entering a term loan with EDC (see below), the credit facility with Comerica Bank increased from \$8,100,000 to \$8,500,000.

The Company had a term loan with the Bank that carried a principal amount of \$3,300,000 repayable over three years with the proceeds used for the Company’s acquisition of Congruitive as announced on February 1, 2022 (see Note 4) and bore interest at the Bank’s prime rate plus 2.00% per annum, payable monthly (the “Term Loan”). The Term Loan was paid in full with proceeds from the EDC Loan (see below) and had a balance of \$nil as at September 30, 2023 (\$2,262,857 as at December 31, 2022).

The Bank Loan facility is secured by a general security agreement and security over accounts receivable and inventory.

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### 13. Bank Loan (continued)

#### 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. 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. The remainder of the EDC Loan will provide additional working capital and support the Company’s research and development and related commercialization activities. During the three months ended September 30, 2023, the Company received additional EDC Loan proceeds of \$1,000,000 with a principal balance outstanding of \$3,000,000 as at September 30, 2023. 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 nine months ended September 30, 2023.

### 14. Lease Liabilities

The Company has leases with respect to its operating premises in Burnaby, British Columbia, Canada (“Burnaby”), Kanata, Ontario, Canada (“Kanata”), Raleigh, North Carolina, United States (“Raleigh”) and Norwalk, Connecticut, United States (“Norwalk”) in addition to equipment leases. Upon acquisition of Congruitive, the Company had an operating premise in San Jose, California, United States (“San Jose”) with the lease for that premise expiring on October 31, 2023. With the exception of short-term and low-value leases, leases are reflected on the balance sheet as a right-of-use asset and a lease liability.

On June 7, 2022, the Company extended the lease for its Raleigh, North Carolina, office facility from August 31, 2022 to October 31, 2027. This resulted in the addition of a Right-of-Use asset of \$518,157, net lease liability of \$543,157 and tenant allowance of \$25,000.

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

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 14. Lease Liabilities (continued)

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

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Maturity Analysis – contractual undiscounted cash flows from minimum lease</b>		
Less than one year	\$ 757,450	\$ 762,152
One to five years	2,623,512	2,743,160
More than five years	193,761	626,651
<b>Total undiscounted lease liabilities</b>	<b>\$ 3,574,723</b>	<b>\$ 4,131,963</b>

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

<b>Total undiscounted lease liabilities at September 30, 2023</b>	<b>\$</b>	<b>3,574,723</b>
Discounted using incremental borrowing rate		(493,097)
<b>Total lease liabilities recognized under IFRS 16 at September 30, 2023</b>	<b>\$</b>	<b>3,081,626</b>

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Beginning Balance</b>	<b>\$ 3,476,264</b>	<b>\$ 4,008,692</b>
Additions	-	576,490
Add: Interest	188,592	238,042
Less: Payments	(636,299)	(767,208)
Impact of foreign exchange	53,069	(579,752)
Ending Balance	3,081,626	3,476,264
Less: Current portion	(854,656)	(858,643)
<b>Non-current portion</b>	<b>\$ 2,226,970</b>	<b>\$ 2,617,621</b>

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 14. Lease Liabilities (continued)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
<b>Amounts Recognized in Statements of Operations</b>				
Finance charge on lease liabilities	\$ 60,251	\$ 62,271	\$ 188,592	\$ 170,305
Variable lease payments expensed	136,977	133,616	410,930	400,848
<b>Total amounts recognized in Statements of Operations</b>	<b>\$ 197,228</b>	<b>\$ 195,887</b>	<b>\$ 599,522</b>	<b>\$ 571,153</b>

The aggregate of the Company's variable lease payments as at September 30, 2023 is as follows and reflects the estimated future payments of the variable operating costs of the long-term operating premises leases in Burnaby, Kanata, Raleigh, Norwalk, and San Jose.

2023	\$ 136,977
2024	561,754
2025	488,457
2026	498,940
2027	513,908
2028	529,326
	<b>\$ 2,729,362</b>

### 15. Share Capital

(a) Authorized share capital:

Unlimited common shares, with no par value.

Unlimited preferred shares, with no par value.

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

The Company has 44,595,942 common shares outstanding as at September 30, 2023 as indicated below:

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 15. Share Capital (continued)

(a) Authorized share capital (continued):

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

(b) Issuance of Common Shares in Congruitive Acquisition

During the three months ended September 30, 2022, 869,565 common shares of Tantalus were issued for \$1,196,466 as part of the purchase price of the Congruitive Acquisition (see Note 4) and was based on a share price of CND\$1.76 (US\$1.38), calculated with reference to the volume weighted average trading price of Tantalus' common shares on the TSX over the previous five trading days ended January 28, 2022 and exchange rates over the same period.

(c) Stock Option Plan

The Company adopted the Omnibus Long Term Incentive Plan ("LTIP") that was effective as of the closing of the plan of arrangement pursuant to which the Company may grant stock options to provide incentives to eligible persons. As at September 30, 2023, the LTIP allows for a maximum of 8,919,188 common shares to be available under the plan.

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### 15. Share Capital (continued)

#### (c) Stock Option Plan (continued)

During the three months ended September 30, 2023, no shares were issued as a result of stock options being exercised (7,746 shares issued for the three months ended September 30, 2022 for gross proceeds of \$5,992). During the nine months ended September 30, 2023, no shares were issued as a result of stock options being exercised (18,074 shares issued for the nine months ended September 30, 2022 for gross proceeds of \$14,125).

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

	<b>Number of Options</b>	<b>Weighted Average Exercise Price (CND\$)</b>
Balance at December 31, 2021	5,869,413	\$ 1.21
Granted during the period	1,219,646	\$ 1.35
Exercised during the period	(18,074)	\$ 1.00
Forfeited/expired during the period	(172,908)	\$ 1.00
Balance at December 31, 2022	6,898,077	\$ 1.24
Granted during the period	445,631	\$ 1.20
Forfeited/expired during the period	(90,687)	\$ 1.00
<b>Balance at September 30, 2023</b>	<b>7,253,021</b>	<b>\$ 1.24</b>

As at September 30, 2023, the number of stock options outstanding and exercisable and the exercise price, adjusted for the share consolidation which occurred on January 29, 2021, was as follows:

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 15. Share Capital (continued)

#### (c) Stock Option Plan (continued)

Option Grant Date	Options Outstanding	Options Exercisable	Exercise Price (CND\$)
December 18, 2018	3,446,396	3,446,396	\$ 1.00
April 1, 2019	70,000	65,625	\$ 1.00
January 1, 2020	422,899	290,743	\$ 1.00
June 20, 2020	5,000	3,125	\$ 1.00
September 1, 2020	513,646	288,926	\$ 1.00
February 9, 2021	18,284	18,284	\$ 1.64
February 9, 2021	112,000	70,000	\$ 2.25
March 25, 2021	100,000	100,000	\$ 2.17
August 17, 2021	179,000	89,500	\$ 2.11
November 17, 2021	658,900	301,996	\$ 2.10
November 17, 2021	47,619	47,619	\$ 2.10
December 24, 2021	14,000	6,417	\$ 1.79
March 24, 2022	1,185,515	444,568	\$ 1.35
May 15, 2022	34,131	13,652	\$ 1.28
May 15, 2023	445,631	-	\$ 1.20
<b>Balance at September 30, 2023</b>	<b>7,253,021</b>	<b>5,186,851</b>	<b>\$ 1.17</b>

During the nine month period ended September 30, 2023 and September 30, 2022, the fair value of options granted was \$213,423 and \$581,964, respectively. Remaining unrecognized cost of the LTIP as at September 30, 2023 and December 31, 2022 was \$160,787 and \$480,663, respectively. The weighted average remaining life expressed in years of outstanding options was 2.59 years as at September 30, 2023 and 3.32 years as at December 31, 2022.

As at September 30, 2023, the Company had total vested options of 5,186,851 with a weighted average price of CND\$1.17 and total vested options of 4,304,712 with a weighted average price of CND\$1.06 as at December 31, 2022.

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

	September 30, 2023	December 31, 2022
Risk free interest rate	0.39% - 4.25%	0.39% - 2.75%
Dividend yield	0%	0%
Expected life (in years)	1 to 7 years	1 to 7 years
Forfeiture rate	6.94%	6.13%
Volatility	50% - 54.1%	50% - 54.1%

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 15. Share Capital (continued)

#### (d) Restricted Stock Units

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

During the nine months ended September 30, 2022, RSUs that were issued in 2021 and vested in one year after the date of issuance, vested in full and 74,074 common shares were issued by the Company. There were no RSUs outstanding as at September 30, 2023.

#### (e) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSUs granted was \$105,302 and \$198,814 during the three months ended September 30, 2023 and September 30, 2022, respectively and \$330,249 and \$603,810 during the nine months ended September 30, 2023 and September 30, 2022, respectively.

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

<b>Three months ended September 30, 2023</b>	<b>Cost</b>	<b>Stock-based Compensation</b>	<b>Total</b>
Sales and marketing	1,896,696	19,840	1,916,536
Research and development	1,987,847	12,458	2,000,305
General and administrative	1,476,903	73,004	1,549,907
	<u>\$ 5,361,446</u>	<u>\$ 105,302</u>	<u>\$ 5,466,748</u>

<b>Three months ended September 30, 2022</b>	<b>Cost</b>	<b>Stock-based Compensation</b>	<b>Total</b>
Sales and marketing	1,786,305	42,758	1,829,063
Research and development	1,573,306	15,420	1,588,726
General and administrative	1,811,763	140,636	1,952,399
	<u>\$ 5,171,374</u>	<u>\$ 198,814</u>	<u>\$ 5,370,188</u>



# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 15. Share Capital (continued)

(e) Stock-based compensation expense (continued)

Nine months ended September 30, 2023	Stock-based		Total
	Cost	Compensation	
Sales and marketing	6,256,418	64,559	6,320,977
Research and development	5,957,674	33,957	5,991,631
General and administrative	4,774,121	231,733	5,005,854
	<u>\$ 16,988,213</u>	<u>\$ 330,249</u>	<u>\$ 17,318,462</u>

Nine months ended September 30, 2022	Stock-based		Total
	Cost	Compensation	
Sales and marketing	4,943,820	128,882	5,072,702
Research and development	5,804,777	48,514	5,853,291
General and administrative	5,744,731	426,414	6,171,145
	<u>\$ 16,493,328</u>	<u>\$ 603,810</u>	<u>\$ 17,097,138</u>

### 16. Finance Expenses

Period ended	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Accretion of interest on lease liability (note 14)	\$ 60,251	\$ 62,271	\$ 188,592	\$ 170,305
Interest expense on bank loan (note 13)	289,000	187,019	788,435	490,976
EDC insurance and other finance expenses	47,395	33,847	163,385	111,091
<b>Total</b>	<b>\$ 396,646</b>	<b>\$ 283,137</b>	<b>\$ 1,140,412</b>	<b>\$ 772,372</b>

### 17. Loss per Share

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

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Beginning balance at December 31, shares outstanding	44,595,942	43,634,229
Effect of shares issued from Congruitive acquisition	-	770,460
Effect of shares issued from RSU exercise	-	51,471
Effect of shares issued from option exercise	-	8,913
<b>Weighted average number of shares (basic and diluted)</b>	<b>44,595,942</b>	<b>44,465,073</b>

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 17. Loss per Share (continued)

The weighted average number of common shares is as follows:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net loss	\$ (797,319)	\$ (1,154,597)	\$ (3,376,028)	\$ (5,354,626)
Basic weighted average number of shares	44,595,942	44,593,332	44,595,942	44,465,073
<b>Basic and dilutive loss per share</b>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.12)</u>

### 18. Commitments and Contingencies

- (a) In the ordinary course of business, the Company may deliver performance and/or payment bonds to customers in connection with a sales contract. As at September 30, 2023, the Company had one performance bond outstanding of \$2,693,895 with which the Company has provided security through restricted cash representing 25% of such bond equaling \$673,474 (Note 5) (December 31, 2022 - \$2,693,895).
- (b) In the ordinary course of business, the Company enters into purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As at September 30, 2023, the Company had outstanding purchase order commitments of \$13,309,734 (December 31, 2022 - \$15,966,669).
- (c) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.
- (d) In the ordinary course of business, indemnification provisions are included in agreements with the Company's customers. Generally, such indemnification provisions are subject to limitations of liability provisions that exclude certain damages from what the Company may be obligated to indemnify the Customer for in connection with the agreement and/or set a cap on the Company's indemnification obligation tied to revenue generated from such agreement. In certain limited instances, the Company's indemnification obligation may not be subject to such aforementioned limitations and/or caps. As a matter of practice, the Company's customer agreements generally include provisions pursuant to which its customers indemnify the Company for certain potential liabilities that may arise in connection with or relating to the agreements between the parties.

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 19. Segmented Information

#### Operating segments

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

- 1) *The Connected Devices and Infrastructure Segment.* This segment is responsible for the sale of the Company's proprietary edge computing modules that are integrated into multiple devices deployed across a utility's distribution grid including meters, sensors, street lighting fixtures and distribution automation equipment. Revenue generated from this segment also includes the sale of the Company's proprietary multi-relay load control switches and a suite of communications infrastructure devices that are deployed to deliver an industrial network-of-things / IoT smart grid including base stations, repeaters and collectors; and
- 2) *The Utility Software Applications and Services Segment.* This segment is responsible for the sale of the Company's proprietary mission-critical enterprise software applications AI enabled data analytics and a suite of professional services to support utilities. Revenue is generated from this segment through the sale of software licenses, software as a service ("SaaS"), hosting services, professional services (including project management, deployment, installation, and engineering support), and post-contract technical support and annual software maintenance services.

Corporate includes all operating expenses of the Company.

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

A breakdown of revenues and cost of sales for each operating segment for the three and nine months ended September 30, 2023 and September 30, 2022 is as follows:

Three months ended September 30, 2023	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 6,413,281	\$ 3,730,006	\$ -	\$ 10,143,287
Cost of sales	3,612,042	1,106,579	-	4,718,621
Gross profit	2,801,239	2,623,427	-	5,424,666
Operating expenses	-	-	5,928,476	5,928,476
<b>Operating income (loss)</b>	<b>\$ 2,801,239</b>	<b>\$ 2,623,427</b>	<b>\$ (5,928,476)</b>	<b>\$ (503,810)</b>

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 19. Segmented Information (continued)

Three months ended September 30, 2022	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 6,101,114	\$ 2,969,995	\$ -	\$ 9,071,109
Cost of sales	3,576,300	707,558	-	4,283,858
Gross profit	2,524,814	2,262,437	-	4,787,251
Operating expenses	-	-	5,905,550	5,905,550
<b>Operating income (loss)</b>	<b>\$ 2,524,814</b>	<b>\$ 2,262,437</b>	<b>\$ (5,905,550)</b>	<b>\$ (1,118,299)</b>

Nine months ended September 30, 2023	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 20,513,478	\$ 11,263,412	\$ -	\$ 31,776,890
Cost of sales	12,428,412	2,817,499	-	15,245,911
Gross profit	8,085,066	8,445,913	-	16,530,979
Operating expenses	-	-	18,698,574	18,698,574
<b>Operating income (loss)</b>	<b>\$ 8,085,066</b>	<b>\$ 8,445,913</b>	<b>\$ (18,698,574)</b>	<b>\$ (2,167,595)</b>

Nine months ended September 30, 2022	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 18,123,836	\$ 9,314,215	\$ -	\$ 27,438,051
Cost of sales	11,865,036	2,200,856	-	14,065,892
Gross profit	6,258,800	7,113,359	-	13,372,159
Operating expenses	-	-	18,676,894	18,676,894
<b>Operating income (loss)</b>	<b>\$ 6,258,800</b>	<b>\$ 7,113,359</b>	<b>\$ (18,676,894)</b>	<b>\$ (5,304,735)</b>

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
United States <sup>1</sup>	\$ 10,003,103	\$ 8,951,287	\$ 31,484,749	\$ 27,207,576
Canada	136,216	109,785	267,399	182,965
Others	3,968	10,037	24,742	47,510
<b>Total</b>	<b>\$ 10,143,287</b>	<b>\$ 9,071,109</b>	<b>\$ 31,776,890</b>	<b>\$ 27,438,051</b>

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 20. Expenses by Nature

Total salaries and wages as well as other personnel and contractor related expenses included in Cost of Sales for the three months ended September 30, 2023 and September 30, 2022, respectively, were \$1,193,432 and \$783,587, and for the nine months ended September 30, 2023 and September 30, 2022, respectively, were \$2,958,014 and \$2,448,592.

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

<b>Period ended</b>	<b>Three months ended September 30, 2023</b>	<b>Three months ended September 30, 2022</b>	<b>Nine months ended September 30, 2023</b>	<b>Nine months ended September 30, 2022</b>
Salaries and Benefits	\$ 3,409,140	\$ 3,344,242	\$ 10,456,935	\$ 9,717,441
Travel and meals	315,109	192,416	851,752	519,167
Depreciation and Amortization	461,728	535,362	1,380,112	1,579,756
Consulting and agent services	426,324	353,120	1,450,741	1,901,896
Facilities variable lease payments	146,146	132,827	296,762	397,210
Stock-based compensation	105,302	198,814	330,249	603,810
Marketing programs	180,313	250,428	1,016,703	510,572
Insurance	147,421	128,395	375,872	278,596
Office	34,714	159,931	307,557	558,865
Personnel programs and hiring costs	40,935	44,881	50,593	62,554
Information technology	237,644	62,133	679,469	195,355
Congruitive acquisition costs	-	-	-	586,960
Other expenses	423,700	503,001	1,501,829	1,764,712
<b>Total</b>	<b>\$ 5,928,476</b>	<b>\$ 5,905,550</b>	<b>\$ 18,698,574</b>	<b>\$ 18,676,894</b>

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 21. Capital Disclosures

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

The following schedule details the components of capital:

<b>Deficiency and Liabilities</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Other capital reserves	\$ 41,359,371	\$ 41,029,122
Accumulated other comprehensive income	\$ 1,913,960	\$ 1,916,948
Share capital	\$ 88,142,625	\$ 88,142,625
Deficit	\$ (130,886,024)	\$ (127,509,996)
EDC loan	3,000,000	-
Bank term loan	\$ -	\$ 2,262,857
Bank working capital loan	\$ 7,369,311	\$ 8,100,000

### 22. Financial instruments

#### (a) Financial assets and liabilities

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

As at September 30, 2023 and December 31, 2022, the carrying values of cash, restricted cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, the bank term and working capital loans, and the EDC loan approximate their fair value due to their ability to be promptly liquidated, their short term to maturity, or their use of market rates.

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### 22. Financial instruments (continued)

#### (a) Financial assets and liabilities (continued)

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

The Company's financial assets and liabilities carried at amortized cost are considered Level 2 instruments, because while observable prices and inputs are available, they are not quoted in an active market. There has not been any transfer between fair value hierarchy levels during the periods ended September 30, 2023 and December 31, 2022.

#### (b) Financial risk management

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

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

##### (i) Interest rate risk

All of the Company's financial assets and liabilities are non-interest bearing except for cash which generates interest income at market rates. The credit facilities bear interest at a floating rate based on the bank's prime rate and had a balance of \$7,369,311 as at September 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 \$73,693 for the period ended September 30, 2023 and \$81,000 for the year ended December 31, 2022 on the annual interest expense pertaining to its line of credit facility.

The Term Loan bore interest at the Bank's prime rate plus 2.00% per annum, payable monthly, and had a balance of \$nil as at September 30, 2023 and \$2,262,857 as at December 31, 2022. A potential percentage change in the bank's prime rate of 1.00% will have an impact of \$nil for the period ended September 30, 2023 and \$22,629 for the year ended December 31, 2022 on the annual interest expense pertaining to the Term Loan.

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

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### **22. Financial instruments (continued)**

#### **(b) Financial risk management (continued)**

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

The EDC Loan bears interest of United States prime interest rate plus 5.00% per annum and had a balance of \$3,000,000 as at September 30, 2023 and \$nil as at December 31, 2022. A potential percentage change in the United States' prime rate of 1.00% will have an impact of \$30,000 for the period ended September 30, 2023 and \$nil for the year ended December 31, 2022 on the annual interest expense pertaining to the EDC Loan.

##### **(iii) Credit risk**

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

The aging of accounts receivable as at September 30, 2023 and December 31, 2022 is provided in Note 6.

##### **(iv) Foreign currency exchange rate risk**

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

The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at September 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 \$107,597 positive impact on net loss for the period ended September 30, 2023 and a \$56,758 positive impact for the year ended December 31, 2022.



# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 22. Financial instruments (continued)

#### (b) Financial risk management (continued)

##### (iii) Foreign currency exchange rate risk (continued)

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

	September 30, 2023	December 31, 2022
Cash	\$ 311,020	\$ 544,373
Accounts receivable	559,161	335,867
Accounts payable	(1,090,232)	(703,373)
Accrued liabilities	(855,921)	(744,443)
<b>Total</b>	<b>\$ (1,075,971)</b>	<b>\$ (567,576)</b>

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

#### (v) Liquidity risk

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

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

	As at September 30, 2023
Less than 90 days:	
Accounts payable and accrued liabilities	\$ 16,299,672

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

# TANTALUS SYSTEMS HOLDING INC.

## Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Three and six months ended September 30, 2023 and 2022

### 23. Related Party

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note. The following table discloses the compensation amount of the Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's executive officers. The remuneration of key management for the three and nine months ended September 30, 2023, and September 30, 2022 is as follows:

	Three months ended September 30, 2023		Three months ended September 30, 2022		Nine months ended September 30, 2023		Nine months ended September 30, 2022	
Short-term employee benefits	\$	322,059	\$	468,706	\$	1,237,006	\$	1,310,329
Share-based compensation		45,622		75,371		136,277		271,595
<b>Total</b>	<b>\$</b>	<b>367,681</b>	<b>\$</b>	<b>544,077</b>	<b>\$</b>	<b>1,373,283</b>	<b>\$</b>	<b>1,581,924</b>

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

### 24. Supplemental Cash Flow Information

The following are non-cash investing activities that occurred during the periods ended September 30, 2023 and September 30, 2022:

	Three months ended September 30, 2023		Three months ended September 30, 2022		Nine months ended September 30, 2023		Nine months ended September 30, 2022	
Fair value of contingent consideration in Congruitive acquisition	\$	-	\$	-	\$	-	\$	2,458,702
Shares issued in Congruitive acquisition		-		-		-		1,196,466
<b>Total</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>3,655,168</b>