

Kraken Robotics Inc.



Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars unless otherwise noted)

(Unaudited)

Q1 Fiscal 2024



March 31, 2024

CONTENTS

	<u>Page</u>
Consolidated Financial Statements	
Condensed Consolidated Interim Statements of Financial Position	1
Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss	2-3
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity	4
Condensed Consolidated Interim Statements of Cash Flows	5
Notes to the Condensed Consolidated Interim Financial Statements	6 - 19



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

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,527	5,173
Trade and other receivables (note 4)	10,741	10,382
Contract asset (note 7)	10,191	9,880
Current tax receivable	-	181
Investment tax credits recoverable	671	522
Inventory (note 5)	16,778	16,520
Prepayments	1,827	1,417
	41,735	44,075
Property and equipment (note 6)	22,458	22,948
Intangible assets	4,400	4,473
Goodwill	4,502	4,504
Deferred tax asset	372	419
TOTAL ASSETS	\$ 73,467	76,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 10)	\$ 9,502	9,651
Trade and other payables	16,345	17,161
Contract liabilities (note 7)	6,717	10,848
Current tax payable	205	148
Current portion of long-term obligations (note 11)	792	813
Current portion of lease liabilities	1,622	1,840
	35,183	40,461
Long-term obligations (note 11)	915	1,103
Lease liabilities	2,578	2,796
Shareholders' equity:		
Share capital (note 12)	53,491	52,684
Contributed surplus	1,505	1,671
Accumulated other comprehensive loss	(594)	(510)
Deficit	(19,611)	(21,786)
	34,791	32,059
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 73,467	76,419
Commitments (note 16)		
Subsequent events (note 17)		

On Behalf of the Board:

"Greg Reid"

Director

"Shaun McEwan"

Director



Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2024	March 31, 2023
Product Revenue (note 7)	\$15,809	\$ 5,328
Service Revenue (note 7)	5,066	2,250
	20,875	7,578
Cost of sales (note 5)	11,529	3,075
	9,346	4,503
Administrative expenses	4,524	3,360
Research and development costs	939	774
Depreciation and Amortization	1,425	1,263
Share-based compensation (note 12 (c))	57	161
Investment tax credits recoverable	(149)	(499)
	6,796	5,059
Income (loss) from operating activities	2,550	(556)
Foreign exchange (gain) loss	(69)	141
Financing costs (note 14)	388	553
Net income (loss) before income taxes	2,231	(1,250)
Income tax expense	56	86
	56	86
Net income (loss)	2,175	(1,336)
Basic income (loss) per share (note 8)	\$ 0.01	\$ (0.01)
Diluted income (loss) per share (note 8)	\$ 0.01	\$ (0.01)



Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	March 31, 2024	March 31, 2023
Net income (loss)	\$2,175	\$(1,336)
Other comprehensive income (loss)		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation adjustment	(84)	16
Other comprehensive income (loss)	(84)	16
Comprehensive income (loss)	\$2,091	\$(1,320)



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

For the Three Ended March 31, 2024 and 2023

(Expressed in thousands of Canadian Dollars except share amounts)

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

2023	Number of Shares	Share capital (note 12)	Contributed Surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2023	201,524,235	\$ 48,839	\$ 2,700	\$ (552)	\$ (27,332)	\$ 23,655
Net loss	-	-	-	-	(1,336)	(1,336)
Other comprehensive loss	-	-	-	16	-	16
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	12,500	8	(3)	-	-	5
Issue of common shares on warrant exercises	15,000	11	(2)	-	-	9
Issue of common shares on contingent consideration	4,500,000	2,250	-	-	-	2,250
Share-based compensation	-	-	161	-	-	161
Shareholders' equity as at March 31, 2023	206,051,735	\$ 51,108	\$ 2,856	\$ (536)	\$ (28,668)	\$ 24,760

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



**Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars)**

	March 31, 2024	March 31, 2023
Cash flows provided by (used in) operating activities		
Net income (loss)	\$ 2,175	\$ (1,336)
Adjustments for items not involving cash:		
Depreciation	1,103	873
Amortization of intangible assets	322	390
Share-based payments	57	161
Investment tax credit	(149)	(499)
Interest on lease liability	75	76
Interest on long-term obligations	19	15
Accretion expense	-	87
Fair value adjustment on contingent consideration	-	156
Income tax expense	56	86
Changes in non-cash working capital	(6,285)	1,311
Net cash flows provided by (used in) operating activities	(2,627)	1,320
Cash flows used in investing activities		
Purchase of property and equipment	(600)	(1,588)
Purchase of intangible assets	(249)	-
Payment of contingent consideration	-	(2,250)
Net cash flows used in investing activities	(849)	(3,838)
Cash flows provided by (used in) financing activities		
Proceeds from exercise of warrants and options	584	14
Payment of principal on leases	(439)	(212)
Payment of interest on leases	(75)	(76)
Payment of principal on long-term obligations	(202)	(366)
Payment of interest on long-term obligations	(19)	(15)
Proceeds from long term obligations	-	183
Decrease in bank indebtedness	(141)	(1,207)
Net cash flows used in financing activities	(292)	(1,679)
Net decrease in cash and cash equivalents	(3,768)	(4,197)
Effect of foreign exchange on cash	(122)	(145)
Cash and cash equivalents at beginning of period	5,173	8,265
Cash and cash equivalents at end of period	\$ 1,527	\$ 3,923



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

1. Corporate Information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting. These financial statements were prepared using the same accounting policies and methods of computation and are subject to the same use of estimates and judgments, as the Company’s consolidated financial statements for the year ended December 31, 2023.

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, 2023.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 28, 2024.

(b) Basis of measurement:

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

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

(c) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries), Kraken Robotic Systems Inc (domiciled in Canada), Kraken Robotik GmbH (domiciled in Germany), Kraken Power GmbH (domiciled in Germany), Kraken Robotics US Inc (domiciled in the United States of America), Kraken Robotics Denmark ApS (domiciled in Denmark), Kraken Robotics Brasil Ltda (domiciled in Brazil), PGH Capital Inc (domiciled in Canada), Kraken Robotics Services Ltd . (formerly PanGeo Subsea Inc) (domiciled in Canada) and Kraken Robotics Services UK Limited (formerly PanGeo Subsea Scotland Limited) (domiciled in Scotland). All intercompany balances and revenue and expense transactions have been eliminated on consolidation.

(d) Critical 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:



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

2. Basis of presentation (continued):

i) Revenue recognition

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

ii) Estimates of useful lives of property and equipment

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

iii) Recovery of deferred tax assets

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

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

iv) Share-based payments

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

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 judgments in the identification of the acquired assets and assumed liabilities. To determine the fair values of the identified assets and liabilities the Company uses 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 the date the Company obtains control of the acquiree, which is generally the date on which the acquirer legally transfers the assets and assumes the liabilities of the acquiree. The Company considers all pertinent facts and circumstances in identifying the acquisition date.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
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3. Adoption of new accounting pronouncements:

- (a) The following amended IFRS pronouncements were adopted effective January 1, 2024 and had no impact to the Company's financial statements:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS 1 specify the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

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

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

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



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

For the Three Months Ended March 31, 2024 and 2023

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

4. Trade and other receivables:

Trade and other receivables consist of the following:

	March 31, 2024	December 31, 2023
Trade receivables (net of expected credit loss of \$4 (\$2023 - \$400))	\$ 9,310	\$ 8,669
Government assistance receivable and other	1,431	1,713
	\$ 10,741	\$ 10,382

5. Inventory:

Inventory consists of the following:

	March 31, 2024	December 31, 2023
Raw materials	\$ 12,550	\$ 15,400
Work in progress	4,228	1,120
	\$ 16,778	\$ 16,520

Included in the cost of sales for the three months ended March 31, 2024 is inventory of \$7,919 (2023 - \$831). Inventory write-downs consisted of \$Nil (2023 - \$Nil).



Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
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6. Property and equipment:

- (a) As at March 31, 2024 \$1,010 (2023 - \$1,145) of Marine equipment was pledged as security of a Long-term obligation (note 11).
(b) Reconciliation of property and equipment:

	Furniture, tools and equipment	Computer equipment	ROU asset	Construction in progress	Leasehold improvements	Marine Equipment	Software	Total
Cost								
Balance at January 1, 2023	\$ 3,811	\$ 1,517	\$5,958	\$ 4,377	\$ 1,834	\$ 7,886	\$ 695	\$ 26,078
Additions	474	418	1,704	436	71	2,663	1,209	6,975
Government assistance applied ¹	-	-	-	(1,066)	-	-	-	(1,066)
Transfers from inventory	-	-	-	-	-	2,286	-	2,286
Transfer from construction in progress	463	-	-	(463)	-	-	-	-
Disposals	-	-	(9)	-	-	(1,185)	-	(1,194)
Foreign Exchange	36	2	32	-	3	-	-	73
Balance at December 31, 2023	\$4,784	\$1,937	\$7,685	\$3,284	\$1,908	\$11,650	1,904	\$33,152
Additions	144	70	-	240	-	134	12	600
Foreign Exchange	(1)	5	3	-	6	-	-	13
Balance at March 31, 2024	\$4,927	\$2,012	\$7,688	\$3,524	\$1,914	\$11,784	1,916	\$33,765
Accumulated depreciation								
Balance at January 1, 2023	\$ 1,201	\$ 735	\$ 2,498	\$ -	\$ 888	\$ 1,441	12	\$ 6,775
Depreciation	540	332	953	-	310	1,110	273	3,518
Disposals	-	-	-	-	-	(89)	-	(89)
Balance at December 31, 2023	\$1,741	\$1,067	\$3,451	-	\$1,198	\$2,462	\$285	\$10,204
Depreciation	135	85	270	-	87	430	96	1,103
Balance at March 31, 2024	\$1,876	\$1,152	\$3,721	-	\$1,285	\$2,892	\$381	\$11,307
Carrying amounts								
At December 31, 2023	\$ 3,043	\$ 870	\$ 4,234	\$ 3,284	\$ 710	\$ 9,188	\$ 1,619	\$ 22,948
At March 31, 2024	\$ 3,051	\$ 860	\$ 3,967	\$ 3,524	\$ 629	\$ 8,892	\$ 1,535	\$ 22,458

¹ Government assistance was received as an advance for the project in the prior year and applied against the equipment once approval from the government agency was obtained.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

7. Revenue:

Disaggregation of revenues

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

	March 31, 2024	March 31, 2023
Product sales – transferred at a point in time	\$ -	\$ 3,870
Product sales – transferred over time	15,809	1,458
Service revenue - transferred over time	5,066	2,250
	\$ 20,875	\$ 7,578

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 March 31, 2024, contract liabilities, which represents payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, was \$6,717 (2023 - \$10,848).

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

	Contract assets
Opening balance – January 1, 2024	\$ 9,880
Increase in unbilled from revenue recognized	8,089
Decrease in unbilled from transfer to trade receivables and other adjustments	(7,778)
Ending Balance – March 31, 2024	\$ 10,191
	Contract liabilities
Opening balance – January 1, 2024	\$ 10,848
Increase in contract liabilities from payments received, excluding revenue recognized	906
Decreases in contract liabilities from revenue recognized	(5,037)
Ending Balance – March 31, 2024	\$ 6,717



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

8. Earnings per common share:

	March 31, 2024	March 31, 2023
Net income (loss)	\$ 1,207	\$ (1,336)
Weighted average number of common shares	206,953,644	205,595,763
Dilutive securities:		
Effect of share options ²	3,362,724	-
Weighted average number of diluted common shares	210,316,368	205,595,763
Basic earnings (loss) per share	\$ 0.01	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.01	\$ (0.01)

9. Financial instruments:

Credit Risk:

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

	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 1,527	\$ 5,173
Trade and other receivables	10,741	10,382
Contract assets	10,191	9,880
	\$ 22,459	\$ 25,435

Credit risk is defined as the Company's exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. The Company is exposed to credit risk on accounts receivable and certain other assets through normal commercial activities. The Company are also exposed to credit risk through the normal treasury activities on cash and cash equivalents. Credit risks arising from normal commercial activities are managed with regards to customer credit risk. The Company's customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, the Company typically receives substantial advance payments for contracts with customers. The Company does not hold any collateral as security. The credit risk on cash and cash equivalents and restricted cash is mitigated by the fact that the majority of the cash is held with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Trade receivables include an expected credit loss. As of March 31, 2024, the amount is \$4 (2023 - \$384).

Revenues from the top three customers represented 76% of the Company's revenue in the period ended March 31, 2024 (2023 – top three customers represented 54% of revenue). At March 31, 2024, 72% of the trade receivables balance were owing from two customers (2023 – 70% of trade receivables was owing from two customers). At March 31, 2023, the Company had recorded contract liabilities of \$6,717 (2023 – \$10,848).

² Effect of share options is not included for March 31, 2023 as it is anti-dilutive.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

9. Financial instruments (continued):

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. As of March 31, 2024, the Company had a cash balance of \$1,527 (December 31, 2023 - \$5,173). The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance to fulfill contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

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

	0-12 months	1-2 years	2-4 years	Beyond four years
Bank indebtedness	\$ 9,502	\$ -	\$ -	\$ -
Trade and other payables	16,345	-	-	-
Long-term obligations	792	915	-	-
Current tax payable	205	-	-	-
Lease liabilities	1,622	813	1,338	427
	\$ 28,466	\$ 1,728	\$ 1,338	\$ 427

Market Risk:

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

(a) Interest rate risk

At March 31, 2024, the Company has drawn \$7,365, \$717 and \$1,420 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 1,000 basis points in the interest rate would have increased (decreased) the Company's net loss by approximately \$11.

(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.



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

9. Financial instruments (continued):

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

	March 31, 2024	December 31, 2023
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ 5,450	\$ 2,237
Trade and other payables GBP	1,061	2,831
Trade and other payables EUR	4,443	1,695
Trade and other payables DKK	2,458	93
Trade and other payables BRL	529	462
Long-term debt EUR	478	770
Bank indebtedness EUR	492	543
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	2,446	2,419
Trade and other receivables GBP	1,548	3,365
Trade and other receivables EUR	270	1,027
Trade and other receivables DKK	-	6
Trade and other receivables BRL	1,511	1,475

For the period ended March 31, 2024, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have (decreased) increased the Company's net income by approximately \$1,884 (2023 - increased (decreased) net loss by approximately \$1,025).

Fair Value:

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

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

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

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

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

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



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

For the Three Months Ended March 31, 2024 and 2023

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

10. Bank indebtedness:

At March 31, 2024, the Company had available a \$9,500 line of credit for general operating purposes (the “operating line”). The operating line bear interest at the bank’s prime rate plus 2.5%, payable monthly. As at March 31, 2024, a total of \$7,365 (December 31, 2023 - \$7,824) 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 bear interest of 3.95%, payable monthly. As at March 31, 2024 a total of €492 (\$717) (December 31, 2023 - €490 (\$717) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization. Additionally, Kraken Robotic Services had available a \$1,500 line of credit for general operating purposes. The operating line bear interest at the bank’s prime rate plus 2.5%, payable monthly. As at March 31, 2024, a total of \$1,420 (December 31, 2023 - \$1,110) was drawn against this facility.

11. Long-term obligations:

	March 31, 2024	December 31, 2023
Loan, bearing interest at 1.4956%, in the amount of €89, repayable in equal installments of €1 over 72 months, and maturing on December 31, 2026.	59	66
Loan, bearing interest at 1.23%, repayable in equal installments over 67 months plus interest, and maturing on September 30, 2026.	638	705
Promissory Note on acquisition of Marine equipment, in amount of \$1,145 bearing interest at 6% per annum, repayable in equal monthly instalments over 24 months, and maturing on December 21, 2025.	1,010	1,145
	1,707	1,916
Less current portion of long-term obligations	(792)	(813)
	\$ 915	\$ 1,103

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

Opening balance – January 1, 2024	\$ 1,916
Payment of principle	(202)
Payment of interest	(19)
Foreign Exchange	12
Ending Balance – March 31, 2024	\$ 1,707



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

For the Three Months Ended March 31, 2024 and 2023

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

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 period ended March 31, 2024 and the year ended December 31, 2023.

(a) Share purchase warrants

At March 31, 2024 and December 31, 2023, there were no share purchase warrants outstanding.

(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 March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	7,807,500	\$ 0.458	9,468,750	\$ 0.461
Granted	-	-	575,000	0.527
Exercised	(1,220,000)	0.481	(453,750)	0.395
Forfeiture	-	-	(582,500)	0.395
Expired	-	-	(1,200,000)	0.566
Ending balance	6,587,500	\$ 0.454	7,807,500	\$ 0.458
Options exercisable	3,434,168	\$ 0.487	4,577,084	\$ 0.485

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
0.63	July 14, 2024	1,000,000	1,000,000	0.29 years
0.39	November 29, 2026	25,000	-	2.67 years
0.39	May 3, 2027	4,487,500	1,880,000	3.09 years
0.37	September 6, 2027	100,000	66,667	3.44 years
0.59	December 7, 2027	400,000	266,667	3.69 years
0.63	January 30, 2028	75,000	37,500	3.84 years
0.58	February 27, 2028	100,000	50,000	3.91 years
0.50	November 17, 2028	400,000	133,334	4.64 years
\$ 0.45		6,587,500	3,434,168	3.19 years

(c) Share-based compensation

During the period ended March 31, 2024, the Company recorded share-based compensation totaling \$57 (2023 - \$161).



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

12. Share capital (continued):

There were no options granted during the three month period ended March 31, 2024.

13. Government assistance:

During the three months ended March 31, 2024, the Company received government assistance in the amount of \$347 (2023 - \$12). Government Assistance has been classified as a reduction to research and development (“R&D”) costs of \$2 (2023 – \$802), Administrative expense of \$80 (2023 - \$12) and Construction in progress of \$265 (2023 - \$nil). The financial statements also reflect a cost reimbursement under Kraken’s Brazilian subsidiary R&D project during the three months ended March 31, 2023 in the amount of \$235 (2023 - \$nil). This reimbursement has been classified as a reduction to R&D costs of \$235 (2023 - \$nil).

14. Financing costs:

	March 31, 2024	March 31, 2023
Interest on lease liabilities	\$ 75	\$ 76
Letters of credit and other	313	234
Accretion on long-term obligations	-	87
Fair value adjustment of contingent consideration	-	156
	\$ 388	\$ 553

15. Segmented information:

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

The following tables present the operations of the Company’s reportable segments as at and for the three months ended March 31, 2024 and March 31, 2023:

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



**Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share price and share amounts)**

15. Segmented information (continued):

March 31, 2023	Products	Services	Consolidated
Revenue	\$ 5,328	\$ 2,250	\$ 7,578
Cost of goods sold, expenses and gain/losses	\$ 5,856	\$ 2,972	\$ 8,828
Segment loss	\$ (528)	\$ (722)	\$ (1,250)
Segment capital expenditures	\$ 1,565	\$ 23	\$ 1,588

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

The following table sets forth external revenue by geographic areas:

	Three months ended March 31, 2024	Three months ended March 31, 2023
Total revenues:		
Asia Pacific	1,657	838
Europe, Middle East and Africa	5,049	1,898
North America	14,169	4,842
	\$ 20,875	\$ 7,578

16. Commitments:

- (a) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$1,208 (C\$1,636), US\$837 (C\$1,133) and US\$830 (C\$1,124) on advance guarantees secured by Export Development Canada. The letters of credit expire on April 30, 2024, August 31, 2024 and November 30, 2025, respectively.
- (b) 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 March 31, 2024 is \$47 (2023 - \$45).

17. Subsequent events:

Subsequent to March 31, 2024, the Company:

- (a) entered into a credit agreement with the Bank of Nova Scotia for credit facilities consisting of: (i) a revolving 3-year term facility of up to \$35 million (subject to meeting certain borrowing base requirements based on eligible receivables and inventory); (ii) a \$10 million revolving capital expenditure line of credit; (iii) a \$10 million uncommitted letter of credit facility; and (iv) an uncommitted accordion facility of up to \$30 million. The credit facilities bear interest at bank prime interest rates plus a margin of between 1.00% and 1.75%. The credit facilities replace in its entirety Kraken's existing credit facility with Royal Bank of Canada which were paid out using funds drawn from the credit facilities effective April 19, 2024.



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

For the Three Months Ended March 31, 2024 and 2023

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

17. Subsequent events (continued):

- (b) closed a bought deal, short form prospectus offering for a total of 21,185,300 common shares were sold at a price of \$0.95 per common share for gross proceeds of \$20,126,035 on May 21, 2024.
- (c) had a standby letter of credit expire in the amount of US\$1,208 (C\$1,636).