



**KRAKEN SONAR INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

This Management Discussion and Analysis ("MD&A") of Kraken Sonar Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the year ended December 31, 2016 and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2016, which are available on SEDAR at www.sedar.com. This MD&A is current as at May 2, 2017, the date of preparation.

The December 31, 2016 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. All amounts are expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

NATURE OF BUSINESS

Kraken Sonar Inc. (formerly Anergy Capital Inc.) was incorporated on May 14, 2008 under the *Business Corporations Act, British Columbia*) and has its registered office at Suite 700, 595 Burrard Street, PO Box 49290, Vancouver, BC V7X 1S8.

On February 18, 2015, Kraken Sonar Systems Inc. and Anergy Capital Inc. ("Anergy"), a company classified as a Capital Pool Company ("CPC") as defined under Policy 2.4 of the TSX Venture Exchange (the "Exchange"), completed a reverse take-over transaction ("RTO" or "Transaction") through the closing of a Share Exchange Agreement (the "SEA") dated November 20, 2014, as amended January 29, 2015. Under the terms of the SEA, Anergy issued 51,500,000 post-consolidated (2.25:1) common shares in exchange for the same number of common shares of Kraken Sonar Systems Inc. In addition, at the time of the RTO the lenders of a \$2,109,500 bridge loan to Kraken Sonar Systems Inc. converted the indebtedness into 14,063,326 common shares in the Company. The lenders also received warrants convertible into the same number of shares. After the RTO, Anergy changed its name to Kraken Sonar Inc. and the Company was continued under the *Canada Business Corporations Act* ("CBCA").

For accounting purposes the transaction constitutes a reverse acquisition, as the shareholders of Kraken Sonar Systems Inc. acquired control of the consolidated entity. Kraken Sonar Systems Inc. is considered the acquiring and continuing entity, and Anergy was the acquired entity.

The Company's principal business is the design, manufacture and sale of underwater sonar and acoustic sensor equipment.

At December 31, 2016, the Company had not yet achieved profitable operations, had experienced significant losses and negative cash flows from operations since inception, and has a deficit of \$4,962,008 as of December 31, 2016. It may incur further losses in the development of its business. The continued operations of the Company are dependent on continued support from its directors, its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and upon securing additional financing. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

Company Overview

On October 3, 2014, Kraken Sonar Systems Inc. completed a consolidation of its issued and outstanding common shares on 6.19:1 basis, reducing the issued and outstanding common shares to 40,416,667 from 250,000,000.

The Company entered into a Share Exchange Agreement on November 20, 2014 with Anergy, a publicly listed British Columbia corporation, and the shareholders of the Company. The Transaction was completed on February 18, 2015 when Anergy acquired all of the issued and outstanding shares of Kraken Sonar Systems Inc.

Immediately prior to closing of the Transaction, Anergy completed a consolidation of its issued and outstanding common shares on a 2.25 to 1 basis, continued to the federal jurisdiction of Canada and changed its name to "Kraken Sonar Inc."

In addition, Anergy completed a pre-closing non-brokered private placement of 4,000,000 units priced at \$0.05 per unit for gross proceeds of \$200,000. Each unit was comprised of one common share of Anergy and one fourth of one Warrant A warrant and one fourth of one Warrant B warrant. On a post-consolidation basis, there were 444,444 Warrant A share purchase warrants outstanding which entitled the holders thereof to acquire one common share at a purchase price \$0.15 until October 14, 2016. During the year ended December 31, 2016, 58,333 (2015 – 111,111) warrants were exercised for proceeds of \$8,750 (2014 - \$16,666). On October 14, 2016, the remaining 275,000 warrants expired unexercised. A further 444,444 Warrant B purchase warrants, post-consolidation, priced at \$0.40 until October 14, 2016, expired unexercised.

Pursuant to the Transaction, Anergy issued a total of 65,563,326 post-consolidation common shares to the holders of common shares of the Company, inclusive of 14,063,326 common shares issued to bridge loan holders of Kraken Sonar Systems Inc. who converted an aggregate of \$2,104,976 into common shares of the Company at \$0.15 per share pursuant to irrevocable conversion agreements executed immediately prior to completion of the Transaction. The lenders also received share purchase warrants convertible into the same number of shares. In addition, Anergy issued 1,500,000 post-consolidation common shares as a finder's fee. After closing of the Transaction, the Company had an aggregate 70,957,103 common shares issued and outstanding.

For accounting purposes the transaction constitutes a reverse acquisition, as the shareholders of Kraken Sonar Systems Inc. acquired control of the consolidated entity. Kraken Sonar Systems Inc. is considered the acquiring and continuing entity, and Anergy was the acquired entity. The consolidated financial statements are in the name of Kraken Sonar Inc. (formerly Anergy); however, these are a continuation of the financial statements of Kraken Sonar Systems Inc. The results of operations of Anergy are included in the consolidated financial statements of Kraken from the date of the reverse acquisition on February 18, 2015.

The business of Kraken Sonar Systems Inc. became the business of the Company, and it is classified as a Tier 2 Technology Issuer on the Exchange with its common shares now traded under the symbol "PNG".

RESULTS OF OPERATIONS

Selected Annual Information

	Year Ended December 31, 2016 (\$)	Year Ended December 31, 2015 (\$)	Year Ended December 31, 2014 (\$)
Statement of Comprehensive Loss			
Total Revenues	2,267,818	1,893,299	2,353,982
Cost of Sales	976,408	960,542	1,138,540
Loss from operating activities	(1,408,876)	(1,784,625)	(848,958)
Net loss and comprehensive loss	(1,420,175)	(1,992,410)	(1,310,240)
Basic and diluted loss per share	(0.02)	(0.03)	(0.03)

**Note: the comparative information provided above is that of Kraken Sonar Systems Inc.*

	Year Ended December 31, 2016 (\$)	Year Ended December 31, 2015 (\$)	Year Ended December 31, 2014 (\$)
Statement of Financial Position			
Total Assets	2,188,578	2,042,676	2,943,303
Total Current Assets	1,771,898	1,857,733	2,813,957
Total Current Liabilities	1,416,353	1,074,373	3,050,759
Total Liabilities	1,416,353	1,074,373	3,050,759
Total Shareholders' Equity (Deficiency)	772,225	968,303	(107,456)

**Note: the comparative information provided above is that of Kraken Sonar Systems Inc.*

The Company incurred a loss of \$1,420,175 for the year ended December 31, 2016, as compared with a loss of \$1,992,410 for the year ended December 31, 2015. In 2015, the Company recorded aggregate costs of \$751,695 in relation to its Transaction, comprised of a listing expense of \$526,695 and transaction costs of \$225,000. Share-based payments of \$143,500 (2015 - \$131,000) were recorded upon the grant of incentive stock options pursuant to the Company's incentive stock option plan. During fiscal 2016, the Company continued to ramp-up its business activities. Administrative expenses were consistent with those of the prior year at \$1,262,464 (2015 - \$1,274,686); however, employee costs rose by approximately 65%, increasing to \$1,294,322 (2015 - \$785,001).

No cash dividends have been declared or paid since the date of incorporation and the Company has no present intention of paying dividends on its common shares. The Company anticipates that all available funds will be used to finance the growth of its business.

Summary of Quarterly Information

Selected financial information for each of the eight most recently completed quarters are as follows:

	Revenue (\$)	Operating expenses (\$)	Share-based payments (\$)	Net income (loss) (\$)	Basic and diluted income (loss) per share (\$)
Q4 2016	146,644	747,462	35,000	(846,552)	(0.01)
Q3 2016	944,941	682,622	5,900	19,234	0.00
Q2 2016	465,543	654,501	32,500	(475,261)	(0.01)
Q1 2016	710,690	615,701	70,100	(117,596)	(0.00)
Q4 2015	297,147	661,201	42,300	(426,777)	(0.01)
Q3 2015	493,558	700,440	7,100	(393,932)	(0.01)
Q2 2015	426,588	425,260	2,500	(333,215)	(0.00)
Q1 2015	676,006	930,481	79,100	(838,486)	(0.01)

**Note: the comparative information provided above is that of Kraken Sonar Systems Inc.*

Three Months Ended December 31, 2016

The Company recorded revenues of \$124,144 (2015 - \$297,147) from product sales, marking an decrease of \$173,003 over the same period of the prior fiscal year. Contract research revenue totaled \$22,500 (2015 - \$Nil). At the end of the quarter, the Company had recorded deferred revenues of \$Nil (2015 - \$201,864). Cost of sales was substantially higher than that of the prior year at \$262,510 (2015 - \$139,785), or approximately 188% of the costs incurred in fiscal 2015. The Company realized negative gross profit of \$115,866 (2015 - gross profit of \$157,362) after an adjustment of \$221,591 was made reducing unbilled revenues on a contract in progress. Gross margin for the quarter was recorded as negative 79%, as compared to 74%, 39% and 74% in the first, second and third quarters, respectively. The Company recorded a net loss of \$846,552 for the three months ended December 31, 2016, as compared to a net loss of \$426,777 for the same period of prior fiscal year.

Administrative expenses decreased by \$188,749 to \$315,321 (2015 - \$504,070) in 2016. This amount included travel related costs of \$48,232 (2015 - \$59,103), rent of \$33,579 (2015 - \$13,500), transfer agency services fees of \$27,990 (2015 - \$32,899). Accounting and legal costs incurred totaled \$73,397. During the same period of the prior fiscal year, the Company

incurred aggregate legal and accounting expense of \$87,022. During the quarter the Company realized a foreign exchange gain of \$16,776 (2015 - \$77,062) and recorded bad debt expense of \$Nil (2015 - \$106,187).

Employee costs for the three months ended December 31, 2016 totaled \$397,141 (2015 – \$114,831), reflecting the high degree of corporate growth. Government assistance, offset against employee costs, totaled \$209,875 (2015 -\$310,536) during the quarter.

Share-based compensation of \$35,000 was recorded, representing the fair value of the options that vested during the three months ended December 31, 2016. During the same period of the prior fiscal year, the Company recorded stock-based compensation of \$42,300.

Twelve Months Ended December 31, 2016

The Company recorded revenues of \$2,267,818 (2015 - \$1,893,299) from product sales and contract research activities, marking an increase of \$374,519 from the prior fiscal year. At year end, deferred revenues totaled \$Nil (2015 - \$201,864). The cost of sales increased modestly by \$15,866, from \$960,542 in the prior year to \$976,408 during fiscal 2016, and represents approximately 43% of the Company's gross sales. This marks a cost decrease of approximately 8% over the prior fiscal year. Gross profit was \$1,291,410 (2015 - \$932,757), marking an increase of \$358,653 over the prior year. Further, gross margin as a percentage of sales rose by 8%.

The Company recorded a net loss of \$1,420,175 for the year ended December 31, 2016, as compared to a net loss of \$1,992,410 for the prior fiscal year. The 2015 loss included non-recurring costs aggregating \$751,695 which was recorded in connection with the Anergy RTO, comprising listing expenses of \$526,695 and transaction costs of \$225,000.

Administrative expenses incurred during the period totaled \$1,262,464 (2015 - \$1,274,686), marking a decrease of \$12,222. This amount included accounting and legal costs of \$172,278 (2015 - \$259,829), rent of \$143,664 (2015 - \$54,000), travel related costs of \$293,622 (2015 - \$227,695), transfer agency services fees of \$153,048 (2015 - \$78,208) and advertising and promotion of \$25,395 (2015 - \$38,917), most of which are higher due to corporate expansion during 2016. During the year, the Company realized a foreign exchange loss of \$5,599 (2015 – gain of \$77,062) and wrote-off \$Nil (2014 - \$132,426) as bad debt. During the prior year, the Company recorded interest payable of \$59,847 on convertible debt – there was no similar cost recorded in fiscal 2016 as the debt was extinguished upon the completion of the Transaction and conversion into equity.

Employee costs increased by \$509,321 during fiscal 2016, from \$785,001 in 2015, to \$1,294,322 - reflecting a ramp-up in staffing levels to facilitate current and planned corporate growth. Government assistance, offset against employee costs, totaled \$894,568 (2015 -\$698,370).

Share-based compensation of \$143,500 (2015 - \$131,000) was recorded as a result of the grant of incentive stock options pursuant to the Company's stock option plan, and represents the fair value of the options that vested during fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2016, the Company had working capital of \$355,545 (2014 – \$783,360). Cash and cash equivalents as at December 31, 2016 was \$85,650, as compared with \$771,940 at December 31, 2015.

During 2016, the Company received proceeds of \$1,073,930 from a private placement issuance of 7,159,534 Units at a price of \$0.15 per Unit. Each Unit consisted of one common share and one-half of one common share purchase warrant, each whole warrant exercisable at \$0.30 per share for a period of up to 24 months from the date of issuance. Cash finder's fees of \$18,375 were paid in connection with the placement.

During the year ended December 31, 2016, the Company received proceeds of \$8,750 (2015 - \$16,666) upon the exercise of 58,333 share purchase warrants. In addition, loans receivable from a director in the amount of \$194,317 were repaid on April 26, 2016.

Further, the Company entered into a debt settlement agreement with an arms' length creditor, issuing 233,333 common shares from treasury at a deemed price of \$0.15 per share and 116,666 share purchase warrants exercisable at \$0.30 for a period of 24 months to settle debt of \$35,000, thus preserving some of its cash.

During the year ended December 31, 2016, the Company experienced cash outflows of \$1,631,233 (2015 – \$214,780) from operating activities. Investing activities used cash of \$289,361 (2015 – \$32,032), of which \$131,951 was used for the

purchase of property and equipment and \$157,410 was invested in a private robotics firm. In the prior year, \$61,382 was received upon completion of the RTO, which represented Anergy's cash balance. Financing activities realized inflows of \$1,234,214 (2015 – outflows of \$324,415) and included proceeds of \$1,073,930 from a non-brokered private placement, \$8,750 received upon warrant exercises and repayment of directors loans of \$194,317.

Overall, cash decreased by \$686,380, as compared to a decrease of \$571,227 during the prior year.

Subsequent to December 31, 2016, the Company disposed of its investment in the private robotics firm, a non-core asset, for consideration of US\$700,000, half of which was advanced on February 28, 2017 with the balance in the form of a note receivable due no later than June 27, 2017. In addition, the Company completed a non-brokered private placement of 11,806,660 units at a price of \$0.18 to raise gross proceeds of \$2,125,199 and received proceeds of \$55,000 upon the exercise of 366,666 share purchase warrants. Further, non-refundable financial contributions of up to \$2,215,950 were awarded by governmental agencies and will be used to support the development of the Company's underwater robotics program. As at April 30, 2017, the Company's cash position was \$1.3 million and it had repaid the bank indebtedness of \$150,000 outstanding at December 31, 2016.

In management's opinion, the Company has sufficient working capital at this time to meet its current financial obligations and administration costs required to operate the Company. The Company's continuance as a going concern in the future will depend upon its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and obtain adequate financing if necessary.

RISKS AND UNCERTAINTIES

The Company is a relatively new company with limited operating history and, in addition to facing all of the competitive risks in the underwater sonar and acoustic sensor sector it will face all the risks inherent in developing a business including: access to capital, ability to attract and retain qualified employees, ability to attract and maintain customers and the ability to put in place appropriate operating and control procedures routines.

Industry specific risks include, but are not limited to:

- *Competitive risk* – the sonar industry in which the Company operates is highly competitive. The competitors of the Company range from small single product companies to diversified corporations in the military, sonar and marine imaging industry. Some of the competitors of the Company may have more extensive or more specialized engineering, manufacturing, and marketing capabilities;
- *Technology risk* – The future success of the Company will depend on its ability to develop new technologies that achieve market acceptance. The sonar market is characterized by rapidly-changing technologies and evolving industry standards;
- *Protection of Intellectual Property*: The Company may be unable to adequately protect its intellectual property rights, which could affect its ability to compete. Protecting the Company's intellectual property rights is critical to its ability to compete and succeed as a company. The Company currently has trademark registrations and relies on a combination of copyright, trademark, and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information. However, all of these measures afford only limited protection;
- *Outside suppliers*: The Company's operations depend on component availability and the manufacture and delivery by key suppliers of certain products and services. Further, the Company's operations are dependent on the timely delivery of materials by outside suppliers. The Company cannot be sure that materials, components, and subsystems will be available in the quantities required, if at all;
- *Government contracts*: The Company will depend, in part, on government contracts, which may only be partially funded, subject to termination, heavily regulated, and audited. The termination of one or more of these contracts could have a negative impact on the operations of the Company; and
- *Competitive bidding*: The Company will derive significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively.

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described above and the other information filed with the Canadian securities regulators before investing in the Company's common shares. The risks described above are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of these risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose all of their investment.

RELATED PARTY TRANSACTIONS

At December 31, 2016, the Company had \$Nil (December 31, 2015 - \$194,317) loans receivable from a director of the Company, as this loan was repaid on April 26, 2016. The loan, bearing interest at 5% per annum, was unsecured and payable in whole or in part at any time without penalty or premium.

During fiscal 2016, the Company expensed \$9,500 (2015 - \$Nil) in costs for a condominium unit that it rents from an individual related to a member of its management team.

Compensation of key management personnel during fiscal 2016 totaled \$514,294 (2015 - \$486,086) comprised of: share-based payments of \$98,900 (2015 - \$102,359); salaries of \$403,750 (2015 - \$250,001); and, short-term benefits of \$11,644 (2015 - \$133,726).

As at December 31, 2016 an amount of \$60,608 (2015 - \$60,608) was receivable from key management personnel for share subscriptions.

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 (deficiency) and advances from directors. 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2016, the Company's risk exposures and the impact of the Company's financial instruments are summarized below:

Credit Risk:

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 85,650	\$ 771,940
Trade and other receivables	550,696	376,571
Share subscriptions receivable	76,833	76,833
Loans receivable from a director	-	194,317
	\$ 713,179	\$ 1,419,661

The Company manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

The share subscriptions receivable are related to the exercise price of stock options exercised by employees during the year ended December 31, 2014.

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 December 31, 2016 the Company had a cash and cash equivalents balance of \$85,650 (December 31, 2015 - \$771,940), to settle current liabilities of \$1,416,353 (December 31, 2015 - \$1,074,373). At December 31, 2016, cash and cash equivalents included \$Nil (December 31, 2015 - \$118,728), which was restricted and held as a demand deposit.

Market Risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

At December 31, 2016, the Company has cash balances of \$85,650. Included in trade and other payables is an amount of \$150,000 (2015 - \$Nil) owing on the Company's operating line of credit. The Company is not currently exposed to any significant interest rate risk.

(b) Foreign currency risk

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

Fair Value:

During the year ended December 31, 2016, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy:

December 31, 2016	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 85,650	\$ -	\$ -
Trade and other receivables	-	550,696	-
Share subscriptions receivable	-	76,833	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	150,000	-
Trade and other payables	-	1,266,353	-

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of December 31, 2016 and as at the date of this MD&A.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

All of the Company's significant accounting policies and estimates are included in Note 4 of its audited consolidated financial statements for the year ended December 31, 2016.

SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company:

- (a) was awarded a non-refundable financial contribution, which will be used to support development of the Company's underwater robotics program, of up to \$1,470,000 from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP);
- (b) completed a non-brokered private placement of 11,806,660 units at a price of \$0.18 raising gross proceeds of \$2,125,199. Each unit consists of one common share and one half of one common share purchase warrant. Each full warrant is exercisable at a price of \$0.30 for a period of two years. The Company paid cash finder's fees of \$12,600 and issued 191,333 finder's warrants exercisable at a price of \$0.18 per warrant share for a period of two years in connection with the placement;
- (c) disposed of its investment in Square Robot Inc., a non-core asset, for consideration of US\$700,000, half of which was received on February 28, 2017 with the balance in the form of a note receivable due no later than June 27, 2017;
- (d) issued 366,666 common shares upon the exercise of share purchase warrants for proceeds of \$55,000;
- (e) entered into an investor relations advisory agreement with at a monthly cost of \$5,000; and,
- (f) granted 250,000 incentive stock options to a consultant at an exercise price of \$0.17 for a period of three years and recorded the expiry of 200,000 incentive stock options priced at \$0.25.

FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

FUTURE ACCOUNTING PRONOUNCEMENTS

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective and have not been applied in preparing these consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers:

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimated and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on 1 January 2017. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, Financial Instruments:

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instruments: Disclosures. The Objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to the combined financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

IFRS 16, Leases:

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting

model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

Amendments to IAS 7, Statement of Cash Flows:

In January 2016, the IAS issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. These amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 12, Income Taxes:

In January 2016, the IASB issued amendments to IAS 12, Income Taxes. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IFRS 2, Share-based Payments:

In June 2016, the IASB issued amendment to IFRS 2, Shares-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

OUTSTANDING SHARE DATA AS AT MAY 2, 2017:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	90,692,740

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	1,510,000	1,510,000	0.25	March 17, 2018
Options	250,000	250,000	0.20	May 13, 2018
Options	100,000	100,000	0.21	July 1, 2018
Options	600,000	200,000	0.15	October 12, 2019
Options	300,000	100,000	0.15	December 1, 2019
Options	2,000,000	500,000	0.21	June 1, 2020
Options	250,000	83,333	0.17	March 8, 2020
	5,010,000	2,743,333		

(c) Summary of warrants outstanding:

Security	Number	Exercise Price	Expiry Date
Warrants	14,063,326	0.15	February 18, 2018
Warrants	3,579,767	0.30	August 12, 2018
Warrants	116,666	0.30	August 22, 2018
Warrants	5,903,330	0.30	April 11, 2019
	23,663,089		

- (d) Summary of escrowed shares: At the date of this report, there are a total of 15,294,215 common shares subject to escrow restrictions. The escrow shares will be released in tranches every six months until February 18, 2018.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS accounting principles.

TSX Venture-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP.

OTHER INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.krakensonar.com.