Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three and six-months ended June 30, 2024 and 2023
(Expressed in thousands of Canadian Dollars unless otherwise noted)

(Unaudited)

Q2 Fiscal 2024

KRAKEN

June 30, 2024

CONTENTS

KRAKEN

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

	June 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ **20,393**	$ 5,173
Trade and other receivables (note 4)	**7,394**	10,382
Contract assets (note 7)	**15,135**	9,880
Current tax receivable	**-**	181
Investment tax credits recoverable	**820**	522
Inventory (note 5)	**17,815**	16,520
Prepayments	**3,316**	1,417
	64,873	44,075
Property and equipment (note 6)	**22,548**	22,948
Prepayments	**1,727**	-
Intangible assets	**4,388**	4,473
Goodwill	**4,504**	4,504
Deferred taxes	**426**	419
TOTAL ASSETS	$ **98,466**	$ 76,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 10)	$ **469**	$ 9,651
Trade and other payables	**15,008**	17,161
Contract liabilities (note 7)	**5,051**	10,848
Current tax payable	**962**	148
Current portion of long-term obligations (note 11)	**779**	813
Current portion of lease liabilities	**1,625**	1,840
	23,894	40,461
Long-term obligations (note 11)	**15,408**	1,103
Lease liabilities	**2,797**	2,796
Shareholders' equity:		
Share capital (note 12)	**72,994**	52,684
Contributed surplus	**1,003**	1,671
Accumulated other comprehensive loss	**(628)**	(510)
Deficit	**(17,002)**	(21,786)
	56,367	32,059
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ **98,466**	$ 76,419

Commitments (note 16) Subsequent events (note 17)

On Behalf of the Board:

"Greg Reid" Director ***"Shaun McEwan"*** Director

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

KRAKEN

Condensed Consolidated Interim Statements of Net Income
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three-months ended		Six-months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Product revenue (note 7)	**$ 19,245**	$ 10,493	**$ 35,263**	$ 15,821
Service revenue (note 7)	**3,513**	3,162	**8,370**	5,412
	22,758	13,655	**43,633**	21,233
Cost of sales (note 5)	**11,151**	5,911	**22,680**	8,986
	11,607	7,744	**20,953**	12,247
Administrative expenses	**4,617**	4,123	**9,141**	7,483
Research and development costs	**1,695**	1,093	**2,634**	1,867
Depreciation and amortization	**1,373**	1,232	**2,798**	2,495
Share-based compensation (note 12(d))	**30**	98	**87**	259
Investment tax credits recoverable	**(149)**	(297)	**(298)**	(796)
	7,566	6,249	**14,362**	11,308
Income from operating activities	**4,041**	1,495	**6,591**	939
Foreign exchange loss	**138**	129	**69**	270
Financing costs (note 14)	**559**	418	**947**	971
Gain on extinguishment of contingent consideration	**-**	(4,044)	**-**	(4,044)
Impairment of goodwill	**-**	2,757	**-**	2,757
	697	(740)	**1,016**	(46)
Net income before taxes	**3,344**	2,235	**5,575**	985
Income tax expense	**(735)**	(238)	**(791)**	(324)
Net income	**$ 2,609**	$ 1,997	**$ 4,784**	$ 661
Basic income per share (note 8)	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.00
Diluted income per share (note 8)	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.00

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

KRAKEN

Condensed Consolidated Interim Statements of Comprehensive Income
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three-months ended		Six-months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Net income for the period	**$ 2,609**	$ 1,997	**$ 4,784**	$ 661
Other comprehensive loss				
Item that may be reclassified to profit or loss				
Currency translation adjustment	**(34)**	(52)	**(118)**	(36)
Other comprehensive loss	**(34)**	(52)	**(118)**	(36)
Comprehensive income	**$ 2,575**	$ 1,945	**$ 4,666**	$ 625

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
For the Six-Months Ended June 30, 2024 and 2023
(Expressed in thousands of Canadian Dollars except share amounts)

2024	Number of shares	Share capital (note 12)	Contributed surplus (note 12)	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	-	-	-	-	**4,784**	**4,784**
Other comprehensive loss	-	-	-	**(118)**	-	**(118)**
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock options exercised	**2,393,750**	**2,036**	**(755)**	-	-	**1,281**
Issue of common shares on bought deal financing (note 12)	**21,185,300**	**20,126**	-	-	-	**20,126**
Share-based compensation (note 12(d))	-	-	**87**	-	-	**87**
Share issue costs (note 12)	-	**(1,852)**	-	-	-	**(1,852)**
Shareholders' equity as at June 30, 2024	**230,072,035**	**$ 72,994**	**$ 1,003**	**$ (628)**	**$ (17,002)**	**$ 56,367**

2023	Number of shares	Share capital (note 13)	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 income	-	-	-	-	661	661
Other comprehensive loss	-	-	-	(36)	-	(36)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock options exercised	72,500	46	(17)	-	-	29
Issue of common shares on warrant exercised	15,000	11	(2)	-	-	9
Issue of common shares on contingent consideration	4,500,000	2,250	-	-	-	2,250
Share-based compensation (note 12(d))	-	-	259	-	-	259
Shareholders' equity as at June 30, 2023	206,111,735	$ 51,146	$ 2,940	$ (588)	$ (26,671)	26,827

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Six-Months Ended June 30, 2024 and 2023
(Expressed in thousands of Canadian dollars)

	June 30, 2024	June 30, 2023
Cash flows from (used in) operating activities		
Net income	**$ 4,784**	$ 661
Adjustments for items not involving cash:		
Depreciation	**2,116**	1,721
Amortization of intangible assets	**682**	774
Share-based compensation	**87**	259
Accretion of long-term obligations	**-**	177
Fair value adjustment on contingent consideration	**-**	156
Gain on extinguishment of contingent consideration	**-**	(4,044)
Interest on lease liabilities	**161**	161
Interest on long-term obligations	**251**	24
Income tax expense	**791**	324
Investment tax credit	**(298)**	(796)
Impairment of goodwill	**-**	2,757
Changes in non-cash working capital	**(15,138)**	5,425
Net cash flows from (used in) operating activities	**(6,564)**	7,599
Cash flows from (used in) investing activities		
Purchase of property and equipment	**(968)**	(4,308)
Purchase of intangible assets	**(592)**	-
Payment of contingent consideration	**-**	(2,250)
Net cash flows used in investing activities	**(1,560)**	**(6,558)**
Cash flows from (used in) financing activities		
Proceeds from option exercise	**1,281**	38
Proceeds from equity offerings	**18,274**	-
Payment of principal on leases	**(1,018)**	(393)
Payment of interest on leases	**(161)**	(161)
Payment of bank indebtedness	**(9,182)**	(1,161)
Payment of principal long-term obligations	**(409)**	(929)
Payment of interest on long-term obligations	**(251)**	(24)
Proceeds from long-term obligations	**14,684**	183
Net cash flows from (used in) financing activities	**23,218**	(2,447)
Net increase (decrease) in cash	**15,094**	(1,406)
Effect of foreign exchange on cash	**126**	(143)
Cash at beginning of period	**5,173**	8,265
Cash at end of period	**$ 20,393**	$ 6,716

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

(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 condensed consolidated interim 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 August 21, 2024.

(b) Basis of measurement:

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

(c) Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries):

Subsidiary	Domiciled
Kraken Robotic Systems Inc	Canada
Kraken Robotics Services Ltd	Canada
PGH Capital Inc	Canada
Kraken Robotics US Inc	United States of America
Kraken Robotics Brasil Ltda	Brazil
Kraken Robotics Services UK Limited	United Kingdom
Kraken Robotik GmbH	Germany
Kraken Power GmbH	Germany
Kraken Robotics Denmark ApS	Denmark

2. Basis of presentation (continued):

(d) Critical accounting estimates and judgments:

The preparation of condensed consolidated interim 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 interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods. The more significant areas requiring the use of management estimates and judgments are discussed below:

i) Revenue recognition

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 condensed consolidated interim statements 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 condensed consolidated interim statements of net income and comprehensive income.

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.

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

3. Adoption of new accounting pronouncements:

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

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

The amendments to IAS 1 specify that the conditions which exist at the end of the reporting period are those that 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 condensed consolidated interim 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 condensed consolidated interim financial statements and intends to adopt the new standard on the required effective date with restatement of the prior period comparatives.

4. Trade and other receivables:

Trade and other receivables consist of the following:

	June 30, 2024	December 31, 2023
Trade receivables (net of expected credit loss $6 (December 31, 2023 - $384))	$ 6,110	$ 8,669
Government receivable and other	1,284	1,713
	$ 7,394	$ 10,382

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

5. Inventory

Inventory consists of the following:

	June 30, 2024	December 31, 2023
Raw materials	**$ 13,905**	$ 15,400
Work in progress	**3,910**	1,120
	$ 17,815	$ 16,520

Included in the cost of sales for the three-months and six-months ended June 30, 2024 is inventory of $7,427 (June 30, 2023 - $2,985) and $15,346 (June 30, 2023 - $3,816), respectively.

At June 30, 2024 inventory has been pledged as security against long term obligations.

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

6. Property and equipment:

(a) At June 30, 2024 property and equipment are pledged as security against long term obligations and December 31, 2023, there were no assets pledged as security.

(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
Transfers from CIP	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	166	196	728	452	-	137	12	1,695
Foreign Exchange	7	-	18	-	-	-	-	21
Balance at June 30, 2024	**$4,957**	**$2,133**	**$8,431**	**$3,736**	**$1,908**	**$11,787**	**1,916**	**$34,868**
Accumulated depreciation								
Balance at January 1, 2023	**$ 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	268	176	550	-	167	763	192	2,116
Balance at June 30, 2024	**$2,009**	**$1,243**	**$4,001**	**-**	**$1,365**	**$3,225**	**$477**	**$12,320**
Carrying amounts								
At December 31, 2023	**$ 3,043**	**$ 870**	**$ 4,234**	**$ 3,284**	**$ 710**	**$ 9,188**	**$ 1,619**	**$ 22,948**
At June 30, 2024	**$ 2,948**	**$ 890**	**$ 4,430**	**$ 3,736**	**$ 543**	**$ 8,562**	**$ 1,439**	**$ 22,548**

[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.

(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:

	Three-months ended June 30, 2024	**Six-months ended June 30, 2024**	Three-months ended June 30, 2023	Six-months ended June 30, 2023
Product sales – transferred at a point in time	**$ 4,011**	**$ 4,011**	$ 6,715	$ 10,586
Product sales – transferred over time	**15,234**	**31,252**	3,778	5,235
Service revenue – transferred over time	**3,513**	**8,370**	3,162	5,412
	$ 22,758	**$ 43,633**	$ 13,655	$ 21,233

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 June 30, 2024, contract liabilities, which represent payments received from contracts with customers for which the criteria for revenue recognition has not yet been met, were $5,051 (December 31, 2023 - $10,848).

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

Contract assets	**Contract assets**
Opening balance – January 1, 2024	$ 9,880
Increase in unbilled from revenue recognized	18,008
Decrease in unbilled from transfer to trade receivables and other adjustments	(12,753)
Ending balance – June 30, 2024	**$ 15,135**

Contract liabilities	**Contract liabilities**
Opening balance – January 1, 2024	$ 10,848
Increase in contract liabilities from payments received, excluding revenue recognized	5,443
Decrease in contract liabilities from revenue recognized	(11,240)
Ending balance – June 30, 2024	**$ 5,051**

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

8. Earnings per common share:

	Three-months ended		Six-months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Net income	**$ 2,609**	$ 1,997	**$ 4,784**	$ 661
Weighted average number of common shares	**217,196,221**	206,192,985	**212,074,933**	205,832,743
Dilutive securities:				
Effect of share options	**3,443,025**	1,129,731	**3,467,349**	1,413,893
Weighted average number of diluted common shares	**220,639,246**	207,322,716	**215,542,282**	207,246,636
Basic earnings per share	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.00
Diluted earnings per share	**$ 0.01**	$ 0.01	**$ 0.02**	$ 0.00

9. Financial instruments:

Credit risk:

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

	June 30, 2024	**December 31, 2023**
Cash	**$ 20,393**	$ 5,173
Trade and other receivables	**7,394**	10,382
Contract assets	**15,135**	9,880
	$ 42,922	$ 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 is also exposed to credit risk through the normal treasury activities on cash. 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 is mitigated by the fact that the majority of the cash is held with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Trade receivables include an expected credit loss. As of June 30, 2024, the amount is $6 (December 31, 2023 - $384).

Revenues from the top three customers represented 70% of the Company’s revenue in the six-months ended June 30, 2024 (June 30, 2023 - top three customers represented 59% of revenue). At June 30, 2024, 54% of the trade receivables were owing from two customers (December 31, 2023 - 79% of trade receivables were owing from two customers).

(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 June 30, 2024, the Company had a cash balance of $20,393 (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 4 years
Bank indebtedness	$ 469	$ -	$ -	$ -
Trade and other payables	15,008	-	-	-
Long-term obligations	779	724	14,684	-
Current tax payable	962	-	-	-
Lease liabilities	1,625	902	1,494	401
	$ 18,843	$ 1,626	$ 16,178	$ 401

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, 2024, the Company has drawn $469 against its operating line of credit in Kraken Power GmbH. The drawn operating line of credit bears interest annually at bank prime plus 3.95%, payable monthly. An increase (decrease) of 1,000 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $38. The Company has also drawn $14,684 against the term revolving credit facility, which bears interest at bank prime plus margin, payable monthly. An increase (decrease) of 1,000 basis points in the interest rate would have increased (decreased the Company's net income by approximately $21.

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

9. Financial instruments (continued):

(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:

	June 30, 2024	**December 31, 2023**
Financial liabilities denominated in a foreign currency:		
Trade and other payables USD	**6,951**	$ 2,237
Trade and other payables GBP	**377**	2,831
Trade and other payables EUR	**4,770**	1,695
Trade and other payables DKK	**288**	93
Trade and other payables BRL	**505**	462
Long-term debt EUR	**430**	770
Bank indebtedness EUR	**320**	543
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	**4,887**	2,419
Trade and other receivables GBP	**1,197**	3,365
Trade and other receivables EUR	**386**	1,027
Trade and other receivables DKK	**10**	6
Trade and other receivables BRL	**642**	1,475

For the period ended June 30, 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 increased (decreased) the Company's net income by approximately $1,411 (June 30, 2023 - $170).

Fair value

During the period ended June 30, 2024, 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 the 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, 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.

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

10. Credit facilities:

During the period, the Company entered into a credit agreement for term facilities that replace the $9,500 and $1,500 lines of credit. Refer to note 11 for further information on the term facility.

As at June 30, 2024, Kraken Power GmbH has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at June 30, 2024, a total of $469 (€320) (December 31, 2023 - $717 (€490)) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.

11. Long-term obligations:

The term facility consists 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) (the "Revolver"); (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 "Accordion"). As at June 30, 2024 the Company has not drawn down on the capital expenditure line of credit or the Accordion facilities.

Revolving credit facility of up to $35 million, which is subject to borrowing base requirements. The three-year maturing revolving facility was entered into during April 2024. Interest is payable monthly at Bank Prime plus a margin (between 1.00% and 1.75% based on the Company's total leverage ratio) with repayments and reborrow advances on a revolving basis. The facility is secured substantially by the Company's assets and are guaranteed by it's material subsidiaries. Financial covenants include the following: (i) a total leverage ratio not greater than 3.00 to 1; and (ii) a fixed charge coverage ratio at greater than or equal to 1.15 to 1. As at June 30, 2024 there have been no breaches of financial covenants, and the Company expects to be compliant over the next 12 months.

The following table details the components of long-term obligations:

	June 30, 2024	December 31, 2023
Loan, bearing interest at 1.4956%, in the amount of €89, repayable in equal installments over 72 months, and maturing on December 31, 2026.	**$ 54**	$ 66
Loan, bearing interest at 1.23%, repayable in equal installments of €11 over 67 months plus interest, and maturing on September 30, 2026.	**577**	705
Promissory note on acquisition of Marine equipment, in the amount of $1,145, bearing interest at 6% per annum, repayable in equal monthly instalments over 24 months, and maturing on December 21, 2025.	**872**	1,145
Term revolving credit facility of up to $35,000, bearing interest at bank prime plus margin, interest payable monthly, and maturing on April 18, 2027	**14,684**	-
	$ 16,187	$ 1,916
Less current portion of long-term obligations	**(779)**	(813)
	$ 15,408	$ 1,103

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

11. Long-term obligations (continued):

The following table details the changes in long-term obligations during the period:

Opening balance – January 1, 2024	**$**	**1,916**
Proceeds from long-term obligations		**14,684**
Payment of principal		**(409)**
Foreign exchange		**(4)**
Ending balance – June 30, 2024	**$**	**16,187**

12. Share capital:

Authorized: Unlimited number of common shares

See the condensed consolidated interim statements of changes in shareholders' equity for a summary of changes in share capital and contributed surplus for the period ended June 30, 2024 and the year ended December 31, 2023.

On May 21, 2024 the Company closed a bought deal short form prospectus offering of common shares. 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. Total share issue costs amounted to $1,852 which included the underwriters cash commission equal to 6% as well as legal and accounting fees.

(a) Share purchase warrants

At June 30, 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 shares as calculated on the date of grant.

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

12. Share capital (continued):

The following options were outstanding as at June 30, 2024 and December 31, 2023:

	June 30, 2024		December 31, 2023	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	7,807,500	$ 0.46	9,468,750	$ 0.46
Granted	-	-	575,000	0.53
Exercised	(2,393,750)	0.40	(453,750)	0.40
Forfeiture	(150,000)	0.40	(582,500)	0.40
Expired	-	-	(1,200,000)	0.57
Ending balance	5,263,750	$ 0.42	7,807,500	$ 0.46
Options exercisable	3,509,168	$ 0.42	4,577,084	$ 0.49

Weighted average exercise price	**Expiry date**	**Number outstanding**	**Number exercisable**	**Weighted average remaining contractual life as of June 30, 2024**
$ 0.39	November 29, 2026	25,000	-	2.42 years
0.395	May 3, 2027	4,213,750	3,005,000	2.84 years
0.37	September 6, 2027	50,000	16,667	3.19 years
0.59	December 7, 2027	400,000	266,667	3.44 years
0.63	January 30, 2028	75,000	37,500	3.59 years
0.58	February 27, 2028	100,000	50,000	3.66 years
0.495	November 17, 2028	400,000	133,334	4.39 years
$ 0.42		**5,263,750**	**3,509,168**	**3.36 years**

(c) Restricted shares

The Company has a Restricted Share Unit plan (RSU) 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 less the number of Options issuable pursuant to the Stock Option Plan.

As at June 30, 2024 and December 31, 2023, there were no restricted shares outstanding.

(d) Share-based compensation

During the three and six-month periods ended June 30, 2024, the Company recorded share-based expense totaling $30 and $87 respectively (2023 - $98 and $259 respectively).

There were no options granted during the three-month or six-month periods ended June 30, 2024.

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

13. Government assistance:

During the three-months and six-months ended June 30, 2024, the Company received government assistance in the amount of $596 and $1,178, respectively (2023 - $2,949 and $3,308), respectively. Government assistance for the three-months and six-months ended June 30, 2024 has been classified as a reduction to research and development expense $119 (2023 - $1,247) and $356 (2023 - $1,594), respectively, Administrative expense $(3) (2023 - $52) and $77 (2023 - $64), respectively and construction in progress of $480 (2023 - $1,650) and $745 (2023 - $1,650), respectively.

14. Financing costs:

	Three-months ended		Six-months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Interest on lease liabilities	**$ 86**	$ 85	**$ 161**	$ 161
Letters of credit and other	**291**	243	**604**	477
Amortization of credit facility transaction costs	**182**	-	**182**	-
Accretion of long-term obligations	**-**	90	**-**	177
Fair value adjustment on contingent consideration	**-**	-	**-**	156
	$ 559	$ 418	**$ 947**	$ 971

15. Segmented information:

The Company operates in two 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; and 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 June 30, 2024 and June 30, 2023:

June 30, 2024	**Products**	**Services**	**Consolidated**
Revenue	**$ 19,245**	**$ 3,513**	**$ 22,758**
Cost of sales and expenses	**$ 16,134**	**$ 3,280**	**$ 19,414**
Segment income	**$ 3,320**	**$ 24**	**$ 3,344**
Segment capital expenditures	**$ 1,086**	**$ 9**	**$ 1,095**

June 30, 2023	**Products**	**Services**	**Consolidated**
Revenue	$ 10,493	$ 3,162	$ 13,655
Cost of sales and expenses	$ 5,844	$ 5,576	$ 11,420
Segment income (loss)	$ 4,649	$ (2,414)	$ 2,235
Segment capital expenditures	$ 2,336	$ 384	$ 2,720

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

15. Segmented information (continued):

The following tables present the operations of the Company's reportable segments as at and for the six-months ended June 30, 2024 and restated comparatives for June 30, 2023:

June 30, 2024	**Products**	**Services**	**Consolidated**
Revenue	**$ 35,263**	**$ 8,370**	**$ 43,633**
Cost of sales and expenses	**$ 31,164**	**$ 6,894**	**$ 38,058**
Segment income	**$ 4,099**	**$ 1,476**	**$ 5,575**
Segment capital expenditures	**$ 1,677**	**$ 18**	**$ 1,695**

June 30, 2023	**Products**	**Services**	**Consolidated**
Revenue	$ 15,821	$ 5,412	$ 21,233
Cost of sales and expenses	$ 11,700	$ 8,548	$ 20,248
Segment income (loss)	$ 4,121	$ (3,136)	$ 985
Segment capital expenditures	$ 3,901	$ 407	$ 4,308

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 June 30, 2024	Three-months ended June 30, 2023	**Six-months ended June 30, 2024**	Six-months ended June 30, 2023
Asia Pacific	**1,160**	6,161	**2,817**	6,999
Europe, Middle East and Africa	**5,351**	3,744	**10,400**	5,642
North America	**16,247**	3,591	**30,416**	8,433
Other	-	159	-	159
	$ 22,758	$ 13,655	**$ 43,633**	$ 21,233

16. Commitments:

(a) A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$837 (C$1,135) and US$830 (C$1,145) on advance guarantees secured by Export Development Canada. The letters of credit expire on August 31, 2024 and October 31, 2024, 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 June 30, 2024 is $44.

17. Subsequent events:

Subsequent to June 30, 2024, the Company:

(a) Granted 5,590,000 stock options to certain employees and 400,000 stock options to directors at an exercise price of $1.14.