Kraken Robotics Inc.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars unless otherwise noted)

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INDEPENDENT AUDITOR'S 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, 2022 and December 31, 2021
- 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the 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.

Key Audit Matters

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

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of impairment of goodwill and intangible assets with indefinite useful lives of the Services cash generating unit

Description of the matter

We draw attention to Notes 2(d)(v), 4(h)(i), 4(k) and 10 to the financial statements. The Entity performs impairment testing of goodwill and intangible assets with indefinite useful lives annually at December 31 and when there is an indication that the asset may be impaired. The Entity has recorded goodwill and intangible assets with indefinite useful lives of $7,771 thousand related to the Services cash generating unit ("CGU"). The Entity assesses impairment by comparing the recoverable amount of an asset or CGU to its carrying value. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The Entity determines the recoverable amount using the value in use method, which estimates the fair value using a discounted cash flow analysis. The Entity's significant assumptions used to determine the recoverable amount of the CGU include:

- projected revenues;
- projected gross margin rates; and
- discount rate.

Why the matter is a key audit matter

We identified the evaluation of impairment of goodwill and intangible assets with indefinite useful lives of the Services cash generating unit as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of goodwill and intangible assets with indefinite useful lives and the high degree of estimation uncertainty in assessing the assumptions used to determine the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the Entity's significant assumptions due to the sensitivity of the recoverable amount to changes in the significant assumptions above.

How the matter was addressed in the audit

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

- We compared the Entity's historical projected revenues and projected gross margin rates to actual results and projections used in the original allocation of the purchase price to assess the Entity's ability to accurately project revenues and gross margin rates.

- We evaluated the Entity's projected revenues and projected gross margin rates by understanding the Entity's long-term strategy, examining a selection of purchase orders, taking into account actual results, conditions or events to assess adjustments or lack of adjustments, and changes in macroeconomic factors affecting the CGU.
- We involved valuation professionals with specialized skills and knowledge, who assisted in assessing the discount rate used to determine the recoverable amount. The valuation professionals assessed the Entity's discount rate against discount rate ranges that were independently developed using publicly available market and industry data and considering risks specific to the CGU.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the 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 auditor's report is Jennifer Clement.

St. John's, Canada

April 28, 2023

KRAKEN

December 31, 2022

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Consolidated Statements of Financial Position
December 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents (note 5)	**$ 8,265**	$ 6,754
Trade and other receivables (note 6)	**12,221**	6,095
Contract asset (note 18)	**4,347**	2,699
Current tax receivable	**71**	75
Inventory (note 7)	**11,367**	14,977
Prepayments (note 8)	**1,556**	1,124
	37,827	31,724
Prepayments (note 8)	**23**	288
Property and equipment (note 9)	**19,303**	18,679
Intangible assets (note 10)	**5,972**	7,519
Goodwill (note 10)	**7,258**	7,255
Deferred taxes (note 14)	**982**	-
TOTAL ASSETS	**$ 71,365**	$ 65,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 11)	**$ 6,366**	$ 4,943
Trade and other payables	**11,220**	10,666
Contract liabilities (note 18)	**11,817**	4,639
Current tax payable	**20**	51
Current portion of long-term obligations (note 12)	**5,086**	231
Current portion of lease liabilities (note 13)	**853**	991
Current portion of contingent consideration	**4,500**	3,837
	39,862	25,358
Long-term obligations (note 12)	**938**	5,514
Lease liabilities (note 13)	**3,022**	3,586
Deferred taxes (note 14)	**-**	134
Contingent consideration	**3,888**	3,270
Shareholders' equity:		
Share capital (note 15)	**48,839**	47,416
Contributed surplus	**2,700**	3,191
Accumulated other comprehensive loss	**(552)**	85
Deficit	**(27,332)**	(23,089)
	23,655	27,603
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 71,365**	$ 65,465

Commitments (note 25) Subsequent events (note 26)

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, 2022 and 2021
(Expressed in thousands of Canadian Dollars)

	2022	2021
Product Revenue (note 18)	**$ 24,900**	$ 22,151
Service Revenue (note 18)	**16,008**	3,478
	40,908	25,629
Cost of sales (note 7)	**23,871**	14,310
	17,037	11,319
Administrative expenses	**12,364**	8,271
Research and development costs	**1,262**	2,310
Depreciation and Amortization	**4,781**	2,914
Share-based compensation (note 15 (d))	**797**	433
Investment tax credits recoverable	**(634)**	(594)
	18,570	13,334
Loss from operating activities	**(1,533)**	(2,015)
Foreign exchange loss (gain)	**301**	(29)
Loss on disposal of assets	**207**	-
Financing costs (note 20)	**3,261**	1,657
Net loss before income taxes	**(5,302)**	(3,643)
Income tax – Current (note 14)	**(31)**	(71)
Income tax – Deferred (note 14)	**1,090**	177
	1,059	106
Net loss	**(4,243)**	(3,537)
Basic and diluted loss per share	**$ (0.02)**	$ (0.02)
Basic and diluted weighted average number of shares outstanding	**201,214,585**	182,459,224

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, 2022 and 2021
(Expressed in thousands of Canadian Dollars)

	2022	2021
Net loss	**$(4,243)**	$ (3,537)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**(637)**	205
Other comprehensive loss (gain)	**(637)**	205
Comprehensive loss	**$(4,880)**	$ (3,332)

KRAKEN

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars except share amounts)

2022	Number of Shares	Share capital (note 15)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2022	201,192,985	$ 47,416	$ 3,191	$ 85	$ (23,089)	$ 27,603
Net loss	-	-	-	-	(4,243)	(4,243)
Other comprehensive loss	-	-	-	(637)	-	(637)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	326,250	1,419	(1,287)	-	-	132
Issue of common shares on warrant exercises	5,000	4	(1)	-	-	3
Share-based compensation	-	-	797	-	-	797
Shareholders' equity as at December 31, 2022	201,524,235	$ 48,839	$ 2,700	$ (552)	$ (27,332)	$ 23,655

2021	Number of Shares	Share capital (note 15)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2021	167,813,430	$ 33,939	$ 1,745	$ (120)	$ (19,553)	$ 16,011
Net loss	-	-	-	-	(3,536)	(3,536)
Other comprehensive loss	-	-	-	205	-	205
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	1,310,590	605	(300)	-	-	305
Issue of common shares on warrant exercises	-	-	-	-	-	-
Issue of common shares	20,000,000	10,000	-	-	-	10,000
Issue of common shares on acquisition	12,068,965	5,276	-	-	-	5,276
Share issue costs settled in warrants	-	(1,314)	1,314	-	-	-
Share issue costs settled in cash	-	(1,090)	-	-	-	(1,090)
Share-based compensation	-	-	432	-	-	432
Shareholders' equity as at December 31, 2021	201,192,985	$ 47,416	$ 3,191	$ 85	$ (23,089)	$ 27,603

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars)

		2022		2021
Cash flows provided by (used in) operating activities				
Net loss	**$**	**(4,243)**	$	(3,537)
Adjustments for items not involving cash:				
Depreciation		**3,236**		2,111
Amortization of intangible assets		**1,545**		803
Share-based compensation		**797**		433
Loss on disposal of property, plant and equipment		**207**		-
Interest on lease liability (note 13)		**327**		356
Interest on long-term obligations		**64**		63
Accretion expense (note 12)		**436**		196
Fair value adjustment on contingent consideration		**1,282**		357
Income tax recovery (note 14)		**(1,059)**		(106)
Changes in non-cash working capital (note 23)		**2,645**		(11,682)
Net cash flows provided by (used in) operating activities		**5,237**		(11,006)
Cash flows provided by (used in) investing activities				
Acquisition of 13 Robotics Ltda (net of cash acquired) (note 21)		**-**		(210)
Acquisition of PGH Capital Inc. (net of cash acquired) (note 21)		**-**		(2,559)
Decrease in restricted cash		**-**		1,058
Purchase of property and equipment		**(5,144)**		(5,498)
Proceeds on disposal of property and equipment		**1,778**		-
Increase in intangibles		**-**		(35)
Net cash flows used in investing activities		**(3,366)**		(7,244)
Cash flows provided by (used in) financing activities				
Gross proceeds from common shares		**-**		10,000
Proceeds from exercise of warrants and options		**135**		304
Share issue costs		**-**		(1,090)
Payment of principal on leases (note 13)		**(1,032)**		(737)
Payment of interest on leases (note 13)		**(327)**		(357)
Payment of principal long-term obligations (note 12)		**(277)**		(55)
Payment of interest long-term obligations (note 12)		**(64)**		(63)
Increase in long term obligations (note 12)		**112**		1,137
Payment of bank indebtedness		**-**		(1,450)
Increase in bank indebtedness (note 11)		**1,412**		4,234
Net cash flows provided by financing activities		**(41)**		11,923
Net increase (decrease) in cash and cash equivalents		**1,830**		(6,327)
Effect of foreign exchange on cash		**(319)**		156
Cash and cash equivalents at beginning of year		**6,754**		12,925
Cash and cash equivalents at end of year	**$**	**8,265**	$	6,754

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 supplying advanced sonar and optical sensors, batteries, and underwater robotics equipment and services for military and commercial applications.

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, 2023.

(b) Basis of measurement:

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.

(c) 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.

(d) 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:

i) Revenue recognition

The Company has multi-year contracts with its customers, and must make judgments about when the Company has satisfied the performance obligations to its 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.

2. Basis of presentation (continued):

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.

v) 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.

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.

2. Basis of presentation (continued):

vi) Impairment

The Company determines the recoverable amount of each cash-generating unit ("CGU") 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 significant assumptions used in the discounted cash flow analysis requiring significant estimation are the projected revenues, gross margin rates, maintenance and other capital expenditures, the discount rate based on the weighted average cost of capital ("WACC"), and terminal growth rate assumptions. For Kraken Power, the Company's value in use test was based on a WACC of 17% an average estimated compound annual growth rate of approximately 24% from 2023 to 2025 and a terminal year free cash growth rate of 3%**.** For Services which is one CGU within the Sensors and Platforms segment, the Company's value in use test was based on a WACC of 17% an average estimated compound annual growth rate of approximately 15% from 2023 to 2025 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.

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.

3. Adoption of new accounting pronouncements (continued):

(b) The following amended IFRS pronouncements were adopted effective January 1, 2022 and had no impact to the Company's financial statements:

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 were 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.

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 were effective for annual periods beginning on or after January 1, 2022.

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 recognized in profit or loss.

4. Significant accounting policies (continued):

(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 product or 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. Some 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, revenue is recognized for the fixed fee portion of the contract upon completion of that performance obligation. 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 The Company has the right to invoice.

Certain contracts include an assurance-type warranty clause, typically 12 months, to guarantee the products comply with agreed specifications. A provision for warranties is recognized when the underlying product are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

(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) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash at the bank and short term, highly liquid deposits with an original maturity of six months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents are defined as above.

(e) Foreign currency translations:

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):

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 receivable 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.

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.

4. Significant accounting policies (continued):

(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:

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	30% to 50%
Leasehold improvements	Straight-line	10% to 20%
Marine Equipment	Straight-line	10% to 12.5%
Computer software	Straight-line	20%
Furniture and fixtures	Declining balance	20%
Tools and equipment	Straight-line	10%
Construction in Progress	Not depreciated	-

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.

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.

4. Significant accounting policies (continued):

Goodwill and intangible assets:

(i) Recognition and measurement

Goodwill and intangible assets with indefinite useful 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.

(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.

4. Significant accounting policies (continued):

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
Bank indebtedness	Financial liability at amortized cost
Trade and other payables	Financial liability at amortized cost
Long-term obligations	Financial liability at amortized cost

i) 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.

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.

4. Significant accounting policies (continued):

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.

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 impairment would be recognized in the consolidated statement of net loss and comprehensive loss.

The Company performs impairment testing on its goodwill and intangible assets with indefinite useful lives annually at December 31 and whenever there is an indication that an asset may be impaired. The Company assesses impairment by comparing the recoverable amount of an asset or CGU to its carrying value.

The recoverable amount of an asset or CGU 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. The fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. 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.

(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.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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 cash equivalents:

Cash and cash equivalents consist of the following:

	2022	2021
Cash	$ 8,265	$ 6,754
Short term investments	-	-
	$ 8,265	$ 6,754

6. Trade and other receivables:

Trade and other receivables consist of the following:

	2022	2021
Trade receivables (net of expected credit loss of $400) (note 15)	$ 10,008	$ 4,052
Government assistance receivable and other	2,213	2,043
	$ 12,221	$ 6,095

7. Inventory:

As at December 31, 2022, the Company held $11,367 (2021 - $14,977) in inventory**,** consisting of $8,883 (2021 - $11,420) in raw materials and $2,484 (2021 - $3,577) in work-in-progress. Included in cost of sales is inventory costs of $10,597 (2021 - $8,219). Inventory write-downs consisted of $399 (2021 - $41) of which $397 was related to an impairment loss on inventory and is included in cost of sales.

8. Prepayments:

As at December 31, 2022, the Company had made prepayments of $1,579 (2021 - $1,412). Included in prepayments are advance payment guarantee fees of $416 (2021 – $638) and prepayments towards inventory of $804 (2021 - $190). The remaining amount of $359 consists of prepayments against insurance, software and other operating expenses. Long - term prepayments at December 31, 2022 were $23 (2021-$288).

(Expressed in thousands of Canadian Dollars except share price and share amounts)

9. Property and equipment:

(a) As at December 31, 2022 and 2021, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture, Tools and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	Marine Equipment	Software	Total
Cost								
Balance at January 1, 2021	**$ 1,350**	**$ 295**	**$3,962**	**$ 1,153**	**$ 1,382**	**$ -**	**-**	**$ 8,142**
Additions	1,044	212	451	3,554	276	413	-	5,950
Purchase of Kraken Brasil Ltda.	10	5	22	301	-	-	-	338
Purchase of PGH Capital	89	879	1,354		107	5,620	-	8,049
Transfer				(625)		625	-	-
Disposals	(11)	-	-	(24)	-	-	-	(35)
Foreign Exchange	(69)	(10)	(140)	-	(6)	-	-	(225)
Balance at December 31, 2021	**$ 2,414**	**$ 1,381**	**$5,648**	**$ 4,359**	**$ 1,759**	**$ 6,658**	**$ -**	**$ 22,218**
Additions	585	130	356	2,694	72	239	695	4,771
Transfers from inventory	403	5				319		727
Transfer	358	-	-	(1,027)	-	670	-	-
Disposals	-	(1)	-	(1,648)	-	-	-	(1,649)
Foreign Exchange	51	2	(45)	-	3	-	-	11
Balance at December 31, 2022	**$3,811**	**$1,517**	**$5,958**	**$4,377**	**$1,834**	**$7,886**	**695**	**$26,078**
Accumulated depreciation								
Balance at January 1, 2021	**$ 415**	**$ 122**	**$ 585**	**$ -**	**$ 311**	**$ -**	**$ -**	**$ 1,433**
Depreciation	316	257	844		268	426	-	2,111
Disposals	(4)	-	-	-	-	-	-	(4)
Balance at December 31, 2021	**$ 726**	**$ 379**	**$ 1,429**	**$ -**	**$ 579**	**$ 426**	**-**	**$ 3,539**
Depreciation	475	356	1,069	-	309	1,015	12	3,236
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2022	**$1,201**	**$735**	**$2,498**	**-**	**$888**	**$1,441**	**$12**	**$6,775**
Carrying amounts								
At December 31, 2021	**$ 1,686**	**$ 1,002**	**$ 4,219**	**$ 4,359**	**$ 1,180**	**$ 6,232**	**$ -**	**$ 18,679**
At December 31, 2022	**$ 2,610**	**$ 782**	**$ 3,460**	**$ 4,377**	**$ 946**	**$ 6,445**	**$ 683**	**$ 19,303**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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
Balance at December 31, 2021	**$ 86**	**$ 999**	**$ 627**	**$ 535**	**$ -**	**$ 373**	**$2,620**
Additions	-	35	-	-	-	-	35
Purchase of Kraken Brasil Ltda	-	-	-	-	-	35	35
Purchase of PGH Capital	894	3,128	-	3,047	209	6,878	14,156
Movement in exchange rates	(7)	(13)	-	(7)	-	(30)	(57)
Balance at December 31, 2021	**$ 973**	**$ 4,149**	**$ 627**	**$ 3,575**	**$ 209**	**$ 7,256**	**$16,789**
Additions	8	-	-	-	-	-	8
Movement in exchange rates	(1)	(5)	-	(3)	-	2	(7)
Balance at December 31, 2022	**$ 980**	**$ 4,144**	**$ 627**	**$ 3,572**	**$ 209**	**$ 7,258**	**$16,790**
Accumulated depreciation							
Balance at January 1, 2021	**$ -**	**$ 389**	**$ 627**	**$ 195**	**$ -**	**$ -**	**$ 1,211**
Depreciation	-	454	-	306	44	-	804
Balance at December 31, 2021	**$ -**	**$ 843**	**$ 627**	**$ 501**	**$ 44**	**$ -**	**$ 2,015**
Depreciation	-	844	-	597	105	-	1,546
Balance at December 31, 2022	**$ -**	**$ 1,687**	**$ 627**	**$ 1,098**	**$ 149**	**$ -**	**$3,561**
Carrying amounts							
At December 31, 2021	**$ 973**	**$ 3,306**	**$ -**	**$ 3,074**	**$ 165**	**$ 7,256**	**$14,774**
At December 31, 2022	**$ 980**	**$ 2,457**	**$ -**	**$ 2,474**	**$ 60**	**$ 7,258**	**$13,230**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

10. Goodwill and intangible assets (continued):

The aggregate carrying amount of goodwill and intangibles with indefinite useful lives allocated to each CGU was as follows:

CGUs	**2022**	2021
Katfish Systems	**$ 35**	$ 35
Services	**7,771**	7,771
Synthetic Aperture Sonar (SAS)	**-**	-
Sensors and Platforms	**$ 7,806**	$ 7,806
Power	**432**	423
	$ 8,238	$ 8,229

The Company performs impairment testing on its goodwill and intangible assets with indefinite useful lives annually at December 31 and whenever there is an indication an asset may be impaired. The Company assesses impairment by comparing the recoverable amount of an asset or CGU to its carrying value. Under the value in use approach, the recoverable amount is calculated based on the discounted cash flow analysis for each CGU.

The significant assumptions in conducting the impairment test included performing a discounted cash flow analysis require significant estimation are the projected revenues, gross margin rates, maintenance and other capital expenditures, the discount rate based on the weighted average cost of capital ("WACC"), and terminal growth rate assumptions.

The calculation of recoverable amount is most sensitive to the following assumptions: the discount rate, terminal growth rate, and projected revenues, gross margin rates, and maintenance and other capital expenditures. The discount rates represent the current market assessment of the risks to the CGU and reflect the target debt-to-equity ratio. The cost of equity is derived from the expected return on investment in the Company by investors. The cost of equity considers the risk-free rate, market equity risk premium, size premium and risk specific to the CGUs. With the cost of debt based on current or observed interest rates. Terminal growth rates and future cash flows are based on management's best estimate considering historical and expected operating plans, strategic plans and industry outlook.

Power:

The Power CGU relates to subsea power systems. As of December 31, 2022, the aggregate carrying amount of the Company's goodwill is $345 (2021 - $343) and intangibles with indefinite useful lives with aggregate carrying amount of $87 (2021 - $80) and relates to the acquisition of Kraken Power. In performing the discounted cash flow in the Power CGU, a WACC of 17% was used, a terminal growth rate of 3% and an average estimated compounded growth rate of 24% from 2023 to 2025. As the recoverable amount of the Power segment was determined to be greater than the carrying amount, no impairment loss was recorded in 2022 or 2021.

Sensors and Platforms:

As of December 31, 2022, the aggregate carrying amount of the Company's goodwill in Sensors and Platforms segment totaled $6,913 (2021 - $6,913) intangibles with indefinite useful lives with aggregate carrying amount of $893 (2021 - $893) and relates to the acquisition of PanGeo and 13Robitics.

10. Goodwill and intangible assets (continued):

Services is one of three CGUs within the Sensors and Platforms segment. The Services CGU includes the acquisition of PanGeo and provides survey services above and below the seabed using internal assets to third party customers. On December 31, 2022, the aggregate carrying amount of the Services CGU goodwill totaled $6,878 (2021 - $6,878) intangibles with indefinite useful lives with an aggregate carrying amount of $893 (2021 - $893). In performing the discounted cash flow in the Services CGU, a WACC of 17% was used, a terminal growth rate of 3% and an average estimated compounded growth rate of 15% from 2023 to 2025. As the recoverable amount of the Services CGU was determined to be greater than the carrying amount, no impairment loss was recorded in 2022 or 2021.

Management believes that certain reasonable possible changes in the key assumptions on which the recoverable amount are based could cause the carrying amount to exceed the recoverable amount.

(a) Projected revenue: estimated revenues were projected based on actual operating results and expected growth in future years. Projected revenues are based on increased service market share and although management expects the Company to meet these growth targets a decrease of short-term growth rate in each of the first 5 years of 9.8%, would result in the carrying amount of the CGU exceeding the recoverable amount.
(b) Discount rate: the discount rate applied to the forecasted cash flow was 17%, which was reflective of the CGUs WACC. An increase in the discount rate to 26.8% (an increase of 9.8%) would result in the carrying amount of the CGU exceeding the recoverable amount.

11. Bank indebtedness:

At December 31, 2022, the Company had available a $4,500 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, 2022, a total of $4,309 (2021 - $4,270) was drawn against this facility. Security for operating line is accounts receivable and inventory. Kraken Power has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at December 31, 2022 a total of $652 (€450) (2021 - $652 (€401) 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 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, 2022, a total of $1,405 (2021 - $95) was drawn against this facility.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

12. Long-term obligations:

	December 31, 2022	December 31, 2021
Long-term note payable in the amount of €400 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	$ 560	$ 490
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89, repayable in equal installments of €1,306 over 72 months, and maturing on December 31, 2026.	86	107
Loan, secured by equipment and infrastructure, bearing interest at 1.23% in the amount of €875, repayable in equal installments over 67 months, and maturing on September 30, 2026.	979	1,198
Promissory Note on acquisition of PanGeo, in the amount of $4,000 bearing interest at 6% per annum, due July 30, 2023	4,287	3,950
Loan, non-interest bearing from Atlantic Canada Opportunities Agency (ACOA), currently in the amount of $112 with a maximum of $295 available, repayable in equal installments beginning June 1, 2023.	112	-
	6,024	5,745
Less current portion of long-term obligations	(5,086)	(231)
	$ 938	$ 5,514

The Promissory Notes also provides Kraken with the option, subject to TSXV approval at the time, to satisfy up to 40% of any principal amount owing under the Promissory Notes by issuing Common Shares in accordance with the terms of the PanGeo Agreement.

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

Opening balance – January 1, 2022	$ 5,745
Proceeds from long-term obligations	112
Payment of principle	(277)
Payment of interest	(64)
Accretion expense	436
Foreign Exchange	72
Ending Balance – December 31, 2022	$ 6,024

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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, 2022 and comparatives for December 31, 2021:

	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2021	$ 3,377	$ 3,638
Depreciation expense	(844)	-
Interest expense	-	356
Payments	-	(1,094)
Additions	1,841	1,841
Foreign Exchange	(155)	(164)
Subtotal	**4,219**	**4,577**
Less: current portion	**-**	**(991)**
As at December 31, 2021	**$ 4,219**	**$ 3,586**
	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2022	$ 4,219	$ 4,577
Depreciation expense	(1,069)	-
Interest expense	-	327
Payments	-	(1,359)
Additions	356	356
Foreign Exchange	(46)	(25)
Subtotal	**3,460**	**3,875**
Less: current portion	**-**	**(853)**
As at December 31, 2022	**$ 3,460**	**$ 3,022**

The Company's minimum lease payments are as follows:

	December 31, 2022
Less than one year	1,140
One to three years	2,430
Three to five years	1,143
Thereafter	-
Minimum lease payments	4,713
Amounts representing finance charges	(838)
Net minimum lease payments	**$ 3,875**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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:

	2022	2021
Net loss before taxes	**$ (5,302)**	$ (3,643)
Statutory tax rates	**30.0%**	30.0%
Income taxes (recovery) computed at the statutory rates	**$ (1,591)**	$ (1,093)
Recognition of previously unrecognized deferred tax assets	**(962)**	-
Recognition of previously unrecognized deferred tax assets to reduce current tax expense	**(399)**	-
Change in statutory rates	**(225)**	90
Deferred tax recovery related to change in tax rates	**(247)**	-
Other	**76**	100
Permanent differences	**291**	(67)
Stock option expense	**239**	130
Change in unrecognized deductible temporary differences	**1,759**	734
Recorded income tax (recovery)	**$ (1,059)**	$ (106)

In 2022, a new corporate tax law was enacted in the United Kingdom. Consequently, as of 1 April 2023, the corporate tax rate in the United Kingdom will increase from 19% to 25%. This change resulted in a recovery of $247 related to the remeasurement of deferred tax assets of the Company's United Kingdom subsidiary, PanGeo Subsea Scotland Ltd, being recognized during the year ended 31 December 2022.

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

	2022	2021
Deferred tax assets:		
Non-capital losses carried forward	**$ 3,287**	$ 1,987
Government assistance	**-**	719
Intangibles	**33**	-
Other	**7**	-
Deferred tax liabilities:		
Property and equipment	**$ (582)**	$ (614)
Intangibles	**(1,748)**	(2,202)
Other	**(15)**	(25)
	$ 982	$ (135)

In 2022, as a result of recent and projected operations, management revised its estimates of future taxable profits for one of the Company's subsidiaries, PanGeo Subsea Scotland Ltd. As a result, the Company recognized a deferred tax asset of $982 (2021-$nil) relating to previously unrecognized tax losses because management considered it probable that future taxable profits would be available against which such losses can be used.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

14. Income taxes (continued):

The net change in deferred tax assets for 2022 includes an increase of $26 (2021 - $21 increase in liabilities) 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:

	2022	**Expiry date**	2021	Expiry date
Deductible temporary differences	**$ 4,842**	**N/A**	$ 5,286	N/A
Non-capital losses that expire	**41,515**	**2026-2042**	36,821	2028-2041
Non-capital losses that never expire	**495**	**No expiry**	6,239	No expiry
Investment tax credits	**881**	**2036-2041**	692	2036-2039
	$ 47,733		$ 49,038	

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. Deferred tax assets have not been recognized for these items as management believes that it is not probable that future taxable profit 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, 2022 for the Company's subsidiaries was $2,131 (December 31, 2021 - $4).

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, 2022 and 2021.

(a) Private placements

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.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

15. Share capital (continued):

(b) Share purchase warrants

At December 31, 2022 and December 31, 2021, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	December 31, 2022	December 31, 2021	Weighted Average Remaining Contractual Life
July 26, 2023	$0.600	9,995,000	10,000,000	0.57 years
	$0.600	**9,995,000**	**10,000,000**	**0.57 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 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.

At May 3, 2022 the Company issued 3,530,000 employee options, 1,600,000 officers options and 1,200,000 directors 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 $0.395.

At September 6, 2022 the Company issued 100,000 employee options. The options have a five-year term, with vesting in three equal instalments consisting of 6 months, one and two year anniversary of the initial grant. The exercise price of the options was $0.37.

At December 7, 2022 the Company issued 400,000 director options. The options have a five-year term, with vesting in three equal instalments consisting of date of grant, one and two year anniversaries of the initial grant. The exercise price of the options was $0.57.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

15. Share capital (continued):

The following options were outstanding as at December 31, 2022 and 2021:

	December 31, 2022		**December 31, 2021**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	8,358,333	$ 0.570	9,238,333	$ 0.535
Granted	6,830,000	0.406	1,100,000	0.490
Exercised	(326,250)	0.405	(1,306,667)	0.233
Expired	(5,393,333)	0.560	(673,333)	0.590
Ending balance	9,468,750	$ 0.461	8,358,333	$ 0.570
Options exercisable	4,380,834	$ 0.520	7,008,333	$ 0.581

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.57	July 14, 2023	1,200,000	1,200,000	0.53 years
0.63	July 14, 2024	1,000,000	1,000,000	1.54 years
0.50	July 30, 2026	1,000,000	750,000	3.58 years
0.39	November 29, 2026	50,000	-	3.92 years
0.395	May 3, 2027	5,718,750	1,297,500	4.34 years
0.39	September 6, 2027	100,000	-	4.68 years
0.59	December 7, 2027	400,000	133,334	4.94 years
$ 0.461		**9,468,750**	**4,380,834**	**3.36 years**

(d) Share-based compensation

During the year ended December 31, 2022, the Company recorded share-based compensation totaling $797 (2021 - $433), which was expensed in operations with a corresponding increase in contributed surplus.

The weighted average share price at the date of exercise for share options exercised during the year ended December 31, 2022 was $0.405 (2021 - $0.233). The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31, 2022	**Year ended December 31, 2021**
Risk-free interest rate	0.54% to 3.52%	0.54% to 1.22%
Expected life of options	3.61 years	4.07 years
Expected volatility	51.5% to 66.7%	61.2% to 66.6%
Weighted average fair value per option	$0.12 to $0.33	$0.14 to $0.24
Dividend yield	Nil	Nil

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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, 2022	December 31, 2021
Cash and cash equivalents (note 5)	$ 8,265	$ 6,754
Trade and other receivables	12,221	6,095
Contract assets	4,347	2,699
	$ 24,833	$ 15,548

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

	December 31, 2022	December 31, 2021
Current	$ 5,369	$ 1,262
31-60 days	3,432	1,732
61-90 days	137	636
> 90 days	1,070	422
	$ 10,008	$ 4,052

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. The Company are exposed to credit risk on our accounts receivable and certain other assets through our normal commercial activities. The Company are also exposed to credit risk through our normal treasury activities on our cash and cash equivalents. 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, The Company typically receive substantial advance payments for contracts with customers. The Company 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, 2022, the amount is $400 (2021 - $232).

Revenues from the top three customers represented 63% of the Company's revenue in the year ended December 31, 2022 (2021 – top three customers represented 64% of revenue). At December 31, 2022, 52% of the trade receivables balance were owing from two customers (2021 – 45% of trade receivables was owing from two customers).

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, 2022, the Company had a cash balance of $8,265 (2021 - $6,754). 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.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

16. Financial instruments (continued):

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	$ 6,366	$ -	$ -	$ -
Trade and other payables	11,220	-	-	-
Long-term obligations	5,086	312	486	140
Contingent consideration	4,500	3,888	-	-
	$ 27,172	$ 4,200	$ 486	$ 140

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, 2022, the Company held $8,265 in cash and has drawn $4,309, $652 and $1,405 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 $214.

(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.

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

	December 31, 2022	December 31, 2021
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 581	$ 1,482
Trade and other payables GBP	1,381	1,629
Trade and other payables EUR	1,203	1,048
Trade and other payables DKK	120	134
Trade and other payables BRL	241	277
Long-term debt EUR	1,016	1,204
Bank indebtedness EUR	377	401
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	4,697	1,459
Trade and other receivables GBP	2,072	1,803
Trade and other receivables EUR	473	170
Trade and other receivables DKK	6	1
Trade and other receivables BRL	21	28

For the year ended December 31, 2022, 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 $245 (2021 - $302).

(Expressed in thousands of Canadian Dollars except share price and share amounts)

16. Financial instruments (continued):

Fair Value:

During the year ended December 31, 2022, 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, 2022	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash	$ 8,265	$ -	$ -
Trade and other receivables	-	12,221	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	6,366	-
Trade and other payables	-	11,220	-
Long-term obligations	-	6,015	-
Financial liabilities at FVTPL:			
Contingent consideration	-	-	8,388

December 31, 2021	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash	$ 6,754	$ -	$ -
Trade and other receivables	-	6,095	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	4,943	-
Trade and other payables	-	10,667	-
Long-term obligations	-	5,745	-
Financial liabilities at FVTPL:			
Contingent consideration	-	-	7,107

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 carrying values of cash, trade and other receivables, 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.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

16. Financial instruments (continued):

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, 2022. 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, an increase (decrease) to the risk-adjusted discount rate of 1% at December 31, 2022, while holding other inputs constant. An increase (decrease) in discount rate would have increased (decreased) the Company's net loss by approximately $30 and ($31) respectively.

The following table shows a reconciliation from the opening balances to the closing balances of level 3 fair values:

	Contingent Consideration
Opening balance – January 1, 2022	$ 7,107
Fair value adjustment of contingent consideration	1,281
Ending Balance – December 31, 2022	**$ 8,388**

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, 2022	December 31, 2021
Product sales – transferred at a point in time	**$ 13,026**	$ 14,320
Product sales – transferred over time	**11,874**	7,831
Service revenue - transferred over time	**16,008**	3,478
	$ 40,908	$ 25,629

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 contract assets 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, 2022, contract assets, which represents amounts recognized in revenue from contracts with customers not yet billed was $4,347 (2021 - $2,699).

(Expressed in thousands of Canadian Dollars except share price and share amounts)

18. Revenue (continued):

As at December 31, 2022, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $11,817 (2021 - $4,639).

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

	Contract assets
Opening balance – January 1, 2022	$ 2,699
Increase in unbilled from revenue recognized	9,937
Decrease in unbilled from transfer to trade receivables and other adjustments	(8,289)
Ending Balance – December 31, 2022	**$ 4,347**

	Contract liabilities
Opening balance – January 1, 2022	$ 4,639
Increase in contract liabilities from payments received, excluding revenue recognized	14,718
Decreases in contract liabilities from revenue recognized	(7,540)
Ending Balance – December 31, 2022	**$ 11,817**

19. Government assistance:

During the year ended December 31, 2022, the Company received government assistance, excluding the OceanVision project, in the amount of $5,724 (2021 - $4,075). Government Assistance has been classified as a reduction to Cost of Sales of $142 (2021 - $633), Research & Development expense of $3,827 (2021 – $2,218), Administrative expense of $471 (2021 - $952) and Construction in Process of $1,284 (2021 - $272).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the year ended December 31, 2022, including $927 (2021 – $1,405) in reimbursements from the Ocean SuperCluster and $488 (2021 – $938) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense of $1,161 (2021 – $1,532), Administrative expense $116 (2021 – $189) and Construction in progress of $138 (2021 – $622).

20. Financing costs:

	2022	2021
Interest on lease liabilities	**$ 327**	$ 357
Letters of credit and other	**1,217**	747
Accretion on long-term obligations	**436**	196
Fair value adjustment of contingent consideration	**1,281**	357
	$ 3,261	$ 1,657

(Expressed in thousands of Canadian Dollars except share price and share amounts)

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 cash (C$273). 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, trade and other receivables 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	$ 64
Trade and other receivables	12,484	3
Property and equipment	1,261,033	281
Right-of-use asset	144,609	32
Goodwill	154,941	35
Trade and other payables	(632,234)	(142)
Fair value of assets acquired and liabilities assumed	**R$ 1,226,395**	**$ 273**

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.

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.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

21. Business combinations (continued):

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
Trade and other receivables	1,319
Prepaid Expenses	231
Inventory	269
Property and equipment	6,729
Right-of-use asset	1,054
Intangibles	7,278
Goodwill	6,878
Trade and other payables	(3,905)
Bank indebtedness	(1,450)
Fair value of assets acquired and liabilities assumed	**$ 19,444**

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

The accounts receivables comprise of gross contractual amounts due of $1,509, of which $190 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.

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

(Expressed in thousands of Canadian Dollars except share price and share amounts)

22. Related party transactions:

Compensation of key management personnel:

	2022	2021
Share-based payments	**$ 240**	$ 363
Short-term employee benefits	**148**	33
Salaries and wages	**1,899**	1,454
	$ 2,287	$ 1,850

23. Change in non-cash working capital:

	2022	2021
Decrease (increase) in trade and other receivables	**$ (6,122)**	$ (2,131)
Decrease (increase) in contract assets	**(1,648)**	(2,174)
Decrease (increase) in inventory	**2,883**	(6,579)
Decrease (increase) in prepayments	**(167)**	208
Increase in trade and other payables	**521**	3,117
Increase (decrease) in contract liabilities	**7,178**	(4,123)
	$ 2,645	$ (11,682)

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.

The following tables present the operations of the Company's reportable segments as at and for the year ended December 31, 2022 and comparatives for December 31, 2021:

December 31, 2022	Sensors and Platforms	Power	Consolidated
Revenue	$ 34,899	$ 6,009	$ 40,908
Cost of Goods sold and expenses	$ 40,105	$ 6,105	$ 46,210
Segment profit (loss)	$ (5,206)	$ (96)	$ (5,302)
Segment assets	$ 66,190	$ 5,175	$ 71,365
Segment liabilities	$ 43,454	$ 4,256	$ 47,710
Segment capital expenditures	$ 5,859	$ 466	$ 6,325

(Expressed in thousands of Canadian Dollars except share price and share amounts)

24. Segmented information (continued):

December 31, 2021	**Sensors and Platforms**	**Power**	**Consolidated**
Revenue	$ 21,254	$ 4,375	$ 25,629
Cost of Goods sold and expenses	$ 24,554	$ 4,718	$ 29,272
Segment profit (loss)	$ (3,300)	$ (343)	$ (3,643)
Segment assets	$ 58,931	$ 6,534	$ 65,465
Segment liabilities	$ 32,936	$ 4,867	$ 37,803
Segment capital expenditures	$ 5,039	$ 911	$ 5,950

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:

	2022	2021
Total revenues:		
Canada	**$ 1,223**	$ 1,264
United States	**10,771**	5,970
Europe	**28,914**	17,946
Other	**-**	449
	$ 40,908	$ 25,629

For the year ended December 31, 2022, the Company had two customers that individually accounted for 29% and 22% of revenue and for the year ended December 31, 2021, the Company had two customers that individually accounted for 31% and 23% of revenue.

25. Commitments:

(a) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$6,215 (C$8,432), US$1,960 (C$2,659) and US$830 (C$1,126) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023, November 30, 2023 and October 31, 2024, respectively.

(b) 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). 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, 2022 is $44.

26. Subsequent events:

Subsequent to December 31, 2022, the Company:

(a) paid the first earnout amount of $4,500 to the sellers of PanGeo Subsea on January 11, 2023. The Company elected to satisfy 50% of the First Earnout Amount through the issuance of an aggregate of 4,500,000 common shares (the "Consideration Shares") at a deemed price of $0.50 per Consideration Share and the remaining 50% of the First Earnout Amount in cash.

(b) renamed PanGeo Subsea Inc and PanGeo Subsea Scotland Ltd to Kraken Robotics Services Ltd and Kraken Robotics Services UK Ltd respectively.

(c) amended the value of a standby letter of credit to its customer from the original amount of US$6,215 (C$8,432) to US$3,108 (C$4,216).