



TANTALUS SYSTEMS HOLDING INC.

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

August 6, 2024

For the three and six months ended June 30, 2024

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 six months ended June 30, 2024 compared with the three and six months ended June 30, 2023. The information in this MD&A is current as of August 6, 2024, and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2024 and 2023, and the Company's audited consolidated financial statements as of December 31, 2023, included with Tantalus' continuous disclosure filings with Canadian securities regulatory authorities available at www.sedarplus.ca.

The Company's unaudited interim condensed consolidated financial statements and notes thereto as at June 30, 2024 and for the three and six months ended June 30, 2024 and 2023 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent 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 0.7308 and 0.7361 for the three and six months ended June 30, 2024 (0.7447 and 0.7421 for the three and six months ended June 30, 2023) for income statement items and a foreign exchange rate of 0.7306 as at June 30, 2024 (0.7553 as at June 30, 2023 and 0.7561 as at December 31, 2023) 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 Six Months Ended June 30, 2024 – 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 Six Months Ended June 30, 2024 – 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 Six Months Ended June 30, 2024 – 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 loans 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, 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, 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 of 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 software 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 forward. 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 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 backward-compatible to earlier Company products and a customer support team that has helped Tantalus build a dynamic user community of utilities 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.

Q2 2024 HIGHLIGHTS

Sales Orders: The Company converted \$32.9 million (CND\$44.7 million) of orders from its sales pipeline during the first six months of 2024. This dollar amount sets a new corporate record for orders converted within the first six months of a calendar year and represents more than 46% growth over the prior year period.

Annual Recurring Revenue: ARR stands at approximately \$12.0 million (CND\$16.4 million) as of June 30, 2024, representing approximately 14% growth year-over-year. Recurring Revenue recognized during the three months ended June 30, 2024 was approximately \$2.6 million (CND\$3.6 million), representing approximately 24% of total revenue for the quarter.

Expansion of our User Community: Tantalus added nine new utilities during the three months ended June 30, 2024, bringing the Company's user community to a total of 302 utilities.

TRUSense Gateway™: The Company announced Underwriters Laboratories ("UL®") certification for the TRUSense Fiber Gateway (April 22, 2024) and the TRUSense Ethernet Gateway (July 22, 2024) and continues to work towards the final certification processes for the cellular version of the TRUSense Gateway product line. Additionally, the Company has secured orders from fifteen utilities to commence field trials, pilots and deployments of the TRUSense Gateway as of August 6, 2024.

Financing: During Q2 2024, the Company completed a CND\$10 million (\$7,295,720) bought deal financing ("May 2024 Financing") by issuing 6,250,000 common shares from the treasury of the Company at a price of CND\$1.60 per common share pursuant to the terms of an underwriting agreement between the Company and a group of underwriters including Cormark Securities Inc. and Canaccord Genuity Corp. Net proceeds were approximately CND\$8.8 million (\$6.4 million) after total share issuance costs of CND\$1,172,844 (\$855,674).

Tantalus Users Conference: The Tantalus Users Conference (TUC) took place from April 8 to 11, 2024 in Fort Worth, Texas where the Company hosted approximately 300 attendees from over 75 utilities as well as 14 sponsors, the Company's Board of Directors, employees, covering research analysts and investors.

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 June 30, 2024	Three months ended March 31, 2024	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
Revenue	\$ 10,737,719	\$ 9,395,449	\$ 10,370,092	\$ 10,143,287	\$ 11,220,916	\$ 10,412,687	\$ 12,164,972	\$ 9,071,109
Cost of sales	4,865,770	4,384,281	5,042,655	4,718,621	4,977,312	5,549,978	6,640,844	4,283,858
Gross Profit	5,871,949	5,011,168	5,327,437	5,424,666	6,243,604	4,862,709	5,524,128	4,787,251
Expenses	6,571,953	6,215,419	5,446,444	5,928,476	6,650,882	6,119,216	5,909,095	5,905,550
Operating loss	(700,004)	(1,204,251)	(119,007)	(503,810)	(407,278)	(1,256,507)	(384,967)	(1,118,299)
Other earnings (expenses)	(279,939)	(350,206)	1,796,799	(293,509)	(510,760)	(380,439)	(368,403)	(36,298)
Income (loss) before income taxes	(979,943)	(1,554,457)	1,677,792	(797,319)	(918,038)	(1,636,946)	(753,370)	(1,154,597)
Income tax expense (recovery)	21,160	261	(13,039)	-	23,621	104	(912,580)	-
Income (loss) for the period	(1,001,103)	(1,554,718)	1,690,831	(797,319)	(941,659)	(1,637,050)	159,210	(1,154,597)
Earnings (loss) per share (basic and diluted)	(0.02)	(0.03)	0.04	(0.02)	(0.02)	(0.04)	0.00	(0.03)
Adjusted EBITDA	\$ (173,715)	\$ (536,110)	\$ 348,423	\$ 63,220	\$ 251,165	\$ (691,619)	\$ 103,646	\$ (384,123)

Reconciliation of Quarterly Net (Loss) Income to Adjusted EBITDA

	Three months ended June 30, 2024	Three months ended March 31, 2024	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
(Loss) income for the period	\$ (1,001,103)	\$ (1,554,718)	\$ 1,690,831	\$ (797,319)	\$ (941,659)	\$ (1,637,050)	\$ 159,210	\$ (1,154,597)
Finance expense (a)	398,483	435,928	369,046	396,646	389,077	354,689	297,713	283,137
Income taxes	21,160	261	(13,039)	-	23,621	104	(912,580)	-
Depreciation and amortization	440,170	444,804	454,458	461,728	459,624	458,760	318,945	535,362
EBITDA	(141,290)	(673,725)	2,501,296	61,055	(69,337)	(823,497)	(136,712)	(336,098)
Stock-based compensation (b)	86,119	223,337	92,972	105,302	118,819	106,128	169,668	198,814
Foreign exchange (c)	(118,544)	(85,722)	122,176	(58,456)	121,683	25,750	70,690	(246,839)
EDC Loan related legal costs (d)	-	-	(80,000)	-	80,000	-	-	-
Government subsidy (e)	-	-	44,681	(44,681)	-	-	-	-
Recovery of contingent liability (f)	-	-	(2,332,702)	-	-	-	-	-
Adjusted EBITDA	\$ (173,715)	\$ (536,110)	\$ 348,423	\$ 63,220	\$ 251,165	\$ (691,619)	\$ 103,646	\$ (384,123)

- (a) Finance expense comprised of interest and related finance expense on bank loans 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) Legal fees pertaining to the EDC Loan (as defined herein) which were capitalized to the face value of the EDC Loan (see Note 11 in June 30, 2024 financial statements).
- (e) 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).
- (f) Recovery of contingent liability relating to Congruitive acquisition.

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

		June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Cash	\$	11,408,237	\$ 5,398,843	\$ 5,153,698	\$ 4,208,294	\$ 4,944,416	8,211,947	5,850,914	5,739,561
Adjusted Working Capital	\$	7,076,650	\$ 1,971,805	\$ 3,029,413	\$ 2,570,963	\$ 2,136,099	3,362,870	4,956,420	4,223,455
Total assets	\$	39,388,945	\$ 35,511,857	\$ 34,798,593	\$ 36,447,394	\$ 37,048,949	38,930,821	37,359,751	34,216,532
Shareholders' equity	\$	6,726,931	\$ 987,154	\$ 2,318,722	\$ 529,932	\$ 1,222,118	2,048,114	3,578,699	3,249,088

		June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Adjusted Working Capital									
Total current assets	\$	27,168,793	\$ 22,904,966	\$ 21,798,349	\$ 23,031,109	\$ 23,286,001	\$ 24,750,116	\$ 22,794,298	\$ 19,925,342
Less: current liabilities		<u>(28,104,476)</u>	<u>(29,599,828)</u>	<u>(27,268,936)</u>	<u>(30,288,159)</u>	<u>(32,402,915)</u>	<u>(30,587,246)</u>	<u>(27,037,878)</u>	<u>(23,821,887)</u>
		(935,683)	(6,694,862)	(5,470,587)	(7,257,050)	(9,116,914)	(5,837,130)	(4,243,580)	(3,896,545)
Add: Bank Loan - current portion		7,679,000	8,500,000	8,500,000	7,369,311	8,794,311	9,200,000	9,200,000	8,120,000
Add: EDC Loan - current portion		333,333	166,667	-	-	-	-	-	-
Add: Contingent consideration		-	-	-	2,458,702	2,458,702	-	-	-
Adjusted Working Capital	\$	<u>7,076,650</u>	<u>1,971,805</u>	<u>3,029,413</u>	<u>2,570,963</u>	<u>2,136,099</u>	<u>3,362,870</u>	<u>4,956,420</u>	<u>4,223,455</u>

FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024

Revenue

<i>Revenue by Source</i>	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
	\$	%	\$	%	\$	%	\$	%
Connected Devices and Infrastructure	\$ 6,968,368	65%	\$ 7,051,484	63%	\$ 12,765,485	63%	\$ 14,100,197	65%
Utility Software Applications and Services	3,769,351	35%	4,169,432	37%	7,367,683	37%	7,533,406	35%
Total revenue	\$ 10,737,719	100%	\$ 11,220,916	100%	\$ 20,133,168	100%	\$ 21,633,603	100%

The Company's revenue for the three and six months ended June 30, 2024 was lower than prior year periods by approximately 4% and 7%, respectively, due to the timing of converting orders from the Company's sales pipeline and corresponding capacity allocations with metering partners in addition to lower software revenue compared to the prior year periods, which included the conversion of a pilot of C.IQ Connect to a full license of the software platform with an investor-owned utility.

Revenue from the Company's Utility Software Applications and Services decreased by 10% and 2% for the three and six months ended June 30, 2024, respectively, over the prior year periods due to lower software license revenue. Revenue from this segment represented 35% and 37%, respectively, of total revenue generated in the quarter.

<i>Revenue by Type</i>	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
	\$	%	\$	%	\$	%	\$	%
Recurring Revenue	\$ 2,617,302	69%	\$ 2,813,527	67%	\$ 5,162,432	70%	\$ 5,167,840	69%
Other Utility Software Applications and Services revenue	1,152,049	31%	1,355,905	33%	2,205,251	30%	2,365,566	31%
Total Utility Software Applications and Services revenue	\$ 3,769,351	100%	\$ 4,169,432	100%	\$ 7,367,683	100%	\$ 7,533,406	100%

As a subset of the revenue contributions from the Utility Software Applications and Services segment, the Recurring Revenue recognized during the quarter represented 69% and 70% of total Utility Software Applications and Services revenue during the three and six months ended June 30, 2024, respectively. Total Recurring Revenue recognized during the three and six months ended June 30, 2024 decreased during the three and six months period over the prior year period primarily due to the timing of customer renewals of term-based software licenses and other recurring revenue offerings.

<i>Revenue by Type</i>	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
	\$	%	\$	%	\$	%	\$	%
Recurring Revenue	\$ 2,617,302	24%	\$ 2,813,527	25%	\$ 5,162,432	26%	\$ 5,167,840	24%
Other revenue	8,120,417	76%	8,407,389	75%	14,970,736	74%	16,465,763	76%
Total revenue	\$ 10,737,719	100%	\$ 11,220,916	100%	\$ 20,133,168	100%	\$ 21,633,603	100%

ARR stands at approximately \$12.0 million (CND\$16.4 million) as of June 30, 2024, representing approximately 14% growth over the ARR from the prior year period.

The Company continues to scale the business without customer concentration risk. No customer represented more than 10% of total revenues for the three and six months ended June 30, 2024, and 2023.

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

	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
	\$	%	\$	%	\$	%	\$	%
United States (1)	\$ 10,673,171	99%	\$ 11,125,825	99%	\$ 19,849,948	99%	\$ 21,481,646	99%
Canada	60,488	<1%	79,202	1%	262,609	1%	131,183	1%
Other	4,060	<1%	15,889	<1%	20,611	<1%	20,774	<1%
	\$ 10,737,719	100%	\$ 11,220,916	100%	\$ 20,133,168	100%	\$ 21,633,603	100%

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

Gross Profit

Gross Profit Margin remained strong for the three months ended June 30, 2024 which is primarily due to the favorable product mix within the Connected Devices and Infrastructure segment. The Company continues to prudently manage its supply chain and work to mitigate the impact of inflationary pressures through previously instituted increases in pricing.

The Company's Gross Profit during the three months ended June 30, 2024, is as follows:

Three months ended June 30, 2024	Connected Devices and Infrastructure	%	Utility Software Applications and Services	%	Total	%
Revenue	\$ 6,968,368	100%	\$ 3,769,351	100%	\$ 10,737,719	100%
Cost of sales	3,873,465	56%	992,305	26%	4,865,770	45%
Gross Profit	\$ 3,094,903	44%	\$ 2,777,046	74%	\$ 5,871,949	55%
Percentage of total Gross Profit	53%		47%		100%	

Three months ended June 30, 2023	Connected Devices and Infrastructure	%	Utility Software Applications and Services	%	Total	%
Revenue	\$ 7,051,484	100%	\$ 4,169,432	100%	\$ 11,220,916	100%
Cost of sales	4,141,419	59%	835,893	20%	4,977,312	44%
Gross Profit	\$ 2,910,065	41%	\$ 3,333,539	80%	\$ 6,243,604	56%
Percentage of total Gross Profit	47%		53%		100%	

The Company's Gross Profit during the six months ended June 30, 2024, is as follows:

Six months ended June 30, 2024	Connected Devices and Infrastructure	%	Utility Software Applications and Services	%	Total	%
Revenue	\$ 12,765,485	100%	\$ 7,367,683	100%	\$ 20,133,168	100%
Cost of sales	7,243,948	57%	2,006,103	27%	9,250,051	46%
Gross Profit	\$ 5,521,537	43%	\$ 5,361,580	73%	\$ 10,883,117	54%
Percentage of total Gross Profit	51%		49%		100%	

Six months ended June 30, 2023	Connected Devices and Infrastructure	%	Utility Software Applications and Services	%	Total	%
Revenue	\$ 14,100,197	100%	\$ 7,533,406	100%	\$ 21,633,603	100%
Cost of sales	8,816,370	63%	1,710,920	23%	10,527,290	49%
Gross Profit	\$ 5,283,827	37%	\$ 5,822,486	77%	\$ 11,106,313	51%
Percentage of total Gross Profit	48%		52%		100%	

Expenses

	Three months ended June 30, 2024	% of Revenue	Three months ended June 30, 2023	% of Revenue	Six months ended June 30, 2024	% of Revenue	Six months ended June 30, 2023	% of Revenue
Sales and marketing	\$ 2,344,820	22%	\$ 2,237,090	20%	\$ 4,387,449	22%	\$ 4,404,441	20%
Research and development	1,902,235	18%	2,115,870	19%	3,959,047	20%	3,991,326	18%
General and administrative	1,884,728	18%	1,838,298	16%	3,555,902	18%	3,455,947	16%
Depreciation and amortization	440,170	4%	459,624	4%	884,974	4%	918,384	4%
Total expenses	\$ 6,571,953	61%	\$ 6,650,882	59%	\$ 12,787,372	64%	\$ 12,770,098	59%
As a percentage of total revenue	61%		59%		64%		59%	

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 in expenses for the three months ended June 30, 2024, over the prior year period is primarily due to increased sales and marketing costs pertaining to the commercialization of the Company's TRUSense Gateway. The decrease in expense for the six months ended June 30, 2024 over the prior year period is primarily attributable to lower variable sales commission and lower travel expenses. As momentum for the Company's solutions continues to develop across the utility industry and in conjunction with launching the TRUSense Gateway, Tantalus anticipates making further investments in sales and marketing to expand its presence and position itself for broader growth in the future.

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. The decrease in R&D expenses for the three and six month periods year-over-year are primarily due to the timing of certain engineering activities, inclusive of external third-party vendor and contractor costs contributing to the commercialization of the TRUSense Gateway. The Company has cumulatively invested approximately \$13.2 million through June 30, 2024, to develop and commercialize the TRUSense Gateway. Of this amount, approximately \$4.6 million is attributable to external contractors, certifications, prototyping and other non-recurring items. The Company is also investing in its suite of data analytics products and continuing to enhance the TRUSync™ offering, formerly known as C.IQ Connect.

General and administrative ("G&A") expenses include executive and administrative staff, insurance, corporate variable compensation, public company costs, office expenses, accounting, legal and consulting fees. General and administrative expenses for the three months ended June 30, 2024 and 2023, also includes stock-based compensation expenses of \$62,937 and \$82,605, respectively, and \$215,540 and \$158,729 for the six months ended June 30, 2024 and 2023. G&A expenses increased for the three and six month periods year-over-year primarily due to higher professional fees and increased accrual for potential bad debt expense offset by lower travel expenses and other expenses.

	Three months ended June 30, 2024	Three months ended March 31, 2024	Three months ended June 30, 2023
Total expenses	\$ 6,571,953	\$ 6,215,419	\$ 6,650,882
Depreciation and amortization	(440,170)	(444,804)	(459,624)
Stock-based compensation	(86,119)	(223,337)	(118,819)
	\$ 6,045,664	\$ 5,547,278	\$ 6,072,439
As a percentage of total revenue	56%	59%	54%

The Company's total expenses, exclusive of depreciation and amortization and stock-based compensation, were \$6.0 million for the three months ended June 30, 2024. The increase from the three-month period ending March 31, 2024, ties to investments the Company is making in sales and marketing costs contributing to the commercialization of the TRUSense Gateway, the Company's annual users conference and increased professional fees.

Depreciation and Amortization

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Depreciation and amortization	\$ 87,220	\$ 102,135	\$ 179,074	\$ 203,407
Amortization of intangible assets	192,464	192,464	384,928	384,927
Amortization of right-of-use assets	160,486	165,025	320,972	330,050
Total depreciation and amortization	\$ 440,170	\$ 459,624	\$ 884,974	\$ 918,384

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 June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Foreign exchange gain (loss)	\$ 118,544	\$ (121,683)	\$ 204,266	\$ (147,433)
Finance expense	(398,483)	(389,077)	(834,411)	(743,766)
Total other earnings (expenses)	\$ (279,939)	\$ (510,760)	\$ (630,145)	\$ (891,199)

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 gain of \$118,544 and \$204,266 during the three and six months ended June 30, 2024, which is primarily attributable to the foreign exchange impact on the Company's Canadian dollar denominated cash compared to a foreign exchange loss of \$121,683 and \$147,433 in the respective prior year periods.

Total Comprehensive Loss

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Operating loss	\$ (700,004)	\$ (407,278)	\$ (1,904,255)	\$ (1,663,785)
Total other (expenses) earnings	(279,939)	(510,760)	(630,145)	(891,199)
Income tax expense	(21,160)	(23,621)	(21,421)	(23,725)
Loss for the period	(1,001,103)	(941,659)	(2,555,821)	(2,578,709)
Foreign currency translation adjustment	(9,056)	(3,156)	(9,243)	(2,819)
Total comprehensive loss	\$ (1,010,159)	\$ (944,815)	\$ (2,565,064)	\$ (2,581,528)
Loss per share (basic and fully diluted)	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.06)

Adjusted EBITDA

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Loss for the period	\$ (1,001,103)	\$ (941,659)	\$ (2,555,821)	\$ (2,578,709)
Finance expense (a)	398,483	389,077	834,411	743,766
Income taxes	21,160	23,621	21,421	23,725
Depreciation and amortization	440,170	459,624	884,974	918,384
EBITDA	(141,290)	(69,337)	(815,015)	(892,834)
Stock-based compensation (b)	86,119	118,819	309,456	224,947
Foreign exchange (c)	(118,544)	121,683	(204,266)	147,433
EDC Loan related legal costs (d)	-	80,000	-	80,000
Adjusted EBITDA	\$ (173,715)	\$ 251,165	\$ (709,825)	\$ (440,454)

- (a) Finance expense comprised of interest and related finance expense on loans and lease liabilities (see Financial Statements).
- (b) Share-based non-cash compensation expense (see Financial Statements).
- (c) Foreign exchange comprised of unrealized (gain) / loss from non-functional currency assets and liabilities (see Financial Statements).
- (d) Legal fees pertaining to the EDC Loan which were capitalized to the face value of the EDC Loan (see Financial Statements).

During the three and six months ended June 30, 2024, the Company generated negative Adjusted EBITDA of (\$173,715) and negative Adjusted EBITDA of (\$709,825), respectively. The negative Adjusted EBITDA is attributable to the ongoing investment to commercialize the TRUSense Gateway and the timing of revenue from Connected Devices and Infrastructure.

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 June 30, 2024, increased to \$11.4 million from \$5.2 million as of December 31, 2023. The increase in cash during the six months ended June 30, 2024, is primarily attributable to the May 2024 Financing, collection of ARR invoiced for 2024, the release of restricted cash that was tied to a surety performance insurance bond for a customer deployment, the repayment of approximately \$0.8 million of the Company's line of credit facility with Comerica Bank, the timing of revenue within the quarter, cash flow from operations which impacted working capital, accounting for deferred revenue, capital expenditures and increased financing expenses.

With respect to the restricted cash, 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. During the quarter ended March 31, 2024, the performance criteria pertaining to the surety bond was satisfied by the Company resulting in the release of restricted cash.

The Company's bank loan ("Bank Loan") from Comerica Bank ("Comerica" or the "Bank") was renewed during the quarter ended March 31, 2024, with the term and related maturity date extended to June 30, 2025. This facility has been renewed on an annual basis since 2012. During the three months ended June 30, 2024, the Company repaid approximately \$0.8 million of principal for the Bank Loan with a decreased outstanding balance of \$7.7 million as of June 30, 2024. As of June 30, 2024, the Company had a borrowing base in excess of the \$8.5 million Bank Loan resulting in approximately \$0.8 million of additional available capital.

The Company secured a loan from EDC on June 29, 2023, of up to \$7.0 million of capital. A portion of these proceeds was used to refinance an existing term loan with Comerica that was associated with the acquisition of Congruive on January 31, 2022 (the "Term Loan"). Additionally, proceeds were used to provide additional working capital and to fund the TRUSense Gateway development and commercialization. The EDC Loan principal balance as of June 30, 2024, was \$3.0 million with additional funds of \$4.0 million available until December 29, 2024.

The Company had Adjusted Working Capital as follows:

	June 30, 2024	December 31, 2023
Adjusted Working Capital		
Total current assets	\$ 27,168,793	\$ 21,798,349
Less: current liabilities	<u>(28,104,476)</u>	<u>(27,268,936)</u>
	(935,683)	(5,470,587)
Add: Bank Loan - current portion	7,679,000	8,500,000
Add: EDC Loan - current portion	333,333	-
Adjusted Working Capital	<u>\$ 7,076,650</u>	<u>\$ 3,029,413</u>

Adjusted Working Capital as of June 30, 2024, increased from December 31, 2023, primarily due to the May 2024 Financing, Adjusted EBITDA, repayment of lease liabilities, capital expenditures and finance expenses during the six months ended June 30, 2024.

Cash Flows

The Company generated \$6.4 million of cash during the six months ended June 30, 2024. The Company generated \$0.2 million of cash from operations, made capital expenditures of \$0.1 million, and generated positive cashflow of \$6.2 million from financing activities primarily attributable to the May 2024 Financing, release of restricted cash of \$0.7 million offset by lease liabilities repayment during the six months ended June 30, 2024. Within the capital expenditures, the Company purchased computer and other equipment to support its operations. Within financing activities, the Company generated \$6.2 million during the six months ended June 30, 2024 which is primarily attributable to the May 2024 Financing with gross proceeds of \$7,295,720 (CND\$10,000,000), along with the return of restricted cash, offset by share issuance costs related to the May 2024 Financing, the repayment of approximately \$0.8 million in principal for the Bank Loan and by payments associated with its lease liabilities.

	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash provided by:		
Operating activities	\$ 230,790	\$ 450,099
Investing activities	(104,882)	(115,879)
Financing activities	6,230,179	(1,247,796)
Effect of foreign exchange on cash	(101,548)	7,078
Increase in cash	\$ 6,254,539	\$ (906,498)

Equity Financing

The Company completed a bought deal financing on May 23, 2024, by issuing an aggregate of 6,250,000 common shares at a price of CND\$1.60 per common share for total gross proceeds of CND\$10.0 million (\$7,295,720) (the “Offering”). Cormark Securities Inc. and Canaccord Genuity Corp. acted as co-leads and joint bookrunners of the Offering on behalf of a syndicate of other underwriters (collectively the “Underwriters”) (the “May 2024 Financing”). The offering was completed pursuant to the terms of an underwriting agreement (the “Underwriting Agreement”) between the Company and the Underwriters. The Offering consisted of 4,937,500 common shares issued pursuant to the listed issuer financing exemption available under Part 5A of National Instruments 45-106 (“NI 45-106”) - Prospectus Exemptions, for gross proceeds of CND\$7,900,000 (the “LIFE Tranche”). In addition, the Company completed, concurrently with the LIFE Tranche, a brokered private placement of 1,312,500 common shares on the same terms as the LIFE Tranche, for gross proceeds of CND\$2,100,000 (the “Concurrent Private Placement Tranche”) pursuant to applicable exemptions under NI 45-106 other than the listed issuer financing exemption.

In accordance with the terms of the Underwriting Agreement, the Company paid a fee to the Underwriters in connection with the Offering comprised of (i) a cash fee equal to 6.0% of the aggregate gross proceeds of the Offering (“Cash Commission”), and (ii) an aggregate number of compensation warrants (“Compensation Warrant”) equal to 6.0% of the aggregate number of common shares issued as part of the Offering. Each Compensation Warrant is exercisable to acquire one common share at an exercise price equal to the Offering price (for Compensation Warrants issued pursuant to the LIFE Tranche) or CND\$1.71 (for Compensation Warrants issued pursuant to the Concurrent Private Placement Tranche) for a period of 24 months from the closing date of the Offering. Each of the Cash Commission payable and Compensation Warrants issuable to the Underwriters was reduced to 3.0% with respect to certain purchasers identified on the Company’s president’s list. The Underwriters did not receive any Cash Commission or Compensation Warrants in connection with sales completed to any US purchasers on the Company’s president’s list.

Share issuance costs related to this financing totaled \$855,674 (CND\$1,172,844) inclusive of Cash Commissions of \$412,662 (CND\$565,644) and Compensation Warrants valued at \$223,771 (CND\$306,716).

	May 2024 Financing
Gross financing proceeds (CND\$ 10,000,000)	\$ 7,295,720
Capitalized costs	(631,902)
Broker warrants issued	(223,771)
Total financing costs	(855,673)
Net financing proceeds	\$ 6,440,047

The following table shows the total proceeds with estimated use of proceeds for the May 2024 Financing, compared with the actual use of proceeds as of June 30, 2024, and estimated future use of proceeds:

May 2024 Financing (in US\$)	Estimated Use of Proceeds	Use of Proceeds at June 30, 2024	Estimated Future Use of Proceeds
Research and development activities pertaining to new product initiatives	\$ 1,091,562	\$ -	\$ 1,091,562
Sales and business development activities	4,730,103	-	4,730,103
General corporate purposes and working capital	842,153	-	842,153
Total	\$ 6,663,818	\$ -	\$ 6,663,818

Staffing Levels

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

	June 30, 2024	June 30, 2023
Customer operations	31	24
Sales and marketing	24	23
Research and development	58	61
General and administration	19	16
Total	132	124

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. In anticipation of corporate growth, the Company added headcount as compared to the prior year period to support its operations and strategic initiatives.

Commitments

The Company has the following commitments as of June 30, 2024:

Contractual Obligations	Total	Less than 1 year	1 - 5 years	After 5 years
Accounts Payable and accrued liabilities	\$ 11,903,061	\$ 11,903,061	\$ -	\$ -
Bank Loan ^(a)	7,679,000	7,679,000	-	-
EDC Loan ^(a)	2,562,779	333,333	2,396,112	166,667
Lease liabilities ^(b)	5,300,455	1,024,122	4,276,332	-
Total Contractual Obligations	\$ 27,445,295	\$ 20,939,516	\$ 6,672,444	\$ 166,667

(a) – See “Loans” below.

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

The Company may enter surety performance bonds with customers as part of a sales contract from time to time. As of June 30, 2024, the Company did not have any performance bonds outstanding.

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 June 30, 2024, the Company had outstanding purchase order commitments of \$20,190,156.

Loans

Comerica Bank

The Company initially entered into a loan agreement with the Bank on April 12, 2012 to fund ongoing working capital requirements. The Company has renewed this facility on an annual basis since the origination 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 June 30, 2024, of \$7,679,000 (\$8,500,000 as of December 31, 2023). 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. 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 six months ended June 30, 2024, for the Bank Loan was 10.50% (June 30, 2023: 9.69%). This facility previously had a maturity date of February 27, 2024; however, the facility was renewed and extended with a new maturity date of June 30, 2025.

As of June 30, 2024, the Company remained in compliance with its financial covenants.

Export Development Canada (“EDC”)

On June 29, 2023, the Company entered into a debt facility with EDC of up to \$7,000,000 (the “EDC Loan”). The EDC Loan has a six-year term with interest payable on a monthly basis during the initial 18 months with amortized principal and interest repayments through the remainder of the term. 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 June 30, 2024, 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 period ended December 31, 2023, which were 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 period ended June 30, 2024, for the EDC Loan was 13.50%.

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, most recently extended by the Company on June 4, 2021, and expected to expire January 31, 2029.

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.

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.

FINANCIAL POSITION

The Company's financial position as of June 30, 2024, compared to December 31, 2023, is as follows:

Assets	June 30, 2024	December 31, 2023	Variance
Cash	\$ 11,408,237	\$ 5,153,698	\$ 6,254,539
Restricted cash	-	673,474	(673,474)
Accounts receivable	8,946,519	7,870,573	1,075,946
Inventory	5,223,015	6,634,747	(1,411,732)
Prepaid expenses and deposits	1,591,022	1,465,857	125,165
Total current assets	\$ 27,168,793	\$ 21,798,349	\$ 5,370,444
Property and equipment	587,864	662,056	(74,192)
Intangible assets	5,828,311	6,213,239	(384,928)
Goodwill	3,445,149	3,445,149	-
Right of Use assets	2,358,828	2,679,800	(320,972)
Total assets	\$ 39,388,945	\$ 34,798,593	\$ 4,590,352
Liabilities			
Accounts payable and accrued liabilities	11,903,061	13,727,801	(1,824,740)
Deferred revenue and deposits	7,340,605	4,183,862	3,156,743
Lease liabilities	848,477	857,273	(8,796)
EDC Loan - current portion	333,333	-	333,333
Bank Loan	7,679,000	8,500,000	(821,000)
Total current liabilities	\$ 28,104,476	\$ 27,268,936	\$ 835,540
Deferred revenue and deposits	202,480	202,480	-
EDC Loan	2,562,779	2,885,723	(322,944)
Lease liabilities	1,792,279	2,122,732	(330,453)
Total liabilities	\$ 32,662,014	\$ 32,479,871	\$ 182,143

Restricted Cash

Restricted cash of \$673,474 pertained to collateral for a letter of credit facility of \$2,693,895 from the Bank that was 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 during the three months ended March 31, 2024, 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 June 30, 2024, of \$9.0 million compared to \$7.9 million as of December 31, 2023. The increase in this balance is primarily due to the timing of revenue generated. 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 ended the quarter with an inventory balance of \$5.2 million as compared to \$6.6 million as of December 31, 2023. The Company continues to prioritize the management of its inventory relative to the timing of order fulfilment, anticipated customer orders and the commercialization of the TRUSense Gateway.

Accounts Payable and Accrued Liabilities

The Company had accounts payable and accrued liabilities as of June 30, 2024, of \$11.9 million compared to \$13.7 million as of December 31, 2023. The decrease is primarily due to the timing of revenue and related cost of sales experienced during the quarter as well as inventory investment and related vendor payments.

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 June 30, 2024, inclusive of Note 12 Lease Liabilities and Note 16 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 six months ended June 30, 2024, and June 30, 2023, are as follows:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Short-term compensation	\$ 449,649	\$ 551,953	\$ 775,052	\$ 914,947
Share-based payments	36,575	50,917	114,345	90,655
	\$ 486,224	\$ 602,870	\$ 889,397	\$ 1,005,602

As part of the May 2024 Financing, certain insiders of the Company participated in the Offering and purchased an aggregate of 1,474,300 common shares. Participation of such insiders in the Offering constituted a "related party transaction" as defined under Multilateral Instruments 61-101 – Protection of Minority Security Holdings in Special Transactions ("MI 61-101"), but was exempt from the formal valuation and minority shareholder approval requirement of MI 61-101, as neither the fair market value of the securities issued to the insiders nor the consideration paid by the insiders exceeded 25% of the Company's market capitalization.

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.

	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash	\$ 11,408,237	\$ 11,408,237	\$ 5,153,698	\$ 5,153,698
Restricted cash	\$ -	\$ -	\$ 673,474	\$ 673,474
Accounts receivable	\$ 8,946,519	\$ 8,946,519	\$ 7,870,573	\$ 7,870,573
Financial Liabilities				
Accounts payable and accrued liabilities	\$ 11,903,061	\$ 11,903,061	\$ 13,727,801	\$ 13,727,801
Bank Loan	\$ 7,679,000	\$ 7,679,000	8,500,000	8,500,000
EDC Loan	\$ 2,896,112	\$ 2,896,112	\$ 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 most 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 June 30, 2024, the Company's current liabilities exceed its current assets by \$935,683. During the six months ended June 30, 2024, the Company incurred a comprehensive loss of \$2,565,064 and generated cash flows for operating activities of \$230,790. 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 June 30, 2024, and believes that it has sufficient cash resources to support operations for at least the next twelve months from June 30, 2024. 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. During the three months ended March 31, 2024, the Bank Loan was 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 June 30, 2024, 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 June 30, 2024, and December 31, 2023. With all other variables remaining constant, a 10% change of the Canadian dollar versus the U.S. dollar would have had a \$629,968 impact on net loss as of June 30, 2024, and \$104,830 as of December 31, 2023.

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 \$7,679,000 as of June 30, 2024, and \$8,500,000 as of December 31, 2023. A potential percentage change in the Bank's prime rate of 1.00% will have an impact of \$76,790 as of June 30, 2024, and \$85,000 as of December 31, 2023, on the Company's annual interest expense pertaining its line of credit facility.

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 June 30, 2024, and \$3,000,000 as of December 31, 2023. A potential percentage change in the United States' prime rate of 1.00% will have an impact of \$30,000 for the period ended June 30, 2024, and \$30,000 for the period ended December 31, 2023, on the annual interest expense pertaining to the EDC Loan.

DISCLOSURE OF OUTSTANDING SHARE DATA

As June 30, 2024, and at the date of this report, the following securities were outstanding:

	June 30, 2024	August 6, 2024
Shares	50,845,942	50,845,942
Stock options	7,725,656	7,725,656
Restricted stock units	211,018	211,018
Warrants	353,514	353,514

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 of 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

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 adoption of this amendment has not had a material impact on the interim financial statements.

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 adoption of this amendment has not had a material impact on the interim financial statements.

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 June 30, 2024, 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 June 30, 2024.

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 June 30, 2024, 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 June 30, 2024.

There were no changes in the Company's ICFR during the quarter ended June 30, 2024, that have materially affected, or are 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.