Tantalus

Transforming Utilities and Communities.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Financial Statements

For the years ended
December 31, 2022 and 2021

(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 14, 2023	March 14, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tantalus Systems Holding Inc.:

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of operations and comprehensive (loss) income for the years then ended
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the “Material Uncertainty Related to Going Concern” section of the auditor’s report, we have determined the matters described below to be the key audit matters to be communicated in our auditor’s report.

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

Description of the matter

We draw attention to Notes 3(d) and 3(e) to the financial statements. The Company enters into contracts with customers that include promises to deliver a number of products or services. Many of the Company’s products and services are distinct from other performance obligations and are accounted for as separate performance obligations. If a contract has more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on estimated relative standalone selling prices (“SSP”) of the products and services. This allocation affects the amount and timing of revenue recognized for each performance obligation.

Why the matter is a Key Audit Matter

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

How the matter was addressed in the audit

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

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

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

Evaluation of the acquisition-date fair value of intangible assets related to a business acquisition

Description of the matter

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

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

Why matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is D. Philippa Wilshaw

Vancouver, Canada
March 14, 2023

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Financial Position

(Expressed in United States dollars)

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

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"John McEwen"
Director

"Peter Londa"
Director

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Operations and Comprehensive (Loss) Income

(Expressed in United States dollars)

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

See accompanying notes to consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(Expressed in United States dollars)

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

See accompanying notes to consolidated financial statements.

TANTALUS SYSTEMS HOLDING INC.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

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

See accompanying notes to consolidated financial statements.

Supplemental cash flow information (Note 25)

1. Reporting Entity

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

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

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

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

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

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

2. Basis of Presentation

Statement of Compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2023.

Going Concern

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. During the year ended December 31, 2022, the Company incurred a comprehensive loss of $5,195,973 and used cash flows for operating activities of $3,399,032. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

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

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

(Expressed in United States dollars, unless otherwise indicated)

2. Basis of Presentation (continued)

COVID-19 Pandemic

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

The COVID-19 pandemic developed rapidly in 2021 and 2022, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and the Company's business in various ways inclusive of a reduction in supply from the Company's contract manufacturer, resulting in disruptions to the production of the Company's products and consequent delays in the supply of products to customers during the years ended December 30, 2022 and 2021.

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

3. Significant Accounting Policies

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

(a) Principles of Consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The entities contained in the consolidated financial statements are as follows:

Company Entity	Active	Country of Incorporation	Ownership Interest
TSH Canada Inc.	Yes	Canada	100%
Tantalus Systems Corp.	Yes	Canada	100%
Tantalus Systems Inc.	Yes	U.S.	100%
Energate Inc.	Yes	Canada	100%
Energate, Corp. [1]	No	U.S.	N/A
DLC Systems, Inc. d/b/a Congruitive	Yes	U.S.	100%

[1]Dissolved March 4, 2021.

3. Significant Accounting Policies (continued)

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

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

(d) Use of Estimates and Judgments

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

<u>Judgments</u>

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

3. Significant Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

Going concern

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

Estimates

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

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

Business combination

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

Impairment for indefinite life intangibles and goodwill

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

3. Significant Accounting Policies (continued)

(d) Use of Estimates and Judgments (continued)

Revenue recognition

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

Investment tax credit ("ITC") receivable

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

Warranty

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

Share-Based Compensation

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

Leases - Incremental Borrowing Rate

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

3. Significant Accounting Policies (continued)

(e) Revenues

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

1) **The Connected Devices and Infrastructure Segment.**

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

2) **The Utility Software Applications and Services Segment.**

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

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

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

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

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

3. Significant Accounting Policies (continued)

(e) Revenues (continued)

The Company determines revenue recognition through the following steps:

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

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

(f) Segment Reporting

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

The Company currently has two operating segments: (a) Connected Devices and Infrastructure and (b) Utility Software Applications and Services. The performance results for each Segment include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of operating expenses. (see Note 20 – Segmented Information for description of each segment)

3. Significant Accounting Policies (continued)

(g) Deferred Revenue

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

(h) Accounts Receivable and Allowance for Expected Credit Loss

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

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

(i) Inventory

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

(j) Property and Equipment

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

3. Significant Accounting Policies (continued)

(j) Property and Equipment (continued)

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

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

(k) Intangible Assets

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

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

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

3. Significant Accounting Policies (continued)

(l) Goodwill

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

(m) Impairment of Long-Lived Assets

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

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

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

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

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

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

An impairment loss recorded against goodwill is not reversed.

(n) Research and Development

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

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

3. Significant Accounting Policies (continued)

(o) Related Party Transactions

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

(p) Leases

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

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

Right-of-use assets and lease liabilities

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

(q) Income Taxes

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

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

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

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

(r) Earnings per Share

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

(s) Financial Instruments

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

3. Significant Accounting Policies (continued)

(s) Financial Instruments (continued)

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

i. It is held with a business model whose objective is to hold assets to collect contractual cash flows; and

ii. Its contractual term gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets

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

Cash and Restricted Cash

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

Accounts Receivable

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

3. Significant Accounting Policies (continued)

(s) Financial Instruments (continued)

Financial Liabilities

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

Derecognition

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

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

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

Offsetting of financial instruments

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

(t) Government Assistance

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

3. Significant Accounting Policies (continued)

(u) Stock-Based Compensation

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

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

(v) Provisions

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

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

(w) Share Capital

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

3. Significant Accounting Policies (continued)

(x) Commitments and Contingencies

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

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

(y) Business Combination

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

3. Significant Accounting Policies (continued)

(z) New Standards Issued but Not Yet Effective

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

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or noncurrent. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

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

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

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

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

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

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

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

4. Congruitive Acquisition

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

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

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

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

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

4. Congruitive Acquisition (continued)

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

The accounts receivables acquired are comprised of trade receivables.

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

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

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

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

5. Restricted Cash

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

(Expressed in United States dollars, unless otherwise indicated)

6. Accounts Receivable

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

The Company did not have any accounts receivable balances from related parties as at December 31, 2022 and December 31, 2021, respectively.

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

During the year ended December 31, 2022, the Company recorded credit losses of $200,000 (December 31, 2021 - $75,000), in general and administrative expense.

Aging analysis of trade receivables is as follows:

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

(Expressed in United States dollars, unless otherwise indicated)

7. Investment Tax Credits Receivable and Government Assistance

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

8. Inventory

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

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

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

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

9. Property & Equipment

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

Cost		Computers and Equipment		Furniture and Fixtures		Laboratory and Test Equipment		Leasehold Improvement		Total
Balance, December 31, 2020	$	3,374,734	$	526,055	$	5,025,717	$	1,618,114	$	10,544,620
Additions		32,191		9,960		105,439		-		147,590
Balance, December 31, 2021	$	3,406,925	$	536,015	$	5,131,156	$	1,618,114	$	10,692,210
Additions		54,555		8,455		96,368		17,170		176,548
Acquired from Congruitive		-		-		7,948		-		7,948
Balance, December 31, 2022	$	3,461,480	$	544,470	$	5,235,472	$	1,635,284	$	10,876,706

(Expressed in United States dollars, unless otherwise indicated)

9. Property & Equipment (continued)

Accumulated Depreciation	Computers and Equipment	Furniture and Fixtures	Laboratory and Test Equipment	Leasehold Improvement	Total
Balance, December 31, 2020	$ 3,262,919	$ 445,230	$ 4,065,325	$ 1,331,431	$ 9,104,905
Additions	68,388	25,402	279,043	194,605	567,438
Balance, December 31, 2021	$ 3,331,307	$ 470,632	$ 4,344,368	$ 1,526,036	$ 9,672,343
Additions	51,311	26,587	285,506	37,699	401,103
Acquired from Congruitive	-	-	1,457	-	1,457
Balance, December 31, 2022	$ 3,382,618	$ 497,219	$ 4,631,331	$ 1,563,735	$ 10,074,903

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

10. Intangible assets

Cost	Computer Software	Technology	Customer Relations	Intellectual Property	Total
Balance, December 31, 2020	$ 1,615,946	$ -	$ 677,509	$ 962,058	$ 3,255,513
Additions	382,621	-	-	-	382,621
Balance, December 31, 2021	$ 1,998,567	$ -	$ 677,509	$ 962,058	$ 3,638,134
Additions	-	-	-	-	-
Acquired from Congruitive	-	6,530,000	830,000	328,000	7,688,000
Balance, December 31, 2022	$ 1,998,567	$ 6,530,000	$ 1,507,509	$ 1,290,058	$ 11,326,134

(Expressed in United States dollars, unless otherwise indicated)

10. Intangible assets (continued)

Accumulated Amortization		Computer Software		Technology		Customer Relations		Intellectual Property		Total
Balance, December 31, 2020	$	1,481,732	$	-	$	577,183	$	821,925	$	2,880,840
Additions		356,345		-		100,326		140,133		596,804
Balance, December 31, 2021	$	1,838,077	$	-	$	677,509	$	962,058	$	3,477,644
Additions		160,441		-		-		-		160,441
Acquired from Congruitive		-		598,583		76,209		30,117		704,909
Balance, December 31, 2022	$	1,998,518	$	598,583	$	753,718	$	992,175	$	4,342,994

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

11. Right-of-Use Assets

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

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

12. Accounts Payable and Accrued Liabilities

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

13. Bank Loan

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

14. Lease Liabilities

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

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

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

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

On June 4, 2021, the Company entered into an amendment to extend the maturity date of the lease for its Burnaby, BC office facility from January 31, 2022 to January 31, 2029. This resulted in the addition of a Right-of-Use asset of $2,735,411, net lease liability of $3,099,250 and leasehold inducements of $445,519. The estimated future payments of the related undiscounted variable operating costs are $3,396,783 pertaining to this extension.

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

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

(Expressed in United States dollars, unless otherwise indicated)

14. Lease Liabilities (continued)

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

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

14. Lease Liabilities (continued)

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

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

15. Share Capital

(a) Authorized share capital:

Unlimited common shares, with no par value.

Unlimited preferred shares, with no par value.

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

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

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

15. Share Capital (continued)

(b) Issuance of Common Shares in Congruitive Acquisition

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

(c) Stock Option Plan

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

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

During the year ended December 31, 2022, 18,074 shares were issued as a result of stock options being exercised with an exercise price of CND$1.00 for gross proceeds of $14,125 (60,069 shares issued for the year ended December 31, 2021 for gross proceeds of $51,650).

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

(Expressed in United States dollars, unless otherwise indicated)

15. Share Capital (continued)

(c) Stock Option Plan (continued)

	Number of Options		Weighted Average Exercise Price (CND$)
Balance at December 31, 2020	4,841,884	$	1.00
RiseTech options exchanged in reverse acquisition	18,284	$	1.64
Granted during the period	1,111,519	$	2.12
Exercised during the period	(65,069)	$	1.00
Forfeited/expired during the period	(37,205)	$	1.00
Balance at December 31, 2021	5,869,413	$	1.21
Granted during the period	1,219,646	$	1.35
Exercised during the period	(18,074)	$	1.00
Forfeited/expired during the period	(172,908)	$	1.00
Balance at December 31, 2022	**6,898,077**	**$**	**1.24**

As at December 31, 2022, the number of stock options outstanding and exercisable and the exercise price, adjusted for the share consolidation which occurred on January 29, 2021, was as follows:

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

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

(Expressed in United States dollars, unless otherwise indicated)

15. Share Capital (continued)

(c) Stock Option Plan (continued)

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

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

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

(d) Restricted Stock Units

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

15. Share Capital (continued)

(e) Stock-based compensation expense

Stock-based compensation expense recognized attributable to options and RSU's granted was $773,478 and $462,080 during the years ended December 31, 2022 and December 31, 2021, respectively.

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

Year ended December 31, 2022		**Cost**		**Stock-based Compensation**		**Total**
Cost of sales	$	20,705,878	$	858	$	20,706,736
Sales and marketing		6,650,641		159,449		6,810,090
Research and development		7,511,035		60,352		7,571,387
General and administrative		7,752,992		552,819		8,305,811
	$	21,914,668	$	772,620	$	22,687,288
Total	$	42,620,546	$	773,478	$	43,394,024

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

16. Finance Expenses

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

(Expressed in United States dollars, unless otherwise indicated)

17. Income Taxes

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates of 27.00% for the years ended December 31, 2022 and December 31, 2021 to income before income taxes due to the following:

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

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

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

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

As at December 31, 2022, the Company has non-capital loss carry forwards for Canadian and United States income tax purposes available to reduce taxable income otherwise payable in future years. These losses expire as follows:

(Expressed in United States dollars, unless otherwise indicated)

17. Income Taxes (continued)

Year Loss Expires	Canada	US	Total
2023		-	-
2024	2,797,964	-	2,797,964
2025	7,944,080	-	7,944,080
2026	841,043	-	841,043
2027	2,156,493	-	2,156,493
2028	5,889,673	-	5,889,673
2029	14,145,723	-	14,145,723
2030	10,934,793	-	10,934,793
2031	4,142,095	-	4,142,095
2032	2,776,540	-	2,776,540
2033	2,824,409	-	2,824,409
2034	160,255	-	160,255
2035	1,007,672	-	1,007,672
2036	1,786,169	109,471	1,895,640
2037	1,789,918	203,023	1,992,941
2038	1,324,476	116,231	1,440,707
2039	1,107,640	2,139,078	3,246,718
2040	953,670	1,043,680	1,997,350
2041	1,079,074	897,166	1,976,240
2042	780,052	1,985,300	2,765,352
Total Losses	**64,441,739**	**6,493,949**	**70,935,688**

The Company has Canadian non-capital loss carryforwards of $64,441,739 which are available to reduce future taxable income. These non-capital loss carryforwards begin to expire in 2024. The benefit of these non-capital losses has not been recognized as their realization is not reasonably assured.

The Company has loss carry forwards in other jurisdictions as a result of its foreign operations. For US income tax purposes, there are non-capital loss carry forwards totaling approximately $6,493,950 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years. These non-capital loss carry forwards begin to expire in 2036. The benefit of these non-capital losses has not been recognized as their realization is not reasonably assured.

The Company has Undepreciated Capital Cost (“UCC”) amounts of approximately $5,173,812 and approximately $10,303,072 of scientific research and experimental development expenditures (”SR&ED”) that may be carried forward indefinitely to be deducted against future Canadian taxable income. The Company has $5,135,972 of reserves that may be deducted against future Canadian taxable income. The Company also has federal investment tax credits of approximately $426,585 available to offset future Canadian federal income taxes payable which expire commencing in 2023. The benefits of the UCC, the federal investment tax credits and the SR&ED expenditures have not been recognized as their realization is not reasonably assured.

(Expressed in United States dollars, unless otherwise indicated)

18. Loss per Share

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

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

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

The weighted average number of common shares is as follows:

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

19. Commitments and Contingencies

(a) In the ordinary course of business, the Company may deliver performance and/or payment bonds to customers in connection with a sales contract. As at December 31, 2022, the Company had one performance bond outstanding of $2,693,895 with which the Company has provided security through restricted cash representing 25% of such bond equaling $673,474 (Note 5) (December 31, 2021 - $1,138,012).

(b) In the ordinary course of business, the Company enters into purchase order commitments for the delivery of its products pertaining to existing and anticipated customer orders over the next twelve months from its primary vendors. As at December 31, 2022, the Company had outstanding purchase order commitments of $15,966,669 (December 31, 2021 - $13,325,090).

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

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

20. Segmented Information

<u>Operating segments</u>

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

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

(Expressed in United States dollars, unless otherwise indicated)

20. Segmented Information (continued)

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

Corporate includes all operating expenses of the Company.

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

20. Segmented Information (continued)

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

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

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

21. Expenses by Nature

Total salaries and wages as well as other personnel and contractor related expenses included in Cost of Sales for the years ended December 31, 2022 and December 31, 2021, respectively, were $3,522,742 and $3,294,812.

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

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

(Expressed in United States dollars, unless otherwise indicated)

22. Capital Disclosures

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

The following schedule details the components of capital:

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

23. Financial instruments

(a) Financial assets and liabilities

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm’s length transaction. Determining fair value requires management judgment.

As at December 31, 2022 and December 31, 2021, the carrying values of cash, restricted cash, accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities, and the bank term and working capital loans approximate their fair value due to their ability to be promptly liquidated, their short term to maturity, or their use of market rates.

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

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

The Company’s financial assets and liabilities carried at amortized cost are considered Level 2 instruments, because while observable prices and inputs are available, they are not quoted in an active market. There has not been any transfer between fair value hierarchy levels during the years ended December 31, 2022 and December 31, 2021.

(b) Financial risk management

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

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

(i) Interest rate risk

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

23. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Interest rate risk (continued)

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

(iii) Credit risk

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

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

(iv) Foreign currency exchange rate risk

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

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

23. Financial instruments (continued)

(b) Financial risk management (continued)

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

The consolidated statements of financial position include the following amounts denominated in Canadian dollars at their equivalent US dollar amounts:

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

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

(v) **Liquidity risk**

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

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

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

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

(Expressed in United States dollars, unless otherwise indicated)

24. Related Party

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

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

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

25. Supplemental Cash Flow Information

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

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