



# **Kraken Robotics Inc.**

## **Condensed Consolidated Interim Financial Statements**

**For the three and nine months ended September 30, 2022 and 2021**  
**(Expressed in thousands of Canadian Dollars unless otherwise noted)**

**(Unaudited)**

**Q3 Fiscal 2022**



September 30, 2022

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

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,741	\$ 6,754
Trade and other receivables (note 3)	8,627	6,095
Contract asset (note 7)	7,518	2,699
Current tax receivable	116	75
Inventory (note 4)	12,011	14,977
Prepayments (note 5)	1,497	1,124
	<b>34,510</b>	<b>31,724</b>
Prepayments (note 5)	131	288
Property and equipment (note 6)	17,290	18,679
Intangible assets	6,329	7,519
Goodwill	7,232	7,255
<b>TOTAL ASSETS</b>	<b>\$ 65,492</b>	<b>\$ 65,465</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Bank indebtedness (note 9)	\$ 5,993	\$ 4,943
Trade and other payables	9,591	10,667
Contract liabilities (note 7)	7,043	4,639
Current tax payable	64	51
Current portion of long-term obligations (note 10)	4,906	231
Current portion of lease liabilities	848	991
Current portion of contingent consideration	4,209	3,837
	<b>32,654</b>	<b>25,359</b>
Long-term obligations (note 10)	959	5,514
Lease liabilities	2,907	3,586
Deferred taxes	125	134
Contingent consideration	3,907	3,270
Shareholders' equity:		
Share capital (note 11)	48,643	47,415
Contributed surplus	2,583	3,191
Accumulated other comprehensive loss	(224)	85
Deficit	(26,062)	(23,089)
	<b>24,940</b>	<b>27,602</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 65,492</b>	<b>\$ 65,465</b>

Commitments (note 16)

**On Behalf of the Board:**

*"Karl Kenny"*

Director

*"Shaun McEwan"*

Director



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

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2022	2021	2022	2021
Product Revenue (note 7)	\$ 7,603	\$ 4,604	\$ 19,820	\$ 9,469
Service Revenue (note 7)	4,688	456	12,275	1,142
	12,291	5,060	32,095	10,611
Cost of sales (note 4)	7,862	3,114	19,451	5,755
	4,429	1,946	12,644	4,856
Administrative expenses	3,032	2,630	8,477	5,348
Research and development costs	94	583	1,086	1,429
Depreciation and Amortization	1,146	998	3,433	1,800
Share-based compensation (note 11(c))	137	189	619	420
Investment tax credits recoverable	-	-	(634)	(594)
	4,409	4,400	12,981	8,403
<b>Income (loss) from operating activities</b>	<b>20</b>	<b>(2,454)</b>	<b>(337)</b>	<b>(3,547)</b>
Foreign exchange gain	(100)	(204)	(110)	(202)
Financing costs (note 14)	847	457	2,445	1,013
Loss on sale of property, plant and equipment	-	-	207	-
	747	253	2,542	811
<b>Net loss before taxes</b>	<b>(727)</b>	<b>\$ (2,707)</b>	<b>(2,879)</b>	<b>\$ (4,358)</b>
Income tax recovery (expense)	(201)	135	(94)	273
<b>Net loss</b>	<b>\$ (928)</b>	<b>\$ (2,572)</b>	<b>\$ (2,973)</b>	<b>\$ (4,085)</b>
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Basic and diluted weighted average number of shares outstanding	201,192,985	191,539,138	201,192,985	176,146,015



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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net Loss for the period	\$ (928)	\$ (2,572)	\$ (2,973)	\$ (4,085)
Other comprehensive income (loss)				
<i>Items that may be reclassified to profit or loss</i>				
Currency translation adjustment	(330)	9	(309)	(102)
<b>Other comprehensive income (loss)</b>	<b>(330)</b>	<b>9</b>	<b>(309)</b>	<b>(102)</b>
<b>Comprehensive loss</b>	<b>\$ (1,258)</b>	<b>\$ (2,563)</b>	<b>\$ (3,282)</b>	<b>\$ (4,187)</b>



**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
(Unaudited)**

**For the Nine Months Ended September 30, 2022 and 2021**

**(Expressed in thousands of Canadian Dollars except share amounts)**

<b>2022</b>	<b>Number of Shares</b>	<b>Share capital (note 11)</b>	<b>Contributed Surplus</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	<b>Total</b>
Balance at January 1, 2022	201,192,985	\$ 47,416	\$ 3,191	\$ 85	\$ (23,089)	27,603
Net loss	-	-	-	-	(2,973)	(2,973)
Other comprehensive income				(309)	-	(309)
Transactions with shareholders, recorded directly in equity:						
Stock options expired	-	1,227	(1,227)	-	-	-
Share-based compensation	-	-	619	-	-	619
<b>Shareholders' equity as at September 30, 2022</b>	<b>201,192,985</b>	<b>\$ 48,643</b>	<b>\$ 2,583</b>	<b>\$ (224)</b>	<b>\$ (26,062)</b>	<b>24,940</b>
<b>2021</b>	<b>Number of Shares</b>	<b>Share capital (note 11)</b>	<b>Contributed Surplus</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	<b>Total</b>
Balance at January 1, 2021	167,813,430	\$ 33,939	\$ 2,516	\$ (120)	\$ (20,324)	16,011
Net loss	-	-	-	-	(4,085)	(4,085)
Other comprehensive income				(102)		(102)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	1,310,590	500	(196)	-	-	304
Issue of common shares	20,000,000	10,000				10,000
Issue of common shares on acquisition	12,068,965	5,276				5,276
Share-based compensation	-	-	420	-	-	420
Share issue costs settled in warrants	-	(1,988)	1,988			-
Share issue costs settles in cash	-	(1,090)	-			(1,090)
<b>Shareholders' equity as at September 30, 2021</b>	<b>201,192,985</b>	<b>\$ 46,637</b>	<b>\$ 4,728</b>	<b>\$ (222)</b>	<b>\$ (24,409)</b>	<b>26,734</b>

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, 2022 and 2021**  
**(Expressed in thousands of Canadian Dollars)**

	September 30, 2022	September 30, 2021
<b>Cash flows from (used in) operating activities</b>		
Net loss	\$ (2,973)	\$ (4,085)
<b>Adjustments for items not involving cash:</b>		
Depreciation	2,271	1,315
Amortization of intangible assets	1,162	485
Share-based payments	619	420
Accretion expense	327	186
Accretion on contingent consideration	1,010	-
Loss on sale of property and equipment	207	-
Interest on lease liability	252	260
Interest on long-term obligations	46	40
Income tax recovery	(94)	(273)
Changes in non-cash working capital	(3,302)	(7,968)
<b>Net cash flows used in operating activities</b>	<b>(475)</b>	<b>(9,620)</b>
<b>Cash flows from (used in) investing activities</b>		
Acquisition of 13 Robotics Ltda (net of cash acquired)	-	(209)
Acquisition of 13 PGH Capital Inc.(net of cash acquired)	-	(4,024)
Increase in restricted cash	-	(2,293)
Purchase of property and equipment	(2,826)	(3,781)
Proceeds on disposal of property and equipment	1,778	-
Increase in intangibles	-	(35)
	<b>(1,048)</b>	<b>(10,342)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from common shares	-	10,000
Proceeds from option exercise	-	304
Share issue costs	-	(1,090)
Payment of principal on leases	(742)	(489)
Payment of interest on leases	(252)	(261)
Increase (decrease) in bank indebtedness	1,042	(368)
Payment of principal long-term obligations	(208)	(16)
Payment of interest on long-term obligations	(46)	(40)
Proceeds from long-term obligations	112	640
	<b>(94)</b>	<b>8,680</b>
<b>Net decrease in cash</b>	<b>(1,617)</b>	<b>(11,282)</b>
<b>Effect of foreign exchange on cash</b>	<b>(396)</b>	<b>83</b>
<b>Cash at beginning of period</b>	<b>6,754</b>	<b>12,924</b>
<b>Cash at end of period</b>	<b>\$ 4,741</b>	<b>\$ 1,725</b>

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



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

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**1. Corporate Information:**

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

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

**2. Basis of presentation:**

**(a) Statement of compliance:**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting. These financial statements were prepared using the same accounting policies and methods of computation and are subject to the same use of estimates and judgments as the Company's consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated interim financial statements do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated financial statements were approved by the Board of Directors on November 28, 2022.

- (b) With the outbreak of coronavirus, specifically identified as "COVID-19", there has been significant economic volatility and supply chain disruption. In addition, the geopolitical risk currently being experienced may cause continued economic volatility and impact on the supply chain. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods. During the period the Company experienced minor delays in procuring components and conducting sea trials.

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

These consolidated financial statements have been prepared on a historical cost basis except for contingent consideration which is measured at fair value on each reporting date.

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

**(d) Basis of Consolidation**

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

**(e) Accounting estimates and judgments:**

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





**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

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**2. Basis of presentation (continued):**

i) Revenue recognition

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

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized. Any changes in estimates would impact the economic useful lives and the residual values of the assets and, therefore, future depreciation charges could be revised.

iii) Recovery of deferred tax assets

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

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

iv) Share-based payments

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

v) Impairment

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



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

**3. Trade and other receivables:**

Trade and other receivables consist of the following:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Trade receivables (net of expected credit loss \$212)	\$ 5,910	\$ 4,052
Government assistance receivable and other	2,717	2,043
	<b>\$ 8,627</b>	<b>\$ 6,095</b>

**4. Inventory**

As at September 30, 2022, the Company held \$12,011 (2021 - \$14,977) in inventory, consisting of \$9,027 (2021 - \$11,420) in raw materials and \$2,984 (2021 - \$3,557) in work-in-progress. Included in the cost of sales for the three months and nine months ended September 30, 2022 is inventory of \$3,855 (2021 - \$1,887) and \$9,383 (2021 - \$3,332) respectively. Inventory write-downs consisted of \$Nil (2021 - \$42)

**5. Prepayments**

As at September 30, 2022, the Company had made prepayments of \$1,628 (2021 - \$1,412). Included in prepayments are advance payment guarantee fees of \$469 (2021 - \$638) and prepayments towards inventory of \$497 (2021 - \$190). The remaining amount of \$662 (2021 - \$584) consists of prepayments against insurance, software and other operating expenses.



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

**6. Property and equipment**

(a) As at September 30, 2022 and December 31, 2021, there were no assets pledged as security.

(b) Reconciliation of property and equipment:

	<b>Furniture and Equipment</b>	<b>Computer equipment</b>	<b>ROU Asset</b>	<b>Construction in progress</b>	<b>Leasehold improvements</b>	<b>Marine Equipment</b>	<b>Total</b>
<b>Cost</b>							
Balance at January 1, 2021	\$ 1,350	\$ 295	\$3,962	\$ 1,153	\$ 1,382	\$ -	\$ 8,142
Additions	1,044	212	451	3,554	276	413	5,950
Purchase of Kraken Brasil Ltda.	10	5	22	301	-	-	338
Purchase of PGH Capital	89	879	1,354		107	5,620	8,049
Transfer				(625)		625	-
Disposals	(11)	-	-	(24)	-	-	(35)
Foreign Exchange	(69)	(10)	(140)	-	(6)	-	(225)
<b>Balance at December 31, 2021</b>	<b>\$ 2,413</b>	<b>\$ 1,381</b>	<b>\$5,649</b>	<b>\$ 4,359</b>	<b>\$ 1,759</b>	<b>\$ 6,658</b>	<b>\$ 22,219</b>
Additions	418	103	140	2,284	2	19	2,966
Transfer	358	-	-	(358)	-	-	-
Disposals	-	(1)	-	(1,803)	-	-	(1,804)
Foreign Exchange	(77)	(10)	(186)	-	(8)	-	(281)
<b>Balance at September 30, 2022</b>	<b>\$ 3,112</b>	<b>\$ 1,473</b>	<b>\$5,603</b>	<b>\$ 4,482</b>	<b>\$ 1,753</b>	<b>\$ 6,677</b>	<b>\$ 23,100</b>
<b>Accumulated depreciation</b>							
<b>Balance at January 1, 2021</b>							
	\$ 415	\$ 122	\$ 585	\$ -	\$ 311	\$ -	\$ 1,433
Depreciation	316	257	844		268	426	2,111
Disposals	(4)	-	-	-	-	-	(4)
<b>Balance at December 31, 2021</b>	<b>\$ 727</b>	<b>\$ 379</b>	<b>\$ 1,429</b>	<b>\$ -</b>	<b>\$ 579</b>	<b>\$ 426</b>	<b>\$ 3,540</b>
Depreciation	226	267	802	-	230	746	2,271
Disposals	-	-	-	-	-	-	-
<b>Balance at September 30, 2022</b>	<b>\$ 952</b>	<b>\$ 646</b>	<b>\$ 2,231</b>	<b>\$ -</b>	<b>\$ 809</b>	<b>\$ 1,172</b>	<b>\$ 5,810</b>
<b>Carrying amounts</b>							
<b>At December 31, 2021</b>	<b>\$ 1,686</b>	<b>\$ 1,002</b>	<b>\$ 4,220</b>	<b>\$ 4,359</b>	<b>\$ 1,180</b>	<b>\$ 6,232</b>	<b>\$ 18,679</b>
<b>At September 30, 2022</b>	<b>\$ 2,160</b>	<b>\$ 827</b>	<b>\$ 3,372</b>	<b>\$ 4,482</b>	<b>\$ 944</b>	<b>\$ 5,505</b>	<b>\$ 17,290</b>



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

**7. Revenue**

*Disaggregation of revenues*

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

	<b>Three months ended September 30, 2022</b>	<b>Nine months ended September 30, 2022</b>	Three months ended September 30, 2021	Nine months ended September 30, 2021
Product sales – transferred at a point in time	\$ 3,618	\$ 8,640	1,781	4,032
Product sales – transferred over time	3,985	11,180	2,823	5,437
Service revenue – transferred over time	4,688	12,275	456	1,142
	<b>\$ 12,291</b>	<b>\$ 32,095</b>	<b>\$5,060</b>	<b>\$10,611</b>

Refer to note 15 for external revenue by geographic areas.

*Contract balances*

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company recognizes contract assets where professional services are performed or products are delivered prior to the Company's ability to invoice in accordance with the contract terms, or contract liabilities when revenue is recognized subsequent to invoicing.

As at September 30, 2022, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was \$7,043 (2021 - \$4,639).

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

	<b>Contract assets</b>
Opening balance – January 1, 2022	\$ 2,699
Increase in unbilled from revenue recognized	9,191
Decrease in unbilled from transfer to trade receivables and other adjustments	(4,372)
<b>Ending Balance – September 30, 2022</b>	<b>\$ 7,518</b>
	<b>Contract liabilities</b>
Opening balance – January 1, 2022	\$ 4,639
Increase in contract liabilities from payments received, excluding revenue recognized	7,336
Decreases in contract liabilities from revenue recognized	(4,932)
<b>Ending Balance – September 30, 2022</b>	<b>\$ 7,043</b>



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

**8. Financial instruments:**

**Credit Risk:**

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Cash	\$ 4,741	\$ 6,754
Trade and other receivables	8,627	6,095
Contract assets	7,518	2,699
	<b>\$ 20,886</b>	<b>\$ 15,548</b>

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. The Company is exposed to credit risk on our accounts receivable and certain other assets through our normal commercial activities. The Company is also exposed to credit risk through our normal treasury activities on our cash. Credit risks arising from our normal commercial activities are managed with regards to customer credit risk. Our customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, the Company typically receive substantial advance payments for contracts with customers. The Company does not hold any collateral as security. The credit risk on cash is mitigated by the fact that the majority of the cash is held with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Trade receivables include an expected credit loss. As of September 30, 2022, the amount is \$212 (2021 - \$232).

Revenues from the top three customers represented 69% of the Company's revenue in the period ended September 30, 2022 (2021 – top three customers represented 64% of revenue). At September 30, 2022, 80% of the trade receivables balance were owing from two customers (2021 – 60% of trade receivables was owing from three customers). At September 30, 2022, the Company had recorded contract liabilities of \$7,043 (2021 – \$4,639).

**Liquidity Risk:**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. As of September 30, 2022, the Company had a cash balance of \$4,741 (December 31, 2021 - \$6,754), and positive working capital of \$1,856. The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance to fulfill contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

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

	<b>0-12 months</b>	<b>1-2 years</b>	<b>2-4 years</b>	<b>Beyond four years</b>
Bank indebtedness	\$ 5,993	\$ -	\$ -	\$ -
Trade and other payables	9,591	-	-	-
Long-term obligations	4,906	293	458	161
Contingent consideration	4,209	3,907	-	-
	<b>\$ 24,699</b>	<b>\$ 4,200</b>	<b>\$ 458</b>	<b>\$ 161</b>



**Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

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

**8. Financial instruments (continued):**

**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, 2022, the Company held \$4,741 in cash and has drawn \$4,269, \$604 and \$1,120 against its operating lines of credit. The drawn operating lines of credit bear interest annually at bank prime plus 2.5%, 3.95% and bank prime plus 2.5% respectively, payable monthly. An increase (decrease) of 10% in interest would have increased (decreased) the Company's net loss by approximately \$13.

**(b) Foreign currency risk**

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

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	1,000	\$ 1,482
Trade and other payables GBP	404	1,629
Trade and other payables EUR	499	1,048
Trade and other payables DKK	17	134
Trade and other payables BRL	83	277
Long-term debt EUR	701	1,204
Bank Indebtedness EUR	437	401
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	1,274	1,459
Trade and other receivables GBP	2,074	1,803
Trade and other receivables EUR	93	170
Trade and other receivables DKK	35	1
Trade and other receivables BRL	44	28

**Fair Value**

During the period ended September 30, 2022, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts. The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

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

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

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



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**8. Financial instruments (continued):**

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

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

The fair values of the long-term obligations are estimated using a discounted cash flow valuation technique.

The fair value measurement for contingent consideration uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at September 30, 2022. The carrying value of the contingent consideration equals fair value as it is categorized as fair value through profit and loss. The fair value of the long-term debt approximates the amortized cost. For the fair value of contingent consideration, changes to the risk-adjusted discount rate of 1% at September 30, 2022, while holding other inputs constant would have the following impact: an increase (decrease) in discount rate would have increased (decreased) the Company's net loss by approximately \$43 and (\$44) respectively.

**9. Bank indebtedness:**

At September 30, 2022, the Company had available a \$4,500 line of credit for general operating purposes (the "operating line"). The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at September 30, 2022, a total of \$4,269 (December 31, 2021 - \$4,270) was drawn against this facility. Security for the operating line is accounts receivable and inventory. Kraken Power has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at September 30, 2022 a total of €449 (\$604) (December 31, 2021 - €401 (\$578)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization. Additionally, PanGeo had available a \$1,500 line of credit for general operating purposes. The operating line bears interest at the bank's prime rate plus 2.5%, payable monthly. As at September 30, 2022, a total of \$1,120 (December 31, 2021 - \$95) was drawn against this facility.



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**10. Long-term obligations:**

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Long-term note payable in the amount of €400 with a German regional economic development organization, due March 31, 2023, unsecured and bearing interest at 8.5% per annum.	\$ 512	\$ 490
Loan, secured by equipment, bearing interest at 1.4956%, in the amount of €89 repayable in equal installments of €1 over 72 months, and maturing on December 31, 2026.	84	107
Loan, secured by equipment and infrastructure, bearing interest at 1.23% in the amount of €875 repayable in equal installments over 67 months, and maturing on September 30, 2026.	957	1,198
Promissory Note on acquisition of PanGeo, in the amount of \$4,000 bearing interest at 6% per annum, due July 30, 2023. Carrying amount includes accrued interest.	4,200	3,950
Loan, non-interest bearing from Atlantic Canada Opportunities Agency (ACOA), currently in the amount of \$112 with a maximum of \$295 available, repayable in equal installments beginning June 1, 2023.	112	-
	5,865	5,745
Less current portion of long-term obligations	(4,906)	(231)
	<b>\$ 959</b>	<b>\$ 5,514</b>

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

Opening balance – January 1, 2022	\$ 5,745
Proceeds from long-term obligations	112
Payment of principle	(208)
Payment of interest	(46)
Accretion expense	327
Foreign Exchange	(65)
Ending Balance – September 30, 2022	\$ 5,865

**11. Share capital:**

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders' equity for a summary of changes in Share capital and Contributed surplus for the periods ended September 30, 2022 and 2021.





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**11. Share capital (continued):**

**(a) Share purchase warrants**

At September 30, 2022 and December 31, 2021, the following share purchase warrants were outstanding:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>	<b>Weighted Average Remaining Contractual Life</b>
July 26, 2023	\$0.60	10,000,000	10,000,000	0.82 years
	<b>\$0.60</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>0.82 years</b>

**(b) Share options**

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

The following options were outstanding as at September 30, 2022 and 2021:

	<b>September 30, 2022</b>		<b>December 31, 2021</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Opening balance	8,358,333	\$ 0.57	9,238,333	\$ 0.535
Granted	6,430,000	0.395	1,100,000	0.49
Exercised	-	-	(1,306,667)	0.233
Expired	(5,250,833)	0.57	(673,333)	0.59
Ending balance	9,537,500	\$ 0.453	8,358,333	\$ 0.57
Options exercisable	4,575,000	\$ 0.51	7,008,333	\$ 0.581

<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>	<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
0.44	May 1, 2023	75,000	75,000	0.58 years
0.57	July 14, 2023	1,200,000	1,200,000	0.79 years
0.63	July 14, 2024	1,000,000	1,000,000	1.79 years
0.50	July 30, 2026	1,000,000	750,000	3.83 years
0.39	November 29, 2026	100,000	25,000	4.17 years
0.395	May 3, 2027	6,062,500	1,525,000	4.59 years
0.37	September 6, 2027	100,000	-	4.94 years
<b>\$ 0.453</b>		<b>9,537,500</b>	<b>4,575,000</b>	<b>2.96 years</b>



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**11. Share capital (continued):**

(c) Share-based compensation

During the three and nine month period ended September 30, 2022, the Company recorded share-based compensation totaling \$137 and \$619 respectively (2021 - \$189 and 420 respectively), which was expensed in operations with a corresponding increase in contributed surplus.

During the nine-month period ended September 30, 2022, the Company granted 6,430,000 options to employees, directors and officers of the company. The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>Nine Months ended September 30, 2022</b>	<b>Year ended December 31, 2021</b>
Risk-free interest rate	2.7% to 3.5%	0.54% to 1.22%
Expected life of options	3.5 years	4.07 years
Expected volatility	51.5% to 66.8%	61.2% to 66.6%
Weighted average fair value per option	\$0.12 to \$0.21	\$0.14 to \$0.24
Dividend yield	Nil	Nil

**12. Capital management:**

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

The Company's capital structure consists of shareholders' equity, lease liabilities, contingent consideration, and long-term obligations. The Company will make adjustment to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue debt or sell assets to reduce debt.

**13. Government assistance:**

During the three months and nine months ended September 30, 2022, the Company received government assistance, excluding the OceanVision project, in the amount of \$1,254 and \$3,793 respectively (2021 - \$1,220 and \$3,228). Government Assistance for the three months and nine months ended September 30, 2022 has been classified as a reduction to Cost of Sales \$nil (2021 - \$434) and \$117 (2021 - \$646) respectively, Research & Development expense \$1,006 (2021 - \$411) and \$2,202 (2021 - \$1,724 ) respectively, Administrative expense \$154 (2021 - \$375) and \$317 (2021 - \$858) respectively and Construction in progress of \$94 (2021 - \$nil) and \$1,157 (2021 - \$nil) respectively.

The financial statements reflect a cost reimbursement under Kraken's OceanVision project during the three months and nine months ended September 30, 2022, including \$189 (2021 - \$250) and \$779 (2021 - \$1,157) respectively in reimbursements from the Ocean SuperCluster and \$12 (2021 - \$244) and \$488 (2021 - \$694) respectively in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$161 (2021 - \$353) and \$1,037 (2021 - \$1,195) respectively, Administrative expense \$12 (2021 - \$39) and \$106 (2021 - \$102) respectively and Construction in progress of \$28 (2021 - \$102) and \$124 (2021 - \$554) respectively.



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**14. Financing costs:**

	Three months ended September 30, 2022	Nine months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2021
Interest on lease liabilities	78	252	93	261
Letters of credit and other	337	856	202	565
Accretion of long-term obligations	112	327	65	90
Fair value adjustment on Contingent consideration	320	1,010	97	97
	<b>\$847</b>	<b>\$2,445</b>	<b>\$457</b>	<b>\$1,013</b>

**15. Segmented information:**

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

The following tables present the operations of the Company’s reportable segments as at and for the three months ended September 30, 2022 and comparatives for September 30, 2021:

September 30, 2022	Sensors and Platforms	Power	Consolidated
Revenue	\$ 26,177	\$ 5,918	\$ 32,095
Cost of Goods sold and expenses	\$ 30,751	\$ 4,223	\$ 34,974
Segment profit (loss)	\$ (4,574)	\$ 1,695	\$ (2,879)
Segment assets	\$ 60,723	\$ 4,769	\$ 65,492
Segment liabilities	\$ 36,646	\$ 3,926	\$ 40,552
Segment capital expenditures	\$ 2,534	\$ 292	\$ 2,826

  

September 30, 2021	Sensors and Platforms	Power	Consolidated
Revenue	\$ 8,071	\$ 2,540	\$ 10,611
Expenses	\$ 11,939	\$ 3,030	\$ 14,969
Segment profit (loss) before tax	\$ (3,868)	\$ (490)	\$ (4,358)
Segment assets	\$ 54,259	\$ 7,538	\$ 61,797
Segment liabilities	\$ 30,040	\$ 5,023	\$ 35,063
Segment capital expenditures	\$ 20,409	\$ 804	\$ 21,213



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**15. Segmented information (continued):**

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

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

	Three months ended September 30, 2022	Nine months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2021
<b>Total revenues:</b>				
Canada	9	511	268	349
United States	3,033	7,827	1,237	3,127
Europe	9,249	23,757	3,556	7,135
	<b>\$12,291</b>	<b>\$32,095</b>	<b>\$5,061</b>	<b>\$10,611</b>

**16. Commitments:**

- (a) To fund the OceanVision project, Canada's Ocean Supercluster will provide an investment of \$6.3 million, while the balance of the project of \$12.5 million will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken's commitment to the project is \$4.7 million, of which \$1.6 million remains outstanding at September 30, 2022.
- (b) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$6,215 (C\$8,511), US\$1,960 (C\$2,684) and US\$830 (C\$1,136) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023, November 30, 2023 and October 31, 2024, respectively.
- (c) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at September 30, 2022 is \$12.