Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars unless otherwise noted)

(Unaudited)

Q1 Fiscal 2022

KRAKEN

March 31, 2022

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Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in thousands of Canadian Dollars)

	March 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ **1,207**	$ 6,754
Trade and other receivables (note 3)	**5,499**	6,095
Contract asset (note 7)	**5,183**	2,699
Current tax receivable	**116**	75
Investment tax credits recoverable	**634**	-
Inventory (note 4)	**16,551**	14,977
Prepayments (note 5)	**1,123**	1,124
	30,313	31,724
Prepayments (note 5)	**210**	288
Property and equipment (note 6)	**19,030**	18,679
Intangible assets	**7,118**	7,519
Goodwill	**7,244**	7,255
TOTAL ASSETS	$ **63,915**	$ 65,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 9)	$ **6,091**	$ 4,943
Trade and other payables	**9,604**	10,667
Contract liabilities (note 7)	**5,662**	4,639
Current tax payable	**10**	51
Current portion of long-term obligations (note 10)	**708**	231
Current portion of lease liabilities	**952**	991
Current portion of contingent consideration	**4,045**	3,837
	27,072	25,359
Long-term obligations (note 10)	**5,049**	5,514
Lease liabilities	**3,286**	3,586
Deferred taxes	**-**	134
Contingent consideration	**3,448**	3,270
Shareholders' equity:		
Share capital (note 11)	**47,615**	47,415
Contributed surplus	**3,033**	3,191
Accumulated other comprehensive loss	**60**	85
Deficit	**(25,648)**	(23,089)
	25,060	27,602
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ **63,915**	$ 65,465

Commitments (note 16)   Subsequent events (note 17)

On Behalf of the Board:

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

The accompanying notes form part of the consolidated financial statements.

Condensed Consolidated Interim Statements of Net Loss
(Unaudited)
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2022	March 31, 2021
Product Revenue (note 7)	**$ 3,726**	$ 3,135
Service Revenue (note 7)	**1,786**	466
	5,512	3,601
Cost of sales (note 4)	**3,696**	1,451
	1,816	2,150
Administrative expenses	**2,542**	1,633
Research and development costs	**480**	381
Depreciation and Amortization	**1,141**	380
Share-based compensation (note 11 (c))	**41**	118
Investment tax credits recoverable	**(634)**	-
	3,570	2,512
Loss from operating activities	**(1,754)**	(362)
Foreign exchange loss	**56**	3
Financing costs (note 14)	**884**	272
Net loss before income taxes	**(2,694)**	(637)
Income tax recovery	**(135)**	(33)
	(135)	(33)
Net loss	**(2,559)**	(604)
Basic and diluted loss per share	**$ (0.01)**	$ (0.00)
Basic and diluted weighted average number of shares outstanding	**201,192,985**	168,075,834

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Net Loss
(Unaudited)
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2022	March 31, 2021
Net loss	**$(2,559)**	$(604)
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**(25)**	(85)
Other comprehensive loss	**(25)**	(85)
Comprehensive loss	**$(2,584)**	$(689)

The accompanying notes form part of the consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
For the Three Ended March 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars except share amounts)

2022	Number of Shares	Share capital (note 11)	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	-	-	-	-	(2,559)	(2,559)
Other comprehensive loss	-	-	-	(25)	-	(25)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises/expired	-	199	(199)	-	-	-
Share-based compensation	-	-	41	-	-	41
Shareholders' equity as at March 31, 2022	201,192,985	$ 47,615	$ 3,033	$ 60	$ (25,648)	$ 25,060

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	$ 2,516	$ (120)	$ (20,324)	$ 16,012
Net loss	-	-	-	-	(604)	(604)
Other comprehensive loss	-	-	-	(85)	-	(85)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	698,334	256	(104)	-	-	152
Share-based compensation	-	-	118	-	-	118
Shareholders' equity as at March 31, 2021	168,511,764	$ 34,196	$ 2,530	$ (205)	$ (20,928)	15,592

KRAKEN

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2022 and 2021
(Expressed in thousands of Canadian Dollars)

	March 31, 2022	March 31, 2021
Cash flows provided by (used in) operating activities		
Net loss	**$ (2,559)**	$ (604)
Adjustments for items not involving cash:		
Depreciation	**758**	302
Amortization of intangible assets	**383**	78
Share-based payments	**41**	118
Investment tax credit	**(634)**	-
Interest on lease liability	**90**	83
Interest on long-term obligations	**16**	-
Accretion expense	**119**	31
Accretion on contingent consideration	**386**	-
Income tax recovery	**(135)**	(32)
Changes in non-cash working capital	**(3,506)**	(3,468)
Net cash flows provided by (used in) operating activities	**(5,041)**	(3,492)
Cash flows provided by (used in) investing activities		
Purchase of property and equipment	**(1,231)**	(645)
Increase in intangibles	**-**	(35)
Net cash flows used in investing activities	**(1,231)**	(680)
Cash flows provided by (used in) financing activities		
Proceeds from exercise of warrants and options	**-**	152
Payment of principal on leases	**(245)**	(89)
Payment of interest on leases	**(90)**	(83)
Payment of principal long-term obligations	**(70)**	-
Payment of interest long-term obligations	**(16)**	-
Increase in long term obligations	**62**	342
Payment of bank indebtedness	**-**	(21)
Increase in bank indebtedness	**1,168**	
Net cash flows provided by financing activities	**809**	301
Net decrease in cash and cash equivalents	**(5,463)**	(3,871)
Effect of foreign exchange on cash	**(84)**	(50)
Cash and cash equivalents at beginning of year	**6,754**	12,925
Cash and cash equivalents at end of year	**$ 1,207**	$ 9,004

1. Corporate Information:

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

The Company's principal business is the design, manufacture and sale of software-centric sensors and underwater robotic systems and to provide underwater high-resolution underwater acoustic solutions.

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, 2021.

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, 2021.

These condensed consolidated financial statements were approved by the Board of Directors on May 25, 2022.

(b) With the outbreak of coronavirus, specifically identified as ''COVID-19'', there has been significant economic volatility and supply chain disruption. In addition, the geopolitical risk currently being experienced may cause continued economic volatility and impact on the supply chain. 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 Company and its operating subsidiaries in future periods. During the period the Company experienced minor delays in procuring components and conducting sea trials.

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

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.

(d) Basis of Consolidation

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

(e) Accounting estimates and judgments:

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

2. Basis of presentation (continued):

i) Revenue recognition

We have multi-year contracts with our customers, and we must make judgments about when we have satisfied our performance obligations to our customers, either over a period of time or at a point in time. 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.

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 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 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, 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.

v) Impairment

The Company conducts impairment testing on its goodwill and intangible assets annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company determines the fair value of each cash-generating unit to which goodwill and intangible assets are allocated using the value in-use-method, which estimates fair value using a discounted five-year forecasted cash flow estimate with a terminal value. The value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. The principal factors used in the discounted cash flow analysis requiring significant estimation are the forecasted operating margins, maintenance and other capital expenditures, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions.

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

3. Trade and other receivables:

Trade and other receivables consist of the following:

	March 31, 2022	December 31, 2021
Trade receivables (net of expected credit loss of $224)	$ 3,589	$ 4,052
Government assistance receivable and other	1,910	2,043
	$ 5,499	$ 6,095

4. Inventory:

As at March 31, 2022, the Company held $16,551 (2021 - $14,977) in inventory, consisting of $8,927 (2021 - $11,420) in raw materials and $7,624 (2021 - $3,557) in work-in-progress. Included in cost of sales is inventory costs of $1,137 (2021 - $816). Inventory write-downs consisted of $nil (2021 - $42).

5. Prepayments:

As at March 31, 2022, the Company had made prepayments of $1,333 (2021 - $1,412). Included in prepayments are advance payment guarantee fees of $542 (2021 – $638) and prepayments towards inventory of $245 (2021 - $190). The remaining amount of $546 (2021 - $584) consists of prepayments against insurance, software and other operating expenses.

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

6. Property and equipment:

(a) As at March 31, 2022 and December 31, 2021, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	Marine Equipment	Total
Cost							
Balance at January 1, 2021	**$ 1,350**	**$ 295**	**$3,962**	**$ 1,153**	**$ 1,382**	**$ -**	**$ 8,142**
Additions	1,044	212	451	3,554	276	413	5,950
Purchase of Kraken Brasil Ltda.	10	5	22	301	-	-	338
Purchase of PGH Capital	89	879	1,354		107	5,620	8,049
Transfer				(625)		625	-
Disposals	(11)	-	-	(24)	-	-	(35)
Foreign Exchange	(68)	(10)	(141)	-	(6)	-	(225)
Balance at December 31, 2021	**$ 2,414**	**$ 1,381**	**$5,648**	**$ 4,359**	**$ 1,759**	**$ 6,658**	**$ 22,219**
Additions	285	26	-	911	2	7	1,231
Transfer	358	-	-	(358)	-	-	-
Disposals	-	(1)	-	-	-	-	(1)
Foreign Exchange	(29)	(2)	(88)	-	(3)	-	(122)
Balance at March 31, 2022	**$ 3,028**	**$ 1,404**	**$5,560**	**$ 4,912**	**$ 1,758**	**$ 6,665**	**$ 23,327**
Accumulated depreciation							
Balance at January 1, 2021	**$ 415**	**$ 122**	**$ 585**	**$ -**	**$ 311**	**$ -**	**$ 1,433**
Depreciation	316	257	844		268	426	2,111
Disposals	(5)	-	-	-	-	-	(5)
Balance at December 31, 2021	**$ 726**	**$ 379**	**$ 1,429**	**$ -**	**$ 579**	**$ 426**	**$ 3,539**
Depreciation	75	88	267	-	77	251	758
Disposals	-	-	-	-	-	-	-
Balance at March 31, 2022	**$ 801**	**$ 467**	**$ 1,696**	**$ -**	**$ 656**	**$ 677**	**$ 4,297**
Carrying amounts							
At December 31, 2021	**$ 1,688**	**$ 1,002**	**$ 4,220**	**$ 4,359**	**$ 1,179**	**$ 6,231**	**$ 18,679**
At March 31, 2022	**$ 2,227**	**$ 937**	**$ 3,865**	**$ 4,912**	**$ 1,101**	**$ 5,988**	**$ 19,030**

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

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, 2022	March 31, 2021
Product sales – transferred at a point in time	**$ 1,162**	$ 1,811
Product sales – transferred over time	**2,564**	1,323
Service revenue - transferred over time	**1,786**	467
	$ 5,512	$ 3,601

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 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 March 31, 2022, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $5,662 (2021 - $4,639).

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

	Contract assets
Opening balance – January 1, 2022	$ 2,699
Increase in unbilled from revenue recognized	2,825
Decrease in unbilled from transfer to trade receivables and other adjustments	(341)
Ending Balance – March 31, 2022	**$ 5,183**

	Contract liabilities
Opening balance – January 1, 2022	$ 4,639
Increase in contract liabilities from payments received, excluding revenue recognized	1,776
Decreases in contract liabilities from revenue recognized	(753)
Ending Balance – March 31, 2022	**$ 5,662**

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

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, 2022	December 31, 2021
Cash and cash equivalents	$ 1,207	$ 6,754
Trade and other receivables	5,499	6,095
Contract assets	5,183	2,699
	$ 11,889	$ 15,548

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. 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 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, 2022, the amount is $224 (2021 - $232).

Revenues from the top three customers represented 75% of the Company's revenue in the period ended March 31, 2022 (2021 – top three customers represented 64% of revenue). At March 31, 2022, 52% of the trade receivables balance were owing from two customers (2021 – 45% of trade receivables was owing from two customers). At March 31, 2022, the Company had recorded contract liabilities of $5,662 (2021 – $4,639).

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 March 31, 2022, the Company had a cash balance of $1,207 (December 31, 2021 - $6,754), and positive working capital of $3,241. 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 to fulfill 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.

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

8. Financial instruments (continued):

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

	0-12 months	1-2 years	2-4 years	Beyond four years
Bank indebtedness	$ 6,091	$ -	$ -	$ -
Trade and other payables	9,604	-	-	-
Long-term obligations	708	4,257	460	332
Contingent consideration	4,045	3,448	-	-
	$ 20,448	$ 7,705	$ 460	$ 332

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, 2022, the Company held $1,207 in cash and has drawn $4,185, $446 and $1,460 against its operating lines of credit. The drawn operating lines 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 increased (decreased) the Company's net loss by approximately $6.

(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.

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

	March 31, 2022	December 31, 2021
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 3,623	$ 1,482
Trade and other payables GBP	745	1,629
Trade and other payables EUR	2,106	1,048
Trade and other payables DKK	140	134
Trade and other payables BRL	325	277
Long-term debt EUR	1,198	1,204
Bank indebtedness EUR	320	401
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	1,763	1,459
Trade and other receivables GBP	1,255	1,803
Trade and other receivables EUR	510	170
Trade and other receivables DKK	5	1
Trade and other receivables BRL	20	28

8. Financial instruments (continued):

Fair Value:

During the period ended March 31, 2022, 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 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 Company does not record any asset or liability at fair value on an ongoing basis.

The carrying values of cash, accounts receivable, 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 are estimated 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 March 31, 2022. The carrying value of the contingent consideration equals fair value as it is categorized as fair value through profit and loss. The fair value of the long-term debt approximates the amortized cost. For the fair value of contingent consideration, changes to the risk-adjusted discount rate of 1% at March 31, 2022, while holding other inputs constant would have the following impact. An increase (decrease) in discount rate would have increased (decreased) the Company's net loss by approximately $71 and ($73) respectively.

9. Bank indebtedness:

At March 31, 2022, the Company had available a $4,500 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 March 31, 2022, a total of $4,185 (December 31, 2021 - $4,270) was drawn against this facility. Security for operating line is 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 March 31, 2022 a total of €320 ($446) (December 31, 2021 - €401 ($709)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization. Additionally, PanGeo had available a $1,500 line of credit for general operating purposes. The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at March 31, 2022, a total of $1,460 (December 31, 2021 - $95) was drawn against this facility.

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

10. Long-term obligations:

	March 31, 2022	December 31, 2021
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.	$ 485	$ 490
Loan, secured by equipment, 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.	98	107
Loan, secured by equipment and infrastructure, bearing interest at 1.23% in the amount of €875 repayable in equal installments over 67 months, and maturing on September 30, 2026.	1,142	1,198
Promissory Note on acquisition of PanGeo, in the amount of $4,000 bearing interest at 6% per annum, due July 30, 2023	4,032	3,950
	5,757	5,745
Less current portion of long-term obligations	(708)	(231)
	$ 5,049	$ 5,514

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

Opening balance – January 1, 2022	$ 5,745
Proceeds from long-term obligations	62
Payment of principle	(70)
Payment of interest	(16)
Accretion expense	119
Foreign Exchange	(83)
Ending Balance – March 31, 2022	$ 5,757

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 years ended March 31, 2022 and 2021.

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

11. Share capital (continued):

(a) Share purchase warrants

At March 31, 2022 and December 31, 2021, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	March 31, 2022	December 31, 2021	Weighted Average Remaining Contractual Life
July 26, 2023	$0.60	10,000,000	10,000,000	1.32 years
	$0.60	**10,000,000**	**10,000,000**	**1.32 years**

(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 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, 2022 and 2021:

	March 31, 2022		**December 31, 2021**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	8,358,333	$ 0.57	9,238,333	$ 0.535
Granted	-	-	1,100,000	0.49
Exercised	-	-	(1,306,667)	0.233
Expired	(885,000)	0.62	(673,333)	0.59
Ending balance	7,473,333	$ 0.564	8,358,333	$ 0.57
Options exercisable	6,473,333	$ 0.572	7,008,333	$ 0.581

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.63	July 14, 2022	1,200,000	1,200,000	0.29 years
0.63	July 14, 2022	400,000	400,000	0.29 years
0.53	September 8, 2022	2,498,333	2,498,333	0.44 years
0.44	May 1, 2023	75,000	50,000	1.08 years
0.57	July 14, 2023	1,200,000	800,000	1.29 years
0.63	July 14, 2024	1,000,000	1,000,000	2.29 years
0.50	July 30, 2026	1,000,000	500,000	4.33 years
0.39	November 29, 2026	100,000	25,000	4.67 years
$ 0.564		**7,473,333**	**6,473,333**	**1.84 years**

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

11. Share capital (continued):

(c) Share-based compensation

During the period ended March 31, 2022, the Company recorded share-based compensation totaling $41 (2021 - $118), which was expensed in operations with a corresponding increase in contributed surplus.

During the three-month period ended March 31, 2022, 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, 2022	Year ended December 31, 2021
Risk-free interest rate	-	0.54% to 1.22%
Expected life of options	-	4.07 years
Expected volatility	-	61.2% to 66.6%
Weighted average fair value per option	-	$0.14 to $0.24
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, 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.

13. Government assistance:

During the three months ended March 31, 2022, the Company received government assistance, excluding the OceanVision project, in the amount of $936 (2021 - $855). Government Assistance has been classified as a reduction to Cost of Sales of $61 (2021 - $68), Research & Development expense of $664 (2021 – $683), Administrative expense of $76 (2021 - $104) and Construction in Process of $135 (2021 - $nil).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the three months ended March 31, 2022, including $177 (2021 – $536) in reimbursements from the Ocean SuperCluster and $244 (2021 – $247) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense of $334 (2021 – $449), Administrative expense $36 (2021 – $26), and Construction in progress of $51 (2021 – $308).

14. Financing costs:

	March 31, 2022	March 31, 2021
Interest on lease liabilities	**$ 90**	**$ 83**
Letters of credit and other	**289**	**158**
Accretion on long-term obligations	**119**	**31**
Accretion of contingent consideration	**386**	-
	$ 884	$ 272

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

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 three months ended March 31, 2022 and comparatives for March 31, 2021:

March 31, 2022	Sensors and Platforms	Power	Consolidated
Revenue	$ 5,511	$ 1	$ 5,512
Cost of Goods sold and expenses	$ 7,662	$ 544	$ 8,206
Segment profit (loss)	$ (2,151)	$ (543)	$ (2,694)
Segment assets	$ 56,976	$ 6,939	$ 63,915
Segment liabilities	$ 34,238	$ 4,617	$ 38,855
Segment capital expenditures	$ 1,023	$ 208	$ 1,231

March 31, 2021	Sensors and Platforms	Power	Consolidated
Revenue	$ 1,902	$ 1,699	$ 3,601
Expenses	$ 2,917	$ 1,321	$ 4,238
Segment profit (loss) before tax	$ (1,015)	$ 378	$ (637)
Segment assets	$ 25,166	$ 6,871	$ 32,037
Segment liabilities	$ 11,444	$ 5,001	$ 16,445
Segment capital expenditures	$ 573	$ 143	$ 716

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

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

15. Segmented information (continued):

The following table sets forth external revenue by geographic areas:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Total revenues:		
Canada	502	5
United States	1,056	1,747
Europe	3,954	1,848
Other	-	1
	$ 5,512	$ 3,601

16. Commitments:

(a) 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, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to the project is $4.7 million, of which $2.0 million remains outstanding at March 31, 2022.

(b) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$6,215 (C$7,787) and US$830 (C$1,040) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023 and October 31, 2024, respectively.

(c) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at March 31, 2022 is $13.

17. Subsequent events:

Subsequent to March 31, 2022, the Company:

(a) Announced that its Board of Directors has approved the issuance of 6,330,000 stock options. The grant consists of 5,130,000 options to employees and 1,200,000 options to directors. These options have a five-year term with vesting in four equal instalments consisting of the date of grant and on the one, two and three-year anniversaries of the initial grant. The exercise price on the options is $0.395.