Tantalus
Transforming Utilities and Communities.

# TANTALUS SYSTEMS HOLDING INC.

# 2022 ANNUAL REPORT

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# MESSAGE FROM OUR PRESIDENT & CHIEF EXECUTIVE OFFICER

## Peter Londa

We are pleased to provide our shareholders with the 2022 Annual Report for Tantalus Systems. Our revenue growth and increase in growth profit margin reflects the progress we are making as a company as well as the continuing efforts of our team to deliver value to the utilities that we serve. As utilities seek to prepare for the accelerated adoption of electric vehicles (EVs) while also leveraging data to protect their power transformer fleets, we increased our investment in R&D to accelerate the delivery of our next-generation TRUSense™ Gateway, expand our AI-enabled data analytics capabilities and integrate the engineering team from our acquisition of Congruitive into our broader product development group. WE believe that these investments in R&D set Tantalus up to be well-positioned to deliver shareholder value given the strong tailwinds across the utility industry. While we remain mindful of the uncertain economic climate, we enter 2023 with sufficient flexibility and visibility to maintain our growth trajectory.

Please review our attached Management's Discussion and Analysis of Financial Condition and Results of Operation as well as our audited consolidated financial statements and notes thereto as at December 31, 2022 and 2021 for more information and details about our performance in 2022.

Yours sincerely,

*Peter Londa*

Peter Londa
President and Chief Executive Officer
March 31, 2023



**TANTALUS SYSTEMS HOLDING INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**of Financial Condition and Results of Operations**

***For the three and twelve months ended December 31, 2022***

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of Tantalus Systems Holding Inc. (together with its subsidiaries and predecessors, the "**Company**", "**we**" or "**Tantalus**") is provided to assist our readers in assessing our financial condition and our financial performance, including our liquidity and capital resources, as at and for the three and twelve months ended December 31, 2022 compared with the three and twelve months ended December 31, 2021. The information in this MD&A is current as of March 14, 2023, and should be read in conjunction with the audited consolidated financial statements as at December 31, 2022 and 2021 included with Tantalus' continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com.

The Company's audited consolidated financial statements and notes thereto as at December 31, 2022 and 2021 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 0.7366 and 0.7685 for the three and twelve months ended December 31, 2022 for income statement items and a foreign exchange rate of 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, 2022 – 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, 2022 – 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, 2022 – 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. 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 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 customer agreements at a point in time.

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

## NOTE REGARDING FORWARD-LOOKING INFORMATION

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

In connection with the forward-looking information contained in this MD&A, we have made numerous assumptions, regarding, among other things: our ability to capitalize on growth opportunities and implement our growth strategy; our ability to retain key personnel; our ability to maintain existing customer relationships and to continue to expand our customers' use of our products solutions; our ability to acquire new customers; our ability to enhance our offerings to remain at the forefront of our industry; the impact of competition; the successful integration of Congruitive and future acquisitions; the absence of material adverse changes in our business, our industry or the global economy; and that the risks and uncertainties described under the "Risk Factors" section of Tantalus' Annual Information Form dated March 23, 2022 and our Annual Information Form to be filed on or prior to March 31, 2023 will not materialize. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant uncertainties and contingencies.

Additionally, there are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained herein. Known risk factors include, but are not limited to, the factors described in the "Risk Factors" section of Tantalus' Annual Information Form dated March 23, 2022 and the Annual Information Form to be filed on or prior to March 31, 2023.

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

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

## DESCRIPTION OF BUSINESS

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

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

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

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

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

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

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

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

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

**2022 HIGHLIGHTS**

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

*Annual Recurring Revenue:* Through the end of 2022, ARR grew to approximately $9.8 million (CND$12.8 million), up from approximately $7.2 million (CND$9.4 million) at the end of 2021. The growth in ARR is tied to additional conversions of new utilities from the sales pipeline, ongoing efforts to secure licenses to the Company's first data analytics offering (SaaS model) and the acquisition of Congruitive in January 2022. Since 2016, the compounded annual growth rate of the Company's ARR is approximately 18%.

*Expansion of our User Community:* Tantalus continued to demonstrate its ability to convert utilities from its sales pipeline by adding 18 new utilities in 2022. The Company's total user community exceeds 270 customers.

*Order Conversions from Sales Pipeline:* Tantalus converted $42 million (CND$54.7 million) in orders from its sales pipeline throughout 2022, representing 12% growth year-over-year and the highest level of conversions from the pipeline within a calendar year.

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

*TRUSense 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 and integrating distributed resources, such as EV chargers, roof-top solar inverters and power walls. The Company completed alpha-version testing with eight utilities and will be working through UL certification efforts during the first half of 2023. The initiative has more than doubled the qualified sales pipeline of the Company and is expected to expand the Company's addressable market by over $1 billion.

*Publications:* Tantalus issued its inaugural Environment, Social and Governance report during 2022 outlining goals and targets through 2030. The Company also issued an article featured in RE Magazine outlining the utility of the future.

*Partnerships:* During 2022, the Company partnered with Kansas Municipal Energy Agency to offer purpose-built smart-grid solutions to its more than 80 member utilities throughout Kansas. Tantalus also partnered with Energy Toolbase, which provides a suite of project modeling, energy storage control and asset monitoring products for solar and storage microgrid deployments, to deploy a microgrid that includes solar panels and battery storage to provide resiliency to the headquarters of a major construction company in Riverdale, California.

*Acquisition of Congruitive:* On January 31, 2022, the Company completed its acquisition of DLC Systems, Inc. d/b/a Congruitive ("Congruitive"). Congruitive's signature software solution, Congruence.IQ™ ("C.IQ™"), is a software platform that enables the interoperability of a wide range of devices through an emerging Institute of Electrical and Electronics Engineers standard. By deploying C.IQ, a utility's smart grid deployment can operate as one intelligent, interoperable system, with the necessary scalability and flexibility to integrate data from EVs and DERs that are deployed at the edge of the grid. Congruitive markets its C.IQ software to investor-owned utilities, partners that are deploying DERs and EVs, and renewable power integrators. The addition of Congruitive enhances the Company's position at the forefront of helping utilities modernize their grids to prepare for the impact that EVs and DERs will have on the resiliency and reliability of distribution grids. The Company retained 9 employees from Congruitive, including its Founder, Douglass Campbell, who now serves as Tantalus' Chief Solution Officer and Tom Allen, who now serves as Tantalus' Vice President, Product Development. In conjunction with the acquisition, Tantalus' user community grew by approximately 40 utilities, most of which are investor-owned utilities.

*Financial Summary for the Three and Twelve Months Ended December 31, 2022*:

<u>Revenue</u>: During the three and twelve months ended December 31, 2022, the Company generated revenue of $12.2 million (CND$16.6 million) and $39.6 million (CND$51.5 million) which increased by 60% and

23% from $7.6 million (CND$10.3 million) and $32.2 million (CND$41.9 million) in the same periods in 2021, respectively. Revenue generated during the fourth quarter represented the highest revenue generated in a quarter across the Company's history.

Gross Profit: Gross Profit Margin increased to 45% and 48% during the three and twelve months ended December 31, 2022, versus 44% and 45% during the same period in 2021.

Adjusted EBITDA: Adjusted EBITDA for the three months ended December 31, 2022, increased to $0.1 million (CND$0.1 million) compared to ($1.2 million) (negative CND$1.6 million) for the prior year quarter. Adjusted EBITDA for the year ended December 31, 2022, was ($2.4 million) (negative CND$3.1 million) compared to ($1.7 million) (negative CND$2.2 million) for the period year (see reconciliation of net loss / income to Adjusted EBITDA). The Adjusted EBITDA experienced during 2022 is attributable to the investments in research and development ("R&D") to bring the TRUSense Gateway to market, the acquisition and ongoing investment in Congruitive, and higher costs impacted by inflationary pressures. The Company approached neutral Adjusted EBITDA during the second half of 2022.

## SELECTED FINANCIAL INFORMATION

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

| | | **Twelve months ended December 31, 2022** | | **Twelve months ended December 31, 2021** | | **Twelve months ended December 31, 2020** |
|---|---|---|---|---|---|---|
| Revenue | $ | 39,603,023 | $ | 32,171,771 | $ | 33,049,419 |
| Cost of sales | | 20,706,736 | | 17,819,570 | | 16,924,441 |
| Gross Profit | | 18,896,287 | | 14,352,201 | | 16,124,978 |
| Expenses | | 24,585,989 | | 20,594,496 | | 16,990,309 |
| Operating (loss) | | (5,689,702) | | (6,242,295) | | (865,331) |
| Other (expenses) earnings | | (387,311) | | (737,141) | | 2,357,421 |
| (Loss) income before income taxes | | (6,077,013) | | (6,979,436) | | 1,492,090 |
| Income tax (recovery) expense | | (881,597) | | 40,717 | | 7,243 |
| (Loss) income for the period | | (5,195,416) | | (7,020,153) | | 1,484,847 |
| (Loss) earnings per share (basic and diluted) | | (0.12) | | (0.17) | | 0.04 |
| Adjusted EBITDA | $ | (2,430,563) | $ | (1,731,819) | $ | 2,630,239 |

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

| | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 | | Twelve months ended December 31, 2020 |
|---|---|---|---|---|---|---|
| Loss for the period | $ | (5,195,416) | $ | (7,020,153) | $ | 1,484,847 |
| Finance expense (a) | | 1,070,085 | | 628,200 | | 708,206 |
| Income taxes | | (881,597) | | 40,717 | | 7,243 |
| Depreciation and amortization | | 1,898,701 | | 1,545,737 | | 1,714,504 |
| EBITDA | | (3,108,227) | | (4,805,499) | | 3,914,800 |
| Stock-based compensation (b) | | 773,478 | | 462,080 | | 302,762 |
| Foreign exchange (c) | | (682,774) | | 108,941 | | 190,282 |
| Other Income (d) | | - | | - | | (3,255,909) |
| Congruitive acquisition related costs (e) | | 586,960 | | 350,000 | | - |
| Energate arbitration related costs (f) | | - | | - | | 296,455 |
| RiseTech reverse acquisition listing expense (g) | | - | | 1,188,175 | | - |
| Reverse acquisition legal, professional and related costs (h) | | - | | 964,484 | | 1,181,849 |
| Adjusted EBITDA | $ | (2,430,563) | $ | (1,731,819) | $ | 2,630,239 |

(a) Finance expense comprised of interest and related finance expense on bank loan and lease liabilities.
(b) Stock-based non-cash compensation expense.
(c) Foreign exchange comprised of unrealized (gain) / loss from non-functional currency assets and liabilities.
(d) Other income comprised of the gain on Energate acquisition arbitration share cancellation and government assistance benefit received pertaining to the COVID-19 Pandemic.
(e) General and administrative expenses pertaining to the Company's acquisition of Congruitive on January 31, 2022.
(f) General and administrative expenses pertaining to Energate arbitration.
(g) Reverse acquisition listing expense comprised of excess purchase price over RiseTech net assets acquired.
(h) Reverse acquisition costs comprised of legal and professional fees.

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

| | | December 31, 2022 | December 31, 2021 | | December 31, 2020 |
|---|---|---|---|---|---|
| Cash | $ | 5,850,914 | 14,203,794 | $ | 4,647,713 |
| Adjusted Working Capital | $ | 4,956,420 | 13,574,656 | $ | 3,538,274 |
| Total assets | $ | 37,359,751 | 31,025,747 | $ | 23,525,534 |
| Shareholders' earnings (deficit) | $ | 3,578,699 | 6,790,603 | $ | (2,311,106) |

| **Adjusted Working Capital** | | December 31, 2022 | | December 31, 2021 | | December 31, 2020 |
|---|---|---|---|---|---|---|
| Total current assets | $ | 22,794,298 | $ | 26,427,657 | $ | 20,718,266 |
| Less: current liabilities | | (27,037,878) | | (20,953,001) | | (25,255,042) |
| | | (4,243,580) | | 5,474,656 | | (4,536,776) |
| Add: Bank loans - current portion | | 9,200,000 | | 8,100,000 | | 8,075,050 |
| Adjusted Working Capital | $ | 4,956,420 | $ | 13,574,656 | $ | 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, 2022 | Three months ended September 30, 2022 | Three months ended June 30, 2022 | Three months ended March 31, 2022 | Three months ended December 31, 2021 | Three months ended September 30, 2021 | Three months ended June 30, 2021 | Three months ended March 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 12,164,972 | $ 9,071,109 | $ 9,075,464 | $ 9,291,478 | $ 7,610,356 | $ 8,536,822 | $ 8,013,262 | $ 8,011,331 |
| Cost of sales | 6,640,844 | 4,283,858 | 4,911,669 | 4,870,365 | 4,256,855 | 4,932,219 | 4,221,177 | 4,409,319 |
| Gross Profit | 5,524,128 | 4,787,251 | 4,163,795 | 4,421,113 | 3,353,501 | 3,604,603 | 3,792,085 | 3,602,012 |
| Expenses | 5,909,095 | 5,905,550 | 6,412,784 | 6,358,560 | 5,322,418 | 4,706,067 | 4,235,964 | 6,330,047 |
| Operating loss | (384,967) | (1,118,299) | (2,248,989) | (1,937,447) | (1,968,917) | (1,101,464) | (443,879) | (2,728,035) |
| Other (expenses) earnings | (368,403) | (36,298) | (130,674) | 148,064 | (155,122) | (238,275) | (163,347) | (180,397) |
| Loss income before income taxes | (753,370) | (1,154,597) | (2,379,663) | (1,789,383) | (2,124,039) | (1,339,739) | (607,226) | (2,908,432) |
| Income tax (recovery) expense | (912,580) | - | 30,983 | - | 40,717 | - | - | - |
| Loss income for the period | 159,210 | (1,154,597) | (2,410,646) | (1,789,383) | (2,164,756) | (1,339,739) | (607,226) | (2,908,432) |
| Earnings (loss) per share (basic and diluted) | 0.00 | (0.03) | (0.05) | (0.04) | (0.05) | (0.03) | (0.02) | (0.08) |
| Adjusted EBITDA | $ 103,646 | $ (384,123) | $ (1,495,824) | $ (654,262) | $ (1,272,109) | $ (580,535) | $ 65,475 | $ 55,350 |

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

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

| | Three months ended December 31, 2022 | Three months ended September 30, 2022 | Three months ended June 30, 2022 | Three months ended March 31, 2022 | Three months ended December 31, 2021 | Three months ended September 30, 2021 | Three months ended June 30, 2021 | Three months ended March 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Loss income for the period | $ 159,210 | $ (1,154,597) | $ (2,410,646) | $ (1,789,383) | $ (2,164,756) | $ (1,339,739) | $ (607,226) | $ (2,908,432) |
| Finance expense (a) | 297,713 | 283,137 | 252,249 | 236,986 | 145,383 | 142,999 | 173,489 | 166,329 |
| Income taxes | (912,580) | - | 30,983 | - | 40,717 | - | - | - |
| Depreciation and amortization | 318,945 | 535,362 | 551,225 | 493,169 | 282,658 | 381,475 | 446,647 | 434,957 |
| EBITDA | (136,712) | (336,098) | (1,576,189) | (1,059,228) | (1,695,998) | (815,265) | 12,910 | (2,307,146) |
| Stock-based compensation (b) | 169,668 | 198,814 | 201,940 | 203,056 | 139,150 | 64,454 | 62,707 | 195,769 |
| Foreign exchange (c) | 70,690 | (246,839) | (121,575) | (385,050) | 9,739 | 95,276 | (10,142) | 14,068 |
| Congruitive acquisition related costs (d) | - | - | - | 586,960 | 275,000 | 75,000 | - | - |
| RiseTech reverse acquisition listing expense (e) | - | - | - | - | - | - | - | 1,188,175 |
| Reverse acquisition legal, professional and related costs (f) | - | - | - | - | - | - | - | 964,484 |
| Adjusted EBITDA | $ 103,646 | $ (384,123) | $ (1,495,824) | $ (654,262) | $ (1,272,109) | $ (580,535) | $ 65,475 | $ 55,350 |

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

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

| | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Cash | $ 5,850,914 | 5,739,561 | $ 9,808,998 | $ 12,024,774 | $ 14,203,794 | $ 14,627,772 | $ 10,682,722 | $ 12,174,985 |
| Adjusted Working Capital | $ 4,956,420 | 4,223,455 | $ 6,590,368 | $ 8,963,488 | $ 13,574,656 | $ 15,562,545 | $ 9,094,278 | $ 9,054,673 |
| Total assets | $ 37,359,751 | 34,216,532 | $ 37,771,907 | $ 40,001,158 | $ 31,025,747 | $ 32,865,703 | $ 29,925,425 | $ 27,193,349 |
| Shareholders' earnings (deficit) | $ 3,578,699 | 3,249,088 | $ 4,198,813 | $ 6,409,380 | $ 6,790,603 | $ 8,812,085 | $ 2,444,361 | $ 2,988,077 |

| **Adjusted Working Capital** | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 | March 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Total current assets | $ 22,794,298 | $ 19,925,342 | $ 23,131,694 | $ 25,494,272 | $ 26,427,657 | $ 28,051,808 | $ 24,823,425 | $ 24,669,875 |
| Less: current liabilities | (27,037,878) | (23,821,887) | (25,741,326) | (25,730,784) | (20,953,001) | (20,589,263) | (23,829,147) | (23,697,602) |
| | (4,243,580) | (3,896,545) | (2,609,632) | (236,512) | 5,474,656 | 7,462,545 | 994,278 | 972,273 |
| Add: Bank loans - current portion | 9,200,000 | 8,120,000 | 9,200,000 | 9,200,000 | 8,100,000 | 8,100,000 | 8,100,000 | 8,082,400 |
| Adjusted Working Capital | $ 4,956,420 | $ 4,223,455 | $ 6,590,368 | $ 8,963,488 | $ 13,574,656 | $ 15,562,545 | $ 9,094,278 | $ 9,054,673 |

## FINANCIAL RESULTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2022

### Revenue

| *Revenue by Source* | | Three months ended December 31, 2022 | % | | Three months ended December 31, 2021 | % | | Twelve months ended December 31, 2022 | % | | Twelve months ended December 31, 2021 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Connected Devices and Infrastructure | $ | 8,394,790 | 69% | $ | 4,849,091 | 64% | $ | 26,518,626 | 67% | $ | 21,665,994 | 67% |
| Utility Software Applications and Services | | 3,770,182 | 31% | | 2,761,265 | 36% | | 13,084,397 | 33% | | 10,505,777 | 33% |
| **Total revenue** | $ | 12,164,972 | 100% | $ | 7,610,356 | 100% | $ | 39,603,023 | 100% | $ | 32,171,771 | 100% |

Revenue increased by 60% and by 23% for the three and twelve months ended December 31, 2022, respectively, over the prior year periods due to higher sales associated with the fulfillment of customer orders and additional production capacity from Tantalus' contract manufacturer and metering partners. Congruitive contributed revenue of $0.6 million and $1.6 million (CND$0.8 million and CND$2.1 million) for the three and twelve months ended December 31, 2022.

Revenue from the Company's Connected Devices and Infrastructure products increased by 73% and 22% for the three and twelve months ended December 31, 2022, respectively, over the prior year periods.

Revenue from the Company's Utility Software Applications and Services increased by 37% and 25% for the three and twelve months ended December 31, 2022, respectively, over the prior year periods as deployments of the Company's Connected Devices continue to expand, driving incremental software and services revenue opportunities. The increase in revenue from Utility Software Applications and Services is due to the Company's investments in R&D and acceleration of strategic initiatives to expand recurring revenue from its software and data analytics solutions and the revenue contribution from the Company's acquisition of Congruitive during 2022.

| *Revenue by Type* | | Three months ended December 31, 2022 | % | | Three months ended December 31, 2021 | % | | Twelve months ended December 31, 2022 | % | | Twelve months ended December 31, 2021 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Recurring Revenue | $ | 2,196,508 | 58% | $ | 1,700,590 | 62% | $ | 8,659,242 | 66% | $ | 6,803,163 | 65% |
| Other software and services revenue | | 1,573,674 | 42% | | 1,060,675 | 38% | | 4,425,155 | 34% | | 3,702,614 | 35% |
| **Total Utility Software and Services revenue** | $ | 3,770,182 | 100% | $ | 2,761,265 | 100% | $ | 13,084,397 | 100% | $ | 10,505,777 | 100% |

As a subset of the revenue contributions from the Utility Software and Services segment, the Company's Recurring Revenue comprised 58% and 66% of total Utility Software and Services revenue during the three and twelve months ended December 31, 2022.

| *Revenue by Type* | | Three months ended December 31, 2022 | % | | Three months ended December 31, 2021 | % | | Twelve months ended December 31, 2022 | % | | Twelve months ended December 31, 2021 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Recurring Revenue | $ | 2,196,508 | 18% | $ | 1,700,590 | 22% | $ | 8,659,242 | 22% | $ | 6,803,163 | 21% |
| Other revenue | | 9,968,464 | 82% | | 5,909,766 | 78% | | 30,943,781 | 78% | | 25,368,608 | 79% |
| **Total revenue** | $ | 12,164,972 | 100% | $ | 7,610,356 | 100% | $ | 39,603,023 | 100% | $ | 32,171,771 | 100% |

Recurring Revenue was $2.2 million and $8.7 million (CND$3.0 million and CND$11.3 million) which comprised 18% and 22% of total revenue generated during the three and twelve months ended December 31, 2022, respectively, which increased over the prior year periods due to expanding our user community, deploying additional devices and integrating the acquisition of Congruitive. As at December 31, 2022, the Company's ARR increased to approximately $9.8 million (CND$12.8 million) from approximately $7.2 million (CND$9.4 million) as at December 31, 2021 due to additional conversions of new utilities from the sales pipeline, ongoing efforts to secure licenses to the Company's first data analytics offering (SaaS model) and the acquisition of Congruitive.

No single customer represented more than 10% of total revenues for the three and twelve months ended December 31, 2022 and 2021.

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

| | | Three months ended December 31, 2022 | % | | Three months ended December 31, 2021 | % | | Twelve months ended December 31, 2022 | % | | Twelve months ended December 31, 2021 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States (1) | $ | 12,008,109 | 99% | $ | 7,460,358 | 98% | $ | 39,215,685 | 99% | $ | 31,740,808 | 99% |
| Canada | | 101,758 | 1% | | 123,565 | <1% | | 284,723 | 1% | | 345,074 | 1% |
| Other | | 55,105 | <1% | | 26,433 | <1% | | 102,615 | <1% | | 85,889 | <1% |
| | $ | 12,164,972 | 100% | $ | 7,610,356 | 100% | $ | 39,603,023 | 100% | $ | 32,171,771 | 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, 2022 is as follows:

| 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% | |

| Three months ended December 31, 2021 | | Connected Devices and Infrastructure | % | | Utility Software Applications and Services | % | | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 4,849,091 | 100% | $ | 2,761,265 | 100% | $ | 7,610,356 | 100% |
| Cost of sales | | 3,407,780 | 70% | | 849,075 | 31% | | 4,256,855 | 56% |
| **Gross Profit** | $ | 1,441,311 | 30% | $ | 1,912,190 | 69% | $ | 3,353,501 | 44% |
| Percentage of total Gross Profit | | 43% | | | 57% | | | 100% | |

Gross Profit Margin increased to 45% during the three months ended December 31, 2022, compared to 44% during the prior year. The increase in Gross Profit Margin witnessed in 2022 reflects increasing revenue from software and services as well as the prudent cost management across the Company's supply chain, which was impacted by inflationary pressures. To offset inflationary pressures, management implemented price increases in 2022, which were accepted by the Company's customer base of utilities.

The Company's Gross Profit during the twelve months ended December 31, 2022, is as follows:

| 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% | |

| Twelve months ended December 31, 2021 | | Connected Devices and Infrastructure | % | | Utility Software Applications and Services | % | | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 21,665,994 | 100% | $ | 10,505,777 | 100% | $ | 32,171,771 | 100% |
| Cost of sales | | 14,830,569 | 68% | | 2,989,001 | 28% | | 17,819,570 | 55% |
| **Gross Profit** | $ | 6,835,425 | 32% | $ | 7,516,776 | 72% | $ | 14,352,201 | 45% |
| Percentage of total Gross Profit | | 48% | | | 52% | | | 100% | |

Gross Profit Margin increased to 48% during the twelve months ended December 31, 2022, as compared to 45% during the prior year. The increase in Gross Profit Margin in 2022 over the prior year reflects proactive management and oversight of the Company's supply chain relative to inflationary pressures and the Company's ability to implement a price increase in 2022.

## Expenses

Tantalus has centralized its sales and marketing functions, its product development and R&D functions, and its corporate management and corporate development functions for purposes of reporting expenses. Tantalus currently develops connected devices, enterprise software applications and data analytics through its employees and contractors. Tantalus relies on third-party contract manufacturers to build and assemble its hardware products.

| | Three months ended December 31, 2022 | % of Revenue | Three months ended December 31, 2021 | % of Revenue | Twelve months ended December 31, 2022 | % of Revenue | Twelve months ended December 31, 2021 | % of Revenue |
|---|---|---|---|---|---|---|---|---|
| Sales and marketing | $ 1,737,388 | 14% | $ 1,447,475 | 19% | $ 6,810,090 | 17% | $ 5,474,260 | 17% |
| Research and development | 1,718,096 | 14% | 1,280,288 | 17% | 7,571,387 | 19% | 5,429,695 | 17% |
| General and administrative | 2,134,666 | 18% | 2,311,997 | 30% | 8,305,811 | 21% | 8,144,804 | 25% |
| Depreciation and amortization | 318,945 | 3% | 282,658 | 4% | 1,898,701 | 5% | 1,545,737 | 5% |
| **Total expenses** | $ 5,909,095 | 49% | $ 5,322,418 | 70% | $ 24,585,989 | 62% | $ 20,594,496 | 64% |
| **As a percentage of total revenue** | 49% | | 70% | | 62% | | 64% | |

Total expenses include depreciation and amortization, share based compensation expense, expenses attributable to the Company's acquisition of Congruitive during 2022 of $0.6 million and the Company's going public transaction in 2021 of $2.2 million. The increase in expenses between 2021 and 2022 is largely attributable to expenses associated with the TRUSense Gateway offering and the acquisition of Congruitive in January 2022.

Sales and marketing expense consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing and branding, advertising costs and facilities. The increase in sales and marketing expense for the three and twelve months ended December 31, 2022, over the prior year periods is primarily attributable to increased headcount to support long-term growth initiatives, additional travel to visit utility customers for business development and participation at in-person industry trade-shows and events as COVID-19 restrictions subside. As momentum continues to develop across the utility industry, Tantalus anticipates making further investments in sales and marketing to expand its presence and position itself for broader growth in the future.

R&D expenses relate primarily to salaries and related benefit costs as well as materials related to the development of the Company's solutions. R&D expenses increased during the three months ended and the twelve months ended December 31, 2022, as compared to the prior year periods primarily due to the acquisition of Congruitive in January 2022, which predominately included engineering resources, and the ongoing investment being made to design and develop the Company's previously announced TRUSense Gateway. The Company continues to invest in R&D to deliver key initiatives within its solution roadmap and to expand the portfolio of software applications and data analytics tools.

General and administrative expenses include executive and administrative staff, insurance, corporate variable compensation, accounting, legal and consulting fees as well as various general administrative costs. Beyond incurring additional expenses associated with acquisition of Congruitive in January 2022, the Company continues to absorb expenses associated with going public in 2021. General and administrative expense for the twelve months ended December 31, 2022, also includes $586,960 in costs related to the acquisition of Congruitive and stock-based compensation expense of $552,819, whereas the prior year period included $2.2 million of expenses associated with Tantalus' transaction to go public, $275,000 of expenses associated with the Congruitive acquisition, coupled with stock-based compensation expense of $331,596.

| | | Three months ended December 31, 2022 | | Three months ended September 30, 2022 | | Three months ended December 31, 2021 |
|---|---|---|---|---|---|---|
| Total expenses | $ | 5,909,095 | $ | 5,905,550 | $ | 5,322,418 |
| Depreciation and amortization | | (318,945) | | (535,362) | | (282,658) |
| Stock-based compensation | | (169,668) | | (198,814) | | (139,150) |
| | $ | 5,420,482 | $ | 5,171,374 | $ | 4,900,610 |
| **As a percentage of total revenue** | | 45% | | 57% | | 64% |

The Company's total expenses, exclusive of depreciation and amortization and stock-based compensation, was $5.4 million for the three months ended December 31, 2022, as compared to $5.2 million in the three months ended September 30, 2022, and $4.9 million for the three months ended December 31, 2021. The increase in total expenses during the three months ended December 31, 2022, over the prior year period is primarily due to the absorption of the Congruitive employees, the continued development of the TRUSense Gateway and other key R&D initiatives.

| | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|
| Total expenses | $ | 24,585,989 | $ | 20,594,496 |
| Depreciation and amortization | | (1,898,701) | | (1,545,737) |
| Stock-based compensation | | (772,620) | | (455,068) |
| Congruitive acquisition costs | | (586,960) | | (350,000) |
| RiseTech reverse takeover costs and listing fee | | - | | (2,152,659) |
| | $ | 21,327,708 | $ | 16,091,032 |
| **As a percentage of total revenue** | | 54% | | 50% |

The Company's total expenses, exclusive of depreciation and amortization, stock-based compensation, acquisition related costs, listing fees and Congruitive acquisition costs, increased to $21.3 million for the twelve months ended December 31, 2022, as compared to $16.1 million in the prior twelve months ended December 31, 2021. This increase in total expenses is primarily due to the absorption of the employees and related costs of Congruitive, the continued development of the TRUSense Gateway and other strategic R&D initiatives.

## Depreciation and Amortization

| | | Three months ended December 31, 2022 | | Three months ended December 31, 2021 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Depreciation and amortization | $ | 97,999 | $ | 142,338 | $ | 402,560 | $ | 567,438 |
| Amortization of intangible assets | | 55,921 | | 94,680 | | 865,350 | | 596,804 |
| Amortization of right-of-use assets | | 165,025 | | 45,640 | | 630,791 | | 381,495 |
| **Total depreciation and amortization** | $ | 318,945 | $ | 282,658 | $ | 1,898,701 | $ | 1,545,737 |

The Company's depreciation and amortization is attributable to the property and equipment, intangible assets and right-of-use assets pertaining to its facility leases. The increase in depreciation and amortization during the twelve months ended December 31, 2022, over the prior year periods is primarily attributable to the increased amortization of intangible assets, including acquired intangible assets from Congruitive, and right of use assets.

## Other Expenses

| | | Three months ended December 31, 2022 | | Three months ended December 31, 2021 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Foreign exchange gain (loss) | $ | (70,690) | $ | (9,739) | $ | 682,774 | | (108,941) |
| Finance expense | | (297,713) | | (145,383) | | (1,070,085) | | (628,200) |
| **Total other (expenses) earnings** | $ | (368,403) | $ | (155,122) | $ | (387,311) | $ | (737,141) |

Finance expense is comprised of interest expense and fees to Export Development Canada ("EDC") on the Company's bank loan and lease liabilities.

The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated into its U.S. dollar functional currency which accounted for most of the foreign exchange loss reported. The Company experienced a foreign exchange loss of $70,690 and gain of $682,774 during the three and twelve months ended December 31, 2022, which is primarily attributable to the foreign exchange impact on the Company's Canadian dollar denominated cash compared to a foreign exchange loss of $9,739 and $108,941 in the respective prior year periods.

## Total Comprehensive Loss

| | | Three months ended December 31, 2022 | | Three months ended December 31, 2021 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Operating loss | $ | (384,967) | $ | (1,968,917) | $ | (5,689,702) | $ | (6,242,295) |
| Total other (expenses) earnings | | (368,403) | | (155,122) | | (387,311) | | (737,141) |
| Income tax expense | | 912,580 | | (40,717) | | 881,597 | | (40,717) |
| Loss for the period | | 159,210 | | (2,164,756) | | (5,195,416) | | (7,020,153) |
| Foreign currency translation adjustment | | 733 | | 215 | | (557) | | 299 |
| **Total comprehensive loss** | $ | 159,943 | $ | (2,164,541) | $ | (5,195,973) | $ | (7,019,854) |
| **(Loss) per share (basic and fully diluted)** | $ | 0.00 | $ | (0.05) | $ | (0.12) | $ | (0.17) |

## Adjusted EBITDA

| | | Three months ended December 31, 2022 | | Three months ended December 31, 2021 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Income (loss) for the period | $ | 159,210 | $ | (2,164,756) | $ | (5,195,416) | $ | (7,020,153) |
| Finance expense (a) | | 297,713 | | 145,383 | | 1,070,085 | | 628,200 |
| Income taxes | | (912,580) | | 40,717 | | (881,597) | | 40,717 |
| Depreciation and amortization | | 318,945 | | 282,658 | | 1,898,701 | | 1,545,737 |
| EBITDA | | (136,712) | | (1,695,998) | | (3,108,227) | | (4,805,499) |
| Stock-based compensation (b) | | 169,668 | | 139,150 | | 773,478 | | 462,080 |
| Foreign exchange (c) | | 70,690 | | 9,739 | | (682,774) | | 108,941 |
| Congruitive acquisition related costs (d) | | - | | 275,000 | | 586,960 | | 350,000 |
| RiseTech reverse acquisition listing expense (e) | | - | | - | | - | | 1,188,175 |
| Reverse acquisition legal, professional and related costs (e) | | - | | - | | - | | 964,484 |
| Adjusted EBITDA | $ | 103,646 | $ | (1,272,109) | $ | (2,430,563) | $ | (1,731,819) |

(a) Finance expense comprised of interest and related finance expense on bank loans and lease liabilities (see Financial Statements).
(b) Share-based non-cash compensation expense (see Financial Statements).
(c) Foreign exchange comprised of unrealized (gain) / loss from non-functional currency assets and liabilities (see Financial Statements).
(d) General and administrative expenses pertaining to the Company's acquisition of Congruitive completed on January 31, 2022 (see note 4 in the Financial Statements).
(e) Reverse acquisition listing expense comprised of excess purchase price over RiseTech net assets acquired and reverse acquisition costs comprised of legal and professional fees.

During the three months ended December 31, 2022, the Company generated Adjusted EBITDA of $103,646 representing 1% of revenue. For the twelve months ended December 31, 2022, the Company generated Adjusted EBITDA of ($2,430,563) representing negative 6% of revenue. As momentum continues to build across the utility industry, management believes it is in the best interest of the business to make near-term investments in R&D and sales and marketing to expand the capabilities of the Company. Specifically, the Company is investing to build its next-generation TRUSense Gateway, which is anticipated to be a market-leading product enabling utilities to not only digitize the distribution grid, but also provide connectivity, command and control of EV charging stations and DERs deployed behind the meter. The Company is also investing to expand its data analytics SaaS offering capabilities after receiving positive feedback across its user community. The Company will also invest to accelerate the roadmap of Congruitive's offering with specific focus on building the necessary tools to help utilities integrate data from EV charging stations and DERs through the utility's firewall and into mission-critical systems. The Adjusted EBITDA of $103,646 in the fourth quarter of fiscal 2022 over the prior quarter ended September 30, 2022, of ($384,123) reflects the progress being made by the Company towards generating future positive Adjusted EBITDA.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

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

### Cash, Restricted Cash, and Adjusted Working Capital

Cash as at December 31, 2022 increased to $5.9 million from September 30, 2022 of $5.7 million, exclusive of $0.7 million in restricted cash, due primarily to the impact from the change in working capital items, in particular deferred revenue arising from the timing of the Company's ARR customer billing cycle during the fourth quarter and the increase in bank loan to $8,100,000 from September 30, 2022.

To secure a key account win in 2022, the Company entered a contract that required a surety performance insurance bond (referred to as a surety bond). To secure the surety bond, the Company had to allocate $0.7 million of cash to a restricted cash account. While using cash as collateral for a surety bond is uncharacteristic of the Company's approach, it was decided by management to use cash on our balance sheet to secure the necessary surety bond for this strategic account win. The collateral of $0.7 million will be reflected as restricted cash on our statements of financial position through August 8, 2023, unless the surety bond is released prior to this date.

The Company extended the term and related maturity date of its long-standing bank loan from Comerica to February 27, 2024, which it has renewed on a continuous annual basis since 2012. To support the acquisition of Congruitive, the Company also entered a three-year term loan of $3.3 million on January 31, 2022.

The Company had Adjusted Working Capital as follows:

| **Adjusted Working Capital** | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Total current assets | $ | 22,794,298 | $ | 26,427,657 |
| Less: current liabilities | | (27,037,878) | | (20,953,001) |
| | | (4,243,580) | | 5,474,656 |
| Add: Bank loans - current portion | | 9,200,000 | | 8,100,000 |
| Adjusted Working Capital | $ | 4,956,420 | $ | 13,574,656 |

Adjusted Working Capital as of December 31, 2022 decreased from December 31, 2021 primarily due to the Company's investment in the Congruitive acquisition, Adjusted EBITDA, capital expenditures, increased finance expense due to higher interest rates and the repayment of the term loan principal during the twelve months ended December 31, 2022.

### Cash Flows

The Company used total negative cash flow of $8.4 million, inclusive of negative cash flow from operations of $3,399,032, for the twelve months ended December 31, 2022. Investing and financing activities within the twelve months ended December 31, 2022, were primarily due to the acquisition of Congruitive.

| Cash (used in) provided by : | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|
| Operating activities | $ | (3,399,032) | $ | (4,014,211) |
| Investing activities | | (5,862,079) | | (188,139) |
| Financing activities | | 1,074,342 | | 13,747,946 |
| Effect of foreign exchange on cash | | (166,111) | | 10,485 |
| **(Decrease) increase in cash** | **$** | **(8,352,880)** | **$** | **9,556,081** |

*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 in 2022. The following table reflects the estimated use of proceeds for the equity financings completed during 2021 compared with the use of proceeds to December 31, 2022, and estimated future use of proceeds:

| January 2021 Financing (in US$) | | Estimated Use of Proceeds | | Use of Proceeds at at December 31, 2022 | | Estimated Future Use of Proceeds |
|---|---|---|---|---|---|---|
| Expansion of product offerings through research and development | $ | 500,000 | $ | 500,000 | $ | - |
| Development of strategic partnerships and / or acquisition | | 500,000 | | 500,000 | | - |

| August 2021 Financing (in US$) | | Estimated Use of Proceeds | | Use of Proceeds as at December 31, 2022 | | Estimated Future Use of Proceeds |
|---|---|---|---|---|---|---|
| Strategic initiatives related to sales & marketing, research and development and corporate development | $ | 5,300,000 | $ | 4,600,000 | $ | 700,000 |

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

## Staffing Levels

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Customer operations | 23 | 24 |
| Sales and marketing | 22 | 18 |
| Research and development | 59 | 61 |
| General and administration | 18 | 22 |
| **Total** | **122** | **125** |

The decrease in headcount reflects the addition of Congruitive staff members and additional investments in sales and marketing to support future growth of the Company offset by other employee departures during the year ended December 31, 2022.

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

## Commitments

The Company has the following commitments as at December 31, 2022:

| Contractual Obligations | | Total | | Less than 1 year | | 1 - 5 years | | After 5 years |
|---|---|---|---|---|---|---|---|---|
| Accounts Payable and accrued liabilities | $ | 12,359,785 | $ | 12,359,785 | $ | - | $ | - |
| Bank loan[(a)] | | 8,100,000 | | 8,100,000 | | - | | - |
| Term loan[(a)] | | 2,262,857 | | 1,100,000 | | 1,162,857 | | - |
| Lease liabilities[(b)] | | 7,272,254 | | 762,152 | | 5,354,125 | | 1,155,977 |
| **Total Contractual Obligations** | **$** | **29,994,896** | **$** | **22,321,937** | **$** | **6,516,982** | **$** | **1,155,977** |

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

In the ordinary course of business, the Company may enter performance bonds with customers as part of a sales contract. As of December 31, 2022, the Company had one performance bond outstanding of $2,693,895.

In the ordinary course of business, the Company enters purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As at December 31, 2022, the Company had outstanding purchase order commitments of $15,966,669.

*Bank Loan*

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 was previously comprised of two line of credit facilities (expressed in USD and CND currencies and collectively, the “Bank Loan”) with respective maximum borrowing limits of $7,486,000 and CND$750,000 subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. On May 10, 2021, the Company consolidated its Bank Loan from two credit facilities into one line of credit facility in United States dollars up to a maximum of $8,100,000. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at December 31, 2022 of $8,100,000 ($8,100,000 as at December 31, 2021). The facility bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly and is secured by a general security agreement and security over accounts receivable and inventory. The facility previously had a maturity date of February 27, 2023. The facility was renewed to extend the maturity date to February 27, 2024. The term loan carries a principal amount of $3,300,000 repayable over three years with the proceeds used for the Company’s acquisition of Congruitive as announced on February 1, 2022, and bears interest at the Bank’s prime rate plus 2.00% per annum, payable monthly. The term loan had a balance of $2,262,857 as at December 31, 2022 (nil as at December 31, 2021). As of December 31, 2022, the Company was in compliance with its covenants.

*Facilities*

Tantalus maintains five office locations across North America, including:

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

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

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

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

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

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

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

## FINANCIAL POSITION

The Company's financial position as of December 31, 2022, compared to December 31, 2021 is as follows:

| **Assets** | | **December 31, 2022** | | **December 31, 2021** | | **Variance** |
|---|---|---|---|---|---|---|
| Cash | $ | 5,850,914 | $ | 14,203,794 | $ | (8,352,880) |
| Restricted cash | | 673,474 | | - | | 673,474 |
| Accounts receivable | | 9,041,735 | | 5,343,724 | | 3,698,011 |
| Investment tax credits receivable | | 2,824 | | 52,869 | | (50,045) |
| Inventory | | 5,690,736 | | 5,687,407 | | 3,329 |
| Prepaid expenses and deposits | | 1,534,615 | | 1,139,863 | | 394,752 |
| Total current assets | $ | 22,794,298 | $ | 26,427,657 | $ | (3,633,359) |
| | | | | | | |
| Property and equipment | | 801,803 | | 1,019,867 | | (218,064) |
| Intangible assets | | 6,983,140 | | 160,490 | | 6,822,650 |
| Goodwill | | 3,445,149 | | - | | 3,445,149 |
| Right of Use assets | | 3,335,361 | | 3,417,733 | | (82,372) |
| **Total assets** | **$** | **37,359,751** | **$** | **31,025,747** | **$** | **6,334,004** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Accounts payable and accrued liabilities | | 12,359,785 | | 8,974,662 | | 3,385,123 |
| Deferred revenue and deposits | | 4,619,450 | | 3,151,790 | | 1,467,660 |
| Lease liabilities | | 858,643 | | 726,549 | | 132,094 |
| Bank term loan - current portion | | 1,100,000 | | - | | 1,100,000 |
| Bank loan | | 8,100,000 | | 8,100,000 | | - |
| **Total current liabilities** | $ | 27,037,878 | $ | 20,953,001 | $ | 6,084,877 |
| | | | | | | |
| Deferred revenue and deposits | | 503,994 | | - | | 503,994 |
| Contingent consideration on Congruitive acquisition | | 2,458,702 | | - | | 2,458,702 |
| Lease liabilities | | 2,617,621 | | 3,282,143 | | (664,522) |
| **Total liabilities** | **$** | **33,781,052** | **$** | **24,235,144** | **$** | **9,545,908** |

### Restricted Cash

Restricted cash of $673,474 pertains to collateral for a letter of credit facility of $2,693,895 from the Bank that is associated with a surety performance insurance bond secured in conjunction with a contract from a key customer. The surety performance insurance bond expires on August 8, 2023. Using cash as collateral for a surety performance insurance bond is uncharacteristic of the Company's approach but was necessary to secure a strategic account.

### Accounts Receivable

The Company had accounts receivable as of December 31, 2022 of $9.0 million compared to $5.3 million as at December 31, 2021 which is primarily attributable to increased revenue experienced by the Company during the twelve months ended 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 $3,000,000 with certain customers excluded from this coverage.

## OTHER ITEMS

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than as disclosed in the Company's consolidated financial statements as of December 31, 2022, 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, 2022, and December 31, 2021 are as follows:

| | | Three months ended December 31, 2022 | | Three months ended December 31, 2021 | | Twelve months ended December 31, 2022 | | Twelve months ended December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Short-term compensation | $ | 300,429 | $ | 260,017 | $ | 1,610,758 | $ | 1,743,857 |
| Share-based payments | | 87,157 | | 19,913 | | 358,752 | | 101,081 |
| | $ | 387,586 | $ | 279,930 | $ | 1,969,510 | $ | 1,844,938 |

## 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, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying Value | | Fair Value | | Carrying Value | | Fair Value |
| **Financial Assets** | | | | | | | | |
| Cash | $ | 5,850,914 | $ | 5,850,914 | $ | 14,203,794 | $ | 14,203,794 |
| Restricted cash | $ | 673,474 | $ | 673,474 | $ | - | $ | - |
| Accounts receivable | $ | 9,041,735 | $ | 9,041,735 | $ | 5,343,724 | $ | 5,343,724 |
| Investment tax credits receivable | $ | 2,824 | $ | 2,824 | $ | 52,869 | $ | 52,869 |
| **Financial Liabilities** | | | | | | | | |
| Accounts payable and accrued liabilities | $ | 12,359,785 | $ | 12,359,785 | $ | 8,974,662 | $ | 8,974,662 |
| Bank loans | $ | 10,362,857 | $ | 10,362,857 | $ | 8,100,000 | $ | 8,100,000 |

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

### Credit Risk

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

### Liquidity Risk

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

### Going Concern

The 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 twelve months ended December 31, 2022, the Company incurred a comprehensive loss of $5,195,973 and used cash flows for operating activities of $3,399,032. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of these consolidated financial statements, management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at December 31, 2022 and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 2022. The Company has a history of successive annual renewals of its Bank Loan (see "Bank Loan") and the Bank Loan has been renewed until February 27, 2024. In addition to the Company's cash of $5.9 million , exclusive of $0.7 million of restricted cash, as at December 31, 2022, the Company has a base shelf prospectus filed on June 28, 2021 under which it has an ability to offer, issue and sell common shares, preferred shares, debt securities and warrants for up to an aggregate offering price of CND$50,000,000 in one or more transactions during the twenty five month period that this prospectus remains effective (subject to the Company's compliance with the applicable rules of the TSX and securities regulations required to access such base shelf prospectus) net of gross proceeds of CND$10,597,748 raised in August 2021 pursuant to the base shelf prospectus.

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

**Foreign Currency Risk**

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition, and results of operations. The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at December 31, 2022 and December 31, 2021. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a $56,758 impact on net loss as at December 31, 2022 and $413,392 as at December 31, 2021.

**Interest Rate Risk**

All of the Company's financial assets and liabilities are non-interest bearing except for cash which generates interest income at market rates. The credit facilities bear interest at a floating rate based on the bank's prime rate and had a balance of $8,100,000 as at December 31, 2022 and $8,100,000 as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $81,000 as of December 31, 2022, and $81,000 as of December 31, 2021 on the Company's annual interest expense pertaining its line of credit facility.

The term loan bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly, and had a balance of $2,262,857 as of December 31, 2022, and nil as of December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $22,629 for the period ended December 31, 2022, and nil for the year ended December 31, 2021, on the annual interest expense pertaining to its term loan.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As December 31, 2022, and at the date of this report, the following securities were outstanding:

| | December 31, 2022 | March 14, 2023 |
|---|---|---|
| Shares | 44,595,942 | 44,595,942 |
| Stock options | 6,898,077 | 6,864,295 |
| Restricted stock units | - | - |
| Warrants | 407,588 | 282,606 |

Each stock option and warrant is exercisable for one common share of the Company, 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 base its estimates on experience and other assumptions that the Company believes are reasonable under the circumstances and re-evaluates these estimates on an ongoing basis.

### Revenue Recognition

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

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

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

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

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

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

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

The Company determines revenue recognition through the following steps:

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

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

**Business combination**

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at acquisition date fair value. The identifiable assets acquired, and liabilities assumed that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. Acquisition-related costs are recognized in profit or loss as incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year. Any contingent consideration is measured at fair value at the acquisition date. If contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured, and its subsequent settlement is accounted for within equity. Other contingent consideration is re-measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes to the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**Goodwill**

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

**Intangible assets**

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

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

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

**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 adoption of this amendment is not expected to have a material impact.

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

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

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

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of this amendment is not expected to have a material impact.

*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, 2022, 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, 2022.

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, 2022, 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, 2022.

There were no changes in the Company’s ICFR during the quarter ended December 31, 2022, 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.sedar.com.

# TANTALUS SYSTEMS HOLDING INC.

## FINANCIAL STATEMENTS
**For the years ended December 31, 2022 and 2021**

**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 International Financial Reporting Standards as issued by the International Accounting Standards Board and are considered by management to present fairly the financial position and operating results of the Company.

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

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

*“Peter Londa”*
Chief Executive Officer
March 14, 2023

*“George Reznik”*
Chief Financial Officer
March 14, 2023

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tantalus Systems Holding Inc.:

## *Opinion*

We have audited the consolidated financial statements of Tantalus System Holding Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of operations and comprehensive (loss) income for the years then ended
- the consolidated statements of changes in shareholders' 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

## *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the financial statements, which indicates that for the year ended December 31, 2022 the Company incurred a comprehensive loss of $5,195,973 and used cash flows for operating activities of $3,399,032. As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## *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, 2022. 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.

In addition to the matter described in the “Material Uncertainty Related to Going Concern” section of the auditor’s report, we have determined the matters described below to be the key audit matters to be communicated in our auditor’s 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 Company enters into contracts with customers that include promises to deliver a number of products or services. Many of the Company’s products and services are distinct from other performance obligations and are 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 Company’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 Company, and general practices in the Company’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 the acquisition-date fair value of intangible assets related to a business acquisition***

**Description of the matter**

We draw attention to Notes 3(y) and 4 to the financial statements. On January 31, 2022, the Company acquired DLC Systems, Inc. ("Congruitive"). In connection with the transaction, the Company recorded intangible assets with an acquisition date fair value of $7,688,000 of which $6,530,000 related to technology, $830,000 related to customer relations and $328,000 related to intellectual property (trademarks and copyrights) (collectively, the intangible assets).

The Company determined the acquisition-date fair value for the intangible assets using the discounted cash flow method, and significant assumptions included the discount rate.

**Why matter is a key audit matter**

We identified the evaluation of the acquisition-date fair value of the intangible assets as a key audit matter. This matter required significant auditor judgment due to magnitude of and the estimation uncertainty in determining the fair value of the intangible assets. In addition, the involvement of those with specialized skills and knowledge was required in performing and evaluating the results of our audit procedures.

**How the matter was addressed in the audit**

The primary procedures we performed to address this key audit matter included the following:

We evaluated the appropriateness of certain inputs in the cash flow model by comparing to historical results. We considered changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

In addition, we involved valuations professionals with specialized skills and knowledge, who assisted with:

- Evaluating the valuation model used by the Company to calculate the fair value of the intangible assets based on the knowledge of the valuation professional
- Evaluating the discount rate by comparing inputs to a discount rate that was independently developed using publicly available data for comparable entities.

## *Other Information*

Management is responsible for the other information. Other information comprises 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 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 auditor's 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 auditor's 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 as issued by the IASB, 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.

### *Auditor's 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 auditor's 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 audit.

- 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 auditor's 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 auditor's 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 auditor's report is D. Philippa Wilshaw

Vancouver, Canada
March 14, 2023

# TANTALUS SYSTEMS HOLDING INC.

## Consolidated Statements of Financial Position

*(Expressed in United States dollars)*

| | Note | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash | | $ | 5,850,914 | $ | 14,203,794 |
| Restricted cash | 5 | | 673,474 | | - |
| Accounts receivable | 6 | | 9,041,735 | | 5,343,724 |
| Investment tax credits receivable | 7 | | 2,824 | | 52,869 |
| Inventory | 8 | | 5,690,736 | | 5,687,407 |
| Prepaid expenses and other assets | | | 1,534,615 | | 1,139,863 |
| Total current assets | | | 22,794,298 | | 26,427,657 |
| Property and equipment | 9 | | 801,803 | | 1,019,867 |
| Intangible assets | 10 | | 6,983,140 | | 160,490 |
| Goodwill | 4 | | 3,445,149 | | - |
| Right of Use assets | 11 | | 3,335,361 | | 3,417,733 |
| Total assets | | $ | 37,359,751 | $ | 31,025,747 |
| **Liabilities and Shareholders' Equity** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | 12 | $ | 12,359,785 | $ | 8,974,662 |
| Deferred revenue and deposits | | | 4,619,450 | | 3,151,790 |
| Lease liabilities | 14 | | 858,643 | | 726,549 |
| Bank term loan - current portion | 13 | | 1,100,000 | | - |
| Bank working capital loan | 13 | | 8,100,000 | | 8,100,000 |
| Total current liabilities | | | 27,037,878 | | 20,953,001 |
| Deferred revenue and deposits | | | 503,994 | | - |
| Bank term loan - long term portion | 13 | | 1,162,857 | | - |
| Contingent consideration on Congruitive acquisition | 4 | | 2,458,702 | | - |
| Lease liabilities | 14 | | 2,617,621 | | 3,282,143 |
| Total liabilities | | | 33,781,052 | | 24,235,144 |
| Shareholders' equity | | | | | |
| Share capital | 15 | | | | |
| Common shares | | | 88,142,625 | | 86,932,034 |
| Other capital reserves | | | 41,029,122 | | 40,255,644 |
| Accumulated other comprehensive income | | | 1,916,948 | | 1,917,505 |
| Deficit | | | (127,509,996) | | (122,314,580) |
| Total shareholders' equity | | | 3,578,699 | | 6,790,603 |
| Total liabilities and shareholders' equity | | $ | 37,359,751 | $ | 31,025,747 |

*See accompanying notes to consolidated financial statements.*

Approved on behalf of the Board:

*"John McEwen"*
Director

*"Peter Londa"*
Director

# TANTALUS SYSTEMS HOLDING INC.

## Consolidated Statements of Operations and Comprehensive (Loss) Income

*(Expressed in United States dollars)*

| | Note | | Year ended December 31, 2022 | | Year ended December 31, 2021 |
|---|---|---|---|---|---|
| Revenues | ***20*** | $ | 39,603,023 | $ | 32,171,771 |
| Cost of sales | ***8, 15(e), 20*** | | 20,706,736 | | 17,819,570 |
| | | | 18,896,287 | | 14,352,201 |
| **Expenses** | | | | | |
| Sales and marketing | ***15(e), 21*** | | 6,810,090 | | 5,474,260 |
| Research and development | ***7, 15(e), 21*** | | 7,571,387 | | 5,429,695 |
| General and administrative | ***15(e), 21*** | | 8,305,811 | | 8,144,804 |
| Depreciation and amortization | ***9, 10, 11, 21*** | | 1,898,701 | | 1,545,737 |
| | | | 24,585,989 | | 20,594,496 |
| **Operating loss** | | | (5,689,702) | | (6,242,295) |
| **Other (expenses) earnings** | | | | | |
| Foreign exchange gain (loss) | | | 682,774 | | (108,941) |
| Finance expenses | ***16*** | | (1,070,085) | | (628,200) |
| | | | (387,311) | | (737,141) |
| **Loss before income taxes** | | | (6,077,013) | | (6,979,436) |
| Income tax (recovery) expense | ***17*** | | (881,597) | | 40,717 |
| Loss for the period | | | (5,195,416) | | (7,020,153) |
| Foreign currency translation adjustment | | | (557) | | 299 |
| **Total comprehensive loss for the period** | | $ | (5,195,973) | $ | (7,019,854) |
| **Loss per share (basic and diluted)** | ***18*** | $ | (0.12) | $ | (0.17) |
| **Weighted average number of shares outstanding (basic and diluted** | ***18*** | | 44,498,418 | | 40,309,249 |

*See accompanying notes to consolidated financial statements.*

# TANTALUS SYSTEMS HOLDING INC.

## Consolidated Statements of Changes in Shareholders' Equity (Deficit)

*(Expressed in United States dollars)*

| | Common Shares | | | | Other Capital | | Accumulated Other Comprehensive | | | | Total Shareholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number | | Amount | | Reserves | | Income | | Deficit | | Equity (Deficit) |
| **Balance, December 31, 2020** | **33,673,520** | **$** | **71,475,662** | **$** | **39,590,453** | **$** | **1,917,206** | **$** | **(115,294,427)** | **$** | **(2,311,106)** |
| Share-based compensation | - | | - | | 462,080 | | - | | - | | 462,080 |
| Issuance of common shares from financing | 9,128,320 | | 16,282,172 | | - | | - | | - | | 16,282,172 |
| Issuance of common shares from option exercise | 65,069 | | 51,650 | | - | | - | | - | | 51,650 |
| Share issuance costs | - | | (2,203,450) | | 203,111 | | - | | - | | (2,000,339) |
| Shares issued for RiseTech merger | 767,320 | | 1,326,000 | | - | | - | | - | | 1,326,000 |
| Foreign currency translation adjustment | - | | - | | - | | 299 | | - | | 299 |
| Loss for the period | - | | - | | - | | - | | (7,020,153) | | (7,020,153) |
| **Balance, December 31, 2021** | **43,634,229** | **$** | **86,932,034** | **$** | **40,255,644** | **$** | **1,917,505** | **$** | **(122,314,580)** | **$** | **6,790,603** |
| Share-based compensation | - | | - | | 773,478 | | - | | - | | 773,478 |
| Issuance of common shares from option exercise | 18,074 | | 14,125 | | - | | - | | - | | 14,125 |
| Issuance of common shares from RSU exercise | 74,074 | | - | | - | | - | | - | | - |
| Issuance of common shares in Congruitive acquisition | 869,565 | | 1,196,466 | | - | | - | | - | | 1,196,466 |
| Foreign currency translation adjustment | - | | - | | - | | (557) | | - | | (557) |
| Loss for the period | - | | - | | - | | - | | (5,195,416) | | (5,195,416) |
| **Balance, December 31, 2022** | **44,595,942** | **$** | **88,142,625** | **$** | **41,029,122** | **$** | **1,916,948** | **$** | **(127,509,996)** | **$** | **3,578,699** |

*See accompanying notes to consolidated financial statements.*

# TANTALUS SYSTEMS HOLDING INC.

**Consolidated Statements of Cash Flows**

*(Expressed in United States dollars)*

| | Note | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|---|
| **Cash (used in) provided by** | | | |
| Operating Activities | | | |
| Loss for the period | | $ (5,195,416) | $ (7,020,153) |
| Items Not Affecting Cash: | | | |
| Unrealized foreign exchange (gain) / loss | | (414,197) | 44,658 |
| Depreciation of equipment | *9* | 402,560 | 567,438 |
| Amortization of intangible assets | *10* | 865,350 | 596,804 |
| Amortization of right-of-use asset | *11* | 630,791 | 381,495 |
| Share-Based compensation | *15(e)* | 773,478 | 462,080 |
| RiseTech reverse acquisition listing expense | | - | 1,188,175 |
| Finance expenses | *16* | 946,106 | 530,350 |
| Changes in Non-Cash Operating Working Capital | | | |
| Accounts Receivable | *6* | (3,032,880) | 3,552,599 |
| Investment tax credits receivable | *7* | 50,045 | 1,154,999 |
| Inventories | *8* | 4,381 | (1,096,308) |
| Prepaid expenses and other assets | | (365,679) | 680,919 |
| Accounts payable and accrued liabilities | *12* | 1,500,206 | (3,419,199) |
| Deferred revenue and deposits | | 1,382,329 | (1,107,718) |
| Lease payments for interest | *14* | (238,042) | (83,964) |
| Interest paid on bank loans | *13* | (708,064) | (446,386) |
| Net Cash used in Operating Activities | | (3,399,032) | (4,014,211) |
| Investing Activities | | | |
| Purchase of equipment | *9* | (176,548) | (147,590) |
| Purchase of intangible assets | *10* | - | (382,621) |
| Purchase of Congruitive, net of cash acquired | *4* | (5,685,531) | - |
| Net cash acquired from RiseTech reverse acquisition | | - | 342,072 |
| Net Cash used in Investing Activities | | (5,862,079) | (188,139) |
| Financing Activities | | | |
| Advance of term loan | *13* | 3,300,000 | - |
| Repayments of term loan | *13* | (1,037,143) | 24,950 |
| Increase in restricted cash | *5* | (673,474) | - |
| Repayment of lease liabilities | *14* | (529,166) | (610,487) |
| Issuance of common shares from financing | | - | 16,282,172 |
| Issuance of common shares from option exercise | *15(c)* | 14,125 | 51,650 |
| Share issuance costs | | - | (2,000,339) |
| Net Cash provided by Financing Activities | | 1,074,342 | 13,747,946 |
| (Decrease) increase in cash | | (8,186,769) | 9,545,596 |
| Effect of foreign exchange on cash | | (166,111) | 10,485 |
| Cash, beginning of period | | 14,203,794 | 4,647,713 |
| **Cash, end of period** | | **$ 5,850,914** | **$ 14,203,794** |

*See accompanying notes to consolidated financial statements.*

*Supplemental cash flow information (Note 25)*

## 1. Reporting Entity

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

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

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

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

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

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

## 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 14, 2023.

*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, 2022, the Company incurred a comprehensive loss of $5,195,973 and used cash flows for operating activities of $3,399,032. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Based on the Company's liquidity position as at the date of these consolidated financial statements, management has forecasted its cash flow requirements, considering the Company's working capital and cash balance at December 31, 2022 and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 2022. The Company has a history of successive annual renewals of its Bank Loan (see Note 13) and the Bank Loan has been renewed on similar terms until February 27, 2024. In addition to the Company's cash of $5,850,914 as at December 31, 2022, the Company has a base shelf prospectus filed on June 28, 2021 under which it has an ability to offer, issue and sell common shares, preferred shares, debt securities and warrants for up to an aggregate offering price of CND$50,000,000 in one or more transactions during the twenty five month period that this prospectus remains effective (subject to the Company's compliance with the applicable rules of the TSX and securities regulations required to access such base shelf prospectus) net of gross proceeds of CND$10,597,748 raised in August 2021.

The continuity of the Company as a going concern is dependent on its ability to achieve positive cash flow from operations, to maintain or obtain additional debt or equity financing and to achieve and maintain profitable operations. 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.

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

## 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 developed rapidly in 2021 and 2022, 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 years ended December 30, 2022 and 2021.

Depending on future outbreaks of COVID-19 and negative impact on economic activity, the Company may experience further negative results, 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:

| 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 |
| DLC Systems, Inc. d/b/a Congruitive | Yes | U.S. | 100% |

[1]Dissolved March 4, 2021.

## 3. Significant Accounting Policies (continued)

### (b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis, except as described in the policies below.

### (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., Tantalus Systems Inc., and DLC Systems, Inc. d/b/a Congruitive, 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.

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:

## 3. Significant Accounting Policies (continued)

### (d) Use of Estimates and Judgments (continued)

*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:

*Business combination*

The Company accounts for business combinations under the acquisition method which requires that assets acquired, and liabilities assumed are recorded at their estimated fair values on the date of acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. Upon conclusion of the measurement period or final determination of the fair values of asset acquired and liabilities assumed, any subsequent adjustments would be recorded in the consolidated statements of operations and comprehensive (loss) income.

*Impairment for indefinite life intangibles and goodwill*

The recoverability of indefinite life intangible assets and goodwill are assessed annually for impairment or whenever events or changes in circumstances indicate the carrying value may not be recoverable (see Note 3 (m)).

## 3. Significant Accounting Policies (continued)

### (d) Use of Estimates and Judgments (continued)

*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.

*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).

## 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 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 enterprise mission-critical software applications, artificial intelligence ("AI") enabled data analytics and a suite or 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.

## 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.

### (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 20 – Segmented Information for description of each segment)

## 3. Significant Accounting Policies (continued)

### (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.

### (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:

**3. Significant Accounting Policies (continued)**

**(j) Property and Equipment (continued)**

| 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 in use.

**(k) Intangible Assets**

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

| Intangible Asset | Life |
|---|---|
| Technology | 10 years |
| Customer relations | 10 years |
| Intellectual property | 10 years |

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

## 3. Significant Accounting Policies (continued)

### (l) Goodwill

Goodwill, representing the excess of the consideration paid for businesses acquired over the fair values of the assets acquired and liabilities assumed in a business combination is measured at cost less accumulated impairment losses.

### (m) Impairment of Long-Lived Assets

The Company's non-financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests are carried out annually for goodwill or when an indicator of impairment is identified.

An impairment loss is charged to the statement of operations if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on the higher of its fair value less direct costs to sell and its value in use.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset.

For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit or "CGU"). Goodwill is allocated to a CGU or group of CGU's expected to benefit from it.

Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to amounts of the other assets in the CGU on a pro-rata basis, to the extent that the carrying value of an asset exceeds the higher of its fair value and value in use.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

An impairment loss recorded against goodwill is not reversed.

### (n) 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.

**3. Significant Accounting Policies (continued)**

**(o) 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.

**(p) 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.

## 3. Significant Accounting Policies (continued)

### (q) 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.

### (r) 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.

### (s) Financial Instruments

The Company’s financial instruments consist of cash, restricted 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.

## 3. Significant Accounting Policies (continued)

### (s) Financial Instruments (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as fair value through 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 and Restricted Cash*

Cash and restricted cash are classified as financial assets measured at amortized cost. Cash and restricted 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.

## 3. Significant Accounting Policies (continued)

### (s) Financial Instruments (continued)

*Financial Liabilities*

The Company's financial liabilities are comprised of trade and other payables. Trade and other payables and bank loan are classified as financial liabilities to be subsequently measured at amortized cost.

*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.

### (t) 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.

## 3. Significant Accounting Policies (continued)

### (u) 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.

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.

### (v) 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, its 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.

### (w) 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.

## 3. Significant Accounting Policies (continued)

### (x) 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.

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.

### (y) Business Combination

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at acquisition date fair value. The identifiable assets acquired and liabilities assumed that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. Acquisition-related costs are recognized in profit or loss as incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year. Any contingent consideration is measured at fair value at the acquisition date. If contingent consideration that meets the definition of a financial instrument is classified as equity, it is not re-measured and its subsequent settlement is accounted for within equity. Other contingent consideration is re-measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes to the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**3. Significant Accounting Policies (continued)**

**(z) 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 adoption of this amendment is not expected to have a material impact.

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

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

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

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of this amendment is not expected to have a material impact.

**(z) New Standards Issued but Not Yet Effective (continued)**

*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.

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

## 4. Congruitive Acquisition

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

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

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

| | | |
|---|---|---|
| Consideration transferred | | |
| Cash consideration | $ | 6,464,473 |
| Fair value of share consideration | | 1,196,466 |
| Fair value of contingent consideration payable | | 2,458,702 |
| Total consideration | $ | 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 |

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

## 4. Congruitive Acquisition (continued)

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

The accounts receivables acquired are comprised of trade receivables.

The fair value of the acquired intangible assets comprised of technology, customer relations and trademarks is determined using a discounted cash flow method at a discount rate of 22%.

Goodwill arising from the acquisition is attributable mainly to the skills and technical talent of Congruitive's work force and the synergies expected to be achieved from integrating Congruitive into the Company's existing business. The expertise of Congruitive's workforce and the integration of its technology will enable Tantalus to bolster its presence in its utility market.

Revenue of $1,603,219 and net loss of $548,096 from the acquired operations of Congruitive are included in the consolidated statement of loss and comprehensive loss from the date of acquisition to December 31, 2022. Had the acquisition of Congruitive occurred on January 1, 2022, the consolidated revenue would have increased by $130,881 and the consolidated net loss would have increased by $459,855 for the year ended December 31, 2022. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on January 1, 2022.

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

## 5. Restricted Cash

Restricted cash of $673,474 pertains to collateral for a letter of credit facility of $2,693,895 from the Bank that is associated with a surety performance insurance bond secured in connection with a key customer contract. The surety performance insurance bond expires on August 8, 2023, unless released prior to this date (Note 19(a)).

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

## 6. Accounts Receivable

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Accounts receivable | $ | 9,593,339 | $ | 5,695,328 |
| Less: allowance for doubtful accounts | | (551,604) | | (351,604) |
| **Net Accounts receivable** | **$** | **9,041,735** | **$** | **5,343,724** |

The Company did not have any accounts receivable balances from related parties as at December 31, 2022 and December 31, 2021, 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, 2022, the Company recorded credit losses of $200,000 (December 31, 2021 - $75,000), in general and administrative expense.

Aging analysis of trade receivables is as follows:

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Not past due | $ | 3,527,778 | $ | 2,459,704 |
| 31-90 days | | 4,793,814 | | 1,524,544 |
| 91-180 days | | 386,127 | | 282,714 |
| Over 180 days | | 885,620 | | 1,428,366 |
| **Total** | **$** | **9,593,339** | **$** | **5,695,328** |

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

## 7. Investment Tax Credits Receivable and Government Assistance

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Investment tax credits receivable** | **$** | **2,824** | **$** | **52,869** |

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

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

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Research and Development, Gross | | 7,845,917 | | 5,619,695 |
| Investment Tax Credit | | 274,530 | | 190,000 |
| **Research and Development, Net** | **$** | **7,571,387** | **$** | **5,429,695** |

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

## • 8. Inventory

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Finished goods | $ | 3,290,397 | $ | 3,142,264 |
| Raw materials | | 2,400,339 | | 2,545,143 |
| **Inventory** | **$** | **5,690,736** | **$** | **5,687,407** |

During the years ended December 31, 2022 and December 31, 2021, the Company charged $16,802,640 and $13,710,369, respectively, of inventory related amounts to cost of sales**.**

Management assesses the valuation of inventory at the end of each period resulting in valuation adjustments accounted for in the respective period based upon management estimates. During the period, inventories were reviewed for obsolescence as part of ongoing operations. Inventory adjustments for obsolescence were recorded in cost of sales during the year ended December 31, 2022 and December 31, 2021 of $307,024 and $250,768, respectively.

An inventory obsolescence reserve of $275,000 as at December 31, 2022 ($225,000 as at December 31, 2021) has been recorded.

## 9. Property & Equipment

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

| Cost | | Computers and Equipment | | Furniture and Fixtures | | Laboratory and Test Equipment | | Leasehold Improvement | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 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 |
| Additions | | 54,555 | | 8,455 | | 96,368 | | 17,170 | | 176,548 |
| Acquired from Congruitive | | - | | - | | 7,948 | | - | | 7,948 |
| Balance, December 31, 2022 | $ | 3,461,480 | $ | 544,470 | $ | 5,235,472 | $ | 1,635,284 | $ | 10,876,706 |

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

## 9. Property & Equipment (continued)

| Accumulated Depreciation | Computers and Equipment | Furniture and Fixtures | Laboratory and Test Equipment | Leasehold Improvement | Total |
|---|---|---|---|---|---|
| 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 |
| Additions | 51,311 | 26,587 | 285,506 | 37,699 | 401,103 |
| Acquired from Congruitive | - | - | 1,457 | - | 1,457 |
| Balance, December 31, 2022 | $ 3,382,618 | $ 497,219 | $ 4,631,331 | $ 1,563,735 | $ 10,074,903 |

| Net Book Value | Computers and Equipment | Furniture and Fixtures | Laboratory and Test Equipment | Leasehold Improvement | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ 75,618 | $ 65,383 | $ 786,788 | $ 92,078 | $ 1,019,867 |
| Balance, December 31, 2022 | $ 78,862 | $ 47,251 | $ 604,141 | $ 71,549 | $ 801,803 |

## 10. Intangible assets

| Cost | Computer Software | Technology | Customer Relations | Intellectual Property | Total |
|---|---|---|---|---|---|
| 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 |
| Additions | - | - | - | - | - |
| Acquired from Congruitive | - | 6,530,000 | 830,000 | 328,000 | 7,688,000 |
| Balance, December 31, 2022 | $ 1,998,567 | $ 6,530,000 | $ 1,507,509 | $ 1,290,058 | $ 11,326,134 |

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

## 10. Intangible assets (continued)

| Accumulated Amortization | Computer Software | Technology | Customer Relations | Intellectual Property | Total |
|---|---|---|---|---|---|
| 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 |
| Additions | 160,441 | - | - | - | 160,441 |
| Acquired from Congruitive | - | 598,583 | 76,209 | 30,117 | 704,909 |
| Balance, December 31, 2022 | $ 1,998,518 | $ 598,583 | $ 753,718 | $ 992,175 | $ 4,342,994 |

| Net Book Value | Computer Software | Technology | Customer Relations | Intellectual Property | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ 160,490 | $ - | $ - | $ - | $ 160,490 |
| Balance, December 31, 2022 | $ 49 | $ 5,931,417 | $ 753,791 | $ 297,883 | $ 6,983,140 |

## 11. Right-of-Use Assets

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Beginning Balance** | $ 3,417,733 | $ 992,880 |
| Additions | 548,419 | 2,806,348 |
| Amortization of ROU | (630,791) | (381,495) |
| **Ending Balance** | **$ 3,335,361** | **$ 3,417,733** |

## 12. Accounts Payable and Accrued Liabilities

| | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Trade payables and other payables | $ | 7,297,125 | $ | 4,819,576 |
| Accrued warranty | | 651,934 | | 807,017 |
| Employee benefits | | 1,722,222 | | 1,677,352 |
| Vendor goods and services received | | 1,207,362 | | 551,899 |
| Professional fees | | 714,443 | | 684,485 |
| Other accrued liabilities | | 766,699 | | 434,333 |
| **Total** | **$** | **12,359,785** | **$** | **8,974,662** |

## 13. Bank Loan

The Company has a loan agreement with Comerica Bank (the "Bank") since April 12, 2012 to fund ongoing working capital requirements which the Company has renewed on an annual basis since such date. The loan agreement was previously comprised of two line of credit facilities (expressed in USD and CND currencies and collectively, the "Bank Loan") with respective maximum borrowing limits of $7,486,000 and CND$750,000 subject to a borrowing base in the amount equal to the aggregate of a percentage of eligible receivables, accrued investment tax credits, inventory and purchase orders. On May 10, 2021, the Company consolidated its Bank Loan from two credit facilities into one line of credit facility in United States dollars up to a maximum of $8,100,000. The Company had an aggregate balance drawn on its line of credit facilities with the Bank as at December 31, 2022 of $8,100,000 ($8,100,000 as at December 31, 2021). The facility bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The facility previously had a maturity date of February 27, 2023. The facility was renewed to extend the maturity date to February 27, 2024.

The term loan carries a principal amount of $3,300,000 repayable over three years with the proceeds used for the Company's acquisition of Congruitive as announced on February 1, 2022 (see Note 4) and bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly. The term loan had a balance of $2,262,857 as at December 31, 2022 (nil as at December 31, 2021).

The Bank Loan and term loan facilities are secured by a general security agreement and security over accounts receivable and inventory.

As at December 31, 2022, the Company was in compliance with its financial covenants.

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

## 14. Lease Liabilities

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

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

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

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, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| **Maturity Analysis – contractual undiscounted cash flows from minimum lease** | | | | |
| Less than one year | $ | 762,152 | $ | 727,473 |
| One to five years | | 2,743,160 | | 2,762,975 |
| More than five years | | 626,651 | | 1,400,096 |
| **Total undiscounted lease liabilities** | **$** | **4,131,963** | **$** | **4,890,544** |

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

## 14. Lease Liabilities (continued)

The following is a reconciliation of undiscounted lease liabilities at December 31, 2022 to the lease liabilities recognized at December 31, 2022:

| | | |
|---|---|---|
| **Total undiscounted lease liabilities at December 31, 2022** | **$** | **4,131,963** |
| Discounted using incremental borrowing rate | | (655,699) |
| **Total lease liabilities recognized under IFRS 16 at December 31, 2022** | **$** | **3,476,264** |

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

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Beginning Balance** | $ | **4,008,692** | $ | **1,312,469** |
| Additions | | 576,490 | | 3,251,866 |
| Add: Interest | | 238,042 | | 83,964 |
| Less: Payments | | (767,208) | | (694,451) |
| Impact of foreign exchange | | (579,752) | | 54,844 |
| Ending Balance | | 3,476,264 | | 4,008,692 |
| Less: Current portion | | (858,643) | | (726,549) |
| **Non-current portion** | **$** | **2,617,621** | **$** | **3,282,143** |

| **Amounts Recognized in Statements of Operations** | | **Year ended December 31, 2022** | | **Year ended December 31, 2021** |
|---|---|---|---|---|
| Finance charge on lease liabilities | $ | 238,042 | $ | 83,964 |
| Variable lease payments expensed | | 534,463 | | 504,328 |
| Expenses relating to equipment short term leases | | - | | 2,192 |
| **Total amounts recognized in Statements of Operations** | **$** | **772,505** | **$** | **590,484** |

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

## 14. Lease Liabilities (continued)

The aggregate of the Company's variable lease payments as at December 31, 2022 is as follows and reflects the estimated future payments of the variable operating costs of the long-term operating premises leases in Burnaby, Kanata, Raleigh, Norwalk, and San Jose.

| | | |
|---|---|---|
| 2023 | $ | 547,906 |
| 2024 | | 561,754 |
| 2025 | | 488,457 |
| 2026 | | 498,940 |
| 2027 | | 513,908 |
| 2028 | | 529,326 |
| | **$** | **3,140,291** |

## 15. Share Capital

(a) Authorized share capital:

Unlimited common shares, with no par value.

Unlimited preferred shares, with no par value.

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

The Company has 44,595,942 common shares outstanding as at December 31, 2022 as indicated below:

| | Number of common shares | | Amount |
|---|---|---|---|
| **Outstanding, January 1, 2021** | **33,673,520** | **$** | **71,475,662** |
| Issuance of common shares from financing | 9,128,320 | | 16,282,172 |
| Share issuance costs | - | | (2,203,450) |
| Shares issued upon stock option exercise | 65,069 | | 51,650 |
| Shares issued for RiseTech merger | 767,320 | | 1,326,000 |
| **Outstanding, December 31, 2021** | **43,634,229** | | **86,932,034** |
| Issuance of common shares from option exercise | 18,074 | | 14,125 |
| Issuance of common shares from RSU exercise | 74,074 | | - |
| Issuance of common shares in Congruitive acquisition | 869,565 | | 1,196,466 |
| **Outstanding, December 31, 2022** | **44,595,942** | **$** | **88,142,625** |

## 15. Share Capital (continued)

(b) Issuance of Common Shares in Congruitive Acquisition

During the year ended December 31, 2022, 869,565 common shares of Tantalus were issued for $1,196,466 as part of the purchase price of the Congruitive Acquisition (see Note 4) and was based on a share price of CND$1.76 (US$1.38), calculated with reference to the volume weighted average trading price of Tantalus' common shares on the TSX over the previous five trading days ended January 28, 2022 and exchange rates over the same period.

(c) Stock Option Plan

The Company adopted the Omnibus Long Term Incentive Plan ("LTIP") that was effective as of the closing of the plan of arrangement pursuant to which the Company may grant stock options to provide incentives to eligible persons. As at December 31, 2022, the LTIP allows for a maximum of 8,919,188 common shares to be available under the plan.

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

During the year ended December 31, 2022, 18,074 shares were issued as a result of stock options being exercised with an exercise price of CND$1.00 for gross proceeds of $14,125 (60,069 shares issued for the year ended December 31, 2021 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:

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

## 15. Share Capital (continued)

(c) Stock Option Plan (continued)

| | Number of Options | | Weighted Average Exercise Price (CND$) |
|---|---|---|---|
| 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 |
| Granted during the period | 1,219,646 | $ | 1.35 |
| Exercised during the period | (18,074) | $ | 1.00 |
| Forfeited/expired during the period | (172,908) | $ | 1.00 |
| **Balance at December 31, 2022** | **6,898,077** | **$** | **1.24** |

As at December 31, 2022, 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 Exerciseable | | Exercise Price (CND$) |
|---|---|---|---|---|
| December 18, 2018 | 3,537,083 | 3,537,083 | $ | 1.00 |
| April 1, 2019 | 70,000 | 56,875 | $ | 1.00 |
| January 1, 2020 | 422,899 | 237,881 | $ | 1.00 |
| June 20, 2020 | 5,000 | 2,500 | $ | 1.00 |
| September 1, 2020 | 513,646 | 224,720 | $ | 1.00 |
| February 9, 2021 | 18,284 | 18,284 | $ | 1.64 |
| February 9, 2021 | 112,000 | 35,000 | $ | 2.25 |
| March 25, 2021 | 100,000 | 100,000 | $ | 2.17 |
| August 17, 2021 | 179,000 | 44,750 | $ | 2.11 |
| November 17, 2021 | 658,900 | - | $ | 2.10 |
| November 17, 2021 | 47,619 | 47,619 | $ | 2.10 |
| December 24, 2021 | 14,000 | - | $ | 1.79 |
| March 24, 2022 | 1,185,515 | - | $ | 1.35 |
| May 15, 2022 | 34,131 | - | $ | 1.28 |
| **Balance at December 31, 2022** | **6,898,077** | **4,304,712** | **$** | **1.06** |

During the years ended December 31, 2022 and December 31, 2021, the fair value of options granted was $581,964 and $751,144, respectively. Remaining unrecognized cost of the LTIP as at December 31, 2022 and December 31, 2021 was $480,663 and $694,144, respectively. The weighted average remaining life expressed in years of outstanding options was 3.32 years as at December 31, 2022 and 3.65 years as at December 31, 2021.

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

## 15. Share Capital (continued)

(c) Stock Option Plan (continued)

As at December 31, 2022, the Company had total vested options of 4,304,712 with a weighted average price of CND$1.06 and total vested options of 4,301,945 with a weighted average price of CND$1.04 as at December 31, 2021.

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, 2022** | **December 31, 2021** |
|---|---|---|
| Risk free interest rate | 0.39% - 2.75% | 0.39% - 0.60% |
| Dividend yield | 0% | 0% |
| Expected life (in years) | 1 to 7 years | 1 to 7 years |
| Forfeiture rate | 6.13% | 4.07% |
| Volatility | 50% - 54.1% | 50% |

(d) Restricted Stock Units

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

During the year ended December 31, 2021, the Company issued 74,074 RSU with a fair value of $130,000. The RSU's vested in full one year after the date of issuance. The RSU related costs were expensed in general and administrative expenses in the year ended December 31, 2021. During the year ended December 31, 2022, the RSU's vested in full and 74,074 common shares were issued by the Company as soon as practicable after the vesting date.

| | **Restricted Stock Units** |
|---|---|
| Balance at December 31, 2021 | 74,074 |
| Granted during the period | - |
| Exercised during the period | (74,074) |
| **Balance at December 31, 2022** | **-** |

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

## 15. Share Capital (continued)

(e) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU's granted was $773,478 and $462,080 during the years ended December 31, 2022 and December 31, 2021, 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, 2022** | | **Cost** | | **Stock-based Compensation** | | **Total** |
|---|---|---|---|---|---|---|
| Cost of sales | $ | 20,705,878 | $ | 858 | $ | 20,706,736 |
| | | | | | | |
| Sales and marketing | | 6,650,641 | | 159,449 | | 6,810,090 |
| Research and development | | 7,511,035 | | 60,352 | | 7,571,387 |
| General and administrative | | 7,752,992 | | 552,819 | | 8,305,811 |
| | $ | 21,914,668 | $ | 772,620 | $ | 22,687,288 |
| | | | | | | |
| Total | $ | 42,620,546 | $ | 773,478 | $ | 43,394,024 |

| **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 |
| | $ | 18,593,691 | $ | 455,068 | $ | 19,048,759 |
| | | | | | | |
| Total | $ | 36,406,249 | $ | 462,080 | $ | 36,868,329 |

## 16. Finance Expenses

| **Period ended** | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Accretion of interest on lease liability (*note 14* ) | $ | 238,042 | $ | 83,964 |
| Interest expense on bank loan (*note 13* ) | | 708,064 | | 446,386 |
| EDC insurance and other finance expenses | | 123,979 | | 97,850 |
| **Total** | **$** | **1,070,085** | **$** | **628,200** |

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

## 17. 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, 2022 and December 31, 2021 to income before income taxes due to the following:

| | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Net income (loss) before income taxes | $ | (6,077,013) | $ | (6,979,436) |
| Tax expense at applicable rates | | (1,640,794) | | (1,884,367) |
| Change in unrecognized deferred tax assets | | (322,847) | | 1,234,098 |
| Non-deductible expenses and other differences | | 364,922 | | 288,422 |
| Adjustments in respect of deferred income taxes of prior years | | 995,130 | | - |
| Effect of difference between combined Canadian statutory income rate and those rates applicable to foreign subsidiaries | | (98,809) | | 36,365 |
| Other items | | (179,200) | | 366,199 |
| **Income tax expense** | **$** | **(881,597)** | **$** | **40,717** |

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, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Deferred tax assets in relation to: | | | | |
| Equipment | $ | 526,294 | $ | 211,769 |
| Non-capital losses carried forward | | 18,841,608 | | 20,191,800 |
| SR&ED expenditures | | 3,181,360 | | 3,181,360 |
| Reserves and other | | 2,360,631 | | 1,409,630 |
| Intangible assets | | (1,624,990) | | (43,332) |
| **Deferred tax assets not recognized** | **$** | **23,284,903** | **$** | **24,951,227** |

As at December 31, 2022, 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:

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

## 17. Income Taxes (continued)

| Year Loss Expires | Canada | US | Total |
|---|---|---|---|
| 2023 | | - | - |
| 2024 | 2,797,964 | - | 2,797,964 |
| 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 | 203,023 | 1,992,941 |
| 2038 | 1,324,476 | 116,231 | 1,440,707 |
| 2039 | 1,107,640 | 2,139,078 | 3,246,718 |
| 2040 | 953,670 | 1,043,680 | 1,997,350 |
| 2041 | 1,079,074 | 897,166 | 1,976,240 |
| 2042 | 780,052 | 1,985,300 | 2,765,352 |
| **Total Losses** | **64,441,739** | **6,493,949** | **70,935,688** |

The Company has Canadian non-capital loss carryforwards of $64,441,739 which are available to reduce future taxable income. These non-capital loss carryforwards begin to expire in 2024. 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 $6,493,950 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 $5,173,812 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 $5,135,972 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.

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

## 18. Loss per Share

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

| | **December 31, 2022** | **December 31, 2021** |
|---|---|---|
| Beginning balance at December 31, shares outstanding | 43,634,229 | 33,673,520 |
| Effect of shares issued related to RTO | - | 708,458 |
| Effect of shares issued related to RTO financing | - | 4,079,279 |
| Effect of shares issued related to August 2021 financing | | 1,832,426 |
| Effect of shares issued from Congruitive acquisition | 795,712 | - |
| Effect of shares issued from RSU exercise | 57,230 | - |
| Effect of shares issued from option exercise | 11,247 | 15,566 |
| **Weighted average number of shares (basic and diluted)** | **44,498,418** | **40,309,249** |

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

The weighted average number of common shares is as follows:

| | | **December 31, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Net loss | $ | (5,195,416) | $ | (7,020,153) |
| Basic weighted average number of shares | | 44,498,418 | | 40,309,249 |
| **Basic and dilutive loss per share** | $ | (0.12) | $ | (0.17) |

## 19. Commitments and Contingencies

(a) In the ordinary course of business, the Company may deliver performance and/or payment bonds to customers in connection with a sales contract. As at December 31, 2022, the Company had one performance bond outstanding of $2,693,895 with which the Company has provided security through restricted cash representing 25% of such bond equaling $673,474 (Note 5) (December 31, 2021 - $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, 2022, the Company had outstanding purchase order commitments of $15,966,669 (December 31, 2021 - $13,325,090).

(c) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

(d) In the ordinary course of business, indemnification provisions are included in agreements with the Company's customers. Generally, such indemnification provisions are subject to limitations of liability provisions that exclude certain damages from what the Company may be obligated to indemnify the Customer for in connection with the agreement and/or set a cap on the Company's indemnification obligation tied to revenue generated from such agreement. In certain limited instances, the Company's indemnification obligation may not be subject to such aforementioned limitations and/or caps. As a matter of practice, the Company's customer agreements generally include provisions pursuant to which its customers indemnify the Company for certain potential liabilities that may arise in connection with or relating to the agreements between the parties.

## 20. Segmented Information

<u>Operating segments</u>

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

1) *<u>The Connected Devices and Infrastructure Segment</u>*. 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

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

## 20. Segmented Information (continued)

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

Corporate includes all operating expenses of the Company.

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

A breakdown of revenues and cost of sales for each operating segment for the years ended December 31, 2022 and December 31, 2021 is as follows:

| **Year ended December 31, 2022** | **Connected Devices and Infrastructure** | **Utility Software Applications and Services** | **Corporate** | **Total** |
|---|---|---|---|---|
| Revenues | $ 26,518,626 | $ 13,084,397 | $ - | $ 39,603,023 |
| Cost of sales | 17,484,382 | 3,222,354 | - | 20,706,736 |
| Gross profit | 9,034,244 | 9,862,043 | - | 18,896,287 |
| Operating expenses | - | - | 24,585,989 | 24,585,989 |
| **Operating income (loss)** | **$ 9,034,244** | **$ 9,862,043** | **$ (24,585,989)** | **$ (5,689,702)** |

| **Year ended December 31, 2021** | **Connected Devices and Infrastructure** | **Utility Software Applications and Services** | **Corporate** | **Total** |
|---|---|---|---|---|
| Revenue | $ 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)** |

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

## 20. Segmented Information (continued)

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

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| United States[1] | $ | 39,215,685 | $ | 31,740,808 |
| Canada | | 284,723 | | 345,074 |
| Others | | 102,615 | | 85,889 |
| **Total** | **$** | **39,603,023** | **$** | **32,171,771** |

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

## 21. 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, 2022 and December 31, 2021, respectively, were $3,522,742 and $3,294,812.

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

| **Period ended** | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Salaries and Benefits | $ | 12,882,572 | $ | 11,546,242 |
| Travel and meals | | 648,695 | | 126,402 |
| Depreciation and Amortization | | 1,898,701 | | 1,545,737 |
| Consulting and agent services | | 2,315,622 | | 796,535 |
| Facilities variable lease payments | | 495,241 | | 442,803 |
| Stock-based compensation | | 773,478 | | 462,080 |
| Marketing programs | | 660,784 | | 277,194 |
| Insurance | | 407,302 | | 395,937 |
| Office | | 821,037 | | 347,287 |
| Personnel programs and hiring costs | | 71,360 | | 204,259 |
| Information technology services and maintenance | | 545,260 | | 173,601 |
| Amalgamation related costs | | - | | 964,484 |
| Excess purchase price over RiseTech net assets | | - | | 1,188,175 |
| Professional legal fees and other costs | | 202,633 | | 152,206 |
| Congruitive acquisition costs | | 586,960 | | 350,000 |
| Other expenses | | 2,276,344 | | 1,621,554 |
| **Total** | **$** | **24,585,989** | **$** | **20,594,496** |

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

## 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, 2022** | | **December 31, 2021** |
|---|---|---|---|---|
| Other capital reserves | $ | 41,029,122 | $ | 40,255,644 |
| Accumulated other comprehensive income | $ | 1,916,948 | $ | 1,917,505 |
| Share capital | $ | 88,142,625 | $ | 86,932,034 |
| Deficit | $ | (127,509,996) | $ | (122,314,580) |
| Bank term loan | $ | 2,262,857 | $ | - |
| Bank working capital loan | $ | 8,100,000 | $ | 8,100,000 |

## 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, 2022 and December 31, 2021, the carrying values of cash, restricted cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, and the bank term and working capital loans 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 years ended December 31, 2022 and December 31, 2021.

### (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, 2022 and $8,100,000 as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $81,000 for the period ended December 31, 2022 and $81,000 for the year ended December 31, 2021 on the annual interest expense pertaining to its line of credit facility.

## 23. Financial instruments (continued)

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

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

The term loan bears interest at the Bank's prime rate plus 2.00% per annum, payable monthly, and had a balance of $2,262,857 as at December 31, 2022 and nil as at December 31, 2021. A potential percentage change in the bank's prime rate of 1.00% will have an impact of $22,629 for the year ended December 31, 2022 and nil for the year ended December 31, 2021 on the annual interest expense pertaining to its term loan.

(iii) **Credit risk**

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

The aging of accounts receivable as at December 31, 2022 and December 31, 2021 is provided in Note 6.

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

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

The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at December 31, 2022 and December 31, 2021. With all other variables remaining constant, a 10% weakening of the Canadian dollar versus the U.S. dollar would have had a $56,758 positive impact on net loss for the year ended December 31, 2022 and a $413,392 negative impact for the year ended December 31, 2021.

## 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, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Cash | $ | 544,373 | $ | 6,042,932 |
| Accounts receivable | | 335,867 | | 122,846 |
| Accounts payable | | (703,373) | | (1,232,992) |
| Accrued liabilities | | (744,443) | | (798,865) |
| **Total** | **$** | **(567,576)** | **$** | **4,133,921** |

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

(v) **Liquidity risk**

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

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

| | | As at December 31, 2022 |
|---|---|---|
| Less than 90 days: | | |
| Accounts payable and accrued liabilities | $ | 12,359,785 |

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

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

## 24. Related Party

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and not disclosed in this note. The following table discloses the compensation amount of the Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's executive officers. The remuneration of key management for the years ended December 31, 2022 and December 31, 2021 is as follows:

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Short-term employee benefits | $ | 1,610,758 | $ | 1,743,857 |
| Share-based compensation | | 358,752 | | 101,081 |
| **Total** | **$** | **1,969,510** | **$** | **1,844,938** |

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

## 25. Supplemental Cash Flow Information

The following are non-cash investing activities that occurred during the years ended December 31, 2022 and December 31, 2021:

| | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Fair value of contingent consideration in Congruitive acquisition | $ | 2,458,702 | $ | - |
| Shares issued in Congruitive acquisition | | 1,196,466 | | - |
| **Total** | **$** | **3,655,168** | **$** | - |

**BOARD OF DIRECTORS**

**Laura Formusa, Chair**
Independent Director
Director since January 29, 2021

Committee Membership:
Corporate Governance and Nominating Committee, Audit Committee and Compensation Committee

**Dr. Francis J. Harvey**
Independent Director
Director since January 29, 2021

Committee Membership:
Compensation Committee

**John McEwen**
Independent Director
Director since January 29, 2021

Committee Membership:
Audit Committee, Corporate Governance and Nominating Committee and Compensation Committee

**Tom Liston**
Independent Director
Director since February 26, 2018

Committee Membership:
Corporate Governance and Nominating Committee and Audit Committee

**Peter Londa**
Director since January 29, 2021

Committee Membership:
None

**OFFICERS**

**Peter Londa**
President and Chief Executive Officer

**Gerard Kaiser**
Chief Operating Officer

**George Reznik**
Chief Financial Officer

**Michael Julian**
Chief Revenue Officer

**Douglass Campbell**
Chief Solution Officer

**Michael Grandis**
Chief Legal & Administrative Officer, General Counsel and Corporate Secretary

**Tom Allen**
Vice President, Product Development

## CORPORATE INFORMATION

**Corporate Headquarters**
Suite 200, 3555 Gilmore Way
Burnaby, BC
Canada V5G 0B3

**Transfer Agent and Registrar**
Computershare Investor Services Inc.
Vancouver, BC

**Independent Auditors**
KPMG LLP
Vancouver, BC

**Legal Counsel**
Osler, Hoskin & Harcourt, LLP
Vancouver, BC

**Stock Listing**
The common shares of Tantalus Systems Holding Inc. are listed on the Toronto Stock Exchange.

**Symbol: GRID**

Tantalus

Transforming Utilities and Communities.