



**TANTALUS SYSTEMS
HOLDING INC.**

**Consolidated Financial
Statements**

For the years ended
December 31, 2021 and 2020
(expressed in United States dollars)

MANAGEMENT'S RESPONSIBILITY

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

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

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

"Peter Londa"
Chief Executive Officer
March 23, 2022

"George Reznik"
Chief Financial Officer
March 23, 2022



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of TSH Canada Inc.:

Opinion

We have audited the consolidated financial statements of TSH Canada Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of operations and comprehensive (loss) income for the years then ended
- the consolidated statements of changes in shareholder equity (deficit) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Allocation of the transaction price to each performance obligation in contracts with customers

Description of the matter

We draw attention to Notes 3(d) and 3(e) to the financial statements. The Entity enters into contracts with customers that include promises to deliver a number of products or services. Many of the Entity's products and services are distinct from other performance obligations and accounted for as separate performance obligations. 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 ("SSP") of the products and services. This allocation affects the amount and timing of revenue recognized for each performance obligation.

Why the matter is a Key Audit Matter

We identified the allocation of the transaction price to each performance obligation in contracts with customers as a key audit matter. Significant auditor judgment was required due to the degree of uncertainty involved in the Entity's estimates and assumptions used in the determination of the SSP.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

We evaluated the methodology used to determine the SSP by comparing it to pricing patterns in customer contracts, underlying methodologies used by the Entity, and general practices in the Entity's industry.

For a selection of customer contracts with multiple performance obligations, we examined the key terms in the contracts and assessed the reasonableness of the allocation of total transaction price to each distinct performance obligation.

Evaluation of Going Concern

Description of the matter

We draw attention to Notes 2 and 3(d) to the financial statements. The Entity has considered its working capital and cash balance at December 31, 2021 and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 2021. In making this significant judgment, the Entity considers a wide range of factors relating to expected future cash flows from operations and sources of financing.



Why the matter is a key audit matter

We identified the evaluation of going concern as a key audit matter. This evaluation required significant auditor judgment due to the degree of uncertainty associated with expected future cash flows from operations and sources of financing.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

We evaluated the Entity's ability to accurately project future cash flows from operations by comparing the Entity's historical forecasts to actual results.

We evaluated the Entity's sources of financing by considering the Entity's ability to maintain compliance with its debt agreement.

Other Information

Management is responsible for the other information. Other information comprises of the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Gurdev Singh Narula

Vancouver, Canada
March 23, 2022

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	<i>Note</i>	December 31, 2021		December 31, 2020
Assets				
Current assets				
Cash		\$ 14,203,794	\$	4,647,713
Accounts receivable	5	5,343,724		8,896,323
Investment tax credits receivable	6	52,869		1,207,868
Inventory	7	5,687,407		4,591,099
Prepaid expenses and other assets		1,139,863		1,375,263
Total current assets		26,427,657		20,718,266
Property and equipment	8	1,019,867		1,439,715
Intangible assets	9	160,490		374,673
Right of Use assets	10	3,417,733		992,880
Total assets		\$ 31,025,747	\$	23,525,534
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	11	\$ 8,974,662	\$	12,189,613
Deferred revenue and deposits		3,151,790		4,259,508
Lease liabilities	13	726,549		730,871
Bank loan	12	8,100,000		8,075,050
Total current liabilities		20,953,001		25,255,042
Lease liabilities	13	3,282,143		581,598
Total liabilities		24,235,144		25,836,640
Shareholders' equity (deficit)				
Share capital	14			
Common shares		86,932,034		71,475,662
Other capital reserves		40,255,644		39,590,453
Accumulated other comprehensive income		1,917,505		1,917,206
Deficit		(122,314,580)		(115,294,427)
Total shareholders' equity (deficit)		6,790,603		(2,311,106)
Total liabilities and shareholders' equity		\$ 31,025,747	\$	23,525,534

See accompanying notes to consolidated financial statements.

Commitments and contingencies (Note 18)

Subsequent events (Note 25)

Approved on behalf of the Board:

“John McEwen”

Director

“Peter Londa”

Director

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

	<i>Note</i>	Year ended December 31, 2021	Year ended December 31, 2020
Revenues	<i>19</i>	\$ 32,171,771	\$ 33,049,419
Cost of sales	<i>7, 14(j), 19</i>	17,819,570	16,924,441
		14,352,201	16,124,978
Expenses			
Sales and marketing	<i>14(j), 20</i>	5,474,260	5,193,738
Research and development	<i>6, 14(j), 20</i>	5,429,695	3,937,637
General and administrative	<i>14(j), 20</i>	8,144,804	6,144,430
Depreciation and amortization	<i>8, 9, 10, 20</i>	1,545,737	1,714,504
		20,594,496	16,990,309
Operating loss		(6,242,295)	(865,331)
Other (expenses) earnings			
Foreign exchange loss		(108,941)	(190,282)
Finance expenses	<i>15</i>	(628,200)	(708,206)
Other income	<i>21</i>	-	3,255,909
		(737,141)	2,357,421
(Loss) income before income taxes		(6,979,436)	1,492,090
Income tax expense	<i>16</i>	40,717	7,243
(Loss) income for the period		(7,020,153)	1,484,847
Foreign currency translation adjustment		299	(8,797)
Total comprehensive (loss) income for the period		\$ (7,019,854)	\$ 1,476,050
(Loss) earnings per share (basic)	<i>17</i>	\$ (0.17)	\$ 0.04
(Loss) earnings per share (fully diluted)	<i>17</i>	\$ (0.17)	\$ 0.04
Weighted average number of shares outstanding (basic)	<i>17</i>	40,309,249	34,724,562
Weighted average number of shares outstanding (fully diluted)	<i>17</i>	42,317,323	34,728,691

See accompanying notes to consolidated financial statements.

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

	<i>Note</i>	<u>Common Shares</u>		<u>Other Capital Reserves</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Deficit</u>	<u>Total Shareholders' (Deficit) Equity</u>
		<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2019		35,539,171	\$ 74,556,543	\$ 37,436,376	\$ 1,926,003	\$ (116,779,274)	\$ (2,860,352)
Share cancellation	14 (e)	(1,865,651)	(3,080,881)	1,851,315	-	-	(1,229,566)
Share-based compensation	14 (h)	-	-	302,762	-	-	302,762
Foreign currency translation adjustment		-	-	-	(8,797)	-	(8,797)
Income for the year		-	-	-	-	1,484,847	1,484,847
Balance, December 31, 2020	14 (a)	33,673,520	\$ 71,475,662	\$ 39,590,453	\$ 1,917,206	\$ (115,294,427)	\$ (2,311,106)
Share-based compensation	14 (h)	-	-	462,080	-	-	462,080
Issuance of common shares from financing	14 (c)(d)	9,128,320	16,282,172	-	-	-	16,282,172
Issuance of common shares from option exercise	14 (h)	65,069	51,650	-	-	-	51,650
Share issuance costs	14 (c)(d)	-	(2,203,450)	203,111	-	-	(2,000,339)
Shares issued for RiseTech merger	14 (b)	767,320	1,326,000	-	-	-	1,326,000
Foreign currency translation adjustment		-	-	-	299	-	299
Loss for the period		-	-	-	-	(7,020,153)	(7,020,153)
Balance, December 31, 2021	14 (a)	43,634,229	\$ 86,932,034	\$ 40,255,644	\$ 1,917,505	\$ (122,314,580)	\$ 6,790,603

See accompanying notes to consolidated financial statements

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

	<i>Note</i>	Year ended December 31, 2021		Year ended December 31, 2020
Cash provided by (used in)				
Operating Activities				
(Loss) income for the period		(7,020,153)	\$	1,484,847
Items Not Affecting Cash:				
Unrealized foreign exchange loss		44,658		95,795
Depreciation of equipment	8	567,438		538,041
Amortization of intangible assets	9	596,804		738,182
Amortization of right-of-use asset	10	381,495		438,281
Share-Based compensation	14(j)	462,080		302,762
RiseTech reverse acquisition listing expense	4	1,188,175		-
Gain on Energate share cancellation	14(g)	-		(1,229,566)
Gain on lease obligation		-		(16,334)
Finance expenses	15	530,350		593,083
Changes in Non-Cash Operating Working Capital				
Accounts Receivable	5	3,552,599		(4,078,098)
Investment tax credits receivable	6	1,154,999		(247,140)
Inventories	7	(1,096,308)		447,020
Prepaid expenses and other assets		680,919		(812,228)
Accounts payable and accrued liabilities	11	(3,419,199)		2,239,833
Deferred revenue and deposits		(1,107,718)		1,009,325
Lease payments for interest	13	(83,964)		(130,412)
Interest paid on bank loan	12	(446,386)		(462,671)
Net Cash (used in) provided by Operating Activities		(4,014,211)		910,720
Investing Activities				
Purchase of equipment	8	(147,590)		(500,596)
Purchase of intangible assets	9	(382,621)		(353,410)
Cash acquired from RiseTech reverse acquisition	4	342,072		-
Net Cash used in Investing Activities		(188,139)		(854,006)
Financing Activities				
Advances (repayments) of bank loan	12	24,950		(110,217)
Repayment of lease liabilities	13	(610,487)		(663,375)
Issuance of common shares from financing	14(c)(d)	16,282,172		-
Issuance of common shares from option exercise	14(h)	51,650		-
Share issuance costs	14(c)(d)	(2,000,339)		-
Net Cash provided by (used in) Financing Activities		13,747,946		(773,592)
Increase (decrease) in cash		9,545,596		(716,878)
Effect of foreign exchange on cash		10,485		(3,495)
Cash, beginning of period		4,647,713		5,368,086
Cash, end of period		14,203,794	\$	4,647,713

See accompanying notes to consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

1. Reporting Entity

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

Upon completion of the transaction on January 29, 2021, the shareholders of RiseTech held less than 2% of the issued and outstanding shares of the Company and as a result, TSH Canada Inc.’s former shareholders controlled the Company resulting in a reverse take-over acquisition (“RTO”). The resulting financial statements are presented as a continuation of the financial statements of TSH Canada Inc., reflecting the acquisition of RiseTech on a reverse acquisition basis on January 29, 2021 (see Note 4), and comparative figures presented in these consolidated financial statements are those of TSH Canada Inc.

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

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

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

The Company’s head 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.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2022.

Going Concern

These 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 year ended December 31, 2021, the Company incurred comprehensive loss of \$7,019,854 and used cash flows for operating activities of \$4,014,211. Management has forecasted its cash flow requirements, considering the Company’s working capital and cash balance at December 31, 2021 and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 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 consolidated financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the consolidated statements of financial position classifications used and disclosures that might be necessary should the Company be unable to continue as a going concern.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

2. Basis of Presentation (continued)

COVID-19 Pandemic

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

The COVID-19 pandemic has developed rapidly in 2020 and 2021, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and the Company's business in various ways inclusive of a reduction in supply from the Company's contract manufacturer, resulting in disruptions to the production of the Company's products and consequent delays in the supply of products to customers during the year ended December 30, 2021 and 2020.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience further negative results and liquidity restraints and incur impairments on its assets in future. The exact impact on the Company's existing and future activities cannot be predicted.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of Consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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 consolidated financial statements. The entities contained in the consolidated financial statements are as follows:

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(a) Principles of Consolidation (continued)

Company Entity	Active	Country of Incorporation	Ownership Interest
TSH Canada Inc.	Yes	Canada	100%
Tantalus Systems Corp.	Yes	Canada	100%
Tantalus Systems Inc.	Yes	U.S.	100%
Energate Inc.	Yes	Canada	100%
Energate, Corp. ¹	No	U.S.	N/A

¹Dissolved March 4, 2021.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in United States dollars. The functional currency of the primary operating entities, Tantalus Systems Holding Inc., Tantalus Systems Corp., and Tantalus Systems Inc., is the United States dollar. The functional currency of Energate Inc. is the Canadian dollar (“CND”). Transactions in foreign currencies are translated to the respective functional currency of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at the dates of the initial transactions.

Assets and liabilities of foreign operations are translated from its functional currency to the presentation currency at the exchange rate at the reporting date. Income and expenses of foreign operations are translated at exchange rates at the dates of the relevant transactions, with average exchange rates used when appropriate. Foreign currency differences arising from translation are recognized in other comprehensive (loss) income.

(d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Judgment, estimates and assumptions are continuously evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

Judgments

Judgment is used mainly in determining how a balance or transaction should be recognized in these consolidated financial statements when there is a choice or assessment required by management. The following are critical judgments apart from those involving estimations:

Going concern

Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to expected future cash flows from operations and sources of financing.

Estimates

Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the consolidated statements of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Revenue recognition

The allocation of total transaction price to each performance obligation is based on the relative standalone selling prices of the promised products or services. When there is observable evidence of stand-alone sales, the Company uses the observable standalone sales to determine the standalone selling price. Where there are no observable standalone sales, the Company estimates the standalone selling price using either the adjusted market assessment approach or the expected cost plus a margin approach.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

Investment tax credit (“ITC”) receivable

ITCs are accrued when there is reasonable assurance that the credits will be realized. Management’s judgment is applied in determining the estimate of the ITC receivable, including assessing whether any provisions should be taken.

Warranty

The Company generally provides warranty on products between one year and eighteen months. The Company accrues for estimated incurred but unidentified warranty issues, based on the Company’s best estimate, with reference to past and expected future experience. Warranty costs are also accrued for known warranty issues if a loss is probable and can be reasonably estimated. If there is a change in these estimates, the Company adjusts the accrual accordingly.

Share-Based Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. In estimating the fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility, risk-free rate, dividend yield and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in different outcomes.

Leases - Incremental Borrowing Rate

The Company cannot readily determine the interest rate implicit in some of its leases, therefore, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as interest rate spreads for credit and other risks).

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(e) Revenues

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 TSH'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 TSH'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 TSH's proprietary enterprise mission-critical software applications, artificial intelligence ("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 ("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 access to customer is provided.

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.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(e) Revenues (continued)

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 products or services. Many of the Company's products 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 product 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 product 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 products and services.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(f) Segment Reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and for which discrete financial information is available. All operating segment results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance.

The Company currently has two operating segments: (a) Connected Devices and Infrastructure and (b) Utility Software Applications and Services. The performance results for each Segment include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of operating expenses. (see Note 19 – Segmented Information for description of each segment)

(g) Deferred Revenue

The Company enters into annual contractual agreements with its customers for the provision of technical support and software maintenance service pertaining to products and software sold to its customers for which payment is received at the beginning of the service period commencement date and accounted for as deferred revenue which is amortized into revenue as the related period is provided by the Company. The Company also receives customer deposits and advances pertaining to the implementation services provided by the Company which are accounted for as deferred revenue and amortized as revenue as the related service obligation is fulfilled by the Company.

(h) Accounts Receivable and Allowance for Expected Credit Loss

Trade receivables represent amounts due to the Company from its customers. The Company performs ongoing credit evaluations of its customers to assess the probability of trade receivables collection.

The Company records an allowance for expected credit loss related to trade and other receivables that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, the current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for credit loss.

(i) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(j) Property and Equipment

Property and equipment are recorded initially at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss within other operating income or expenses. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Depreciation on property and equipment is provided on a straight-line basis over their estimated useful lives as follows:

Asset	Years
Computer equipment	3.3 years
Furniture and fixtures	5 years
Laboratory and test equipment	5 years

The Company depreciates leasehold improvements on a straight-line basis over the shorter of their useful life or the term of the lease. Assets under construction are capitalized upon completion, under the appropriate category and depreciation starts when first put to use.

(k) Intangible Assets

Intangible assets include externally-acquired computer software and identifiable intangible assets, including customer relationships, intellectual property, and brand name, acquired as part of a business combination. Externally-acquired computer software is initially recorded and measured at acquisition cost. Identifiable intangible assets acquired as part of a business combination are recognized and measured at the fair value of the asset at the time of acquisition.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is expensed as incurred.

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

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives as follows:

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(k) Intangible Assets (continued)

Asset	Years
Computer software	1 year
Customer relationships	4 years
Intellectual property	4 years

(l) Impairment of Long-Lived Assets

The Company evaluates its long-lived assets including property and equipment and intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The recoverable amount is determined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the recoverable amount of the assets.

(m) Research and Development

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

(n) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(o) Leases

The Company accounts for its leases in accordance with IFRS 16 which provides for a single accounting model for lessees. As a lessee, the Company recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Right-of-use assets and lease liabilities

Upon commencement of a lease, the Company records a right-of-use asset and a lease liability. The lease liability has been initially measured at the present value of all fixed lease payments that remain to be paid at the commencement date.

The associated right-of-use asset will initially be measured at cost, consisting of:

- the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; plus
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset will typically be depreciated on a straight-line basis over the lease term, unless the Company expects to obtain ownership of the leased asset at the end of the lease. The lease term will consist of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where we are reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where we are reasonably certain not to exercise the option.

The Company records amortization expense over the term associated with its respective lease agreements for which it has accounted for right-of-use assets. The Company applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases (less than one year) are recognized as expenses in the period incurred.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(p) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Earnings per Share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(r) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, lease liabilities, and the bank loan that the Company has assessed as financial instruments to be measured and classified.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as fair value through the profit or loss:

- i. It is held with a business model whose objective is to hold assets to collect contractual cash flows; and
- ii. Its contractual term gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets

The Company may have the following non-derivative financial assets: financial assets at fair value through profit or loss, financial assets at fair value through OCI, or financial assets at amortized cost. Management determines the appropriate classification upon initial recognition. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or losses, directly attributable transaction costs. All of the Company's financial assets are classified as amortized cost under IFRS 9.

Cash

Cash is classified as financial assets measured at amortized cost. Cash in the consolidated statements of financial position comprise cash at banks and subject to an insignificant risk of changes in value.

Accounts Receivable

Accounts receivables comprise trade and other receivables. Trade receivables are classified as financial assets measured at amortized cost. The impairment model is applicable to financial assets measured at amortized cost where any expected credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For accounts receivable excluding taxes receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. IFRS 9 offers a simplified approach in which the loss allowance for accounts receivable is equal to the lifetime expected credit losses for trade receivables that do not contain a significant financing component. The Company establishes an allowance for doubtful accounts pertaining to potential credit risk associated with its customers. The Company has elected to apply this simplified approach.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(r) Financial Instruments (continued)

Financial Liabilities

The Company's financial liabilities are comprised of trade and other payables. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost. The Company has accounted for debentures based upon their respective fair values through profit and loss.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which either:

- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets.

(s) Government Assistance

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as other income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

(t) Stock-Based Compensation

The Company grants stock options to directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The grant date fair value of options granted to directors, officers and employees is recognized as share-based payment expense, with a corresponding increase in other capital reserves, over the period that the individual becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service is expected to be met, such that the amount ultimately recognized as an expense is based on the number of share options that do meet the related service at the vesting date.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(t) Stock-Based Compensation (continued)

Stock options awarded to the Company's employees and exercisable into common shares of the Company's parent companies are accounted for as employee awards in the consolidated financial statements of the Company. Compensation cost related to the grant of these stock options are recognized as a capital contribution through other capital reserves. Compensation cost and the cost of services received as consideration are measured based on the fair value of the equity instruments.

As the Company is not traded on an exchange, the Company has calculated volatility using a comparable peer group. The Company has applied the simplified method of determining the expected term of the options given limited historical information.

(u) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, it's carrying amount is the present value of those cash flows. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(v) Share Capital

Share capital is classified as equity to the extent that it represents a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity. Share capital is measured at the fair value of consideration received, except in common control transactions where share capital is measured at the book value of consideration received. The common shares have been retroactively adjusted for impact of the share consolidation by the Company on January 29, 2021 (see Note 14 (b)).

(w) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when the Company has a present obligation as a result of a past result, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Legal costs incurred in connection with loss contingencies are expensed as incurred.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

3. Significant Accounting Policies (continued)

(w) Commitments and Contingencies (continued)

The Company may be subject to a variety of claims and suits that arise 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.

(x) New Standards Issued But Not Yet Effective

Standards and amendments issued but not yet applicable to the Company's financial statements are listed below. This listing of standards and amendments issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

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. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment -Proceeds before Intended Use (Amendments to IAS 16). The amendments provide guidance on the accounting for sale proceeds and the related production costs for items a company produces and sells in the process of making an item of property, plant and equipment (PPE) available for its intended use. Specifically, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The Company does not expect the adoption of the amendment to have a material impact on the consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

4. Reverse acquisition of RiseTech by TSH Canada Inc.

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

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

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

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

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

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

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

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

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

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

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

The following table provides a breakdown of expenses, inclusive of accounting and legal professional fees, directors and officers tail insurance and transaction related compensation, incurred in connection with the reverse acquisition:

RiseTech reverse acquisition listing expense	\$	1,188,175
Reverse acquisition expenses - Year ended December 31, 2021		964,484
Reverse acquisition expenses - Year ended December 31, 2020		1,181,849
Total	\$	3,334,509

The total legal and accounting professional services fees, directors and officers tail insurance, and transaction related compensation for the reverse acquisition was \$964,484 for the year ended December 31, 2021 and \$1,181,849 for the year ended December 31, 2020.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

5. Accounts Receivable

	December 31, 2021	December 31, 2020
Accounts receivable	\$ 5,695,328	\$ 9,172,927
Less: allowance for doubtful accounts	(351,604)	(276,604)
Net Accounts receivable	\$ 5,343,724	\$ 8,896,323

The Company did not have any accounts receivable balances from related parties as at December 31, 2021 and December 31, 2020, respectively.

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

During the year ended December 31, 2021, the Company recorded credit losses of \$75,000 (December 31, 2020 - \$130,452), in general and administrative expense.

Aging analysis of trade receivables is as follows:

	December 31, 2021	December 31, 2020
Not past due	\$ 2,459,704	\$ 3,700,327
31-90 days	1,524,544	4,112,489
91-180 days	282,714	626,047
Over 180 days	1,428,366	734,064
Total	\$ 5,695,328	\$ 9,172,927

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

6. Investment Tax Credits Receivable and Government Assistance

	December 31, 2021	December 31, 2020
Investment tax credits receivable	\$ 52,869	\$ 1,207,868

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

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

	December 31, 2021	December 31, 2020
Research and Development, Gross	5,619,695	5,287,192
Investment Tax Credit	190,000	1,349,555
Research and Development, Net	\$ 5,429,695	\$ 3,937,637

United States Paycheck Protection Program

The Company applied for and received governmental grant income of \$914,676 during the year ended December 31, 2020 with respect to the Paycheck Protection Program under the United States Coronavirus Aid, Relief, and Economic Security Act. The Company did not receive any grant income for the year ended December 31, 2021.

Canada Emergency Wage Subsidy Program

The Company applied for and received subsidies in the aggregate amount of \$1,085,918 during the year ended December 31, 2020 pursuant to the Canada Emergency Wage Subsidy ("CEWS") program under the Government of Canada's COVID-19 Economic Response Plan. The Company also received \$9,415 under the Government of Canada's 10% Temporary Wage Subsidy for Employers program. The aggregate amount received by the Company under Canadian wage subsidy programs pertaining to COVID-19 was \$1,095,333 during the year ended December 31, 2020. The Company did not receive any such subsidies for the year ended December 31, 2021.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

7. Inventory

	December 31, 2021	December 31, 2020
Finished goods	\$ 3,142,264	\$ 2,929,154
Raw materials	2,545,143	1,661,945
Inventory	\$ 5,687,407	\$ 4,591,099

During years ended December 31, 2021 and December 31, 2020 the Company charged \$13,710,369 and \$12,465,257, 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 year, inventories were reviewed for obsolescence as part of ongoing operations. Inventory adjustments for obsolescence were recorded in cost of sales during the year ended December 31, 2021 and December 31, 2020 of \$250,768 and \$555,267, respectively.

An inventory obsolescence reserve of \$225,000 as at December 31, 2021 (\$150,000 as at December 31, 2020) has been recorded.

8. Property & Equipment

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

Cost	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2019	\$ 3,313,093	\$ 512,805	\$ 4,605,724	\$ 1,612,402	\$ 10,044,024
Additions	61,641	13,250	419,993	5,712	500,596
Balance, December 31, 2020	\$ 3,374,734	\$ 526,055	\$ 5,025,717	\$ 1,618,114	\$ 10,544,620
Additions	32,191	9,960	105,439	-	147,590
Balance, December 31, 2021	\$ 3,406,925	\$ 536,015	\$ 5,131,156	\$ 1,618,114	\$ 10,692,210

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

8. Property & Equipment (continued)

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2019	\$ 3,187,590	\$ 412,878	\$ 3,830,261	\$ 1,136,135	\$ 8,566,864
Additions	75,329	32,352	235,064	195,296	538,041
Balance,					
December 31, 2020	\$ 3,262,919	\$ 445,230	\$ 4,065,325	\$ 1,331,431	\$ 9,104,905
Additions	68,388	25,402	279,043	194,605	567,438
Balance,					
December 31, 2021	\$ 3,331,307	\$ 470,632	\$ 4,344,368	\$ 1,526,036	\$ 9,672,343

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance,					
December 31, 2020	\$ 111,815	\$ 80,825	\$ 960,392	\$ 286,683	\$ 1,439,715
Balance,					
December 31, 2021	\$ 75,618	\$ 65,383	\$ 786,788	\$ 92,078	\$ 1,019,867

9. Intangible assets

Cost	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2019	\$ 1,262,536	\$ 677,509	\$ 962,058	\$ 2,902,103
Additions	353,410	-	-	353,410
Balance,				
December 31, 2020	\$ 1,615,946	\$ 677,509	\$ 962,058	\$ 3,255,513
Additions	382,621	-	-	382,621
Balance,				
December 31, 2021	\$ 1,998,567	\$ 677,509	\$ 962,058	\$ 3,638,134

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

9. Intangible assets (continued)

Accumulated Amortization	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2019	\$ 1,153,443	\$ 409,127	\$ 580,088	\$ 2,142,658
Additions	328,289	168,056	241,837	738,182
Balance,				
December 31, 2020	\$ 1,481,732	\$ 577,183	\$ 821,925	\$ 2,880,840
Additions	356,345	100,326	140,133	596,804
Balance,				
December 31, 2021	\$ 1,838,077	\$ 677,509	\$ 962,058	\$ 3,477,644

Net Book Value	Computer Software	Customer Relations	Intellectual Property	Total
Balance,				
December 31, 2020	\$ 134,214	\$ 100,326	\$ 140,133	\$ 374,673
Balance,				
December 31, 2021	\$ 160,490	\$ -	\$ -	\$ 160,490

10. Right-of-Use Assets

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

	December 31, 2021	December 31, 2020
Beginning Balance	\$ 992,880	\$ 1,152,875
Additions	2,806,348	357,441
Write-off due to lease cancellation	-	(79,155)
Amortization of ROU	(381,495)	(438,281)
Ending Balance	\$ 3,417,733	\$ 992,880

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

11. Accounts Payable and Accrued Liabilities

	December 31, 2021	December 31, 2020
Trade payables and other payables	\$ 4,819,576	\$ 7,125,739
Accrued warranty (a)	807,017	575,660
Employee benefits	1,677,352	1,551,137
Vendor goods and services received	551,899	736,418
Professional fees	684,485	387,773
Other accrued liabilities	434,333	1,812,886
Total	\$ 8,974,662	\$ 12,189,613

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

12. Bank Loan

The Company has a loan agreement with Comerica Bank (the “Bank”) 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 different 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 11, 2021, the Company consolidated its Bank Loan from two credit facilities into one line of credit facility in United States dollars up to a maximum of \$8,100,000. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at December 31, 2021 of \$8,100,000 (\$8,075,050 as at December 31, 2020). 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 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 \$3.3 million repayable over three years with the proceeds used for the Company’s acquisition of Congruitive as announced on February 1, 2022 (see Note 25).

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

13. Lease Liabilities

The Company has leases with respect to its operating premises in Burnaby, British Columbia, Canada (“Burnaby”), Kanata, Ontario, Canada (“Kanata”), Raleigh, North Carolina, United States (“Raleigh”) and Norwalk, Connecticut, United States (“Norwalk”) in addition to equipment leases. With the exception of short-term and low-value leases, leases are reflected on the balance sheet as a right-of-use asset and a lease liability.

On May 1, 2021, the Company expanded its Norwalk, Connecticut office facility for the remainder of the term ending January 1, 2026 resulting in the addition of a Right-of-Use asset and related lease liability of \$152,616 and the estimated future payments of the related undiscounted variable operating costs of \$8,920 pertaining to this expansion of this office facility lease.

On June 4, 2021, the Company entered into an amendment to extend the maturity date of the lease for its Burnaby, BC office facility from January 31, 2022 to January 31, 2029. This resulted in the addition of a Right-of-Use asset of \$2,735,411, 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:

	December 31, 2021	December 31, 2020
Maturity Analysis – contractual undiscounted cash flows from minimum lease		
Less than one year	\$ 727,473	\$ 730,871
One to five years	2,762,975	751,693
More than five years	1,400,096	-
Total undiscounted lease liabilities	\$ 4,890,544	\$ 1,482,564

The following is a reconciliation of undiscounted lease liabilities at December 31, 2021 to the lease liabilities recognized at December 31, 2021:

Total undiscounted lease liabilities at December 31, 2021	\$ 4,890,544
Discounted using incremental borrowing rate	(881,852)
Total lease liabilities recognized under IFRS 16 at December 31, 2021	\$ 4,008,692

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

13. Lease Liabilities (continued)

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

	December 31, 2021	December 31, 2020
Beginning Balance	\$ 1,312,469	\$ 1,582,976
Additions	3,251,866	357,441
Add: Interest	83,964	130,412
Less: Payments	(694,451)	(793,788)
Write-off due to lease cancellation	-	(95,489)
Impact of foreign exchange	54,844	130,917
Ending Balance	4,008,692	1,312,469
Less: Current portion	(726,549)	(730,871)
Non-current portion	\$ 3,282,143	\$ 581,598

	Year ended December 31, 2021	Year ended December 31, 2020
Amounts Recognized in Statements of Operations		
Finance charge on lease liabilities	83,964	\$ 130,412
Variable lease payments expensed	504,328	496,767
Expenses relating to equipment short term leases	2,192	15,631
Total amounts recognized in Statements of Operations	590,484	\$ 642,810

The aggregate of the Company's variable lease payments as at December 31, 2021 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 and Norwalk.

2022	\$	534,463
2023		547,906
2024		561,754
2025		488,457
2026		498,940
2027		513,908
2028		529,326
	\$	3,674,754

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. 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 43,634,229 common shares outstanding as at December 31, 2021 as indicated below:

	Number of common shares	Amount
Outstanding, January 1, 2020	35,539,171	\$ 74,556,543
Cancellation of shares from settlement	(1,865,651)	(3,080,881)
Outstanding, December 31, 2020	33,673,520	71,475,662
Issuance of common shares from financing	9,128,320	16,282,172
Share issuance costs	-	(2,203,450)
Shares issued upon stock option exercise	65,069	51,650
Shares issued for RiseTech merger	767,320	1,326,000
Outstanding, December 31, 2021	43,634,229	\$ 86,932,034

(b) Share Consolidation

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

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(c) Private Placement - January 29, 2021

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

(d) Equity Financing - August 12, 2021

On August 12, 2021, the Company closed an equity financing offering of 4,710,110 common shares of the Company at a price of CND\$2.25 per Common Share for gross proceeds of CND\$10,597,748. Share issuance costs related to this transaction totaled \$1,049,396 inclusive of 282,606 broker warrants valued at CND\$0.626 each (totaling CND\$176,857 or US\$141,910), which have been recorded as share issuance costs and charged against share capital. The common shares were offered by way of a short form prospectus filed in all of the provinces of Canada, excluding Quebec.

The financing completed on January 29, 2021 and August 12, 2021 are summarized in the table below:

	January 2021 Financing	August 2021 Financing
Gross financing proceeds (CND\$ 9,940,973 and CND\$ 10,597,748 respectively)	\$ 7,778,539	\$ 8,503,633
Capitalized costs	(1,092,853)	(907,486)
Broker warrants issued	(61,201)	(141,910)
Total financing costs	(1,154,054)	(1,049,396)
Net financing proceeds	\$ 6,624,485	\$ 7,454,237

(e) Broker Warrants - January 29, 2021

As part of the January 29, 2021 private placement equity financing which closed during the year ended December 31, 2021, 124,982 broker warrants valued at CND\$0.626 each totaling \$61,201 (CND\$78,215) have been recorded as share issuance costs and charged against share capital. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 50%, risk-free rate of 0.25%, dividend yield of 0% and weighted average life of two years.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(f) Broker Warrants - August 12, 2021

As part of the August 12, 2021 private placement equity financing which closed during the year ended December 31, 2021, 282,606 broker warrants valued at CND\$0.626 each totaling \$141,910 (CND\$176,857) have been recorded as share issuance costs and charged against share capital. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 50%, risk-free rate of 0.25%, dividend yield of 0% and weighted average life of two years.

(g) Energate Arbitration

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

- (1) The arbitrator delivered an award in the amount of CND\$3,000,000 to the claimants to be applied by cancelling common shares of TSH Canada Inc. held by the respondent having a value equal to such amount in accordance with the terms of the share purchase agreement pursuant to which TSH Canada Inc. acquired Energate. Accordingly, TSH Canada Inc. cancelled 1,449,346 (1,754,386 on a pre-share consolidation basis) common shares of TSH Canada Inc. pursuant to a supplementary consent award executed by the arbitrator and effective as at July 8, 2020.
- (2) The arbitrator issued a costs award in favor of TSH Canada Inc. for reimbursement of costs incurred in connection with the arbitration in the amount of CND\$861,709. The parties agreed that TSH Canada Inc. would cancel an additional 416,305 (503,923 on a pre-share consolidation basis) common shares of TSH Canada Inc. held by the former shareholders of Energate as settlement of the costs award executed by the arbitrator and effective as at September 25, 2020.

TSH Canada Inc. recognized a total gain of \$1,229,566 in other income, representing the value of the cancelled shares, during the year ended December 31, 2020 and a corresponding impact on Share Capital and Other Capital Reserves within Shareholders’ Deficit resulting from the share cancellation.

Costs relating to the aforementioned arbitration totaling \$296,455 were incurred during the year ended December 31, 2020.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(h) Stock Option Plan

The Company adopted the LTIP that was effective as of the closing of the plan of arrangement pursuant to which the Company may grant stock options to provide incentives to eligible persons (see Note 4). As at December 31, 2021, the LTIP allows for a maximum of 7,771,810 common shares to be available under the plan.

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

During the year ended December 31, 2021, 65,069 shares were issued as a result of stock options being exercised with an exercise price of CND\$1.00 for gross proceeds of \$51,650.

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

	Number of Options	Weighted Average Exercise Price (CND\$)
Balance at December 31, 2019	4,124,972	\$ 1.00
Granted during the period	777,836	\$ 1.00
Forfeited/expired during the period	(60,924)	\$ 1.00
Balance at December 31, 2020	4,841,884	\$ 1.00
RiseTech options exchanged in reverse acquisition	18,284	\$ 1.64
Granted during the period	1,111,519	\$ 2.12
Exercised during the period	(65,069)	\$ 1.00
Forfeited/expired during the period	(37,205)	\$ 1.00
Balance at December 31, 2021	5,869,413	\$ 1.21

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(h) Stock Option Plan (continued)

As at December 31, 2021, the number of stock options outstanding and exercisable and the exercise price, adjusted for the share consolidation which occurred on January 29, 2021, was as follows:

Option Grant Date	Options Outstanding	Options Exercisable	Exercise Price (CND\$)
December 18, 2018	3,728,065	3,728,065	\$ 1.00
April 1, 2019	70,000	48,125	\$ 1.00
January 1, 2020	422,899	211,450	\$ 1.00
June 20, 2020	5,000	2,188	\$ 1.00
September 1, 2020	513,646	171,215	\$ 1.00
February 9, 2021 RiseTech options	18,284	18,284	\$ 1.64
February 9, 2021	112,000	-	\$ 2.25
March 25, 2021	100,000	75,000	\$ 2.17
August 17, 2021	179,000	-	\$ 2.11
November 17, 2021	658,900	-	\$ 2.10
November 17 IR options	47,619	47,619	\$ 2.10
December 24, 2021	14,000	-	\$ 1.79
Balance at December 31, 2021	5,869,413	4,301,946	\$ 1.04

During the year ended December 31, 2021 and December 31, 2020, the fair value of options granted was \$751,144 and \$266,683, respectively. Remaining unrecognized cost of the LTIP as at December 31, 2021 and December 31, 2020 was \$694,144 and \$246,701, respectively. The weighted average remaining life expressed in years of outstanding options was 3.65 years as at December 31, 2021 and 4.06 years as at December 31, 2020.

As at December 31, 2021, the Company had total vested options of 4,301,945 with a weighted average price of CND\$1.04 and total vested options of 2,907,129 with a weighted average price of CND\$1.00 as at December 31, 2020. The stock options have been retroactively adjusted for impact of the share consolidation by the Company during the year.

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:

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

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(i) 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 year ended December 31, 2021, the Company issued 74,074 RSU with a fair value of \$130,000. The RSU’s were fully vested with a one-year term at issuance and its related costs were expensed in general and administrative expenses during the year ended December 31, 2021.

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

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

	December 31, 2021
Risk free interest rate	0.39% - 0.60%
Dividend yield	0%
Expected life (in years)	1 year
Forfeiture rate	0.00%
Volatility	50%

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

14. Share Capital (continued)

(j) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU's granted was \$462,080 and \$302,762 during the years ended December 31, 2021 and December 31, 2020, respectively.

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

Year ended December 31, 2021	Cost	Stock-based Compensation	Total
Cost of sales	\$ 17,812,558	\$ 7,012	\$ 17,819,570
Sales and marketing	5,403,468	70,792	5,474,260
Research and development	5,377,015	52,680	5,429,695
General and administrative	7,813,208	331,596	8,144,804
Total operating expenses	\$ 18,593,691	\$ 455,068	\$ 19,048,759
Total	\$ 36,406,249	\$ 462,080	\$ 36,868,329

Year ended December 31, 2020	Cost	Stock-based Compensation	Total
Cost of sales	\$ 16,903,387	\$ 21,054	\$ 16,924,441
Sales and marketing	5,153,640	40,098	5,193,738
Research and development	3,891,062	46,575	3,937,637
General and administrative	5,949,395	195,035	6,144,430
Total operating expenses	\$ 14,994,097	\$ 281,708	\$ 15,275,805
Total	\$ 31,897,484	\$ 302,762	\$ 32,200,246

15. Finance Expenses

Period ended	December 31, 2021	December 31, 2020
Accretion of interest on lease liability (note 13)	\$ 83,964	\$ 130,412
Interest expense on bank loan (note 12)	446,386	462,671
EDC insurance and other finance expenses	97,850	115,123
Total	\$ 628,200	\$ 708,206

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

16. Income Taxes

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates of 27.00% for the years ended December 31, 2021 and December 31, 2020 to income before income taxes due to the following:

	December 31, 2021	December 31, 2020
Net income (loss) before income taxes	\$ (6,979,436)	\$ 1,492,090
Tax expense at applicable rates	(1,884,367)	441,514
Change in unrecognized deferred tax assets	1,234,098	(46,747)
Non-deductible expenses and other differences	288,422	(433,965)
Effect of difference between combined Canadian statutory income rate and those rates applicable to foreign subsidiaries	36,365	(60,145)
Other items	366,199	106,586
Income tax expense	\$ 40,717	\$ 7,243

The deferred tax assets have not been recognized in these consolidated financial statements, as management does not consider it more likely than not that those assets will be realized in the carry forward period.

The Company's deferred income tax assets not recognized are:

	December 31, 2021	December 31, 2020
Deferred tax assets in relation to:		
Equipment	\$ 211,769	\$ 49,410
Non-capital losses carried forward	20,191,800	19,240,213
SR&ED expenditures	3,181,360	3,561,757
Reserves and other	1,409,630	863,678
Intangible assets	(43,332)	(101,162)
Deferred tax assets not recognized	\$ 24,951,226	\$ 23,613,896

As at December 31, 2021, the Company has non-capital loss carry forwards for Canadian and United States income tax purposes available to reduce taxable income otherwise payable in future years. These losses expire as follows:

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

16. Income Taxes (continued)

Year Loss Expires	Canada	US	Total
2023	2,520,743	-	2,520,743
2024	8,782,873	-	8,782,873
2025	7,944,080	-	7,944,080
2026	841,043	-	841,043
2027	2,156,493	-	2,156,493
2028	5,889,673	-	5,889,673
2029	14,145,723	-	14,145,723
2030	10,934,793	-	10,934,793
2031	4,142,095	-	4,142,095
2032	2,776,540	-	2,776,540
2033	2,824,409	-	2,824,409
2034	160,255	-	160,255
2035	1,007,672	-	1,007,672
2036	1,786,169	109,471	1,895,640
2037	1,789,918	-	1,789,918
2038	1,324,476	-	1,324,476
2039	1,107,640	-	1,107,640
2040	1,084,122	-	1,084,122
2041	3,410,014	363,944	3,773,958
Total Losses	74,628,732	473,415	75,102,147

The Company has Canadian non-capital loss carryforwards of \$74,628,732 which are available to reduce future taxable income. These non-capital loss carryforwards begin to expire in 2023. The benefit of these non-capital losses has not been recognized as their realization is not reasonably assured.

The Company has loss carry forwards in other jurisdictions as a result of its foreign operations. For US income tax purposes, there are non-capital loss carry forwards totaling approximately \$473,415 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years. These non-capital loss carry forwards begin to expire in 2036. The benefit of these non-capital losses has not been recognized as their realization is not reasonably assured.

The Company has Undepreciated Capital Cost (“UCC”) amounts of approximately \$5,049,665 and approximately \$10,303,072 of scientific research and experimental development expenditures (“SR&ED”) that may be carried forward indefinitely to be deducted against future Canadian taxable income. The Company has \$819,546 of reserves that may be deducted against future Canadian taxable income. The Company also has federal investment tax credits of approximately \$426,585 available to offset future Canadian federal income taxes payable which expire commencing in 2023. The benefits of the UCC, the federal investment tax credits and the SR&ED expenditures have not been recognized as their realization is not reasonably assured.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

17. (Loss) Earnings per Share

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

	December 31, 2021	December 31, 2020
Beginning balance at December 31, shares outstanding	33,673,520	34,724,562
Effect of shares issued related to RTO	4,787,737	-
Effect of shares issued related to Aug 2021 Financing	1,832,426	
Effect of shares issues from option exercise	15,566	
Weighted average number of shares (basic and diluted)	40,309,249	34,724,562

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

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

The weighted average number of common shares is as follows:

	December 31, 2021	December 31, 2020
Comprehensive (loss) income	\$ (7,019,854)	\$ 1,476,050
Basic weighted average number of shares	40,309,249	34,724,562
Basic (loss) earnings per share	\$ (0.17)	\$ 0.04
Diluted weighted average number of shares	42,317,323	34,728,691
Diluted (loss) earnings per share	\$ (0.17)	\$ 0.04

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

18. Commitments and Contingencies

- (a) In the ordinary course of business, the Company may enter into performance bonds with customers as part of a sales contract. As at December 31, 2021, the Company had one performance bond for \$1,138,012 outstanding (December 31, 2020 - \$1,138,012).
- (b) In the ordinary course of business, the Company enters into purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As at December 31, 2021, the Company had outstanding purchase order commitments of \$13,325,090 (December 31, 2020 - \$5,645,119).
- (c) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

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.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

19. Segmented Information (continued)

A breakdown of revenues and cost of sales for each operating segment for the years ended December 31, 2021 and December 31, 2020 is as follows:

Year ended December 31, 2021	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenues	\$ 21,665,994	\$ 10,505,777	\$ -	\$ 32,171,771
Cost of sales	14,830,569	2,989,001	-	17,819,570
Gross profit	6,835,425	7,516,776	-	14,352,201
Operating expenses	-	-	20,594,496	20,594,496
Operating income (loss)	\$ 6,835,425	\$ 7,516,776	\$ (20,594,496)	\$ (6,242,295)

Year ended December 31, 2020	Connected Devices and Infrastructure	Utility Software Applications and Services	Corporate	Total
Revenue	\$ 22,684,439	\$ 10,364,980	\$ -	\$ 33,049,419
Cost of sales	13,956,492	2,967,949	-	16,924,441
Gross profit	8,727,947	7,397,031	-	16,124,978
Operating expenses	-	-	16,990,309	16,990,309
Operating income (loss)	\$ 8,727,947	\$ 7,397,031	\$ (16,990,309)	\$ (865,331)

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

	December 31, 2021	December 31, 2021
United States ¹	\$ 31,740,808	\$ 32,780,379
Canada	345,074	227,905
Others	85,889	41,135
Total	\$ 32,171,771	\$ 33,049,419

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

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

20. Expenses by Nature

Total salaries and wages as well as other personnel and contractor related expenses included in Cost of Sales for the years ended December 31, 2021 and December 31, 2020, respectively, were \$3,294,812 and \$3,237,218.

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

Period ended	December 31, 2021	December 31, 2020
Salaries and Benefits	\$ 11,546,242	\$ 9,764,355
Travel and meals	126,402	245,369
Depreciation and Amortization	1,545,737	1,714,504
Consulting and agent services	796,535	1,039,891
Facilities variable lease payments	442,803	566,679
Stock-based compensation	462,080	281,708
Marketing programs	277,194	364,350
Insurance	395,937	319,040
Office	347,287	310,328
Personnel programs and hiring costs	204,259	53,371
Information technology services and maintenance	173,601	151,397
Energate arbitration related costs (Note 14(g))	-	296,455
Amalgamation related costs (Note 4)	964,484	1,181,849
Excess purchase price over RiseTech net assets (Note 4)	1,188,175	-
Congruitive acquisition costs	350,000	-
Other expenses	1,773,760	701,013
Total	\$ 20,594,496	\$ 16,990,309

21. Other (Expenses) Earnings

	December 31, 2021	December 31, 2020
Foreign exchange loss	\$ (108,941)	\$ (190,282)
Finance expense	(628,200)	(708,206)
Energate arbitration share cancellation	-	1,229,566
Gain on lease obligation	-	16,334
Covid-19 government assistance	-	2,010,009
Total other (expenses) earnings	\$ (737,141)	\$ 2,357,421

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

22. Capital Disclosures

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

The following schedule details the components of capital:

Deficiency and Liabilities	December 31, 2021	December 31, 2020
Other capital reserves	\$ 40,255,644	\$ 39,590,453
Accumulated other comprehensive income	\$ 1,917,505	\$ 1,917,206
Share capital	\$ 86,932,034	\$ 71,475,662
Deficit	\$ (122,314,580)	\$ (115,294,427)
Bank loan	\$ 8,100,000	\$ 8,075,050

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

23. 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 December 31, 2021 and December 31, 2020, the carrying values of cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities and the bank loan approximate their fair value due to their ability to be promptly liquidated, their short term to maturity, or their use of market rates.

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

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

The Company's financial assets and liabilities carried at amortized cost are considered Level 2 instruments, because while observable prices and inputs are available, they are not quoted in an active market. There has not been any transfer between fair value hierarchy levels during the periods ended December 31, 2021 and December 31, 2020.

(b) Financial risk management

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

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

(i) Interest rate risk

All of the Company's financial assets and liabilities are non-interest bearing except for cash which generates interest income at market rates. The credit facilities bear interest at a floating rate based on the bank's prime rate and had a balance of \$8,100,000 as at December 31, 2021 and \$8,075,050 as at December 31, 2020. A potential percentage change in the bank's prime rate of 1.00% will have an impact of \$81,000 for the period ended December 31, 2021 and \$80,750 for the year ended December 31, 2020 on the annual interest expense pertaining to its line of credit facility.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

23. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Credit risk

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

The aging of accounts receivable as at December 31, 2021 and December 31, 2020 is provided in Note 5.

(iii) Foreign currency exchange rate risk

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

The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does not have significant exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at December 31, 2021 and December 31, 2020. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a \$413,392 negative impact on net loss for the period ended December 31, 2021 and a \$169,831 positive impact for the year ended December 31, 2020.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

23. 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:

	December 31, 2021	December 31, 2020
Cash	\$ 6,042,932	\$ 225,516
Accounts receivable	122,846	60,724
Accounts payable	(1,232,992)	(534,012)
Accrued liabilities	(798,865)	(700,533)
Bank loan	-	(750,000)
Total	\$ 4,133,921	\$ (1,698,305)

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

(iv) Liquidity risk

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

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

	As at December 31, 2021
Less than 90 days:	
Accounts payable and accrued liabilities	\$ 8,933,945
Bank loan (note 12)	\$ 8,100,000

The Company has a loan agreement with Comerica Bank to fund ongoing working capital requirements since April 12, 2012 which the Company has renewed on an annual basis since such date.

TANTALUS SYSTEMS HOLDING INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in United States dollars, unless otherwise indicated)

Years ended December 31, 2021 and 2020

24. Related Party

Amalgamations between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note. The following table discloses the compensation amount of the Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's executive officers. The remuneration of key management for the years ended December 31, 2021 and December 31, 2020 is as follows:

	December 31, 2021	December 31, 2020
Short-term employee benefits	\$ 1,743,857	\$ 1,506,088
Share-based compensation	101,081	146,783
Total	\$ 1,844,938	\$ 1,652,871

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

25. Subsequent Events

On January 31, 2022, the Company completed its acquisition of DLC Systems Inc. (doing business as Congruitive) ("Congruitive") by acquiring 100% of the issued and outstanding common shares of Congruitive pursuant to the terms of a stock purchase agreement. The purchase price was comprised of \$8 million of closing consideration in the form of approximately \$3.5 million in cash, 869,565 common shares of Tantalus based on a share price of CDN\$1.76 (US\$1.38) and the assumption of certain debt on Congruitive's balance sheet at the time of closing. In addition, Tantalus agreed to include an earn-out provision of up to an additional \$5 million of consideration in the form of cash and common shares of Tantalus. The earn-out is tied to Congruitive increasing its annual revenue up to US\$6.9 million by 2023. Congruitive will become a wholly owned subsidiary of the Company's US operating subsidiary, Tantalus Systems Inc. Congruitive's software enables utilities to operate their smart grid deployments as one intelligent, interoperable system, with the necessary scalability and flexibility to accommodate electric vehicles ("EVs") and distributed energy resources ("DERs") deployed at the edge of the smart grid. As at the date of these consolidated financial statements, the accounting for the business combination is not yet complete as the fair value of assets and liabilities have yet to be determined.

On January 31, 2022, the Company entered into an amendment agreement with the Bank which extended the maturity date of the line of credit facilities of the Company from February 28, 2022 to February 27, 2023 in conjunction with an incremental term loan with a principal amount of \$3.3 million repayable over a three year basis with the use of proceeds for the Company's acquisition of Congruitive.