# TANTALUS SYSTEMS HOLDING INC.

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

**March 25, 2024**

***For the three and twelve months ended December 31, 2023***

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of Tantalus Systems Holding Inc. (together with its subsidiaries and predecessors, the "**Company**", "**we**" or "**Tantalus**") is provided to assist our readers in assessing our financial condition and our financial performance, including our liquidity and capital resources, as at and for the three and twelve months ended December 31, 2023 compared with the three and twelve months ended December 31, 2022. The information in this MD&A is current as of March 25, 2024, and should be read in conjunction with the audited consolidated financial statements as of December 31, 2023, and 2022 included with Tantalus' continuous disclosure filings with Canadian securities regulatory authorities available at www.sedarplus.ca.

The Company's audited consolidated financial statements and notes thereto as of December 31, 2023, and 2022 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee and are presented in United States ("**US**") dollars which is the functional currency of the Company. Where balances are also expressed in Canadian dollars ("**CND$**") in this MD&A, an average foreign exchange rate of 0.7342 and 0.7410 for the three and twelve months ended December 31, 2023 (0.7366 and 0.7685 for three and twelve months ended December 31, 2022) for income statement items and a foreign exchange rate of 0.7561 as at December 31, 2023 (0.7383 as at December 31, 2022) for balance sheet items has been applied. Certain dollar amounts in this MD&A have been rounded to the nearest millions or thousands of dollars.

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

*Non-IFRS and Other Financial Measures*

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

> "EBITDA" is comprised as income (loss) less interest, income tax and depreciation and amortization. Management believes that EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See "Selected Financial Information - Reconciliation of Net (Loss) Income to Adjusted EBITDA", "Trailing Eight Quarter Selected Financial Information - Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA" and "Financial Results for the Three and Twelve Months Ended December 31, 2023 – Adjusted EBITDA" for a quantitative reconciliation of EBITDA to the most directly comparable financial measure.

"Adjusted EBITDA" is comprised as income (loss) less interest, income tax, depreciation, amortization, stock-based compensation, foreign exchange gain (loss) and other income / expenses not attributable to the operations of the Company. Management believes that Adjusted EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See "Selected Financial Information - Reconciliation of Net (Loss) Income to Adjusted EBITDA", "Trailing Eight Quarter Selected Financial Information - Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA" and "Financial Results for the Three and Twelve Months Ended December 31, 2023 – Adjusted EBITDA" for a quantitative reconciliation of Adjusted EBITDA to the most directly comparable financial measure.

"Gross Profit" is comprised as the Company's revenues less cost of sales. Management believes that Gross Profit is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Company. See "Selected Financial Information" and "Financial Results for the Three and Twelve Months Ended December 31, 2023 – Gross Profit" for a quantitative reconciliation of Gross Profit to the most directly comparable financial measure.

"Adjusted Working Capital" is comprised as current assets less current liabilities exclusive of the Company's bank loan and contingent consideration relating to the acquisition of DLC Systems, Inc. d/b/a Congruitive ("Congruitive"). Management believes Adjusted Working Capital is a useful indicator for investors, and is used by management, for evaluating the operating liquidity to the Company. See "Liquidity and Capital Resources - Cash, Restricted Cash, and Adjusted Working Capital" for a quantitative reconciliation of Adjusted Working Capital to the most directly comparable financial measure.

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

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

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

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

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

"Annual Recurring Revenue" or "ARR" is comprised of the Company's Recurring Revenue as expressed on an annualized revenue basis attributable to its analytics and other SaaS offerings, hosting services, software maintenance and technical support services agreements at a point in time.

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

**NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information is generally identifiable by use of the words "believes", "may", "plans", "will", "anticipates", "intends", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions. Forward-looking information in this MD&A includes statements regarding: expectations regarding industry trends and challenges; exchange rate fluctuations; overall market growth rates and our growth rates and growth strategies; addressable markets for our solutions; expectations regarding the future demand for and adoption of distributed energy resources, extended asset life, distribution grid technology and electric vehicles (EVs); expectations regarding supply chain shortages; expectations regarding the development of the TRUSense Gateway™; the achievement of advances in and expansion of our offerings and markets; the growth of the Company's sales pipeline (including the Company's ability to close sales in the current sales pipeline); expectations regarding our revenue and the revenue generation potential of our products, services and other solutions; further investments in sales and marketing; our business plans and strategies; our ability to achieve positive cash flow from operations, maintain or obtain additional debt or equity financing and achieve and maintain profitable operations; the sufficiency of the Company's cash resources to support operations for the next twelve months; continuing as a going concern; meeting the eligibility requirements of the United States Employee Retention Tax Credit (ERTC); our competitive position in our industry; expansion into the investor-owned utility (IOU) market; the TRUSense Gateway initiative expanding the Company's total addressable market; and our continued investment in the research and development of new products as well as the continuous enhancement of our existing products and software applications offering.

In connection with the forward-looking information contained in this MD&A, we have made numerous assumptions, regarding, among other things: our ability to capitalize on growth opportunities and implement our growth strategy; our ability to retain key personnel; our ability to maintain existing customer relationships and to continue to expand our customers' use of our products solutions; our ability to acquire new customers; our ability to enhance our offerings to remain at the forefront of our industry; the impact of competition; the successful integration of Congruitive and future acquisitions; the absence of material adverse changes in our business, our industry or the global economy; and that the risks and uncertainties described under the "Risk Factors" section of Tantalus' Annual Information Form dated March 31, 2023 and our Annual Information Form to be filed on or prior to March 31, 2024 will not materialize. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant uncertainties and contingencies.

Additionally, there are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained herein. Known risk factors include, but are not limited to, the factors described in the "Risk Factors" section of Tantalus' Annual Information Form dated March 31, 2023 and our Annual Information Form to be filed on or prior to March 31, 2024.

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

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

## DESCRIPTION OF BUSINESS

Tantalus is a technology company dedicated to helping utilities modernize their distribution grids by harnessing the power of data across all their devices and systems deployed throughout the distribution grid – from the substation to the EV charger located behind the meter. Tantalus offers smart grid solutions across multiple levels: intelligent connected devices, communications networks, data management, enterprise applications and analytics.

Tantalus enables utilities to modernize their distribution grids through the Tantalus Grid Modernization Platform ("TGMP™"), which delivers visibility, command and control across a utility's operations and provides a secure, flexible and affordable path. TGMP is a technology architecture designed to deliver true data interoperability across new and existing devices, systems and vendors.

While Tantalus offers a suite of cutting-edge and innovative connected devices, our approach is to integrate a suite of solutions, from Tantalus or third-party vendors, to support the modernization of substations, distribution circuits and feeders, metering and distributed energy resources located behind the meter.

TGMP offers utilities a flexible approach to provide utilities with autonomy and control of their grid modernization journey. Coupled with an unwavering commitment to ensuring the Company's solutions are reverse-compatible to earlier products and other offerings of the Company and a customer support team that has helped Tantalus achieve a retention rate of 99% of our customers over multiple decades, the Company serves as a partner to the utilities it supports and to the communities they serve.

Tantalus is a publicly traded company listed on the Toronto Stock Exchange (TSX: GRID). See www.tantalus.com for more information.

**2023 HIGHLIGHTS**

*Annual Recurring Revenue:* ARR grew to approximately US$11.5 million (CND$15.2 million) as of December 31, 2023, representing 17% growth over the ARR as of December 31, 2022. Recurring Revenue recognized during 2023 grew to approximately $10.2 million (CND$13.9 million), representing 18% growth over the prior year period and represented 24% of total revenue. The growth in Recurring Revenue is resulting from the Company's additional conversions of new utilities from the sales pipeline, ongoing efforts to secure subscriptions to the Company's data analytics offerings (SaaS model) and term-based software licenses.  Since 2016, the compounded annual growth rate of the Company's ARR is approximately 19%.

*Expansion of our User Community:* Tantalus added seventeen new utilities in 2023, bringing the user community to a total of 288 utilities. While Tantalus' user community historically focused on the public power and electric cooperative market segment of the United States utility industry, the Company is expanding into the larger IOU market segment through its previous acquisition of Congruitive.

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

*Partnerships:* During 2023, the Company partnered with Savant Systems, Inc., a leading provider of home energy management systems, to accelerate the control of intelligent devices and appliances located behind-the-meter, such as smart electric circuit breakers, EV chargers and inverters for rooftop solar and battery storage through Tantalus' new TRUSense Gateway. Tantalus also partnered with PayGo®, a payments technology company, to offer utilities flexible payment options to support its customers and improving the customer service experience. The Company additionally entered into a reseller agreement with Jesstec Industries Inc. ("Jesstec") which expands Tantalus' commitment to the Canadian utility industry while providing Jesstec with the ability to offer industry leading smart grid solutions to existing and prospective customers.

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

*Addition of Board Member:* During 2023, Greg Williams was elected to the Board of Directors at the annual general meeting of shareholders of the Company on June 27, 2023. Greg brings over 40 years of experience in the electric utility industry, serving on several boards of companies in the electric industry as well as having recently retired as General Manager of Appalachian Electric Cooperative.

*Financial Summary for the Three and Twelve Months Ended December 31, 2023:*

<u>Revenue</u>: The Company generated the highest annual revenue in its history of US$42.1 million (CND$56.8 million), inclusive of US$10.4 million (CND$14.0 million) in Q4, representing a 6% increase over 2022. Revenue contributions from the Utility Software Applications and Services segment in 2023 and Q4 hit 35%, representing the highest percentage contribution in the Company's history.

<u>Annual Recurring Revenue (ARR)</u>[2]: ARR grew to another record for the Company at approximately US$11.5 million (CND$15.2 million) as of December 31, 2023, representing 17% growth over 2022. Recurring Revenue recognized in the quarter represented approximately 24% of total revenue.

<u>Gross Profit Margin</u>: The Company delivered 52% for 2023 and 51% for Q4 compared to 48% and 45%, respectively, over the prior year periods. The Gross Profit Margin percentage in 2023 is the highest percentage in the Company's history and reflects the achievement of an important milestone to drive operating leverage as the business continues to scale.

<u>Adjusted EBITDA</u>: The Company delivered positive Adjusted EBITDA of US$0.35 million (approximately CND$0.5 million) in Q4 compared to positive Adjusted EBITDA of US$0.1 million (approximately CND$0.1 million) for the prior year period. Adjusted EBITDA for the year ended December 31, 2023, approached a point of neutrality at negative US$29k (approximately negative CND$40k) compared to negative US$2.4 million (negative CND$3.1 million) for the prior year. The Adjusted EBITDA result for 2023 includes approximately US$5.0 million (approximately CND$6.8 million) of further investment in the TRUSense Gateway made throughout the year.

<u>Total Assets</u>: The Company ended the quarter with US$34.8 million (CND$46.0 million) as compared to US$37.4 million (CND$50.7 million) as of December 31, 2022.

<u>Cash:</u> The Company ended the year with $5.1 million (CND$6.7 million) of cash as of December 31, 2023.

## SELECTED FINANCIAL INFORMATION

Selected annual information of the results of the Company’s operations is as follows:

| | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|
| Revenue | $ | 42,146,982 | $ | 39,603,023 | $ | 32,171,771 |
| Cost of sales | | 20,288,566 | | 20,706,736 | | 17,819,570 |
| Gross Profit | | 21,858,416 | | 18,896,287 | | 14,352,201 |
| Expenses | | 24,145,018 | | 24,585,989 | | 20,594,496 |
| Operating (loss) | | (2,286,602) | | (5,689,702) | | (6,242,295) |
| Other (expenses) earnings | | 612,091 | | (387,311) | | (737,141) |
| (Loss) income before income taxes | | (1,674,511) | | (6,077,013) | | (6,979,436) |
| Income tax (recovery) expense | | 10,686 | | (881,597) | | 40,717 |
| (Loss) income for the period | | (1,685,197) | | (5,195,416) | | (7,020,153) |
| (Loss) earnings per share (basic and diluted) | | (0.04) | | (0.12) | | (0.17) |
| Adjusted EBITDA | $ | (28,811) | $ | (2,430,563) | $ | (1,731,819) |

## Reconciliation of Annual Net (Loss) Income to Adjusted EBITDA

| | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|
| Loss for the period | $ | (1,685,197) | $ | (5,195,416) | $ | (7,020,153) |
| Finance expense (a) | | 1,509,458 | | 1,070,085 | | 628,200 |
| Income taxes | | 10,686 | | (881,597) | | 40,717 |
| Depreciation and amortization | | 1,834,570 | | 1,898,701 | | 1,545,737 |
| EBITDA | | 1,669,517 | | (3,108,227) | | (4,805,499) |
| Stock-based compensation (b) | | 423,221 | | 773,478 | | 462,080 |
| Foreign exchange (c) | | 211,153 | | (682,774) | | 108,941 |
| Congruitive acquisition related costs (d) | | - | | 586,960 | | 350,000 |
| RiseTech reverse acquisition listing expense (e) | | - | | - | | 1,188,175 |
| Reverse acquisition legal, professional and related costs (f) | | - | | - | | 964,484 |
| Recovery of contingent liability (g) | | (2,332,702) | | - | | - |
| Adjusted EBITDA | $ | (28,811) | $ | (2,430,563) | $ | (1,731,819) |

(a) Finance expense comprised of interest and related finance expense on bank loan and lease liabilities.
(b) Stock-based non-cash compensation expense.
(c) Foreign exchange comprised of unrealized loss / (gain) from non-functional currency assets and liabilities.
(d) General and administrative expenses pertaining to the Company’s acquisition of Congruitive on January 31, 2022.
(e) Reverse acquisition listing expense comprised of excess purchase price over RiseTech net assets acquired.
(f) Reverse acquisition costs comprised of legal and professional fees.
(g) Recovery of contingent liability relating to Congruitive acquisition.

Selected annual information from the Company’s statement of financial position are as follows:

| | | December 31, 2023 | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|---|
| Cash | $ | 5,153,698 | 5,850,914 | $ | 14,203,794 |
| Adjusted Working Capital | $ | 3,029,413 | 4,956,420 | $ | 13,574,656 |
| Total assets | $ | 34,798,593 | 37,359,751 | $ | 31,025,747 |
| Shareholders’ earnings | $ | 2,318,722 | 3,578,699 | $ | 6,790,603 |

| **Adjusted Working Capital** | | **December 31, 2023** | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|---|---|
| Total current assets | $ | 21,798,349 | $ | 22,794,298 | $ | 20,718,266 |
| Less: current liabilities | | (27,268,936) | | (27,037,878) | | (25,255,042) |
| | | (5,470,587) | | (4,243,580) | | (4,536,776) |
| Add: Bank loans - current portion | | 8,500,000 | | 9,200,000 | | 8,075,050 |
| Adjusted Working Capital | $ | 3,029,413 | $ | 4,956,420 | $ | 3,538,274 |

## TRAILING EIGHT QUARTER SELECTED FINANCIAL INFORMATION

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

| | Three months ended December 31, 2023 | Three months ended September 30, 2023 | Three months ended June 30, 2023 | Three months ended March 31, 2023 | Three months ended December 31, 2022 | Three months ended September 30, 2022 | Three months ended June 30, 2022 | Three months ended March 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 10,370,092 | $ 10,143,287 | $ 11,220,916 | $ 10,412,687 | $ 12,164,972 | $ 9,071,109 | $ 9,075,464 | $ 9,291,478 |
| Cost of sales | 5,042,655 | 4,718,621 | 4,977,312 | 5,549,978 | 6,640,844 | 4,283,858 | 4,911,669 | 4,870,365 |
| Gross Profit | 5,327,437 | 5,424,666 | 6,243,604 | 4,862,709 | 5,524,128 | 4,787,251 | 4,163,795 | 4,421,113 |
| Expenses | 5,446,444 | 5,928,476 | 6,650,882 | 6,119,216 | 5,909,095 | 5,905,550 | 6,412,784 | 6,358,560 |
| Operating loss | (119,007) | (503,810) | (407,278) | (1,256,507) | (384,967) | (1,118,299) | (2,248,989) | (1,937,447) |
| Other earnings (expenses) | 1,796,799 | (293,509) | (510,760) | (380,439) | (368,403) | (36,298) | (130,674) | 148,064 |
| Income (loss) before income taxes | 1,677,792 | (797,319) | (918,038) | (1,636,946) | (753,370) | (1,154,597) | (2,379,663) | (1,789,383) |
| Income tax expense (recovery) | (13,039) | - | 23,621 | 104 | (912,580) | - | 30,983 | - |
| Income (loss) for the period | 1,690,831 | (797,319) | (941,659) | (1,637,050) | 159,210 | (1,154,597) | (2,410,646) | (1,789,383) |
| Earnings (loss) per share (basic and diluted) | 0.04 | (0.02) | (0.02) | (0.04) | 0.00 | (0.03) | (0.05) | (0.04) |
| Adjusted EBITDA | $ 348,423 | $ 63,220 | $ 251,165 | $ (691,619) | $ 103,646 | $ (384,123) | $ (1,495,824) | $ (654,262) |

## Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA

| | Three months ended December 31, 2023 | Three months ended September 30, 2023 | Three months ended June 30, 2023 | Three months ended March 31, 2023 | Three months ended December 31, 2022 | Three months ended September 30, 2022 | Three months ended June 30, 2022 | Three months ended March 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Income (loss) for the period | $ 1,690,831 | $ (797,319) | $ (941,659) | $ (1,637,050) | $ 159,210 | $ (1,154,597) | $ (2,410,646) | $ (1,789,383) |
| Finance expense (a) | 369,046 | 396,646 | 389,077 | 354,689 | 297,713 | 283,137 | 252,249 | 236,986 |
| Income taxes | (13,039) | - | 23,621 | 104 | (912,580) | - | 30,983 | - |
| Depreciation and amortization | 454,458 | 461,728 | 459,624 | 458,760 | 318,945 | 535,362 | 551,225 | 493,169 |
| EBITDA | 2,501,296 | 61,055 | (69,337) | (823,497) | (136,712) | (336,098) | (1,576,189) | (1,059,228) |
| Stock-based compensation (b) | 92,972 | 105,302 | 118,819 | 106,128 | 169,668 | 198,814 | 201,940 | 203,056 |
| Foreign exchange (c) | 122,176 | (58,456) | 121,683 | 25,750 | 70,690 | (246,839) | (121,575) | (385,050) |
| Congruitive acquisition related costs (d) | - | - | - | - | - | - | - | 586,960 |
| EDC loan related legal costs (e) | (80,000) | - | 80,000 | - | - | - | - | - |
| Government subsidy (f) | 44,681 | (44,681) | - | - | - | - | - | - |
| Recovery of contingent liability (g) | (2,332,702) | - | - | - | - | - | - | - |
| Adjusted EBITDA | $ 348,423 | $ 63,220 | $ 251,165 | $ (691,619) | $ 103,646 | $ (384,123) | $ (1,495,824) | $ (654,262) |

(a) Finance expense comprised of interest and related finance expense on bank loan and lease liabilities.
(b) Stock-based non-cash compensation expense.
(c) Foreign exchange comprised of unrealized loss/(gain) from non-functional currency assets and liabilities.
(d) General and administrative expenses pertaining to the Company’s acquisition of Congruitive on January 31, 2022.
(e) Legal fees pertaining to the EDC loan which were capitalized to the face value of the EDC Loan (see Note 13 in December 31, 2023 financial statements).
(f) Government assistance relating to ERTC credit received and recognized against research and development expenses to which it pertains (see Note 7(b) in December 31, 2023 financial statements.
(g) Recovery of contingent liability relating to Congruitive acquisition.

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

| | December 31, 2023 | September 30, 2023 | June 30, 2023 | March 31, 2023 | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Cash | $ 5,153,698 | 4,208,294 | $ 4,944,416 | 8,211,947 | 5,850,914 | $ 5,739,561 | $ 9,808,998 | $ 12,024,774 |
| Adjusted Working Capital | $ 3,029,413 | 2,570,963 | $ 2,136,099 | 3,362,870 | 4,956,420 | $ 4,223,455 | $ 6,590,368 | $ 8,963,488 |
| Total assets | $ 34,798,593 | 36,447,394 | $ 37,048,949 | 38,930,821 | 37,359,751 | $ 34,216,532 | $ 37,771,907 | $ 40,001,158 |
| Shareholders' (deficit) earnings | $ 2,318,722 | 529,932 | $ 1,222,118 | 2,048,114 | 3,578,699 | $ 3,249,088 | $ 4,198,813 | $ 6,409,380 |

| **Adjusted Working Capital** | December 31, 2023 | September 30, 2023 | June 30, 2023 | March 31, 2023 | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|
| Total current assets | $ 21,798,349 | $ 23,031,109 | $ 23,286,001 | $ 24,750,116 | $ 22,794,298 | $ 19,925,342 | $ 23,131,694 | $ 25,494,272 | $ 26,427,657 |
| Less: current liabilities | (27,268,936) | (30,288,159) | (32,402,915) | (30,587,246) | (27,037,878) | (23,821,887) | (25,741,326) | (25,730,784) | (20,953,001) |
| | (5,470,587) | (7,257,050) | (9,116,914) | (5,837,130) | (4,243,580) | (3,896,545) | (2,609,632) | (236,512) | 5,474,656 |
| Add: Bank loans - current portion | 8,500,000 | 7,369,311 | 8,794,311 | 9,200,000 | 9,200,000 | 8,120,000 | 9,200,000 | 9,200,000 | 8,100,000 |
| Add: Contingent consideration | - | 2,458,702 | 2,458,702 | - | - | - | - | - | - |
| Adjusted Working Capital | $ 3,029,413 | $ 2,570,963 | $ 2,136,099 | $ 3,362,870 | $ 4,956,420 | $ 4,223,455 | $ 6,590,368 | $ 8,963,488 | $ 13,574,656 |

## FINANCIAL RESULTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2023

## Revenue

| *Revenue by Source* | | Three months ended December 31, 2023 | % | | Three months ended December 31, 2022 | % | | Twelve months ended December 31, 2023 | % | | Twelve months ended December 31, 2022 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Connected Devices and Infrastructure | $ | 6,773,384 | 65% | $ | 8,394,790 | 69% | $ | 27,286,862 | 65% | $ | 26,518,626 | 67% |
| Utility Software Applications and Services | | 3,596,708 | 35% | | 3,770,182 | 31% | | 14,860,120 | 35% | | 13,084,397 | 33% |
| **Total revenue** | $ | 10,370,092 | 100% | $ | 12,164,972 | 100% | $ | 42,146,982 | 100% | $ | 39,603,023 | 100% |

The Company generated the highest annual revenue in its history of US$42.1 million (CND$56.8 million) representing a 6% increase over 2022. Revenue contributions from the Utility Software Applications and Services segment in 2023 was 35%, representing the highest percentage contribution in the Company's history. The increase in revenue was primarily attributable to the conversion of new utility customers from its sales pipeline, the migration of a pilot of TRUSync™ software, previously known as C.IQ Connect, to a full license of the software platform with an investor-owned utility and continued efforts to increase contributions from sources of recurring revenue.

During the three months ended December 31, 2023, the Company generated revenue of $10.4 million (CND$14.0 million) compared to $12.2 million (CND$16.6 million) for the prior year period. The year-over-year decline in revenue tied to the timing of converting orders from the Company's pipeline and capacity constraints with meter partners.

Revenue from the Company's Connected Devices and Infrastructure products increased by 2% during the year ended December 31, 2023, over the prior year. Revenue from the Company's Connected Devices and Infrastructure products decreased by 19% for the three months ended December 31, 2023 as compared to the prior year period. A portion of the decrease in revenue tied to approximately $0.4 million of customer orders shifting out of the year and into the first quarter of 2024.

Revenue from the Company's Utility Software Applications and Services increased by 14% for the year ended December 31, 2023, over the prior year and decreased by 5% for the three months ended December 31, 2023, over the prior year period. The increase for the year is primarily due to increased recurring revenue generated during 2023 over the prior year.

| *Revenue by Type* | | Three months ended December 31, 2023 | % | | Three months ended December 31, 2022 | % | | Twelve months ended December 31, 2023 | % | | Twelve months ended December 31, 2022 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Recurring Revenue | $ | 2,502,792 | 70% | $ | 2,231,176 | 59% | $ | 10,219,218 | 69% | $ | 8,659,242 | 66% |
| Other Utility Software Applications and Services revenue | | 1,093,916 | 30% | | 1,539,006 | 41% | | 4,640,902 | 31% | | 4,425,155 | 34% |
| **Total Utility Software Applications and Services revenue** | $ | 3,596,708 | 100% | $ | 3,770,182 | 100% | $ | 14,860,120 | 100% | $ | 13,084,397 | 100% |

As a subset of the revenue contributions from the Utility Software Applications and Services segment, the Company's Recurring Revenue recognized represented 70% and 69% of total Utility Software Applications and Services revenue during the three and twelve months ended December 31, 2023, respectively. Total Recurring Revenue recognized during the three and twelve months ended December 31, 2023, increased by 12% and 18%, respectively, over the prior year periods as deployments of the Company's Connected Devices and Infrastructure products leads to incremental software and services revenue opportunities.

| *Revenue by Type* | | Three months ended December 31, 2023 | % | | Three months ended December 31, 2022 | % | | Twelve months ended December 31, 2023 | % | | Twelve months ended December 31, 2022 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Recurring Revenue | $ | 2,502,792 | 24% | $ | 2,231,176 | 18% | $ | 10,219,218 | 24% | $ | 8,659,242 | 22% |
| Other revenue | | 7,867,300 | 76% | | 9,933,796 | 82% | | 31,927,764 | 76% | | 30,943,781 | 78% |
| **Total revenue** | $ | 10,370,092 | 100% | $ | 12,164,972 | 100% | $ | 42,146,982 | 100% | $ | 39,603,023 | 100% |

As of December 31, 2023, the Company's forward twelve-months of ARR is estimated to contribute approximately $11.5M (CND$15.2 million), through December 31, 2024, representing 17% growth over the forward twelve-months of ARR as of December 31, 2022.

No single customer represented more than 10% of total revenues for the three and twelve months ended December 31, 2023, and 2022.

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

| | | Three months ended December 31, 2023 | % | | Three months ended December 31, 2022 | % | | Twelve months ended December 31, 2023 | % | | Twelve months ended December 31, 2022 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States (1) | $ | 10,321,166 | 100% | $ | 12,008,109 | 99% | $ | 41,805,915 | 99% | $ | 39,215,685 | 99% |
| Canada | | 43,871 | <1% | | 101,758 | 1% | | 311,270 | 1% | | 284,723 | 1% |
| Other | | 5,055 | <1% | | 55,105 | <1% | | 29,797 | <1% | | 102,615 | <1% |
| | $ | 10,370,092 | 100% | $ | 12,164,972 | 100% | $ | 42,146,982 | 100% | $ | 39,603,023 | 100% |

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

## Gross Profit

The Company's Gross Profit during the three months ended December 31, 2023, is as follows:

| **Three months ended December 31, 2023** | | **Connected Devices and Infrastructure** | **%** | | **Utility Software Applications and Services** | **%** | | **Total** | **%** |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 6,773,384 | 100% | $ | 3,596,708 | 100% | $ | 10,370,092 | 100% |
| Cost of sales | | 3,974,801 | 59% | | 1,067,854 | 30% | | 5,042,655 | 49% |
| **Gross Profit** | $ | 2,798,583 | 41% | $ | 2,528,854 | 70% | $ | 5,327,437 | 51% |
| Percentage of total Gross Profit | | 53% | | | 47% | | | 100% | |

| **Three months ended December 31, 2022** | | **Connected Devices and Infrastructure** | **%** | | **Utility Software Applications and Services** | **%** | | **Total** | **%** |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 8,394,790 | 100% | $ | 3,770,182 | 100% | $ | 12,164,972 | 100% |
| Cost of sales | | 5,619,346 | 67% | | 1,021,498 | 27% | | 6,640,844 | 55% |
| **Gross Profit** | $ | 2,775,444 | 33% | $ | 2,748,684 | 73% | $ | 5,524,128 | 45% |
| Percentage of total Gross Profit | | 50% | | | 50% | | | 100% | |

Gross Profit Margin increased to 51% during the three months ended December 31, 2023, compared to 45% during the prior year period. Gross Profit Margin is impacted by the revenue mix experienced with decreased revenue contribution from the Company's Connected Devices and Infrastructure segment during the three months ended December 31, 2023, compared to the prior year.

The Company's Gross Profit during the twelve months ended December 31, 2023, is as follows:

| Twelve months ended December 31, 2023 | Connected Devices and Infrastructure | % | Utility Software Applications and Services | % | Total | % |
|---|---|---|---|---|---|---|
| Revenue | $ 27,286,862 | 100% | $ 14,860,120 | 100% | $ 42,146,982 | 100% |
| Cost of sales | 16,403,213 | 60% | 3,885,353 | 26% | 20,288,566 | 48% |
| **Gross Profit** | $ 10,883,649 | 40% | $ 10,974,767 | 74% | $ 21,858,416 | 52% |
| Percentage of total Gross Profit | 50% | | 50% | | 100% | |

| Twelve months ended December 31, 2022 | Connected Devices and Infrastructure | % | Utility Software Applications and Services | % | Total | % |
|---|---|---|---|---|---|---|
| Revenue | $ 26,518,626 | 100% | $ 13,084,397 | 100% | $ 39,603,023 | 100% |
| Cost of sales | 17,484,382 | 66% | 3,222,354 | 25% | 20,706,736 | 52% |
| **Gross Profit** | $ 9,034,244 | 34% | $ 9,862,043 | 75% | $ 18,896,287 | 48% |
| Percentage of total Gross Profit | 48% | | 52% | | 100% | |

The Gross Profit Margin increased to 52% during the twelve months ended December 31, 2023, as compared to 48% during the prior year period. The increase in Gross Profit Margin is attributable to the revenue mix experienced with increased revenue contribution from the Utility Software Applications and Services segment during 2023 compared to the prior year. The results mark the first time in the Company's history that Gross Profit Margin percentage exceeded 50% for an entire calendar year, an important milestone to drive operating leverage as the business continues to scale.

## Expenses

| | Three months ended December 31, 2023 | % of Revenue | Three months ended December 31, 2022 | % of Revenue | Twelve months ended December 31, 2023 | % of Revenue | Twelve months ended December 31, 2022 | % of Revenue |
|---|---|---|---|---|---|---|---|---|
| Sales and marketing | $ 1,462,613 | 14% | $ 1,737,388 | 14% | $ 7,784,174 | 18% | $ 6,810,090 | 17% |
| Research and development | 1,914,073 | 18% | 1,718,096 | 14% | 7,907,374 | 19% | 7,571,387 | 19% |
| General and administrative | 1,615,300 | 16% | 2,134,666 | 18% | 6,618,900 | 16% | 8,305,811 | 21% |
| Depreciation and amortization | 454,458 | 4% | 318,945 | 3% | 1,834,570 | 4% | 1,898,701 | 5% |
| **Total expenses** | $ 5,446,444 | 53% | $ 5,909,095 | 49% | $ 24,145,018 | 57% | $ 24,585,989 | 62% |
| **As a percentage of total revenue** | 53% | | 49% | | 57% | | 62% | |

Total expenses include share-based compensation expense. Total expenses for the three and twelve months ended December 31, 2023, decreased compared to the prior year periods and include the Company's investment in the development and commercialization of its new TRUSense Gateway product offering.

Sales and marketing expenses consist primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing and branding, advertising costs and facilities. The increase during the twelve months ended December 31, 2023, in sales and marketing expense over the prior year period is primarily attributable to increased marketing activities, additional travel for customer meetings, business development and participation at in-person industry tradeshows and events, including the Company's first in-person user conference since the onset of the COVID-19 pandemic in April 2023. As momentum continues to develop across the utility industry, Tantalus anticipates making further investments in sales and marketing to expand its presence and position itself for broader growth in the future. The decrease in sales and marketing expenses during the three months ended December 31, 2023, over the prior year period, is due primarily to lower sales commission expense due to lower revenue experienced.

Research and development ("R&D") expenses are primarily attributable to salaries and related personnel costs, contractors and materials related to the development of the Company's solutions. R&D expenses increased during the three and twelve months ended December 31, 2023, as compared to the prior year periods. The increase in R&D expenses as compared to the prior year periods is primarily due to the timing of the Company's R&D activities, inclusive of external third-party vendor and contractor costs. The Company has cumulatively invested approximately $10.4 million to date to December 31, 2023, in R&D, product management and production activities to build the TRUSense Gateway. The TRUSense Gateway is anticipated to be a first-to-market meter-socket based intelligent device that enables a number of use cases to help utilities modernize the distribution grid. The Company is also investing to expand its data analytics SaaS offering capabilities and is also enhancing its TRUSync offering, formerly known as C.IQ Connect, to deliver interoperable data to utilities from any device, any vendor and any system.

General and administrative expenses include executive and administrative staff, insurance, corporate variable compensation, public company costs, office expenses, accounting, legal and consulting fees. General and administrative expense for the three and twelve months ended December 31, 2023, also includes stock-based compensation expense of $64,143 and $295,876, respectively, and $80,000 in legal fees associated with the EDC Loan, secured on June 29, 2023. On a comparative basis, general and administrative expenses incurred during the prior year periods included stock-based compensation expense of $126,405 and $552,819 for the three and twelve months ended December 31, 2022, respectively, and $586,960 in costs related to the acquisition of Congruitive in January 2022. General and administrative expenses during the three and twelve months ended December 31, 2023, decreased over the respective prior year periods due primarily to lower professional fees, office related expenses and corporate bonus.

| | | **Three months ended December 31, 2023** | | **Three months ended September 30, 2023** | | **Three months ended December 31, 2022** |
|---|---|---|---|---|---|---|
| Total expenses | $ | 5,446,444 | $ | 5,928,476 | $ | 5,909,095 |
| Depreciation and amortization | | (454,458) | | (461,728) | | (318,945) |
| Stock-based compensation | | (92,972) | | (105,302) | | (169,668) |
| | $ | 4,899,014 | $ | 5,361,446 | $ | 5,420,482 |
| **As a percentage of total revenue** | | 47% | | 53% | | 45% |

The Company's total expenses, exclusive of depreciation and amortization and stock-based compensation, were $4.9 million for the three months ended December 31, 2023, as compared to $5.4 million in the three months ended September 30, 2023, and $5.4 million for the three months ended December 31, 2022.

| | | **Twelve months ended December 31, 2023** | | **Twelve months ended December 31, 2022** |
|---|---|---|---|---|
| Total expenses | $ | 24,145,018 | $ | 24,585,989 |
| Depreciation and amortization | | (1,834,570) | | (1,898,701) |
| Stock-based compensation | | (423,221) | | (773,478) |
| Congruitive acquisition costs | | - | | (586,960) |
| | $ | 21,887,227 | $ | 21,326,850 |
| **As a percentage of total revenue** | | 52% | | 54% |

The Company's total expenses, exclusive of depreciation and amortization, stock-based compensation, acquisition related costs, listing fees and Congruitive acquisition costs, increased to $21.9 million for the twelve months ended December 31, 2023, as compared to $21.3 million in the prior twelve months ended December 31, 2022.

## Depreciation and Amortization

| | | Three months ended December 31, 2023 | | Three months ended December 31, 2022 | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Depreciation and amortization | $ | 101,461 | $ | 97,999 | $ | 409,108 | $ | 402,560 |
| Amortization of intangible assets | | 192,511 | | 55,921 | | 769,901 | | 865,350 |
| Amortization of right-of-use assets | | 160,486 | | 165,025 | | 655,561 | | 630,791 |
| **Total depreciation and amortization** | $ | 454,458 | $ | 318,945 | $ | 1,834,570 | $ | 1,898,701 |

The Company's depreciation and amortization is attributable to property and equipment, intangible assets and right-of-use assets pertaining to its facility leases.

## Other Expenses

| | | Three months ended December 31, 2023 | | Three months ended December 31, 2022 | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Foreign exchange (loss) gain | $ | (122,176) | $ | (70,690) | $ | (211,153) | $ | 682,774 |
| Finance expense | | (369,046) | | (297,713) | | (1,509,458) | | (1,070,085) |
| Recovery on contingent liability | | 2,332,702 | | | | 2,332,702 | | |
| Government assistance | | (44,681) | | - | | - | | - |
| **Total other earnings (expenses)** | $ | 1,796,799 | $ | (368,403) | $ | 612,091 | $ | (387,311) |

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

The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated into its U.S. dollar functional currency. The Company experienced a foreign exchange loss of $122,176 and loss of $211,153 during the three and twelve months ended December 31, 2023, which is primarily attributable to the foreign exchange impact on the Company's Canadian dollar denominated cash compared to a foreign exchange loss of $70,690 and gain of $682,774 in the respective prior year periods. The prior year period also included the revaluation of the Burnaby office lease liability which was renewed at that time.

The Company applied for and received subsidies in the aggregate amount of $44,681 during the twelve months ended December 31, 2023, pursuant to the ERTC, a refundable tax credit for businesses and tax-exempt organizations that had employees and were affected during the COVID-19 pandemic. In order to qualify for the ERTC, among other things, United States employers must have experienced the required decline in gross receipts during the eligibility periods during 2020 or the first three calendar quarters of 2021. Management believes there is reasonable assurance that the Company has met the eligibility requirements of the ERTC and properly made claims for the subsidies received thereunder, and thus has recognized the ERTC government assistance of $44,681 against research and development salaries to which the credit pertains to, during the year ended December 31, 2023. The Company also recognized other income of $2,332,702 relating to the reversal of the contingent liability arising from the Congruitive acquisition due to the earn-out criteria not being achieved.

## Total Comprehensive Loss

| | | Three months ended December 31, 2023 | | Three months ended December 31, 2022 | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Operating loss | $ | (119,007) | $ | (384,967) | $ | (2,286,602) | $ | (5,689,702) |
| Total other (expenses) earnings | | 1,796,799 | | (368,403) | | 612,091 | | (387,311) |
| Income tax expense | | 13,039 | | 912,580 | | (10,686) | | 881,597 |
| Loss for the period | | 1,690,831 | | 159,210 | | (1,685,197) | | (5,195,416) |
| Foreign currency translation adjustment | | 4,987 | | 733 | | 1,999 | | (557) |
| **Total comprehensive loss** | $ | 1,695,818 | $ | 159,943 | $ | (1,683,198) | $ | (5,195,973) |
| **Loss per share (basic and fully diluted)** | $ | 0.04 | $ | 0.00 | $ | (0.04) | $ | (0.12) |

## Adjusted EBITDA

| | | Three months ended December 31, 2023 | | Three months ended December 31, 2022 | | Twelve months ended December 31, 2023 | | Twelve months ended December 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Income (loss) for the period | $ | 1,690,831 | $ | 159,210 | $ | (1,685,197) | $ | (5,195,416) |
| Finance expense (a) | | 369,046 | | 297,713 | | 1,509,458 | | 1,070,085 |
| Income taxes | | (13,039) | | (912,580) | | 10,686 | | (881,597) |
| Depreciation and amortization | | 454,458 | | 318,945 | | 1,834,570 | | 1,898,701 |
| EBITDA | | 2,501,296 | | (136,712) | | 1,669,517 | | (3,108,227) |
| Stock-based compensation (b) | | 92,972 | | 169,668 | | 423,221 | | 773,478 |
| Foreign exchange (c) | | 122,176 | | 70,690 | | 211,153 | | (682,774) |
| Congruitive acquisition related costs (d) | | - | | - | | - | | 586,960 |
| EDC Loan related legal costs (e) | | (80,000) | | - | | - | | - |
| Government subsidy (f) | | 44,681 | | - | | - | | - |
| Recovery of contingent liability (g) | | (2,332,702) | | - | | (2,332,702) | | - |
| Adjusted EBITDA | $ | 348,423 | $ | 103,646 | $ | (28,811) | $ | (2,430,563) |

(a) Foreign exchange comprised of unrealized loss / (gain) from non-functional currency assets and liabilities (see Financial Statements).
(b) Finance expense comprised of interest and related finance expense on bank loans and lease liabilities (see Financial Statements).
(c) Share-based non-cash compensation expense (see Financial Statements).
(d) General and administrative expenses pertaining to the Company's acquisition of Congruitive on January 31, 2022 (see note 4 in the Financial Statements).
(e) Legal fees pertaining to the EDC loan which were capitalized to the face value of the EDC loan (see Note 13 in December 31, 2023 Financial Statements).
(f) Government assistance relating to ERTC credit received and recognized against research and development expenses to which it pertains (see Note 7(b) in Financial Statements.
(g) Recovery of contingent liability relating to Congruitive acquisition.

During the three and twelve months ended December 31, 2023, the Company generated Adjusted EBITDA of $348,423 representing 3% of revenue and negative $28,811 representing (<1%) of revenue, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

## Capital Management

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

**Cash, Restricted Cash, and Adjusted Working Capital**

Cash as of December 31, 2023, decreased to $5.2 million from December 31, 2022, of $5.9 million, The closing cash balance of $5.2 million excludes $0.7 million of restricted cash, which is tied to a performance bond for a customer deployment. The reduction in cash during the quarter is primarily tied to the timing of revenue within the quarter which impacted working capital, accounting for deferred revenue and increased financing expenses.

With respect to the restricted cash of $0.7 million, the Company entered into a contract in 2022 that required a surety performance insurance bond (referred to as a surety bond). To secure the surety bond, the Company had to allocate $0.7 million of cash to a restricted cash account. Subsequent to December 31, 2023, the performance criteria pertaining to the surety bond was satisfied by the Company resulting in the release of restricted cash in the amount of approximately $0.7 million which will be reflected in future reporting periods.

The Company's long-standing bank loan from Comerica Bank ("Comerica" or the "Bank") was renewed subsequent to December 31, 2023, with the term and related maturity date extended to June 30, 2025. This facility has been renewed on an annual basis since 2012. To support the acquisition of Congruitive, the Company had entered into a three-year term loan of $3.3 million on January 31, 2022 (the "Term Loan"), which was repaid during the three months ended September 30, 2023 with proceeds from the EDC Loan.

The Company secured the EDC Loan on June 29, 2023, of up to $7.0 million of capital which was used to refinance the Term Loan as well as to provide additional working capital and to fund the TRUSense Gateway development and commercialization. The EDC Loan principal balance as of December 31, 2023, was $3.0 million.

The Company had Adjusted Working Capital as follows:

| **Adjusted Working Capital** | | **December 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Total current assets | $ | 21,798,349 | $ | 22,794,298 |
| Less: current liabilities | | (27,268,936) | | (29,496,580) |
| | | (5,470,587) | | (6,702,282) |
| Add: Bank loans - current portion | | 8,500,000 | | 9,200,000 |
| Add: Contingent consideration | | - | | 2,458,702 |
| Adjusted Working Capital | $ | 3,029,413 | $ | 4,956,420 |

Adjusted Working Capital as of December 31, 2023, decreased from December 31, 2022, primarily due to Adjusted EBITDA, capital expenditures, increased finance expense due to higher interest rates and the repayment of the Term Loan principal offset by the EDC Loan proceeds received during the twelve months ended December 31, 2023.

**Cash Flows**

The Company consumed $0.7 million of cash during the twelve months ended December 31, 2023. The Company used $1.0 million of cash from operations, negative cash flow from investing, and positive cashflow from financing activities. Within the investing activities, the Company purchased computer and other equipment to support its operations. Within financing activities, the Company made principal repayments on its line of credit and term loan facilities in addition to making payments associated with its lease liabilities offset by advances of the working capital Bank loan and EDC Loan.

| **Cash (used in) provided by:** | | **Twelve months ended December 31, 2023** | | **Twelve months ended December 31, 2022** |
|---|---|---|---|---|
| Operating activities | $ | (839,724) | $ | (3,399,032) |
| Investing activities | | (269,361) | | (5,862,079) |
| Financing activities | | 403,688 | | 1,074,342 |
| Effect of foreign exchange on cash | | 8,181 | | (166,111) |
| **Decrease in cash** | **$** | **(697,216)** | **$** | **(8,352,880)** |

*Acquisition of Congruitive*

On January 31, 2022, the Company completed its acquisition of all the outstanding and issued common shares of Congruitive. The acquisition was accounted for as a business combination using the acquisition method whereby the assets acquired, and the liabilities assumed were recorded at fair value. At acquisition date, the fair values assigned to intangible assets, goodwill and the deferred tax liabilities were measured on a provisional basis and subsequently finalized on December 31, 2022. The following table summarizes the balances of each major class of consideration transferred, the recognized amounts of the identifiable assets acquired, and liabilities assumed, and the resulting value of goodwill.

| | | |
|---|---|---|
| Consideration transferred | | |
| Cash consideration | $ | 6,464,473 |
| Fair value of share consideration | | 1,196,466 |
| Fair value of contingent consideration payable | | 2,458,702 |
| Total consideration | $ | 10,119,641 |
| | | |
| Fair value of assets and liabilities recognized | | |
| Cash | $ | 778,942 |
| Accounts receivable | | 665,131 |
| Inventory | | 7,710 |
| Prepaid and other deposits | | 4,073 |
| Property and equipment | | 7,948 |
| Right of Use Asset | | 30,262 |
| Intangible - technology | | 6,530,000 |
| Intangible - customer relations | | 830,000 |
| Intangible - intellectual property (trademarks and copyrights) | | 328,000 |
| Accounts payable and accrued liabilities | | (1,030,712) |
| Deferred tax liability | | (854,204) |
| Lease liability | | (33,333) |
| Fair value of deferred revenue | | (589,325) |
| Fair value of assets and liabilities recognized | $ | 6,674,492 |
| Goodwill | $ | 3,445,149 |

*Equity Financings*

The Company did not pursue or execute an equity financing during the twelve months ended December 31, 2023, or during 2022. The Company has fully utilized the use of proceeds for the equity financing completed during August 2021 as of December 31, 2023.

**Staffing Levels**

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

| | **December 31, 2023** | **December 31, 2022** |
|---|---|---|
| Customer operations | 30 | 23 |
| Sales and marketing | 23 | 22 |
| Research and development | 58 | 59 |
| General and administration | 19 | 18 |
| **Total** | **130** | **122** |

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

**Commitments**

The Company has the following commitments as of December 31, 2023:

| Contractual Obligations | | Total | | Less than 1 year | | 1 - 5 years | | After 5 years |
|---|---|---|---|---|---|---|---|---|
| Accounts Payable and accrued liabilities | $ | 13,727,801 | $ | 13,727,801 | $ | - | $ | - |
| Bank loan[(a)] | | 8,500,000 | | 8,500,000 | | - | | - |
| EDC loan[(a)] | | 2,885,723 | | - | | 2,385,723 | | 500,000 |
| Lease liabilities[(b)] | | 6,024,318 | | 1,330,883 | | 4,643,914 | | 49,521 |
| **Total Contractual Obligations** | **$** | **31,137,842** | **$** | **23,558,684** | **$** | **7,029,637** | **$** | **549,521** |

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

The Company may enter performance surety bonds with customers as part of a sales contract from time to time. As of December 31, 2023, the Company had one performance surety bond outstanding of $2,693,895. Subsequent to December 31, 2023, such performance surety bond has been released and the restricted cash relating to the bond of $673,474 has been returned to the Company.

In the ordinary course of business, the Company enters purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As of December 31, 2023, the Company had outstanding purchase order commitments of $12,575,340.

*Bank Loans*

<u>Comerica Bank</u>

The Company has a loan agreement with the Bank since April 12, 2012, to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date. The loan agreement is comprised of a line of credit facility in United States dollars up to a maximum of $8,500,000 originally subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as of December 31, 2023, of $8,500,000 ($8,100,000 as of December 31, 2022). The facility bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly and is secured by a general security agreement and security over accounts receivable and inventory. The facility previously had a maturity date of February 27, 2024. The facility has been renewed to extend the maturity date to June 30, 2025. In conjunction with entering into the EDC Loan (see below), the credit facility with Comerica increased from $8,100,000 to $8,500,000. The average interest rate during the year ended December 31, 2023, for the Bank Loan was 10.23% (December 31, 2022: 6.96%).

The Company had the Term Loan that carried a principal amount of $3,300,000 repayable over three years with the proceeds used for the Company's acquisition of Congruitive as announced on February 1, 2022, and bore interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The Term Loan had a balance of $nil as of December 31, 2023 ($2,262,857 as of December 31, 2022) as it was paid in full with proceeds from the EDC Loan (see below). The average interest rate during the year ended December 31, 2023, for the Term Loan was 9.96% (December 31, 2022: 6.96%).

As of December 31, 2023, the Company was in compliance with its financial covenants.

<u>Export Development Canada</u>

On June 29, 2023, the Company entered into a debt facility with EDC of up to $7,000,000 (the "EDC Loan"). The EDC Loan has a six-year term with interest payable on a monthly basis during the initial 18 months with amortized principal and interest repayments through the remainder of the term. The EDC Loan bears interest of United States prime interest rate plus 5.00% per annum. A portion of the EDC Loan was used to pay the outstanding principal of the Term Loan. The remainder of the EDC Loan will provide additional working capital and support the Company's research and development and related commercialization activities. The EDC Loan principal balance as of December 31, 2023 was $3,000,000. In conjunction with the EDC Loan, the Company incurred legal expenses of $80,000 and other loan fees of $42,500 during the year ended December 31, 2023, which have been recorded against the fair value of the loan and amortized over the life of the loan as finance expense using the effective interest rate method, in accordance with IFRS 9. The average interest rate during the year ended December 31, 2023, for the EDC Loan was 13.50% (December 31, 2022: nil).

*Facilities*

Tantalus maintains four office locations across North America, including:

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

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

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

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

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

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

Upon the acquisition of Congruitive in Q1 2022, Tantalus assumed the lease of their San Jose office of approximately 700 square feet, and which was entered into on October 15, 2020, and expired on October 31, 2023. The expiration of the lease on October 31, 2023, resulted in nil gain or loss and the respective Right-of-Use asset, accumulated amortization, and lease liability were derecognized.

## FINANCIAL POSITION

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

| Assets | | December 31, 2023 | | December 31, 2022 | | Variance |
|---|---|---|---|---|---|---|
| Cash | $ | 5,153,698 | $ | 5,850,914 | $ | (697,216) |
| Restricted cash | | 673,474 | | 673,474 | | - |
| Accounts receivable | | 7,870,573 | | 9,041,735 | | (1,171,162) |
| Investment tax credits receivable | | - | | 2,824 | | (2,824) |
| Inventory | | 6,634,747 | | 5,690,736 | | 944,011 |
| Prepaid expenses and deposits | | 1,465,857 | | 1,534,615 | | (68,758) |
| Total current assets | $ | 21,798,349 | $ | 22,794,298 | $ | (995,949) |
| | | | | | | |
| Property and equipment | | 662,056 | | 801,803 | | (139,747) |
| Intangible assets | | 6,213,239 | | 6,983,140 | | (769,901) |
| Goodwill | | 3,445,149 | | 3,445,149 | | - |
| Right of Use assets | | 2,679,800 | | 3,335,361 | | (655,561) |
| **Total assets** | **$** | **34,798,593** | **$** | **37,359,751** | **$** | **(2,561,158)** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Accounts payable and accrued liabilities | | 13,727,801 | | 12,359,785 | | 1,368,016 |
| Deferred revenue and deposits | | 4,183,862 | | 4,619,450 | | (435,588) |
| Lease liabilities | | 857,273 | | 858,643 | | (1,370) |
| Bank term loan - current portion | | - | | 1,100,000 | | (1,100,000) |
| Bank loan | | 8,500,000 | | 8,100,000 | | 400,000 |
| Contingent consideration on Congruitive acquisition | | - | | 2,458,702 | | (2,458,702) |
| **Total current liabilities** | $ | 27,268,936 | $ | 29,496,580 | $ | (2,227,644) |
| | | | | | | |
| Deferred revenue and deposits | | 202,480 | | 503,994 | | (301,514) |
| Bank term loan - long term portion | | - | | 1,162,857 | | (1,162,857) |
| EDC loan | | 2,885,723 | | - | | 2,885,723 |
| Lease liabilities | | 2,122,732 | | 2,617,621 | | (494,889) |
| **Total liabilities** | **$** | **32,479,871** | **$** | **33,781,052** | **$** | **(1,301,181)** |

## Restricted Cash

Restricted cash of $673,474 pertains to collateral for a letter of credit facility of $2,693,895 from the Bank that is associated with a surety bond secured in conjunction with a contract from a key customer. The Company satisfied its performance obligations pertaining to the surety bond after December 31, 2023, resulting in the release of the surety bond allowing for the termination of the above-referenced letter of credit facility resulting in the restricted cash referenced above being returned to Tantalus.

## Accounts Receivable

The Company had accounts receivable as of December 31, 2023, of $7.9 million compared to $9.0 million as of December 31, 2022. The Company has an agreement with EDC whereby EDC agreed to provide 90% insurance coverage for the Company’s invoiced sales up to a maximum of $3.0 million with certain customers excluded from this coverage.

## Inventory

The Company had inventory as of December 31, 2023, of $6.6 million compared to $5.7 million as of December 31, 2022, which increased due to the fulfilment of outstanding and anticipated customer orders in addition to the commercialization of the Company’s new TRUSense Gateway product.

### Accounts Payable and Accrued Liabilities

The Company had accounts payable and accrued liabilities as of December 31, 2023, of $13.7 million compared to $12.4 million as of December 31, 2022, which increased due to the timing of revenue and related cost of sales experienced and increased inventory investment during the three months ended December 31, 2023.

## OTHER ITEMS

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than as disclosed in the Company's consolidated financial statements as of December 31, 2023, inclusive of Note 14 Lease Liabilities and Note 19 Commitments and Contingencies.

### Transactions with Related Parties

Related parties are comprised of the Company's key management. The remuneration of key management of the Company for the three and twelve months ended December 31, 2023, and December 31, 2022, are as follows:

| | Three months ended December 31, 2023 | Three months ended December 31, 2022 | Twelve months ended December 31, 2023 | Twelve months ended December 31, 2022 |
|---|---|---|---|---|
| Short-term compensation | $ 316,839 | $ 300,429 | $ 1,553,845 | $ 1,610,758 |
| Share-based payments | 43,363 | 87,157 | 179,640 | 358,752 |
| | $ 360,202 | $ 387,586 | $ 1,733,485 | $ 1,969,510 |

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each approximates the carrying value due to their short-term nature.

| | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Cash | $ 5,153,698 | $ 5,153,698 | $ 5,850,914 | $ 5,850,914 |
| Restricted cash | $ 673,474 | $ 673,474 | $ 673,474 | $ 673,474 |
| Accounts receivable | $ 7,870,573 | $ 7,870,573 | $ 9,041,735 | $ 9,041,735 |
| Investment tax credits receivable | $ - | $ - | $ 2,824 | $ 2,824 |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 13,727,801 | $ 13,727,801 | $ 12,359,785 | $ 12,359,785 |
| Bank loans | $ 8,500,000 | $ 8,500,000 | 10,362,857 | 10,362,857 |
| EDC loan | $ 2,885,723 | $ 2,885,723 | $ - | $ - |

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

### Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash trade receivables and investment tax credits receivable. With respect to trade and other receivables, the Company engages EDC to perform ongoing credit evaluations of the Company's customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

**Liquidity Risk**

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

**Going Concern**

The consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. As of December 31, 2023, the Company's current liabilities exceed its current assets by $5,383,899, During the twelve months ended December 31, 2023, the Company incurred a comprehensive loss of $1,683,198 and used cash flows for operating activities of $839,724. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of these consolidated financial statements, management has forecasted its cash flow requirements, considering the Company's current liabilities exceed its current assets and cash balance as of December 31, 2023, and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 2023. Historically, the Company has been dependent on the annual renewal of its Bank loan (see Bank Loan) and has a history of successive annual renewals. Subsequent to December 31, 2023, the Bank loan has been renewed on similar terms until June 30, 2025. On June 29, 2023, the Company entered into the EDC Loan of up to $7,000,000 which has a principal balance outstanding of $3,000,000 as of December 31, 2023, with access to an additional $4,000,000 up to December 29, 2024, providing access to additional capital.

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

**Foreign Currency Risk**

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition, and results of operations. The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as of December 31, 2023, and December 31, 2022. With all other variables remaining constant, a 10% change of the Canadian dollar versus the U.S. dollar would have had a $104,830 impact on net loss as of December 31, 2023, and $56,758 as of December 31, 2022.

**Interest Rate Risk**

All of the Company's financial assets are non-interest bearing except for cash which generates interest at market rates. The credit facilities bear interest at a floating rate based on the bank’s prime rate and had a balance of $8,500,000 as of December 31, 2023, and $8,100,000 as at December 31, 2022. A potential percentage change in the bank’s prime rate of 1.00% will have an impact of $85,000 as of December 31, 2023, and $81,000 as of December 31, 2022, on the Company’s annual interest expense pertaining its line of credit facility.

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

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

## DISCLOSURE OF OUTSTANDING SHARE DATA

As December 31, 2023, and at the date of this report, the following securities were outstanding:

| | **December 31, 2023** | **March 26, 2024** |
|---|---|---|
| Shares | 44,595,942 | 44,595,942 |
| Stock options | 7,767,370 | 7,531,161 |
| Restricted stock units | 211,018 | 211,018 |
| Warrants | - | - |

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### Revenue Recognition

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

1. The Connected Devices and Infrastructure Segment. This segment is responsible for the sale of the Company's proprietary edge computing modules that are integrated into multiple devices deployed across a utility's distribution grid including meters, sensors, street lighting fixtures and distribution automation equipment. Revenue generated from this segment also includes the sale of the Company's proprietary multi-relay load control switches and a suite of communications infrastructure devices that are deployed to deliver an industrial network-of-things / Internet-of-Things smart grid including base stations, repeaters and collectors; and

2. The Utility Software Applications and Services Segment. This segment is responsible for the sale of the Company's proprietary mission-critical software applications and a suite or professional services to support utilities. Revenue is generated from this segment through the sale of software licenses, hosting services, SaaS, professional services (including project management, deployment, installation and engineering support), and post-contract technical support and annual software maintenance services ("PCS").

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

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

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

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

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;

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

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

**Disclosure of Accounting Policies**

*New and Amended Standards*

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

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

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

This amendment has not had a significant impact on the Company’s consolidated financial statements.

*Definition of Accounting Estimates (Amendments to IAS 8)*

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Company’s consolidated financial statements.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

The amendments to IAS 12 narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Company’s consolidated financial statements.

**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.

*Amendments to IAS 1, Presentation of Financial Statements*

The amendments provide clarification on the conditions with which an entity must comply within 12 months after the reporting period affecting the classification of a liability as current or non-current. The extent of the impact of adoption of this amendment has not yet been determined.

*Classification of Debt with Covenants as Current or Non-Current (Amendments to IAS 1)*

The IASB has published Non-Current Liabilities with Covenants (Amendments to IAS 1) which clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments:

- specify that if the right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting period, then those conditions would not affect whether the right to defer settlement exists at the end of the reporting period for purposes of classifying a liability as current or non-current;
- clarify that for non-current liabilities subject to conditions, an entity is required to disclose information about the conditions, whether the entity would comply at the reporting date, and whether the entity expects to comply with the conditions by the date they are contractually required to be tested; and
- require that an entity present separately in its statement of financial position 'non-current liabilities subject to conditions in the next twelve months'.

This amendment is effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted and amendments are applied retroactively in accordance with IAS 8. The extent of the impact of adoption of this amendment has not yet been determined.

## INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, an evaluation of the effectiveness of the Company’s DC&P as of December 31, 2023, was carried out. The evaluation was carried out under the supervision of, and with the participation of, the CEO and CFO. Based on this evaluation, the CEO and CFO concluded that the Company’s DC&P were effective as of December 31, 2023.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, an evaluation of the effectiveness of the Company’s ICFR as of December 31, 2023, was carried out. The evaluation was carried out within the criteria set forth by the COSO Framework and under the supervision of, and with the participation of, the CEO and the CFO. Based on this evaluation, the CEO and CFO concluded that the Company’s ICFR were effective as of December 31, 2023.

There were no changes in the Company’s ICFR during the quarter ended December 31, 2023, that has materially affected, or is reasonably likely to materially affect, the Company’s ICFR.

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

## OTHER INFORMATION

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