Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2025 and 2024
(Expressed in thousands of Canadian Dollars unless otherwise noted)

(Unaudited)

Q1 Fiscal 2025

KRAKEN

March 31, 2025

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

	March 31, 2025	December 31, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ **59,272**	$ 58,518
Trade and other receivables (note 4)	**16,277**	18,699
Contract asset (note 7)	**17,930**	17,707
Investment tax credits recoverable	**1,167**	1,018
Inventory (note 5)	**23,539**	19,058
Prepayments	**5,017**	2,772
	123,202	117,772
Prepayments	**973**	1,226
Property and equipment (note 6)	**21,292**	19,611
Long-term investment tax credit recoverable	**1,690**	1,571
Right-of-use assets (note 13)	**12,784**	3,107
Intangible assets	**4,473**	4,656
Goodwill	**4,525**	4,511
Deferred tax asset	**10,082**	10,159
TOTAL ASSETS	**179,021**	162,613
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade and other payables	**13,632**	18,759
Contract liabilities (note 7)	**10,900**	1,083
Current tax payable	**1,930**	1,699
Current portion of long-term obligations (note 12)	**592**	754
Current portion of lease liabilities (note 13)	**1,580**	1,061
	28,634	23,356
Long-term obligations (note 12)	**16,748**	15,023
Lease liabilities (note 13)	**11,612**	2,499
Deferred tax liability	**109**	-
Shareholders' equity:		
Share capital (note 14)	**121,943**	121,890
Contributed surplus	**2,199**	1,812
Accumulated other comprehensive loss	**(742)**	(270)
Deficit	**(1,482)**	(1,697)
	121,918	121,735
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 179,021**	$ 162,613

Commitments (note 19) Subsequent events (note 20)

On Behalf of the Board:

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

The accompanying notes form part of the condensed consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income (Loss)
(Unaudited)
For the Three-Months Ended March 31, 2025 and 2024
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2025	March 31, 2024
Product Revenue (note 7)	**$9,162**	$15,809
Service Revenue (note 7)	**6,966**	5,066
	16,128	20,875
Cost of sales (note 5)	**6,010**	11,529
	10,118	9,346
Administrative expenses	**6,408**	4,524
Research and development costs	**1,519**	939
Depreciation and Amortization	**1,579**	1,425
Share-based compensation (note 14 (c))	**404**	57
Investment tax credits recoverable	**(268)**	(149)
	9,642	6,796
Income from operating activities	**476**	2,550
Foreign exchange gain	**(433)**	(69)
Interest income	**(311)**	-
Financing costs (note 16)	**701**	388
Net income before income taxes	**519**	2,231
Income tax expense	**304**	56
Net income	**215**	2,175
Basic earnings per share (note 8)	$ 0.00	$ 0.01
Diluted earnings per share (note 8)	$ 0.00	$ 0.01

The accompanying notes form part of the condensed consolidated financial statements.

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income (Loss)
(Unaudited)
For the Three-Months Ended March 31, 2025 and 2024
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2025	March 31, 2024
Net income	**$215**	**$2,175**
Other comprehensive loss		
Items that may be reclassified to profit or loss		
Currency translation adjustment	**(472)**	**(84)**
Other comprehensive loss	**(472)**	**(84)**
Comprehensive income (loss)	**$(257)**	**$2,091**

The accompanying notes form part of the condensed consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
For the Three Months Ended March 31, 2025 and 2024
(Expressed in thousands of Canadian Dollars except share amounts)

2025	Number of Shares	Share capital (note 14)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2025	262,688,338	121,890	1,812	(270)	(1,697)	121,735
Net income	-	-	-	-	215	215
Other comprehensive loss	-	-	-	(472)	-	(472)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	90,000	53	(17)	-	-	36
Share-based compensation	-	-	404	-	-	404
Shareholders' equity as at March 31, 2025	262,778,338	121,943	2,199	(742)	(1,482)	121,918

2024	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2024	206,492,985	$ 52,684	$ 1,671	$ (510)	$ (21,786)	$ 32,059
Net income	-	-	-	-	2,175	2,175
Other comprehensive loss	-	-	-	(84)	-	(84)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	1,220,000	807	(223)	-	-	584
Share-based compensation	-	-	57	-	-	57
Shareholders' equity as at March 31, 2024	207,712,985	$ 53,491	$ 1,505	$ (594)	$ (19,611)	$ 34,791

The accompanying notes form part of the condensed consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2025 and 2024
(Expressed in thousands of Canadian Dollars)

	March 31, 2025	March 31, 2024
Cash flows provided by (used in) operating activities		
Net income	**$ 215**	$ 2,175
Adjustments for items not involving cash:		
Depreciation	**1,193**	1,103
Amortization of intangible assets	**386**	322
Share-based payments	**404**	57
Investment tax credit	**(268)**	(149)
Interest on lease liability	**160**	75
Interest on long-term obligations	**252**	19
Income tax expense	**304**	56
Changes in non-cash working capital	**417**	(6,285)
Net cash flows provided by (used in) operating activities	**3,063**	(2,627)
Cash flows used in investing activities		
Purchase of property and equipment	**(2,674)**	(600)
Purchase of intangible assets	**(111)**	(249)
Net cash flows used in investing activities	**(2,785)**	(849)
Cash flows provided by (used in) financing activities		
Proceeds from exercise of warrants and options	**36**	584
Payment of principal on leases	**(423)**	(439)
Payment of interest on leases	**(160)**	(75)
Payment of principal on long-term obligations	**(218)**	(202)
Payment of interest on long-term obligations	**(252)**	(19)
Proceeds from long term obligations	**2,453**	-
Decrease in bank indebtedness	**-**	(141)
Net cash flows provided by (used in) financing activities	**1,436**	(292)
Net increase (decrease) in cash and cash equivalents	**1,714**	(3,768)
Effect of foreign exchange on cash	**(960)**	(122)
Cash and cash equivalents at beginning of period	**58,518**	5,173
Cash and cash equivalents at end of period	**$ 59,272**	$ 1,527

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

1. Corporate Information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These 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, 2024.

These condensed consolidated interim financial statements do not include all disclosures required by IFRS® Accounting Standards ("Accounting Standards") 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, 2024.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 28, 2025.

(b) Basis of measurement:

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

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

(c) Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries):

Subsidiary	Domiciled
Kraken Robotic Systems Inc	Canada
Kraken Robotics Services Ltd	Canada
PGH Capital Inc	Canada
Kraken Robotics US Inc	United States of America
Kraken Robotics Brasil Ltda	Brazil
Kraken Robotics Services UK Limited	United Kingdom
Kraken Robotik GmbH	Germany
Kraken Power GmbH	Germany
Kraken Robotics Denmark ApS	Denmark

2. Basis of presentation (continued):

(d) Critical accounting estimates and judgments:

The preparation of condensed consolidated financial statements in accordance with IFRS Accounting Standards 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods. The more significant areas requiring the use of management estimates and judgments are discussed below:

i) Revenue recognition

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

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, 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.

3. Adoption of new accounting pronouncements:

(a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The Company intends to adopt these standards, amendments and interpretations when they become effective.

Classification and Measurement of Financial Instruments ("IFRS 7 and "IFRS 9")

In May 2024, the IASB issued amendments to IFRS 7 and IFRS 9, Classification and Measurement of Financial Instruments to clarify that financial liabilities are derecognized on the 'settlement date'. The amendments also provide clarification on how to assess cash flow characteristics for financial assets including environmental, social, and governance ("ESG")-linked features, and the treatment of non-recourse assets and contractually linked instruments. The amendments further require additional disclosures in IFRS 7 for equity instruments classified at fair value through other comprehensive income, and financial assets and liabilities that include contractual terms referencing a contingent event.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026 and must be applied retrospectively. The Company is currently evaluating the impact of these amendments on its consolidated financial statements and intends to adopt the amendments on the required effective date.

Lack of Exchangeability ("IAS 21")

In August 2023, the IASB issued amendments to IAS 21, Lack of Exchangeability. The amendments specify how entities are to assess whether a currency is exchangeable, and how to determine a spot exchange rate when a lack of exchangeability is present.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. The Company is currently evaluating the impact of these amendments on its consolidated financial statements and intends to adopt the amendments on the required effective date.

Presentation and Disclosure in Financial Statements ("IFRS 18")

In April 2024, the IASB issued IFRS 18. The objective of the new standard is to improve comparability and transparency of communication in financial statements. This standard introduces new requirements on presentation and disclosure within the statement of net income (loss) and requires disclosure of management-identified performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified "roles" of the primary financial statements and the notes. The standard is effective for annual periods beginning after January 1, 2027, with early adoption permitted. The Company is assessing the impact of this new standard on its consolidated financial statements and intends to adopt the new standard on the required effective date with restatement of the prior period comparatives.

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

4. Trade and other receivables:

Trade and other receivables consist of the following:

	March 31, 2025	December 31, 2024
Trade receivables (net of expected credit loss of $1,702 (2024 - $204))	**$ 14,641**	$ 17,404
Government assistance receivable and other	**1,636**	1,295
	$ 16,277	$ 18,699

5. Inventory:

Inventory consists of the following:

	March 31, 2025	December 31, 2024
Raw materials	**$ 15,601**	$ 15,430
Work in progress	**7,938**	3,628
	$ 23,539	$ 19,058

Included in the cost of sales for the three months ended March 31, 2025 is inventory of $4,264 (2024 - $7,919). Inventory write-downs consisted of $Nil (2024 - $Nil).

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

6 . Property and equipment:

(a) As at March 31, 2025 property and equipment are pledged as security of a Long-term obligation (note 12).

(b) Reconciliation of property and equipment:

	Furniture, tools and equipment	Computer equipment	Construction in progress	Leasehold improvements	Marine Equipment	Software	Total
Cost							
Balance at January 1, 2024	**$ 4,784**	**$ 1,937**	**$ 3,284**	**$ 1,908**	**$ 11,650**	**$ 1,904**	**$ 25,467**
Additions	553	384	1,018	31	1,059	12	3,057
Transfers from right-of-use asset[1]	-	-	-	-	1,183	-	1,183
Foreign Exchange	14	3	-	1	-	-	18
Balance at December 31, 2024	**$5,351**	**$2,324**	**$4,302**	**$1,940**	**$13,892**	**1,916**	**$29,725**
Additions	175	83	1,548	8	860	-	2,674
Government assistance applied	-	-	(262)	-	-	-	(262)
Disposals	(8)	-	-	-	-	-	(8)
Foreign Exchange	69	20	-	4	11	-	104
Balance at March 31, 2025	**$5,587**	**$2,427**	**$5,588**	**$1,952**	**$14,763**	**1,916**	**$32,233**
Accumulated depreciation							
Balance at January 1, 2024	**$ 1,741**	**$ 1,067**	**$ -**	**$ 1,198**	**$ 2,462**	**285**	**$ 6,753**
Depreciation	549	380		338	1,707	387	3,361
Balance at December 31, 2024	**2,290**	**1,447**	**-**	**1,536**	**4,169**	**672**	**10,114**
Depreciation	127	93	-	52	459	96	827
Balance at March 31, 2025	**$2,417**	**$1,540**	**-**	**$1,588**	**$4,628**	**$768**	**$10,941**
Carrying amounts							
At December 31, 2024	**3,061**	**877**	**4,302**	**404**	**9,723**	**1,244**	**19,611**
At March 31, 2025	**$ 3,170**	**$ 887**	**$ 5,588**	**$ 364**	**$ 10,135**	**$ 1,148**	**$ 21,292**

[1] In July 2024, the Company exercised the purchase option on leased marine equipment and transferred the asset from ROU Asset to Marine Equipment at the net book value at the date the purchase option was exercised.

(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, 2025	March 31, 2024
Product sales – transferred at a point in time	**$ 7,273**	$ -
Product sales – transferred over time	**1,889**	15,809
Service revenue - transferred over time	**6,966**	5,066
	$ 16,128	$ 20,875

Refer to note 17 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, 2025, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was $10,812 (2024 - $1,083).

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

	Contract assets
Opening balance – January 1, 2025	**$ 17,707**
Increase in unbilled from revenue recognized	**3,491**
Decrease in unbilled from transfer to trade receivables and other adjustments	**(3,268)**
Ending Balance – March 31, 2025	**$ 17,930**

	Contract liabilities
Opening balance – January 1, 2025	**$ 1,083**
Increase in contract liabilities from payments received, excluding revenue recognized	**11,334**
Decreases in contract liabilities from revenue recognized	**(1,517)**
Ending Balance – March 31, 2025	**$ 10,900**

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

8. Earnings per common share:

	March 31, 2025	March 31, 2024
Net income (loss)	**$ 215**	$ 1,207
Weighted average number of common shares	**262,769,338**	206,953,644
Dilutive securities:		
Effect of share options	**6,649,995**	3,362,724
Weighted average number of diluted common shares	**269,419,333**	210,316,368
Basic earnings per share	**$ 0.00**	$ 0.01
Diluted earnings per share	**$ 0.00**	$ 0.01

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, 2025	**December 31, 2024**
Cash and cash equivalents	**$ 59,272**	$ 58,518
Trade and other receivables	**16,277**	18,699
Investment tax credits recoverable	**1,167**	1,018
Long-term investment tax credits recoverable	**1,690**	1,571
Contract assets	**17,930**	17,707
	$ 96,336	$ 97,513

Credit risk is defined as the Company's exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. The Company is exposed to credit risk on accounts receivable and certain other assets through normal commercial activities. The Company is also exposed to credit risk through the normal treasury activities on cash and cash equivalents. Credit risks arising from normal commercial activities are managed with regards to customer credit risk. The Company's customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, the Company frequently receives substantial advance payments for contracts with customers. The Company does not hold any collateral as security. The credit risk on cash and cash equivalents 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 a provision for expected credit losses. As of March 31, 2025, the amount is $1,702 (2024 - $204).

Revenues from the top three customers represented 70% of the Company's revenue in the period ended March 31, 2025 (2024 – top three customers represented 76% of revenue). At March 31, 2025, 79% of the trade receivables balance were owing from two customers (2024 – 72% of trade receivables was owing from two customers). At March 31, 2025, the Company had recorded contract liabilities of $10,812 (2024 – $1,083).

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

9. Financial instruments (continued):

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. As of March 31, 2025, the Company had a cash balance of $59,272 (December 31, 2024 - $58,518). 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.

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
Trade and other payables	**13,632**	**-**	**-**	**-**
Long-term obligations	**592**	**218**	**15,734**	**1,485**
Current tax payable	**1,930**	**-**	**-**	**-**
Lease liabilities	**1,580**	**1,283**	**1,991**	**8,338**
	17,734	**1,501**	**17,725**	**9,823**

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, 2025, the Company has drawn $nil against its operating lines of credit. An increase (decrease) of 10% in interest would have (decreased) increased the Company's net income by approximately $nil. The Company has also drawn $14,684 against the term revolving credit facility, which bears interest at bank prime plus margin, payable monthly. An increase (decrease) of 1,000 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $95. The Company has drawn $453 against the revolving capital expenditure facility. An increase (decrease of 1,000 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $1.

(b) Foreign currency risk

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

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

9. Financial instruments (continued):

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

	March 31, 2025	December 31, 2024
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	**$ 1,065**	$ 2,473
Trade and other payables GBP	**509**	920
Trade and other payables EUR	**2,848**	3,268
Trade and other payables DKK	**143**	129
Trade and other payables BRL	**452**	382
Long-term debt EUR	**288**	503
Bank indebtedness EUR		-
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	**6,229**	5,944
Trade and other receivables GBP	**3,754**	427
Trade and other receivables EUR	**115**	336
Trade and other receivables DKK	**4**	4
Trade and other receivables BRL	**139**	373

For the period ended March 31, 2025, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have (decreased) increased the Company's net income by approximately $864 (2024 - increased (decreased) net loss by approximately $107).

Fair Value:

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

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

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

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

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

The fair values of the long-term obligations is $17,340 and the valuation uses level 2 inputs using a discounted cash flow valuation technique.

11. Credit facilities

As at March 31, 2025, Kraken Power GmbH has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at March 31, 2025 a total of $nil (December 31, 2024 - $nil) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.

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

12. Long-term obligations:

The term facility consists of (i) a revolving 3-year term facility of up to $35 million (subject to meeting certain borrowing base requirements based on eligible receivables and inventory) (the "Revolver"); (ii) a $10 million revolving capital expenditure line of credit; (iii) a $10 million uncommitted letter of credit facility; and (iv) an uncommitted accordion facility of up to $30 million (the "Accordion").

Revolving credit facility of up to $35 million, which is subject to borrowing base requirements. Interest is payable monthly at Bank Prime plus a margin (between 1.00% and 1.75% based on the Company's total leverage ratio) with repayments and reborrow advances on a revolving basis. The facility is secured substantially by the Company's assets and are guaranteed by its material subsidiaries. Financial covenants include the following: (i) a total leverage ratio not greater than 3.00 to 1; and (ii) a fixed charge coverage ratio at greater than or equal to 1.15 to 1. As at March 31, 2025 there have been no breaches of financial covenants, and the Company expects to be compliant over the next 12 months.

	March 31, 2025	December 31, 2024
Loan, bearing interest at 1.4956%, in the amount of €89, repayable in equal installments of €1 over 72 months, and maturing on December 31, 2026.	**$ 40**	$ 44
Loan, bearing interest at 1.23%, repayable in equal installments over 67 months plus interest, and maturing on September 30, 2026.	**407**	459
Promissory Note on acquisition of Marine equipment, in amount of $1,145 bearing interest at 6% per annum, repayable in equal monthly instalments over 24 months, and maturing on December 21, 2025.	**446**	590
Term revolving credit facility of up to $35,000, bearing interest at bank prime plus margin, interest payable monthly, and maturing on April 18, 2027.	**14,684**	14,684
Atlantic Canada Opportunities Agency ("ACOA") loan, non-interest bearing, repayable in monthly installments of $28, payments beginning in December 2026, and maturing in November 2035. As of March 31, 2025, $2,000 has been drawn on this facility.	**1,310**	-
Bank of Nova Scotia CapEx facility advance, bearing interest at prime + 1%, interest only payable monthly.	**453**	-
	17,340	15,777
Less current portion of long-term obligations	**(592)**	(754)
	$16,748	$ 15,023

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

12. Long-term obligations (continued):

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

Opening balance – January 1, 2025	$ 15,777
Proceeds from debt	2,453
Fair value adjustment	(691)
Payment of principle	(218)
Foreign Exchange	19
Ending Balance – March 31, 2025	$ 17,340

13. Leases:

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended March 31, 2025 and comparatives for March 31, 2024:

	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2024	$ 4,234	$ 4,636
Depreciation expense	(270)	-
Interest expense	-	75
Payments	-	(514)
Additions	-	-
Disposals	-	-
Foreign exchange	3	3
Subtotal	3,967	4,200
Less: current portion	-	(1,622)
As at March 31, 2024	$ 3,967	$ 2,578
	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2025	$ 3,107	$3,560
Depreciation expense	(367)	-
Interest expense	-	160
Payments	-	(583)
Additions	9,991	9,991
Disposals	-	-
Foreign Exchange	53	64
Subtotal	12,784	13,192
Less: current portion	-	(1,580)
As at March 31, 2025	$ 12,784	$ 11,612

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

14. Share capital:

Authorized: Unlimited number of common shares

See the condensed consolidated statements of changes in shareholders' equity for a summary of changes in Share capital and Contributed surplus for the period ended March 31, 2025 and the year ended December 31, 2024.

(a) Share purchase warrants

At March 31, 2025 and December 31, 2024, there were no share purchase warrants outstanding.

(b) Share options

The Company has a stock 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, 2025 and December 31, 2024:

	Three-months ended March 31, 2025		**Twelve-months ended December 31, 2024**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	**10,901,250**	**0.82**	7,807,500	$ 0.46
Granted	**-**	**-**	6,040,000	1.14
Exercised	**(90,000)**	**0.40**	(2,683,750)	0.52
Forfeiture	**(130,000)**	**0.97**	(262,500)	0.74
Ending balance	**10,681,250**	**0.82**	10,901,250	$ 0.82
Options exercisable	**3,507,084**	**0.43**	3,553,334	$ 0.43

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.39	May 3, 2027	3,816,250	2,692,500	2.09 years
0.37	September 6, 2027	50,000	16,667	2.44 years
0.59	December 7, 2027	400,000	400,000	2.69 years
0.63	January 30, 2028	75,000	56,250	2.84 years
0.58	February 27, 2028	100,000	75,000	2.91 years
0.50	November 17, 2028	400,000	266,667	3.64 years
1.14	July 9, 2031	5,840,000	-	6.28 years
$ 0.82		**10,681,250**	**3,507,084**	**3.27 years**

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

15. Government assistance:

During the three-months ended March 31, 2025, the Company received government assistance in the amount of $739 (2024 - $347) representing the difference between the fair value and the cash proceeds from the ACOA loan. Government assistance for the three-months ended March 31, 2025 has been classified as a reduction to Research and development expense of $5 (2024 - $2),Administrative expense of $43 (2024 - $80), and Construction in progress of $262 (2024 - $265). $429 of government assistance relating to the ACOA loan has been deferred and recorded within current liabilities and will be recognized as a reduction to Property and equipment when the related capital expenditures have occurred.

The Company receives refundable and non-refundable investment tax credits (ITCs) from the Government of Canada in respect of eligible expenditures incurred under various research and development and capital investments. During the year ended December 31, 2024, the Company recognized $149 (2024 - $149) of refundable ITCs and $127 (2024 - $nil) of non-refundable ITCs.

16. Financing costs:

	March 31, 2025	March 31, 2024
Interest on lease liabilities	**$ 160**	$ 75
Letters of credit and interest expense	**266**	313
Amortization of credit facility transaction costs	**275**	-
	$ 701	$ 388

17. Segmented information:

The Company operates in two new reportable operating segments, being: 1) “Products” which is the design, manufacture and sale of equipment including underwater vehicle platforms, Synthetic Aperture Sonar and subsea power equipment; 2) “Services” which is the provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms.

The following tables present the operations of the Company’s reportable segments as at and for the three months ended March 31, 2025 and March 31, 2024:

March 31, 2025	**Products**	**Services**	**Consolidated**
Revenue	**$ 9,162**	**$ 6,966**	**$ 16,128**
Cost of goods sold, expenses and gain/losses	**$ 10,335**	**$ 5,204**	**$ 15,539**
Segment income	**$ (1,173)**	**$ 1,762**	**$ 589**
Segment capital expenditures	**$ 2,304**	**$ 370**	**$ 2,674**

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

17. Segmented information (continued):

March 31, 2024	Products	Services	Consolidated
Revenue	$ 15,809	$ 5,066	$ 20,875
Cost of goods sold, expenses and gain/losses	$ 15,030	$ 3,614	$ 18,644
Segment loss	$ 779	$ 1,452	$ 2,231
Segment capital expenditures	$ 591	$ 9	$ 600

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, 2025	**Three months ended March 31, 2024**
Total revenues:		
Asia Pacific	**$ 5,408**	$ 1,657
Europe, Middle East and Africa	**6,136**	5,049
North America	**4,584**	14,169
	$ 16,128	$ 20,875

18. Change in non-cash working capital:

	March 31, 2025	March 31, 2024
Decrease (increase) in trade and other receivables	**$ 2,422**	$ (359)
Decrease in contract assets	**(223)**	(311)
Increase in inventory	**(4,481)**	(258)
Increase in prepayments	**(1,991)**	(410)
Decrease in trade and other payables	**(5,127)**	(816)
Increase in deferred government grants	**429**	-
(Decrease) increase in contract liabilities	**9,388**	(4,131)
	$ 417	$ (6,285)

19. Commitments:

(a) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at March 31, 2025, is $45.

20. Subsequent events:

Subsequent to March 31, 2025, the Company:

(a) On April 1, 2025, the Company acquired 100% of the shares of 3D at Depth Inc. (3D at Depth), for US$17,000 in cash (consisting of US$12,000 cash on hand and US$5,000 term loan) subject to adjustment for, among other things, any debt indirectly assumed or paid out on closing and to customary working capital adjustments. The acquisition of 3D at Depth builds upon Kraken's expertise in subsea optical systems, developed through our SeaVision product line, and significantly expands our subsea service offering.

The Company will report the acquired business as part of its Services segment and will be accounted for as a business combination using the acquisition method. The Company is currently in the process of determining the initial purchase accounting for this transaction.

(b) The Company has been approved for an innovation rebate from the province of Nova Scotia to a maximum of $2,382 for eligible equipment and facility costs.