

# **Kraken Sonar Inc.**

(formerly Anergy Capital Inc.)



## **Consolidated Financial Statements**

**For the years ended December 31, 2015 and 2014**  
**(Expressed in Canadian Dollars)**



**KPMG LLP**  
**Chartered Accountants**  
Suite 1500 Purdy's Wharf Tower 1  
1959 Upper Water Street  
Halifax, NS B3J 3N2  
Canada

Telephone (902) 492-6000  
Fax (902) 492-1307  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Kraken Sonar Inc.

We have audited the accompanying consolidated financial statements of Kraken Sonar Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kraken Sonar Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Kraken Sonar Inc. has experienced significant losses and negative cash flows from operations in 2015 and 2014 and has a deficit. These conditions, along with other matters as set forth in note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that cast significant doubt about Kraken Sonar Inc.'s ability to continue as a going concern.

*KPMG LLP*

Chartered Accountants  
April 28, 2016  
Halifax, Canada



December 31, 2015

## CONTENTS

	<u>Page</u>
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	1
Consolidated Statements of Loss and Comprehensive Loss	2
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 21



**Consolidated Statements of Financial Position**  
**December 31, 2015 and 2014**  
**(Expressed in Canadian Dollars)**

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (note 6)	\$ 771,940	\$ 1,343,167
Trade and other receivables (note 7)	376,571	851,957
Loans receivable from a director (note 11)	194,317	-
Investment tax credits recoverable (note 8)	-	244,462
Inventory	507,042	329,371
Prepayments	7,863	45,000
	<b>1,857,733</b>	<b>2,813,957</b>
Property and equipment, net (note 10)	<b>184,943</b>	<b>129,346</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,042,676</b>	<b>\$ 2,943,303</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

Current Liabilities:		
Trade and other payables	\$ 872,509	\$ 744,366
Deferred revenue	201,864	112,500
Convertible debt (note 13)	-	2,045,129
Loans from a director	-	148,764
	<b>1,074,373</b>	<b>3,050,759</b>
Shareholders' equity (deficiency):		
Equity portion of convertible debt (note 13)	-	215,317
Share capital (note 12)	3,072,426	1,226,650
Contributed surplus	1,437,710	-
Deficit	<b>(3,541,833)</b>	<b>(1,549,423)</b>
	<b>968,303</b>	<b>(107,456)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	<b>\$ 2,042,676</b>	<b>\$ 2,943,303</b>

Corporate information (note 1)  
 Going concern (note 2)  
 Commitments (note 19)  
 Subsequent events (note 21)

**On Behalf of the Board:**

"Karl Kenny"

Director

"Roman Kocur"

Director



**Consolidated Statements of Net Loss and Comprehensive Loss  
For the Years Ended December 31, 2015 and 2014  
(Expressed in Canadian Dollars)**

	<b>2015</b>	<b>2014</b>
Product sales	\$ 1,883,426	\$ 2,074,257
Contract research	9,873	279,725
	<b>1,893,299</b>	2,353,982
Cost of sales (note 15)	960,542	1,138,540
	<b>932,757</b>	1,215,442
Administrative expenses	1,274,686	947,353
Share-based payments (note 12)	131,000	1,212,500
Employee costs	785,001	324,623
Investment tax credit recoverable	-	(420,076)
RTO Listing expense (note 5)	526,695	-
	<b>2,717,382</b>	2,064,400
<b>Loss from operating activities</b>	<b>(1,784,625)</b>	<b>(848,958)</b>
Foreign exchange gain	(77,062)	(8,626)
Transaction costs (note 5)	225,000	304,967
Finance costs – convertible debt (note 13)	59,847	164,941
<b>Net loss, being comprehensive loss</b>	<b>\$ (1,992,410)</b>	<b>\$ (1,310,240)</b>
Basic and diluted income (loss) income per share	\$ (0.03)	\$ (0.03)
Basic and diluted weighted average number of shares outstanding	68,419,330	42,989,498



**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**  
**For the Years Ended December 31, 2015 and 2014**  
**(Expressed in Canadian Dollars)**

	<b>2015</b>					
	Number of Shares	Share capital (note 10)	Contributed Surplus	Equity portion of convertible debt	Deficit	Total
Balance at January 1, 2015	51,500,000	\$ 1,226,650	\$ -	\$ 215,317	\$ (1,549,423)	\$ (107,456)
Net loss	-	-	-	-	(1,992,410)	(1,992,410)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares to former Anergy shareholders (note 5)	3,893,777	584,067	-	-	-	584,067
Issue of options to former Anergy shareholders (note 5)	-	-	4,460	-	-	4,460
Issue of common shares and share purchase warrants on conversion of bridge loan (notes 12 & 13)	14,063,326	1,008,293	1,312,000	(215,317)	-	2,104,976
Issue of common shares as Finder's fee (note 5)	1,500,000	225,000	-	-	-	225,000
Issue of common shares on warrant exercises	111,111	26,416	(9,750)	-	-	16,666
Reduction of share subscriptions receivable	-	2,000	-	-	-	2,000
Share-based compensation	-	-	131,000	-	-	131,000
<b>Shareholders' equity (deficiency) as at December 31, 2015</b>	<b>71,068,214</b>	<b>\$ 3,072,426</b>	<b>\$ 1,437,710</b>	<b>\$ -</b>	<b>\$ (3,541,833)</b>	<b>\$ 968,303</b>
	<b>2014</b>					
	Number of Shares	Share capital (Note 10)	Contributed Surplus	Equity portion of convertible debt	Deficit	Total
Balance at January 1, 2014	40,416,667	\$ 150	\$ -	\$ -	\$ (239,183)	\$ (239,033)
Net loss	-	-	-	-	(1,310,240)	(1,310,240)
Transactions with shareholders, recorded directly in equity:						
Issuance of stock options	-	-	1,212,500	-	-	1,212,500
Exercise of stock options, net of share subscriptions receivables of \$78,833	8,083,333	1,214,500	(1,212,500)	-	-	2,000
Issuance of shares to settle liability	3,000,000	12,000	-	-	-	12,000
Issuance of convertible debt (note 13)	-	-	-	215,317	-	215,317
<b>Shareholders' equity (deficiency) as at December 31, 2014</b>	<b>51,500,000</b>	<b>\$ 1,226,650</b>	<b>\$ -</b>	<b>\$ 215,317</b>	<b>\$ (1,549,423)</b>	<b>\$ (107,456)</b>

The accompanying notes form part of the consolidated financial statements.



**Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars)

	2015	2014
<b>Cash flows used in operating activities</b>		
Net loss	\$ (1,992,410)	\$ (1,310,240)
<b>Adjustments for items not involving cash:</b>		
Depreciation	38,267	12,808
Finance costs – convertible debt	59,847	164,941
Share-based payments	131,000	1,212,500
RTO consideration included in listing expenses (note 5)	526,695	-
Transaction costs – finder’s fee (note 5)	225,000	-
Changes in non-cash working capital (note 18)	796,821	(540,882)
<b>Total adjustments to reconcile profit (loss)</b>	<b>(214,780)</b>	<b>(460,873)</b>
Interest paid	-	(13,995)
<b>Net cash flows used in operating activities</b>	<b>(214,780)</b>	<b>(474,868)</b>
<b>Cash flows from (used in) investing activities</b>		
Cash acquired on RTO (note 5)	61,832	-
Purchase of property, plant and equipment	(93,864)	(107,942)
	<b>(32,032)</b>	<b>(107,942)</b>
<b>Cash flows from (used in) financing activities</b>		
Decrease in employee stock option receivable	2,000	-
Cash proceeds on exercise of stock options	-	2,000
Proceeds from exercise of warrants	16,666	-
Proceeds from issuance of convertible debt (note 13)	-	2,109,500
Increase (decrease) in loans to (from) a director	(343,081)	(188,884)
	<b>(324,415)</b>	<b>1,922,616</b>
<b>Net increase (decrease) in cash</b>	<b>(571,227)</b>	<b>1,339,806</b>
<b>Cash at beginning of year</b>	<b>1,343,167</b>	<b>3,361</b>
<b>Cash at end of year</b>	<b>\$ 771,940</b>	<b>\$ 1,343,167</b>





**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

---

**1. Corporate Information:**

Kraken Sonar Inc. (“Kraken” or the “Company”) (formerly Anergy Capital Inc.) was incorporated on May 14, 2008 under the *Business Corporations Act, British Columbia*, is a publicly traded company, and its registered office is located at Suite 700, 595 Burrard Street, PO Box 49290, Vancouver, BC V7X 1S8.

The Company was incorporated as Anergy Capital Inc. (“Anergy”) under the Business Corporations Act, British Columbia and was classified as a Capital Pool Company (“CPC”) as defined under Policy 2.4 of the TSX Venture Exchange. The principal business of the Company at that time was the identification of an asset or business acquisition that would meet the requirements as a Qualifying Transaction (“QT”) as defined in Policy 2.4.

On February 18, 2015 the Company closed its Qualifying Transaction pursuant to an agreement between Anergy and Kraken Sonar Systems Inc., and Anergy changed its name to Kraken Sonar Inc. (together, “the Company”) (note 5).

The Company’s principal business is the design, manufacture and sale of underwater sonar and acoustic sensor equipment.

**2. Going concern:**

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company’s ability to continue as a going concern, as the Company experienced significant losses and negative cash flows from operations since inception and at December 31, 2015 has a deficit of \$3,541,833 (December 31, 2014 - \$1,549,423).

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities when due is dependent on its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and/or upon securing additional financing. The timing and availability of additional financing will be determined largely by the performance of the Company and market conditions and there is no certainty that the Company will be able to raise funds as they are required in the future.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary in the carrying amount of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

**3. 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”) and Interpretations by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors on April 28, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis.

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

### 3. Basis of presentation (continued):

(c) 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) 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 is 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.

ii) Recovery of deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, 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 income (loss) and comprehensive income (loss).

iii) Investment tax credits

Investment tax credits arise from claims filed under the Scientific Research and Experimental Development related to qualifying expenditures on research and development. Judgments are required about the recoverability of amounts claimed under the program, which are subject to assessment and audit by the Canada Revenue Agency. As the result of such assessments or audits, the amounts of recognized investment tax credits may require adjustment, which would typically result in a corresponding decrease (increase) in net income (loss) and comprehensive income (loss).

iv) Compound financial instruments

The Company presents convertible debentures separately in its debt and equity components on the statement of financial position. The fair value of a compound instrument at issuance is assigned to its respective debt and equity components. The fair value of the liability component is established first, using an interest market rate for a similar borrowing that does not include an equity component. The equity component is determined by deducting the fair value of the liability component from the fair value of the compound instrument as a whole. Thus, the estimate for determining the fair value of the conversion option included in convertible debentures could affect interest expense for the year recorded in the consolidated financial statements if it was inadequate.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

---

**3. Basis of presentation (continued):**

v) 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.

**4. Significant accounting policies:**

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Kraken Sonar Systems Inc.

(i) Subsidiaries

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies in line with those used by the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue recognition:

i) Sale of goods:

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be estimated reliably.

ii) Contract research:

The Company recognizes revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

---

**4. Significant accounting policies (continued):**

(c) Government grants:

Government grants are initially recognized as deferred income 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; they are netted against the cost of the associated assets.

Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

(d) Foreign currency transactions:

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.

(e) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

(f) Inventories:

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



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

---

**4. Significant accounting policies (continued):**

(g) 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 to allocate their cost, net of estimated residual values, over their estimated useful lives using the following methods and at the following annual rates:

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

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

(h) 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. To date, no development costs have been capitalized.

(i) Financial instruments:

i) Financial assets

The Company initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets are recognized initially on trade date at which the Company becomes party to the contractual provision of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

The Company has the following non-derivative financial assets: loans and receivables.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

**4. Significant accounting policies (continued):**

(i) Financial instruments: (continued)

i) Financial assets (continued)

*Loans and receivables (continued)*

Loans and receivables comprise cash and trade and other receivables.

Cash comprises cash on hand and balances on deposit with Tier 1 Canadian chartered banks.

Fair Value:

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 (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.

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

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

ii) Financial liabilities

The Company initially recognizes other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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

The Company has the following non-derivative other financial liabilities: trade and other payables, due to shareholder and convertible debt.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(j) Impairment:

i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

**4. Significant accounting policies (continued):**

(j) Impairment: (continued)

i) Financial assets (including receivables) (continued)

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-Financial assets

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

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

(k) 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.

(l) Application of new or revised IFRS and interpretations:

The following standards and amendments to existing standards have been adopted by the Company effective January 1, 2015:

**Annual Improvements to IFRS:**

Amendments were made to clarify the following in their respective standards: the definition of "vesting condition" in IFRS 2 "Share-based payment"; classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements in IFRS 3, "Business combinations"; measurement of short-term receivables and payables and scope of portfolio exception in IFRS 13, "Fair value measurement"; definition of "related party" in IAS 24, "Related party disclosure"; and inter-relationship of IFRS 3 and IAS 40 in IAS 40, "Investment property". Special transitional requirements have been set for amendments to IFRS 2 and IAS 40. The amendments became effective on January 1, 2015. The adoption of these changes did not have a significant impact on the Company's consolidated financial statements.

**4. Significant accounting policies (continued):**

(m) Future changes in accounting policies:

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements.

***Business combination accounting for interest in a joint operation (Amendments to IFRS 11):***

The amendments require business combination accounting to be applied to acquisitions of interest in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

***IFRS 15, Revenue from Contracts with Customers:***

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimated and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

***IFRS 9, Financial Instruments:***

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instruments: Disclosures. The Objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

***Transfer of assets between an investor and its associate or joint venture:***

The Amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

***Annual Improvements to IFRS (2012-2014) cycle:***

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

***Disclosure Initiative (Amendments to IAS 1):***

In December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosure. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.





**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**5. Reverse Acquisition**

On February 18, 2015, Kraken Sonar Systems Inc. and Anergy Capital Inc., a company classified as a Capital Pool Company as defined under Policy 2.4 of the TSX Venture Exchange, completed a reverse take-over transaction (“RTO”) through the closing of a Share Exchange Agreement (“SEA”) dated November 20, 2014, as amended January 29, 2015. The SEA constitutes Anergy Capital Inc.’s Qualifying Transaction.

Under the terms of the SEA, Anergy issued 51,500,000 post-consolidated (2.25:1) common shares in exchange for the same number of common shares of Kraken Sonar Systems Inc. In addition, at the time of the RTO the lenders of a \$2,109,500 bridge loan to Kraken Sonar Systems Inc. converted the indebtedness into 14,063,326 common shares in the Company and share purchase warrants convertible into the same number of shares. Anergy was subsequently renamed Kraken Sonar Inc. A finder’s fee of 1,500,000 common shares of the Company issued at a deemed price of \$0.15 per share was paid in connection with the RTO for a total value of \$225,000 which was expensed in the three months ended March 31, 2015. In the prior fiscal year, Kraken Sonar Systems Inc. expensed \$304,967 in costs directly related to the transaction. Following completion of the transaction, the Company had an aggregate 70,957,103 common shares issued and outstanding.

For accounting purposes the transaction constitutes a reverse acquisition, as the shareholders of Kraken Sonar Systems Inc. acquired control of the consolidated entity. Kraken Sonar Systems Inc. is considered the acquiring and continuing entity, and Anergy was the acquired entity. The consolidated financial statements are in the name of Kraken Sonar Inc. (formerly Anergy); however, these are a continuation of the financial statements of Kraken Sonar Systems Inc. The results of operations of Anergy are included in the consolidated financial statements of Kraken from the date of the reverse acquisition on February 18, 2015.

The following summarizes the reverse acquisition of Anergy by Kraken Sonar Systems Inc. and the net assets acquired and liabilities assumed at February 18, 2015.

Fair value of consideration paid to former Anergy holders of:	
Common shares (3,893,777 common shares @ \$0.15 per common share)	\$ 584,067
Options (note 12(b))	4,460
Total consideration	\$ 588,527
Identifiable assets acquired:	
Cash	61,832
RTO Listing expense	\$ 526,695

The transaction allowed Kraken Sonar Systems Inc., a private company, to obtain a listing on the TSX Venture Exchange without having to complete an initial public offering. As the acquisition was not considered a business combination, a total of \$526,695, being the excess of the fair value of the consideration paid to obtain the listing over the fair value of the net assets acquired, was recorded as a RTO listing expense in the condensed consolidated interim statement of loss and comprehensive loss.

**6. Cash and cash equivalents**

Cash and cash equivalents consists of the following:

	<b>2015</b>	<b>2014</b>
Cash	\$ 653,212	\$ 1,343,167
Demand deposit	118,728	-
	\$ 771,940	\$ 1,343,167

As at December 31, 2015, the Company’s demand deposit consisted of an advance payment guarantee from the Royal Bank of Canada. The demand deposit is security against a letter of credit and has an expiry date of January 31, 2016.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**7. Trade and other receivables:**

Trade and other receivables consist of the following:

	<b>2015</b>	<b>2014</b>
Trade receivables	\$ 520,345	\$ 729,754
Allowance for doubtful accounts	(175,863)	-
Government assistance receivable and other	32,089	122,203
	<b>\$ 376,571</b>	<b>\$ 851,957</b>

**8. Investment tax credits recoverable:**

The Company has filed Scientific Research and Experimental Development (SR&ED) Expenditures Claims with the Canada Revenue Agency. At December 31, 2015, the Company is entitled to a refundable Federal Investment Tax Credit of approximately \$Nil (December 31, 2014 - \$115,021) and a refundable Provincial Investment Tax Credit of approximately \$Nil (December 31, 2014 - \$129,441).

**9. 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:

	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 771,940	\$ 1,343,167
Trade and other receivables	376,571	851,957
Investment tax credits recoverable	-	244,462
Share subscription receivable	76,833	78,833
Loans receivable from a director	194,317	-
	<b>\$ 1,419,661</b>	<b>\$ 2,518,419</b>

The Company manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

**Credit Risk:**

Revenues from the top 3 customers represented 68% of the Company's revenue in the year ended December 31, 2015 (2014 – top 4 customers represented 68% of revenue). At December 31, 2015, 66% of the trade receivables balance was owing from 1 customer (2014 – 96% of the trade receivables was owing from 3 customers). At December 31, 2015, an amount of \$175,863 (2014 - \$Nil) was recorded as an allowance for doubtful accounts.

The share subscription receivables relate to the exercise price for options issued to employees and subsequently exercised, and are recorded as a reduction of share capital.

**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, under both normal and stressed conditions. As of December 31, 2015, the Company had a cash and cash equivalents balance of \$771,940 (December 31, 2014 - \$1,343,167), of which \$118,728 was restricted and held as a demand deposit, to settle current liabilities of \$1,074,373 (December 31, 2014 - \$3,050,759). Refer to note 2.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**9. Financial instruments (continued):**

**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, 2015, the Company has cash balances of \$771,940 and convertible debt was converted into common shares during fiscal 2015 (note 12) so the Company is not exposed to any significant interest rate risk.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to US\$ sales and certain purchases of inventory. 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:

	2015	2014
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ 14,681	\$ 2,300

For the year ended December 31, 2015, with other variables remaining constant, a 10% increase (decrease) in the US dollar to Canadian dollar exchange rate would have increased (decreased) the Company's deficit by approximately \$2,000.

**Fair Value:**

During the year ended December 31, 2015, 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, 2015	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 771,940	\$ -	\$ -
Trade and other receivables	-	376,571	-
Share subscription receivables	-	76,833	-
Loans to director	-	194,317	-
Financial liabilities at amortized cost:			
Trade and other payables	-	872,509	-

December 31, 2014	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash	\$ 1,343,167	\$ -	\$ -
Trade and other receivables	-	851,957	-
Investment tax credits recoverable	-	244,462	-
Share subscription receivables	-	78,833	-
Financial liabilities at amortized cost:			
Trade and other payables	-	744,366	-
Loans from a director	-	148,764	-
Convertible debenture	-	2,045,129	-



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**10. Property and equipment:**

(a) No assets pledged as security: As at December 31, 2015 and 2014, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
<b>Cost</b>					
Balance, January 1, 2014	\$ 6,175	\$ 1,421	\$ 21,515	\$ 11,706	\$ 40,817
Additions	24,473	3,589	7,470	72,410	107,942
Balance, December 31, 2014	30,648	5,010	28,985	84,116	148,759
Additions	30,448	18,494	35,042	9,880	93,864
<b>Balance, December 31, 2015</b>	<b>\$ 61,096</b>	<b>\$ 23,504</b>	<b>\$ 64,027</b>	<b>\$ 93,996</b>	<b>\$ 242,623</b>
<b>Depreciation</b>					
Balance, January 1, 2014	\$ 1,360	\$ -	\$ 4,241	\$ 1,004	\$ 6,605
Additions	2,376	2,081	5,050	3,301	12,808
Balance, December 31, 2014	3,736	2,081	9,291	4,305	19,413
Additions	7,047	6,449	8,585	16,186	38,267
<b>Balance, December 31, 2015</b>	<b>\$ 10,783</b>	<b>\$ 8,530</b>	<b>\$ 17,876</b>	<b>\$ 20,491</b>	<b>\$ 57,680</b>
<b>Carrying Amount</b>					
As at December 31, 2014	\$ 26,912	\$ 2,929	\$ 19,694	\$ 79,811	\$ 129,346
<b>As at December 31, 2015</b>	<b>\$ 50,313</b>	<b>\$ 14,974</b>	<b>\$ 46,151</b>	<b>\$ 73,505</b>	<b>\$ 184,943</b>

**11. Related party transactions:**

- (a) Loans receivable from a director are unsecured, bear interest at 5% per annum, and are repayable as a lump sum payment of principal and interest on March 31, 2016. The loan is payable in whole or in part at any time prior to March 31, 2016 without penalty or premium. The terms of the arrangement are as agreed to between the parties.
- (b) Compensation of key management personnel:

	2015	2014
Share-based payments	\$ 102,359	\$ 909,132
Short-term benefitst	133,726	132,246

Included in share subscription receivables at December 31, 2015 is \$60,608 (December 31, 2014 - \$60,608) owing from key man

**12. Share capital:**

Authorized:

Unlimited number of common shares

On October 3, 2014, the Company completed a consolidation of its issued and outstanding common shares on 6.19:1 basis, reducing the issued and outstanding common shares to 40,416,667 from 250,000,000.

See the consolidated statements of changes in shareholders' equity (deficiency) for a summary of changes in Share capital and Contributed surplus for the years ended December 31, 2015 and 2014.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**12. Share capital (continued):**

(a) Share purchase warrants

On February 18, 2015, as part of the RTO (note 5) the lenders of a \$2,109,500 bridge loan to Kraken Sonar Systems Inc. converted the indebtedness into 14,063,326 common shares in the Company. On conversion of the bridge loan, the lenders also received share purchase warrants convertible into the same number of shares exercisable at a price of \$0.15 per warrant for a period of thirty-six (36) months from the date of issuance.

There are two outstanding grants of warrants issued pursuant to a private placement completed by Anergy in October 2014, prior to completion of the RTO:

- i) Each full Warrant A warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.15 after adjusting for the consolidation (or \$0.0666666 prior to consolidation). The warrants expire twenty-four (24) months after the date of issue, provided that where the volume weighted average price of the shares of the Company trade at or above \$0.45 for twenty (20) consecutive trading days, the term of the Warrant A warrants shall expire thirty (30) days following the date of issue of a news release announcing such occurrence. During the year ended December 31, 2015, 111,111 (2014 – \$Nil) warrants were exercised for proceeds of \$16,666 (2014 - \$Nil).
- ii) Each full Warrant B warrant entitles the holder to acquire one common share at a price of \$0.40 after adjusting for the consolidation (or \$0.17777777 prior to consolidation). The warrants expire twenty-four (24) months after the date of issue, provided that where the volume weighted average price of the shares of the Company trade at or above \$0.60 for twenty (20) consecutive trading days, the term of the Warrant A warrants shall expire thirty (30) days following the date of issue of a news release announcing such occurrence.

Share purchase warrant transactions are summarized for the year ending December 31, 2015. As Kraken Sonar Systems Inc. is the continuing entity for accounting purposes, the comparative figures presented herein are that of the private company which had no share purchase warrants outstanding for the year ended December 31, 2014.

	<b>December 31, 2015</b>	
	Number of Warrants	Weighted Average Exercise Price
Opening balance, January 1, 2015	-	\$ -
Anergy private placement 'A' warrants	444,444	0.15
Anergy private placement 'B' warrants	444,444	0.40
Issued on conversion of bridge loan	14,063,326	0.15
Warrants exercised	(111,111)	0.15
Ending balance, December 31, 2015	14,841,103	\$ 0.16
Warrants exercisable	14,841,103	\$ 0.16

At December 31, 2015 the following share purchase warrants were outstanding:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Sept 30, 2015</b>	<b>Weighted Average Remaining Contractual Life</b>
October 14, 2016	\$0.15	333,333	0.79 years
October 14, 2016	\$0.40	444,444	0.79 years
February 18, 2018	\$0.15	14,063,326	2.14 years
	<b>\$0.16</b>	<b>14,841,103</b>	<b>1.24 years</b>



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**12. Share capital (continued):**

(b) 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.

Prior to the RTO, Anergy had outstanding a total of 470,000 share options with an exercise price of \$0.10 per share. Post-completion of the RTO, the options were consolidated on a 2.25:1 basis, resulting in 208,888 share options exercisable at \$0.225 per share which expired unexercised on August 26, 2015. As Kraken Sonar Systems Inc. is the continuing entity for accounting purposes, the comparative figures presented herein are that of the private company which had no share options outstanding for the year ended December 31, 2014.

The following options were outstanding as at December 31, 2015:

	<b>December 31, 2015</b>	
	Number of Options	Weighted Average Exercise Price
Opening balance, January 1, 2015	0	-
Granted	4,918,888	\$ 0.22
Expired	(658,888)	0.24
Ending balance	4,260,000	\$ 0.23
Options exercisable	1,018,333	\$ 0.23

All share options had exercise prices that were higher or equal to market prices at the date of grant.

<b>Weighted Average</b>		<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Weighted Average</b>
<b>Exercise Price</b>	<b>Expiry Date</b>			<b>Remaining Contractual Life</b>
\$ 0.25	March 17, 2018	1,910,000	643,333	2.21 years
0.20	May 13, 2018	250,000	125,000	2.37 years
0.21	June 1, 2020	2,000,000	250,000	4.42 years
0.21	July 1, 2018	100,000	-	2.50 years
<b>\$ 0.23</b>		<b>4,260,000</b>	<b>1,018,333</b>	<b>2.88 years</b>

(c) Share-based compensation

During the year ended December 31, 2015, the Company recorded share-based compensation totaling \$131,000 (2014 - \$1,312,000), which was expensed in operations with a corresponding increase in contributed surplus.

The fair value of share options was estimated on the measurement date using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The assumptions used to calculate the fair value were as follows:

The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**12. Share capital (continued):**

(c) Share-based compensation (continued)

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Risk-free interest rate	0.49 to 0.90%	0.98%
Expected life of options	3 years	5 years
Expected volatility	98.96 to 106.93%	100.00%
Weighted average fair value per option	\$0.10 to \$0.13	\$0.15
Dividend yield	Nil	Nil

(d) Escrowed shares

At December 31, 2015, there are a total of 38,262,205 (2014 – Nil) common shares subject to escrow restrictions. The escrow shares will be released in tranches every six months until February 18, 2018.

**13. Convertible debt:**

During the year ended December 31, 2014, the Company received proceeds of \$2,109,500 from a private placement issuance of a zero coupon, unsecured loan, which was convertible into Units at a rate of \$0.15 per Unit. Each Unit consisted of one common share and one share purchase warrant exercisable at \$0.15 per share for a period of up to 36 months from the date of issue. The convertible debt was determined to be a compound instrument. As the debt was convertible into common shares and share purchase warrants, the liability and equity components were presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 24%.

Upon completion of the RTO, the accreted value of the loan of \$2,104,976 and the value assigned to the conversion option of \$215,317 were converted into Units. The fair value of the warrants issued on the conversion, recorded as \$1,312,000, was calculated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 0.42%, expected life of warrants of 3 years, expected volatility of 101.28%, weighted average fair value per warrant of \$0.09 and a \$nil dividend yield.

**14. 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 (deficiency), advances from directors and convertible debt. The Company makes adjustments 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 new debt and sell assets to reduce debt.

**15. Cost of sales:**

Included in cost of sales is inventory of \$507,000 (2014 - \$1,049,980).

**16. Government assistance:**

During the year ended December 31, 2015, the Company received government assistance in the amount of \$698,370 (2014 - \$403,947) which has been recorded as a reduction of administrative expenses.



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

**17. 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 income (loss) before income taxes as a result of the following:

	For the year ended December 31,	
	2015	2014
Net loss	\$ (1,992,410)	\$ (1,310,240)
Statutory tax rates	26.5%	29%
Income taxes (recovery) computed at the statutory rates	\$ (528,000)	\$ (379,970)
Change in statutory rates and other	(195,000)	33,241
Permanent differences	46,000	-
Change in unrecognized deductible temporary differences	677,000	346,729
Provision for income taxes	\$ -	\$ -

The enacted tax rate of 26.5% (2014 – 29.0%) is applied in the tax provision calculation.

The tax effect of the following temporary differences and non-capital losses have not been recognized in the consolidated financial statements.

	2015	2014
Non-capital losses carried forward	\$ 666,000	\$ 33,241
Property, plant and equipment	6,000	(4,615)
Intangible assets	215,000	37,858
	\$ 887,000	\$ 66,484

The Company has approximately \$2,329,000 of Canadian non-capital losses which may be applied to reduce taxable income in future years, and which if not utilized, will expire through to 2035. Future tax benefits which may arise as a result of future income tax assets have not been recognized in these consolidated financial statements as management believes that it is not probable that sufficient taxable income will be available to realize such assets.

**18. Change in non-cash working capital:**

	2015	2014
Decrease (increase) in trade and other receivables	\$ 475,386	\$ (713,623)
Decrease (increase) in investment tax credit receivables	244,462	(244,462)
Increase in inventory	(177,671)	(151,870)
Decrease (increase) in prepayments	37,137	(43,500)
Increase (decrease) in trade and other payables	128,143	500,073
Increase in deferred revenue	89,364	112,5000
	\$ 796,821	\$ (540,882)

**19. Commitments:**

The following is a summary of the minimum contractual obligations and commitments as at December 31, 2015:

	2016	2017
Operating lease	\$ 113,583	\$5,417

The current lease agreement expires on December 31, 2016 and provides the Company with an option to extend for one to three years at the current lease rate adjusted for Newfoundland and Labrador Consumer Price Index (CPI).





**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2015 and 2014**

---

**20. Segmented information:**

The Company operates in one reportable operating segment, being the design, manufacture and sale of underwater sonar and acoustic sensor equipment. The summarized financial information for revenue derived by geographic segment is as follows:

	<b>2015</b>	2014
Total revenues:		
Canada	\$ 67,500	\$ 798,344
United States	932,469	452,000
France	346,435	-
Israel	242,217	188,483
Other	294,805	635,430
	<b>\$ 1,883,426</b>	<b>\$ 2,074,257</b>

**21. Subsequent events:**

Subsequent to December 31, 2015, the Company:

- (a) received a non-refundable financial contribution of up to \$495,000 from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP), which will be used to develop the Kraken Active Towed Fish (KATFISH) for high speed, high resolution seabed mapping;
- (b) was awarded a US\$465,000 contract by Woods Hole Oceanographic Institution; and
- (c) received repayment of loans receivable from a director on April 26, 2016 (see note 11(a) above).