Kraken Robotics Inc.

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars unless otherwise noted)

NOTICE TO READER

May 15, 2024

VIA SEDAR

Re: Kraken Robotics Inc. – Re-filing of the consolidated financial statements for the year ended December 31, 2023

Please be advised that the audited consolidated financial statements of Kraken Robotics Inc. for the year ended December 31, 2023 filed on April 18, 2024 are being refiled to correct a clerical error in the segment capital expenditures disclosed in Note 22. The consolidated financial statements for the year ended December 31, 2022, excluding the adjustments that were applied to restate certain comparative information disclosed in Note 22, were audited by the prior auditor, KPMG LLP, and their audit opinion in respect of the December 31, 2022 consolidated financial statements is also now included. In addition to this change, a note was added in respect of a subsequent event that occurred after filing of the original audited consolidated financial statements for the year ended December 31, 2023. No other changes were made to the audited consolidated financial statements and the foregoing correction does not affect the accompanying management discussion and analysis.

Independent auditor's report

To the Shareholders of
Kraken Robotics Inc.

Opinion

We have audited the consolidated financial statements of Kraken Robotics Inc. and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2023 and the consolidated statements of net income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Emphasis of matter – Restated segmented information

We draw attention to note 22 to the consolidated financial statements, which describes that the consolidated financial statements for the year ended December 31, 2023 that we originally reported on April 18, 2024 have been restated and describes the restatement to the segmented information for the year ended December 31, 2023. Our opinion is not modified in respect of this matter.

Emphasis of matter – Restated comparative information

We draw attention to note 22 to the consolidated financial statements, which explains that certain comparative information for the year ended December 31, 2022, has been restated to reflect changes to reportable operating segments and the correction of an error in the segment capital expenditures disclosed [collectively the "Adjustments"]. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended December 31, 2022, excluding the Adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2023.

As part of our audit of the consolidated financial statements for the year ended December 31, 2023, we also audited the Adjustments to restate certain comparative information presented. In our opinion, such Adjustments are appropriate and have been properly applied.

Other than with respect to the Adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2022. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	
Impairment of goodwill and intangible assets with indefinite useful lives of the Services cash generating unit	*How our audit addressed the key audit matter*
We draw attention to Notes 2(d)(vi), 4(h)(i), 4(l) and 8 to the financial statements. The Group performs impairment testing of goodwill and intangible assets with indefinite useful lives annually at December 31 and when there is an indication that the asset may be impaired. The Group has recorded goodwill and intangible assets with indefinite useful lives of $5,013 thousand related to the Services cash generating unit ["CGU"]. The Group assesses impairment by comparing the recoverable amount of an asset or CGU to its carrying value. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The Group determines the recoverable amount using the value in use method, which estimates the fair value using a discounted cash flow analysis. The Group's significant assumptions used to determine the recoverable amount of the CGU include projected revenues, projected gross margin rates, projected maintenance and other capital expenditures, the discount rate, and the terminal growth rate. We identified the evaluation of impairment of goodwill and intangible assets with indefinite useful lives of the Services CGU as a key audit matter. This matter represented a key audit matter given the magnitude of goodwill and intangible assets with indefinite useful lives and the high degree of estimation uncertainty in assessing the assumptions used to determine the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge were required to evaluate the Group's significant assumptions due to the sensitivity of the recoverable amount to changes in the significant assumptions.	Our audit procedures related to the Group's evaluation of the recoverability of the carrying value of long-lived assets included, among others: • We assessed the historical accuracy of the Group's estimates with respect to cash flow projections in previous periods by comparing to current results. • We evaluated the appropriateness of the Group's projected revenues. projected gross margin rates and maintenance and other capital expenditures by examining a selection of purchase orders, contracts and invoices, taking into account actual results, conditions or events to assess adjustments or lack of adjustments, and changes in macroeconomic factors affecting the CGU. • With the assistance of our valuation specialists, we assessed the discount rate used to determine the recoverable amount. We assessed the Group's discount rate against discount rate ranges that were independently developed using publicly available market and industry data and considering risks specific to the CGU. • With the assistance of our valuation specialists, we performed a sensitivity analysis on significant assumptions to assess the sensitivity of the estimate to change, and the impact on the results of the impairment assessment. We also assessed the appropriateness of the terminal growth rate comparing to economic forecasts. • We evaluated management's disclosure of significant judgments related to this matter in the notes to the consolidated financial statements.

Revenue recognition using the percentage-of-completion method

The Group has multi-year contracts with its customers where revenue is recognized over time using the input cost method, measured by the percentage of costs incurred to date as a percentage of the total estimated costs for each contract. The Group's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in notes 2(d)(i), 4(b) and 16 of the consolidated financial statements.

The Group recognized revenues related to these contracts of $36,021 thousand for the year ended December 31, 2023. The determination of the estimated costs to complete projects that are open at period end is a significant judgement that can have a material impact on the amount of revenue and profit recognized in the period. These significant judgements include estimated future labour, materials and overhead costs for contracts. These estimated contract costs are subjective in nature and dependent on the complexity and status of the related contract.

How our audit addressed the key audit matter

Our audit procedures related to the Company's recognition of revenue using the percentage-of-completion method, included among others:

- For new contracts entered into during the year and amendments to contracts, we obtained and inspected the contractual arrangements, including pricing and billing terms, and change orders and terms to evaluate whether performance obligations have been appropriately identified, that consideration is being appropriately allocated to performance obligations and that revenue is being appropriately recognized over time.
- For new contracts, we tested the accuracy of the total estimated project costs by comparing the total estimated project costs by category to total actual project costs of completed contracts with similar terms. We compared the labour rates used in the estimated project costs to approved rates and tested the raw materials cost by comparing to invoices for recent purchases.
- For open contracts at year-end, we compared prior period cost estimates to actual contract costs incurred in the current period to assess management's ability to estimate the costs to complete contracts. For contracts completed subsequent to year-end, we compared the actual costs incurred to the total forecasted costs of the project. We compared gross margins on open contracts to the those at contract initiation and obtained an explanation for significant fluctuations compared to expectations. We also compared gross margins between contracts for similar products and services and obtained explanations for significant variances compared to expectations.
- On a sample basis, we tested actual costs incurred agreeing to third-party invoices and contracts and to payroll records. For the allocation of actual costs incurred we assessed the appropriateness of the allocation basis by agreeing the inputs to financial records and recalculating the allocated costs. We evaluated whether the costs were recorded appropriately and allocated to the appropriate projects.
- We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition for projects that are open at period end.

Other information

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

- Management's Discussion and Analysis

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sonya Fraser.

Ernst & Young LLP

Chartered Professional Accountants

St. John's, Canada
May 15, 2024

KPMG LLP
TD Place
140 Water St., Suite 1001
St. John's NL A1C 6H6
Canada
Tel 709-733-5000
Fax 709-733-5050

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kraken Robotics Inc.,

Opinion

We have audited, excluding the adjustments that were applied to restate certain comparative information as disclosed in Note 22, the consolidated financial statement of Kraken Robotics Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of net loss and comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

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

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor’s report is Jennifer Clement.

St. John’s, Canada

April 28, 2023

KRAKEN

December 31, 2023

CONTENTS

KRAKEN

Consolidated Statements of Financial Position
December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars)

	December 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ **5,173**	$ 8,265
Trade and other receivables (note 5)	**10,382**	12,221
Contract asset (note 16)	**9,880**	4,347
Current tax receivable	**181**	71
Investment tax credits recoverable	**522**	-
Inventory (note 6)	**16,520**	11,367
Prepayments	**1,417**	1,556
	44,075	37,827
Prepayments	**-**	23
Property and equipment (note 7)	**22,948**	19,303
Intangible assets (note 8)	**4,473**	5,972
Goodwill (note 8)	**4,504**	7,258
Deferred taxes (note 12)	**419**	982
TOTAL ASSETS	$ **76,419**	$ 71,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 9)	$ **9,651**	$ 6,366
Trade and other payables	**17,161**	11,220
Contract liabilities (note 16)	**10,848**	11,817
Current tax payable	**148**	20
Current portion of long-term obligations (note 10)	**813**	5,086
Current portion of lease liabilities (note 11)	**1,840**	853
Current portion of contingent consideration	**-**	4,500
	40,461	39,862
Long-term obligations (note 10)	**1,103**	938
Lease liabilities (note 11)	**2,796**	3,022
Contingent consideration	**-**	3,888
Shareholders' equity:		
Share capital (note 13)	**52,684**	48,839
Contributed surplus	**1,671**	2,700
Accumulated other comprehensive loss	**(510)**	(552)
Deficit	**(21,786)**	(27,332)
	32,059	23,655
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ **76,419**	$ 71,365

Commitments (note 23) Subsequent events (note 24)

On Behalf of the Board:

"Greg Reid" Director ***"Shaun McEwan"*** Director

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars)

	2023	2022
Product Revenue (note 16)	**$ 52,618**	$ 24,900
Service Revenue (note 16)	**16,963**	16,008
	69,581	40,908
Cost of sales (note 6)	**35,625**	23,871
	33,956	17,037
Administrative expenses	**17,528**	12,364
Research and development costs	**4,487**	1,262
Depreciation and Amortization	**4,940**	4,781
Share-based compensation (note 13 (c))	**378**	797
Investment tax credits recoverable	**(1,021)**	(634)
Impairment of goodwill (note 8)	**2,757**	-
	29,069	18,570
Income (loss) from operating activities	**4,887**	(1,533)
Foreign exchange loss	**975**	301
Financing costs (note 19)	**1,631**	3,261
Gain on extinguishment of contingent consideration (note 14)	**(4,044)**	-
Loss on sale of property and equipment	**3**	207
Net income (loss) before income taxes	**6,322**	(5,302)
Income tax expense – Current (note 12)	**213**	31
Income tax expense (recovery)– Deferred (note 12)	**563**	(1,090)
	776	(1,059)
Net income (loss)	**5,546**	(4,243)
Basic income (loss) per share (note 17)	**$ 0.03**	$ (0.02)
Diluted income (loss) per share (note 17)	**$ 0.03**	$ (0.02)

KRAKEN

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars)

	2023	2022
Net income (loss)	**$5,546**	$(4,243)
Other comprehensive gain (loss)		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**42**	(637)
Other comprehensive (gain) loss	**42**	(637)
Comprehensive income (loss)	**$5,588**	$(4,880)

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars except share amounts)

2023	Number of Shares	Share capital (note 13)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2023	201,524,235	$ 48,839	$ 2,700	$ (552)	$ (27,332)	23,655
Net income	-	-	-	-	5,546	5,546
Other comprehensive income	-	-	-	42	-	42
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock options exercised (note 13(c))	453,750	272	(93)	-	-	179
Issue of common shares on warrant exercised (note 13(a))	15,000	11	(2)	-	-	9
Issue of common shares on contingent consideration (note 13)	4,500,000	2,250	-	-	-	2,250
Share-based compensation (note 13(c))	-	-	378	-	-	378
Expiration of warrants (note 13(a))	-	1,312	(1,312)	-	-	-
Shareholders' equity as at December 31, 2023	206,492,985	$ 52,684	$ 1,671	$ (510)	$ (21,786)	32,059

2022	Number of Shares	Share capital (note 13)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2022	201,192,985	$ 47,416	$ 3,191	$ 85	$ (23,089)	27,603
Net loss	-	-	-	-	(4,243)	(4,243)
Other comprehensive loss	-	-	-	(637)	-	(637)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	326,250	1,419	(1,287)	-	-	132
Issue of common shares on warrant exercises	5,000	4	(1)			3
Share-based compensation	-	-	797	-	-	797
Shareholders' equity as at December 31, 2022	201,524,235	$ 48,839	$ 2,700	$ (552)	$ (27,332)	23,655

The accompanying notes form part of the consolidated financial statements.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of Canadian Dollars)

		2023		2022
Cash flows provided by operating activities				
Net income (loss)	$	5,546	$	(4,243)
Adjustments for items not involving cash:				
Depreciation		3,518		3,236
Amortization of intangible assets		1,422		1,545
Share-based compensation		378		797
Loss on disposal of property, plant and equipment		3		207
Interest on lease liability (note 11)		303		327
Interest on long-term obligations		525		64
Impairment on goodwill		2,757		-
Investment tax credit recoverable		(522)		-
Accretion expense (note 10)		207		436
Fair value adjustment on contingent consideration		(3,888)		1,282
Income tax recovery (note 12)		776		(1,059)
Changes in non-cash working capital (note 21)		(2,598)		2,645
Net cash flows provided by operating activities		8,427		5,237
Cash flows used in investing activities				
Purchase of property and equipment		(7,557)		(5,144)
Proceeds on disposal of property and equipment		-		1,778
Payment of contingent consideration		(2,250)		-
Net cash flows used in investing activities		(9,807)		(3,366)
Cash flows used in financing activities				
Proceeds from exercise of warrants and options		188		135
Payment of principal on leases (note 11)		(979)		(1,032)
Payment of interest on leases (note 11)		(303)		(327)
Payment of principal on long-term obligations (note 10)		(5,150)		(277)
Payment of interest on long-term obligations (note 10)		(525)		(64)
Proceeds from long term obligations (note 10)		1,329		112
Increase in bank indebtedness (note 9)		3,285		1,412
Net cash flows used in financing activities		(2,155)		(41)
Net (decrease) increasein cash and cash equivalents		(3,535)		1,830
Effect of foreign exchange on cash		443		(319)
Cash and cash equivalents at beginning of year		8,265		6,754
Cash and cash equivalents at end of year	$	5,173	$	8,265

1. Corporate Information:

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

The Company’s principal business is supplying advanced sonar and optical sensors, batteries, and underwater robotics equipment and services for military and commercial applications.

2. Basis of presentation:

(a) Statement of compliance:

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

These consolidated financial statements were approved by the Board of Directors on May 15, 2024.

(b) Basis of measurement:

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

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

(c) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Kraken Robotic Systems Inc (domiciled in Canada), Kraken Robotik GmbH (domiciled in Germany), Kraken Power GmbH (domiciled in Germany), Kraken Robotics US Inc (domiciled in the United States of America), Kraken Robotics Denmark ApS (domiciled in Denmark), Kraken Robotics Brasil Ltda (domiciled in Brazil), PGH Capital Inc (domiciled in Canada), Kraken Robotics Services Ltd . (formerly PanGeo Subsea Inc) (domiciled in Canada) and Kraken Robotics Services UK Limited (formerly PanGeo Subsea Scotland Limited) (domiciled in Scotland). All intercompany balances and revenue and expense transactions have been eliminated on consolidation.

(d) Critical accounting estimates and judgments:

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

i) Revenue recognition

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

2. Basis of presentation (continued):

ii) Estimates of useful lives of property and equipment

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

iii) Recovery of deferred tax assets

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

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

iv) Share-based payments

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

v) Business Combinations

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

For business combinations, the acquisition date is the date the Company obtains control of the acquiree, which is generally the date on which the acquirer legally transfers the assets and assumes the liabilities of the acquiree. The Company considers all pertinent facts and circumstances in identifying the acquisition date.

2. Basis of presentation (continued):

vi) Impairment

The Company determines the recoverable amount of each cash-generating unit ("CGU") using the value in-use-method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The significant assumptions used in the discounted cash flow analysis requiring significant estimation are the projected revenues, gross margin rates, maintenance and other capital expenditures, the discount rate based on the weighted average cost of capital ("WACC"), and terminal growth rate assumptions.

3. Adoption of new accounting pronouncements:

(a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The Company intends to adopt these standards, amendments and interpretations when they become effective. While under review, the Company does not anticipate that the adoption of these new or revised standards will have a material impact on our reported financial results.

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

The amendments to IAS 1 specify the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

(b) The following amended IFRS pronouncements were adopted effective January 1, 2023 and had no impact to the Company's financial statements:

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

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

3. Adoption of new accounting pronouncements:

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021 the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023.

4. Material accounting policies:

(a) Business combinations:

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

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

(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 terms of a contract with a customer have been satisfied, which occurs when control has been transferred to customer... Generally, the buyer obtains control at the time goods are shipped, the product is delivered, or services are rendered. For performance obligations satisfied over time, revenue is recognized by measuring the progress toward complete satisfaction of that performance obligation. For customer contracts that contain multiple performance obligations, each element is treated separately for revenue recognition purposes. For these contracts, the total transaction price is allocated to each obligation based on its relative stand-alone selling price. Revenue is then recognized for each obligation when the relevant recognition criteria are met. Some customer contracts which have payment terms dictated by daily or hourly rates where some contracts may have mixed pricing terms which include a fixed fee portion, revenue is recognized for the fixed fee portion of the contract upon completion of that performance obligation. For contracts in which the customer is charged fixed rate based on time or materials spent during the project that correspond to the value transferred to the customer, revenue is recognized in the amount to which The Company has the right to invoice.

4. Material accounting policies (continued):

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

(c) Government grants:

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

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

(d) Cash and cash equivalents:

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

(e) Foreign currency translations:

In preparing the financial statements of each individual corporate entity, transactions in foreign currencies other than the entity'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.

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 Loss("AOCL") which is a separate component of equity.

4. Material accounting policies (continued):

(f) Income tax:

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

(g) Inventories:

Inventories are recorded at lower of cost and net realizable value. Cost is determined on a weighted-average cost basis. The cost of procured finished goods and raw material inventory is based on weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing the inventories to their existing location and condition. In the case of manufactured inventories and work-in-process inventories, cost includes actual labour costs incurred and an appropriate share of production overheads based on production hours, square footage or another appropriate allocation basis.

(h) Property and equipment:

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

4. Material accounting policies (continued):

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

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

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

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

Leases:

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

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

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

Goodwill and intangible assets:

(i) Recognition and measurement

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

4. Material accounting policies (continued):

(ii) Amortization

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

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

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

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

(i) Research and development:

Research costs are expensed as incurred. Development costs are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, such costs are expensed as incurred. Subsequent to initial recognition, development costs are measured at cost less accumulated amortization and any accumulated impairment losses.

(j) Provisions, contingent liabilities and contingent assets

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statements of income net of any reimbursement, when the reimbursement is realized in the same reporting period as the related expense.

Possible inflows of economic benefits to the Company are considered contingent assets when the possible inflows become virtually certain.

(k) Financial instruments

(i) Financial assets and liabilities

Initial measurement and classification

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

4. Material accounting policies (continued):

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

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

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

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

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

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

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

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

4. Material accounting policies (continued):

Subsequent measurement

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

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

Financial instrument	**Current classification**
Cash and cash equivalents	Financial asset at amortized cost
Trade and other receivables	Financial asset at amortized cost
Bank indebtedness	Financial liability at amortized cost
Trade and other payables	Financial liability at amortized cost
Long-term obligations	Financial liability at amortized cost

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.

4. Material accounting policies (continued):

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

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

Impairment of financial assets

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

(l) Impairment:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the impairment would be recognized in the consolidated statement of net income (loss) and comprehensive income (loss).

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(m) 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.

(n) 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.

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

5. Trade and other receivables:

Trade and other receivables consist of the following:

	2023	2022
Trade receivables (net of expected credit loss of $384 (2022 - $400)) (note 15)	$ 8,669	$ 10,008
Government assistance receivable and other	1,713	2,213
	$ 10,382	$ 12,221

6. Inventory:

Inventory consists of the following:

	December 31, 2023	December 31, 2022
Raw materials	$ 15,400	$ 8,883
Work in progress	1,120	2,484
	$ 16,520	$ 11,367

Included in the cost of sales for the year is inventory of $18,813 (2022 - $ 10,597). Inventory write-downs consisted of $Nil (2022 - $399).

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

7. Property and equipment:

(a) As at December 31, 2023 $1,145 (2022 - $nil) of Marine equipment was pledged as security of a Long-term obligation (note 10).

(b) Reconciliation of property and equipment:

	Furniture, tools and equipment	Computer equipment	ROU asset	Construction in progress ("CIP")	Leasehold improvements	Marine equipment	Software	Total
Cost								
Balance at January 1, 2022	**$ 2,414**	**$ 1,381**	**$5,648**	**$ 4,359**	**$ 1,759**	**$ 6,658**	**$ -**	**$ 22,219**
Additions	585	130	356	2,694	72	239	695	4,771
Transfers from inventory	403	5				319		727
Transfers from CIP	358	-	-	(1,028)	-	670	-	-
Disposals	-	(1)	-	(1,648)	-	-	-	(1,649)
Foreign exchange	51	2	(46)	-	3	-	-	10
Balance at December 31, 2022	**$ 3,811**	**$ 1,517**	**$5,958**	**$ 4,377**	**$ 1,834**	**$ 7,886**	**$ 695**	**$ 26,078**
Additions	474	418	1,704	436	71	2,663	1,209	6,975
Government assistance applied[1]	-	-	-	(1,066)	-	-	-	(1,066)
Transfers from inventory	-	-	-	-	-	2,286	-	2,286
Transfers from CIP	463	-	-	(463)	-	-	-	-
Disposals	-	-	(9)	-	-	(1,185)	-	(1,194)
Foreign exchange	36	2	32	-	3	-	-	73
Balance at December 31, 2023	**$4,784**	**$1,937**	**$7,685**	**$3,284**	**$1,908**	**$11,650**	**1,904**	**$33,152**
Accumulated depreciation								
Balance at January 1, 2022	**$ 726**	**$ 379**	**$ 1,429**	**$ -**	**$ 579**	**$ 426**	**-**	**$ 3,539**
Depreciation	475	356	1,069	-	309	1,015	12	3,236
Balance at December 31, 2022	**$ 1,201**	**$ 735**	**$ 2,498**	**$ -**	**$ 888**	**$ 1,441**	**12**	**$ 6,775**
Depreciation	540	332	953	-	310	1,110	273	3,518
Disposals	-	-	-	-	-	(89)	-	(89)
Balance at December 31, 2023	**$1,741**	**$1,067**	**$3,451**	**-**	**$1,198**	**$2,462**	**$285**	**$10,204**
Carrying amounts								
At December 31, 2022	**$ 2,610**	**$ 782**	**$ 3,460**	**$ 4,377**	**$ 946**	**$ 6,445**	**$ 683**	**$ 19,303**
At December 31, 2023	**$ 3,043**	**$ 870**	**$ 4,234**	**$ 3,284**	**$ 710**	**$ 9,188**	**$ 1,619**	**$ 22,948**

[1] Government assistance was received as an advance for the project in the prior year and applied against the equipment once approval from the government agency was obtained.

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

8. Goodwill and intangible assets:

Reconciliation of Goodwill and Intangibles:

	Trademarks and trade names	Technology and trade secrets	Customer contracts	Customer relationships	Non-compete agreements	Goodwill	Total
Balance at December 31, 2022	**$ 973**	**$ 4,149**	**$ 627**	**$ 3,575**	**$ 209**	**$ 7,256**	**$16,789**
Additions	8	-	-	-	-	-	8
Foreign exchange	(1)	(5)	-	(2)	-	2	(6)
Balance at December 31, 2022	**$ 980**	**$ 4,144**	**$ 627**	**$ 3,573**	**$ 209**	**$ 7,258**	**$16,791**
Impairment	-	-	-	-	-	(2,757)	(2,757)
Foreign exchange	**-**	**(46)**	-	**(31)**	-	**4**	**(73)**
Balance at December 31, 2023	**$ 980**	**$ 4,098**	**$ 627**	**$ 3,542**	**$ 209**	**$ 4,505**	**$13,961**
Accumulated depreciation Balance at January 1, 2022	**$ -**	**$ 843**	**$ 627**	**$ 501**	**$ 44**	**$ -**	**$ 2,015**
Depreciation	-	844	-	597	105	-	1,546
Balance at December 31, 2022	**$ -**	**$ 1,687**	**$ 627**	**$ 1,098**	**$ 149**	**$ -**	**$ 3,561**
Depreciation	-	761	-	601	60	-	1,422
Balance at December 31, 2023	**$ -**	**$ 2,448**	**$ 627**	**$ 1,699**	**$ 209**	**$ -**	**$4,983**
Carrying amounts							
At December 31, 2022	**$ 980**	**$ 2,457**	**$ -**	**$ 2,475**	**$ 60**	**$ 7,258**	**$13,230**
At December 31, 2023	**$ 980**	**$ 1,650**	**$ -**	**$ 1,842**	**$ -**	**$ 4,505**	**$8,977**

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

8. Goodwill and intangible assets (continued):

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

CGUs	**2023**	2022
Katfish Systems	**$ 35**	$ 35
Services	**5,013**	7,771
Sensors and Platforms	**$ 5,048**	$ 7,806
Power	**437**	432
	$ 5,485	$ 8,238

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

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

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

Sensors and Platforms:

As of December 31, 2023, the aggregate carrying amount of the Company's goodwill in Sensors and Platforms segment totaled $4,155 (2022 - $6,913) intangibles with indefinite useful lives with aggregate carrying amount of $893 (2022 - $893) and relates to the acquisition of PanGeo and 13Robotics.

The Services CGU includes the acquisition of PanGeo which provides survey services above and below the seabed using internal assets to third party customers. On December 31, 2023, the aggregate carrying amount of the Services CGU goodwill totaled $4,120 (2022 - $6,878) intangibles with indefinite useful lives with an aggregate carrying amount of $893 (2022 - $893). In performing the discounted cash flow in the Services CGU, a WACC of 19% was used, a terminal growth rate of 3% and an average estimated compounded growth rate of 15% from 2024 to 2028. As the recoverable amount of the Services CGU was determined to be greater than the carrying amount, no impairment loss was recorded Q4 2023. An impairment loss was recorded in Q2 2023 in the amount of $2,757.

8. Goodwill and intangible assets (continued):

Power:

The Power CGU related to subsea power systems. As of December 31, 2023, the aggregate carrying amount of the Company's goodwill is $372 (2022- $345) and intangibles with indefinite useful lives with aggregate carrying amount of $86 (2022 - $87) and relates to the acquisition of Kraken Power. In performing the discounted cash flow in the Power CGU, a WACC of 19% was used, a terminal growth rate of 3% and an average estimated compounded growth rate of 16% from 2024 to 2028. As the recoverable amount of the Power segment was determined to be greater than the carrying amount, no impairment loss was recorded in 2023 or 2022.

9. Bank indebtedness:

At December 31, 2023, the Company had available a $9,500 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at December 31, 2023, a total of $7,824 (2022 - $4,309) was drawn against this facility. Security for the operating line is a general security agreement including accounts receivable and inventory. Kraken Power has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at December 31, 2023 a total of $717 (€490) (2022 - $652 (€450)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization. Additionally, Kraken Robotics Services Ltd. had available a $1,500 line of credit for general operating purposes which is secured by a general security agreement, which bears interest at the bank's prime rate plus 2.5%, payable monthly. As at December 31, 2023, a total of $1,110 (2022 - $1,405) was drawn against this facility.

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

10. Long-term obligations:

	December 31, 2023	December 31, 2022
Long-term note payable in the amount of €400 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	$ -	$ 560
Loan, bearing interest at 1.4956%, in the amount of €89, repayable in equal installments of €1 over 72 months, and maturing on December 31, 2026.	66	86
Loan, bearing interest at 1.23%, repayable in equal installments over 67 months plus interest, and maturing on September 30, 2026.	705	979
Promissory Note on acquisition of PanGeo, in the amount of $4,000 bearing interest at 6% per annum, due July 30, 2023.	-	4,287
Loan, non-interest bearing from Atlantic Canada Opportunities Agency (ACOA).	-	112
Promissory Note on acquisition of Marine equipment, in amount of $1,145 bearing interest at 6% per annum, repayable in equal monthly instalments over 24 months, and maturing on December 21, 2025.	1,145	-
	1,916	6,024
Less current portion of long-term obligations	(813)	(5,086)
	$ 1,103	**$ 938**

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

Opening balance – January 1, 2023	$ 6,024
Proceeds from long-term obligations	1,328
Payment of principal	(5,150)
Payment of interest	(525)
Accretion expense	207
Foreign exchange	32
Ending balance – December 31, 2023	$ 1,916

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

11. 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, 2023 and comparatives for December 31, 2022:

	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2022	$ 4,219	$ 4,577
Depreciation expense	(1,069)	-
Interest expense	-	327
Payments	-	(1,359)
Additions	356	356
Foreign exchange	(46)	(25)
Subtotal	**3,460**	**3,875**
Less: current portion	**-**	**(853)**
As at December 31, 2022	**$ 3,460**	**$ 3,022**
	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2023	$ 3,460	$ 3,875
Depreciation expense	(954)	-
Interest expense	-	303
Payments	-	(1,282)
Additions	1,704	1,704
Disposals	(9)	(7)
Foreign Exchange	32	43
Subtotal	**4,235**	**4,636**
Less: current portion	**-**	**(1,840)**
As at December 31, 2023	**$ 4,235**	**$ 2,796**

The Company's minimum lease payments are as follows:

	December 31, 2023
Less than one year	1,840
One to three years	2,301
Three to five years	495
Thereafter	-
Minimum lease payments	4,636
Amounts representing finance charges	(767)
Net minimum lease payments	**$ 3,869**

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

12. Income taxes:

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

	2023	2022
Net income (loss) before taxes	**$ 6,322**	$ (5,302)
Statutory tax rates	**30.0%**	30.0%
Income taxes (recovery) computed at the statutory rates	**$ 1,896**	$ (1,591)
Recognition of previously unrecognized deferred tax assets	**-**	(962)
Recognition of previously unrecognized deferred tax assets to reduce current tax expense	**(1,815)**	(399)
Change in tax rates and rate differences	**(94)**	(225)
Deferred tax recovery related to change in tax rates	**-**	(247)
Other	**(68)**	76
Permanent differences	**357**	291
Gain on extinguishment of contingent consideration	**(1,213)**	-
Stock option expense	**113**	239
Change in unrecognized deductible temporary differences	**1,600**	1,759
Recorded income tax (recovery)	**$ 776**	$ (1,059)

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

	2023	2022
Deferred tax assets:		
Non-capital losses carried forward	**$ 1,635**	$ 3,287
Property and equipment	**44**	33
Other	**26**	7
Deferred tax liabilities:		
Property and equipment	**$ (498)**	$ (582)
Intangibles	**(508)**	(1,748)
Other	**(280)**	(15)
	$ 419	$ 982

The net change in deferred tax assets for 2023 includes $nil (2022 - $26 increase in liabilities) as a result of foreign exchange fluctuations.

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

	2023	**Expiry date**	2022	Expiry date
Deductible temporary differences	**$ 1,871**	**N/A**	$ 4,842	N/A
Non-capital losses that expire	**43,645**	**2026-2043**	41,515	2026-2042
Non-capital losses that never expire	**348**	**No expiry**	495	No expiry
Investment tax credits	**1,139**	**2036-2043**	881	2036-2041
	$ 47,003		$ 47,733	

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

12. Income taxes (continued):

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2023 for the Company's subsidiaries was $4,652 (December 31, 2022 - $2,131).

13. 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, 2023 and 2022.

The Company settled it's contingent consideration obligation with the issuance of 4,500,000 shares during the year ended December 31, 2023.

(a) Share purchase warrants

At December 31, 2023 and December 31, 2022, the following share purchase warrants were outstanding:

	December 31, 2023		December 31, 2022	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening balance	9,995,000	$ 0.60	10,000,000	$ 0.60
Exercised	(15,000)	0.60	(5,000)	0.60
Expired	(9,980,000)	0.60	-	-
Ending balance	-	$ -	9,995,000	$ 0.60

(b) Share options

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

At May 3, 2022 the Company issued 3,530,000 employee options, 1,600,000 officers options and 1,200,000 directors options. The options have a five-year term, with vesting in four equal instalments consisting of the date of grant and one, two and three-year anniversaries of the initial grant. The exercise price of the options was $0.395.

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

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

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

13. Share capital (continued):

At January 30, 2023 the Company issued 75,000 employee options. The options have a five-year term, with vesting in four equal instalments consisting of the date of grant and one, two and three-year anniversaries of the initial grant. The exercise price of the options was $0.63.

At February 27, 2023 the Company issued 100,000 employee options. The options have a five-year term, with vesting in four equal instalments consisting of the date of grant and one, two and three-year anniversaries of the initial grant. The exercise price of the options was $0.58.

At November 20, 2023 the Company issued 400,000 director options. The options have a five-year term, with vesting in three equal instalments consisting of date of grant, one and two year anniversaries of the initial grant. The exercise price of the options was $0.495.

The following options were outstanding as at December 31, 2023 and 2022:

	December 31, 2023		December 31, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	9,468,750	$ 0.461	8,358,333	$ 0.570
Granted	575,000	0.527	6,830,000	0.406
Exercised	(453,750)	0.395	(326,250)	0.405
Forfeiture	(582,500)	0.395	(510,000)	0.560
Expired	(1,200,000)	0.566	(4,883,333)	0.560
Ending balance	7,807,500	$ 0.458	9,468,750	$ 0.461
Options exercisable	4,577,084	$ 0.485	4,380,834	$ 0.520

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.50	March 17, 2024	1,000,000	1,000,000	0.21 years
0.63	July 14, 2024	1,000,000	1,000,000	0.54 years
0.39	November 29, 2026	25,000	-	2.92 years
0.395	May 3, 2027	4,707,500	2,100,000	3.34 years
0.39	September 6, 2027	100,000	33,333	3.68 years
0.59	December 7, 2027	400,000	266,667	3.94 years
0.63	January 30, 2028	75,000	18,750	4.08 years
0.58	February 27, 2028	100,000	25,000	4.16 years
0.495	November 20, 2028	400,000	133,334	4.89 years
$ 0.458		**7,807,500**	**4,577,084**	**3.08 years**

(c) Share-based compensation

During the year ended December 31, 2023, the Company recorded share-based compensation totaling $378 (2022 - $797), which was expensed in operations with a corresponding increase in contributed surplus.

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

13. Share capital (continued):

The weighted average fair value of the options granted during the twelve-month period ended December 31, 2023 was $0.26. The fair values of the options granted are estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31, 2023
Risk-free interest rate	3.71%
Expected life of options	3.64 years
Expected volatility	57.43%
Weighted average share price	$0.58
Dividend yield	Nil

14. 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, 2023	December 31, 2022
Cash and cash equivalents	$ 5,173	$ 8,265
Trade and other receivables	10,382	12,221
Contract assets	9,880	4,347
	$ 25,435	$ 24,833

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

	December 31, 2023	December 31, 2022
Current	$ 3,240	$ 5,369
31-60 days	4,337	3,432
61-90 days	12	137
> 90 days	291	1,070
	$ 7,880	$ 10,008

Credit risk is defined as the Company's exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. The Company is exposed to credit risk on accounts receivable and certain other assets through normal commercial activities. The Company is also exposed to credit risk through normal treasury activities on cash and cash equivalents. Credit risks arising from normal commercial activities are managed with regards to customer credit risk. The Company's customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, the Company typically receives substantial advance payments for contracts with customers. The Company does not hold any collateral as security. The credit risk on cash and cash equivalents 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 is low.

Trade receivables are net of an expected credit loss. As of December 31, 2023, the amount is $384 (2022 - $400).

Revenues from the top three customers represented 54% of the Company's revenue in the year ended December 31, 2023 (2022 – top three customers represented 63% of revenue). At December 31, 2023, 70% of the trade receivables balance were owing from two customers (2022 – 52% of trade receivables was owing from two customers).

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

14. Financial instruments (continued):

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. As of December 31, 2023, the Company had a cash balance of $5,173 (2022 - $8,265). The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance of fulfilling contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

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

	0-12 months	1-2 years	2-4 years	Beyond four years
Bank indebtedness	$ 9,651	$ -	$ -	$ -
Trade and other payables	17,161	-	-	-
Long-term obligations	813	868	235	-
Current tax payable	181			
Lease liabilities	1,840	1,574	1,064	158
	$ 29,646	$ 2,442	$ 1,299	$ 158

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, 2023, the Company has drawn $7,824, $717 and $1,110 against its operating lines of credit. The drawn operating line of credit bears interest annually at bank prime plus 2.5%, 3.95% and bank prime plus 2.5% respectively, payable monthly. An increase (decrease) of 10% in interest would have (decreased) increased the Company's net income by approximately $47.

(b) Foreign currency risk

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

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

14. Financial instruments (continued):

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

	December 31, 2023	December 31, 2022
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 2,237	$ 581
Trade and other payables GBP	2,831	1,381
Trade and other payables EUR	1,695	1,203
Trade and other payables DKK	93	120
Trade and other payables BRL	462	241
Long-term debt EUR	770	1,016
Bank indebtedness EUR	543	377
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	2,419	4,697
Trade and other receivables GBP	3,365	2,072
Trade and other receivables EUR	1,027	473
Trade and other receivables DKK	6	6
Trade and other receivables BRL	1,475	21

For the year ended December 31, 2023, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have increased (decreased) the Company's net income (loss) by approximately $1,025 (2022 - $245).

Fair Value:

During the year ended December 31, 2023, 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, 2023	Level 1	Level 2	Level 3
Financial liabilities at amortized cost:			
Long-term obligations	-	1,916	-
Financial liabilities at FVTPL:			
Contingent consideration	-	-	-

December 31, 2022	Level 1	Level 2	Level 3
Long-term obligations	-	6,015	-
Financial liabilities at FVTPL:			
Contingent consideration	-	-	8,388

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

14. Financial instruments (continued):

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

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

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

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

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

The fair values of the long-term obligations uses level 2 inputs on estimates using a discounted cash flow valuation technique.

The fair value measurement for contingent consideration uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at December 31, 2023. The carrying value of the contingent consideration equals fair value as it is categorized as fair value through profit and loss.

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

	Contingent Consideration
Opening balance – January 1, 2023	$ 8,388
Payment of contingent consideration in cash	(2,250)
Payment of contingent consideration in shares	(2,250)
Fair value adjustment of contingent consideration	156
Gain on extinguishment of contingent consideration	(4,044)
Ending Balance – December 31, 2023	**$ -**

As of June 30, 2023 the Company determined that PanGeo would not meet its second earnout amount as defined in the share purchase agreement and has reduced the fair value of contingent consideration in the amount of $4,044 in Q2 2023.

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

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

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, 2023	December 31, 2022
Product sales – transferred at a point in time	**$ 16,597**	$ 13,026
Product sales – transferred over time	**36,021**	11,874
Service revenue - transferred over time	**16,963**	16,008
	$ 69,581	$ 40,908

Refer to note 22 for external revenue by geographic areas.

Contract balances

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

As at December 31, 2023, contract assets, which represents amounts recognized in revenue from contracts with customers not yet billed was $9,880 (2022 - $4,347).

As at December 31, 2023, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $10,848 (2022 - $11,817).

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

	Contract assets
Opening balance – January 1, 2023	$ 4,347
Increase in unbilled from revenue recognized	21,102
Decrease in unbilled from transfer to trade receivables and other adjustments	(15,569)
Ending balance – December 31, 2023	**$ 9,880**

	Contract liabilities
Opening balance – January 1, 2023	$ 11,817
Increase in contract liabilities from payments received, excluding revenue recognized	30,103
Decreases in contract liabilities from revenue recognized	(31,072)
Ending balance – December 31, 2023	**$ 10,848**

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

17. Earnings per common share:

	December 31, 2023	December 31, 2022
Net income (loss)	**$ 5,546**	$ (4,243)
Weighted average number of common shares (basic)	**206,005,362**	201,214,585
Dilutive securities:		
Effect of share options[2]	**1,202,609**	-
Weighted average number of diluted common shares	**207,207,971**	201,214,585
Basic earnings (loss) per share	**$ 0.03**	$ (0.02)
Diluted earnings (loss) per share	**$ 0.03**	$ (0.02)

18. Government assistance:

During the year ended December 31, 2023, the Company received government assistance, excluding the OceanVision project and Kraken's Brazilian subsidiary research and development project, in the amount of $4,826 (2022 - $5,724). Government assistance has been classified as a reduction to Cost of sales of $nil (2022 - $142), Research and development expense of $802 (2022 – $3,827), Administrative expenses of $217 (2022 - $471) and Construction in process of $3,807 (2022 - $1,284).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the year ended December 31, 2023, including $nil (2022 – $927) in reimbursements from the Ocean SuperCluster and $nil (2022 – $488) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research and development expense of $nil (2022 – $1,161), Administrative expenses $nil (2022 – $116) and Construction in progress of $nil (2022 – $138).

The financial statements also reflect a cost reimbursement related to Kraken's Brazilian subsidiary research and development project during the year ended December 31, 2023 in the amount of $1,025. This reimbursement has been classified as a reduction to Research and development expenses of $1,025 (2022 - $nil).

19. Financing costs:

	2023	**2022**
Interest on lease liabilities	**$ 303**	$ 327
Letters of credit and other	**965**	1,217
Accretion on long-term obligations	**207**	436
Fair value adjustment of contingent consideration	**156**	1,281
	$ 1,631	$ 3,261

[2] Effect of share options is not included for 2022 as it is anti-dilutive.

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

20. Related party transactions:

Compensation of key management personnel including CEO, CFO, EVP Products, EVP Services and board of directors that occupied those positions throughout the period:

	2023	2022
Share-based payments	**$ 237**	$ 240
Short-term employee benefits	**171**	148
Salaries and wages	**3,058**	1,899
	$ 3,466	$ 2,287

21. Change in non-cash working capital:

	2023	2022
Decrease (increase) in trade and other receivables	**$ 1,729**	$ (6,122)
(Increase) in contract assets	**(5,533)**	(1,648)
(Increase) decrease in inventory	**(4,056)**	2,883
Decrease (increase) in prepayments	**162**	(167)
Increase in trade and other payables	**6,069**	521
(Decrease) increase in contract liabilities	**(969)**	7,178
	$ (2,598)	$ 2,645

22. Segmented information:

As of January 1, 2023 the Company has changed its internal organization to operate in two new reportable operating segments, being: 1) "Products" which is the design, manufacture and sale of equipment including underwater vehicle platforms, Synthetic Aperture Sonar and subsea power equipment; and 2) "Services" which is the provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms.

The following tables present the operations of the Company's reportable segments as at and for the twelve months ended December 31, 2023 and restated comparatives for December 31, 2022:

December 31, 2023	Products	Services	Consolidated
Revenue	$ 52,618	$ 16,963	$ 69,581
Cost of sales, expenses, and gains/losses	$ 44,978	$ 18,281	$ 63,259
Segment income (loss)	$ 7,640	$ (1,318)	$ 6,322
Segment capital expenditures (restated)[3]	$ 8,820	$ 441	$ 9,261

[3] Segment capital expenditures include property and equipment additions and transfers from inventory and excludes government assistance that was received as an advance for a project in the prior year and applied against the equipment once approval from the government agency was obtained (refer to note 7). The segment capital expenditures for the Products segment and the consolidated balance were restated to correct for a clerical error from the previously reported amounts of $8,034 and $8,475, respectively.

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

22. Segmented information (continued):

December 31, 2022	Products	Services	Consolidated
Revenue	$ 24,900	$ 16,008	$ 40,908
Cost of sales, expenses, and gains/losses	$ 31,839	$ 14,371	$ 46,210
Segment income (loss)	$ (6,939)	$ 1,637	$ (5,302)
Segment capital expenditures (restated)[4]	$ 4,692	$ 806	$ 5,498

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:

	2023	2022
Asia Pacific	**$ 8,003**	$ -
Europe, Middle East and Africa	**24,751**	28,914
North America	**36,668**	11,994
Other	**159**	-
	$ 69,581	$ 40,908

For the year ended December 31, 2023, the Company had three customers that individually accounted for 11%, 19% and 24% of revenue and for the year ended December 31, 2022, the Company had three customers that individually accounted for 12%, 29% and 22% of revenue.

23. Commitments:

(a) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$1,208 (C$1,601) and US$830 (C$1,100) on advance guarantees secured by Export Development Canada. The letters of credit expire on April 30, 2024 and November 30, 2025, respectively.

(b) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at December 31, 2023 is $47.

[4] Segment capital expenditures include property and equipment additions and transfers from inventory (refer to note 7). The segment capital expenditures for the Products segment, Services segment and the consolidated balance were restated to correct for a clerical error from the previously reported amounts of $2,509, $457, and $2,966, respectively.

24. Subsequent events:

Subsequent to December 31, 2023, the Company:

(a) had stock options totaling 1,220,000 exercised, for proceeds of $587.

(b) entered into a new standby letter of credit to its customer in the amount of US$837 ($1,109) with an expiry of August 31, 2024.

(c) entered into a credit agreement with the Bank of Nova Scotia for credit facilities consisting of: (i) a revolving 3-year term facility of up to $35 million (subject to meeting certain borrowing base requirements based on eligible receivables and inventory); (ii) a $10 million revolving capital expenditure line of credit; (iii) a $10 million uncommitted letter of credit facility; and (iv) an uncommitted accordion facility of up to $30 million. The credit facilities bear interest at bank prime interest rates plus a margin of between 1.00% and 1.75%. The credit facilities replace in its entirety Kraken's existing credit facility with Royal Bank of Canada which were paid out using funds drawn from the credit facilities effective April 19, 2024.