Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

(Unaudited)

Q3 Fiscal 2018

KRAKEN

September 30, 2018

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

	September 30, 2018	December 31, 2017 *
ASSETS		
Current assets:		
Cash	**$ 1,617,448**	$ -
Trade and other receivables (note 6)	**1,421,952**	1,487,373
Investment tax credits recoverable (note 7)	**-**	350,257
Inventory (note 8)	**2,151,558**	1,530,508
Prepayments (note 9)	**108,432**	90,283
	5,299,390	3,458,421
Note receivable (note 10)	**-**	154,183
Derivative asset (note 10)	**-**	9,491
Investment (note 10)	**-**	30,530
Property and equipment (note 11)	**1,691,965**	1,605,523
Intangibles (note 10)	**2,409,770**	-
TOTAL ASSETS	**$ 9,401,124**	$ 5,258,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 13)	**$ -**	$ 326,448
Trade and other payables	**3,285,892**	3,905,022
Deferred revenue	**2,504,380**	491,266
	5,790,272	4,722,736
Long-term note payable (note 14)	**600,800**	-
Deferred taxes (note 10)	**723,000**	-
Shareholders' equity:		
Share capital (note 15)	**12,186,810**	6,008,347
Contributed surplus	**1,544,643**	2,157,803
Non-controlling interests	**205,303**	-
Accumulated other comprehensive loss	**(449,579)**	(271,501)
Deficit	**(11,200,125)**	(7,359,237)
	2,287,052	535,412
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 9,401,124**	$ 5,258,148

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 4.

Going concern (note 2)   Commitment (note 20)   Subsequent event (note 21)

On Behalf of the Board:

"Karl Kenny" Director   ***"Shaun McEwan"*** Director

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

	Three months ended		Nine months ended	
	Sept 30, 2018	**Sept 30, 2017 ***	**Sept 30, 2018**	**Sept 30, 2017 ***
Product Revenue	**$ 1,430,474**	$1,008,244	**$ 5,037,508**	$ 1,416,659
Service Revenue	**134,634**	577,420	**176,302**	577,420
Other Revenue	**9,227**	-	**9,227**	-
	1,574,335	1,585,664	**5,223,037**	1,994,079
Cost of sales (note 8)	**1,519,502**	419,694	**3,170,391**	1,095,438
	54,833	1,165,970	**2,052,646**	898,641
Administrative expenses	**1,067,472**	550,856	**2,649,097**	1,766,510
Research and development costs	**1,047,682**	449,899	**2,393,125**	1,437,334
Share-based compensation (note 15(d))	**90,100**	18,100	**201,500**	130,700
Investment tax credits recoverable	**-**	-	**(320,807)**	(96,174)
Income (loss) from operating activities	**(2,150,421)**	147,115	**(2,870,269)**	(2,339,729)
Foreign exchange loss (gain)	**(16,228)**	25,264	**47,060**	72,945
Financing costs – line of credit	**7,548**	12,140	**42,898**	18,984
Bargain purchase gain (note 10)	**(677,593)**	-	**(677,593)**	-
Loss on disposal of assets	**2,221**	-	**2,221**	-
Gain on sale of investment (note 18)	**-**	-	**-**	(707,562)
Net Income (loss) for the period	**$ (1,466,369)**	$ 109,712	**$ (2,284,855)**	$ (1,724,095)
Net income loss attributed to:				
Shareholders of Kraken Robotics Inc.	**(1,445,808)**	$ 109,712	**(2,264,294)**	$ (1,724,095)
Non-controlling interests	**(20,561)**	-	**(20,561)**	-
	$ (1,466,369)	$ 109,712	**$ (2,284,855)**	$ (1,724,095)
Basic and diluted income (loss) per share	**$ (0.01)**	$ 0.00	**$ (0.02)**	$ (0.02)
Basic and diluted weighted average number of shares outstanding	**119,906,933**	90,794,938	**100,761,196**	86,269,666

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 4.

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

	Three months ended		Nine months ended	
	Sept 30, 2018	**Sept30, 2017 ***	**Sept 30, 2018**	**Sept 30, 2017 ***
Income (loss) for the period	**$ (1,466,369)**	$ 109,712	**$ (2,284,855)**	$ (1,724,095)
Other comprehensive loss				
Items that may be reclassified to profit or loss				
Currency translation adjustment	**(15,983)**	(152,572)	**(178,078)**	(211,678)
Other comprehensive loss for the period	**(15,983)**	(152,572)	**(178,078)**	(211,678)
Comprehensive loss for the period	**$ (1,482,352)**	$ (42,860)	**$ (2,462,933)**	$ (1,935,773)
Comprehensive loss attributed to:				
Shareholders of Kraken Robotics Inc.	**(1,461,791)**	$ (42,860)	**(2,442,372)**	$ (1,935,773)
Non-controlling interests	**$ (20,561)**	-	**$ (20,561)**	-
	$ (1,482,352)	($ (42,860)	**$ (2,462,933)**	$ (1,935,773)

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 4.

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Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian Dollars)

2018	**Number of Shares**	**Share capital (note 13)**	**Contributed Surplus**	**Cumulative Translation Adjustment**	**Non -Controlling Interest**	**Deficit**	**Total**
Balance at December 31, 2017	**90,992,740**	**$ 6,008,347**	**$ 2,157,803**	**$ (271,501)**	**$ -**	**$ (7,359,237)**	**$ 535,412**
Adjustment to deficit - change in accounting policy (note 4)	-	-	-	-		**(1,576,594)**	**(1,576,594)**
Balance at January 1, 2018	90,992,740	**6,008,347**	2,157,803	**(271,501)**	-	**(8,935,831)**	**(1,041,182)**
	-	-	-	-	**(20,561)**	**(2,264,294)**	**(2,284,855)**
Net loss							
Other comprehensive loss	-	-	-	**(178,078)**			**(178,078)**
Non-Controlling interest (note 10 (b))	-	-	-	-	**225,864**	-	**225,864**
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on private placement	**22,234,285**	**3,142,900**	**661,100**	-		-	**3,804,000**
Issue of common shares on warrant exercises	**6,320,908**	**1,966,183**	**(404,571)**	-		-	**1,561,612**
Issue of common shares as Finder's fee	**9,000**	**1,260**	-	-		-	**1,260**
Issue of common shares on exercise of stock options	**350,000**	**61,200**	**(14,700)**	-		-	**46,500**
Expiry of warrants	-	**1,056,489**	**(1,056,489)**	-		-	-
Share-based compensation (note 13)	-	-	**201,500**	-		-	**201,500**
Share issue costs	-	**(49,569)**					**(49,569)**
Shareholders' equity as at September 30, 2018	**119,906,933**	**$ 12,186,810**	**$ 1,544,643**	**$ (449,579)**	**$ 205,303**	**$ (11,200,125)**	**$ 2,287,052**

2017	**Number of Shares**	**Share capital (note 10)**	**Contributed Surplus**	**Cumulative Translation Adjustment**	**Non -Controlling Interest**	**Deficit**	**Total**
Balance at January 1, 2017 *	**78,519,414**	**$ 4,086,270**	**$ 1,647,963**	$ -	$ -	**$ (4,962,008)**	**$ 772,225**
Net loss	-	-	-	-	-	**(1,724,095)**	**(1,724,095)**
Other comprehensive loss	-	-	-	**(211,678)**	-	-	**(211,678)**
Transactions with shareholders, recorded directly in equity:							
Issue of common shares on private placement	11,806,660	1,840,299	284,900	-	-	-	**2,125,199**
Issue of common shares on warrant exercises	466,666	111,000	(41,000)	-			**70,000**
Issue of common shares for debt settlement	-	-	-	-	-	-	-
Share issue costs	-	(85,882)	-	-	-	-	**(85,882)**
Share-based compensation	-	-	130,700	-	-	-	**130,700**
Shareholders' equity as at September 30, 2017 *	**90,792,740**	**$ 5,951,687**	**$ 2,022,563**	**$(211,678)**	**-**	**$ (6,686,103)**	**$ 1,076,470**

* The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 4.

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Condensed Consolidated Interim Statements of Cash Flow
(Unaudited)
For the Nine Months Ended Sept 30, 2018 and 2017
(Expressed in Canadian Dollars)

	Sept 30, 2018	Sept 30, 2017 *
Cash flows used in operating activities		
Net loss	**$ (1,836,603)**	$ (1,724,095)
Adjustments for items not involving cash:		
Depreciation	**183,330**	92,168
Share-based payments	**201,500**	130,700
Non-cash finance costs	**-**	949
Investment Tax Credit	**-**	(96,174)
Bargain purchase gain (note 10)	**(677,953)**	-
Gain on sale of investment	**-**	(707,562)
Loss on disposal of property, plant and equipment	**2,168**	-
Changes in non-cash working capital	**(1,843,132)**	652,264
Net cash flows used in operating activities	**(3,970,690)**	(1,651,750)
Cash flows from (used in) investing activities		
Proceeds on disposal of investment (note 10)	**-**	864,882
Investment, note receivable and derivative asset (note 10)	**-**	(192,691)
Purchase of property, plant and equipment	**(47,314)**	(492,078)
Net cash acquired on acquisition of Kraken Power (note 10)	**599,324**	-
	552,010	180,113
Cash flows from (used in) financing activities		
Proceeds from private placement of shares and units	**3,805,250**	2,125,199
Proceeds from exercise of warrants and options	**1,608,012**	70,000
Share issue costs	**(49,569)**	(85,882)
Decrease in bank indebtedness	**(326,448)**	(150,000)
	5,037,245	1,959,317
Net increase in cash	**1,618,565**	487,680
Effect of foreign exchange on cash	**(1,118)**	1,479
Cash at beginning of period	**-**	85,650
Cash at end of period	**$ 1,617,448**	**$ 574,809**

*The Company applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. Refer to note 4.

1. Corporate Information:

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

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

2. Going concern:

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern, as the Company experienced significant losses and negative cash flows from operations since inception and at September 30, 2018 has working capital deficit of $490,882 and a deficit of $11,200,125 (December 31, 2017 working capital deficit of $1,264,315 and a deficit of $7,359,237).

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities when due is dependent on its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and/or upon securing additional financing. The timing and availability of additional financing will be determined largely by the performance of the Company and market conditions and there is no certainty that the Company will be able to raise funds as they are required in the future.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary in the carrying amount of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

3. 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 as issued by the International Accounting Standards Board ("IASB"). 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, 2017, except as noted below and in Note 4.

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, 2017.

This is the first year where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are disclosed in note 4.

These consolidated financial statements were approved by the Board of Directors on November 29, 2018.

3. Basis of presentation (continued):

(b) Basis of measurement and reclassification of comparative figures

These consolidated interim financial statements have been prepared on a historical cost basis, except for investment and note receivable, which are recorded at fair value through profit or loss.

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

(c) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value. The acquired identifiable assets and assumed liabilities are measured at their fair value at the date of acquisition. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred.

(d) Accounting estimates and judgments:

The significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017, except as noted below and for significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, as described in note 4.

i) Business Combinations

The Company recognizes the consideration paid, assets acquired and liabilities assumed at their acquisition date fair values, recognizing any goodwill acquired or gain on purchase. The purchase price allocation requires significant judgements in the identification of the acquired assets and assumed liabilities. To determine the fair values of the identified assets and liabilities the Company will use the discounted cash flow method and other accepted valuation techniques that require assumptions about business strategies, growth rates, operating costs, discount rates and other economic factors.

The Company's assessment that it has control over an entity when it owns less than 50% of ownership interest requires significant judgement and consideration of 'de-facto' control. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. In other cases, the assessment of control may be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements. An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.

For business combinations, the acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. However, acquisition date may differ from this date if the Company obtains control on a date that is either earlier or later than this date. For example, the acquisition date precedes the closing date if a written agreement provides that the Company obtains control of the acquiree on a date before the closing date. The Company considers all pertinent facts and circumstances in identifying the acquisition date.

4. Adoption of new accounting pronouncements:

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

4. Adoption of new accounting pronouncements (continued):

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 has adopted IFRS 15 with a date of initial application of January 1, 2018 using the cumulative effect method of adoption, and accordingly the comparative figures in 2017 in the Company's unaudited condensed interim consolidated financial statements have not been restated.

The Company's revenue is derived from product sales and services. Revenue is recognized upon transfer of control of promised products or services to the customers and at an amount that reflects the consideration the Company expects to receive in exchange for those products and services. Professional services are primarily related to contract research, training and integration.

Product revenue is generally recognized at a point in time upon delivery to the customer. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. In certain contracts, there is significant integration work to enable the Company's product to work on the customer's vessel or underwater vehicle. This is the case on some legacy contracts that include both product and integration in one contract. In these contracts (and where the Company only can provide the integration work), revenue is recognized not upon shipment to the customer, but upon final integration with the customer's equipment.

Service revenue is recognized over time as the services are delivered to the customer. When contracted on a fixed fee basis, revenue is generally recognized progressively by reference to the stage of completion of the contract, measured by the cost incurred to date in relation to the total expected cost to complete the deliverable, commonly referred to

as the percentage-of-completion method. For contracts billed on a time and materials basis, the Company invoices the customer and recognizes revenue equal to the amount of time incurred during the period. If the estimated cost to complete a contract increases over the life of the contract resulting in a loss on the contract, the loss is recognized immediately into the consolidated statement of loss and comprehensive loss.

When a contract includes more than one performance obligation, the total amount of consideration to be received is allocated to distinct products and services based on the stand-alone selling price ("SSP") for each of the products and services in the customer contract, which is typically determined based on the price at which the Company separately sells or would separately sell each product or service.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Significant judgments and estimates:

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgements and estimates. The Company uses judgement to assess if its products and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In arrangements with multiple performance obligations, estimates are required to allocate revenue to each performance obligation in the contract.

For service contracts, the Company exercises judgement in determining the appropriate measure of progress for recognizing revenue over time. Estimates of proportional performance are required to recognize revenue including effort spent to date versus the total expected effort to deliver the services. When a percentage of completion estimate

4. Adoption of new accounting pronouncements (continued):

is used, estimates related to cost to complete are routinely revised based on changes in the facts relating to each contract.

Impact of Adoption of IFRS 15:

The Company applied IFRS 15 using the cumulative effect method and has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. The comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Previously, the Company recorded revenue from product sales using the percentage of completion basis. At the date of application of IFRS 15, the specific contracts in progress at the time did not meet the criteria in IFRS 15 to permit the recognition of revenue over time. As a result, amounts received in respect of such product sales have been reclassified from revenue to deferred revenue and amounts recorded in cost of sale have been reclassified to work on progress. The following table summarizes the impact of the transition to IFRS 15 on the Company's opening deficit at January 1, 2018:

	Balances as at December 31, 2017	**IFRS 15 Adjustments**	**Balances as at January 1, 2018**
Assets			
Trade and other receivables	$ 1,487,373	**$ (885,833)**	$ 601,540
Inventory WIP	1,530,508	**1,197,785**	2,728,293
Liabilities			
Deferred Revenue	(491,266)	**(1,888,546)**	(2,379,812)
Equity			
Deficit	7,359,237	**1,576,594**	8,935,831

The following tables summarize the impact of adopting IFRS 15 on the Company's interim condensed consolidated financial statements as at, and for the three and nine months ended September 30, 2018. There was no material impact on the Company's interim statement of cash flows for the three or nine months ended September 30, 2018 and there was no impact on the statement of financial position at September 30, 2018 as all contracts impacted at the date of transition were delivered and all related revenue was recognized by September 30, 2018.

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

Three Months Ended September 30, 2018	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Product revenue	$ 1,574,335	(1,282,170)	$ 292,165
Cost of sales	1,519,502	(527,902)	991,600
Net loss	$ (1,018,117)	(754,268)	$ (1,772,385)
Nine Months Ended September 30, 2018	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Product revenue	$ 5,223,037	(2,774,379)	$ 2,448,658
Cost of sales	3,170,391	(1,197,785)	1,972,606
Net loss	$ (1,836,603)	(1,576,594)	$ (3,413,197)

4. Adoption of new accounting pronouncements (continued):

IFRS 9, Financial Instruments:

IFRS 9, Financial Instruments, replaces 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 initial application date for IFRS 9 is January 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables, and available for sale. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Cash and cash equivalents, and receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of these financial assets.

The investment in Kraken Power GmBH is classified as fair value through profit or loss. The note receivable and embedded conversion option that were previously accounted for separately under IAS 39 are classified together under IFRS 9 as fair value through profit or loss, whereas under IAS 39, the note receivable was measured at amortized cost and the derivative asset was carried at fair value through profit or loss.

IFRS 9 also replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. ECL's are a probability-weighted estimate of credit losses. The Company calculated ECL's based on consideration of customer-specific factors and factual credit loss experience over the past five years. Excluding a bad debt expense from a single customer in 2016 the Company's actual credit loss has not been material. There was no impact to the financial statements on the adoption of IFRS 9.

5. Significant accounting policies:

(a) Application of new or revised IFRS and interpretations:

Amendments to IFRS 2, Share-based Payments:

In June 2016, the IASB issued amendment to IFRS 2, Shares-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company has adopted the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company has evaluated the impact on the financial statements of the Amendments to IFRS 2 and concluded there was no impact to the financial statements.

(b) Future changes in accounting policies:

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these consolidated financial statements.

5. Significant accounting policies (continued):

IFRIC 23, Uncertainty over Income Tax Treatments:

The Interpretation provides guidance on the accounting for current and deferred tax labilities and assets in circumstances in which there is uncertainty over income tax treatments. It requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution. Probability will be determined whether the tax authorities will accept the uncertain tax treatment, and if it is not probable that the uncertain tax treatment will be accepted, they will measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the Interpretation to have a material impact on the financial statements.

IFRS 16, Leases:

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

6. Trade and other receivables:

Trade and other receivables consist of the following:

	September 30, 2018	**December 31, 2017**
Trade and unbilled receivables	$ 697,708	$ 1,054,958
Government assistance receivable and other	724,244	432,415
	$ 1,421,952	$ 1,487,373

7. Investment tax credit receivable

At September 30, 2018, the Company had filed and received its Scientific Research and Experimental Development (SR&ED) Expenditures Claim refund of $320,807 for the year ended December 31, 2017 (December 31, 2017 - $350,257) from the Canada Revenue Agency (CRA). The December 31, 2017 balance represents SR&ED for the years ending 2015 and 2016 which were subsequently paid during the first three months ending March 31, 2018.

8. Inventory

Cost of sales for the three months and nine months ended September 30, 2018 included inventory of $1,292,630, and $2,425,735, respectively (2017 - $120,773 and $439,177).

9. Prepayments

As at September 30, 2018, the Company had made prepayments of $42,214 (2017 - $146,591) towards inventory

10. Acquisition of Kraken Power

During the second quarter of 2017, the Company acquired a minority interest in ENITECH Subsea GmbH of Rostock, Germany and that company has been renamed Kraken Power GmbH. Under the agreement, Kraken took a 19.9% equity interest for €20,520 ($30,530) and provided a €110,000 (CAD $168,960) convertible loan. The loan pays interest at 5% per annum and has a term of three years. Through the conversion of the loan to equity and a further investment capped at €200,000, the Company may acquire a further 55.1% equity interest, for an aggregate 75% ownership stake position, in Kraken Power GmbH. The Company has announced its intention to exercise its option to increase its ownership of Kraken Power to 75%.

During the current quarter, the Company acquired a significant contract with a customer in which Kraken Power was subcontracted to complete the work. On issuing the purchase order to Kraken Power and transferring initial funds to finance the contract on August 14, 2018, the Company determined that it has the practical ability to direct the relevant activities of Kraken Power and has consolidated Kraken Power with a 25% non-controlling interest, effective August 14, 2018.

The preliminary purchase price equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The following table reflects the preliminary acquisition accounting and the fair value of the net assets acquired at the acquisition date:

Net Assets Acquired		**Euros €**		**Canadian $**
Cash	€	399,017	$	599,324
Accounts Receivable		291,873		438,393
Inventory		685,458		1,029,558
Prepaids and other		2,737		4,111
Fixed Assets		149,499		224,547
Intangibles		1,604,375		2,409,771
Trade payables & other liabilities		1,399,772		2,102,458
Long-term debt		400,000		600,800
Deferred tax liability		(481,000)		(723,000)
Net Assets	**€**	**852,187**	**$**	**1,279,447**
Less: Minority interest		(150,417)		(225,864)
Less: Excess fair value of net assets acquired over consideration paid		(451,250)		(677,593)
Net Assets Acquired	**€**	**250,520**	**$**	**375,990**

Consideration		**Euros €**		**Canadian $**
Cash paid to date for 19.9%	€	20,520	$	30,821
Convertible Loan and accrued interest	€	118,800	$	178,147
Amount Payable	€	111,200	$	167,022
Total Consideration	**€**	**250,520**	**$**	**375,990**

The fair value of net assets acquired and total consideration have been determined provisionally and are subject to adjustment. Upon finalization of the purchase price allocation, intangibles may be adjusted retrospectively to the acquisition date in future reporting periods. Kraken has one year to finalize the fair value of the assets acquired and liabilities assumed. The majority of the acquired intangibles relate to customer contracts and customer relationships, which will be amortized on a straight-line basis over periods of up to three years.

11. Property and equipment

	Furniture and Equipment	Computer equipment	Computer software	Leasehold improvements	AUV Vehicle	Total
Cost						
Balance at December 31, 2016	**$ 92,181**	**$ 56,359**	**$ 121,146**	**$ 104,888**	**$ -**	**374,574**
Additions (adjustments)	26,590	34,785	(121,146)	10,789	1,489,175	1,440,193
Balance at December 31, 2017	**$ 118,771**	**$ 91,144**	**$ -**	**$ 115,677**	**$ 1,489,175**	**1,814,767**
Additions	17,208	30,106	-	-	-	47,314
Kraken Power	191,179	33,447				224,626
Disposals	-	(4,005)	-	-	-	(4,005)
Balance at September 30, 2018	**$ 327,158**	**$ 150,692**	**$ -**	**$ 115,677**	**$ 1,489,175**	**$ 2,082,702**
Depreciation						
Balance at December 31, 2016	**$ 19,747**	**$ 20,488**	**$ 37,960**	**$ 37,019**	**$ -**	**$ 115,214**
Depreciation (adjustments)	12,192	23,784	(37,960)	18,763	77,251	94,030
Balance at December 31, 2017	**$ 31,939**	**$ 44,272**	**$ -**	**$ 55,782**	**$ 77,251**	**$ 209,244**
Depreciation	12,166	17,094	-	14,459	139,610	183,330
Disposal		(1,836)				(1,836)
Balance at September 30, 2018	**$ 44,105**	**$ 59,531**	**$ -**	**$ 70,241**	**$ 216,861**	**$ 390,736**
Carrying amounts						
At December 31, 2016	**$ 72,434**	**$ 35,871**	**$ 83,186**	**$ 67,869**	**$ -**	**$ 259,360**
At December 31, 2017	**$ 86,832**	**$ 48,872**	**$ -**	**$ 59,895**	**$ 1,411,924**	**$ 1,605,523**
At September 30, 2018	**$ 283,055**	**$ 91,162**	**$ -**	**$ 45,436**	**$ 1,272,314**	**$ 1,691,965**

12. 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:

	September 30, 2018	December 31, 2017
Trade and other receivables	1,421,952	1,487,373
Note receivable	-	154,183
Derivative asset	-	9,491
Share subscription receivable	76,833	76,833
	$ 1,498,785	$ 1,727,880

Revenues from the top 2 customers represented 92% and 66% of the Company's revenue in both the three and nine months ended September 30, 2018, respectively (2017 – top 3 customers represented 83% and 66%). At September 30, 2018, 51% of the trade receivables balance was owing from 2 customers (2017 – 89% of the trade receivables was owing from 2 customers). At September 30, 2018, the Company had recorded deferred revenues of $2,504,380 (September 30, 2017 – $1,042,214)

12. Financial instruments (Continued):

The share subscription receivables relate to the exercise price for options issued to employees and subsequently exercised. It is recorded as a reduction of share capital.

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 September 30, 2018, the Company had a cash balance of $1,617,448 (December 31, 2017 - $nil) to settle current liabilities of $5,790,272 (December 31, 2017 - $4,722,736). At September 30, 2018, an amount of $826,100 (Euro 550,000) was included in trade payable, representing the remaining payments of the acquisition of a next generation Autonomous Underwater Vehicle (AUV) from the Fraunhofer Institute. Refer to note 2 for discussion of going concern risk.

Market Risk:

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

(a) Interest rate risk

At September 30, 2018, the Company has cash balances of $1,617,448 and has drawn $Nil against its line of credit. The Company is exposed to interest rate risk on its line of credit balance.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales in USD, GBP and EUR, certain purchases of inventory in USD, GBP and EUR, and its note receivable in EUR. 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:

	September 30, 2018	December 31, 2017
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 100,666	$ 452,534
Trade and other payables GBP	2,000	202,342
Trade and other payables EUR	2,494,277	544,026
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	456,646	151,184
Trade and other receivables GBP	-	-
Trade and other receivables, note receivable and investment EUR	335,811	608,406

For the nine months ended September 30, 2018, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound and Euro to Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately $497,568 and $125,353 (2017 - $175,000 and $106,000 respectively).

Fair Value:

During the nine months ended September 30, 2018, 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:

September 30, 2018	**Level 1**	**Level 2**	**Level 3**
Financial assets classified as loans and receivables:			
Cash	$ 1,617,448	$ -	$ -
Trade and other receivables	-	1,421,950	-
Share subscription receivables	-	76,833	-
Financial liabilities at amortized cost:			
Trade and other payables		3,285,893	-

December 31, 2017	**Level 1**	**Level 2**	**Level 3**
Financial assets classified as loans and receivables:			
Trade and other receivables	$ -	$ 1,487,373	$ -
Investment tax credit recoverable	-	350,257	-
Note receivable	-	154,183	-
Derivative asset	-	-	9,491
Investment	-	-	30,530
Share subscription receivables	-	76,833	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	326,448	-
Trade and other payables	-	3,905,022	-

13. Bank indebtedness:

At September 30, 2018, the Company had a $250,000 line of credit for general operating purposes (the “operating line”). The operating line bears interest at the bank’s prime rate plus 2%, payable monthly. As at September 30, 2018, a total of $Nil (December 31, 2017 - $326,448) was drawn against this facility.

In February 2018 the Company entered into a non-revolving term loan facility with Royal Bank Canada backed by a customer contract not yet billed for $750,000. The loan bears Interest at prime plus 2.1% and was paid in full by June 30, 2018.

14. Long Term Liabilities:

At September 30, 2018, the Company’s subsidiary Kraken Power GmbH had a long-term liability consisting of a €400,000 loan with a German regional economic development organization due March 31, 2023. The loan has a profit participation feature whereby if Kraken Power is profitable, the lender will receive 1.5% of the profits up to an annual cap of €6,000. The loan currently bears interest at 8.5% and is unsecured.

15. Share capital:

Authorized: Unlimited number of common shares

See the consolidated statements of changes in shareholders’ equity (deficiency) for a summary of changes in Share capital and Contributed surplus for the periods ended September 30, 2018 and 2017

(a) Private Placement

On April 11, 2017, the Company closed a non-brokered private placement of 11,806,660 units (the “Units) at a purchase price of $0.18 per Unit for aggregate gross proceeds of $2,125,199. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a

15. Share capital (continued):

"Warrant"), with each warrant exercisable to acquire one common share at $0.30 for a period of 24 months from the date of issuance. The Company paid cash finder's fee of $12,600 and issued 191,333 finders warrants.

On February 26, 2018, the Company closed a non-brokered private placement of 10,714,285 common shares (the "Shares") at a price of $0.14 per Share for aggregate gross proceeds of $1,500,000. The Company issued 9,000 finders shares in connection with the offering.

On June 28, 2018 the Company closed a non-brokered private placement of 11,520,000 units (the "Units") to Ocean Infinity Ltd at a purchase price of $0.20 per Unit for aggregate gross proceeds of $2,304,000. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"), with each Warrant exercisable to acquire one common share at $0.40 for a period of 36 months from the date of issuance.

(b) Share purchase warrants

On February 18, 2015, as part of the reverse-takeover of Anergy Capital Inc. ("RTO")the lenders of a $2,109,500 bridge loan to Kraken Robotic Systems Inc. converted the indebtedness into 14,063,326 common shares in the Company. On conversion of the bridge loan, the lenders also received share purchase warrants convertible into the same number of shares exercisable at a price of $0.15 per warrant for a period of thirty-six (36) months from the date of issuance.

Two grants of warrants were issued pursuant to a private placement completed by Anergy in October 2014, prior to completion of the RTO:

i) Each full Warrant A warrant entitled the holder thereof to acquire one common share of the Company at a price of $0.15 after adjusting for the consolidation (or $0.0666666 prior to consolidation). During the year ended December 31, 2016, 58,333 (2015 – 111,111) warrants were exercised for proceeds of $8,750 (2015 - $16,666). The weighted average share price on the dates on which the warrants were exercised during the year was $0.20 (2015 - $0.17). On October 14, 2016, the remaining 275,000 warrants expired unexercised.

ii) Each full Warrant B warrant entitled the holder to acquire one common share at a price of $0.40 after adjusting for the consolidation (or $0.17777777 prior to consolidation). A total of 444,444 warrants expired unexercised on October 14, 2016.

A total of 3,579,767 share purchase warrants were issued in August 2016 upon closing the non-brokered private placement offering.

A further 116,666 share purchase warrants were issued in August 2016 in respect of a debt settlement arrangement.

In April 2017, the Company issued an additional 5,903,330 share purchase warrants in connection with the closing of a non-brokered private placement offering.

In February 2018, 2,221,742 warrants were exercised at a price of $0.15 while 11,174,918 warrants expired unexercised.

In June 2018, the Company issued 5,760,000 share purchase warrants in connection with the closing of a non-brokered private placement offering.

In August 2018, 678,334 warrants were exercised early at a price of $0.30. In the same period 2,642,500 warrants were exercised at a price of $0.30 while 288,933 warrants expired unexercised.

In August 2018, 116,666 warrants were exercised at a price of $0.30 in connection with a debt settlement arrangement from August 2016.

In August 2018, 11,666 finder's warrants were exercised at a price of $0.18.

15. Share capital (continued):

In September 2018, 650,000 warrants were exercised at a price of $0.30

Share purchase warrant transactions are summarized for the periods ending September 30, 2018 and December 31, 2017:

	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening balance	22,996,423	$ 0.21	17,759,759	$ 0.18
Issued for private placement	5,760,000	0.40	5,903,330	0.30
Warrants exercised	(6,320,908)	0.25	(666,666)	0.15
Warrants expired	(11,463,851)	0.15	-	-
Ending balance	10,971,664	$ 0.35	22,996,423	$ 0.21
Warrants exercisable	10,971,664	$ 0.35	22,996,423	$ 0.21

At September 30, 2018 and December 31, 2017, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	September 30, 2018	December 31, 2017	Weighted Average Remaining Contractual Life
February 18, 2018	$0.15	Nil	13,396,660	Nil
August 12, 2018	$0.30	Nil	3,579,767	Nil
August 22, 2018	$0.30	Nil	116,666	Nil
April 11, 2019	$0.30	5,211,664	5,903,330	0.53 years
June 21, 2021	$0.40	5,760,000	-	2.72 years
	$0.35	**10,971,664**	**22,996,423**	**3.25 years**

(c) Share options

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

15. Share capital (continued):

The following options were outstanding as at September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	7,130,000	$ 0.18	4,960,000	$ 0.21
Granted	1,650,000	0.18	2,670,000	0.18
Exercised	(250,000)	0.19	(100,000)	0.17
Expired	(1,575,000)	0.24	(400,000)	0.25
Ending balance	6,955,000	$ 0.197	7,130,000	$ 0.19
Options exercisable	4,233,333	$ 0.196	4,204,167	$ 0.21

During the year, 250,000 stock options were exercised. In addition, 100,000 options were exercised in late 2017, but the shares were not issued until early 2018. As such, the statement of changes in equity reflects the issuance of 350,000 shares during the nine months ended September 30, 2018. All share options had exercise prices that were higher or equal to market prices at the date of grant.

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.15	October 12, 2019	600,000	500,000	1.03 years
0.15	December 1, 2019	300,000	200,000	1.17 years
0.21	June 1, 2020	2,000,000	2,000,000	1.67 years
0.17	September 8, 2020	350,000	233,333	1.94 years
0.18	October 4, 2020	300,000	100,000	2.01 years
0.18	December 15, 2020	1,755,000	575,000	2.21 years
0.185	February 20, 2021	450,000	225,000	2.39 years
0.21	June 21, 2021	200,000	66,667	2.73 years
0.26	July 18, 2021	1,000,000	333,333	2.80 years
$ 0.188		**6,955,000**	**4,233,333**	**2.00 years**

(d) Share-based compensation

During the three-month and nine-month period ended September 30, 2018, the Company recorded share-based compensation totaling $90,100 and $201,500 respectively (2017 - $18,100 and $130,700), which was expensed in operations with a corresponding increase in contributed surplus.

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

The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

15. Share capital (continued):

	Nine Months ended September 30, 2018	Nine Months ended September 30, 2017
Risk-free interest rate	0.96 to 1.95%	0.61 to 0.96%
Expected life of options	3 years	3 years
Expected volatility	118% to 211%	223 to 229%
Weighted average fair value per option	$0.11 to $0.18	$0.11 to $0.15
Dividend yield	Nil	Nil

(e) Escrowed shares

At September 30, 2018, there are a total of nil (2017 – 7,647,107) common shares subject to escrow restrictions. The last escrow shares were released on February 18, 2018.

16. Capital management:

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

The Company's capital structure consists of shareholders' equity, and bank indebtedness and short-term note payable. The Company makes adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue new debt and sell assets to reduce debt.

17. Government assistance:

During the three and nine months ended September 30, 2018, the Company received government assistance in the amount of $320,238 and $530,456 respectively (2017 - $340,413 and $878,128). Government Assistance that was previously reported separately in 2017 has been reclassified as a reduction to Cost of Sales, and Research & Development expense. The table below identifies the reclassification for the 2017 quarters.

	Government Assistance ($)	Cost of Sales ($)	Research & Development Costs ($)
Q4 2017	688,812	(273,693)	(415,119)
Q3 2017	340,413	(114,751)	(225,662)
Q2 2017	253,041	(72,824)	(180,217)
Q1 2017	284,674	(68,593)	(216,081)

18. Gain on sale of investment:

During 2016, the Company entered into an agreement with Square Robot, Inc., a private US-based company, in respect of the co-design of small robots for large above ground storage tanks. Pursuant to the agreement, as at December 31, 2016, the Company had invested CAD$157,320 (US$120,000) in the company.

During the first quarter of Fiscal 2017, the Company disposed of its investment in Square Robot Inc., a non-core asset, for consideration of US$700,000, half of which was received on February 28, 2017, with the balance in the form of a note receivable due no later than June 27, 2017. Subsequently, the Company reduced the amount owing from $458,835 (US$350,000) to $393,287 (US$300,000) in exchange for early settlement of the note receivable which occurred on May 15, 2017. The net result of this activity was a gain on sale of investment of $707,562.

19. Segmented information:

The Company operates in one reportable operating segment, being the design, manufacture and sale of underwater sonar and acoustic sensor equipment. The summarized financial information for revenue derived by geographic segment is as follows:

	Three months ended September 30, 2018	Nine months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2017
Total revenues:				
Canada	$ 48,046	$ 48,046	$ 899,426	$ 899,426
Israel	1,474,629	1,474,629	-	271,140-
Italy	-	76,746	-	-
France	4,926	78,894	424,463	424,463
Germany	19,071	2,041,637	172,104	266,377
United Kingdom	2,320	1,019,166	-	-
United States	-	458,575	86,757	86,757
Other	25,344	25,344	2,914	45,916
	$ 1,574,335	$ 5,223,037	$ 1,585,664	$ 1,994,079

20. Commitment:

The following is a summary of the minimum contractual obligations and commitments as at September 30, 2018:

	2018	2019	2020	2021	2022
Operating Leases	$ 95,182	$ 216,084	$ 120,971	$ 40,648	$ 0
Research and Development*	115,335	461,340	461,340	461,340	-

*Note: The Company has entered into an agreement with Fraunhofer Institute of Optronic, System Technologies and Image Exploitation (“Fraunhofer IOSB”) of Germany whereby it has committed to grant research and development projects to Fraunhofer IOSB of a minimum EUR 300,000 over a period of five years, commencing in 2017. No such grants of research projects have been made to September 30, 2018.

Note: During the month of September 2018, the building that housed the main corporate office in St. John’s, NL was sold to new owners with the intention to demolish and reconstruct during 2019. The Company is in receipt of a termination notice effective March 31, 2019 and is currently evaluating alternate space and expects to execute a contract prior to year end 2018.

20. Commitment (continued):

The Company currently has five lease agreements, as follows:

(i) an office lease in Nova Scotia effective September 1, 2018 at a rate of $6,775 including rent and operating costs that expires June 30, 2021

(ii) a production facility lease in Newfoundland and Labrador at a rate of $5,833 per month rent only that expires on May 19, 2019;

(iii) an office lease in Newfoundland at a rate of $13,790 per month including rent and estimated operating costs that expires on March 31, 2019;

(iv) New facility lease Apr 1, 2018 at **€**2,150 per month including rent and operating, six month commitment that expires month to month following the six month initial term

(v) portable modular trailer lease $570 per month rent only expires September 16, 2018; and

(vi) Rental lease month to month unlimited at **€**4,338 per month including rent and operating

21. Subsequent events:

Subsequent to September 30, 2018, the Company:

(a) Subsequent to quarter end received proceeds of $631,666 from the exercise of 2,105,554 warrants at $0.30 per warrant.

(b) In November 2018, Kraken was awarded a contract by Canada's Department of Defense Canada for $468,000 whereby Kraken will provide testing, repairs, integration, and upgrading of an AquaPix INSAS sensor originally sold for DND's Explorer AUV in 2014.

(c) Under a $9 million deep-sea battery contract announced on August 1, 2018, Ocean Infinity issued an initial $2.5 million purchase order to Kraken with the next $6.5 million purchase order expected in Q1 2019. In November, Ocean Infinity issued the second purchase order ($6.5 million) to Kraken to accelerate the delivery schedule, with all battery shipments now planned to start at the end of 2018 and finishing in Q3 2019. This is an acceleration of approximately six months from the previous schedule. In order to help facilitate the delivery schedule and Kraken's working capital requirements as it scales battery production, Kraken is able to invoice Ocean Infinity in November and January for advance payments of approximately $4.9 million.