Kraken Robotics Inc.

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kraken Robotics Inc.,

Opinion

We have audited the consolidated financial statements of Kraken Robotics Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity 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 Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

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 auditors' 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 auditors' 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 International Financial Reporting Standards (IFRS), 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Jennifer Clement.

St. John's, Canada

April 28, 2022

KRAKEN

December 31, 2021

CONTENTS

KRAKEN

Consolidated Statements of Financial Position
December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	December 31, 2021	December 31, 2020
ASSETS		Adjusted (note 8, 25)
Current assets:		
Cash	**$ 6,754,299**	$ 12,924,509
Trade and other receivables (note 6)	**6,094,656**	2,595,731
Contract asset (note 18)	**2,698,757**	524,189
Current tax receivable	**75,343**	82,069
Inventory (note 7)	**14,977,303**	8,129,302
Prepayments (note 8)	**1,123,337**	859,320
	31,723,695	25,115,120
Restricted cash (note 5)	**-**	1,057,982
Prepayments (note 8)	**288,043**	529,230
Property and equipment (note 9)	**18,679,416**	6,709,735
Intangible assets (note 10)	**7,518,829**	1,035,109
Goodwill (note 10)	**7,255,358**	372,898
TOTAL ASSETS	**$ 65,465,341**	$ 34,820,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 11)	**$ 4,943,116**	$ 709,098
Trade and other payables	**10,667,352**	4,698,963
Contract liabilities (note 18)	**4,638,786**	8,761,477
Current tax payable	**51,048**	-
Current portion of long-term obligations (note 12)	**231,183**	22,368
Current portion of lease liabilities (note 13)	**990,985**	504,277
Current portion of contingent consideration	**3,837,053**	-
	25,359,523	14,696,183
Long-term obligations (note 12)	**5,513,621**	646,492
Lease liabilities (note 13)	**3,585,794**	3,133,276
Deferred taxes (note 14)	**134,558**	332,700
Contingent consideration	**3,269,548**	-
Shareholders' equity:		
Share capital (note 15)	**47,415,578**	33,939,262
Contributed surplus	**3,191,033**	1,744,622
Accumulated other comprehensive loss	**85,071**	(119,628)
Deficit	**(23,089,385)**	(19,552,833)
	27,602,297	16,011,423
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 65,465,341**	$ 34,820,074

Commitments (note 26) Subsequent events (note 27)

On Behalf of the Board:

"Karl Kenny" Director *"Shaun McEwan"* Director

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Consolidated Statements of Net Loss and Comprehensive Loss
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
		Adjusted (note 25)
Product Revenue (note 18)	**$ 22,151,465**	$ 10,730,260
Service Revenue (note 18)	**3,477,762**	1,544,639
	25,629,227	12,274,899
Cost of sales (note 7)	**14,310,435**	6,452,048
	11,318,792	5,822,851
Administrative expenses	**8,271,059**	7,963,527
Research and development costs	**2,309,864**	1,203,280
Depreciation and Amortization	**2,914,139**	1,104,133
Share-based compensation (note 15 (d))	**432,717**	652,718
Investment tax credits recoverable	**(593,564)**	(650,138)
	13,334,215	10,273,520
Loss from operating activities	**(2,015,423)**	(4,450,669)
Foreign exchange loss (gain)	**(29,231)**	363,430
Loss (gain) on disposal of assets	**(349)**	36,338
Financing costs (note 20)	**1,656,833**	374,463
Net loss before income taxes	**(3,642,676)**	(5,224,900)
Income tax – Current (note 14)	**(70,536)**	(111,344)
Income tax – Deferred (note 14)	**176,660**	123,892
	106,124	12,548
Net loss	**(3,536,552)**	(5,212,352)
Basic and diluted loss per share	**$ (0.02)**	$ (0.03)
Basic and diluted weighted average number of shares outstanding	**182,459,224**	151,869,612

KRAKEN

Consolidated Statements of Net Loss and Comprehensive Loss
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
		Adjusted (note 25)
Net loss	**$(3,536,552)**	$(5,212,352)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**204,699**	243,403
Other comprehensive loss	**204,699**	243,403
Comprehensive loss	**$(3,331,853)**	$(4,968,949)

KRAKEN

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

2021	Number of Shares	Share capital (note 15)	Contributed Surplus Adjusted (note 25)	Accumulated other comprehensive loss	Deficit Adjusted (note 25)	Total
Balance at January 1, 2021	**167,813,430**	**$ 33,939,262**	**$ 1,744,622**	**$ (119,628)**	**(19,552,833)**	**16,011,423**
Net loss	-	-	-	-	**(3,536,552)**	**(3,536,552)**
Other comprehensive loss	-	-	-	**204,699**	-	**204,699**
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	**1,310,590**	**604,357**	**(300,406)**	-	-	**303,951**
Issue of common shares on warrant exercises	-	-	-	-	-	-
Issue of common shares	**20,000,000**	**10,000,000**	-	-	-	**10,000,000**
Issue of common shares on acquisition	**12,068,965**	**5,276,000**	-	-	-	**5,276,000**
Share issue costs settled in warrants	-	**(1,314,100)**	**1,314,100**	-	-	-
Share issue costs settled in cash	-	**(1,089,941)**	-	-	-	**(1,089,941)**
Share-based compensation	-	-	**432,717**	-	-	**432,717**
Shareholders' equity as at December 31, 2021	**201,192,985**	**$ 47,415,578**	**$ 3,191,033**	**$ 85,071**	**$ (23,089,385)**	**$27,602,297**

2020	Number of Shares	Share capital (note 15)	Contributed Surplus Adjusted (note 25)	Accumulated other comprehensive loss	Deficit Adjusted (note 25)	Total
Balance at January 1, 2020	147,177,186	$ 22,594,846	$ 1,771,984	$ (363,031)	(14,340,481)	9,663,318
Net loss Adjusted (note 25)	-	-	-	-	(5,212,352)	(5,534,933)
Other comprehensive loss	-	-	-	243,403	-	243,403
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	4,641,244	1,530,723	(601,980)	-	-	928,743
Issue of common shares on warrant exercises	495,000	367,300	(70,300)	-	-	297,000
Issue of common shares	15,500,000	10,385,000	-	-	-	10,385,000
Expiry of Warrants	-	7,800	(7,800)	-	-	-
Share issue costs	-	(946,407)	-	-	-	(946,407)
Share-based compensation Adjusted (note 25)	-	-	652,718	-	-	975,299
Shareholders' equity as at December 31, 2020	167,813,430	$ 33,939,262	$ 1,744,622	$ (119,628)	$ (19,552,833)	$16,011,423

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows provided by (used in) operating activities		Adjusted (note 25)
Net loss	$ **(3,536,552)**	$ (5,212,352)
Adjustments for items not involving cash:		
Depreciation	**2,110,817**	805,657
Amortization of intangible assets	**803,322**	298,476
Share-based payments	**432,717**	652,718
Loss (gain) on disposal of property, plant and equipment	**(349)**	36,338
Interest on lease liability (note 13)	**356,536**	220,757
Interest on long-term obligations	**62,695**	51,980
Accretion expense (note 12)	**196,298**	41,510
Fair value adjustment on contingent consideration	**356,601**	-
Income tax recovery (note 14)	**(106,124)**	(123,892)
Changes in non-cash working capital (note 23)	**(11,681,952)**	6,071,509
Net cash flows provided by (used in) operating activities	**(11,005,991)**	2,842,701
Cash flows provided by (used in) investing activities		
Acquisition of 13 Robotics Ltda (net of cash acquired) (note 21)	**(209,618)**	-
Acquisition of PGH Capital Inc. (net of cash acquired) (note 21)	**(2,559,005)**	-
Decrease (increase) in restricted cash	**1,057,982**	(1,057,982)
Purchase of property and equipment	**(5,498,243)**	(2,002,114)
Increase in intangibles	**(34,817)**	(176,342)
Net cash flows used in investing activities	**(7,243,701)**	(3,236,438)
Cash flows provided by (used in) financing activities		
Gross proceeds from common shares	**10,000,000**	10,385,000
Proceeds from exercise of warrants and options	**303,951**	1,225,743
Share issue costs	**(1,089,941)**	(946,407)
Payment of principal on leases (note 13)	**(737,462)**	(254,385)
Payment of interest on leases (note 13)	**(356,536)**	(220,757)
Payment of principal long-term obligations (note 12)	**(55,315)**	-
Payment of interest long-term obligations (note 12)	**(62,695)**	(51,980)
Increase in long term obligations (note 12)	**1,137,370**	205,119
Payment of bank indebtedness	**(1,450,000)**	-
Increase in bank indebtedness (note 11)	**4,234,018**	709,098
Net cash flows provided by financing activities	**11,923,390**	11,051,430
Net increase (decrease) in cash and cash equivalents	**(6,326,302)**	10,657,693
Effect of foreign exchange on cash	**156,092**	169,617
Cash and cash equivalents at beginning of year	**12,924,509**	2,097,199
Cash and cash equivalents at end of year	$ **6,754,299**	$ 12,924,509

1. Corporate Information:

Kraken Robotics Inc. (“Kraken” or the “Company”) was incorporated on May 14, 2008 under the *Business Corporations Act, British Columbia*), is a publicly traded company, and has its registered office located at 100 King Street. West, #1600, Toronto, Ontario, M5X 1G5.

The Company’s principal business is the design, manufacture and sale of software-centric sensors and underwater robotic systems and to provide underwater high-resolution underwater acoustic solutions.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on April 28, 2022.

(b) With the outbreak of coronavirus, specifically identified as ‘‘COVID-19’’, there has been significant economic volatility and supply change disruption. In addition, the geopolitical risk currently being experienced may cause continued economic volatility and impact on the supply change. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods. During the year the company experienced minor delays in procuring components and conducting sea trials. The company received government assistance under the CEWS (Canada Emergency Wage Subsidy) program as disclosed in Note 19.

(c) Basis of measurement and reclassification of comparative figures:

These consolidated financial statements have been prepared on a historical cost basis except for contingent consideration which is measured at fair value on each reporting date.

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

(d) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Kraken Robotic Systems Inc, Ocean Discovery Inc., Kraken Robotik GmbH, Kraken Power GmbH, Kraken Robotics US Inc, Kraken Robotics Denmark ApS, Kraken Robotics Brasil Ltda, PGH Capital Inc, PanGeo Subsea Inc and PanGeo Subsea Scotland Ltd. All intercompany balances and revenue and expense transactions have been eliminated on consolidation.

(e) Accounting estimates and judgments:

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods. The more significant areas requiring the use of management estimates and judgments are discussed below:

2. Basis of presentation (continued):

i) Revenue recognition

We have multi-year contracts with our customers, and we must make judgments about when we have satisfied our performance obligations to our customers, either over a period of time or at a point in time. Revenue from some contracts are recognized over time using the input cost method, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Judgement is used in determining the estimates of costs to complete.

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized. Any changes in estimates would impact the economic useful lives and the residual values of the assets and, therefore, future depreciation charges could be revised.

iii) Recovery of deferred tax assets

Deferred tax assets, including those arising from tax loss carryforwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of net loss and comprehensive loss.

iv) Share-based payments

The amounts recorded for share-based compensation are based on estimates. The Black Scholes model is used to estimate the fair value of stock options at the date of grant based on estimates of assumptions for share price, expected volatility, expected number of options to vest, dividend yield, risk-free interest rate, expected forfeitures and expected life of the options. Changes in these assumptions may result in a material change to the amounts recorded for the issuance of stock options.

iv) Business Combinations

The Company recognizes the consideration paid, assets acquired, and liabilities assumed at their acquisition date fair values, recognizing any goodwill acquired or gain on purchase. The purchase price allocation requires significant judgments in the identification of the acquired assets and assumed liabilities. To determine the fair values of the identified assets and liabilities the Company uses the discounted cash flow method and other accepted valuation techniques that require assumptions about business strategies, growth rates, operating costs, discount rates and other economic factors.

2. Basis of presentation (continued):

For business combinations, the acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. However, acquisition date may differ from this date if the Company obtains control on a date that is either earlier or later than this date. For example, the acquisition date precedes the closing date if a written agreement provides that the Company obtains control of the acquiree on a date before the closing date. The Company considers all pertinent facts and circumstances in identifying the acquisition date.

v) Impairment

The Company conducts impairment testing on its goodwill and intangible assets annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company determines the fair value of each cash-generating unit to which goodwill and intangible assets are allocated using the value in-use-method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the forecasted operating margins, maintenance and other capital expenditures, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. For Kraken Power, the Company's value in use test was based on a WACC of 13% an average estimated compound annual growth rate of approximately 20% from 2022 to 2026 and a terminal year free cash growth rate of 2%**.** For Sensors and Platforms, the company's value in use test was based on a WACC of 17% an average estimated compound annual growth rate of approximately 10% from 2022 to 2024 and a terminal year free cash growth rate of 3%.

3. Adoption of new accounting pronouncements:

(a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The company intends to adopt these standards, amendments and interpretations when they become effective.

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

3. Adoption of new accounting pronouncements (continued):

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
On May 14, 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

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

On May 7, 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments narrow the scope of the initial recognition exemption so that is does not apply to the transactions that give rise to equal and offsetting temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021 the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

(b) The following amended IFRS pronouncements were adopted effective January 1, 2020 and had no impact to the Company's financial statements:

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

IFRS 3 – Business Combinations

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

4. Significant accounting policies:

(a) Business combinations:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value. The acquired identifiable assets and assumed liabilities are measured at their fair value at the date of acquisition. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(b) Revenue Recognition:

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized as performance obligations are satisfied and the Company transfers control of a productor service to a customer. For performance obligations satisfied at a point in time, revenue is recognized when the Company has a present right to payment, the buyer has legal title to the asset, physical possession of the asset has transferred to the buyer, the buyer has the significant risks and rewards of ownership and the buyer has accepted the asset. Generally, the buyer obtains control at the time goods are shipped, the product is delivered, or services are rendered. For performance obligations satisfied over time, revenue is recognized by measuring the progress toward complete satisfaction of that performance obligation. For customer contracts that contain multiple performance obligations, each element is treated separately for revenue recognition purposes. For these contracts, the total transaction price is allocated to each obligation based on its relative stand-alone selling price. Revenue is then recognized for each obligation when the relevant recognition criteria are met. For customer contracts which have payment terms dictated by daily or hourly rates where some contracts may have mixed pricing terms which include a fixed fee portion. For contracts in which the customer is charged fixed rate based on time or materials spent during the project that correspond to the value transferred to the customer, revenue is recognized in the amount to which we have the right to invoice.

(c) Government grants:

Government grants are initially recognized as deferred recoveries at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for the cost of assets are netted against the cost of the associated assets.

Grants that compensate the Company for expenses incurred are recognized in profit or loss, by way of a reduction of the corresponding expenses, on a systematic basis in the periods in which the expenses are recognized.

(d) Foreign currency transactions:

In preparing the financial statements of each individual corporate entity, transactions in foreign currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are generally recognized in profit or loss in the period in which they arise.

4. Significant accounting policies (continued):

(e) Foreign currency translations:

These consolidated financial statements are presented in Canadian dollars. The results and financial position of all the Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- shareholders' equity is translated at historical rates of exchange;
- intercompany loans are translated at historical rates of exchange as they are considered part of the net investment in foreign subsidiaries and for which settlement is neither planned nor likely to occur in the foreseeable future;
- other assets and liabilities are translated at the closing rate at the date of the statement of financial position
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized within Accumulated Other Comprehensive Income ("AOCI") which is a separate component of equity.

(f) Income tax:

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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. The amount of current tax payable or receiveable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Taxable earnings differs from earnings as reported in the consolidated financial statements because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

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 not recognized for:

- temporary differences relating to investments in subsidiaries, associates and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future;
- temporary differences arising on the initial recognition of goodwill; and
- temporary difference on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

4. Significant accounting policies (continued):

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, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which it 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; such reductions are reversed when the probability of future taxable profit improves

(g) Inventories:

Inventories are recorded at lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(h) Property and equipment and Intangibles:

All items of property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is calculated using estimation to allocate their cost, net of estimated residual values, over their estimated useful lives using the following methods and at the following annual rates:

Asset	Basis	Rate
Computer equipment	Declining balance	50%
Leasehold improvements	Straight-line	20%
Marine Equipment	Straight-line	12.5%
Computer software	Straight-line	20%
Furniture and fixtures	Declining balance	20%
Tools and equipment	Straight-line	10%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases:

The Company enters into leases for infrastructure and equipment, land and buildings in the normal course of business. Lease contracts are typically made for fixed periods but may include purchase, renewal or termination options. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period on which the event or condition that triggers the payment occurs.

4. Significant accounting policies (continued):

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

Goodwill and intangible assets:

(i) Recognition and measurement

Goodwill and intangible assets with indefinite lives arising on the acquisition of subsidiaries are measured at cost less accumulated impairment losses. Intangible assets, including technology and trade secrets, customer contracts and customer relationships that are acquired and have finite useful lives are measure at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognized in profit or loss. Goodwill and trademarks and trade names with indefinite lives are not amortized.

The estimated useful lives of finite lived intangible assets are as follows:

Asset	Period
Technology and trade secrets	5 years
Customer contracts	1 year
Customer relationships	6 years
Non-compete agreements	2 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Research and development:

Research costs are expensed as incurred. Development costs are capitalized only if the expenditure 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. Otherwise, such costs are expensed as incurred. Subsequent to initial recognition, development costs are measured at cost less accumulated amortization and any accumulated impairment losses.

4. Significant accounting policies (continued):

(j) Financial instruments

(i) Financial assets and liabilities

Initial measurement and classification

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Trade receivables are initially recognized when they originate. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at amortized cost or Fair Value Through Profit and Loss ("FVTPL") while a debt instrument financial asset is recognized at Fair Value Through Other Comprehensive Income ("FVOCI") or FVTPL.

A financial asset is classified and measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

4. Significant accounting policies (continued):

Subsequent measurement

Financial assets at FVTPL	These assets, except derivatives designated as hedging instruments, are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Financial liabilities at amortized cost	These financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.
Debt instruments at FVOCI	These instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Financial liabilities at FVTPL	These liabilities, except derivatives designated as hedging instruments, are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Classification of the Company's financial instruments is as follows:

Financial instrument	Current classification
Cash and cash equivalents	Financial asset at amortized cost
Trade and other receivables	Financial asset at amortized cost
Restricted cash	Financial assets at amortized cost
Bank indebtedness	Financial liability at amortized cost
Trade and other payables	Financial liability at amortized cost
Long-term obligations	Financial liability at amortized cost
Contingent consideration	Financial liabilities at FVTPL

(ii) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

4. Significant accounting policies (continued):

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

(ii) Fair value measurement (continued):

Impairment of financial assets

The Company recognizes loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to the lifetime ECLs in accordance with the 'simplified approach' available under the standard. Under this approach, loss allowances on trade accounts receivable are always measured at lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

(k) Impairment:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU").

(l) Share-based payments:

For equity settled plans, the fair value of awards is estimated using the Black-Scholes option-pricing model at the grant date and amortized over the vesting periods. Upon exercise, consideration received on the exercise of share purchase options is recorded as share capital and the related amount recorded in contributed surplus reserve is reclassified into share capital. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. Awards issued under these plans that are forfeited before vesting are reversed from contributed surplus. For those that expire or are forfeited after vesting, the amount previously recorded in contributed surplus is transferred to deficit.

An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

4. Significant accounting policies (continued):

(m) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share for its common shares. Basic earnings (loss) per share 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 earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares.

5. Cash and restricted cash:

Cash and restricted cash consist of the following:

	2021	2020
Cash – current	$ 6,754,299	$ 12,924,509
Cash and cash equivalents	6,754,299	12,924,509
Restricted cash – non-current	-	1,057,982
	$ 6,754,299	$ 13,982,491

6. Trade and other receivables:

Trade and other receivables consist of the following:

	2021	2020
Trade receivables (note 16)	$ 4,052,134	$ 1,093,232
Government assistance receivable and other	2,042,522	1,502,499
	$ 6,094,656	$ 2,595,731

7. Inventory:

As at December 31, 2021, the Company held $14,977,303 (2020 - $8,129,302) in inventory**,** consisting of $11,420,157 (2020 - $5,913,420) in raw materials and $3,557,146 (2020 - $2,215,882) in work-in-progress. Included in cost of sales is inventory costs of $8,219,610 (2020 - $3,971,586). Inventory write-downs consisted of $41,588 (2020 - $nil).

8. Prepayments:

As at December 31, 2021, the Company had made prepayments of $1,411,380 (2020 - $1,388,550). Included in prepayments are advance payment guarantee fees of $638,321 (2020 – $936,326) and prepayments towards inventory of $190,278 (2020 - $176,210). The remaining amount of $582,781 consists of prepayments against insurance, software and other operating expenses.

The company has adjusted the 2020 comparative statements of financial position to correct a $529,230 misclassification in prepayments in the year ended December 31, 2020 between current assets and non-current assets consistent with the presentation as at December 31, 2021. As a result, working capital changed from $10,948,167 to $10,418,937.

9. Property and equipment:

(a) As at December 31, 2021 and 2020, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	Marine Equipment	Total
Cost							
Balance at January 1, 2020	**$ 1,022,546**	**$ 287,149**	**$1,608,735**	**$ 91,318**	**$ 1,034,084**	**$ -**	**$ 4,043,832**
Additions	362,264	114,339	2,353,303	1,062,009	463,502	-	4,355,417
Disposal and transfer to inventory	(66,553)	(108,654)	-	-	(115,676)	-	(290,883)
Foreign Exchange	31,946	2,443	-	-	-	-	34,389
Balance at December 31, 2020	**$ 1,350,203**	**$ 295,277**	**$3,962,038**	**$ 1,153,327**	**$ 1,381,910**	**$ -**	**$ 8,142,755**
Additions	1,044,272	211,632	451,282	3,553,808	275,567	412,964	5,949,525
Purchase of Kraken Brasil Ltda.	9,681	4,916	22,565	300,953	-	-	338,115
Purchase of PGH Capital	88,861	878,912	1,353,746		107,519	5,619,657	8,048,695
Transfer				(624,886)		624,886	-
Disposals	(11,286)	-	-	(24,130)	-	-	(35,416)
Foreign Exchange	(67,553)	(9,677)	(141,397)	-	(6,501)	-	(225,128)
Balance at December 31, 2021	**$ 2,414,178**	**$ 1,381,060**	**$5,648,234**	**$ 4,359,072**	**$ 1,758,495**	**$ 6,657,507**	**$ 22,218,546**
Accumulated depreciation							
Balance at January 1, 2020	**$ 260,200**	**$ 133,139**	**$ 247,157**	**$ -**	**$ 241,412**	**$ -**	**$ 881,908**
Depreciation	210,791	82,036	337,737		175,093	-	805,657
Disposals	(55,795)	(93,101)	-	-	(105,649)	-	(254,545)
Balance at December 31, 2020	**$ 415,196**	**$ 122,074**	**$ 584,894**	**$ -**	**$ 310,856**	**$ -**	**$ 1,433,020**
Depreciation	315,652	257,219	843,628		268,643	425,675	2,110,817
Disposals	(4,707)	-	-	-	-	-	(4,707)
Balance at December 31, 2021	**$ 726,141**	**$ 379,293**	**$ 1,428,522**	**$ -**	**$ 579,499**	**$ 425,675**	**$ 3,539,130**
Carrying amounts							
At December 31, 2020	**$ 935,007**	**$ 173,203**	**$ 3,377,144**	**$ 1,153,327**	**$ 1,071,054**	**$ -**	**$ 6,709,735**
At December 31, 2021	**$ 1,688,037**	**$ 1,001,767**	**$ 4,219,712**	**$ 4,359,072**	**$ 1,178,996**	**$ 6,231,832**	**$ 18,679,416**

10. Goodwill and intangible assets:

Reconciliation of Intangibles:

	Trademarks and trade names	Technology and trade secrets	Customer contracts	Customer relationships	Non-compete agreements	Goodwill	Total
Cost	**80,207**	780,714	627,126	508,105	-	347,350	2,343,502
Balance at January 1, 2020		176,342					176,342
Movement in exchange rates	5,637	42,101	-	26,560	-	25,548	99,846
Balance at December 31, 2020	**$ 85,844**	**$ 999,157**	**$ 627,126**	**$ 534,665**	**$ -**	**$ 372,898**	**$2,619,690**
Additions	-	34,817	-	-	-	-	34,817
Purchase of Kraken Brasil Ltda	-	-	-	-	-	34,521	34,521
Purchase of PGH Capital	893,500	3,128,500	-	3,047,000	209,000	6,877,589	14,155,589
Movement in exchange rates	(6,585)	(12,501)	-	(6,689)	-	(29,650)	(55,425)
Balance at December 31, 2021	**$ 972,759**	**$ 4,149,973**	**$ 627,126**	**$ 3,574,976**	**$ 209,000**	**$ 7,255,358**	**$16,789,192**
Accumulated depreciation							
Balance at January 1, 2020	**$ -**	**$ 191,440**	**$ 627,126**	**$ 94,641**		**$ -**	**$ 913,207**
Depreciation		197,918		100,558			298,476
Balance at December 31, 2020	**$ -**	**$ 389,358**	**$ 627,126**	**$ 195,199**	**$ -**	**$ -**	**$ 1,211,683**
Depreciation	-	453,903	-	305,877	43,542	-	803,322
Balance at December 31, 2021	**$ -**	**$ 843,261**	**$ 627,126**	**$ 501,076**	**$ 43,542**	**$ -**	**$2,015,005**
Carrying amounts							
At December 31, 2020	**$ 85,844**	**$ 609,799**	**$ -**	**$ 339,466**	**$ -**	**$ 372,898**	**$1,408,007**
At December 31, 2021	**$ 972,759**	**$ 3,306,712**	**$ -**	**$ 3,073,900**	**$ 165,458**	**$ 7,255,358**	**$14,774,187**

10. Goodwill and intangible assets (continued):

At December 31, 2021, $211,159 (2020 - $176,342) in internal technology development costs have not been amortized as they are not yet available for their intended use, but are subject to impairment testing annually.

For the purpose of impairment testing, goodwill is allocated to the Corporation's cash-generating units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

Power:

As of December 31, 2021, the aggregate carrying amount of the Company's goodwill is $343,248 (2020 - $372,898). Goodwill impairment testing requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. The Company's value in use test was based on a WACC of 13% an average estimated compound annual growth rate of approximately 20% from 2022 to 2026 and a terminal year free cash growth rate of 2%**.**
As the recoverable amount of the Power segment was determined to be greater than its carrying amount, no impairment loss was recorded in 2021 or 2020.

Sensors & Platforms:

As of December 31, 2021, the aggregate carrying amount of the Company's goodwill is $6,877,589 (2020 - $nil). Goodwill impairment testing requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. The Company's value in use test was based on a WACC of 17% an average estimated compound annual growth rate of approximately 10% from 2022 to 2024 and a terminal year free cash growth rate of 3%**.**
As the recoverable amount of the Sensor & Platforms segment was determined to be greater than its carrying amount, no impairment loss was recorded in 2021.

11. Bank indebtedness:

At December 31, 2021, the Company had available a $4,500,000 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at December 31, 2021, a total of $4,270,000 (December 31, 2020 - $Nil) was drawn against this facility. Security for operating line is accounts receivable and inventory. Kraken Power has a €500,000 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at December 31, 2021 a total of €401,169 ($578,116) (December 31, 2020 - €452,936 ($709,098)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization. Additionally, PanGeo had available a $1,500,000 line of credit for general operating purposes. The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at December 31, 2021, a total of $95,000 was drawn against this facility.

12. Long-term obligations:

	December 31, 2021	December 31, 2020
Long-term note payable in the amount of €400,000 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	$ 490,343	$ 463,741
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89,019, repayable in equal installments of €1,306 over 72 months, and maturing on December 31, 2026.	106,663	139,365
Loan, secured by equipment and infrastructure, bearing interest at 1.23% in the amount of €875,000, repayable in equal installments over 67 months, and maturing on September 30, 2026.	1,197,895	65,754
Promissory Note on acquisition of PanGeo, in the amount of $4,000,000 bearing interest at 6% per annum, due July 30, 2023	3,949,903	-
	5,744,804	668,860
Less current portion of long-term obligations	(231,183)	(22,368)
	$ 5,513,621	$ 646,492

The following tables detail the changes in long-term obligations during the period:

Opening balance – January 1, 2021	$ 668,860
Proceeds from long-term obligations	1,137,370
Payment of principle	(55,315)
Payment of interest	(62,695)
Acquisition of PGH Capital (note 21)	3,818,000
Accretion expense	196,298
Foreign Exchange	42,286
Ending Balance – December 31, 2021	$ 5,744,804

13. Lease liabilities:

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the twelve-month period ended December 31, 2021 and comparatives for December 31, 2020:

	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2020	$ 1,361,578	$ 1,538,636
Depreciation expense	(337,737)	-
Interest expense	-	220,757
Payments	-	(475,143)
Additions	2,353,303	2,353,303
Subtotal	**3,377,144**	**3,637,553**
Less: current portion	**-**	**(504,277)**
As at December 31, 2020	**$ 3,377,144**	**$ 3,133,276**
	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2021	$ 3,377,144	$ 3,637,553
Depreciation expense	(843,629)	-
Interest expense	-	356,536
Payments	-	(1,093,998)
Additions	1,840,843	1,840,843
Foreign Exchange	(154,646)	(164,155)
Subtotal	**4,219,712**	**4,576,779**
Less: current portion	**-**	**(990,985)**
As at December 31, 2021	**$ 4,219,712**	**$ 3,585,794**

The Company's minimum lease payments are as follows:

	December 31, 2021
Less than one year	1,332,707
One to three years	2,568,178
Three to five years	1,806,823
Thereafter	86,519
Minimum lease payments	5,794,227
Amounts representing finance charges	(1,217,448)
Net minimum lease payments	**$ 4,576,779**

14. Income taxes:

The Company's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to net loss before income taxes as a result of the following:

	2021	2020
Net loss before taxes	$ (3,642,676)	$ (5,224,900)
Statutory tax rates	30.0%	30.0%
Income taxes (recovery) computed at the statutory rates	$ (1,092,803)	$ (1,567,470)
Change in statutory rates	89,850	-
Other	100,413	(14,109)
Permanent differences	(66,630)	619,785
Stock option expense	129,815	195,815
Change in unrecognized deductible temporary differences	733,231	753,430
Recorded income tax (recovery)	$ (106,124)	$ (12,548)

The following deferred tax assets and liabilities are recognized in the consolidated financial statements.

	2021	2020
Deferred tax assets:		
Non-capital losses carried forward	$ 1,987,416	-
Government assistance	719,250	-
Deferred tax liabilities:		
Property and equipment	$ (614,248)	$ (17,962)
Intangibles	(2,202,055)	(260,651)
Other	(24,921)	(54,087)
	$ (134,558)	$ (332,700)

The net change in deferred tax liabilities for the year includes an increase of $21,482 as a result of foreign exchange fluctuations.

The Company has the following deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the consolidated financial statements:

	2021	Expiry date	2020	Expiry date
Deductible temporary differences	$ 5,285,931	N/A	$ 3,436,046	N/A
Non-capital losses that expire	36,821,115	2026-2041	13,076,498	2028-2040
Non-capital losses that never expire	6,238,565	No expiry	519,850	No expiry
Investment tax credits	692,316	2036-2039	692,316	2036-2039
	$ 49,037,927		$ 17,724,710	

Deferred tax benefits which may arise as a result of deferred income tax assets have not been recognized in these consolidated financial statements as management believes that it is not probable that sufficient taxable income will be available to realize such assets.

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2021 for the Company's subsidiaries was $3,779 (December 31, 2020 - $198,150).

15. Share capital:

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders' equity for a summary of changes in Share capital and Contributed surplus for the years ended December 31, 2021 and 2020.

(a) Private placements

On October 26, 2020 the Company closed a bought deal short form prospectus offering of common shares. A total of 15,500,000 common shares were sold at a price of $0.67 per common share for gross proceeds of $10,385,000. Total share issued costs amounted to $946,407 which included the underwriters a cash commission equal to 6% as well as legal and accounting fees.

On July 26, 2021 the Company closed a bought deal short form prospectus offering of common shares. A total of 20,000,000 common shares were sold at a price of $0.50 per common share for gross proceeds of $10,000,000. Total share issued costs amounted to $1,089,941 which included the underwriters cash commission equal to 6% as well as legal and accounting fees. In addition, the underwriters received 10,000,000 share purchase warrants at a price of $0.60 per common share.

(b) Share purchase warrants

In December 2020, 495,000 warrants were exercised at a price of $0.60, and 55,000 warrants expired unexercised.

At December 31, 2021 and December 31, 2020, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	December 31, 2021	December 31, 2020	Weighted Average Remaining Contractual Life
July 26, 2023	$0.60	10,000,000	-	1.57 years
	$0.60	**10,000,000**	**-**	**1.57 years**

(c) Share options

The Company has a share option plan, under which the Board of Directors is authorized to grant options to employees, directors, officers and consultants, enabling them to acquire up to 10% of the issued and outstanding share capital of the Company. The exercise price of each option is based on the market price of the Company's share as calculated on the date of grant. The options can be granted for a maximum term of five years. Options granted to investor relations consultants are subject to vesting provisions, as established by regulatory authorities, over a twelve-month period, with no more than ¼ vesting during any three-month period. Vesting provisions for other options are determined by the Company's Board of Directors.

At May 1, 2020 the Company issued 75,000 employee options. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was $0.44.

At July 13, 2020 the Company issued 1,500,000 options to the Company's Board of Directors. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was $0.57.

At August 4, 2020 the Company issued 300,000 options to a Company Director. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was $0.51.

15. Share capital (continued):

At July 30, 2021 the company issued 1,000,000 options to an officer. The options are exercisable at a price of $0.50 per share. The options expire July 30, 2026, vesting over the next two years on the following schedule: 250,000 vesting immediately, 250,000 vesting six months following date of grant, 250,000 vesting 12 months and 250,000 vesting 24 months following the date of grant.

At November 29, 2021 the Company issued 100,000 employee options. The options have a five-year term, with vesting in four equal instalments consisting of the date of grant and one, two and three-year anniversaries of the initial grant. The exercise price of the options was $0.39.

The following options were outstanding as at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	9,238,333	$ 0.535	12,051,834	$ 0.376
Granted	1,100,000	0.49	1,875,000	0.56
Exercised	(1,306,667)	0.233	(4,650,167)	0.20
Expired	(673,333)	0.59	(38,334)	0.408
Ending balance	8,358,333	$ 0.57	9,238,333	$ 0.535
Options exercisable	7,008,333	$ 0.581	5,911,716	$ 0.51

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.70	March 5, 2022	500,000	500,000	0.18 years
0.63	July 14, 2022	1,200,000	1,200,000	0.53 years
0.63	July 14, 2022	400,000	400,000	0.53 years
0.53	September 8, 2022	2,583,333	2,583,333	0.69 years
0.44	May 1, 2023	75,000	50,000	1.33 years
0.57	July 14, 2023	1,200,000	800,000	1.53 years
0.51	August 5, 2023	300,000	200,000	1.59 years
0.63	July 14, 2024	1,000,000	1,000,000	2.54 years
0.50	July 30, 2026	1,000,000	250,000	4.58 years
0.39	November 29, 2026	100,000	25,000	4.92 years
$ 0.57		**8,358,333**	**7,008,333**	**1.84 years**

(d) Share-based compensation

During the year ended December 31, 2021, the Company recorded share-based compensation totaling $432,717 (2020 - $652,718), which was expensed in operations with a corresponding increase in contributed surplus.

15. Share capital (continued):

The weighted average share price at the date of exercise for share options exercised during the year ended December 31, 2021 was $0.233 (2020 - $0.208).The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31, 2021	Year ended December 31, 2020
Risk-free interest rate	0.54% to 1.22%	0.22% to 0.29%
Expected life of options	4.07 years	3 years
Expected volatility	61.2% to 66.6%	66.72% to 116.51%
Weighted average fair value per option	$0.14 to $0.24	$0.19 to $0.39
Dividend yield	Nil	Nil

16. Financial instruments:

Credit Risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31, 2021	December 31, 2020
Cash and cash equivalents and restricted cash (note 5)	$ 6,754,299	$ 13,982,491
Trade and other receivables	6,094,656	2,595,731
Contract assets	2,698,757	524,189
	$ 15,547,712	$ 17,102,411

The Company's trade receivables have been aged as follows:

	December 31, 2021	December 31, 2020
Current	$ 1,261,569	$ 753,222
31-60 days	1,732,246	183,280
61-90 days	636,150	-
> 90 days	422,169	156,730
	$ 4,052,134	$ 1,093,232

Credit risk is defined as our exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. We are exposed to credit risk on our accounts receivable and certain other assets through our normal commercial activities. We are also exposed to credit risk through our normal treasury activities on our cash and cash equivalents and restricted cash. Credit risks arising from our normal commercial activities are managed with regards to customer credit risk. Our customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, we typically receive substantial advance payments for contracts with customers. We do not hold any collateral as security. The credit risk on cash and cash equivalents and restricted cash is mitigated by the fact that the majority of the cash is held with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Trade receivables include an expected credit loss. As of December 31, 2021, the amount is $232,478 (2020 - $167,405).

Revenues from the top three customers represented 64% of the Company's revenue in the year ended December 31, 2021 (2020 – top three customers represented 59% of revenue). At December 31, 2021, 45% of the trade receivables balance were owing from two customers (2020 – 63% of trade receivables was owing from two customers). At December 31, 2021, the Company had recorded contract liabilities of $638,786 (2020 – $8,761,477).

16. Financial instruments (continued):

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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. As of December 31, 2021, the Company had a cash balance of $6,754,299 (December 31, 2020 - $12,924,509), and positive working capital of $6,364,172. The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance to fulfill contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

The following are the contractual maturities of financial liabilities based on the earliest date on which the Company can be required to repay such liabilities:

	0-12 months	1-2 years	2-4 years	Beyond four years
Bank indebtedness	$ 4,943,116	$ -	$ -	$ -
Trade and other payables	10,667,352	-	-	-
Long-term obligations	231,183	4,673,907	476,201	363,513
Contingent consideration	3,837,053	3,289,548	-	-
	$ 19,678,704	$ 7,963,455	$ 476,201	$ 363,513

Market Risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

At December 31, 2021, the Company held $6,754,299 in cash and has drawn $4,270,000, $578,116 and $95,000 against its operating lines of credit. The drawn operating line of credit bears interest annually at bank prime plus 2.5%, 3.95% and bank prime plus 2.5% respectively, payable monthly. An increase (decrease) of 10% in interest would have increased (decreased) the Company's net loss by approximately $3,869.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales and certain purchases in USD, EUR, GBP, DKK and BRL. The Company does not use any form of hedging against fluctuations in foreign exchange.

16. Financial instruments (continued):

The Company's exposure to foreign currency risk was as follows:

	December 31, 2021	December 31, 2020
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 1,482,070	$ 427,353
Trade and other payables GBP	1,629,197	37,765
Trade and other payables EUR	1,047,990	847,397
Trade and other payables DKK	134,325	266,446
Trade and other payables BRL	276,696	-
Long-term debt EUR	1,203,885	423,945
Bank indebtedness EUR	401,169	452,936
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	1,458,855	613,188
Trade and other receivables GBP	1,802,667	-
Trade and other receivables EUR	170,377	108,471
Trade and other receivables DKK	955	2,577
Trade and other receivables BRL	28,183	-

For the year ended December 31, 2021, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately $302,436 (2020 - $538,762).

Fair Value:

During the year ended December 31, 2021, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts.

The following table provides the disclosures of the fair value and the level in the hierarchy:

December 31, 2021	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash	$ 6,754,299	$ -	$ -
Trade, other receivables and contract asset	-	8,793,413	-
Restricted cash	-	-	-
Financial liabilities at amortized cost:			
Bank indebtedness		4,943,116	
Trade and other payables	-	10,667,352	-
Long-term obligations	-	5,744,804	-
Financial liabilities at FVTPL:			
Contingent consideration	-	-	7,106,601

16. Financial instruments (continued):

December 31, 2020	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash	$ 12,924,509	$ -	$ -
Trade and other receivables	-	3,119,920	-
Restricted cash	1,057,982	-	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	709,098	-
Trade and other payables	-	4,698,963	-
Long-term obligations	-	668,860	-

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The Company does not record any asset or liability at fair value on an ongoing basis.

The carrying values of cash, restricted cash, accounts receivable, trade and other payables and bank indebtedness approximate their fair values due to their short term to maturity.

The fair values of the long-term obligations are estimated using a discounted cash flow valuation technique.

The fair value measurement for contingent consideration uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at December 31, 2021. The carrying value of the contingent consideration equals fair value as it is categorized as fair value through profit and loss. The fair value of the long-term debt approximates the amortized cost. For the fair value of contingent consideration, changes to the risk-adjusted discount rate of 1% at December 31, 2021, while holding other inputs constant. An increase (decrease) in discount rate would have increased (decreased) the Company’s net loss by approximately $87,475 and ($89,458) respectively.

17. Capital management:

The Company’s objectives when managing its capital are to maintain a financial position suitable for supporting its operations and growth strategies, to provide an adequate return to shareholders and to meet its current obligations.

The Company’s capital structure consists of shareholders’ equity, lease liabilities, contingent consideration, and long-term obligations. The Company will make adjustment to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue debt or sell assets to reduce debt.

18. Revenue:

Disaggregation of revenues

The following table groups the Company's revenue based on the timing of revenue recognition for its products and services:

	December 31, 2021	December 31, 2020
Product sales – transferred at a point in time	**$ 14,320,658**	$ 9,884,676
Product sales – transferred over time	**7,830,807**	845,584
Service revenue - transferred over time	**3,477,762**	1,544,639
	$ 25,629,227	$ 12,274,899

Refer to note 24 for external revenue by geographic areas.

Contract balances

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company recognizes unbilled revenue where professional services are performed or products are delivered prior to the Company's ability to invoice in accordance with the contract terms, or contract liabilities when revenue is recognized subsequent to invoicing.

As at December 31, 2021, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $4,638,786 (2020 - $8,761,477).

The following tables detail the changes in contract assets and contract liabilities during the period.

	Contract assets
Opening balance – January 1, 2021	$ 524,189
Increase in unbilled from revenue recognized	3,473,554
Decrease in unbilled from transfer to trade receivables and other adjustments	(1,298,986)
Ending Balance – December 31, 2021	**$ 2,698,757**

	Contract liabilities
Opening balance – January 1, 2021	$ 8,761,477
Increase in contract liabilities from payments received, excluding revenue recognized	9,771,487
Decreases in contract liabilities from revenue recognized	(13,894,178)
Ending Balance – December 31, 2021	**$ 4,638,786**

19. Government assistance:

During the year ended December 31, 2021, the Company received government assistance, excluding the OceanVision project, in the amount of $4,075,345 (2020 - $4,509,039). Government Assistance has been classified as a reduction to Cost of Sales of $632,783 (2020 - $292,381), Research & Development expense of $2,217,934 (2020 – $3,279,017), Administrative expense of $952,265 (2020 - $889,992) and Construction in Process of $272,363 (2020 - $47,649). Included in the amounts noted above is $1.4 million received or receivable under CEWS program.

19. Government assistance (continued):

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the year ended December 31, 2021, including $1,404,545 (2020 – $2,590,963) in reimbursements from the Ocean SuperCluster and $937,967 (2020 – $972,538) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense of $1,531,772 (2020 – $2,390,283), Administrative expense $189,060 (2020 – $91,703), Cost of sales of $nil (2020 – $58,578) and Construction in progress of $621,680 (2020 – $1,022,937).

20. Financing costs:

	2021	2020
Interest on lease liabilities	**$ 356,536**	$ 220,757
Letters of credit and other	**747,398**	112,196
Accretion on long-term obligations	**196,298**	41,510
Fair value adjustment of contingent consideration	**356,601**	-
	$ 1,656,833	$ 374,463

21. Business combinations:

13 Robotics Ltda

On April 16, 2021, the Company acquired a 100% interest in 13 Robotics Ltda based in Brazil for US$220,000 cash (C$273,241). The Corporation has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date.

Fair value of cash, accounts receivable and trade and other payables were deemed to be approximate to their carrying amounts due to the short-term nature of these assets and liabilities. Fair value of fixed assets and right-of-use assets has been determined based on market comparison and replacement cost techniques. Replacement cost of these assets has been determined and depreciated replacement cost reflects fair value.

Fair value of assets acquired and liabilities assumed	**Brazilian Real R$**	**Canadian $**
Cash	**R$** 285,562	**$** 63,623
Accounts Receivable	12,484	2,782
Fixed Assets	1,261,033	280,958
Right-of-use asset	144,609	32,219
Intangibles: Goodwill	154,941	34,521
Trade and other payables	(632,234)	(140,862)
Fair value of assets acquired and liabilities assumed	**R$ 1,226,395**	**$ 273,241**

PGH Capital

On July 30, 2021, the Corporation, acquired a 100% interest in PGH Capital Inc. (PanGeo) which operates through its subsidiaries, PanGeo Subsea Inc. and PanGeo Subsea Scotland Limited (collectively with PGH Capital, "PanGeo"). The aggregate consideration paid by the Corporation to acquire PanGeo is comprised of the following: (i) $3.0 million in cash at closing; (ii) 12,068,965 common shares valued at $7.0 million; (iii) $4.0 million non-transferable promissory notes and (iv) Contingent consideration of up to $9.0 million.

21. Business combinations (continued):

Contingent consideration of up to $9.0 million is to be paid pursuant to an earn-out on the following terms: (i) an amount equal to 300% of the amount by which certain qualifying revenues in the one-year period immediately following the closing date exceeds $9.5 million, up to a maximum payment of $4.5 million (the “First Earn-Out Amount”); and (ii) the amount equal to 300% of the amount by which certain qualifying revenues in the two-year period immediately from the closing date exceeds $21.5 million, up to a maximum payment of $4.5 million less any amount paid pursuant to the First Earn-Out Amount (the “Second Earn-out” and together with the First Earn-Out Amount, the “Earn-Out Amounts”. The Corporation has estimated the present value of the contingent consideration at the date of acquisition to be approximately $6,750,000 discounted by a rate of 17.37%

The Earn-Out Amounts will be paid within thirty business days following the filing deadline date or the actual filling date on SEDAR, whichever is the earliest, of Kraken’s quarterly financial statements for the quarter that includes first or second year anniversary of the Closing Date, as the case may be. At Kraken’s option and, subject always to the approval of the TSX Venture Exchange at the time, payments required to be made in respect of the Earn-Out Amounts may be satisfied by way of a cash payment equal to 50% of the Earn-Out Amount and the issuance of Common Shares having an aggregate value equal to the remaining 50% of the Earn-Out Amount then due and payable.

The Corporation has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. Fair value of cash, accounts receivable and trade and other payables were deemed to be approximate to their carrying amounts due to the short-term nature of these assets and liabilities. Fair value of fixed assets and right-of-use assets has been determined based on market comparison and replacement cost techniques. Replacement cost of these assets has been determined and depreciated replacement cost reflects fair value.

Fair value of assets acquired and liabilities assumed	**Canadian $**
Cash	$ 1,041,336
Accounts Receivable	1,318,815
Prepaid Expenses	231,487
Inventory	268,804
Fixed Assets	6,729,310
Right-of-use asset	1,053,829
Intangibles	7,278,000
Goodwill	6,877,589
Trade and other payables	(3,904,829)
Bank indebtedness	(1,450,000)
Fair value of assets acquired and liabilities assumed	**$ 19,444,341**

Consideration	**Canadian $**
Cash paid	**$ 3,000,000**
Assumption of ACOA loan liability	**600,341**
Kraken Robotics common shares	**5,276,000**
Promissory notes	**3,818,000**
Contingent consideration	**6,750,000**
Total Consideration	**$ 19,444,341**

21. Business combinations (continued):

The accounts receivables comprise of gross contractual amounts due of $1,508,725, of which $189,910 was expected to be uncollectable at the date of acquisition.

The goodwill recognized in connection with the acquisition of PGH Capital Inc, a company specializing in high-resolution acoustic imaging solutions for the sub-seabed, is attributable to the synergies and market opportunities gained through the transaction. Goodwill also includes other intangibles such as an assembled workforce that do not qualify for a separate recognition under IFRS.

Since the date of acquisition, PanGeo contributed revenue of $2,571,219 and net loss of $1,384,279 excluding the amortization of acquired intangible assets. The Corporation incurred $534,290 in acquisition costs related to the acquisition, which has been expensed as administrative expenses in the consolidated statements of net loss. The goodwill is not tax deductible and has been allocated to the sensors and platforms cash generating unit. The acquired intangible assets are being amortized over their estimated useful lives as follows:

- Technology and trade secrets – 5 years
- Customer Relationships - 6 years
- Non-compete Agreements – 2 years

22. Related party transactions:

Compensation of key management personnel:

	2021	**2020**
Share-based payments	**$ 362,971**	$ 663,819
Short-term employee benefits	**33,460**	42,399
Salaries and wages	**1,453,783**	2,293,705
	$ 1,850,214	$ 2,999,923

23. Change in non-cash working capital:

	2021	**2020**
Decrease (increase) in trade and other receivables	**$ (2,131,251)**	$ 1,881,751
Decrease (increase) in contract assets	**(2,174,568)**	(251,357)
Increase in inventory	**(6,579,001)**	(2,243,046)
Decrease (increase) in prepayments	**208,170**	(957,088)
Increase in trade and other payables	**3,117,389**	1,073,638
Increase (decrease) in contract liabilities	**(4,122,691)**	6,316,254
	$ (11,681,952)	$ 6,071,509

24. Segmented information:

The Company operates in two reportable operating segments, being: 1) “Sensors and Platforms” which is the design, manufacture and sale and provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms; 2) “Power” which is the design, manufacture and sale of subsea power equipment such as drives, thrusters, and batteries.

24. Segmented information (continued):

The following tables present the operations of the Company's reportable segments as at and for the year ended December 31, 2021 and comparatives for December 31, 2020:

December 31, 2021	Sensors and Platforms	Power	Consolidated
Revenue	$ 21,253,637	$ 4,375,590	$ 25,629,227
Cost of Goods sold and expenses	$ 24,554,123	$ 4,717,780	$ 29,271,903
Segment profit (loss)	$ (3,300,486)	$ (342,190)	$ (3,642,676)
Segment assets	$ 58,889,084	$ 6,534,309	$ 65,423,393
Segment liabilities	$ 32,935,767	$ 4,866,934	$ 37,802,701
Segment capital expenditures	$ 5,038,886	$ 910,639	$ 5,949,525

December 31, 2020	Sensors and Platforms	Power	Consolidated
Revenue	$ 8,251,323	$ 4,023,576	$ 12,274,899
Cost of Goods sold and expenses	$ 12,039,943	$ 5,459,856	$ 17,499,799
Segment profit (loss)	$ (3,788,620)	$ (1,436,280)	$ (5,224,900)
Segment assets	$ 28,967,226	$ 5,952,848	$ 34,820,074
Segment liabilities	$ 14,066,389	$ 4,742,262	$ 18,808,651
Segment capital expenditures	$ 2,104,434	$ 2,250,983	$ 4,355,417

Presentation of above table has been updated to show the net of intercompany transactions to better reflect the segmented information for the company.

Revenues from external customers are attributed to geographic areas based on the location of the contracting customers.

The following table sets forth external revenue by geographic areas:

	2021	2020
Total revenues:		
Canada	**$ 1,264,389**	$ 822,234
United States	**5,969,822**	8,226,024
Europe	**17,946,396**	3,135,750
Other	**448,620**	90,892
	$ 25,629,227	$ 12,274,899

24. Segmented information (continued):

For the year ended December 31, 2021, the Company had two customers that individually accounted for 31% and 23% of revenue and for the year ended December 31, 2020, the Company had two customers that individually accounted for 34% and 23% of revenue.

25. Adjustment of immaterial prior period error:

During the year, management identified an overstatement of share-based compensation expense recognized due to a calculation error. The immaterial adjustment resulted in a decrease to share-based compensation for the year ended December 31, 2020, a decrease in contributed surplus and a decrease in the deficit as reported January 1, 2020 and December 31, 2021.

	As previously reported	Impact of adjustment	As adjusted
Share-based compensation	$975,299	$(322,581)	$652,718
Net loss	(5,534,933)	322,581	(5,212,352)
EPS	(0.04)	0.01	(0.03)
Contributed surplus December 31, 2020	2,516,143	(771,521)	1,744,622
Deficit December 31, 2020	(20,324,354)	771,521	(19,552,833)
Deficit January 1, 2020	(14,789,421)	448,940	(14,340,481)
Contributed surplus January 1, 2020	2,220,924	(448,940)	1,771,984

26. Commitments:

(a) To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of $6.3 million, while the balance of the project of $12.5 million will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to the project is $4.7 million, of which $2.1 million remains outstanding at December 31, 2021.

(b) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$6,214,595 (C$7,907,792) and US$829,802 (C$1,055,886) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023 and October 31, 2024, respectively.

(c) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at December 31, 2021 is $12,622.

27. Subsequent events:

Subsequent to December 31, 2021, the Company:

(a) PanGeo has received a non-interest bearing repayable loan from Atlantic Canada Opportunities Agency (ACOA) in the amount of $295,125, this amount will be claimed throughout 2022 with $21,206 currently outstanding. Repayment of the loan will be made in monthly installments beginning June 1, 2023 through May 1, 2027.