

Kraken Robotics Inc.



Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020
(Expressed in Canadian Dollars)

(Unaudited)

Q1 Fiscal 2021



March 31, 2021

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Consolidated Statements of Financial Position
March 31, 2021 (unaudited)
(Expressed in Canadian Dollars)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,004,024	\$ 12,924,509
Trade and other receivables (note 3)	2,618,267	3,119,920
Current Tax receivable	125,930	82,069
Inventory (note 4)	8,733,403	8,129,302
Prepayments (note 5)	2,248,400	1,388,550
	22,730,024	25,644,350
Restricted cash	1,045,502	1,057,982
Property and equipment (note 6)	6,966,061	6,709,735
Intangible assets	943,806	1,035,109
Goodwill	351,987	372,898
TOTAL ASSETS	\$ 32,037,380	\$ 34,820,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness	\$ 688,259	\$ 709,098
Trade and other payables	3,370,368	4,698,963
Contract liability (note 7)	7,628,217	8,761,477
Current portion of long-term obligations (note 10)	21,114	22,368
Current portion of lease liabilities	491,201	504,277
	12,199,159	14,696,183
Long-term obligations (note 10)	988,327	646,492
Lease liabilities	2,978,552	3,133,276
Deferred Taxes	279,453	332,700
Shareholders' equity:		
Share capital (note 11)	34,195,594	33,939,262
Contributed surplus	2,529,333	2,516,143
Accumulated other comprehensive loss	(204,328)	(119,628)
Deficit	(20,928,710)	(20,324,354)
	15,591,889	16,011,423
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 32,037,380	\$ 34,820,074
Commitment (note 16)		
Subsequent event (note 17)		

On Behalf of the Board:

"Karl Kenny"

Director

"Shaun McEwan"

Director



Condensed Consolidated Interim Statements of Net Income (Loss)
March 31, 2021 (unaudited)
(Expressed in Canadian Dollars)

	March 31, 2021	March 31, 2020
Product Revenue (note 7)	\$ 3,134,777	\$ 4,973,413
Service Revenue (note 7)	466,427	1,417,262
	3,601,204	6,390,675
Cost of sales (note 4)	1,450,862	3,472,702
	2,150,342	2,917,973
Administrative expenses	1,633,157	1,520,759
Research and development costs	381,098	104,161
Depreciation and amortization	380,361	257,819
Share-based compensation (note 11 (d))	117,655	235,358
	2,512,271	2,118,097
Income (loss) from operating activities	(361,929)	799,876
Foreign exchange loss	2,984	28,013
Financing costs (note 14)	271,883	43,926
Gain on sale of PPE	(285)	-
	274,582	71,939
Net Income (loss) before taxes	(636,511)	727,937
Deferred income tax recovery	(32,155)	-
Net Income (loss)	\$ (604,356)	\$ 727,937
Basic and diluted (loss) income per share	\$ (0.00)	\$ 0.00
Basic and diluted weighted average number of shares outstanding	168,075,834	147,345,776



Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited)
(Expressed in Canadian Dollars)

	March 31, 2021	March 31, 2020
Net Income (loss)	\$ (604,356)	\$ 727,937
Other comprehensive income (loss)		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation adjustment	(84,700)	277,945
Other comprehensive Income (loss)	(84,700)	277,945
Other Comprehensive Income (loss)	\$ (689,056)	\$ 1,005,882



**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian Dollars)**

2021	Number of Shares	Share capital (note 11)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2021	167,813,430	\$ 33,939,262	\$ 2,516,143	\$ (119,628)	\$ (20,324,354)	\$ 16,011,423
Net loss	-	-	-	-	(604,356)	(604,356)
Other comprehensive loss	-	-	-	(84,700)	-	(84,700)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	698,334	256,332	(104,465)	-	-	151,867
Share-based compensation	-	-	117,655	-	-	117,655
Shareholders' equity as at March 31, 2021	168,511,764	\$ 34,195,594	\$ 2,529,333	\$ (204,328)	\$ (20,928,710)	15,591,889

2020	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2020	147,177,186	\$ 22,594,846	\$ 2,220,924	\$ (363,031)	\$ (14,789,421)	\$ 9,663,318
Net loss	-	-	-	-	727,937	727,937
Other comprehensive loss	-	-	-	277,945	-	277,945
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	200,000	85,578	(34,962)	-	-	50,616
Share-based compensation	-	-	235,358	-	-	235,358
Shareholders' equity as at March 31, 2020	147,377,186	\$ 22,680,424	\$ 2,421,320	\$ (85,086)	\$ (14,061,484)	10,955,174

The accompanying notes form part of the consolidated financial statements.



**Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020
(Expressed in Canadian Dollars)**

	March 31, 2021	March 31, 2020
Cash flows from (used in) operating activities		
Net Income (loss)	\$ (604,356)	\$ 727,937
Adjustments for items not involving cash:		
Depreciation	302,234	185,682
Amortization of intangible assets	78,127	72,357
Share-based payments	117,655	235,358
Loss (gain) on disposal of property, plant and equipment	(285)	-
Accretion of long-term note payable	31,311	-
Interest on Lease Liability	83,072	43,926
Deferred tax recovery	(32,155)	-
Changes in non-cash working capital	(3,468,014)	(905,388)
Net cash flows (used in) from operating activities	(3,492,411)	359,651
Cash flows used in investing activities		
Purchase of property, plant and equipment	(644,728)	(402,974)
Increase in intangibles	(34,817)	-
	(679,545)	(402,974)
Cash flows from (used in) financing activities		
Proceeds from stock option exercise	151,867	50,616
Payments on lease liability	(172,486)	(90,409)
Increase in long term obligations	342,485	-
Decrease in bank indebtedness	(20,839)	-
	301,027	(39,793)
Net decrease in cash	(3,870,929)	(83,116)
Effect of foreign exchange on cash	(49,556)	104,343
Cash at beginning of period	12,924,509	2,097,199
Cash at end of period	\$ 9,004,024	\$ 2,118,426



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

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 its registered office is located at 100 King Street. West, #1600, Toronto, Ontario, M5X 1G5.

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

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting. These financial statements were prepared using the same accounting policies and methods of computation and are subject to the same use of estimates and judgments, as the Company’s consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements do not include all disclosures required by International Financial Reporting Standards (“IFRS”) for annual consolidated financial statements and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020.

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

(b) The outbreak of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods. During the period the company experienced minor delays in procuring components and conducting sea trials. The company received government assistance under the CEWS (Canada Emergency Wage Subsidy) program as disclosed in Note 13.

(c) Basis of measurement

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

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

(d) Basis of Consolidation

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

2. Basis of presentation (continued):

(e) Accounting estimates and judgments:

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

i) Revenue recognition

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

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized.

Any changes in estimates would impact the economic useful lives and the residual values of the assets and, therefore, future depreciation charges could be revised.

iii) Recovery of deferred tax assets

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

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

iv) Share-based payments

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

2. Basis of presentation (continued):

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 judgements in the identification of the acquired assets and assumed liabilities. To determine the fair values of the identified assets and liabilities the Company will use the discounted cash flow method and other accepted valuation techniques that require assumptions about business strategies, growth rates, operating costs, discount rates and other economic factors.

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

For business combinations, the acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. However, acquisition date may differ from this date if the Company obtains control on a date that is either earlier or later than this date. For example, the acquisition date precedes the closing date if a written agreement provides that the Company obtains control of the acquiree on a date before the closing date. The Company considers all pertinent facts and circumstances in identifying the acquisition date.

vi) Goodwill and intangible assets

The Company conducts impairment testing on its goodwill and intangible assets annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company determines the fair value of each cash-generating unit to which goodwill and intangible assets are allocated using the value in-use-method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The determination of the recoverable amount involves estimates and assumptions of future revenues, product margins, market conditions, and appropriate discount rates.

3. Trade and other receivables:

Trade and other receivables consist of the following:

	March 31, 2021	December 31, 2020
Trade receivables	\$ 870,389	\$ 1,093,232
Contract Asset	358,827	524,189
Government assistance receivable and other	1,389,051	1,502,499
	\$ 2,618,267	\$ 3,119,920

4. Inventory

Included in the cost of sales for the three months ended March 31, 2021 is inventory of \$816,005 (2020 – \$1,901,536).



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

5. Prepayments

As at March 31, 2021, the Company had made prepayments of \$2,248,400 (2020 - \$1,388,550). Included in prepayments are advance payment guarantee fees of \$838,145 (2020 – \$936,326) and prepayments towards inventory of \$738,299 (2020 - \$176,210).

6. Property and equipment

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	Total
Cost						
Balance at January 1, 2020	\$ 1,022,546	\$ 287,149	\$ 1,608,735	\$ 91,318	\$ 1,034,084	\$ 4,043,832
Additions	362,264	114,339	2,353,303	1,062,009	463,502	4,355,417
Disposals	(66,553)	(108,654)	-	-	(115,676)	(290,883)
Foreign exchange	31,946	2,443	-	-	-	34,389
Balance at December 31, 2020	\$ 1,350,203	\$ 295,277	\$ 3,962,038	\$ 1,153,327	\$ 1,381,910	\$ 8,142,755
Additions	205,089	38,536	70,830	399,486	1,617	715,558
Disposal	(6,359)	-	-	-	-	(6,359)
Foreign Exchange	(33,493)	(2,124)	(113,901)	-	-	(149,518)
Balance at March 31, 2021	\$ 1,515,440	\$ 331,689	\$ 3,918,967	\$ 1,552,813	\$ 1,383,527	\$ 8,702,436
Accumulated depreciation						
Balance at January 1, 2020	\$ 260,200	\$ 133,139	\$ 247,157	\$ -	\$ 241,412	\$ 881,908
Depreciation	210,791	82,036	337,737	-	175,093	805,657
Disposals	(55,795)	(93,101)	-	-	(105,649)	(254,545)
Balance at December 31, 2020	\$ 415,196	\$ 122,074	\$ 584,894	\$ -	\$ 310,856	\$ 1,433,020
Depreciation	70,007	23,983	152,875	-	57,624	304,489
Disposal and transfer to inventory	(1,134)	-	-	-	-	(1,134)
Balance at March 31, 2021	\$ 484,069	\$ 146,057	\$ 737,769	\$ -	\$ 368,480	\$ 1,736,375
Carrying amounts						
At December 31, 2020	\$ 935,007	\$ 173,203	\$ 3,377,144	\$ 1,153,327	\$ 1,071,054	\$ 6,709,735
At March 31, 2021	\$ 1,031,371	\$ 185,632	\$ 3,181,198	\$ 1,552,813	\$ 1,015,047	\$ 6,966,061



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

7. Revenue:

Disaggregation of revenues

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

	March 31, 2021	March 31, 2020
Product sales – transferred at a point in time	\$ 1,811,442	\$ 4,973,413
Product sales – transferred over time	1,323,335	-
Service revenue - transferred over time	466,427	1,417,262
	\$ 3,601,204	\$ 6,390,675

Refer to note 15 for external revenue by geographic areas.

Contract balances

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

As at March 31, 2021, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was \$7,628,217 (2020 - \$8,761,477).

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

Unbilled revenue	
Opening balance – January 1, 2021	\$ 524,189
Increase in unbilled from revenue recognized	122,453
Decrease in unbilled from transfer to trade receivables and other adjustments	(287,815)
Ending Balance – March 31, 2021	\$ 358,827
Contract Liabilities	
Opening balance – January 1, 2021	\$ 8,761,477
Increase in contract liabilities from payments received, excluding revenue recognized	372,543
Decreases in contract liabilities from revenue recognized	(1,505,803)
Ending Balance – March 31, 2021	\$ 7,628,217



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

8. 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:

	March 31, 2021	December 31, 2020
Cash and cash equivalents and restricted cash	\$ 10,049,526	\$ 13,982,491
Trade and other receivables	2,618,267	3,119,920
	\$ 12,667,793	\$ 17,102,411

At March 31, 2021, 71% of the trade receivables balance was owing from 2 customers (2020 – 69% of the trade receivables was owing from 2 customers).

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

Trade receivables include an expected credit loss. As of March 31, 2021, the amount is \$nil (2020 - \$167,405).

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of March 31, 2021, the Company had a cash balance of \$9,004,024 (December 31, 2020 - \$12,924,509) to settle current liabilities of \$12,199,159 (December 31, 2020 - \$14,696,183) of which contract liabilities make up \$7,628,217 (December 31, 2020 - \$8,761,477). The company has an operating line of credit as disclosed in note 9 to cover short term liquidity needs.

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 March 31, 2021, the Company held \$9,004,024 in cash and cash equivalents, \$1,045,502 in restricted cash and has drawn \$688,259 against its operating line of credit. The drawn operating line of credit bears interest annually at 3.95%, payable monthly.

(b) Foreign currency risk

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

8. Financial instruments (continued):

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

	March 31, 2021	December 31, 2020
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ 659,554	\$ 427,353
Trade and other payables GBP	134,245	37,765
Trade and other payables EUR	856,004	847,397
Trade and other payables DKK	52,557	266,466
Long-term debt EUR	661,896	423,945
Bank Indebtedness EUR	465,742	452,936
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	443,014	613,188
Trade and other receivables GBP	-	-
Trade and other receivables EUR	215,048	108,471
Trade and other receivables DKK	12,021	2,577

Fair Value:

During the three months ended March 31, 2020, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table presents the fair value and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short-term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long-term debt:

March 31, 2021	Level 1	Level 2	Level 3
Financial liabilities at amortized cost:			
Long-term note payable		988,327	-
December 31, 2020	Level 1	Level 2	Level 3
Financial liabilities at amortized cost:			
Long-term note payable	-	668,860	-

9. Bank indebtedness:

At March 31, 2021, the Company had available a \$1,500,000 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at March 31, 2021, a total of \$Nil (December 31, 2020 - \$Nil) was drawn against this facility. Security for operating line is a general security agreement. Additionally, Kraken Power has a €500,000 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at March 31, 2021 a total of €465,742 (\$688,259) (December 31, 2020 - €452,936 (\$709,098)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

10. Long-term obligations:

	March 31, 2021	December 31, 2020
Long-term note payable in the amount of €400,000 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	\$ 452,225	\$ 463,741
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89,019, repayable in equal installments of €1,306 over 72 months, and maturing on December 31, 2026.	146,900	139,365
Loan, secured by equipment and infrastructure, bearing interest at 1.23% currently in the amount of €277,659 with a maximum of €875,000 available, repayable in equal installments over 67 months beginning on September 30, 2021, maturing on March 31, 2027.	410,316	65,754
	1,009,441	668,860
Less current portion of long-term obligations	(21,114)	(22,368)
	\$ 988,327	\$ 646,492

11. 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 periods ended March 31, 2021 and 2020.

(a) Private placements

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

(b) Share purchase warrants

In December 2020, 495,000 warrants were exercised at a price of \$0.60, and 55,000 warrants expired unexercised. No share purchase warrants were outstanding at March 31, 2021 (2020 – Nil).

(c) Share options

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020**

11. Share capital (continued):

The following options were outstanding as at March 31, 2021 and December 31, 2020:

	March 31, 2021		December 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	9,238,333	\$ 0.535	12,051,834	\$ 0.376
Granted	-	-	1,875,000	0.54
Exercised	(698,334)	0.217	(4,650,167)	0.20
Expired	-	-	(38,334)	0.408
Ending balance	8,539,999	\$ 0.559	9,238,333	\$ 0.535
Options exercisable	5,371,717	\$ 0.552	5,911,716	\$ 0.51

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.25	July 18, 2021	608,333	608,333	.30 years
0.70	March 5, 2022	500,000	500,000	.93 years
0.63	July 14, 2022	1,500,000	1,000,000	1.29 years
0.63	July 14, 2022	400,000	400,000	1.29 years
0.53	September 8, 2022	2,656,666	1,738,384	1.44 years
0.44	May 1, 2023	75,000	25,000	2.08 years
0.57	July 14, 2023	1,500,000	500,000	2.29 years
0.51	August 5, 2023	300,000	100,000	2.35 years
0.63	July 14, 2024	1,000,000	500,000	3.29 years
\$ 0.376		8,539,999	5,371,717	1.69 years

(d) Share-based compensation

During the three-month period ended March 31, 2021, the Company recorded share-based compensation totaling \$117,655 (2020 - \$235,358), which was expensed in operations with a corresponding increase in contributed surplus.

The fair value of share options was estimated on the measurement date using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options.

During the three-month period ended March 31, 2021, the Company did not grant any options to employees, directors, officers, or consultants. The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:



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11. Share capital (continued):

	Three Months ended March 31, 2021	Three Months ended March 31, 2020
Risk-free interest rate	-	1.56% – 1.74%
Expected life of options	-	3 years
Expected volatility	-	104% - 107%
Weighted average fair value per option	-	\$0.35 - \$0.44
Dividend yield	-	Nil

12. Capital management:

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

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

13. Government assistance:

During the three months ended March 31, 2021, the Company received government assistance, excluding the OceanVision project, in the amount of \$855,026 (2020 - \$868,955). Government Assistance has been classified as a reduction to Cost of Sales \$68,271 (2020 - \$nil), Research & Development expense \$682,555 (2020 – \$667,561) and Administrative expense \$104,200 (2020 - \$nil).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project, including \$535,729 (2020 - \$618,462) in reimbursements from the Ocean SuperCluster and \$247,485 (2020 - \$230,081) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$449,482 (2020 – \$314,903), Administrative expense \$25,625 (2020 – \$12,893), Cost of sales \$nil (2020 – \$14,352) and Construction in progress of \$308,107 (2020 - \$506,395).

14. Financing costs:

	March 31, 2021	March 31, 2020
Interest on lease liabilities	\$ 83,072	\$ 43,926
Letters of credit	157,500	-
Accretion on long-term note payable	31,311	-
	\$ 271,883	\$ 43,926



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15. Segmented information:

The Company operates in two reportable operating segments, being: 1) “Sensors and Platforms” which is the design, manufacture and sale and provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms; 2) “Power” which is the design, manufacture and sale of subsea power equipment such as drives, thrusters, and batteries.

The following tables present the operations of the Company’s reportable segments as at and for the quarter ending March 31, 2021 and comparatives for March 31, 2020:

March 31, 2021	Sensors and Platforms	Power	Consolidated
Revenue	\$ 1,902,380	\$ 1,698,824	\$ 3,601,204
Expenses	\$ 2,917,252	\$ 1,320,463	\$ 4,237,715
Segment profit (loss) before tax	\$ (1,014,872)	\$ 378,361	\$ (636,511)
Segment assets	\$ 25,166,418	\$ 6,870,962	\$ 32,037,380
Segment liabilities	\$ 11,443,933	\$ 5,001,558	\$ 16,445,491
Segment capital expenditures	\$ 573,204	\$ 142,654	\$ 715,858
March 31, 2020	Sensors and Platforms	Power	Consolidated
Revenue	\$ 4,143,882	\$ 2,246,793	\$ 6,390,675
Expenses	\$ 4,678,802	\$ 983,936	\$ 5,662,738
Segment profit (loss) before tax	\$ (534,920)	\$ 1,262,857	\$ 727,937
Segment assets	\$ 14,265,057	\$ 4,983,272	\$ 19,248,329
Segment liabilities	\$ 5,766,036	\$ 2,527,119	\$ 8,293,155
Segment capital expenditures	\$ 518,786	\$ 40,142	\$ 558,928

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:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Total revenues:		
Canada	5,555	101,140
United States	1,746,833	4,709,153
Europe, Middle East and Africa	1,848,243	1,580,382
Other	573	-
	\$ 3,601,204	\$ 6,390,675



**Notes to the Condensed Consolidated Interim Financial Statements
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16. Commitments:

- (a) Kraken has established a long-term technical co-operation program with Fraunhofer for technologies that can be deployed in Kraken's ThunderFish® AUV program. While Kraken is contractually committed to grant research and development projects to Fraunhofer of €300,000 per year for a period of three more years (2019-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. The remaining commitment balance at March 31, 2021 is \$443,331 and these projects will be expensed as incurred.
- (b) To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of \$6.3 million, while the balance of the project of \$12.5 million will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Ocean Choice International, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to the project is \$4.4 million, of which \$2.1 million remains outstanding at March 31, 2021. Kraken's commitment will be reduced if and when additional government and industry partners join the project in the future.
- (c) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$1,802,916 (C\$2,271,566), US\$6,214,595 (C\$7,830,017) on advance guarantees secured by Export Development Canada and US\$829,802 (C\$1,045,501) for performance guarantee secured by restricted cash. The letters of credit expire on December 31, 2021, October 30, 2023 and October 31, 2024, respectively.
- (d) With the adoption of IFRS 16 for Leases, the Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments for 2021 is \$12,611.

17. Subsequent events:

Subsequent to March 31, 2021, the Company:

- (a) In April 2021, announced it had filed a final short form Base Shelf Prospectus with securities regulatory authorities in each of the provinces and territories of Canada which allows the Company to qualify for the distribution by way of prospectus of up to \$65 million of common shares, debt securities, subscription receipts, warrants and units or any combination thereof, during the 25-month period that the Base Shelf Prospectus remains effective.
- (b) In April 2021, entered into a non-binding letter of intent in connection with the proposed acquisition of PanGeo Subsea Inc.
- (c) In April 2021, acquired 13 Robotics Ltda of Brazil. Consideration for the 13R acquisition was US\$220,000 cash. At this time the purchase price allocation has not been determined due to how recent the acquisition has closed.