



Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

**For the three and six months ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)**

(Unaudited)

Q2 Fiscal 2021



June 30, 2021

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,105,473	\$ 12,924,509
Trade and other receivables (note 3)	2,739,693	3,119,920
Current tax receivable	260,588	82,069
Investment tax credits recoverable	593,564	-
Inventory (note 4)	12,952,395	8,129,302
Prepayments (note 5)	1,965,904	1,388,550
	20,617,617	25,644,350
Restricted cash (note 17(c))	3,270,048	1,057,982
Property and equipment (note 7)	9,495,384	6,709,735
Intangible assets	869,860	1,035,109
Goodwill	385,944	372,898
TOTAL ASSETS	\$ 34,638,853	\$ 34,820,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 10)	458,872	709,098
Trade and other payable	5,428,502	4,698,963
Contract liability (note 8)	8,862,774	8,761,477
Current portion of long-term obligations (note 11)	21,095	22,368
Current portion of lease liabilities	638,746	504,277
	15,409,989	14,696,183
Long-term obligations (note 11)	1,127,357	646,492
Lease liabilities	3,051,088	3,133,276
Deferred taxes	259,515	332,700
Shareholders' equity:		
Share capital (note 12)	34,226,285	33,939,262
Contributed surplus	2,632,229	2,516,143
Accumulated other comprehensive loss	(231,161)	(119,628)
Deficit	(21,836,449)	(20,324,354)
	14,790,904	16,011,423
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 34,638,853	\$ 34,820,074
Commitments (note 17)		
Subsequent events (note 18)		

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		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Product Revenue	\$ 1,730,500	\$2,198,615	\$ 4,865,277	\$ 7,172,028
Service Revenue	219,234	83,314	685,661	1,500,576
	1,949,734	2,281,929	5,550,938	8,672,604
Cost of sales (note 4)	1,190,066	1,139,299	2,640,928	4,612,001
	759,668	1,142,630	2,910,010	4,060,603
Administrative expenses	1,085,308	1,297,985	2,718,465	2,818,744
Research and development costs	464,447	139,844	845,545	244,005
Depreciation and Amortization	421,451	251,228	801,812	509,047
Share-based compensation (note 12(d))	112,754	220,420	230,409	455,778
Investment tax credits recoverable	(593,564)	(650,138)	(593,564)	(650,138)
	1,490,396	1,259,339	4,002,667	3,377,436
Gain (loss) from operating activities	(730,728)	(116,709)	(1,092,657)	683,167
Foreign exchange (gain)loss	(1,070)	(44,165)	1,914	(16,152)
Financing costs	284,081	56,180	555,964	100,106
Gain on sale of PPE	(35)	-	(320)	-
	282,976	12,015	557,558	83,954
Net income (loss) before taxes	\$ (1,013,704)	\$ (128,724)	\$ (1,650,215)	\$ 599,213
Income tax recovery	(105,965)	-	(138,120)	-
Net income (loss)	\$ (907,739)	\$ (128,724)	\$ (1,512,095)	\$ 599,213
Basic and diluted (loss) income per share	\$(0.01)	\$0.00	\$(0.01)	\$ 0.00
Basic and diluted weighted average number of shares outstanding	168,565,234	148,014,549	168,321,886	147,680,162

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		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Income (Loss) for the period	\$ (907,739)	\$ (128,724)	\$ (1,512,095)	\$ 599,213
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Currency translation adjustment	(26,833)	(37,229)	(111,533)	240,716
Other comprehensive income for the period	(26,833)	(37,229)	(111,533)	240,716
Comprehensive income (loss) for the period	\$ (934,572)	\$ (165,953)	\$ (1,623,628)	\$ 839,929



**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
For the Six Months Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)**

2021	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2021	167,813,430	\$ 33,939,262	\$ 2,516,143	\$ (119,628)	\$ (20,324,354)	16,011,423
Net (loss)	-	-	-	-	(1,512,095)	(1,512,095)
Other comprehensive income				(111,533)		(111,533)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	785,590	287,023	(114,323)	-	-	172,700
Share-based compensation	-	-	230,409	-	-	230,409
Shareholders' equity as at June 30, 2021	168,599,020	\$ 34,226,285	\$ 2,632,229	\$ (231,161)	\$ (21,836,449)	14,790,904
2020	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	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	-	-	-	-	599,213	599,213
Other comprehensive income				240,716		240,716
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	2,200,000	698,777	(228,162)	-	-	470,615
Share-based compensation	-	-	455,778	-	-	455,778
Shareholders' equity as at June 30, 2020	149,377,186	\$ 23,293,623	\$ 2,448,540	\$ (122,315)	\$ (14,190,208)	11,429,640

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



**Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Six Months Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)**

	June 30, 2021	June 30, 2020
Cash flows used in operating activities		
Net Income/(loss)	\$ (1,512,095)	\$ 599,213
Adjustments for items not involving cash:		
Depreciation	654,072	362,272
Amortization of intangible assets	147,740	146,775
Share-based payments	230,409	455,778
Investment tax credit	(593,564)	(650,138)
Accretion of long-term note payable	24,813	-
Interest on lease liability	166,861	100,635
Interest on long-term obligations	25,445	26,019
Deferred tax recovery	(138,120)	-
Loss (gain) on sale of property and equipment	(320)	-
Changes in non-cash working capital	(4,281,548)	509,667
Net cash flows used in operating activities	(5,276,307)	1,550,221
Cash flows from (used in) investing activities		
Acquisition of 13 Robotics Ltda (net of cash acquired) (note 6)	(209,618)	-
Increase in restricted cash	(2,239,367)	-
Purchase of property and equipment	(2,830,730)	(555,541)
Increase in intangibles	(34,817)	-
	(5,314,532)	(555,541)
Cash flows from (used in) financing activities		
Proceeds from option exercise	172,700	470,615
Payment of principal on leases	(281,522)	(84,044)
Payment of interest on leases	(166,861)	(100,635)
Decrease in bank indebtedness	(250,226)	-
Payment of principal long-term obligations	(11,223)	-
Payment of interest on long-term obligations	(25,445)	(26,019)
Proceeds from long-term obligations	499,731	64,005
	(62,846)	323,922
Net (decrease)/increase in cash	(10,653,685)	1,318,602
Effect of foreign exchange on cash	(165,351)	(43,922)
Cash at beginning of period	12,924,509	2,097,199
Cash at end of period	\$ 2,105,473	\$ 3,371,879



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

1. Corporate Information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting. These financial statements were prepared using the same accounting policies and methods of computation and are subject to the same use of estimates and judgments, as the Company’s consolidated financial statements for the year ended December 31, 2020.

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, 2020.

These consolidated financial statements were approved by the Board of Directors on August 24, 2021.

(b) The outbreak of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods. During the period the company experienced minor delays in procuring components and conducting sea trials. The company received government assistance under the CEWS (Canada Emergency Wage Subsidy) program as disclosed in Note 14.

(c) Basis of measurement

These consolidated interim financial statements have been prepared on a historical cost basis. These consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

(d) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Kraken Robotic Systems Inc., Ocean Discovery Inc., Kraken Robotics US Inc., Kraken Robotik GmbH, Kraken Power GmbH, Kraken Robotics Denmark ApS and Kraken Robotics Brasil Ltda (as of April 16, 2021). All intercompany balances and revenue and expense transactions have been eliminated on consolidation.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

2. Basis of presentation (continued):

(e) 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) Revenue recognition

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

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment 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.

iii) 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).

iv) Share-based payments

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

2. Basis of presentation (continued):

v) 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.

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.

3. Trade and other receivables:

Trade and other receivables consist of the following:

	June 30, 2021	December 31, 2020
Trade receivables	\$ 1,146,798	\$ 1,093,232
Unbilled accounts receivables	264,621	524,189
Government assistance receivable and other	1,328,274	1,502,499
	\$ 2,739,693	\$ 3,119,920

4. Inventory

Included in the cost of sales for the three months and six months ended June 30, 2021 is inventory of \$629,327 (2020 - \$704,363) and \$1,445,333 (2020 - \$2,605,926) respectively.

5. Prepayments

As at June 30, 2021, the Company had made prepayments of \$1,965,904 (2020 - \$1,388,550). Included in prepayments are advance payment guarantee fees of \$736,021 (2020 - \$936,326) and prepayments towards inventory of \$878,844 (2020 - \$176,210).



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

6. Acquisition of 13 Robotics Ltda

On April 16, 2021, the Company acquired a 100% interest in 13 Robotics Ltda based in Brazil for US\$220,000 cash (C\$273,241). The Corporation has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date.

Fair value of cash, accounts receivable and trade and other payables were deemed to be approximate to their carrying amounts due to the short-term nature of these assets and liabilities. Fair value of fixed assets and right-of-use assets has been determined based on market comparison and cost technique. Replacement cost of these assets has been determined and depreciated replacement cost reflects fair value.

Fair value of assets acquired and liabilities assumed	Brazilian Real R\$	Canadian \$
Cash	R\$ 285,562	\$ 63,623
Accounts Receivable	12,484	2,782
Fixed Assets	1,261,033	280,958
Right-of-use asset	144,609	32,219
Intangibles: Goodwill	154,941	34,521
Trade and other payables	(632,234)	(140,862)
Fair value of assets acquired and liabilities assumed	R\$ 1,226,395	\$ 273,241



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

7. Property and equipment

	Furniture and Equipment	Computer equipment	ROU Asset	Construction in progress	Leasehold improvements	Total
Cost						
Balance at January 1, 2020	\$ 1,022,546	\$ 287,149	\$1,608,735	\$ 91,318	\$ 1,034,084	\$ 4,043,832
Additions	362,264	114,339	2,353,303	1,062,009	463,502	4,355,417
Disposals	(66,553)	(108,654)	-	-	(115,676)	(290,883)
Foreign exchange	31,946	2,443	-	-	-	34,389
Balance at December 31, 2020	\$ 1,350,203	\$ 295,277	\$3,962,038	\$ 1,153,327	\$ 1,381,910	\$ 8,142,755
Additions	447,342	121,871	413,143	2,094,731	166,786	3,243,873
Purchase of Kraken Brasil Ltda.	15,281	12,636	36,197	300,953	-	365,067
Disposals	(7,680)	-	-	-	-	(7,680)
Foreign Exchange	(25,013)	(1,825)	(115,407)	-	-	(142,245)
Balance at June 30, 2021	\$ 1,780,133	\$ 427,959	\$4,295,971	\$ 3,549,011	\$ 1,548,696	\$ 11,601,770
Accumulated depreciation						
Balance at January 1, 2020	\$ 260,200	\$ 133,139	\$ 247,157	\$ -	\$ 241,412	\$ 881,908
Depreciation	210,791	82,036	337,737	-	175,093	805,657
Disposals	(55,795)	(93,101)	-	-	(105,649)	(254,545)
Balance at December 31, 2020	\$ 415,196	\$ 122,074	\$ 584,894	\$ -	\$ 310,856	\$ 1,433,020
Depreciation	157,498	54,290	322,425	-	119,859	654,072
Purchase of Kraken Brasil Ltda.	5,600	7,720	7,266	-	-	20,586
Disposals	(1,292)	-	-	-	-	(1,292)
Balance at June 30, 2021	\$ 577,002	\$ 184,084	\$ 914,585	\$ -	\$ 430,715	\$ 2,106,386
Carrying amounts						
At December 31, 2020	\$ 935,007	\$ 173,203	\$ 3,377,144	\$ 1,153,327	\$ 1,071,054	\$ 6,709,735
At June 30, 2021	\$ 1,203,131	\$ 243,875	\$3,381,386	\$ 3,549,011	\$ 1,117,981	\$ 9,495,384



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

8. Revenue

Disaggregation of revenues

The following table groups the Company's revenue based on the timing of revenue recognition for its products and services:

	Three months ended June 30, 2021	Six months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2020
Product sales – transferred at a point in time	439,735	2,313,815	2,160,067	7,172,028
Product sales – transferred over time	1,290,765	2,614,100	-	-
Service revenue – transferred over time	219,234	623,023	121,862	1,500,576
	\$1,949,734	\$5,550,938	\$2,281,929	\$8,672,604

Refer to note 16 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 unbilled revenue 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.

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

Unbilled revenue	
Opening balance – January 1, 2021	\$ 524,189
Increase in unbilled from revenue recognized	385,293
Decrease in unbilled from transfer to trade receivables and other adjustments	(644,861)
Ending Balance – June 30, 2021	\$ 264,621
Contract Liabilities	
Opening balance – January 1, 2021	\$ 8,761,477
Increase in contract liabilities from payments received, excluding revenue recognized	2,897,947
Decreases in contract liabilities from revenue recognized	(2,796,650)
Ending Balance – June 30, 2021	\$ 8,862,774



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

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:

	June 30, 2021	December 31, 2020
Cash and cash equivalents and restricted cash	\$ 5,375,521	\$ 13,982,491
Trade and other receivables	2,739,693	3,119,920
	\$ 8,115,214	\$ 17,102,411

At June 30, 2021, 71% of the trade receivables balance was owing from 2 customers (2020 – 69% of the trade receivables was owing from 2 customers).

Credit risk is defined as our exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. We are exposed to credit risk on our accounts receivable and certain other assets through our normal commercial activities. We are also exposed to credit risk through our normal treasury activities on our cash and cash equivalents and restricted cash. Credit risks arising from our normal commercial activities are managed with regards to customer credit risk. Our customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, we typically receive substantial advance payments for contracts with customers. We do not hold any collateral as security. The credit risk on cash 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 an expected credit loss. As of June 30, 2021, the amount is \$nil (2020 - \$167,405).

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 June 30, 2021, the Company had a cash balance of \$2,105,473 (December 31, 2020 - \$12,924,509) to settle current liabilities of \$15,409,989 (December 31, 2020 - \$14,696,183) of which contract liabilities make up \$8,862,774 (December 31, 2020 - \$8,761,477). The Company has an operating line of credit as disclosed in note 10 to cover short term liquidity needs. Subsequent to the quarter, the Company completed a short form prospectus offering for a total of 20,000,000 Units were sold at a price of \$0.50 per unit for net proceeds of \$9,328,540 ("the Offering"). Each Unit consists of one common share of the Company and one-half of one Common Share purchase warrant. Each full warrant entitles the holder to acquire one Common Share at a price of \$0.60 for a period of two years following the closing of the Offering.

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 June 30, 2021, the Company held \$2,105,473 in cash and cash equivalents, \$3,270,048 in restricted cash and has drawn \$458,872 against its operating line of credit. The drawn operating line of credit bears interest annually at 3.95%, payable monthly, which is a fixed interest rate and is not subject to interest rate risk.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

9. Financial instruments (continued):

(b) Foreign currency risk

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

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

	June 30, 2021	December 31, 2020
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	1,356,267	427,353
Trade and other payables GBP	360,810	37,765
Trade and other payables EUR	900,996	847,397
Trade and other payables DKK	82,641	266,466
Trade and other payables BRL	478,591	-
Long-term debt EUR	763,580	423,945
Bank Indebtedness EUR	310,802	452,936
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	581,863	613,188
Trade and other receivables GBP	-	-
Trade and other receivables EUR	415,821	108,471
Trade and other receivables DKK	5,262	2,577
Trade and other receivables BRL	21,451	-

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 Company does not record any asset or liability at fair value on an ongoing basis.

The fair values of the Company's financial assets and liabilities, including cash and cash equivalents, restricted cash, trade and other receivables, bank indebtedness and trade and other payables were deemed to be approximate to their carrying amounts due to the short-term nature of these financial instruments.

The Company's long-term obligations are stated at amortized cost, which approximates fair value.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2021 and 2020**

10. Bank indebtedness:

At June 30, 2021, the Company had available 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 June 31, 2020, a total of \$Nil (December 31, 2020 - \$Nil) was drawn against this facility. Security for operating line is a general security agreement. Additionally, Kraken Power has a €500,000 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at June 30, 2021 a total of €310,802 (\$458,872) (December 31, 2020 - €452,936 (\$709,098)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.

11. Long-term obligations:

	June 30, 2021	December 31, 2020
Long-term note payable in the amount of €400,000 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	\$ 466,505	\$ 463,741
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89,019, repayable in equal installments of €1,306 over 72 months, and maturing on December 31, 2026.	120,206	139,365
Loan, secured by equipment and infrastructure, bearing interest at 1.23% currently in the amount of €380,477 with a maximum of €875,000 available, repayable in equal installments over 67 months beginning on September 30, 2021, maturing on March 31, 2027.	561,741	65,754
	1,148,452	668,860
Less current portion of long-term obligations	(21,095)	(22,368)
	\$ 1,127,357	\$ 646,492

12. Share capital:

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders’ equity for a summary of changes in Share capital and Contributed surplus for the periods ended June 30, 2021 and 2020.

(a) Private placements

On October 26, 2020 the Company closed a bought deal short form prospectus offering of common shares. A total of 15,500,000 common shares were sold at a price of \$0.67 per common share for gross proceeds of \$10,385,000. Total share issued costs amounted to \$946,407 which included the underwriters a cash commission equal to 6% as well as legal and accounting fees.

(b) Share purchase warrants

In December 2020, 495,000 warrants were exercised at a price of \$0.60, and 55,000 warrants expired unexercised. No share purchase warrants were outstanding at June 30, 2021 (2020 – Nil).



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12. Share capital (continued):

(c) Share options

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

The following options were outstanding as at June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	9,238,333	\$ 0.535	12,051,834	\$ 0.376
Granted	-	-	1,875,000	0.54
Exercised	(781,667)	0.194	(4,650,167)	0.20
Expired	-	-	(38,334)	0.408
Ending balance	8,456,666	\$ 0.563	9,238,333	\$ 0.535
Options exercisable	5,313,384	\$ 0.557	5,911,716	\$ 0.51

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.25	July 18, 2021	525,000	525,000	.05 years
0.70	March 5, 2022	500,000	500,000	.68 years
0.63	July 14, 2022	1,500,000	1,000,000	1.04 years
0.63	July 14, 2022	400,000	400,000	1.04 years
0.53	September 8, 2022	2,656,666	1,738,384	1.19 years
0.44	May 1, 2023	75,000	50,000	1.84 years
0.57	July 14, 2023	1,500,000	500,000	2.04 years
0.51	August 5, 2023	300,000	100,000	2.10 years
0.63	July 14, 2024	1,000,000	500,000	3.04 years
\$ 0.563		8,456,666	5,313,384	1.45 years



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12. Share capital (continued):

(d) Share-based compensation

During the three and six month period ended June 30, 2021, the Company recorded share-based compensation totaling \$112,754 and \$230,409 respectively (2020 - \$220,420 and \$455,778 respectively), which was expensed in operations with a corresponding increase in contributed surplus.

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

During the three-month period ended June 30, 2021, the Company did not grant any options to employees, directors, officers, or consultants. The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	Six Months ended June 30, 2021	Six Months ended June 30, 2020
Risk-free interest rate	-	0.29%
Expected life of options	-	3 years
Expected volatility	-	115.13%
Weighted average fair value per option	-	\$0.19 - \$0.30
Dividend yield	-	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 note payable. The Company makes adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue new debt and sell assets to reduce debt.

14. Government assistance:

During the three months and six months ended June 30, 2021, the Company received government assistance, excluding the OceanVision project, in the amount of \$1,256,461 and \$2,111,489 respectively (2020 - \$1,045,296 and \$1,712,702). Government Assistance for the three months and six months ended June 30, 2021 has been classified as a reduction to Cost of Sales \$144,634 (2020 - \$75,378) and \$212,906 (2020 - \$75,378) respectively, Research & Development expense \$732,743 (2020 - \$787,337) and \$1,415,298 (2020 - \$1,454,744) respectively and Administrative expense \$379,084 (2020 - \$182,581) and \$483,285 (2020 - \$182,581) respectively.

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the three months and six months ended June 30, 2021, including \$370,756 (2020 - \$832,309) and \$906,485 (2020 - \$1,450,771) respectively in reimbursements from the Ocean SuperCluster and \$202,945 (2020 - \$189,264) and \$450,431 (2020 - \$419,345) respectively in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$393,088 (2020 - \$857,505) and \$842,570 (2020 - \$1,172,408) respectively, Administrative expense \$37,028 (2020 - nil) and \$62,654 (2020 - \$12,893) respectively, Cost of sales \$nil (2020 - \$11,944) and \$nil (2020 - \$26,296) respectively and Construction in progress of \$143,585 (2020 - \$152,124) and \$451,692 (2020 - \$658,519) respectively.



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15. Financing costs:

	Three months ended June 30, 2021	Six months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2020
Interest on lease liabilities	83,739	166,811	56,180	100,106
Letters of credit and other	206,840	364,340	-	-
Accretion of long-term note payable	(6,498)	24,813	-	-
	\$284,081	\$555,964	\$56,180	\$100,106

16. Segmented information:

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

The following tables present the operations of the Company’s reportable segments as at and for the six months ending June 30, 2021 and comparatives for June 30, 2020:

June 30, 2021	Sensors and Platforms	Power	Consolidated
Revenue	\$ 3,609,018	\$ 1,941,920	\$ 5,550,938
Expenses	\$ 5,423,868	\$ 1,777,285	\$ 7,201,153
Segment profit (loss) before tax	\$ (1,814,850)	\$ 164,635	\$ (1,650,215)
Segment assets	\$ 27,131,624	\$ 7,507,229	\$ 34,638,853
Segment liabilities	\$ 14,777,528	\$ 5,070,421	\$ 19,847,949
Segment capital expenditures	\$ 2,999,935	\$ 609,005	\$ 3,608,940
June 30, 2020	Sensors and Platforms	Power	Consolidated
Revenue	\$ 4,561,520	\$ 4,111,084	\$ 8,672,604
Expenses	\$ 5,885,644	\$ 2,187,747	\$ 8,073,391
Segment profit (loss) before tax	\$ (1,324,124)	\$ 1,923,337	\$ 599,213
Segment assets	\$ 14,812,355	\$ 4,324,326	\$ 19,136,681
Segment liabilities	\$ 5,779,490	\$ 1,927,551	\$ 7,707,041
Segment capital expenditures	\$ 760,572	\$ 40,760	\$ 801,332



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16. Segmented information (continued):

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

	Three months ended June 30, 2021	Six months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2020
Total revenues:				
Canada	76,000	81,555	121,862	223,002
United States	143,704	1,890,536	1,881,490	6,590,642
Europe	1,730,030	3,578,274	278,577	1,858,960
Other	-	573	-	-
	\$1,949,734	\$5,550,938	\$2,281,929	\$8,672,604

17. 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 per year for a period of three years (2019-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. The remaining commitment balance at June 30, 2021 is \$10,414 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 of \$12.5 million 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 the project is \$4.7 million, of which \$2.1 million remains outstanding at June 30, 2021. Kraken's commitment will be reduced if and when additional government and industry partners join the project in the future.
- (c) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$1,802,916 (C\$2,239,366), US\$6,214,595 (C\$7,719,024) on advance guarantees secured by Export Development Canada, US\$1,802,917 (C\$2,239,367) and US\$829,802 (C\$1,030,680) for performance guarantee secured by restricted cash. The letters of credit expire on December 31, 2021, October 30, 2023, December 31, 2021 and October 31, 2024, respectively.
- (d) 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 2021 is \$12,549.

18. Subsequent events:

Subsequent to June 30, 2021, the Company:

- a) On July 26, 2021 Kraken closed a bought deal, short form prospectus offering for a total of 20,000,000 Units were sold at a price of \$0.50 per Unit for gross proceeds of \$10,000,000. Each Unit consists of one common share of the Company and one-half of one Common Share purchase warrant. Each full warrant entitles the holder to acquire one Common Share at a price of \$0.60 for a period of two years following the closing of the Offering.



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18. Subsequent events (continued):

- b) On July 30, 2021, Kraken closed its acquisition of PanGeo. PanGeo is a services company specializing in high-resolution 3D acoustic imaging solutions for the sub-seabed with offices in St. John's, Newfoundland and Aberdeen, United Kingdom. Aggregate purchase price for PanGeo is up to \$23 million comprised of the following: \$3 million payable in immediately on closing; 12,068,965 Common Shares having a deemed value of \$0.58 each and \$7 million; \$4 million to be paid in cash, plus interest at a rate of 6% per annum, on the second anniversary of the Closing Date, by non-transferable promissory notes and up an aggregate of \$9 million to be paid pursuant to an earn-out. In connection with the acquisition, Kraken's Board of Directors approved the issuance of 1,000,000 options to an officer of PanGeo. These options have a five-year term and an exercise price of \$0.50 per common share.
- c) 525,000 options were exercised for proceeds of \$131,250.