Kraken Robotics Inc.

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kraken Robotics Inc.,

Opinion

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

- the consolidated statements of financial position as at end of December 31, 2018 and end of December 31, 2017
- 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 end of December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is James A. O'Neil.

St. John's, Canada

May 9, 2019

KRAKEN

December 31, 2018

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Consolidated Statements of Financial Position
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents (note 4)	**$ 4,929,865**	$ -
Trade and other receivables (note 6)	**1,733,363**	1,487,373
Investment tax credits recoverable (note 5)	**-**	350,257
Inventory (note 7)	**2,906,669**	1,530,508
Prepayments	**169,069**	90,283
	9,738,966	3,458,421
Note Receivable (note 9)	**-**	154,183
Derivative asset (note 9)	**-**	9,491
Investments (note 9)	**-**	30,530
Property and equipment (note 11)	**1,817,841**	1,605,523
Intangible assets (note 11)	**2,099,775**	-
Goodwill (note 11)	**371,883**	-
TOTAL ASSETS	**$ 14,028,465**	$ 5,258,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 12)	**$ -**	$ 326,448
Trade and other payables	**1,894,778**	3,905,022
Deferred revenue	**2,920,812**	491,266
	4,815,590	4,722,736
Long-term note payable (note 13)	**386,159**	-
Deferred taxes	**529,281**	-
Shareholders' equity:		
Share capital (note 14)	**18,166,572**	6,008,347
Contributed surplus	**1,774,264**	2,157,803
Non-controlling interests	**331,395**	-
Accumulated other comprehensive loss	**(322,464)**	(271,501)
Deficit	**(11,652,332)**	(7,359,237)
	8,297,435	535,412
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 14,028,465**	$ 5,258,148

Commitments (note 21) Subsequent events (note 23)

On Behalf of the Board:

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

The accompanying notes form part of the consolidated financial statements.

Consolidated Statements of Net Loss and Comprehensive Loss
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Product Revenue	**$ 6,471,784**	$ 2,874,467
Service Revenue	**236,172**	659,138
	6,707,956	3,533,605
Cost of sales (note 7)	**3,902,538**	1,936,463
	2,805,418	1,597,142
Administrative expenses	**4,396,838**	2,722,486
Research and development costs	**2,369,455**	1,955,886
Share-based compensation (note 14 (d))	**342,600**	275,600
Investment tax credits recoverable	**(320,807)**	(350,257)
	6,788,086	4,603,715
Loss from operating activities	**(3,982,668)**	(3,006,573)
Foreign exchange loss	**15,754**	66,593
Loss on disposal of assets	**2,210**	-
Financing costs – line of credit	**39,992**	31,625
Bargain purchase gain (note 9)	**(1,076,530)**	-
Gain on sale of Investment	**-**	(707,562)
Net loss before taxes	**(2,964,094)**	$ (2,397,229)
Deferred income tax recovery	**(111,705)**	-
Net loss	**$ (2,852,389)**	$ (2,397,229)
Net loss attributed to:		
Shareholders of Kraken Robotics Inc.	**(2,716,501)**	(2,397,229)
Non-controlling interests	**(135,888)**	-
	(2,852,389)	(2,397,229)
Basic and diluted (loss) income per share	**$ (0.03)**	$ (0.03)
Basic and diluted weighted average number of shares outstanding	**110,696,271**	87,462,605

KRAKEN

Consolidated Statements of Net Loss and Comprehensive Loss
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Net loss	**$(2,852,389)**	$(2,397,229)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**(67,951)**	(271,501)
Other comprehensive loss	**(67,951)**	(271,501)
Comprehensive loss	**$(2,920,340)**	$(2,668,730)
Comprehensive loss attributed to:		
Shareholders of Kraken Robotics Inc.	**(2,767,464)**	(2,668,730)
Non-controlling interests	**(152,876)**	-
Other comprehensive loss	**$(2,920,340)**	$(2,668,730)

KRAKEN

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

2018	Number of Shares	Share capital (note 14)	Contributed Surplus	Cumulative Translation Adjustment	Non-Controlling Interest	Deficit	Total
Balance at December 31, 2017	**90,992,740**	**$ 6,008,347**	**$ 2,157,803**	**$ (271,501)**	**$ -**	**$ (7,359,237)**	**$ 535,412**
Adjustment to deficit – change in accounting policy (Note 3)	-	-	-	-	-	**(1,576,594)**	**(1,576,594)**
Balance at January 1, 2018	**90,992,740**	**$ 6,008,347**	**$ 2,157,803**	**$ (271,501)**	**-**	**(8,935,831)**	**(1,041,182)**
Net loss	**-**	**-**	**-**	**-**	**(135,888)**	**(2,716,501)**	**(2,852,389)**
Other comprehensive loss				**(50,963)**	**(16,988)**		**(67,951)**
Non-Controlling interest (note 9)					**484,271**		**484,271**
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on private placement (note14(a))	**22,234,285**	**3,142,900**	**661,100**	-		-	**3,804,000**
Issue of common shares on stock option exercises	**363,333**	**63,600**	**(14,700)**	-		-	**48,900**
Issue of common shares on warrant exercises	**8,426,462**	**2,652,924**	**(459,647)**	-		-	**2,193,277**
Issue of common shares on Bought Deal (note14(a))	**15,000,000**	**5,921,900**	**78,100**	-		-	**6,000,000**
Issue of common shares as Finder's Fee	**9,000**	**1,260**	**-**	-		-	**1,260**
Expiry of Warrants		**990,992**	**(990,992)**	-		-	**-**
Share issue costs (note 14(a))	-	**(615,351)**	**-**	-		-	**(615,351)**
Share-based compensation	-	**-**	**342,600**	-		-	**342,600**
Shareholders' equity as at December 31, 2018	**137,025,820**	**$ 18,166,572**	**$ 1,774,264**	**$ (322,464)**	**331,395**	**$ (11,652,332)**	**8,297,435**

2017	Number of Shares	Share capital (note 10)	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total
Balance at January 1, 2017	**78,519,414**	**$ 4,086,270**	**$ 1,647,963**	**$ -**	**$ (4,962,008)**	**$ 772,225**
Net loss	-	**-**	-	-	**(2,397,229)**	**(2,397,229)**
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on private placement (note14(a))	**11,806,660**	**1,840,299**	**284,900**	-	-	**2,125,199**
Issue of common shares on stock option exercises	-	-	-			-
Issue of common shares on warrant exercises	**666,666**	**150,660**	**(50,660)**	-	-	**100,000**
Advance share subscriptions		**17,000**				**17,000**
Share issue costs (note 14(a))	-	**(85,882)**	-	-	-	**(85,882)**
Share-based compensation	-	-	**275,600**	-	-	**275,600**
Other comprehensive loss (gain)	-	-	-	**(271,501)**		**(271,501)**
Shareholders' equity as at December 31, 2017	**90,992,740**	**$ 6,008,347**	**$ 2,157,803**	**$ (271,501)**	**- $ (7,359,237)**	**$ 535,412**

The accompanying notes form part of the consolidated financial statements.

Consolidated Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

		2018		2017
Cash flows used in operating activities				
Net loss	**$**	**(2,852,389)**	$	(2,397,229)
Adjustments for items not involving cash:				
Depreciation		**279,642**		94,030
Amortization of intangible assets		**282,089**		-
Share-based payments		**342,600**		275,600
Loss on disposal of property, plant and equipment		**2,169**		-
Non-cash finance costs		**-**		1,898
Unrealized foreign exchange loss		**(65,709)**		(19,141)
Investment tax credit recoverable		**-**		(350,257)
Deferred tax recovery		**(111,705)**		-
Gain on sale of investment		**-**		(707,562)
Gain on purchase of subsidiary		**(1,076,531)**		-
Changes in non-cash working capital (note 20)		**(3,305,682)**		1,064,573
Net cash flows used in operating activities		**(6,505,516)**		(2,038,088)
Cash flows from (used in) investing activities				
Proceeds on disposal of investment		**-**		864,882
Investment, note receivable and derivative asset (note 9)		**-**		(176,961)
Purchase of property, plant and equipment		**(269,581)**		(1,069,868)
Net cash acquired on acquisition of Kraken Power (note 9)		**599,324**		-
		329,743		(381,947)
Cash flows from (used in) financing activities				
Proceeds from equity offerings		**9,805,260**		2,125,199
Proceeds from exercise of warrants and options		**2,242,177**		100,000
Advance share subscriptions received		**-**		17,000
Share issue costs		**(615,351)**		(85,882)
Increase (decrease) in bank indebtedness		**(326,448)**		176,448
		11,105,638		2,332,765
Net increase (decrease) in cash and cash equivalents		**4,929,865**		(87,270)
Effect of foreign exchange on cash and cash equivalents		**-**		1,620
Cash and cash equivalents at beginning of year		**-**		85,650
		-		-
Cash and cash equivalents at end of year	**$**	**4,929,865**	$	-

1. Corporate Information:

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

The Company's principal business is the design, manufacture and sale of software-centric sensors and underwater robotic systems.

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") and Interpretations by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors on May 9, 2019.

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

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.

(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., Kraken Robotik GmbH, Kraken Power GmbH. 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) 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.

2. Basis of presentation (continued):

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) Share-based payments

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

iv) Business Combinations

The Company recognizes the consideration paid, assets acquired and liabilities assumed at their acquisition date fair values, recognizing any goodwill acquired or gain on purchase. The purchase price allocation requires significant judgements in the identification of the acquired assets and assumed liabilities. To determine the fair values of the identified assets and liabilities the Company will use 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.

The Company's assessment that it has control over an entity when it owns less than 50% of ownership interest requires significant judgement and consideration of 'de-facto' control. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. In other cases, the assessment of control may be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements. An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.

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.

3. Adoption of new accounting pronouncements:

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 has adopted IFRS 15 with a date of initial application of January 1, 2018 using the cumulative effect

3. Adoption of new accounting pronouncements (continued):

method of adoption, and accordingly the comparative figures in 2017 in the Company's consolidated financial statements have not been restated.

The Company's revenue is derived from product sales and services. Revenue is recognized upon transfer of control of promised products or services to the customers and at an amount that reflects the consideration the Company expects to receive in exchange for those products and services. Professional services are primarily related to contract research, training and integration.

Product revenue is generally recognized at a point in time upon delivery to the customer. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. In certain contracts, there is significant integration work to enable the Company's product to work on the customer's vessel or underwater vehicle. This is the case on some legacy contracts that include both product and integration in one contract. In these contracts (and where the Company only can provide the integration work), revenue is recognized not upon shipment to the customer, but upon final integration with the customer's equipment.

Service revenue is recognized over time as the services are delivered to the customer. When contracted on a fixed fee basis, revenue is generally recognized progressively by reference to the stage of completion of the contract, measured by the cost incurred to date in relation to the total expected cost to complete the deliverable, commonly referred to as the percentage-of-completion method. For contracts billed on a time and materials basis, the Company invoices the customer and recognizes revenue equal to the amount of time incurred during the period. If the estimated cost to complete a contract increases over the life of the contract resulting in a loss on the contract, the loss is recognized immediately into the consolidated statement of loss and comprehensive loss.

When a contract includes more than one performance obligation, the total amount of consideration to be received is allocated to distinct products and services based on the stand-alone selling price ("SSP") for each of the products and services in the customer contract, which is typically determined based on the price at which the Company separately sells or would separately sell each product or service.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Significant judgments and estimates:

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgements and estimates. The Company uses judgement to assess if its products and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In arrangements with multiple performance obligations, estimates are required to allocate revenue to each performance obligation in the contract.

For service contracts, the Company exercises judgement in determining the appropriate measure of progress for recognizing revenue over time. Estimates of proportional performance are required to recognize revenue including effort spent to date versus the total expected effort to deliver the services. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes in the facts relating to each contract.

3. Adoption of new accounting pronouncements (continued):

Impact of Adoption of IFRS 15:

The Company applied IFRS 15 using the cumulative effect method and has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. The comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Previously, the Company recorded revenue from product sales using the percentage of completion basis. At the date of application of IFRS 15, the specific contracts in progress at the time did not meet the criteria in IFRS 15 to permit the recognition of revenue over time. As a result, amounts received in respect of such product sales have been reclassified from revenue to deferred revenue and amounts recorded in cost of sale have been reclassified to work on progress. The following table summarizes the impact of the transition to IFRS 15 on the Company's opening deficit at January 1, 2018:

	Balances as at December 31, 2017	IFRS 15 Adjustments	Balances as at January 1, 2018
Assets			
Trade and other receivables	$ 1,487,373	**$ (885,833)**	$ 601,540
Inventory work in progress	1,530,508	**1,197,785**	2,728,293
Liabilities			
Deferred revenue	(491,266)	**(1,888,546)**	(2,379,812)
Equity			
Deficit	7,359,237	**1,576,594**	8,935,831

The following tables summarize the impact of not adopting IFRS 15 on the Company's consolidated financial statements as at, and for the year ended December 31, 2018. There was no material impact on the Company's statement of cash flows for the year ended December 31, 2018, however, the statement of financial position at December 31, 2018 would have reflected a decrease in deferred revenues of approximately $975,000, and a decrease in inventories of $592,000.

Condensed Consolidated Statement of Loss and Comprehensive Loss

Consolidated Statement of Loss and Comprehensive Loss	As reported	Adjustments	Balances without adoption of IFRS 15
Product revenue	$ 6,707,956	(1,752,123)	$ 4,955,833
Cost of sales	3,902,538	(558,470)	3,344,068
Net loss	$ (2,852,389)	(1,193,653)	$ (4,046,042)

IFRS 9, Financial Instruments:

IFRS 9, Financial Instruments, replaces 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.

3. Adoption of new accounting pronouncements (continued):

The Company has adopted IFRS 9 on January 1, 2018 on a retroactive without restatement basis and accordingly the comparative figures in 2017 in the Company's consolidated financial statements have not been restated.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables, and available for sale. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Cash and cash equivalents, and receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of these financial assets.

The investment in Kraken Power GmBH is classified as fair value through profit or loss. The note receivable and embedded conversion option that were previously accounted for separately under IAS 39 are classified together under IFRS 9 at fair value through profit or loss, whereas under IAS 39, the note receivable was measured at amortized cost and the derivative asset was carried at fair value through profit or loss.

IFRS 9 also replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. ECL's are a probability-weighted estimate of credit losses. The Company calculated ECL's based on consideration of customer-specific factors and factual credit loss experience over the past five years. Excluding a bad debt expense from a single customer in 2016, the Company's actual credit loss has not been material. There was no impact to the financial statements on the adoption of IFRS 9.

Amendments to IFRS 2, Share-based Payments:

In June 2016, the IASB issued amendment to IFRS 2, Shares-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company has adopted the amendments to IFRS 2 on a prospective basis with no impact on the consolidated financial statements.

3. 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.

(b) 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.

3. Significant accounting policies (continued):

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.

(c) Foreign currency transactions:

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

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

(c) Foreign currency translations:

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

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

(d) 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.

(e) Inventories:

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

3. Significant accounting policies (continued):

(f) Property and equipment and Intangibles:

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

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

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

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

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

Goodwill and intangible assets:

(i) Recognition and measurement

Goodwill and intangible assets with indefinite lives arising on the acquisition of subsidiaries are measure at cost less accumulated impairment losses.

Intangible assets, including trademarks and trade names, 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.

3. Significant accounting policies (continued):

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

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

(g) 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.

(h) Financial instruments

(i) <u>Financial assets and liabilities</u>

Initial measurement and classification

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

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

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

A financial asset is 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 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 as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if

3. Significant accounting policies (continued):

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.

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.

The Company's financial assets include short-term investments, cash and cash equivalents and accounts receivable. The Company's financial liabilities include accounts payable and accrued liabilities. Classification of these financial instruments is as follows:

Financial instrument	Carrying amount - December 31, 2018	Current classification	Prior classification
Cash and cash equivalents	$4,929,865	Financial asset at amortized cost	Financial asset at amortized cost
Trade and other receivables	1,733,363	Financial asset at amortized cost	Financial asset at amortized cost
Note receivable	-	Financial assets at FVTPL	Financial assets at FVTPL
Derivative asset	-	Financial assets at FVTPL	Financial assets at FVTPL
Investments	-	Financial assets at FVTPL	Financial assets at FVTPL
Bank indebtedness	-	Financial asset at amortized cost	Financial asset at amortized cost
Trade and other payables	1,894,778	Financial asset at amortized cost	Financial asset at amortized cost

3. Significant accounting policies (continued):

(ii) Fair value measurement:

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

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.

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.

The Company assumes that the credit risk on financial assets has increased if it is more than 30 days past due. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

(i) Impairment:

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

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

(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.

3. Significant accounting policies (continued):

(l) 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 31,2018, and have not been applied in preparing these consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments:

The Interpretation provides guidance on the accounting for current and deferred tax labilities and assets in circumstances in which there is uncertainty over income tax treatments. It requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution. Probability will be determined whether the tax authorities will accept the uncertain tax treatment, and if it is not probable that the uncertain tax treatment will be accepted, they will measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the Interpretation to have a material impact on the consolidated financial statements.

IFRS 16, Leases:

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2018	2017
Cash	$ 2,929,865	$ -
Short term Investments	2,000,000	-
Bank Indebtedness	-	(326,448)
	$ 4,929,865	$ (326,448)

As at December 31, 2018, the Company had in cash equivalents $2,000,000 in Guaranteed Investment Certificates, interest rate 2.3% per annum, 30 day non-cashable period, and 12 month maturity.

5. Investment tax credit receivable

During 2018 the Company filed Scientific Research and Experimental Development (SR&ED) Expenditures Claim with the Canada Revenue Agency for the fiscal year ended December 31, 2017, which resulted in refundable Provincial Investment Tax Credits of $320,807 received during 2018. In addition, the Company filed an SR&ED Expenditures Claim for the year ended December 31, 2016 in fiscal 2017. Tax credits of $350,257 relating to the 2017 SR&ED Claim were also received in 2018. The Company has not yet completed its SR&ED Claim for the year ended December 31, 2018 so no amount has been accrued in the financial statements related to fiscal 2018 expenditures.

6. Trade and other receivables:

Trade and other receivables consist of the following:

	2018	2017
Trade receivables	$ 987,415	$ 279,707
Unbilled accounts receivable	284,352	775,251
Government assistance receivable and other	461,596	432,415
	$ 1,733,363	$ 1,487,373

7. Inventory

As at December 31, 2018, the Company held $2,906,669 (2017 - $1,530,508) in inventory**,** consisting of $1,498,827 (2017 - $687,133) in raw materials and $1,407,842 (2017 - $843,375) in work-in-progress. Included in cost of sales is inventory of $3,240,665 (2017 - $1,274,744).

8. Prepayments

As at December 31, 2018, the Company had made prepayments of $169,069 (2017 - $90,283) towards inventory, which included an amount of $66,477 paid to one vendor.

9. Acquisition of Kraken Power

During the second quarter of 2017, the Company acquired a minority interest in ENITECH Subsea GmbH of Rostock, Germany and that company has been renamed Kraken Power GmbH. Under the agreement, Kraken took a 19.9% equity interest for €20,520 ($30,530) and provided a €110,000 (CAD $168,960) convertible loan. The loan pays interest at 5% per annum and has a term of three years. Through the conversion of the loan to equity and a further investment capped at €200,000, the Company may acquire a further 55.1% equity interest, for an aggregate 75% ownership stake position, in Kraken Power GmbH. The Company has announced its intention to exercise its option to increase its ownership of Kraken Power to 75%.

During the third quarter of 2018, the Company acquired a significant contract with a customer in which Kraken Power was subcontracted to complete the work. On issuing the purchase order to Kraken Power and transferring initial funds to finance the contract on August 14, 2018, the Company determined that it has the practical ability to direct the relevant activities of Kraken Power and has consolidated Kraken Power with a 25% non-controlling interest, effective August 14, 2018.

The purchase price equation is based on management's best estimate of fair value. The following table reflects the acquisition accounting and the fair value of the net assets acquired at the acquisition date:

Net Assets Acquired	**Euros €**	**Canadian $**
Cash	€ 399,017	$ 599,324
Accounts Receivable	206,873	310,723
Inventory	685,458	1,029,558
Prepaids and other	87,737	131,781
Fixed Assets	149,499	224,548
Intangible assets	1,582,000	2,376,166
Goodwill	238,188	357,759
Trade payables & other liabilities	(1,399,772)	(2,102,459)
Long-term debt	(247,332)	(371,493)
Deferred tax liability	(412,000)	(618,824)
Net Assets	**€ 1,289,668**	**$ 1,937,083**

9. Acquisition of Kraken Power (continued):

Less: Minority interest	(322,417)	(484,271)
Less: Excess fair value of net assets acquired over consideration paid	(716,731)	(1,076,531)
Net Assets Acquired	**€ 250,520**	**$ 376,281**

Consideration	**Euros €**	**Canadian $**
Cash paid to date for 19.9%	€ 20,520	$ 30,821
Convertible Loan and accrued interest	€ 118,800	$ 178,438
Amount Payable	€ 111,200	$ 167,022
Total Consideration	**€ 250,520**	**$ 376,281**

10. 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, 2018	December 31, 2017
Cash and cash equivalents (bank indebtedness)	$ 4,929,865	$ (326,448)
Trade and other receivables	1,733,363	1,487,373
Note receivable	-	154,183
Derivative asset	-	9,491
Share subscription receivable	76,833	76,833
	$ 6,740,061	$ 1,401,432

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

	December 31, 2018	December 31, 2017
Current	$ 918,575	$ 230,884
31-60 days	35,381	-
61-90 days	32,684	35,249
> 90 days	775	13,574
	$ 987,415	$ 279,707

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company considers all amounts greater than 90 days to be past due. No allowance for doubtful accounts has been recorded by the Company.

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.

Revenues from the top 3 customers represented 72% of the Company's revenue in the year ended December 31, 2018 (2017– top 3 customers represented 69%). At December 31, 2018, 58% of the trade receivables balance were owing from 2 customers (2017 – 90% of the trade receivables was owing from 2 customers). At December 31, 2018, the Company had recorded deferred revenues of $2,920,812 (2017 – $491,266).

10. Financial instruments (continued):

The share subscription receivables relate to the exercise price for options issued to employees and subsequently exercised. It is 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, 2018, the Company had a cash and cash equivalents balance of $4,929,865 (December 31, 2017 - $Nil) to settle current liabilities of $4,815,590 (December 31, 2017 - $4,722,736).

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:

	Less than one year	Beyond one year
Trade and other payables	$ 1,894,778	$ -
Long-term note payable	53,084	797,044
	$ 1,947,862	$ 797,044

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, 2018, the Company held $4,929,865 in cash and cash equivalents and has drawn $Nil against its line of credit. The Company's subsidiary, Kraken Power, has a €400,000 loan with a German regional economic development organization due March 31, 2023. The loan currently bears interest at 8.5% and is unsecured.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales in USD, EUR, and GBP, certain purchases of inventory in USD, EUR and GBP, and its note receivable. 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, 2018	December 31, 2017
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 103,648	$ 452,534
Trade and other payables GBP	16,000	202,342
Trade and other payables EUR	329,185	544,026
Long-term debt EUR	247,332	-
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	566,575	151,184
Trade and other receivables GBP	-	-
Trade and other receivables EUR	106,502	587,886

10. Financial instruments (continued):

For the year ended December 31, 2018, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound and Euro to the Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately $200,780 (2017 - $280,342).

Fair Value:

During the year ended December 31, 2018, 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, 2018	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash and cash equivalents	$ 4,929,865	$ -	$ -
Trade and other receivables	-	1,733,363	-
Share subscription receivables	-	76,833	-
Financial liabilities at amortized cost:			
Trade and other payables	-	1,894,778	-
Long-term note payable	-	386,159	-

December 31, 2017	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Trade and other receivables	$ -	$ 1,487,373	$ -
Note receivable	-	154,183	-
Derivative asset	-	-	9,491
Investment	-	-	30,530
Share subscription receivables	-	76,833	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	326,448	-
Trade and other payables	-	3,905,022	-

11. Property and equipment and Intangibles:

(a) As at December 31, 2018 and 2017, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture and Equipment	Computer equipment	Computer software	Leasehold improvements	AUV Vehicle	Total
Cost						
Balance at January 1, 2017	**$ 92,181**	**$ 56,359**	**$ 121,146**	**$ 104,888**	**$ -**	**374,574**
Additions (adjustments)	26,590	34,785	(121,146)	10,789	1,489,175	1,440,193
Balance at December 31, 2017	**$ 118,771**	**$ 91,144**	**$ -**	**$ 115,677**	**$1,489,175**	**$ 1,814,767**
Additions	221,938	47,643	-	-	-	269,581
Kraken Power Acquisition	191,101	33,447				224,548
Disposals		(4,005)				(4,005)
Balance at December 31, 2018	**$ 531,810**	**$ 168,229**	**$ -**	**$ 115,677**	**$ 1,489,175**	**$ 2,304,891**

11. Property and equipment and Intangibles (continued):

Accumulated depreciation						
Balance at January 1, 2017	**$ 19,747**	**$ 20,488**	**$ 37,960**	**$ 37,019**	**$ -**	**$ 115,214**
Depreciation (adjustments)	12,192	23,784	(37,960)	18,763	77,251	94,030
Balance at December 31, 2017	**$ 31,939**	**$ 44,272**	**$ -**	**$ 55,782**	**$ 77,251**	**$ 209,244**
Depreciation	47,865	26,351	-	19,279	186,147	279,642
Disposals		(1,836)				(1,836)
Balance at December 31, 2018	**$ 79,804**	**$ 68,787**	**$ -**	**$ 75,061**	**$ 263,398**	**$ 487,050**
Carrying amounts						
At December 31, 2017	**$ 86,832**	**$ 46,872**	**$ -**	**$ 59,895**	**$ 1,411,924**	**$ 1,605,523**
At December 31, 2018	**$ 452,006**	**$ 99,442**	**$ -**	**$ 40,616**	**$ 1,225,777**	**$ 1,817,841**

(c) Reconciliation of Intangibles:

	Indefinite life intangible assets	**Finite life intangible assets**	**2018**	**2017**
Trademarks and Trade names	$ 85,872	$ -	$ 85,872	-
Technology and trade secrets	-	832,411	832,411	-
Customer contracts	-	632,671	632,671	-
Customer relationships		548,821	548,821	-
Balance at December 31, 2018	$ 85,872	$ 2,013,903	$ 2,099,775	$ -

	Cost	**Accumulated amortization**	**Net carrying amount**
Balance, at January 1, 2018:	$ -	$ -	$ -
Acquisitions of intangible assets (note 9)	2,376,166	-	2,376,166
Movements in exchange rates	5,698		5,698
Amortization expense	-	(282,089)	(282,089)
Balance, December 31, 2018	$ 2,381,864	$ (282,089)	$ 2,099,775
Balance, December 31, 2017	$ -	$ -	$ -

Amortization expense on intangible assets is allocated to operating expenses. In 2018, amortization of $282,089 (2017 - $nil) was recorded.

Goodwill:

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

Power:

As of December 31, 2018, the aggregate carrying amount of the Company's goodwill is $371,883 (2017 - $nil).

Goodwill impairment testing requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring

11. Property and equipment and Intangibles (continued):

significant estimation are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. The Company's value in use test was based on a WACC of 25% an average estimated compound annual growth rate of approximately 42.3% from 2019 to 2023; and a terminal year earnings before interest, taxes, depreciation and amortization ("EBITDA") multiplied by a terminal value multiplier of 2.7; and a WACC of 25% and a terminal year revenue multiplier of 0.5

As the recoverable amount of the Power segment was determined to be greater than its carrying amount, no impairment loss was recorded in 2018.

12. Bank indebtedness:

At December 31, 2018, the Company had a $250,000 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2%, payable monthly and is secured with a General Security Agreement. As at December 31, 2018, a total of $Nil (2017 - $326,448) was drawn against this facility.

In February 2018 the Company entered into a non-revolving term loan facility with Royal Bank Canada backed by a customer contract not yet billed for $750,000. The loan bears Interest at prime plus 2.1% and was paid in full by June 30, 2018.

13. Long Term Liabilities:

At December 31, 2018, the Company's subsidiary Kraken Power GmbH had a long-term liability consisting of a €400,000 loan with a German regional economic development organization due March 31, 2023. The loan has a profit participation feature whereby if Kraken Power is profitable, the lender will receive 1.5% of the profits up to an annual cap of €6,000. The loan currently bears interest at 8.5% and is unsecured.

14. 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 for a summary of changes in Share capital and Contributed surplus for the years ended December 31, 2018 and 2017.

(a) Private placements

On April 11, 2017, the Company closed a non-brokered private placement offering comprised of 11,806,660 units at a purchase price of $0.18 per Unit for aggregate proceeds of $2,125,199. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"), with each Warrant exercisable to acquire one common share of Kraken at $0.30 for a period of 24 months from the date of issuance. The Company paid a cash finder's fees of $12,600 and issued 191,333 finders warrants, and $73,282 legal and other costs, in connection with the offering. The gross proceeds of the financing are allocated between Share Capital and Contributed Surplus. The value of the warrants is determined using the Black Scholes pricing model and resulted in a $284,900 allocation to Contributed Surplus, with the remainder of $1,840,299 being allocated to Share Capital.

On February 26, 2018, the Company closed a non-brokered private placement of 10,714,285 common shares (the "Shares") at a price of $0.14 per Share for aggregate gross proceeds of $1,500,000. The Company issued 9,000

14. Share capital (continued):

finders shares in connection with the offering.

On June 28, 2018 the Company closed a non-brokered private placement of 11,520,000 units (the “Units”) to Ocean Infinity Ltd at a purchase price of $0.20 per Unit for aggregate gross proceeds of $2,304,000. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a “Warrant”), with each Warrant exercisable to acquire one common share at $0.40 for a period of 36 months from the date of issuance.

On December 20, 2018 the Company closed a bought deal short form prospectus offering of common shares of the Company. A total of 15,000,000 common shares were sold at a price of $0.40 per common share for gross proceeds of $6,000,000. The Company paid the underwriters a cash commission equal to 6% of the gross proceeds and issued

550,000 broker warrants to the underwriters. Each warrant entitles the holder to purchase one common share at a price of $0.60 until December 20, 2020.

(b) Share purchase warrants

On February 18, 2015, as part of the RTO (notes 1 & 5) the lenders of a $2,109,500 bridge loan to Kraken Robotic 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.

Two grants of warrants were issued pursuant to a private placement completed by Anergy in October 2014, prior to completion of the RTO:

i) Each full Warrant A warrant entitled 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). During the year ended December 31, 2017, 666,666 (2016 – 58,333) warrants were exercised for proceeds of $100,000 (2016 - $8,750). The weighted average share price on the dates on which the warrants were exercised during the year was $0.15 (2016 - $0.20). On October 14, 2016, the remaining 275,000 warrants expired unexercised.

ii) Each full Warrant B warrant entitled the holder to acquire one common share at a price of $0.40 after adjusting for the consolidation (or $0.17777777 prior to consolidation). A total of 444,444 warrants expired unexercised on October 14, 2016.

A total of 3,579,767 share purchase warrants were issued in August 2016 upon closing the non-brokered private placement offering.

A further 116,666 share purchase warrants were issued in August 2016 in respect of a debt settlement arrangement (see note 14(f) below).

In April 2017, the Company issued an additional 5,903,330 share purchase warrants in connection with the closing of a non-brokered private placement offering. (see note 14(a) above).
In February 2018, 2,221,742 warrants were exercised at a price of $0.15 while 11,174,918 warrants expired unexercised

In June 2018, the Company issued 5,760,000 share purchase warrants in connection with the closing of a non-brokered private placement offering.

In August 2018, 678,334 warrants were exercised early at a price of $0.30. In the same period 2,642,500 warrants were exercised at a price of $0.30 while 288,933 warrants expired unexercised.

14. Share capital (continued):

In August 2018, 116,666 warrants were exercised at a price of $0.30 in connection with a debt settlement arrangement from August 2016.

In August 2018, 11,666 finder's warrants were exercised at a price of $0.18.

In September 2018, 650,000 warrants were exercised at a price of $0.30

In October 2018, 1,605,554 warrants were exercised at a price of $0.30.

In November 2018, 500,000 warrants were exercised at a price of $0.30.

In December 2018, the Company issued an additional 550,000 broker warrants in connection with the closing of a bought deal public offering of common shares.

Share purchase warrant transactions are summarized for the years ending December 31, 2018 and 2017:

	Year ended December 31, 2018		**Year ended December 31, 2017**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening balance	22,996,423	$ 0.21	17,759,759	$ 0.18
Issued on private placement	5,760,000	0.40	5,903,330	0.30
Issued on bought deal	550,000	0.60	-	-
Warrants exercised	(8,414,796)	0.26	(666,666)	0.15
Warrants expired	(11,463,851)	0.15	-	-
Ending balance	9,427,776	$ 0.38	22,996,423	$ 0.21
Warrants exercisable	9,427,776	$ 0.38	22,996,423	$ 0.21

At December 31, 2018 and December 31, 2017, the following share purchase warrants were outstanding:

Expiry Date	**Exercise Price**	**December 31, 2018**	**December 31, 2017**	**Weighted Average Remaining Contractual Life**
April 11, 2019	$0.30	3,117,776	5,903,330	.28 years
December 20, 2020	$0.60	550,000	-	1.97 years
June 20, 2021	$0.40	5,760,000	-	2.47 years
	$0.38	**9,427,776**	**5,903,330**	**1.57 years**

In addition, there are 179,667 finder's warrants outstanding at December 31, 2018 (December 31, 2017 - 191,333) with an exercise price of $0.18 and that expire on April 10, 2019.

(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,

14. Share capital (continued):

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.

During the year the Company issued 450,000 options to an investor relations consultant, and 1,200,000 to employees. The options have a one to three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price on the options range from $0.185 to $0.26.

The following options were outstanding as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	7,130,000	$ 0.18	4,960,000	$ 0.21
Granted	1,650,000	0.18	2,670,000	0.18
Exercised	(263,333)	0.19	(100,000)	0.17
Expired	(1,575,833)	0.24	(400,000)	0.25
Ending balance	6,940,834	$ 0.197	7,130,000	$ 0.19
Options exercisable	5,090,834	$ 0.196	4,204,167	$ 0.21

During the year, 250,000 stock options were exercised. In addition, 100,000 options were exercised in late 2017, but the shares were not issued until early 2018. As such, the statement of changes in equity reflects the issuance of 350,000 shares during the nine months ended September 30, 2018. All share options had exercise prices that were higher or equal to market prices at the date of grant.

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

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.15	October 12, 2019	600,000	500,000	.78 years
0.15	December 1, 2019	300,000	300,000	.92 years
0.21	June 1, 2020	2,000,000	2,000,000	1.42 years
0.17	September 8, 2020	350,000	233,334	1.69 years
0.18	October 4, 2020	300,000	200,000	1.76 years
0.18	December 15, 2020	1,740,834	1,120,000	1.96 years
0.185	February 20, 2021	450,000	337,500	2.14 years
0.21	June 21, 2021	200,000	66,667	2.47 years
0.26	July 18, 2021	1,000,000	333,333	2.47 years
$ 0.19		**6,940,834**	**5,090,834**	**1.74 years**

(d) Share-based compensation

During the year ended December 31, 2018, the Company recorded share-based compensation totaling $342,600 (2017 - $275,600), which was expensed in operations with a corresponding increase in contributed surplus.

14. Share capital (continued):

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

	Year ended December 31, 2018	Year ended December 31, 2017
Risk-free interest rate	1.90 to 2.24%	0.59 to 0.67%
Expected life of options	3 years	3 years
Expected volatility	114% to 119%	189 to 211%
Weighted average fair value per option	\$0.13 to \$0.18	\$0.11 to \$0.16
Dividend yield	Nil	Nil

15. 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. 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.

16: 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, 2018	December 31, 2017
Product sales – transferred at a point in time	**\$ 6,471,784**	\$ 2,874,467
Service revenue - transferred over time	**236,172**	659,138
	\$ 6,707,956	\$3,533,605

Refer to note 21 for external revenue by geographic areas.

Contract balances

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

The following table provides information about the Company's accounts receivable at December 31, 2018, which includes trade and unbilled revenue from contracts with customers.

16: Revenue (continued):

	December 31, 2018	December 31, 2017
Trade receivables	**$ 987,415**	$ 279,707
Unbilled revenue	**284,352**	775,251
Total receivables from contracts with customers	**1,271,767**	1,054,958
Other	**461,596**	432,415
Total accounts receivable	**$ 1,733,363**	$ 1,487,373

As at December 31, 2018, 3 customers individually accounted for 32%, 26%, and 14% of accounts receivable. As at December 31, 2017, 2 customers individually accounted for 60% and 35% of accounts receivable.

As at December 31, 2018, deferred revenue, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $2,920,812 (2017 - $491,266).

The following tables detail the changes in unbilled revenue and deferred revenue during the period.

	Unbilled revenue
Opening balance – December 31, 2017	$ 775,251
IFRS 15 Adjustment	(933,431)
Increase in unbilled from revenue recognized	560,255
Decrease in unbilled from transfer to trade receivables and other adjustments	(117,723)
Ending Balance – December 31, 2018	**$ 284,352**

	Deferred revenue
Opening balance – December 31, 2017	$ 491 266
IFRS 15 Adjustment	1,576,594
Increase in deferred from payments received, excluding revenue recognized	5,546,718
Decreases in deferred from revenue recognized that was included in the opening deferred revenue balance and other adjustments	(4,693,766)
Ending Balance – December 31, 2018	**$ 2,920,812**

17. Government assistance:

During the year ended December 31, 2018, the Company received government assistance in the amount of $1,417,334 and (2017 - $1,566,940).

18. Related party transactions:

(b) Compensation of key management personnel:

	2018	2017
Share-based payments	$ 95,500	$ 112,500
Short-term employee benefits	13,129	12,701
Salaries and wages	533,500	459,308
	$ 642,129	$ 584,509

(c) Included in share subscription receivables at December 31, 2018 is 60,608 (December 31, 2017 - $60,608) owing from certain employees.

19. 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, 2018	2017
Net loss before taxes	**$ (2,964,094)**	$ (2,397,229)
Statutory tax rates	**27.0%**	26.0%
Income taxes (recovery) computed at the statutory rates	**$ (800,305)**	$ (623,280)
Change in statutory rates and other	**(98,000)**	(108,000)
Permanent differences	**(81,000**	(17,000)
Share issue costs	**-**	(20,000)
Bargain purchase gain	**(291,000)**	-
Change in unrecognized deductible temporary differences	**1,158,305**	768,280
Recorded income tax (recovery)	**$ (112,000)**	$ -

The enacted tax rate of 27.0% (2017 – 26%) is applied in the tax provision calculation. The income tax rate increased in the year due to changes in the provincial income tax rate.

A deferred tax liability of $529,281 (2017 - $Nil) attributable to intangibles is recognized on the consolidated balance sheet. The deferred tax liability at the acquisition date of the German subsidiary was $618,824 and the net change in deferred income taxes is reflected in a deferred income tax recovery of $112,000.

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

	2018	2017
Non-capital losses carried forward	**$ 2,276,000**	$ 1,119,000
Capital losses carried forward	**-**	-
Property, plant and equipment	**144,000**	(30,000)
Investment tax credits	**46,000**	
Deferred financing expenses	**144,000**	140,000
	$ 2,610,000	$ 1,229,000

19. Income taxes (continued)

The Company has non-capital losses which may be applied to reduce taxable income in future years, and which if not utilized, will expire through from 2028 through 2038. 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.

20. Change in non-cash working capital:

	2018	2017
Decrease in trade and other receivables	**$ (821,100)**	$ (936,677)
Increase in investment tax credit receivables	**350,257**	(350,257)
Increase in inventory	**851,182**	(414,079)
Increase in prepayments	**52,995**	(71,160)
Increase (decrease) in trade and other payables	**(4,280,016)**	2,169,032
Increase in deferred revenue	**541,000**	491,266
Decrease in line of credit payable	**-**	176,448
	$ (3,305,682)	$ 1,064,573

21. Commitments:

The following is a summary of the minimum contractual obligations and commitments as at December 31, 2018:

	2019	2020	2021	2022	2023
Operating leases	$ 420,271	$ 314,156	$ 307,381	$ 232,860	$ 232,860
Research and Development	$249,882	-	-	-	-

The Company currently has the following lease agreements:

(i) an office lease in Nova Scotia at a rate of $6,774.67 per month including rent and operating costs that expires November 30, 2021;

(ii) a production facility lease in Newfoundland and Labrador at a rate of $5,833 per month rent only that expires on May 31, 2019;

(iii) an office lease at a rate of $13,790 per month including rent and estimated operating costs that expires on March 31, 2019;

(iv) A new lease was signed January 1, 2019 for office facilities beginning April 1, 2019 at a rate of 19,405 per month plus operating costs. The term of the lease is seven years ending December 2025

(v) Four office leases in Germany totaling 5,552 euro per month including rent and estimated operating costs with a six month obligation in each, followed by a month to month term;

(vi) an office lease in Germany at a rate of 2,150 euro per month including rent and operating, month to month following the six month initial term; and

(vii) portable modular trailer lease $570 per month rent only expires May 31, 2019.

Kraken has established a long-term technical co-operation program with Fraunhofer for technologies that can be deployed in Kraken's ThunderFish® AUV program. While Kraken intends to grant research and development projects to Fraunhofer of €300,000 per year for a period of three more years (2019-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. These projects will be expensed as incurred. For 2019 we have issued a purchase order for a research project to Fraunhofer totaling Euro 163,300.

22. Segmented information:

With the acquisition of Kraken Power in fiscal 2018, the Company now 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. As at December 31, 2017 and for the year then ended, the Company only operated in one reportable operating segment.

The following tables present the operations of the Company's reportable segments as at and for the year ended December 31, 2018:

	Sensors and Platforms	Power	Eliminations	Consolidated
Revenue	$ 7,572,555	$ 86,024	$ (950,623)	$ 6,707,956
Expenses	$ 11,184,545	$ 626,048	$ (2,250,248)	$ 9,560,345
Segment profit (loss)	$ (3,611,990)	$ (540,024)	$ 1,299,625	$ (2,852,389)
Segment assets	$ 11,260,865	$ 5,235,312	$ (2,467,712)	$ 14,028,465
Segment liabilities	$ 4,052,861	$ 3,677,688	$ (1,999,519)	$ 5,731,030
Segment capital expenditures	$ 96,480	$ 173,101	$ -	$ 269,581

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:

	2018	2017
Total revenues:		
Canada	**$ 546,412**	$ 919,324
United States	**664,900**	86,757
France	**535,382**	424,463
Italy	**76,746**	108,145
Israel	**1,513,026**	271,139
United Kingdom	**1,264,195**	434,211
Germany	**2,066,924**	1,273,393
Other	**40,372**	16,175
	$ 6,707,956	$ 3,533,606

For the year ended December 31, 2018, the Company had 3 customers that individually accounted for 31%, 22% and 19% of revenue and for the year ended December 31, 2017, the Company had 2 customers that individually accounted for 31% and 13% of revenue.

23. Subsequent events:

Subsequent to December 31, 2018, the Company:

(a) received $568,000 contract from Public Works and Procurement Canada under the Defence Innovation Research Program (DIRP). The object of Kraken's DIRP contract is to develop a low frequency, ultra-wideband SAS for use in underwater operational environments.;

(b) received $1.7 million of purchase orders from Ocean Infinity for Aquapix® SAS and support.

(c) Received proceeds of $2.3 million from Ocean Infinity from the exercise of 5,760,000 warrants at $0.40 per share;

(d) Issued 500,000 options to certain external consultants with three-year term and exercise price of $0.70

(e) Announced that long standing customer, ECA Group, is part of winning consortium for Belgium and Dutch Navy mine hunting program. ECA Group's share of the contract is valued at approximately €450 million. Upon successful contract execution and if all contract options are exercised as quoted, Kraken's portion of the program is expected to be in excess of C$35 Million.

(f) Received proceeds of $937,433 from exercise of 3,129,442 warrants which had an expiry of April 10, 2019.

(g) announced $1 million contract for ThunderFish® from Government of Canada under Canada's BCIP program.

(h) awarded $1 million financial contribution from the Government of Newfoundland and Labrador under the Innovation and Business Development Funding (IBDF) program. The funding will be used for the initial phase of the OceanVision™ project that Kraken plans to pursue as part of the Ocean Supercluster initiative.

(i) Received $0.6 million contract for subsea battery solution for military customer.