



**KRAKEN SONAR INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2015**

*This Management Discussion and Analysis ("MD&A") of Kraken Sonar Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and six month period ended June 30, 2015 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the three and six month periods ended June 30, 2015 and the audited financial statements and notes of Kraken Sonar Systems Inc. for the year ended December 31, 2014, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is current as at August 28, 2015, the date of preparation.*

*The June 30, 2015 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. All amounts are expressed in Canadian dollars, unless otherwise stated.*

**Forward-Looking Statements**

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

**NATURE OF BUSINESS**

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

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

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

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

At June 30, 2015, the Company had not yet achieved profitable operations, had experienced significant losses and negative cash flows from operations in 2014 and 2013, and has a deficit of \$2,721,124 as of June 30, 2015. It may incur further losses in the development of its business. The continued operations of the Company are dependent on continued support from its directors, its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and upon securing additional financing. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

## Company Overview

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

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

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

In addition, Anergy completed a pre-closing non-brokered private placement of 4,000,000 units priced at \$0.05 per unit for gross proceeds of \$200,000. Each unit was comprised of one common share of Anergy and one fourth of one Warrant A warrant and one fourth of one Warrant B warrant. On a post-consolidation basis, there are 444,444 Warrant A share purchase warrants outstanding which entitle the holders thereof to acquire one common share at a purchase price \$0.15 until October 10, 2016, subject to an acceleration clause should its common shares trade at or above \$0.45 for twenty consecutive trading days. A further 444,444 Warrant B purchase warrants, post-consolidation, are outstanding which entitle the holders thereof to acquire one common share at a purchase price \$0.40 until October 10, 2016, subject to an acceleration clause should its common shares trade at or above \$0.60 for twenty consecutive trading days. Global Securities Corporation ("Global") was paid a commission of \$5,295 in connection with private placement subscriptions received.

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

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

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

## RESULTS OF OPERATIONS

### Selected Annual Information

|  | Year Ended<br>December 31,<br>2014<br>(\$) | Year Ended<br>December 31,<br>2013<br>(\$) | Year Ended<br>December 31,<br>2012<br>(\$) |
|--|--|--|--|
| <b>Statement of Comprehensive Loss</b> |  |  |  |
| Total Revenues                         | 2,353,982                                  | 576,049                                    | 20,260                                     |
| Cost of Sales                          | 1,138,540                                  | 133,100                                    | 16,037                                     |
| Loss from operating activities         | (840,332)                                  | (129,785)                                  | (98,134)                                   |
| Net loss and comprehensive loss        | (1,310,240)                                | (136,926)                                  | (98,134)                                   |
| Basic and diluted loss per share       | (0.03)                                     | (0.00)                                     | (0.00)                                     |

|  | Year Ended<br>December 31,<br>2014<br>(\$) | Year Ended<br>December 31,<br>2013<br>(\$) | Year Ended<br>December 31,<br>2012<br>(\$) |
|--|--|--|--|
| <b>Statement of Financial Position</b> |  |  |  |
| Total Assets                           | 2,943,303                                  | 354,908                                    | 92,342                                     |
| Total Current Assets                   | 2,813,957                                  | 320,696                                    | 68,135                                     |
| Total Current Liabilities              | 3,050,759                                  | 593,941                                    | 194,449                                    |
| Total Liabilities                      | 3,050,759                                  | 593,941                                    | 194,449                                    |
| Total Shareholders' Deficiency         | (107,456)                                  | (239,033)                                  | (102,107)                                  |

The Company incurred a loss of \$1,310,240 for the year ended December 31, 2014, compared with a loss of \$136,926 for the year ended December 31, 2013. The higher loss in fiscal 2014 is primarily due to the recording of share-based payments of \$1,212,500 related to options granted pursuant to the Company's incentive stock option plan. Administrative expenses increased more than two-fold; however, revenues increased more than four-fold. In addition, during the most recently completed year end the Company incurred significant legal fees of \$304,967 related to the proposed Transaction and realized increased employee costs up \$137,860 over the prior year.

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

### Summary of Quarterly Information

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

|         | Revenue<br>(\$) | Operating<br>expenses<br>(\$) | Share-based<br>payments<br>(\$) | Net<br>income (loss)<br>(\$) | Basic and diluted<br>income (loss)<br>per share (\$) |
|---------|-----------------|-------------------------------|---------------------------------|------------------------------|--|
| Q2 2015 | 426,588         | 425,260                       | 2,500                           | (333,215)                    | (0.01)   |
| Q1 2015 | 676,006         | 930,481                       | 79,100                          | (838,486)                    | (0.01)   |
| Q4 2014 | 570,129         | 218,996                       | 1,212,500                       | (1,312,427)                  | (0.03)   |
| Q3 2014 | 462,874         | 196,789                       | -                               | (231,233)                    | (0.00)   |
| Q2 2014 | 862,056         | 337,303                       | -                               | (3,852)                      | (0.00)   |
| Q1 2014 | 458,923         | 134,499                       | -                               | 213,161                      | 0.01   |
| Q4 2013 | 290,587         | 88,774                        | -                               | 65,130                       | 0.00   |
| Q3 2013 | 36,159          | 119,268                       | -                               | (83,109)                     | (0.00)   |

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

### Three Months Ended June 30, 2015

The Company recorded total revenues of \$426,588 (2014 - \$862,056) from product sales, marking a decrease of \$435,468 over the same period of the prior fiscal year. Cost of sales decreased, as well, from \$528,605 in the prior year to \$334,543 in fiscal 2015. Gross profit was \$92,045 (2014 - \$333,451), marking a decrease of \$241,406 over the prior year. The decrease was due to the timing of new orders. The Company expects to see an increase in order activity in the second half of this year.

The Company recorded a net loss of \$333,215 for the three months ended June 30, 2015, as compared to a net loss of \$3,852 for the same period of prior fiscal year.

Administrative expenses incurred during the period totaled \$256,464 (2014 - \$142,085), an increase of \$114,379. This amount included accounting and legal costs of \$91,742 (2014 - \$24,257) and travel related costs of \$50,332 (2014 - \$81,085), which are higher due to corporate expansion during 2015.

Share-based compensation of \$2,500 was recorded as a result the grant of 25,000 options to consultants during the quarter, pursuant to the Company's stock option plan and represents the fair value of the options that vested during the three months ended June 30, 2015. There were no similar transactions during the same period of the prior fiscal year.

### ***Six Months Ended June 30, 2015***

The Company recorded total revenues of \$1,102,594 (2014 - \$1,320,979) from product sales, marking a decrease of \$218,385 over the same period of the prior fiscal year. The Cost of sales decreased by \$6,161, from \$639,868 in the prior year to \$633,707 during the first half of fiscal 2015. Gross profit was \$468,887 (2014 - \$681,111), marking a decrease of \$212,224 over the prior year. The decrease was due to the timing of new orders. The Company expects to see an increase in order activity in the second half of this year.

The Company recorded a net loss of \$1,171,701 for the six months ended June 30, 2015, as compared to net income of \$209,309 for the same period of prior fiscal year. The loss for the six months ended June 30, 2015 included non-recurring costs aggregating \$751,695 which was recorded in connection with the Anergy RTO, comprising listing expenses of \$526,695 and transaction costs of \$225,000.

Administrative expenses incurred during the period totaled \$442,753 (2014 - \$245,550), an increase of \$197,203. This amount included accounting and legal costs of \$126,463 (2014 - \$29,445), travel related costs of \$114,672 (2014 - \$103,957) and advertising and promotion of \$21,782 (2014 - \$9,848), all of which are higher due to corporate expansion during 2015.

Share-based compensation of \$81,600 was recorded as a result the grant of options to directors, officers, employees and consultants during the period, pursuant to the Company's stock option plan, and represents the fair value of the options that vested during the six months ended June 30, 2015. There were no similar transactions during the same period of the prior fiscal year.

Employee costs increased by \$78,441 during the period, from \$226,252 in 2014 to \$304,693, reflecting a ramp-up in staffing levels to facilitate current and planned corporate growth.

### **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2015, the Company had working capital of \$1,409,664 (December 31, 2014 – negative working capital of \$236,802). Cash as at June 30, 2015 was \$915,942, as compared with \$1,343,167 at December 31, 2014.

During 2014, the Company received proceeds of \$2,109,500 from a private placement issuance of a zero coupon, unsecured loan, which was convertible into Units at a rate of \$0.15 per Unit. Each Unit consists of one common share and one share purchase warrant exercisable at \$0.15 per share for a period of up to 36 months from the date of issue. Upon completion of the Transaction on February 18, 2015, the convertible unsecured loan was converted into 14,063,326 common and an equivalent number of share purchase warrants.

During the first half of fiscal 2015, the Company received proceeds of \$16,667 upon the exercise of 111,111 share purchase warrants.

During the six months ended June 30, 2015, the Company experienced cash outflows of \$143,977 (2014 – cash inflows of \$655,081) from operating activities. Investing activities provided cash of \$37,427 (2014 – used cash of \$20,705), of which \$24,405 was used for the purchase of property and equipment and \$61,832 was received upon completion of the RTO, which represented Anergy's cash balance. Financing activities realized outflows of \$320,675 (2014 - \$159,787) mainly in respect of director loans. Overall, cash decreased by \$427,225, as compared to a cash increase of \$474,589 during the same period of the prior year.

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

### **RISKS AND UNCERTAINTIES**

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

Industry specific risks include, but are not limited to:

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

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

#### **RELATED PARTY TRANSACTIONS**

At June 30, 2015, the Company had a loan receivable from a director in the amount of \$189,577. This compared to amounts owed to a director of \$55,969 as of March 31, 2015 (December 31, 2014 - \$148,764). The Company has entered into an agreement whereby the director will repay this loan in a lump sum payment of principal and interest on or before March 31, 2016. The loan bears interest at 5% per annum, and is unsecured. The loan is payable in whole or in part at any time without penalty or premium.

As at June 30, 2015 an amount of \$60,608 (December 31, 2014 - \$60,608) was receivable from key management personnel for share subscriptions.

#### **CAPITAL MANAGEMENT**

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

The Company's capital structure consists of shareholders' deficiency and advances from directors. The Company makes adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue new debt and sell assets to reduce debt.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2015, the Company's risk exposures and the impact of the Company's financial instruments are summarized below:

### **Credit Risk:**

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

|                                  | June 30,<br>2015 | December 31,<br>2014 |
|----------------------------------|------------------|----------------------|
| Cash                             | \$ 915,942       | \$ 1,343,167         |
| Trade and other receivables      | 676,816          | 851,957              |
| Share subscriptions receivable   | 77,833           | 78,833               |
| Loans receivable from a director | 189,577          | -                    |
|                                  | \$ 1,860,168     | \$ 2,273,957         |

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

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

### **Liquidity Risk:**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of June 30, 2015 the Company had a cash balance of \$915,942 (December 31, 2014 - \$1,343,167) to settle current liabilities of \$389,813 (December 31, 2014 - \$3,050,759). Included in current liabilities at December 31, 2014, was an amount of \$2,045,129 related to convertible debt, which was settled via the issuance of common shares upon completion of the Transaction on February 18, 2015.

### **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, 2015, the Company has cash balances of \$915,942, and the convertible debt was converted into common shares during the period so the Company is not exposed to any significant interest rate risk.

(b) Foreign currency risk

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

### **Fair Value:**

During the six months ended June 30, 2015, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy:

| June 30, 2015   | Level 1    | Level 2 | Level 3 |
|---|------------|---------|---------|
| Financial assets classified as loans and receivables: |            |         |         |
| Cash  | \$ 915,942 | \$ -    | \$ -    |
| Trade and other receivables                           | -          | 676,817 | -       |
| Investment tax credits recoverable                    | -          | -       | -       |
| Share subscriptions receivable                        | -          | 77,833  | -       |
| Loans receivable from a director                      | -          | 189,577 | -       |
| Financial liabilities at amortized cost:              |            |         |         |
| Trade and other payables                              | -          | 389,813 | -       |

### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of June 30, 2015 and as at the date of this MD&A.

### USE OF ESTIMATES

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

All of the Company's significant accounting policies and estimates are included in Note 4 of its unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2015.

### SUBSEQUENT EVENT

Subsequent to June 30, 2015, the Company:

- (a) retained an external consultant to provide investor relations services at an average cost of \$6,000 per month. In addition, the consultant was granted 100,000 share options exercisable at a price of \$0.21 per share for a period of three years subject to vesting requirements. The consulting agreement may be terminated by either party upon provision of 30 days' notice;
- (b) recorded the expiry of 208,888 share options exercisable at a price of \$0.225 per share; and
- (c) had 378,368 common shares released from escrow.

### FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

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

### FUTURE ACCOUNTING PRONOUNCEMENTS

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

#### ***Business combination accounting for interest in a joint operation (Amendments to IFRS 11):***

The amendments require business combination accounting to be applied to acquisitions of interest in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on 1 January 2016. The extent of the impact of adoption of the amendments has not yet been determined.

**IFRS 15, Revenue from Contracts with Customers:**

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

**IFRS 9, Financial Instruments:**

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

**Transfer of assets between an investor and its associate or joint venture:**

The Amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Company intends to adopt these amendments in its financial statements for the annual period beginning on 1 January 2016. The extent of the impact of adoption of the amendments has not yet been determined.

**Annual Improvements to IFRS (2012-2014) cycle:**

On 25 September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on 1 January 2016. The extent of the impact of adoption of the amendments has not yet been determined.

**Disclosure Initiative (Amendments to IAS 1):**

On 18 December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosure. The Company intends to adopt these amendments in its financial statements for the annual period beginning on 1 January 2016. The extent of the impact of adoption of the amendments has not yet been determined.

**OUTSTANDING SHARE DATA AS AT AUGUST 28, 2015:**

## (a) Authorized and issued share capital:

| Class  | Par Value    | Authorized | Issued Number |
|--------|--------------|------------|---------------|
| Common | No par value | Unlimited  | 71,068,214    |

## (b) Summary of options outstanding:

| Security | Number    | Number Exercisable | Exercise Price | Expiry Date    |
|----------|-----------|--------------------|----------------|----------------|
| Options  | 1,972,500 | 705,833            | 0.25           | March 17, 2018 |
| Options  | 25,000    | 25,000             | 0.25           | April 9, 2018  |
| Options  | 250,000   | 62,500             | 0.20           | May 13, 2018   |
| Options  | 2,000,000 | -                  | 0.21           | June 1, 2020   |
| Options  | 100,000   | -                  | 0.21           | July 1, 2018   |
|          | 4,347,500 | 793,333            |                |                |



(c) Summary of warrants outstanding:

| Security | Number     | Exercise Price | Expiry Date       |
|----------|------------|----------------|-------------------|
| Warrants | 333,333    | 0.15           | October 14, 2016  |
| Warrants | 444,444    | 0.40           | October 14, 2016  |
| Warrants | 14,063,326 | 0.15           | February 18, 2018 |
|          | 14,841,103 |                |                   |

(d) Summary of escrowed shares: At June 30, 2015, there are a total of 38,262,205 common shares subject to escrow restrictions.

#### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

#### **OTHER INFORMATION**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.krakensonar.com](http://www.krakensonar.com).