

# Kraken Robotics Inc.



## Consolidated Financial Statements

For the years ended December 31, 2020 and 2019  
(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, 2020 and end of December 31, 2019
- 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, 2020 and December 31, 2019, 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

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

St. John's, Canada

April 26, 2021



December 31, 2020

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**Consolidated Statements of Financial Position**  
**December 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (note 5)	\$ 12,924,509	\$ 2,097,199
Trade and other receivables (note 6)	3,119,920	5,083,740
Current tax receivable	82,069	-
Inventory (note 7)	8,129,302	5,886,256
Prepayments (note 8)	1,388,550	431,462
	<b>25,644,350</b>	<b>13,498,657</b>
Restricted cash (note 5)	1,057,982	-
Property and equipment (note 9)	6,709,735	3,161,924
Intangible assets (note 10)	1,035,109	1,082,945
Goodwill (note 10)	372,898	347,350
<b>TOTAL ASSETS</b>	<b>\$ 34,820,074</b>	<b>\$ 18,090,876</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Bank indebtedness (note 11)	\$ 709,098	\$ -
Trade and other payables	4,698,963	3,620,443
Contract liabilities (note 18)	8,761,477	2,445,223
Current tax payable	-	4,882
Current portion of long-term obligations (note 12)	22,368	-
Current portion of lease liabilities (note 13)	504,277	191,630
	<b>14,696,183</b>	<b>6,262,178</b>
Long-term obligations (note 12)	646,492	392,374
Lease liabilities (note 13)	3,133,276	1,347,006
Deferred taxes (note 14)	332,700	426,000
Shareholders' equity:		
Share capital (note 15)	33,939,262	22,594,846
Contributed surplus	2,516,143	2,220,924
Accumulated other comprehensive loss	(119,628)	(363,031)
Deficit	(20,324,354)	(14,789,421)
	<b>16,011,423</b>	<b>9,663,318</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 34,820,074</b>	<b>\$ 18,090,876</b>
Commitments (note 25)		
Subsequent events (note 26)		

**On Behalf of the Board:**

*"Karl Kenny"*

Director

*"Shaun McEwan"*

Director

The accompanying notes form part of the consolidated financial statements.



**Consolidated Statements of Net Loss and Comprehensive Loss  
For the Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

	2020	2019
Product Revenue (note 18)	\$ 10,730,260	\$ 14,394,964
Service Revenue (note 18)	1,544,639	751,012
	<b>12,274,899</b>	15,145,976
Cost of sales (note 7)	6,452,048	8,441,506
	<b>5,822,851</b>	6,704,470
Administrative expenses	7,963,527	5,281,729
Research and development costs	1,203,280	1,886,861
Depreciation and Amortization	1,104,133	1,680,392
Share-based compensation (note 15 (d))	975,299	1,370,745
Investment tax credits recoverable	(650,138)	(338,219)
	<b>10,596,101</b>	9,881,508
<b>Loss from operating activities</b>	<b>(4,773,250)</b>	<b>(3,177,038)</b>
Foreign exchange loss	363,430	57,281
Loss (gain) on disposal of assets (note 9)	36,338	(576,425)
Financing costs (note 20)	374,463	214,763
Loss on change in control payment (note 21)	-	174,996
<b>Net loss before taxes</b>	<b>(5,547,481)</b>	<b>(3,047,653)</b>
Income tax – Current (note 14)	111,344	17,218
Income tax – Deferred (note 14)	(123,892)	(61,385)
	<b>(12,548)</b>	<b>(44,167)</b>
<b>Net loss</b>	<b>(5,534,933)</b>	<b>(3,003,486)</b>
<b>Net loss attributed to:</b>		
Shareholders of Kraken Robotics Inc.	(5,534,933)	(3,430,121)
Non-controlling interests	-	426,635
	<b>\$(5,534,933)</b>	<b>\$(3,003,486)</b>
Basic and diluted (loss) income per share	\$ (0.04)	\$ (0.02)
Basic and diluted weighted average number of shares outstanding	151,869,612	147,117,186



**Consolidated Statements of Net Loss and Comprehensive Loss**  
**For the Years Ended December 31, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

	<b>2020</b>	<b>2019</b>
Net loss	<b>\$(5,534,933)</b>	\$(3,003,486)
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation adjustment	<b>243,403</b>	(40,567)
<b>Other comprehensive loss</b>	<b>243,403</b>	(40,567)
<b>Comprehensive loss</b>	<b>\$(5,291,530)</b>	\$(3,044,053)
<b>Comprehensive loss attributed to:</b>		
Shareholders of Kraken Robotics Inc.	<b>(5,291,530)</b>	(3,460,546)
Non-controlling interests	-	416,493
<b>Other comprehensive loss</b>	<b>\$(5,291,530)</b>	\$(3,044,053)





**Consolidated Statements of Changes in Shareholders' Equity  
For the Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)**

				Accumulated other comprehensive loss	Non-Controlling Interest	Deficit	Total
<b>2020</b>	<b>Number of Shares</b>	<b>Share capital (note 15)</b>	<b>Contributed Surplus</b>				
Balance at January 1, 2019	147,177,186	\$ 22,594,846	\$ 2,220,924	\$ (363,031)	\$ -	(14,789,421)	9,663,318
Net loss	-	-	-	-	-	(5,534,933)	(5,534,933)
Other comprehensive loss	-	-	-	243,403	-	-	243,403
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on stock option exercises	4,650,167	1,530,723	(601,980)	-	-	-	928,743
Issue of common shares on warrant exercises	495,000	367,300	(70,300)	-	-	-	297,000
Issue of common shares	15,500,000	10,385,000	-	-	-	-	10,385,000
Expiry of Warrants	-	7,800	(7,800)	-	-	-	-
Share issue costs	-	(946,407)	-	-	-	-	(946,407)
Share-based compensation	-	-	975,299	-	-	-	975,299
<b>Shareholders' equity as at December 31, 2020</b>	<b>167,822,353</b>	<b>\$ 33,939,262</b>	<b>\$ 2,516,143</b>	<b>\$ (119,628)</b>	<b>\$ -</b>	<b>\$ (20,324,354)</b>	<b>\$16,011,423</b>
<b>2019</b>	<b>Number of Shares</b>	<b>Share capital (note 15)</b>	<b>Contributed Surplus</b>	<b>Accumulated other comprehensive loss</b>	<b>Non-Controlling Interest</b>	<b>Deficit</b>	<b>Total</b>
Balance at December 31, 2018	137,025,820	\$ 18,166,572	\$ 1,774,264	\$ (322,464)	\$ 331,395	(11,652,332)	8,297,435
Adjustment to deficit – change in accounting policy (note 3)	-	-	-	-	-	48,932	48,932
Balance at January 1, 2019	137,025,820	18,166,572	1,774,264	(322,464)	331,395	(11,603,400)	8,346,367
Net loss	-	-	-	-	426,635	(3,430,121)	(3,003,486)
Other comprehensive loss	-	-	-	(30,425)	(10,142)	-	(40,567)
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on stock option exercises	1,025,666	270,331	(112,711)	-	-	-	157,620
Issue of common shares on warrant exercises	8,889,442	4,052,807	(811,374)	-	-	-	3,241,433
Issue of common shares on acquisition of non-controlling interest (note 9)	236,258	146,480	-	-	(146,480)	-	-
Cash payment on acquisition of non-controlling interest (note 9)	-	-	-	-	(367,450)	-	(367,450)
Reclassifications following acquisition of non-controlling interest (note 9)	-	-	-	(10,142)	(233,958)	244,100	-
Share issue costs	-	(41,344)	-	-	-	-	(41,344)
Share-based compensation	-	-	1,370,745	-	-	-	1,370,745
<b>Shareholders' equity as at December 31, 2019</b>	<b>147,177,186</b>	<b>\$ 22,594,846</b>	<b>\$ 2,220,924</b>	<b>\$ (363,031)</b>	<b>\$ -</b>	<b>\$ (14,789,421)</b>	<b>\$9,663,318</b>

The accompanying notes form part of the consolidated financial statements.



**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**

	2020	2019
<b>Cash flows provided by (used in) operating activities</b>		
Net loss	\$ (5,534,933)	\$ (3,003,486)
<b>Adjustments for items not involving cash:</b>		
Depreciation	805,657	767,185
Amortization of intangible assets	298,476	913,207
Share-based payments	975,299	1,370,745
Loss (gain) on disposal of property, plant and equipment	36,338	(576,425)
Interest on lease liability (note 13)	220,757	178,118
Accretion of long-term note payable (note 12)	41,510	31,690
Deferred tax recovery (note 14)	(123,892)	(61,385)
Loss on change in control payment (note 21)	-	174,996
Changes in non-cash working capital (note 23)	6,071,509	(4,807,384)
<b>Net cash flows provided by (used in) operating activities</b>	<b>2,790,721</b>	<b>(5,012,739)</b>
<b>Cash flows provided by (used in) investing activities</b>		
Increase in restricted cash	(1,057,982)	-
Proceeds on disposal of property and equipment (note 9)	-	995,930
Purchase of property and equipment	(2,002,114)	(1,643,065)
Increase in intangibles	(176,342)	-
Cash paid on acquisition of non-controlling interest (note 10)	-	(367,450)
	<b>(3,236,438)</b>	<b>(1,014,585)</b>
<b>Cash flows provided by (used in) financing activities</b>		
Gross proceeds from common shares	10,385,000	157,620
Proceeds from exercise of warrants and options	1,225,743	3,241,433
Share issue costs	(946,407)	(41,344)
Payments on lease liability (note 13)	(475,143)	(248,217)
Increase in long term obligations (note 12)	205,119	-
Increase in bank indebtedness (note 11)	709,098	-
	<b>11,103,410</b>	<b>3,109,492</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,657,693</b>	<b>(2,917,832)</b>
<b>Effect of foreign exchange on cash</b>	<b>169,617</b>	<b>85,166</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,097,199</b>	<b>4,929,865</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 12,924,509</b>	<b>\$ 2,097,199</b>



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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**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”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on April 26, 2021.

- (b) The outbreak of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods. During the year the company experienced minor delays in procuring components and conducting sea trials. The company received government assistance under the CEWS (Canada Emergency Wage Subsidy) program as disclosed in Note 19.

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

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

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

- (d) Basis of Consolidation

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

- (e) Accounting estimates and judgments:

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



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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

i) Revenue recognition

We have multi-year contracts with our customers, and we must make judgments about when we have satisfied our performance obligations to our customers, either over a period of time or at a point in time. We consider our performance obligations arising from the sale of equipment to have been satisfied when the equipment has been delivered to, and accepted by, the end-user customers. Advance billings are recorded when billing occurs prior to provision of the contracted and are as revenue in the period in which the services and/or equipment are provided.

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment 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.

iii) 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).

iv) Share-based payments

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

iv) Business Combinations

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

The Company's assessment that it has control over an entity when it owns less than 50% of ownership interest

## 2. Basis of presentation (continued):

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.

### v) Goodwill and intangible assets

The Company conducts impairment testing on its goodwill and intangible assets annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company determines the fair value of each cash-generating unit to which goodwill and intangible assets are allocated using the value in-use-method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. The Company's value in use test was based on a WACC of 13% an average estimated compound annual growth rate of approximately 26% from 2021 to 2025 and a terminal year free cash growth rate of 2%.

## 3. Adoption of new accounting pronouncements:

- (a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

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

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant

### 3. Adoption of new accounting pronouncements (continued):

and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

#### *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*

On May 14, 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

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

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

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

#### *IFRS 3 – Business Combinations*

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

### 4. Significant accounting policies:

- (a) Business combinations:

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

- (b) Revenue Recognition:

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized as performance obligations are satisfied and the Company transfers control of a product or service to a customer. For performance obligations satisfied at a point in time, revenue is recognized when the Company has a present right to payment, the buyer has legal title to the asset, physical possession of the asset has transferred to the buyer, the buyer has the significant risks and rewards of ownership and the buyer has accepted the asset. Generally, the buyer obtains control at the time goods are shipped, the product is delivered, or services are rendered. For performance obligations satisfied over time, revenue is recognized by measuring the progress toward complete satisfaction of that performance obligation. For customer contracts that contain multiple performance obligations, each element is treated separately for revenue recognition purposes. For these



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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

contracts, the total transaction price is allocated to each obligation based on its relative stand-alone selling price. Revenue is then recognized for each obligation when the relevant recognition criteria are met.

(c) Government grants:

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

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

(d) Foreign currency transactions:

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

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

(e) Foreign currency translations:

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

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

(f) Income tax:

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the consolidated financial statements because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences relating to investments in subsidiaries and joint ventures 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. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Inventories:

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

(h) Property and equipment and Intangibles:

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

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

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

Asset	Basis	Rate
Computer equipment	Declining balance	50%
Leasehold improvements	Straight-line	20%
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.

Leases:

The Company enters into leases for infrastructure and equipment, land and buildings in the normal course of business. Lease contracts are typically made for fixed periods but may include purchase, renewal or termination options. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions. The Company adopted IFRS 16 as of





**Notes to the Consolidated Financial Statements  
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**4. Significant accounting policies (continued):**

January 1, 2019. At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

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

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

Goodwill and intangible assets:

(i) Recognition and measurement

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

(ii) Subsequent expenditures

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

(iii) Amortization

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

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

Asset	Period
Technology and trade secrets	5 years
Customer contracts	1 year
Customer relationships	6 years

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



**Notes to the Consolidated Financial Statements  
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**4. Significant accounting policies (continued):**

(i) Research and development:

Research costs are expensed as incurred. Development costs are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, such costs are expensed as incurred. Subsequent to initial recognition, development costs are measured at cost less accumulated amortization and any accumulated impairment losses. To date, \$176,342 in development costs have been capitalized which are not in use at December 31, 2020 and have not been amortized.

(j) Financial instruments

(i) Financial assets and liabilities

*Initial measurement and classification*

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

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

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

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

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

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

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

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

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



**Notes to the Consolidated Financial Statements  
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**4. Significant accounting policies (continued):**

*Subsequent measurement*

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

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

<b>Financial instrument</b>	<b>Current classification</b>
Cash and cash equivalents	Financial asset at amortized cost
Trade and other receivables	Financial asset at amortized cost
Restricted cash	Financial assets at amortized cost
Bank indebtedness	Financial liability at amortized cost
Trade and other payables	Financial liability at amortized cost
Long-term obligations	Financial liability at amortized cost

(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, 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.

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

(ii) Fair value measurement (continued):

*Impairment of financial assets*

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

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

(k) Impairment:

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

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

(l) Share-based payments:

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

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

(m) Earnings (loss) per share:

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



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**5. Cash and cash equivalents and restricted cash:**

Cash and cash equivalents and restricted cash consist of the following:

	<b>2020</b>	<b>2019</b>
Cash – current	\$ 12,924,509	\$ 1,329,949
Short-term Investments	-	767,250
Cash and cash equivalents	12,924,509	2,097,199
Restricted cash – non-current	1,057,982	-
	\$ 13,982,491	\$ 2,097,199

As at December 31, 2020, the Company had restricted cash of \$1,057,982 which is held in Guaranteed Investment Certificates, bearing interest at a rate of 0.15% per annum. The Guaranteed Investment Certificates are security for letters of credit for advance payments received under a manufacturing contract and mature on October 31, 2024. In 2019, short-term investments consisted of a Guaranteed Investment Certificate.

**6. Trade and other receivables:**

Trade and other receivables consist of the following:

	<b>2020</b>	<b>2019</b>
Trade receivables (note 16)	\$ 1,093,232	\$ 3,236,207
Contract asset (note 18)	524,189	272,832
Government assistance receivable and other	1,502,499	1,574,701
	\$ 3,119,920	\$ 5,083,740

**7. Inventory:**

As at December 31, 2020, the Company held \$8,129,302 (2019 - \$5,886,256) in inventory, consisting of \$5,913,420 (2019 - \$4,660,148) in raw materials and \$2,215,882 (2019 - \$1,226,108) in work-in-progress. Included in cost of sales is inventory costs of \$3,971,586 (2019 - \$7,335,900). Inventory write-downs consisted of \$nil (2019 - \$557).

**8. Prepayments:**

As at December 31, 2020, the Company had made prepayments of \$1,388,550 (2019 - \$431,462). Included in prepayments are advance payment guarantee fees of \$936,326 (2019 - \$nil) and prepayments towards inventory of \$176,210 (2019 - \$431,462).



Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019

9. Property and equipment:

(a) As at December 31, 2020 and 2019, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	AUV Vehicle	Total
<b>Cost</b>							
Balance at January 1, 2019	531,810	168,229	1,518,040	-	115,677	1,489,175	3,822,931
Additions	513,313	120,027	90,695	91,318	918,407	-	1,733,760
Disposal and transfer to inventory	(631)	-	-	-	-	(1,489,175)	(1,489,806)
Foreign Exchange	(21,946)	(1,107)	-	-	-	-	(23,053)
<b>Balance at December 31, 2019</b>	<b>\$ 1,022,546</b>	<b>\$ 287,149</b>	<b>\$1,608,735</b>	<b>\$ 91,318</b>	<b>\$ 1,034,084</b>	<b>\$ -</b>	<b>\$ 4,043,832</b>
Additions	362,264	114,339	2,353,303	1,062,009	463,502	-	4,355,417
Disposals	(66,553)	(108,654)	-	-	(115,676)	-	(290,883)
Foreign Exchange	31,946	2,443	-	-	-	-	34,389
<b>Balance at December 31, 2020</b>	<b>\$ 1,350,203</b>	<b>\$ 295,277</b>	<b>\$3,962,038</b>	<b>\$ 1,153,327</b>	<b>\$ 1,381,910</b>	<b>\$ -</b>	<b>\$ 8,142,755</b>
<b>Accumulated depreciation</b>							
Balance at January 1, 2019	\$ 79,804	\$ 68,787	\$ -	\$ -	\$ 75,061	\$ 263,398	\$ 487,050
Depreciation	180,739	64,352	247,157	-	166,351	108,586	767,185
Disposals	(343)	-	-	-	-	(371,984)	(372,327)
<b>Balance at December 31, 2019</b>	<b>\$ 260,200</b>	<b>\$ 133,139</b>	<b>\$ 247,157</b>	<b>\$ -</b>	<b>\$ 241,412</b>	<b>\$ -</b>	<b>\$ 881,908</b>
Depreciation	210,791	82,036	337,737	-	175,093	-	805,657
Disposals	(55,795)	(93,101)	-	-	(105,649)	-	(254,545)
<b>Balance at December 31, 2020</b>	<b>\$ 415,196</b>	<b>\$ 122,074</b>	<b>\$ 584,894</b>	<b>\$ -</b>	<b>\$ 310,856</b>	<b>\$ -</b>	<b>\$ 1,433,020</b>
<b>Carrying amounts</b>							
At December 31, 2019	\$ 762,346	\$ 154,010	\$ 1,361,578	\$ 91,318	\$ 792,672	\$ -	\$ 3,161,924
At December 31, 2020	\$ 935,007	\$ 173,203	\$ 3,377,144	\$ 1,153,327	\$ 1,071,054	\$ -	\$ 6,709,735

In 2019 Kraken recognized a gain of \$576,425 on the disposal of assets with a carrying value of \$419,505 related to the sale of a ThunderFish® Alpha AUV. Components of the ThunderFish® that were not sold, with a carrying value of \$697,974, which can be used in the manufacture of other products, were reclassified to inventory.



Notes to the Consolidated Financial Statements  
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**10. Goodwill and intangible assets:**

Reconciliation of Intangibles:

	Trademarks and Trade names	Technology and trade secrets	Customer contracts	Customer relationships	Goodwill	Total
<b>Cost</b>						
Balance at January 1, 2019	85,872	832,411	632,671	548,821	371,883	2,471,658
Movement in exchange rates	(5,665)	(51,697)	(5,545)	(40,716)	(24,533)	(128,156)
<b>Balance at December 31, 2019</b>	<b>\$ 80,207</b>	<b>\$ 780,714</b>	<b>\$ 627,126</b>	<b>\$ 508,105</b>	<b>\$ 347,350</b>	<b>\$2,343,502</b>
Additions		176,342				176,342
Movement in exchange rates	5,637	42,101	-	26,560	25,548	99,846
<b>Balance at December 31, 2020</b>	<b>\$ 85,844</b>	<b>\$ 999,157</b>	<b>\$ 627,126</b>	<b>\$ 534,665</b>	<b>\$ 372,898</b>	<b>\$2,619,690</b>
<b>Accumulated depreciation</b>						
<b>Balance at January 1, 2019</b>	-	-	-	-	-	-
Depreciation		191,440	627,126	94,641		913,207
<b>Balance at December 31, 2019</b>	<b>\$ -</b>	<b>\$ 191,440</b>	<b>\$ 627,126</b>	<b>\$ 94,641</b>	<b>\$ -</b>	<b>\$ 13,207</b>
Depreciation		197,918		100,558		298,476
<b>Balance at December 31, 2020</b>	<b>\$ -</b>	<b>\$ 389,358</b>	<b>\$ 627,126</b>	<b>\$ 195,199</b>	<b>\$ -</b>	<b>\$1,211,683</b>
<b>Carrying amounts</b>						
<b>At December 31, 2019</b>	<b>\$ 80,207</b>	<b>\$ 589,274</b>	<b>\$ -</b>	<b>\$ 413,464</b>	<b>\$ 347,350</b>	<b>\$1,430,295</b>
<b>At December 31, 2020</b>	<b>\$ 85,844</b>	<b>\$ 609,799</b>	<b>\$ -</b>	<b>\$ 339,466</b>	<b>\$ 372,898</b>	<b>\$1,408,007</b>

At December 31, 2020, \$176,342 (2019 - \$nil) in internal technology development costs have not been amortized as they are not yet available for their intended use.

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, 2020, the aggregate carrying amount of the Company's goodwill is \$372,898 (2019 - \$347,350).

Goodwill impairment testing requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions. The Company's value in use test was based on a WACC of 13% an average estimated compound annual growth rate of approximately 26% from 2021 to 2025 and a terminal year free cash growth rate of 2%.

As the recoverable amount of the Power segment was determined to be greater than its carrying amount, no impairment loss was recorded in 2020 or 2019.



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**11. Bank indebtedness:**

At December 31, 2020, the Company had available a \$1,500,000 line of credit for general operating purposes (the “operating line”). The operating line bears interest at the bank’s prime rate plus 2.5%, payable monthly. As at December 31, 2020, a total of \$Nil (December 31, 2019 - \$Nil) was drawn against this facility. Security for operating line is a general security agreement. Additionally, the Kraken Power has a €500,000 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at December 31, 2020 a total of €452,936 (\$709,098) (December 31, 2019 - \$Nil) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.

**12. Long-term obligations:**

	December 31, 2020	December 31, 2019
Long-term note payable in the amount of €400,000 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	\$ 463,741	\$ 392,374
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89,019, repayable in equal installments of €1,306 over 72 months, and maturing on December 31, 2026.	139,365	-
Loan, secured by equipment and infrastructure, bearing interest at 1.23% currently in the amount of €42,000 with a maximum of €875,000 available, repayable in equal installments over 67 months beginning on March 31, 2021, maturing on September 30, 2026.	65,754	-
	668,860	392,374
Less current portion of long-term obligations	(22,368)	-
	<b>\$ 646,492</b>	<b>\$ 392,374</b>

The long-term note payable 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.





Notes to the Consolidated Financial Statements  
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**13. Lease liabilities:**

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the twelve-month period ended December 31, 2020 and comparatives for December 31, 2019:

	Right-of-use assets (Leased Properties)	Lease liabilities
As at January 1, 2019	\$ 1,518,040	\$ 1,518,040
Depreciation expense	(247,158)	-
Interest expense	-	178,118
Payments	-	(248,217)
Additions	90,695	90,695
<b>Subtotal</b>	<b>1,361,578</b>	<b>1,538,636</b>
<b>Less: current portion</b>	<b>-</b>	<b>(191,630)</b>
<b>As at December 31, 2019</b>	<b>\$ 1,361,578</b>	<b>\$ 1,347,006</b>
	Right-of-use assets (Leased Properties)	Lease liabilities
As at January 1, 2020	\$ 1,361,578	\$ 1,538,636
Depreciation expense	(337,737)	-
Interest expense	-	220,757
Payments	-	(475,143)
Additions	2,353,303	2,353,303
<b>Subtotal</b>	<b>3,377,144</b>	<b>3,637,553</b>
<b>Less: current portion</b>	<b>-</b>	<b>(504,277)</b>
<b>As at December 31, 2020</b>	<b>\$ 3,377,144</b>	<b>\$ 3,133,276</b>

Depreciation of right-of-use assets is included in depreciation and amortization expenses. Interest expense related to lease liabilities is included in financing costs. During the year right-of-use asset consisting of leased properties were added in the amount of \$2,353,303 (2019- \$90,695).

The Company's minimum lease payments are as follows:

	December 31, 2020
Less than one year	818,979
One to three years	1,548,745
Three to five years	1,592,473
Thereafter	937,739
Minimum lease payments	4,897,936
Amounts representing finance charges	1,260,383
<b>Net minimum lease payments</b>	<b>\$ 3,637,553</b>



**Notes to the Consolidated Financial Statements  
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**14. Income taxes:**

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

	2020	2019
Net loss before taxes	\$ (5,547,481)	\$ (3,047,652)
Statutory tax rates	30.0%	27.0%
Income taxes (recovery) computed at the statutory rates	\$ (1,664,244)	\$ (822,866)
Change in statutory rates and other	(14,109)	(35,000)
Permanent differences	619,785	(493,000)
Stock option expense	292,590	370,000
Change in unrecognized deductible temporary differences	753,430	936,699
Recorded income tax (recovery)	\$ (12,548)	\$ (44,167)

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

	2020	2019
Deferred tax liabilities:		
Property and equipment	\$ 17,962	\$ 31,000
Intangibles	260,651	378,000
Other	54,087	17,000
	\$ 332,700	\$ 426,000

The net change in deferred tax liabilities for the year includes an increase of \$30,592 as a result of foreign exchange fluctuations.

The tax effect of the deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the consolidated financial statements of the Company are as follows:

	2020	2019
Non-capital losses carried forward	\$ 3,923,000	\$ 3,056,000
Property and equipment	668,000	186,000
Investment tax credits	485,000	240,000
Deferred financing expenses	321,000	174,000
Other	43,000	-
	\$ 5,440,000	\$ 3,656,000

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 2040. Deferred tax benefits which may arise as a result of deferred income tax assets have not been recognized in these consolidated financial statements as management believes that it is not probable that sufficient taxable income will be available to realize such assets.

**Unrecognized deferred tax liabilities**

Deferred tax is not recognized on the unremitted earnings of subsidiaries as the Company is able to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2020 for the Company's subsidiaries was \$198,150 (December 31, 2019 - \$5,345).



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

**15. Share capital:**

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders' equity for a summary of changes in Share capital and Contributed surplus for the years ended December 31, 2020 and 2019.

(a) Private placements

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

(b) Share purchase warrants

In February 2019, 1,050,000 warrants were exercised at a price of \$0.30.

In March 2019, 5,760,000 warrants held by Ocean Infinity were exercised at a price of \$0.40 and 1,510,000 warrants were exercised at a price of \$0.30.

In April 2019, 557,776 warrants were exercised at a price of \$0.30.

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

Share purchase warrant transactions are summarized for the years ending December 31, 2020 and 2019:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening balance	550,000	\$ 0.60	9,427,776	\$ 0.38
Warrants exercised	(495,000)	0.60	(8,877,776)	0.365
Warrants expired	(55,000)	0.60	-	-
Ending balance	-	-	550,000	\$ 0.60
Warrants exercisable	-	-	550,000	\$ 0.60

In addition to warrants outlined above, in April 2019, 11,666 finder's warrants were exercised at a price of \$0.18. There were no remaining finder's warrants outstanding at December 31, 2020 or 2019.

At December 31, 2020 and December 31, 2019, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	December 31, 2020	December 31, 2019	Weighted Average Remaining Contractual Life
December 20, 2020	\$0.60	-	550,000	-
	<b>\$0.60</b>	-	<b>550,000</b>	-



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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

(c) Share options

The Company has a share option plan, under which the Board of Directors is authorized to grant options to employees, directors, officers and consultants, enabling them to acquire up to 10% of the issued and outstanding share capital of the Company. The exercise price of each option is based on the market price of the Company's share as calculated on the date of grant. The options can be granted for a maximum term of five years. Options granted to investor relations consultants are subject to vesting provisions, as established by regulatory authorities, over a twelve-month period, with no more than  $\frac{1}{4}$  vesting during any three-month period. Vesting provisions for other options are determined by the Company's Board of Directors.

At March 5, 2019 the Company issued 500,000 options to consultants. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price on the options was \$0.70.

At July 15, 2019 the Company's board of directors approved granting of 1,000,000 options to an officer. The options are exercisable at a price of \$0.63 per share. The options expire on July 14, 2024, vesting over the next two years on the following schedule: 250,000 vesting immediately, 250,000 vesting twelve months following date of grant and 500,000 vesting 24 months following the date of grant.

At July 15, 2019 the Company issued 1,500,000 options to the Company's Board of Directors. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price on the options was \$0.63.

At July 15, 2019 the Company issued 400,000 to an investor relations consultant exercisable at \$0.63. The options have a three-year term and vest over a one-year period.

At September 9, 2019 the Company issued 2,755,000 stock options to employees. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price on the options was \$0.53.

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

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

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



Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019

15. Share capital (continued):

The following options were outstanding as at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	12,051,834	\$ 0.376	6,940,834	\$ 0.197
Granted	1,875,000	0.56	6,155,000	0.59
Exercised	(4,650,167)	0.20	(1,025,666)	0.154
Expired	(38,334)	0.408	(18,334)	0.18
Ending balance	9,238,333	\$ 0.535	12,051,834	\$ 0.402
Options exercisable	5,911,716	\$ 0.51	7,234,334	\$ 0.376

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.185	February 20, 2021	450,000	450,000	0.14 years
0.25	July 18, 2021	833,333	833,333	0.55 years
0.70	March 5, 2022	500,000	333,333	1.18 years
0.63	July 14, 2022	1,500,000	1,000,000	1.53 years
0.63	July 14, 2022	400,000	400,000	1.53 years
0.53	September 8, 2022	2,680,000	1,770,050	1.69 years
0.44	May 1, 2023	75,000	25,000	2.33 years
0.57	July 14, 2023	1,500,000	500,000	2.53 years
0.51	August 5, 2023	300,000	100,000	2.59 years
0.63	July 14, 2024	1,000,000	500,000	3.54 years
<b>\$ 0.509</b>		<b>9,238,333</b>	<b>5,911,716</b>	<b>1.76 years</b>

(d) Share-based compensation

During the year ended December 31, 2020, the Company recorded share-based compensation totaling \$975,299 (2019 - \$1,370,745), which was expensed in operations with a corresponding increase in contributed surplus.

The weighted average share price at the date of exercise for share options exercised during the year ended December 31, 2020 was \$0.208 (2019 - \$0.154). The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31, 2020	Year ended December 31, 2019
Risk-free interest rate	0.22% to 0.29%	1.56-1.74%
Expected life of options	3 years	3 years
Expected volatility	66.72% to 116.51%	104% to 107%
Weighted average fair value per option	\$0.19 to \$0.39	\$0.35 to \$0.44
Dividend yield	Nil	Nil



**Notes to the Consolidated Financial Statements  
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**16. Financial instruments:**

**Credit Risk:**

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents and restricted cash (note 5)	\$ 13,982,491	\$ 2,097,199
Trade and other receivables	3,119,920	5,083,740
	<b>\$ 17,102,411</b>	<b>\$ 7,180,939</b>

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Current	\$ 753,222	\$ 1,631,029
31-60 days	183,280	550,102
61-90 days	-	880,838
> 90 days	156,730	174,238
	<b>\$ 1,093,232</b>	<b>\$ 3,236,207</b>

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

Trade receivables include an allowance for doubtful accounts. As of December 31, 2020, the amount is \$167,405 (2019 - \$164,585).

Revenues from the top three customers represented 59% of the Company's revenue in the year ended December 31, 2020 (2019 – top three customers represented 90% of revenue). At December 31, 2020, 63% of the trade receivables balance were owing from two customers (2019 – 66% of trade receivables was owing from two customers). At December 31, 2020, the Company had recorded contract liabilities of \$8,761,477 (2019 – \$2,445,223).

**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, 2020, the Company had a cash and cash equivalents balance of \$12,924,509 (December 31, 2019 - \$2,097,199) to settle current liabilities of \$14,696,183 (December 31, 2019 - \$6,278,886) of which contract liabilities make up \$8,761,477 (December 31, 2019 - \$2,445,223).



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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

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

	Less than one year	Beyond one year
Bank indebtedness	\$ 709,098	\$ -
Trade and other payables	4,698,963	-
Long-term obligations	22,368	646,492
	\$ 5,430,429	\$ 646,492

**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, 2020, the Company held \$12,924,509 in cash and cash equivalents, \$1,057,982 in restricted cash and has drawn \$709,098 against its operating line of credit. The drawn operating line of credit bears interest annually at 3.95%, payable monthly.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales and certain purchases in USD, EUR, GBP and DKK. 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, 2020	December 31, 2019
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ 427,353	\$ 62,577
Trade and other payables GBP	37,765	3,900
Trade and other payables EUR	847,397	814,618
Trade and other payables DKK	266,446	-
Long-term debt EUR	423,945	269,063
Bank indebtedness EUR	452,936	-
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	613,188	2,027,589
Trade and other receivables GBP	-	-
Trade and other receivables EUR	108,471	397,646
Trade and other receivables DKK	2,577	-

For the year ended December 31, 2020, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro and Danish Krone to the Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately \$538,762 (2019 - \$154,616).



**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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

**Fair Value:**

During the year ended December 31, 2020, 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:

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

  

<b>December 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets at amortized cost:			
Cash and cash equivalents	\$ 2,097,199	\$ -	\$ -
Trade and other receivables	-	5,083,740	-
Financial liabilities at amortized cost:			
Trade and other payables	-	3,620,443	-
Long-term obligations	-	392,374	-

**17. Capital management:**

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

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





**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019**

**18. Revenue:**

*Disaggregation of revenues*

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

	<b>December 31, 2020</b>	December 31, 2019
Product sales – transferred at a point in time	<b>\$ 10,730,260</b>	\$ 14,394,964
Service revenue - transferred over time	<b>1,544,639</b>	751,012
	<b>\$ 12,274,899</b>	\$ 15,145,976

Refer to note 24 for external revenue by geographic areas.

*Contract balances*

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

As at December 31, 2020, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was \$8,761,477 (2019 - \$2,445,223).

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

	<b>Unbilled revenue</b>
Opening balance – January 1, 2020	\$ 272,832
Increase in unbilled from revenue recognized	323,126
Decrease in unbilled from transfer to trade receivables and other adjustments	(71,769)
<b>Ending Balance – December 31, 2020</b>	<b>\$ 524,189</b>

  

	<b>Contract liabilities</b>
Opening balance – January 1, 2020	\$ 2,445,223
Increase in contract liabilities from payments received, excluding revenue recognized	10,413,950
Decreases in contract liabilities from revenue recognized	
<b>Ending Balance – December 31, 2020</b>	<b>\$ 8,761,477</b>

**19. Government assistance:**

During the year ended December 31, 2020, the Company received government assistance, excluding the OceanVision project, in the amount of \$4,509,039 (2019 - \$1,791,707). Government Assistance has been classified as a reduction to Cost of Sales of \$292,381 (2019 - \$345,429), Research & Development expense of \$3,279,017 (2019 - \$1,431,874), Administrative expense of \$889,992 (2019 - \$14,404) and Construction in Process of \$47,649 (2019 - \$nil). Included in the amounts noted above is \$2.2 million received or receivable under CEWS program.



**Notes to the Consolidated Financial Statements  
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**19. Government assistance (continued):**

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the year ended December 31, 2020, including \$2,590,963 (2019 – \$696,073) in reimbursements from the Ocean SuperCluster and \$972,538 (2019 – \$460,162) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense of \$2,390,283 (2019 – \$751,779), Administrative expense \$91,703 (2019 – \$61,558), Cost of sales of \$58,578 (2019 – nil) and Construction in progress of \$1,022,937 (2019 – 342,898).

**20. Financing costs:**

	2020	2019
Interest on lease liabilities	\$ 220,757	\$ 178,118
Letters of credit	112,196	4,955
Accretion on long-term note payable	41,510	31,690
	<b>\$ 374,463</b>	<b>\$ 214,763</b>

**21. Acquisition of Kraken Power:**

During the second quarter of 2017, the Company acquired a minority interest in ENITECH Subsea GmbH of Rostock, Germany which was renamed Kraken Power GmbH.

During the third quarter of 2018, the Company acquired a 75% controlling interest in Kraken Power for consideration of \$376,281, including the initial minority investment.

On December 31, 2019 Kraken acquired the remaining 25% of Kraken Power not currently owned for €350,000, consisting of €250,000 (\$367,450) in cash and the issuance of 236,258 common shares of the Company at \$0.62 per share (\$146,480). The transaction triggered a change of control payment to an arm's length third-party lender to Kraken Power in an amount equal to €120,000 (\$174,996) which was paid in 2020.

**22. Related party transactions:**

Compensation of key management personnel:

	2020	2019
Share-based payments	\$ 663,819	\$ 593,392
Short-term employee benefits	42,399	20,044
Salaries and wages	2,293,705	754,745
	<b>\$ 2,999,923</b>	<b>\$ 1,368,181</b>

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

	2020	2019
Decrease (increase) in trade and other receivables	\$ 1,881,751	\$ (3,350,377)
Increase in inventory	(2,243,046)	(2,281,613)
Increase in prepayments	(957,088)	(262,393)
Increase in trade and other payables	1,073,638	1,562,587
Increase (decrease) in contract liabilities	6,316,254	(475,588)
	<b>\$ 6,071,509</b>	<b>\$ (4,807,384)</b>



**Notes to the Consolidated Financial Statements  
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**24. 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.

The following tables present the operations of the Company’s reportable segments as at and for the year ended December 31, 2020 and comparatives for December 31, 2019:

<b>December 31, 2020</b>	<b>Sensors and Platforms</b>	<b>Power</b>	<b>Consolidated</b>
<b>Revenue</b>	\$ 8,251,323	\$ 4,023,576	\$ 12,274,899
<b>Cost of Goods sold and expenses</b>	\$ 12,362,524	\$ 5,459,856	\$ 17,822,380
<b>Segment profit (loss)</b>	\$ (4,111,201)	\$ (1,436,280)	\$ (5,547,481)
<b>Segment assets</b>	\$ 28,967,226	\$ 5,952,848	\$ 34,820,074
<b>Segment liabilities</b>	\$ 14,066,389	\$ 4,742,262	\$ 18,808,651
<b>Segment capital expenditures</b>	\$ 2,104,434	\$ 2,250,983	\$ 4,355,417

  

<b>December 31, 2019</b>	<b>Sensors and Platforms</b>	<b>Power</b>	<b>Consolidated</b>
<b>Revenue</b>	\$ 4,925,421	\$ 10,220,555	\$ 15,145,976
<b>Cost of Goods sold and expenses</b>	\$ 11,940,531	\$ 6,208,931	\$ 18,149,462
<b>Segment profit (loss)</b>	\$ (7,015,110)	\$ 4,011,624	\$ (3,003,486)
<b>Segment assets</b>	\$ 14,312,268	\$ 3,778,608	\$ 18,090,876
<b>Segment liabilities</b>	\$ 6,533,374	\$ 1,894,184	\$ 8,427,558
<b>Segment capital expenditures</b>	\$ 1,347,080	\$ 386,680	\$ 1,733,760

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

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



**Notes to the Consolidated Financial Statements  
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**24. Segmented information (continued):**

The following table sets forth external revenue by geographic areas:

	2020	2019
Total revenues:		
Canada	\$ 822,234	\$ 231,428
United States	8,226,024	3,118,345
Europe	3,135,750	11,516,664
Other	90,892	279,539
	<b>\$ 12,274,899</b>	<b>\$ 15,145,976</b>

For the year ended December 31, 2020, the Company had two customers that individually accounted for 34% and 23% of revenue and for the year ended December 31, 2019, the Company had two customers that individually accounted for 72% and 14% of revenue.

**25. Commitments:**

- (a) 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 is contractually committed to grant research and development projects to Fraunhofer of €300,000 (\$468,930) per year for a period of two more years (2020-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. The remaining commitment balance at December 31, 2020 is €300,000 (\$469,668) and these projects will be expensed as incurred.
- (b) To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of \$6.3 million, while the balance of the project of \$12.5 million will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Ocean Choice International, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to the project is \$4.4 million, of which \$2.4 million remains outstanding at December 31, 2020. Kraken's commitment will be reduced if and when additional government and industry partners join the project in 2021.
- (c) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$1,802,916 (C\$2,298,682), US\$6,214,595 (C\$7,923,484) on advance guarantees secured by Export Development Canada and US\$829,802 (C\$1,057,982) for performance guarantee secured by restricted cash. The letters of credit expire on December 31, 2021, October 30, 2023 and October 31, 2024, respectively.
- (d) With the adoption of IFRS 16 for Leases, the Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at December 31, 2020 is \$100,099.



**Notes to the Consolidated Financial Statements  
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**26. Subsequent events:**

Subsequent to December 31, 2020, the Company:

- (a) Subsequent to year end, 698,334 options were exercised for proceeds of \$151,868.
- (b) On April 7, 2021, Kraken filed a short form base prospectus with securities regulators in each of the provinces and territories of Canada, which will qualify the distribution of up to \$65 million of common shares, warrants, subscription receipts, and debt securities.
- (c) On April 8, 2021, Kraken announced that it had signed a non-binding letter of intent to acquire subsea services company, PanGeo Subsea Inc.
- (d) On April 19, 2021, Kraken announced that it had acquired 13 Robotics Ltda of Brazil for US\$220,000.