Tantalus

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TANTALUS SYSTEMS HOLDING INC.

2023 ANNUAL REPORT

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TANTALUS SYSTEMS HOLDING INC.

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

March 25, 2024

For the three and twelve months ended December 31, 2023

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

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

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

Non-IFRS and Other Financial Measures

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

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

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

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

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

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

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

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

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

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

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

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

NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

DESCRIPTION OF BUSINESS

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

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

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

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

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

2023 HIGHLIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

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

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

Reconciliation of Annual Net (Loss) Income to Adjusted EBITDA

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

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

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

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

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

TRAILING EIGHT QUARTER SELECTED FINANCIAL INFORMATION

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

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

Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross Profit

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

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

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

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

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

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

Depreciation and Amortization

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

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

Other Expenses

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

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

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

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

Total Comprehensive Loss

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

Adjusted EBITDA

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

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

Cash, Restricted Cash, and Adjusted Working Capital

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

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

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

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

The Company had Adjusted Working Capital as follows:

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

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

Cash Flows

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

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

Acquisition of Congruitive

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

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

Equity Financings

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

Staffing Levels

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

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

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

Commitments

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

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

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

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

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

Bank Loans

Comerica Bank

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

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

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

Export Development Canada

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

Facilities

Tantalus maintains four office locations across North America, including:

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

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

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

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

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

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

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

FINANCIAL POSITION

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

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

Restricted Cash

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

Accounts Receivable

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

Inventory

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

Accounts Payable and Accrued Liabilities

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

OTHER ITEMS

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

Credit Risk

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

Liquidity Risk

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

Going Concern

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

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

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

Foreign Currency Risk

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

Interest Rate Risk

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

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

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

DISCLOSURE OF OUTSTANDING SHARE DATA

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

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

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

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

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

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

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

The Company determines revenue recognition through the following steps:

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

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

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

Disclosure of Accounting Policies

New and Amended Standards

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

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

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

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

Definition of Accounting Estimates (Amendments to IAS 8)

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

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

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

New Standards Issued but Not Yet Effective

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

Amendments to IAS 1, Presentation of Financial Statements

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

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

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

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

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

OTHER INFORMATION

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

TANTALUS SYSTEMS HOLDING INC.

FINANCIAL STATEMENTS
For the years ended December 31, 2023 and 2022

TANTALUS SYSTEMS HOLDING INC.

Consolidated Financial Statements

For the years ended
December 31, 2023 and 2022
(expressed in United States dollars)

MANAGEMENT'S RESPONSIBILITY

The management of Tantalus Systems Holding Inc. (the "Company") is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with 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"	*"George Reznik"*
Chief Executive Officer	Chief Financial Officer
March 25, 2024	March 25, 2024

Independent auditor's report

To the Shareholders of
Tantalus Systems Holding Inc.

Opinion

We have audited the consolidated financial statements of **Tantalus Systems Holding Inc.** [the "Company"], which comprise the consolidated statement of financial position as at December 31, 2023 and the consolidated statement of operations and comprehensive loss, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

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 consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 to the consolidated financial statements, which indicates that the Company's current liabilities exceed its current assets by $5,740,587, incurred a comprehensive loss of $1,685,197 and used cash flows from operating activities of $839,724 for the year ended December 31, 2023. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, 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 consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Annual Goodwill Impairment Test	
As at December 31, 2023, the Company had goodwill of $3,445,149, which was allocated to the Utility Software Applications and Services cash-generating unit [the “CGU”]. The Company assesses at least annually, or at any time an indicator of impairment exists, whether there has been an impairment in the carrying value of the goodwill. The Company estimates the recoverable amount of the CGU using a discounted cash flow model and compares it against the carrying amount. The Company discloses significant assumptions used and the results of their analysis in note 10 to the consolidated financial statements. Auditing the Company’s estimated recoverable amount was complex given the degree of judgment and subjectivity in evaluating management’s estimates and assumptions. within the projected cash flows. The significant assumptions used in the projected financial information are revenue growth rate, gross margin and discount rate which are affected by expectations of future market and economic conditions.	Our audit procedures included, among others, the following to address the significant assumptions described: • We involved our valuation specialists to assess the mathematical accuracy and appropriateness of the valuation methodology and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information. • We compared assumptions to the projected financial information prepared by management to actual and historical results achieved with respect to revenue growth rate and gross margin used in the model for which historical results provide an appropriate basis. • We performed sensitivity analysis on the revenue growth rates and gross margins to evaluate changes in the recoverable amount of the CGU that would result from changes in these assumptions. • We assessed the adequacy of the Company’s disclosure in the consolidated financial statements in relation to this matter.

Other matter

The consolidated financial statements of the Company for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on March 14, 2023.

Other information

Management is responsible for the other information. The other information is comprised of Management’s Discussion and Analysis for the year ended December 31, 2023.

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

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

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nicole Poirier.

Ernst & Young LLP

Vancouver, Canada
March 25, 2024

Chartered Professional Accountants

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Financial Position

(Expressed in United States dollars)

	Note		December 31, 2023		December 31, 2022
Assets					
Current assets					
Cash		$	5,153,698	$	5,850,914
Restricted cash	5		673,474		673,474
Accounts receivable	6		7,870,573		9,041,735
Investment tax credits receivable	7		-		2,824
Inventory	8		6,634,747		5,690,736
Prepaid expenses and other assets			1,465,857		1,534,615
Total current assets			21,798,349		22,794,298
Property and equipment	9		662,056		801,803
Intangible assets	10		6,213,239		6,983,140
Goodwill	4		3,445,149		3,445,149
Right of Use assets	11		2,679,800		3,335,361
Total assets		$	34,798,593	$	37,359,751
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities	12	$	13,727,801	$	12,359,785
Deferred revenue and deposits			4,183,862		4,619,450
Lease liabilities	14		857,273		858,643
Bank term loan - current portion	13		-		1,100,000
Bank working capital loan	13		8,500,000		8,100,000
Contingent consideration on Congruitive acquisition	4		-		2,458,702
Total current liabilities			27,268,936		29,496,580
Deferred revenue and deposits			202,480		503,994
Bank term loan - long term portion	13		-		1,162,857
EDC loan	13		2,885,723		-
Lease liabilities	14		2,122,732		2,617,621
Total liabilities			32,479,871		33,781,052
Shareholders' equity					
Share capital	15				
Common shares			88,142,625		88,142,625
Other capital reserves			41,452,343		41,029,122
Accumulated other comprehensive income			1,918,947		1,916,948
Deficit			(129,195,193)		(127,509,996)
Total shareholders' equity			2,318,722		3,578,699
Total liabilities and shareholders' equity		$	34,798,593	$	37,359,751

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

(Expressed in United States dollars)

	Note		Year ended December 31, 2023		Year ended December 31, 2022
Revenues	***20***	$	42,146,982	$	39,603,023
Cost of sales	***8, 15(e), 20***		20,288,566		20,706,736
			21,858,416		18,896,287
Expenses					
Sales and marketing	***15(e)***		7,784,174		6,810,090
Research and development	***7, 15(e)***		7,907,374		7,571,387
General and administrative	***15(e)***		6,618,900		8,305,811
Depreciation and amortization	***9, 10, 11, 21***		1,834,570		1,898,701
			24,145,018		24,585,989
Operating loss			(2,286,602)		(5,689,702)
Other (expenses) earnings					
Foreign exchange (loss) gain			(211,153)		682,774
Finance expenses	***16***		(1,509,458)		(1,070,085)
Recovery of contingent liability	***4***		2,332,702		-
			612,091		(387,311)
Loss before income taxes			(1,674,511)		(6,077,013)
Income tax expense (recovery)	***17***		10,686		(881,597)
Loss for the period			(1,685,197)		(5,195,416)
Foreign currency translation adjustment			1,999		(557)
Total comprehensive loss for the period		$	(1,683,198)	$	(5,195,973)
Loss per share (basic and diluted)	***18***	$	(0.04)	$	(0.12)
Weighted average number of shares outstanding (basic and diluted)	***18***		44,595,942		44,498,418

See accompanying notes to consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in United States dollars)

	Note	Common Shares Number	Common Shares Amount	Other Capital Reserves	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
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	15 (e)	-	-	773,478	-	-	773,478
Issuance of common shares from option exercise		18,074	14,125	-	-	-	14,125
Issuance of common shares from RSU exercise		74,074	-	-	-	-	-
Issuance of common shares in Congruitive acquisition	15 (b)	869,565	1,196,466	-	-	-	1,196,466
Foreign currency translation adjustment		-	-	-	(557)	-	(557)
Loss for the period		-	-	-	-	(5,195,416)	(5,195,416)
Balance, December 31, 2022	**15 (a)**	**44,595,942**	**$ 88,142,625**	**$ 41,029,122**	**$ 1,916,948**	**$ (127,509,996)**	**$ 3,578,699**
Share-based compensation	15 (e)	-	-	423,221	-	-	423,221
Foreign currency translation adjustment		-	-	-	1,999	-	1,999
Loss for the period		-	-	-	-	(1,685,197)	(1,685,197)
Balance, December 31, 2023	**15 (a)**	**44,595,942**	**$ 88,142,625**	**$ 41,452,343**	**$ 1,918,947**	**$ (129,195,193)**	**$ 2,318,722**

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, 2023**		**Year ended December 31, 2022**
Cash (used in) provided by					
Operating Activities					
Loss for the period		$	(1,685,197)	$	(5,195,416)
Items Not Affecting Cash:					
Unrealized foreign exchange loss / (gain)			116,737		(414,197)
Depreciation of equipment	***9***		409,108		402,560
Amortization of intangible assets	***10***		769,901		865,350
Amortization of right-of-use asset	***11***		655,561		630,791
Share-Based compensation	***15(e)***		423,221		773,478
Recovery on contingent liability			(2,332,702)		-
Finance expenses	***16***		1,356,126		946,106
Changes in Non-Cash Operating Working Capital					
Accounts Receivable	***6***		1,171,162		(3,032,880)
Investment tax credits receivable	***7***		2,824		50,045
Inventories	***8***		(944,011)		4,381
Prepaid expenses and other assets			68,758		(365,679)
Accounts payable and accrued liabilities	***12***		1,242,016		1,500,206
Deferred revenue and deposits			(737,102)		1,382,329
Lease payments for interest	***14***		(245,891)		(238,042)
Interest paid on bank loans	***13***		(1,110,235)		(708,064)
Net Cash used in Operating Activities			(839,724)		(3,399,032)
Investing Activities					
Purchase of equipment	***9***		(269,361)		(176,548)
Purchase of intangible assets	***10***		-		-
Purchase of Congruitive, net of cash acquired	***4***		-		(5,685,531)
Net Cash used in Investing Activities			(269,361)		(5,862,079)
Financing Activities					
Advance of working capital loan	***13***		400,000		-
Advance of term loan	***13***		-		3,300,000
Repayments of term loan	***13***		(2,262,857)		(1,037,143)
Advance of EDC loan	***13***		2,885,723		-
Change in restricted cash	***5***		-		(673,474)
Repayment of lease liabilities	***14***		(619,178)		(529,166)
Issuance of common shares from option exercise	***15(c)***		-		14,125
Net Cash provided by Financing Activities			403,688		1,074,342
Decrease in cash			(705,397)		(8,186,769)
Effect of foreign exchange on cash			8,181		(166,111)
Cash, beginning of period			5,850,914		14,203,794
Cash, end of period		**$**	**5,153,698**	**$**	**5,850,914**

See accompanying notes to consolidated financial statements.

Supplemental cash flow information (Note 25)

1. Reporting Entity

The Company is a smart grid technology company dedicated to helping utilities modernize their distribution grids by harnessing the power of data across all their devices and systems deployed throughout the entire distribution grid. 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 Kanata, Ontario, Canada, Raleigh, North Carolina, United States, and Norwalk, Connecticut, 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 25, 2024.

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

Based on the Company's liquidity position as at the date of these consolidated financial statements, management has forecasted its cash flow requirements, considering the Company's current liabilities exceed its current assets and its cash balance as of December 31, 2023, and believes that it has sufficient cash resources to support operations for at least the next twelve months from December 31, 2023. However, the Company is dependent on the annual renewal of its Bank Loan (see Note 13) and has a history of successive annual renewals. Subsequent to December 31, 2023, the Bank Loan has been renewed on similar terms until June 30, 2025. On June 29, 2023, the Company entered into a term loan with Export Development Canada ("EDC") of up to $7,000,000 which has a principal balance outstanding of $3,000,000 as of December 31, 2023, with access to an additional $4,000,000 up to December 29, 2024, providing access to additional capital.

2. Basis of Presentation (continued)

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.

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

(b) Basis of Measurement

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

3. Material Accounting Policies (continued)

(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.

(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:

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.

3. Material Accounting Policies (continued)

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:

(d) Use of Estimates and Judgments (continued)

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 of non-financial assets (including goodwill)

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on a DCF model. The estimated cash flows are derived from the budget for the next year and expected growth rate supported by historical experience. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill. The key assumptions used to determine the recoverable amount for the Company's cash generating unit with allocated goodwill, including a sensitivity analysis are disclosed and further explained in Note 10.

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.

3. Material Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

Allowance for Doubtful Accounts

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.

Inventory provision

The Company determines a provision for inventory obsolescence based upon expected net realizable value incorporating inventory turnover, inventory aging, and current and future expectations with respect to product offerings. Assumptions underlying the provision for inventory obsolescence includes future sales trends, expected inventory requirements and inventory composition and related consumption necessary to support future offerings.

Contingencies

The Company records accruals for loss contingencies when losses are probable and reasonably estimable. The Company evaluates legal matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss.

Government Assistance / Investment tax credit ("ITC") Receivable

Government assistance, inclusive of 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.

3. Material Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

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).

(e) Revenues

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 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 and 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 post-contract technical support and annual software maintenance services ("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. Material 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 goods or services. Many of the Company's goods and services are distinct from other performance obligations and accounted for as separate performance obligations. 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 goods, 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 goods 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 management 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 ("Software & 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 expenses (see Note 20 – Segmented Information for description of each segment).

3. Material 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 Doubtful Accounts

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 insures the majority of its accounts receivable with EDC. EDC insures 90% of the individual accounts receivable balance with the remaining 10% self insured by the Company. 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 to estimate its expected 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. Material 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.

(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 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 their 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 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.

(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.

3. Material Accounting Policies (continued)

(m) Impairment of Long-Lived Assets and Goodwill

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. Material 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 and storage 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. Material 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 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.

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 adjusted 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, the bank working capital and term loans, and the EDC Loan (see below) that the Company has assessed as financial instruments to be measured and classified.

3. Material 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 by 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. Material Accounting Policies (continued)

(s) Financial Instruments (continued)

Financial Liabilities

The Company's financial liabilities are comprised of trade and other payables. The Bank (defined below) working capital and term loans and EDC Loan (see below) 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 the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all 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 a reduction of the respective expense item 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. Material 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.

Compensation cost related to the grant of these stock options isrecognized 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.

3. Material Accounting Policies (continued)

(w) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when the Company has a present obligation as a result of a past event, 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 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 may change in the future.

(x) 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.

New and Amended Standards

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

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

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

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

Definition of Accounting Estimates (Amendments to IAS 8)

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

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

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

New Standards Issued but Not Yet Effective

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

New Standards Issued but Not Yet Effective (continued)

Amendments to IAS 1, Presentation of Financial Statements

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

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

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

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

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

(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™") marketed as TRUSync™, 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 was at CND$1.76 per common share.

(Expressed in United States dollars, unless otherwise indicated)

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 period following the acquisition date to December 31, 2023. The additional consideration could range from nil to $5,000,000. Based upon the revenue achievement during this period, the contingent consideration was determined to be $nil as of December 31, 2023, resulting in $2,332,702 of recovery of contingent liability consideration during the year ended December 31, 2023.

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 operations.

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 Company satisfied its performance obligations pertaining to the surety performance insurance bond after December 31, 2023, resulting in the release of the surety performance insurance bond allowing for the termination of the above-referenced letter of credit facility resulting in the restricted cash referenced above being returned to Tantalus (see also Note 19(a)).

6. Accounts Receivable

		December 31, 2023		December 31, 2022
Accounts receivable	$	8,522,177	$	9,593,339
Less: allowance for doubtful accounts		(651,604)		(551,604)
Net Accounts receivable	**$**	**7,870,573**	**$**	**9,041,735**

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

The Company has an agreement with EDCEDC 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, 2023, the Company recorded credit losses of $100,000 (December 31, 2022 - $200,000), in general and administrative expense.

Aging analysis of trade receivables is as follows:

(Expressed in United States dollars, unless otherwise indicated)

6. Accounts Receivable (continued)

		December 31, 2023		December 31, 2022
Not past due	$	3,815,709	$	2,976,174
31-90 days		1,645,955		4,793,814
91-180 days		1,135,488		386,127
Over 180 days		1,273,421		885,620
Total	**$**	**7,870,573**	**$**	**9,041,735**

7. Investment Tax Credits Receivable and Government Assistance

(a) Investment Tax Credits Receivable

		December 31, 2023		December 31, 2022
Investment tax credits receivable	**$**	**-**	**$**	**2,824**

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.

(b) Government Assistance

United States Employee Retention Tax Credit (“ERTC”)

The Company applied for and received subsidies in the aggregate amount of $44,681 during the year ended December 31, 2023, pursuant to the United States Employee Retention Tax Credit (“ERTC”), a refundable tax credit for businesses and tax-exempt organizations that had employees and were affected during the COVID-19 pandemic. In order to qualify for the ERTC, among other things, United States employers must have experienced the required decline in gross receipts during the eligibility periods during 2020 or the first three calendar quarters of 2021. Management believes there is reasonable assurance that the Company has met the eligibility requirements of the ERTC and properly made claims for the subsidies received thereunder, and thus has recognized the ERTC government assistance of $44,681 against research and development salaries to which the credit pertains to, during the year ended December 31, 2023.

(Expressed in United States dollars, unless otherwise indicated)

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

(b) Government Assistance (continued)

The total impact on the Company's research and development government assistance as follows:

		Twelve months ended December 31, 2023		Twelve months ended December 31, 2022
Research and Development, Gross	$	7,952,055		7,845,917
Investment Tax Credit		-		274,530
Employee Retention Tax Credit (ERTC)		44,681		-
Research and Development, Net	**$**	**7,907,374**	**$**	**7,571,387**

8. Inventory

		December 31, 2022		December 31, 2022
Finished goods	$	3,735,485	$	3,290,397
Raw materials		2,899,262		2,400,339
Inventory	**$**	**6,634,747**	**$**	**5,690,736**

During the years ended December 31, 2023, and December 31, 2022, the Company charged $15,126,734 and $16,802,640, 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, 2023, and December 31, 2022 of $497,109 and $307,024, respectively.

An inventory obsolescence reserve of $620,000 as of December 31, 2023 ($275,000 as of December 31, 2022) has been recorded.

(Expressed in United States dollars, unless otherwise indicated)

9. Property & Equipment

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

Cost	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2021	$ 3,406,925	$ 536,015	$ 5,131,156	$ 1,618,114	$ 10,692,210
Additions	54,555	8,455	104,316	17,170	184,496
Balance, December 31, 2022	$ 3,461,480	$ 544,470	$ 5,235,472	$ 1,635,284	$ 10,876,706
Additions	36,240	3,460	229,661	-	269,361
Balance, December 31, 2023	$ 3,497,720	$ 547,930	$ 5,465,133	$ 1,635,284	$ 11,146,067

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2021	$ 3,331,307	$ 470,632	$ 4,344,368	$ 1,526,036	$ 9,672,343
Additions	51,311	26,587	286,963	37,699	402,560
Balance, December 31, 2022	$ 3,382,618	$ 497,219	$ 4,631,331	$ 1,563,735	$ 10,074,903
Additions	47,631	24,067	312,922	24,488	409,108
Balance, December 31, 2023	$ 3,430,249	$ 521,286	$ 4,944,253	$ 1,588,223	$ 10,484,011

Net Book Value	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2022	$ 78,862	$ 47,251	$ 604,141	$ 71,549	$ 801,803
Balance, December 31, 2023	$ 67,471	$ 26,644	$ 520,880	$ 47,061	$ 662,056

(Expressed in United States dollars, unless otherwise indicated)

10. Intangible assets and Goodwill

Intangible Assets

The following table presents details of movement in the intangible assets by type:

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

Accumulated Amortization	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2021	$ 1,838,077	$ -	$ 677,509	$ 962,058	$ 3,477,644
Additions	160,441	598,583	76,209	30,117	865,350
Balance, December 31, 2022	$ 1,998,518	$ 598,583	$ 753,718	$ 992,175	$ 4,342,994
Additions	49	653,000	83,754	33,098	769,901
Balance, December 31, 2023	$ 1,998,567	$ 1,251,583	$ 837,472	$ 1,025,273	$ 5,112,895

Net Book Value	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2022	$ 49	$ 5,931,417	$ 753,791	$ 297,883	$ 6,983,140
Balance, December 31, 2023	$ 0	$ 5,278,417	$ 670,037	$ 264,785	$ 6,213,239

Goodwill

As of December 31, 2023, the Company has goodwill of $3,445,149 (2022 - $3,445,149) attributable to the acquisition of Congruitive (Note 4).

10. Intangible assets and Goodwill (continued)

Goodwill (continued)

Impairment testing for goodwill acquired through business combinations is allocated to the Software & Services CGUs, which is an operating and reportable segment. The Company performed its annual impairment test as of December 31, 2023. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

As of December 31, 2023, the Company's market capitalization was greater than the book value of its equity.

The recoverable amount of the Software & Services CGU is also determined based on a fair value less costs to sell calculation using cash flow projections from short-term financial budget approved by senior management and long-term projections totalling eight years. The projected cash flows have been prepared to reflect the anticipated demand for products and services. The post-tax discount rate applied to the cash flow projections is 21.6%. The Company has incorporated a future growth rate for its Software & Service CGU which is justified based on the anticipated market trends and Company performance and supported by historical growth experienced. The compound average growth rate used to extrapolate the cash flows of the CGU for the eight-year projection period is 12.1%. The Congruitive acquisition has resulted in strategic expansion of the Company's software offering. As a result of the analysis, there is sufficient headroom with no identification of an impairment of the Software & Services CGU.

The calculation of fair value is most sensitive to the following assumptions:

- Revenue growth rates based upon historical growth rate and industry trends
- Gross Profit Margins
- Operating expenses
- Discount rates

(Expressed in United States dollars, unless otherwise indicated)

10. Intangible assets and Goodwill (continued)

Growth rate estimates − Rates are based on historical growth rates and industry trends inclusive of the impact on the utility industry of distributed energy resources, inclusive of electric vehicles (“EV’s”), solar panels and battery storage units.

Gross margins − Gross margins are based on average values achieved in the three years preceding the beginning of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital (“WACC”). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company’s investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

11. Right-of-Use Assets

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

		December 31, 2022		December 31, 2022
Beginning Balance	$	3,335,361	$	3,417,733
Additions		-		548,419
Amortization of ROU		(655,561)		(630,791)
Ending Balance	**$**	**2,679,800**	**$**	**3,335,361**

12. Accounts Payable and Accrued Liabilities

		December 31, 2023		December 31, 2022
Trade payables and other payables	$	7,799,257	$	7,297,125
Accrued warranty		677,570		651,934
Employee benefits		1,825,535		1,722,222
Vendor goods and services received		1,898,170		1,207,362
Professional fees		1,138,225		714,443
Other accrued liabilities		389,044		766,699
Total	**$**	**13,727,801**	**$**	**12,359,785**

13. Bank Loan

Comerica Bank

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

The Company had a term loan with the Bank that carried a principal amount of $3,300,000 repayable over three years with the proceeds used for the Company's acquisition of Congruitive as announced on February 1, 2022 (see Note 4) and bore interest at the Bank's prime rate plus 2.00% per annum, payable monthly (the "Term Loan"). The Term Loan was paid in full with proceeds from the EDC Loan (see below) and had a balance of $nil as of December 31, 2023 ($2,262,857 as of December 31, 2022). The average interest rate during the year ended December 31, 2023, for the Term Loan was 9.96% (December 31, 2022: 6.96%).

The Bank Loan is secured by a general security agreement over all assets, inclusive of the borrowing base assets comprised of accounts receivable and inventory.

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

13. Bank Loan (continued)

<u>Export Development Canada</u>

On June 29, 2023, the Company entered into a debt facility with EDC of up to $7,000,000 (the “EDC Loan”) with advances available during the eighteen months period after the loan commencement date. The EDC Loan has a six-year term with interest payable on a monthly basis during the initial 18 months with amortized principal and interest repayments through the remainder of the term. On July 20, 2023, the Company repaid the Term Loan comprised of principal of $1,697,143 and accrued interest, funded by EDC Loan proceeds of $2.0 million. The remainder of the EDC Loan is for working capital requirements to fund sales and commercialization of the Company’s new product initiatives. . During the year ended December 31, 2023, the Company received additional EDC Loan proceeds of $1,000,000 with a principal balance outstanding of $3,000,000 as of December 31, 2023. The EDC Loan bears interest of United States prime interest rate plus 5.00% per annum. In conjunction with the EDC Loan, the Company incurred legal expenses of $80,000 and other loan fees of $42,500 during the year ended December 31, 2023, which have been recorded against the fair value of the loan and amortized over the life of the loan as finance expense using the effective interest rate method, in accordance with IFRS 9 . The average interest rate during the year ended December 31, 2023, for the EDC Loan was 13.50% (December 31, 2022: n/a).

14. Lease Liabilities

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

14. Lease Liabilities (continued)

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

		December 31, 2023		December 31, 2022
Maturity Analysis – contractual undiscounted cash flows from minimum lease				
Less than one year	$	769,129	$	762,152
One to five years		2,613,283		2,743,160
More than five years		49,521		626,651
Total undiscounted lease liabilities	**$**	**3,431,933**	**$**	**4,131,963**

The following is a reconciliation of undiscounted lease liabilities as of December 31, 2023, to the lease liabilities recognized at December 31, 2023:

Total undiscounted lease liabilities at December 31, 2023	**$**	**3,431,933**
Discounted using incremental borrowing rate		(451,928)
Total lease liabilities recognized under IFRS 16 at December 31, 2023	**$**	**2,980,005**

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

		December 31, 2023		December 31, 2022
Beginning Balance	$	**3,476,264**	$	**4,008,692**
Additions		-		576,490
Add: Interest		245,891		238,042
Less: Payments		(865,069)		(767,208)
Impact of foreign exchange		122,919		(579,752)
Ending Balance		2,980,005		3,476,264
Less: Current portion		(857,273)		(858,643)
Non-current portion	**$**	**2,122,732**	**$**	**2,617,621**

(Expressed in United States dollars, unless otherwise indicated)

14. Lease Liabilities (continued)

Amounts Recognized in Statements of Operations		**Year ended December 31, 2023**		**Year ended December 31, 2022**
Finance charge on lease liabilities	$	245,891	$	238,042
Variable lease payments expensed		547,906		534,463
Total amounts recognized in Statements of Operations	**$**	**793,797**	**$**	**772,505**

The aggregate of the Company's variable lease payments as of December 31, 2023, is as follows and reflects the estimated future payments of the variable operating costs of the long-term operating premises leases in Burnaby, Kanata, Raleigh, and Norwalk.

2024		561,754
2025		488,457
2026		498,940
2027		513,908
2028		529,326
	$	**2,592,385**

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.

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. In connection with the Company's annual general and special meeting of shareholders on June 10, 2022, the LTIP was amended and restated as approved by the Company's shareholders. As of December 31, 2023, the LTIP allows for a maximum of 8,919,188 common shares to be available under the plan. As of December 31, 2023, the Company had total stock options of 7,767,370 and 211,018 restricted stock units ("RSUs") outstanding resulting in 940,800 common shares available for issuance 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 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, 2023, no shares were issued as a result of stock options being exercised (18,074 shares issued for the year ended December 31, 2022, for gross proceeds of $14,125).

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

(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, 2021	5,869,413	$	1.21
Granted during the period	1,219,646	$	1.35
Exercised during the period	(18,074)	$	1.00
Forfeited during the period	(92,450)	$	1.00
Expired during the period	(80,458)	$	1.00
Balance at December 31, 2022	6,898,077	$	1.24
Granted during the period	964,647	$	1.01
Exercised during the period	-	$	1.00
Forfeited during the period	(9,385)	$	1.00
Expired during the period	(85,969)	$	1.00
Balance at December 31, 2023	**7,767,370**	**$**	**1.21**

The range of fair value of the outstanding stock options is $0.29 to $0.82.

As of December 31, 2023, the number of stock options outstanding and exercisable and the exercise price was as follows:

Option Grant Date	Options Outstanding	Options Exerciseable		Exercise Price (CND$)
December 18, 2018	3,441,729	3,441,729	$	1.00
April 1, 2019	70,000	70,000	$	1.00
January 1, 2020	422,899	317,174	$	1.00
June 20, 2020	5,000	3,438	$	1.00
September 1, 2020	513,646	321,029	$	1.00
February 9, 2021	18,284	18,284	$	1.64
February 9, 2021	112,000	70,000	$	2.25
March 25, 2021	100,000	100,000	$	2.17
August 17, 2021	179,000	100,688	$	2.11
November 17, 2021	658,900	343,177	$	2.10
November 17, 2021	47,619	47,619	$	2.10
December 24, 2021	14,000	7,292	$	1.79
March 24, 2022	1,185,515	518,663	$	1.35
May 15, 2022	34,131	16,383	$	1.28
May 15, 2023	445,631	-	$	1.20
July 26, 2023	100,000	25,000	$	0.78
July 27, 2023	27,838	-	$	0.78
November 6, 2023	41,500	-	$	0.75
December 18, 2023	349,678	-	$	0.79
Balance at December 31, 2023	**7,767,370**	**5,400,476**	**$**	**1.17**

(Expressed in United States dollars, unless otherwise indicated)

15. Share Capital (continued)

(c) Stock Option Plan (continued)

The stock options expire ten years after option grant date unless exercised.

During the years ended December 31, 2023, and December 31, 2022, the fair value of options granted was $391,465 and $581,964, respectively. Remaining unrecognized cost of the LTIP as of December 31, 2023, and December 31, 2022, was $409,571 and $480,663, respectively. The weighted average remaining life expressed in years of outstanding options was 2.37 years as of December 31, 2023, and 3.32 years as of December 31, 2022.

As of December 31, 2023, the Company had total vested options of 5,375,476 with a weighted average exercise price of CND$1.18 and total vested options of 4,304,712 with a weighted average exercise price of CND$1.06 as of December 31, 2022.

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

	December 31, 2023	**December 31, 2022**
Risk free interest rate	0.39% - 4.38%	0.39% - 2.75%
Dividend yield	0%	0%
Expected life (in years)	1 to 7 years	1 to 7 years
Forfeiture rate	6.74%	6.13%
Volatility	50% - 86.9%	50% - 54.1%

(d) Restricted Stock Units

Under the LTIP, the Company may grant RSUs 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, 2023, the Company issued 211,018 RSUs with a fair value of $124,928 and vest five years after the date of issuance.

	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	-
Granted during the period	211,018
Exercised during the period	-
Balance at December 31, 2023	**211,018**

(Expressed in United States dollars, unless otherwise indicated)

15. Share Capital (continued)

(d) Restricted Stock Units (continued)

The fair value of the RSU's granted during the year ended December 31, 2023 were estimated on the date of grant based upon the fair value of the Company's common shares of CDN$0.79 as at the date of issuance and the volume of RSU's granted with related share based compensation being amortized over the five year vesting period.

During the prior year ended December 31, 2022, RSUs that were issued in 2021 and vested one year after the date of issuance, vested in full and 74,074 common shares were issued by the Company.

(e) Stock-based compensation expense

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

Year ended December 31, 2023		**Cost**		**Stock-based Compensation**		**Total**
Sales and marketing		7,702,262		81,912		7,784,174
Research and development		7,906,621		45,433		7,952,054
General and administrative		6,323,024		295,876		6,618,900
	$	21,931,907	$	423,221	$	22,355,128

Year ended December 31, 2022		**Cost**		**Stock-based Compensation**		**Total**
Sales and marketing		6,649,783		160,307		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
	$	21,913,810	$	773,478	$	22,687,288

Stock-based compensation expense recognized attributable to options and RSUs granted was $423,221 and $773,478 during the years ended December 31, 2023, and December 31, 2022, respectively.

(Expressed in United States dollars, unless otherwise indicated)

16. Finance Expenses

Period ended		December 31, 2023		December 31, 2022
Accretion of interest on lease liability (*note 14*)	$	245,891	$	238,042
Interest expense on bank loan (*note 13*)		1,110,235		708,064
EDC insurance and other finance expenses		153,332		123,979
Total	**$**	**1,509,458**	**$**	**1,070,085**

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, 2023, and December 31, 2022, to income before income taxes due to the following:

		December 31, 2023		December 31, 2022
Net loss before income taxes	$	(1,674,511)	$	(6,077,013)
Tax expense at applicable rates		(452,118)		(1,640,794)
Change in unrecognized deferred tax assets		1,065,958		(322,847)
Non-deductible expenses and other differences		(481,889)		364,922
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		(4,667)		(98,809)
Other items		(116,598)		(179,200)
Income tax expense (recovery)	**$**	**10,686**	**$**	**(881,597)**

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:

(Expressed in United States dollars, unless otherwise indicated)

17. Income Taxes (continued)

		December 31, 2023		December 31, 2022
Deferred tax assets in relation to:				
Equipment	$	705,857	$	526,294
Non-capital losses carried forward		20,508,483		18,841,608
SR&ED expenditures		3,181,360		3,181,360
Reserves and other		1,353,984		2,360,631
Intangible assets		(1,493,592)		(1,624,990)
Deferred tax assets not recognized	**$**	**24,256,092**	**$**	**23,284,903**

As of December 31, 2023, 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:

Year Loss Expires	Canada	Year Loss Expires	US	Total
2024	5,764,163		-	5,764,163
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	2036	109,471	1,895,640
2037	1,789,918	2037	203,023	1,992,941
2038	1,324,476	indefinite	116,231	1,440,707
2039	1,107,640	indefinite	2,139,078	3,246,718
2040	953,670	indefinite	1,043,680	1,997,350
2041	1,079,074	indefinite	988,039	2,067,113
2042	2,796,587	indefinite	830,087	3,626,674
2043	1,618,055	indefinite	384,386	2,002,441
Total Losses	**71,042,528**		**5,813,995**	**76,856,524**

(Expressed in United States dollars, unless otherwise indicated)

17. Income Taxes (continued)

The Company has Canadian non-capital loss carryforwards of $71,042,528 ($64,441,739 as of December 31, 2022) 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 $312,494 ($312,494 as of December 31, 2022) that may be carried forward to reduce taxable income otherwise calculated in future years and which begin to expire in 2036. There are also non-capital loss carry forwards totaling approximately $5,501,501 ($6,181,456 as of December 31, 2022) that may be carried forward indefinitely to reduce taxable income calculated in future years. 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 $5,224,236 ($5,173,812 as of December 31, 2022) and approximately $10,303,072 ($10,303,072 as of December 31, 2022) of scientific research and experimental development expenditures (”SR&ED”) that may be carried forward to be deducted against future Canadian taxable income. The Company has $12,528 ($5,135,972 as of December 31, 2022) of reserves that may be deducted against future Canadian taxable income. The Company also has federal investment tax credits of approximately $426,585 ($426,585 as of December 31, 2022) 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.

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, 2023	**December 31, 2022**
Beginning balance at December 31, shares outstanding	44,595,942	43,634,229
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
Weighted average number of shares (basic and diluted)	**44,595,942**	**44,498,418**

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

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 of December 31, 2023, the Company had one performance bond outstanding of $2,693,895 for which the Company provided collateral in the form of a letter of credit facility and further for which the Company had provided security through restricted cash representing 25% of such bond equaling $673,474 (Note 5) (December 31, 2022 - $2,693,895). The Company satisfied its performance obligations pertaining to the surety performance insurance bond after December 31, 2023, resulting in the release of the surety performance insurance bond and the termination of the letter of credit facility with the restricted cash being returned to Tantalus (Note 5, 26).

(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 of December 31, 2023, the Company had outstanding purchase order commitments of $12,575,340 (December 31, 2022 - $15,966,669).

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

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

20. Segmented Information

Operating segments

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

1) *The Connected Devices and Infrastructure Segment*. This segment is responsible for the sale of the Company's proprietary edge computing modules that are integrated into multiple devices deployed across a utility's distribution grid including meters, sensors, street lighting fixtures and distribution automation equipment. Revenue generated from this segment also includes the sale of the Company's proprietary multi-relay load control switches and a suite of communications

(Expressed in United States dollars, unless otherwise indicated)

20. Segmented Information (continued)

infrastructure devices that are deployed to deliver an industrial network-of-things / IoT smart grid including base stations, repeaters and collectors; and

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

Corporate includes all operating expenses of the Company.

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

A breakdown of revenues and cost of sales for each operating segment for the year ended December 31, 2023, and December 31, 2022, is as follows:

Year ended December 31, 2023		**Connected Devices and Infrastructure**		**Utility Software Applications and Services**		**Corporate**		**Total**
Revenues	$	27,286,862	$	14,860,120	$	-	$	42,146,982
Cost of sales		16,403,213		3,885,353		-		20,288,566
Gross profit		10,883,649		10,974,767		-		21,858,416
Expenses		-		-		24,145,018		24,145,018
Operating income (loss)	**$**	**10,883,649**	**$**	**10,974,767**	**$**	**(24,145,018)**	**$**	**(2,286,602)**

Year ended December 31, 2022		**Connected Devices and Infrastructure**		**Utility Software Applications and Services**		**Corporate**		**Total**
Revenue	$	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
Expenses		-		-		24,585,989		24,585,989
Operating income (loss)	**$**	**9,034,244**	**$**	**9,862,043**	**$**	**(24,585,989)**	**$**	**(5,689,702)**

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

		December 31, 2023		**December 31, 2022**
United States[1]	$	41,805,915	$	39,215,685
Canada		311,270		284,723
Others		29,797		102,615
Total	**$**	**42,146,982**	**$**	**39,603,023**

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

(Expressed in United States dollars, unless otherwise indicated)

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, 2023, and December 31, 2022, respectively, were $4,230,995 and $3,522,742.

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

Year ended		**December 31, 2023**		**December 31, 2022**
Salaries and Benefits	$	13,493,349	$	13,062,030
Travel and meals		1,124,135		648,695
Depreciation and Amortization		1,834,570		1,898,701
Consulting and agent services		2,651,690		3,466,341
Facilities variable lease payments		446,431		498,124
Stock-based compensation		423,221		773,478
Marketing programs		1,098,202		660,784
Insurance		523,797		407,302
Supplies and prototypes		936,893		855,070
Information technology		873,515		545,260
Congruitive acquisition costs		-		586,960
Office and other expenses		739,215		1,183,244
Total	**$**	**24,145,018**	**$**	**24,585,989**

22. Capital Disclosures

The Company's capital management objective is to ensure that the Company is appropriately supported in its working capital needs, business expansion, and other strategic objectives to maximize shareholder value. The Company manages its capital structure and makes adjustments in response to changing economic conditions and requirements of its financial covenants.

The following schedule details the components of capital:

(Expressed in United States dollars, unless otherwise indicated)

22. Capital Disclosures (continued)

Deficiency and Liabilities		**December 31, 2023**		**December 31, 2022**
Other capital reserves	$	41,452,343	$	41,029,122
Accumulated other comprehensive income	$	1,918,947	$	1,916,948
Share capital	$	88,142,625	$	88,142,625
Deficit	$	(129,422,635)	$	(127,509,996)
EDC loan		3,000,000		-
Bank term loan	$	-	$	2,262,857
Bank working capital loan	$	8,500,000	$	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 of December 31, 2023 and December 31, 2022, the carrying values of cash, restricted cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, the bank term and working capital loans, and the EDC Loan approximate their fair value due to their ability to be promptly liquidated, their short term to maturity, or their use of market rates.

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

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

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

23. Financial instruments (continued)

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

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

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

23. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) **Credit risk**

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

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

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

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

The Company maintains certain financial instruments, inclusive of a portion of its cash, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company does have exposure to the impact of foreign exchange fluctuations pertaining to its financial position as at December 31, 2023 and December 31, 2022. With all other variables remaining constant, a 10% change of the Canadian dollar versus the U.S. dollar would have had a $104,830 impact on net loss for the year ended December 31, 2023, and a $56,758 impact for the year ended December 31, 2022.

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, 2023		December 31, 2022
Cash	$	377,333	$	544,373
Accounts receivable		572,405		335,867
Accounts payable		(1,175,578)		(703,373)
Accrued liabilities		(822,459)		(744,443)
Total	**$**	**(1,048,298)**	**$**	**(567,576)**

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

(iv) **Liquidity risk**

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

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

		As at December 31, 2023
Less than 90 days:		
Accounts payable and accrued liabilities	$	13,727,801
Bank loan	$	8,500,000
Greater than 1 year		
EDC Loan	$	3,000,000

The Company has a loan agreement with the 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, 2023, and December 31, 2022, is as follows:

		December 31, 2023		**December 31, 2022**
Short-term employee benefits	$	1,553,845	$	1,610,758
Share-based compensation		179,640		358,752
Total	**$**	**1,733,485**	**$**	**1,969,510**

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 periods ended December 31, 2023, and December 31, 2022:

		December 31, 2023		**December 31, 2022**
Fair value of contingent consideration in Congruitive acquisition	$	-	$	2,458,702
Shares issued in Congruitive acquisition		-		1,196,466
Total	**$**	-	**$**	3,655,168

26. Subsequent Events

The surety performance insurance bond for which the Company provided collateral in the form of a letter of credit facility which was supported by restricting cash of $673,474 as collateral for a key customer contract was released after December 31, 2023, as the Company satisfied its performance obligations pertaining to the surety performance insurance bond with the letter of credit facility being terminated and the cash being returned to Tantalus (see also Note 5,19(a)). As of the date of the filing of these financial statements, the restricted cash and performance bond are no longer outstanding.

Subsequent to year end, the Bank Loan was renewed to June 30, 2025.

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

Gregory D. Williams
Independent Director
Director since June 27, 2023

Committee Membership:
Compensation Committee and Audit Committee

OFFICERS

Peter Londa
President and Chief Executive 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

Harold Hankel
Vice President, Manufacturing

Param Pawar
Vice President, Finance

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
Ernst & Young 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

HARNESS THE POWER OF DATA