



Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

(Unaudited)

Q3 Fiscal 2020



September 30, 2020

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,853,555	\$ 2,097,199
Trade and other receivables (note 3)	2,372,933	5,083,740
Inventory (note 4)	6,712,709	5,886,256
Prepayments (note 5)	488,585	431,462
	11,427,782	13,498,657
Property and equipment (note 6)	3,787,338	3,161,924
Intangible assets	935,037	1,082,945
Goodwill	372,312	347,350
TOTAL ASSETS	\$ 16,522,469	\$ 18,090,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 10)	302,416	-
Trade and other payable	3,595,010	3,620,443
Contract liability (note 7)	486,810	2,445,223
Current tax payable	5,138	4,882
Current portion of long term obligations	21,907	-
Current portion of lease liabilities (note 8)	233,409	191,630
	4,644,690	6,262,178
Long-term obligations (note 11)	572,910	392,374
Lease liabilities (note 8)	1,465,069	1,347,006
Deferred taxes	391,201	426,000
Shareholders' equity:		
Share capital (note 12)	23,658,117	22,594,846
Contributed surplus	2,696,232	2,220,924
Accumulated other comprehensive loss	(112,046)	(363,031)
Deficit	(16,793,704)	(14,789,421)
	9,448,599	9,663,318
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 16,522,469	\$ 18,090,876

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 condensed consolidated financial statements.



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

	Three months ended		Nine months ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
Product Revenue	\$ 1,501,400	\$7,745,897	\$ 8,673,428	\$ 9,943,418
Service Revenue	44,063	76,555	1,544,639	585,914
	1,545,463	7,822,452	10,218,067	10,529,332
Cost of sales (note 4)	741,777	4,707,193	5,353,778	6,196,658
	803,686	3,115,259	4,864,289	4,332,674
Administrative expenses	2,006,167	1,464,357	4,824,911	3,647,545
Research and development costs	527,781	662,526	771,786	1,661,947
Depreciation and Amortization	262,202	458,144	771,249	1,424,954
Share-based compensation (note 12(d))	412,319	999,469	868,097	1,082,469
Investment tax credits recoverable	-	-	(650,138)	(338,219)
	3,208,469	3,584,496	6,585,905	7,478,696
Loss from operating activities	(2,404,783)	(469,237)	(1,721,616)	(3,146,022)
Foreign exchange (gain)loss	139,771	(34,634)	123,619	47,133
Financing costs	106,187	46,868	206,293	139,680
Loss (gain) on disposal of assets	19,360	(576,713)	19,360	(576,713)
Net income (loss) before taxes	\$ (2,670,101)	\$ 95,242	\$ (2,070,888)	\$ (2,756,122)
Income tax – Deferred	66,605	-	66,605	-
Net income (loss)	\$ (2,603,496)	\$ 95,242	\$ (2,004,283)	\$ (2,756,122)
Net income (loss) attributed to:				
Shareholders of Kraken Robotics Inc.	(2,603,496)	(223,739)	\$ (2,004,283)	\$ (2,750,726)
Non-controlling interests	-	318,981	-	(5,396)
	\$ (2,603,496)	\$ 95,242	\$ (2,004,283)	\$ (2,756,122)
Basic and diluted (loss) income per share	\$(0.02)	\$0.00	\$ (0.01)	\$ (0.02)
Basic and diluted weighted average number of shares outstanding	149,690,139	146,017,780	148,355,045	146,019,262

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



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

	Three months ended		Nine months ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
Income (Loss) for the period	\$ (2,603,496)	\$ 95,242	\$ (2,004,283)	\$ (2,756,122)
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Currency translation adjustment	10,269	222,011	250,985	265,982
Other comprehensive income for the period	10,269	222,011	250,985	265,982
Comprehensive income (loss) for the period	\$ (2,593,227)	\$ 317,253	\$ (1,753,298)	\$ (2,490,140)
Comprehensive income (loss) attributed to:				
Shareholders of Kraken Robotics Inc.	\$ (2,593,227)	\$ (57,230)	\$ (1,753,298)	\$ (2,551,239)
Non-controlling interests	-	374,483	-	61,099
Comprehensive income (loss) for the period	\$ (2,593,227)	\$ 317,253	\$ (1,753,298)	\$ (2,490,140)



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

2020	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Non-Controlling Interest	Deficit	Total
Balance at January 1, 2020	147,177,186	\$ 22,594,846	\$ 2,220,924	\$ (363,031)	- \$	(14,789,421)	9,663,318
Net (loss)	-	-	-	-	-	(2,004,283)	(2,004,283)
Other comprehensive income				250,985	-		250,985
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on stock option exercises	3,231,667	1,063,271	(392,789)	-	-	-	670,482
Share-based compensation	-	-	868,097	-	-	-	868,097
Shareholders' equity as at September 30, 2020	150,408,853	\$ 23,658,117	\$ 2,696,232	\$ (112,046)	- \$	(16,793,704)	9,448,599

2019	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Non-Controlling Interest	Deficit	Total
Balance at January 1, 2019	137,025,820	\$ 18,166,572	\$ 1,774,264	\$ (322,464)	331,395 \$	(11,652,332)	8,297,435
IFRS 16 Adjustment						48,932	48,932
Net loss	-	-	-	-	(5,396)	(2,750,726)	(2,756,122)
Other comprehensive income				199,487	66,495		265,982
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on stock option exercises	104,000	18,119	-	-	-	-	18,119
Issue of common shares on warrant exercises	8,889,442	4,052,807	(811,374)	-	-	-	3,241,433
Share issue costs (note 12(a))	-	(41,344)	-	-	-	-	(41,344)
Share-based compensation	-	-	1,082,469	-	-	-	1,082,469
Shareholders' equity as at September 30, 2019	146,019,262	\$ 22,196,154	\$ 2,045,359	\$ (122,977)	\$ 392,494	\$ (14,354,126)	10,156,904

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



**Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)**

	September 30, 2020	September 30, 2019
Cash flows used in operating activities		
Net Income/(loss)	\$ (2,004,283)	\$ (2,756,112)
Adjustments for items not involving cash:		
Depreciation	549,233	575,638
Amortization of intangible assets	222,016	849,316
Share-based payments	868,097	1,082,469
Accretion of long-term note payable	58,082	-
Interest on lease liability	148,211	134,219
Deferred tax recovery	(66,605)	-
Loss (gain) on sale of property and equipment	19,360	(576,713)
Changes in non-cash working capital	47,815	(4,297,092)
Net cash flows used in operating activities	(158,074)	(4,988,275)
Cash flows from (used in) investing activities		
Purchase of property and equipment	(858,112)	(1,363,204)
Proceeds on sale of property, plant and equipment	-	995,930
	(858,112)	(367,274)
Cash flows from (used in) financing activities		
Proceeds from option exercise	670,482	18,119
Proceeds from exercise of warrants	-	3,241,433
Share issue costs	-	(41,344)
Payment of lease liability	(293,681)	(153,422)
Increase in bank indebtedness	302,416	-
Increase in long-term obligations	116,163	-
	795,380	3,064,786
Net decrease in cash	(220,806)	(2,290,763)
Effect of foreign exchange on cash	(22,838)	44,060
Cash at beginning of period	2,097,199	4,929,865
Cash at end of period	\$ 1,853,555	\$ 2,683,162



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

1. Corporate Information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These financial statements were prepared using the same accounting policies and methods of computation and are subject to the same use of estimates and judgments, as the Company’s consolidated financial statements for the year ended December 31, 2019.

These condensed consolidated interim financial statements do not include all disclosures required by International Financial Reporting Standards (“IFRS”) for annual consolidated financial statements and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2019.

These condensed consolidated financial statements were approved by the Board of Directors on November 23, 2020.

(b) Basis of measurement and reclassification of comparative figures

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

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

(c) Business Combinations

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

(d) Accounting estimates and judgments:

The preparation of condensed 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 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) Estimates of useful lives of property and equipment

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

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

2. Basis of presentation (continued):

ii) Recovery of deferred tax assets

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

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

iii) Share-based payments

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

iv) Business Combinations

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

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

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

2. Basis of presentation (continued):

- v) Goodwill and intangible assets

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

3. Trade and other receivables:

Trade and other receivables consist of the following:

	September 30, 2020	December 31, 2019
Trade receivables	\$ 549,375	\$ 3,236,207
Unbilled accounts receivables	202,843	272,832
Government assistance receivable and other	1,620,715	1,574,701
	\$ 2,372,933	\$ 5,083,740

4. Inventory

Included in the cost of sales for the three months and nine months ended September 30, 2020 is inventory of \$531,289 (2019 - \$4,420,718) and \$3,137,215 (2019 - \$5,469,450) respectively.

5. Prepayments

As at September 30, 2020, the Company had made prepayments of \$215,075 (2019 - \$461,435) towards inventory, of which 58% of the total represents 2 vendors.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

6. Property and equipment

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	AUV Vehicle	Total
Cost							
Balance at January 1, 2019	\$ 531,810	\$ 168,229	\$ 1,518,040	-	\$ 115,677	\$ 1,489,175	\$ 3,822,931
Additions	513,313	120,027	90,695	91,318	918,407	-	1,733,760
Disposal and transfer to inventory	(631)					(1,489,175)	(1,489,806)
Foreign exchange	(21,946)	(1,107)					(23,053)
Balance at December 31, 2019	\$ 1,022,546	\$ 287,149	\$ 1,608,735	\$ 91,318	\$ 1,034,084	\$ -	\$ 4,043,832
Additions	293,163	83,429	305,050	431,823	49,697		1,163,162
Disposals	(30,590)	(92,239)					(122,829)
Foreign Exchange	28,516	2,329					30,845
Balance at September 30, 2020	\$ 1,313,635	\$ 280,668	\$ 1,913,785	\$ 523,141	\$ 1,083,781	\$ -	\$ 5,115,010
Accumulated depreciation							
Balance at January 1, 2019	\$ 79,804	\$ 68,787	\$ -		\$ 75,061	\$ 263,398	\$ 487,050
Depreciation	180,739	64,352	247,157		166,351	108,586	767,185
Disposal and transfer to inventory	(343)					(371,984)	(372,327)
Balance at December 31, 2019	\$ 260,200	\$ 133,139	\$ 247,157	-	\$ 241,412	\$ -	\$ 881,908
Depreciation	148,189	56,523	215,513		129,008		549,233
Disposals	(22,520)	(80,949)					(103,469)
Balance at September 30, 2020	\$ 385,869	\$ 108,713	\$ 462,670	-	\$ 370,420	\$ -	\$ 1,327,672
Carrying amounts							
At December 31, 2019	\$ 762,346	\$ 154,010	\$ 1,361,578	\$ 91,318	\$ 792,672	\$ -	\$ 3,161,924
At September 30, 2020	\$ 927,766	\$ 171,955	\$ 1,451,115	\$ 523,141	\$ 713,361	\$ -	\$ 3,787,338

7. Contract Liabilities

	September 30, 2020	December 31, 2019
Opening balance	\$ 2,445,223	\$ 2,920,812
Increase in contract liabilities from payments received, excluding revenue	1,287,206	7,990,814
Decreases in contract liabilities from revenue recognized that was included in the opening contract liabilities balance and other adjustments	(3,245,619)	(8,466,403)
	\$ 486,810	\$ 2,445,223



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

8. Lease Liabilities

	September 30, 2020	December 31, 2019
Current liabilities	\$ 233,409	\$ 191,630
Non-current liabilities	1,465,069	1,347,006
	\$ 1,698,478	\$ 1,538,636

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:

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,853,555	\$ 2,097,199
Trade and other receivables	2,372,933	5,083,740
	\$ 4,226,488	\$ 7,180,939

At September 30, 2020, 73% of the trade receivables balance was owing from 3 customers (2019 – 84% of the trade receivables was owing from 2 customers). At September 30, 2020, the Company had recorded contract liabilities of \$486,810 (December 31, 2019 - \$2,445,223).

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2020, the Company had a cash balance of \$1,853,555 (December 31, 2019 - \$2,097,199) to settle current liabilities of \$4,644,690 (December 31, 2019 - \$6,262,178).

Market Risk:

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

(a) Interest rate risk

At September 30, 2020, the Company has cash balances of \$1,853,555.

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

(b) Foreign currency risk

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

9. Financial instruments (continued):

Market Risk

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

	September 30, 2020	December 31, 2019
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ (386,589)	\$ (62,577)
Trade and other payables GBP	(75,433)	(3,900)
Trade and other payables EUR	(585,699)	(814,618)
Trade and other payables DKK	(5,000)	-
Long-term debt EUR	(366,522)	(269,063)
Bank indebtedness	(193,472)	-
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	213,281	2,027,589
Trade and other receivables GBP	-	-
Trade and other receivables EUR	1,987	397,646

For the nine months ended September 30, 2020 with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound Euro and Danish Krone to Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately \$215,057 respectively (2019 - \$854,639).

Fair Value:

During the nine months ended September 30, 2020, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy:

September 30, 2020	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 1,853,555	\$ -	\$ -
Trade and other receivables	-	2,372,933	-
Financial liabilities at amortized cost:			
Trade and other payables	-	(3,595,010)	-
Long-term obligations	-	(572,910)	-
Bank indebtedness	-	(302,416)	-
December 31, 2019	Level 1	Level 2	Level 3
Financial assets at amortized cost:			
Cash and cash equivalents	\$ 2,097,199	\$ -	\$ -
Trade and other receivables	-	5,083,740	-
Financial liabilities at amortized cost:			
Trade and other payables	-	(3,620,443)	-
Long-term obligations	-	(392,374)	-
Bank indebtedness	-	-	-



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

10. Bank indebtedness:

At September 30, 2020, the Company had a \$1,500,000 line of credit for general operating purposes (the “operating line”). The operating line bears interest at the bank’s prime rate plus 2.5%, payable monthly. As at September 30, 2020, a total of \$Nil (December 31, 2019 - \$Nil) was drawn against this facility. Additionally, the Company had a €500,000 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at September 30, 2020 a total of €193,472 (\$302,416) (December 31, 2019 - \$Nil) was drawn against this facility.

11. Long-term obligations:

	September 30, 2020	December 31, 2019
Long-term note payable in the amount of €400,000 loan with a German regional economic development organization due March 31, 2023, unsecured and bearing interest at 8.5%.	\$ 478,654	\$ 392,374
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €74,316 for the initial deposits on the equipment. Upon delivery of equipment the final amount financed will be €87,320 repayable in equal installments over 72 months.	116,163	-
Less current portion of long-term obligations	(21,907)	-
	<u>\$ 572,910</u>	<u>\$ 392,374</u>

The long-term note payable has a profit participation feature whereby if Kraken Power is profitable, the lender will receive 1.5% of the profits up to an annual cap of €6,000.

12. 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 periods ended June 30, 2020 and 2019.

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

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

In April 2019, 557,776 warrants were exercised at a price of \$0.30.

Share purchase warrant transactions are summarized for the periods ending September 30, 2020 and December 31, 2019:

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening balance	550,000	\$ 0.60	9,427,776	\$ 0.38
Warrants exercised	-	-	(8,877,776)	0.365
Ending Balance	550,000	\$ 0.60	550,000	\$ 0.60
Warrants exercisable	550,000	\$ 0.60	550,000	\$ 0.60



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

12. Share capital (continued):

In April 2019, 11,666 finder's warrants were exercised as a price of \$0.18, there were no remaining finder's warrants to expire during the period.

At September 30, 2020 and December 31, 2019, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	September 30, 2020	December 31, 2019	Weighted Average Remaining Contractual Life
December 20, 2020	\$0.60	550,000	550,000	.22 years
	\$0.60	550,000	550,000	.22 years

(c) Share options

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

At May 1, 2020 the Company issued 75,000 employee options. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was \$0.44.

At July 13, 2020 the Company issued 1,500,000 options to the Company's Board of Directors. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was \$0.57.

At August 4, 2020 the Company issued 300,000 options to a Company Director. The options have a three-year term, with vesting in three equal instalments consisting of the date of grant and one and two-year anniversaries of the initial grant. The exercise price of the options was \$0.51.

The following options were outstanding as at September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	12,051,834	\$ 0.402	6,940,834	\$ 0.197
Granted	1,875,000	0.555	6,155,000	0.59
Exercised	(3,231,667)	0.207	(1,025,666)	0.154
Expired	-	-	(18,334)	0.18
Ending balance	10,695,167	\$ 0.487	12,051,834	\$ 0.402
Options exercisable	7,360,218	\$ 0.446	7,234,334	\$ 0.376



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12. Share capital (continued):

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.18	December 15, 2020	1,423,501	1,423,501	0.21 years
0.185	February 20, 2021	450,000	450,000	0.39 years
0.26	July 18, 2021	833,333	833,333	0.80 years
0.70	March 5, 2022	500,000	333,333	1.43 years
0.63	July 14, 2022	1,500,000	1,000,000	1.79 years
0.63	July 14, 2022	400,000	400,000	1.79 years
0.53	September 8, 2022	2,713,333	1,795,051	1.94 years
0.44	May 1, 2023	75,000	25,000	2.58 years
0.57	July 14, 2023	1,500,000	500,000	2.79 years
0.51	August 5, 2023	300,000	100,000	2.85 years
0.63	July 14, 2024	1,000,000	500,000	3.79 years
\$ 0.487		10,695,167	7,360,218	1.85 years

(d) Share-based compensation

During the three month and nine month period ended September 30, 2020 the Company recorded share-based compensation totaling \$412,319 and \$868,097 (2019 - \$999,469 and \$1,082,469), which was expensed in operations with a corresponding increase in contributed surplus.

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

The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	Nine Months ended September 30, 2020	Nine Months ended September 30, 2019
Risk-free interest rate	0.22% to 0.29%	1.56-1.74%
Expected life of options	3 years	3 years
Expected volatility	115.13% to 116.51%	103.81% to 106.78%
Weighted average fair value per option	\$0.19 - \$0.39	\$0.35 to \$0.44
Dividend yield	Nil	Nil

13. Capital management:

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

The Company's capital structure consists of shareholders' equity, and long-term obligations and lease liabilities. 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 or sell assets to reduce debt.

14. Government assistance:

During the three months and nine months ended September 30, 2020, the Company received government assistance, excluding the OceanVision project, in the amount of \$1,322,687 and \$3,035,389 respectively (2019 - \$235,325 and \$1,341,575). Government Assistance for the three months and nine months ended September 30, 2020 has been classified as a reduction to Cost of Sales \$99,325 (2019 - \$138,087) and \$174,703 (2019 - \$331,387) respectively, Research & Development expense \$923,134 (2019 - \$82,809) and \$2,377,878 (2019 - \$995,759) respectively and Administrative expense \$300,228 (2019 - \$14,429) and \$482,808 (2019 - \$14,429) respectively.



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14. Government assistance (continued):

The financial statements reflect a cost reimbursement accrual made to recognize work under Kraken’s OceanVision project during the three months and nine months ended September 30, 2020, including \$738,880 (2019 – nil) and \$2,189,651 (2019 – nil) respectively in reimbursements from the Ocean SuperCluster and \$305,708 (2019 – nil) and \$725,053 (2019 – nil) respectively in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$851,695 (2019 – nil) and \$2,024,102 (2019 – nil) respectively, Administrative expense \$45,341 (2019 – nil) and \$58,233 (2019 – nil) respectively, Cost of sales \$32,282 (2019 – nil) and \$58,578 (2019 – nil) respectively and Construction in progress of \$115,271 (2019 – nil) and \$773,790 (2019 – nil) respectively.

15. Segmented information:

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

The following tables present the operations of the Company’s reportable segments as at and for the nine months ending September 30, 2020 and comparatives for September 30, 2019:

September 30, 2020	Sensors and Platforms	Power	Eliminations	Consolidated
Revenue	\$ 10,549,710	\$ 3,108,886	\$ (3,440,529)	\$ 10,218,067
Expenses	\$ 12,373,372	\$ 3,216,743	\$ (3,367,765)	\$ 12,222,350
Segment loss	\$ (1,823,662)	\$ (107,857)	\$ (72,764)	\$ (2,004,283)
Segment assets	\$ 15,488,151	\$ 4,799,950	\$ (3,765,632)	\$ 16,522,469
Segment liabilities	\$ 8,503,561	\$ 1,699,616	\$ (3,129,307)	\$ 7,073,870
Segment capital expenditures	\$ 699,276	\$ 158,836	\$ -	\$ 858,112
September 30, 2019	Sensors and Platforms	Power	Eliminations	Consolidated
Revenue	\$ 10,729,079	\$ 5,229,138	\$ (5,428,885)	\$ 10,529,332
Expenses	\$ 13,590,440	\$ 5,355,815	\$ (5,660,801)	\$ 13,285,454
Segment loss	\$ (2,861,361)	\$ (126,677)	\$ 231,916	\$ (2,756,122)
Segment assets	\$ 17,949,050	\$ 6,490,955	\$ (7,166,635)	\$ 17,273,370
Segment liabilities	\$ 9,299,014	\$ 4,777,741	\$ (6,960,289)	\$ 7,116,466
Segment capital expenditures	\$ 1,120,860	\$ 242,344	\$ -	\$ 1,363,204



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15. Segmented information (continued):

The following table sets forth external revenue by geographic areas based on the location of the contracting customers:

	Three months ended September 30, 2020	Nine months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2019
Total revenues:				
Canada	485,357	708,359	-	133,150
United States	988,212	7,578,854	2,216,660	2,722,122
Europe	-	1,846,436	5,602,168	7,598,979
Other	71,894	84,418	3,624	75,081
	\$1,545,463	\$10,218,067	\$7,822,452	\$10,529,332

16. Commitments:

- (a) Kraken has established a long-term technical co-operation program with Fraunhofer for technologies that can be deployed in Kraken's ThunderFish® AUV program. While Kraken is contractually committed to grant research and development projects to Fraunhofer of €300,000 (\$468,930) per year for a period of two more years (2020-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. The remaining commitment balance at September 30, 2020 is €487,651 (\$762,247) and these projects will be expensed as incurred.
- (b) To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of \$6.3 million, while the balance of the project will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Ocean Choice International, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to project is \$4.4 million, of which \$2.7 million remains outstanding at September 30, 2020. Kraken's commitment will be reduced if and when additional government and industry partners join the project in 2020.
- (c) With the adoption of IFRS 16 for Leases, the Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments for 2020 is \$117,477
- (d) A commercial bank issued a standby letter of credit on behalf of the Company to a customer in the amount of US\$1,802,916 (C\$2,404,910) on an advance guarantee secured by Export Development Canada. The letter of credit expires December 31, 2021.

17. Subsequent events:

Subsequent to September 30, 2020, the Company:

- (a) On October 26, 2020, the Company closed a bought deal, short form prospectus offering for 15,500,000 common shares of the Company at a price of \$0.67 per Common Share for aggregate gross proceeds of \$10,385,000. Net proceeds by the Company to accelerate its Robotics as a Service recurring revenue model, for leasehold improvements, capital expenditures, parts and inventory, future acquisitions and for general corporate and working capital purposes.
- (b) During the months of October 2020 and November 2020, 200,000 options were exercised by employees for proceeds of \$36,000.
- (c) During the month of October 2020, 495,000 warrants were exercised at \$0.60 for proceeds of \$297,000.



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17. Subsequent events (continued):

- (d) On October 1, 2020, incorporated Kraken Robotic Denmark ApS in conjunction with its contract to supply mine-hunting sonar equipment to the Royal Danish Navy with no material activity being performed to date.
- (e) On October 22, 2020 Kraken Power GmbH entered into a facilities expansion loan in the amount of €1,052,000 (\$1,644,381). This loan bears interest at 1.23%, payable monthly, and is repayable over 72 months.
- (f) A commercial bank issued a standby letter of credit on behalf of the Company to a customer in the amount of US\$6,214,595 (\$8,265,411) on an advance guarantee secured by Export Development Canada. The letter of credit expires October 30, 2023. In addition, the commercial bank issued a standby letter of credit to a customer in the amount of US\$829,802 (\$1,106,873) on a performance guarantee secured by a guaranteed investment certificate. The performance guarantee expires on October 31, 2024.