Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

(Unaudited)

Q1 Fiscal 2020

March 31, 2020

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KRAKEN

Consolidated Statements of Financial Position
March 31, 2020 (unaudited)
(Expressed in Canadian Dollars)

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,118,426**	$ 2,097,199
Trade and other receivables (note 5)	**5,718,525**	5,083,740
Inventory (note 6)	**5,422,925**	5,886,256
Prepayments (note 7)	**964,720**	431,462
	14,224,596	13,498,657
Property and equipment (note 8)	**3,565,535**	3,161,924
Intangible assets	**1,087,006**	1,082,945
Goodwill	**371,192**	347,350
TOTAL ASSETS	**$ 19,248,329**	$ 18,090,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade and other payables	**4,786,180**	$ 3,620,443
Contract liability	**977,662**	2,445,223
Current tax payable	**5,123**	4,882
Current portion of lease liabilities	**214,947**	191,630
	5,983,912	6,262,178
Long-term note payable	**419,307**	392,374
Lease liabilities	**1,433,507**	1,347,006
Deferred Taxes	**456,429**	426,000
Shareholders' equity:		
Share capital (note 11)	**22,680,424**	22,594,846
Contributed surplus	**2,421,320**	2,220,924
Accumulated other comprehensive loss	**(85,086)**	(363,031)
Deficit	**(14,061,484)**	(14,789,421)
	10,955,174	9,663,318
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 19,248,329**	$ 18,090,876

Commitment (note 15) Subsequent event (note 16)

On Behalf of the Board:

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

The accompanying notes form part of the consolidated financial statements.

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Condensed Consolidated Interim Statements of Net Income (Loss)
March 31, 2020 (unaudited)
(Expressed in Canadian Dollars)

	March 31, 2020	March 31, 2019
Product Revenue	$ 4,973,413	$ 1,112,068
Service Revenue	1,417,262	257,317
	6,390,675	1,369,385
Cost of sales (note 7)	3,472,702	780,628
	2,917,973	588,757
Administrative expenses	1,520,759	969,947
Research and development costs	104,161	210,223
Depreciation and amortization	257,819	482,985
Share-based compensation (note 11 (d))	235,358	74,800
Investment tax credits recoverable	-	(338,219)
	2,118,097	1,399,736
Income (loss) from operating activities	799,876	(810,979)
Foreign exchange loss	28,013	4,128
Financing costs	43,926	47,343
	71,939	51,471
Net Income (loss) before taxes	727,937	(862,450)
Deferred income tax recovery	-	-
Net Income (loss)	$ 727,937	$ (862,450)
Net Income (loss) attributed to:		
Shareholders of Kraken Robotics Inc.	727,937	(775,232)
Non-controlling interests	-	(87,218)
	727,937	(862,450)
Basic and diluted (loss) income per share	$ 0.00	$ (0.01)
Basic and diluted weighted average number of shares outstanding	147,345,776	139,396,350

The accompanying notes form part of the consolidated financial statements.

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

	March 31, 2020	March 31, 2019
Net Income (loss)	**$ 727,937**	$(862,450)
Other comprehensive income (loss)		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**277,945**	80,106
Other comprehensive Income (loss)	**277,945**	80,106
Comprehensive Income (loss)	**$ 1,005,882**	$(782,344)
Comprehensive Income (loss) attributed to:		
Shareholders of Kraken Robotics Inc.	**1,005,882**	(715,153)
Non-controlling interests	**-**	(67,191)
Other comprehensive income (loss)	**$ 1,005,882**	$(782,344)

The accompanying notes form part of the consolidated financial statements.

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

2020	Number of Shares	Share capital (note 11)	Contributed Surplus	Accumulated other comprehensive loss	Non-Controlling Interest	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
Issue of common shares on warrant exercises	-	-	-	-		-	-
Share issue costs (note 12(a))	-	-	-	-		-	-
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**

2019	Number of Shares	Share capital (note 10)	Contributed Surplus	Accumulated other comprehensive loss	Non-Controlling Interest	Deficit	Total
Balance at January 1, 2019	137,025,820	$ 18,166,572	$ 1,774,264	$ (322,464)	$ 331,395	$ (11,652,332)	$ 8,297,435
IFRS 16, Adjustment (note 3) *	-	-	-	-		48,932	48,932
Net loss	-	-	-	-	(87,218)	(775,232)	(862,450)
Other comprehensive loss *				60,079	20,027		80,106
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on stock option exercises	37,333	6,720	-	-		-	6,720
Issue of common shares on warrant exercises	8,320,000	3,916,500	(784,500)	-		-	3,132,000
Share issue costs (note 12(a))	-	(51,722)	-	-		-	(51,722)
Share-based compensation	-	-	74,800	-		-	74,800
Shareholders’ equity as at March 31, 2019	**145,383,153**	**$22,038,070**	**$ 1,064,564**	**$(262,385)**	**$264,204**	**$ (12,378,632)**	**$ 10,725,821**

* Prior year amounts have been corrected from amounts presented in the Q1 2019 interim financial statements

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

	March 31, 2020	March 31, 2019
Cash flows from (used in) operating activities		
Net Income (loss)	$ **727,937**	$ (862,450)
Adjustments for items not involving cash:		
Depreciation	**185,682**	195,309
Amortization of intangible assets	**72,357**	290,805
Share-based payments	**235,358**	74,800
Investment Tax Credit	**-**	(338,219)
Interest on Lease Liability	**43,926**	45,120
Changes in non-cash working capital	**(905,388)**	(1,390,293)
Net cash flows from (used in) operating activities	**359,651**	(1,984,928)
Cash flows used in investing activities		
Purchase of property, plant and equipment	**(402,974)**	(961,875)
	(402,974)	(961,875)
Cash flows from (used in) financing activities		
Proceeds from equity offerings & option exercise	**50,616**	6,720
Proceeds from exercise of warrants	**-**	3,132,000
Share issue costs	**-**	(51,722)
Payments on lease liability	**(90,409)**	(87,532)
	(39,793)	2,999,466
Net increase (decrease) in cash	**(83,116)**	52,662
Effect of foreign exchange on cash	**104,343**	26,528
Cash at beginning of period	**2,097,199**	4,929,865
Cash at end of period	$ **2,118,426**	$ 5,009,055

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, 2019.

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, 2019.

These consolidated financial statements were approved by the Board of Directors on May 29, 2020.

(b) 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.

(c) Business Combinations

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. All intercompany balances and revenue and expense transactions have been eliminated on consolidation.

(d Accounting estimates and judgments:

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

i) Estimates of useful lives of property and equipment

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

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

ii) Recovery of deferred tax assets

2. Basis of presentation (continued):

Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent

on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

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

iii) Share-based payments

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

iv) Business Combinations

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

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

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

2. Basis of presentation (continued):

iv) 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. Adoption of new accounting pronouncements:

IFRS 16, Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, and other related Standard Interpretations Committee ("SIC") interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and require lessees to account for most leases under a single on-balance sheet model.

On adoption of IFRS 16, the Company recognized a lease liability in relation to property leases which had previously been classified as 'operating leases' under the principal of IAS 17. As of January 1, 2019, these liabilities were measured at the present value of the remaining lease payments discounted at 12%, which reflects the lessee's incremental borrowing rate to finance the purchase of similar property. The Company has applied IFRS 16 using the modified retrospective approach, whereby the cumulative effect of adopting IFRS 16, if any, is recognized as an adjustment to opening retained earnings as at January 1, 2019, with no restatement of comparative information. Under this method using the practical expedients available, the Company has recognized the right of use asset equal to the lease liability.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments disclosed as at December 31, 2018	1,507,528
Less: Short-term leases not included in lease liability	(79,909)
Balance	1,427,619
Incremental borrowing rate as at January 1, 2019	12%
Discounted operating lease commitments at January 1, 2019	**1,265,045**
Add:	
Finance lease liabilities recognized as at date of initial application	252,995
Lease liability recognized as at January 1, 2019	1,518,040

The additional $252,995 of finance lease liabilities recognized represent lease payments arising from lease extension options for which the Company has no contractual commitment to exercise, but is reasonably certain to do so.

The right-of-use assets associated with these property leases were initially measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the consolidated statement of financial position as at December 31, 2018.

3. Adoption of new accounting pronouncements (continued):

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessments previously made in applying IAS 17 and IFRIC 4.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of $1,518,040 were recognized and presented separately in the interim condensed consolidated statement of financial position.
- Lease liabilities of $1,518,040 were recognized and presented separately in the interim condensed consolidated statement of financial position.
- Lease inducements of $ 48,932 related to previous operating leases were derecognized. The impact of this adjustment was recorded as a transition adjustment to opening retained earnings.

Summary of new accounting policies

The Company has adopted the following new accounting policies upon implementation of IFRS 16 on January 1, 2019:

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

Lease liabilities

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

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

3. Adoption of new accounting pronouncements (continued):

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.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of properties (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.

Summary of new significant judgements

Determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of one to ten years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, including the consideration of all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew. The Company included the renewal period as part of the lease term for substantially all of its property leases due to the significance of these assets to its operations.

4. Significant accounting policies:

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

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

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. There was no impact to the financial statements as a result of adopting this amendment effective January 1, 2020.

IFRS 3 – Business Combinations

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. There was no impact to the financial statements as a result of adopting this amendment effective January 1, 2020.

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5. Trade and other receivables:

Trade and other receivables consist of the following:

	March 31, 2020	December 31, 2019
Trade receivables	$ 3,807,403	$ 3,236,207
Contract Asset	202,843	272,832
Government assistance receivable and other	1,708,279	1,574,701
	$ 5,718,525	$ 5,083,740

6. Inventory

Included in the cost of sales for the three months ended March 31, 2020 is inventory of $1,901,563 (2019 – $376,628)

7. Prepayments

As at March 31, 2019, the Company had made prepayments of $818,238 (2019 - $98,331) towards inventory, of which 74% of the total represents two vendors.

8. Property and equipment

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	AUV Vehicle	Total
Cost							
Balance at January 1, 2019	**$ 531,810**	**$ 168,229**	**$ 1,518,040**		**$ 115,677**	**$ 1,489,175**	**$ 3,822,931**
Additions	513,313	120,027	90,695	91,318	918,407	-	1,733,760
Disposal and transfer to inventory	(631)					(1,489,175)	(1,489,806)
Foreign exchange	(21,946)	(1,107)					(23,053)
Balance at December 31, 2019	**$ 1,022,546**	**$ 287,149**	**$1,608,735**	**$ 91,318**	**$ 1,034,084**	**$ -**	**$ 4,043,832**
Additions	145,743	18,736	155,954	231,779	6,716		558,928
Disposal							
Foreign Exchange	28,477	1,668					30,145
Balance at March 31, 2020	**$ 1,196,766**	**$ 307,553**	**$1,764,689**	**$ 323,097**	**$ 1,040,800**	**$ -**	**$ 4,632,905**
Accumulated depreciation							
Balance at January 1, 2019	**$ 79,804**	**$ 68,787**	**$ -**		**$ 75,061**	**$ 263,398**	**$ 487,050**
Depreciation	180,739	64,352	247,157		166,351	108,586	767,185
Disposal and transfer to inventory	(343)					(371,984)	(372,327)
Balance at December 31, 2019	**$ 260,200**	**$ 133,139**	**$ 247,157**	**$ -**	**$ 241,412**	**$ -**	**$ 881,908**
Depreciation	56,017	18,896	67,392		43,157		185,462

Disposal and transfer to inventory							
Balance at March 31, 2020	**$ 316,217**	**$ 152,035**	**$ 314,549**	**$ -**	**$ 284,569**	**$ -**	**$ 1,067,370**
Carrying amounts							
At December 31, 2019	**$ 762,346**	**$ 154,010**	**$1,361,578**	**$ 91,318**	**$ 792,672**	**$ -**	**$ 3,161,924**
At March 31, 2020	**$ 880,549**	**$ 155,518**	**$1,450,140**	**$ 323,097**	**$ 756,231**	**$ -**	**$ 3,565,535**

9. Financial instruments:

Credit Risk:

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

	March 31, 2020	December 31, 2019
Cash and cash equivalents	$ 2,118,426	$ 2,097,199
Trade and other receivables	5,718,525	5,083,740
	$ 7,836,951	$ 7,180,939

At March 31, 2020, 69% of the trade receivables balance was owing from 2 customers (2019 – 76% of the trade receivables was owing from 2 customers). At March 31, 2020, the Company had recorded contract liabilities of $977,662 (2019– $2,445,223)

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of March 31, 2020, the Company had a cash balance of $2,118,426 (December 31, 2019 - $2,097,199) to settle current liabilities of $5,983,912 (December 31, 2019 - $6,262,178).

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, 2020, the Company has cash balances of $2,118,426 and has drawn $Nil against its line of credit. The Company's subsidiary, Kraken Power, has a €400,000 loan with a German regional economic development organization due March 31, 2023. The loan currently bears interest at 8.5% and is unsecured.

The Company is exposed to interest rate risk on its line of credit balance.

(b) Foreign currency risk

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

9. Financial instruments (continued):

Market Risk

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

	March 31, 2020	December 31, 2019
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 666,389	$ 62,577
Trade and other payables GBP	96,500	3,900
Trade and other payables EUR	941,006	814,618
Long-term debt EUR	269,063	269,063
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	2,480,324	2,027,589
Trade and other receivables GBP	-	-
Trade and other receivables EUR	405,384	397,646

For the three months ended March 31, 2020 with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound and Euro to Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately $114,981 respectively (2019 - $379,849).

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 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:

March 31, 2020	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	$ 2,118,426	$ -	$ -
Trade and other receivables	-	5,718,525	-
Investment tax credits recoverable	-	-	-
Financial liabilities at amortized cost:			
Trade and other payables	-	4,786,180	-
Long-term note payable		419,307	-

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

10. Bank indebtedness:

At March 31, 2020, the Company had a $1,000,000 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2%, payable monthly. As at March 31, 2020, a total of $Nil (December 31, 2019 - $Nil) was drawn against this facility.

11. Share capital:

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders' equity (deficiency) for a summary of changes in Share capital and Contributed surplus for the periods ended March 31, 2020 and 2019.

(a) Equity Financings

On February 25, 2018, the Company closed a non-brokered private place of 10,714,285 common shares (the "Shares") at a price of $0.14 per Share for aggregate gross proceeds of $1,500.000. The Company issued 9,000 finders shares in connection with the offering.

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

On December 20, 2018 the Company closed a bought deal short form prospectus offering of common shares of the Company. A total of 15,000,000 common shares were sold at a price of $0.40 per common share for gross proceeds of $6,000,000. The Company paid the underwriters a cash commission equal to 6% of the gross proceeds and issued 550,000 broker warrants to the underwriters. Each warrant entitles the holder to purchase one common share at a price of $0.60 until December 20, 2020.

(b) Share purchase warrants

In February 2018, 2,221,742 warrants were exercised at a price of $0.15 while 11,174,918 warrants expired unexercised

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

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

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

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

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

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

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

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

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

11. Share capital (continued):

In March 2019, 5,760,000 warrants held by Ocean Infinity were exercised at a price of $0.40 and 1,510,000 warrants were exercised at a price of $0.30. In April 2019, 557,776 warrants were exercised at a price of $0.30.

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

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

In addition to the warrants outlined above, in August 2018, 11,666 finder's warrants were exercised at a price of $0.18, and the remaining 168,001 finder's warrants expired during the period. In April 2019, 11,666 finder's warrants were exercised as a price of $0.18, there were no remaining finder's warrants to expire during the period.

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

Expiry Date	Exercise Price	March 31, 2020	December 31, 2019	Weighted Average Remaining Contractual Life
December 20, 2020	$0.60	550,000	550,000	0.75 years
	$0.60	**550,000**	**550,000**	**0.75 years**

(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.

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

	March 31, 2020			December 31, 2019		
	Number of Options	Weighted Average Exercise Price		Number of Options	Weighted Average Exercise Price	
Opening balance	12,051,834	$	0.402	6,940,834	$	0.197
Granted	-		-	6,155,000		0.59
Exercised	(200,000)		0.25	(1,025,666)		0.154
Expired	-		-	(18,334)		0.18
Ending balance	11,851,834	$	0.404	12,051,834	$	0.402
Options exercisable	7,401,001	$	0.318	7,234,334	$	0.376

11. Share capital (continued):

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.21	June 1, 2020	2,000,000	2,000,000	0.17 years
0.17	September 8, 2020	350,000	350,000	0.44 years
0.18	October 4, 2020	300,000	300,000	0.51 years
0.18	December 15, 2020	1,571,834	1,474,334	0.71 years
0.185	February 20, 2021	450,000	450,000	0.89 years
0.21	June 21, 2021	200,000	133,333	1.22 years
0.26	July 18, 2021	833,333	500,000	1.30 years
0.70	March 5, 2022	500,000	333,333	1.93 years
0.63	July 14, 2022	1,500,000	500,000	2.29 years
0.63	July 14, 2022	400,000	200,000	2.29 years
0.53	September 8, 2022	2,746,667	910,000	2.44 years
0.63	July 14, 2024	1,000,000	250,000	4.29 years
$ 0.376		**11,851,834**	**7,401,001**	**1.54 years**

(d) Share-based compensation

During the three-month period ended March 31, 2020, the Company recorded share-based compensation totaling $235,358 (2019 - $74,800), 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, 2020, 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:

	Three Months ended March 31, 2020	Three Months ended March 31, 2019
Risk-free interest rate	1.56% – 1.74%	1.74
Expected life of options	3 years	3 years
Expected volatility	104% - 107%	104%
Weighted average fair value per option	$0.35 - $0.44	$0.44
Dividend yield	Nil	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, 2020, the Company received government assistance, excluding the OceanVision project, in the amount of $677,561 (2019 - $868,955). Government Assistance has been classified as a reduction to Cost of Sales $Nil (2019 - $86,375)) and Research & Development expense $667,561 (2019 – $782,580).

The financial statements reflect a cost reimbursement accrual made to recognize work under Kraken's OceanVision project, including $618,462 (2019-nil) in reimbursements from the Ocean SuperCluster and $230,081 (2019-nil) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense $314,903 (2019 – nil), Administrative expense $12,893 (2019 – nil), Cost of sales $14,352 (2019 – nil) and Construction in progress of $506,395 (2019-nil).

14. Segmented information:

With the acquisition of Kraken Power in fiscal 2018, the Company now operates in two reportable operating segments, being: 1) " Sensors and Platforms" which is the design, manufacture and sale and provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms; 2) "Power" which is the design, manufacture and sale of subsea power equipment such as drives, thrusters, and batteries.

The following tables present the operations of the Company's reportable segments as at and for the quarter ending March 31, 2020 and comparatives for March 31, 2019:

March 31, 2020	**Sensors and Platforms**	**Power**	**Eliminations**	**Consolidated**
Revenue	$ 6,525,499	$ 1,747,134	$ (1,881,958)	$ 6,390,675
Expenses	$ 6,145,478	$ 1,263,686	$ (1,746,426)	$ 5,662,738
Segment profit (loss)	$ 380,021	$ 483,448	$ (135,532)	$ 727,937
Segment assets	$ 16,096,812	$ 6,362,451	$ (3,210,934)	$ 19,248,329
Segment liabilities	$ 8,664,263	$ 2,635,094	$ (3,006,202)	$ 8,293,155
Segment capital expenditures	$ 518,786	$ 40,142	$ -	$ 558,928
March 31, 2019	**Sensors and Platforms**	**Power**	**Eliminations**	**Consolidated**
Revenue	$ 1,465,388	$ 5,729	$ (101,732)	$ 1,369,385
Expenses	$ 1,431,478	$ 74,120	$ 716,237	$ 2,231,835
Segment profit (loss)	$ 33,910	$ (68,391)	$ (827,939)	$ (862,450)
Segment assets	$ 16,759,347	$ 8,055,799	$ (6,088,967)	$ 18,726,179
Segment liabilities	$ 6,436,679	$ 6,682,902	$ (5,119,223)	$ 8,000,358
Segment capital expenditures	$ 868,865	$ 93,010	$ -	$ 961,875

14. Segmented information (continued):

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, 2020	Three months ended March 31, 2019
Total revenues:		
United Kingdom	$ 617,344	$ 1,085,899
Canada	101,140	119,230
Russia	-	88,415
Egypt	-	70,111
Germany	773	5,729
United States	4,709,153	-
Sweden	949,741	
Other	12,524	-
	$ 6,390,675	$ 1,369,385

15. Commitments:

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, 2020 is $736,700 and these projects will be expensed as incurred.

To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of $6.3 million, while the balance of the project will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Ocean Choice International and Nunavut Fisheries Association) and Kraken. Kraken's commitment to project is $7.4 million, of which $6.7 million remains outstanding at March 31, 2020. Kraken's commitment will be reduced as government and industry partners join the project in 2020.

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 2020 is $111,567.

16. Subsequent events:

Subsequent to March 31, 2020, the Company:

(a) granted 75,000 stock options to an employee on May 1, 2020 at an exercise price of $0.44.

(b) renewed and increased our credit facilities on our revolving demand facility from $1.0 million to $1.5 million.