

*A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada, excluding Québec, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.*

*The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States, and may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories, possessions or the District of Columbia (the "United States") or to a U.S. person (as such term is defined in Regulation S under the U.S. Securities Act) (a "U.S. Person") unless exemptions from the registration requirements of the U.S. Securities Act and any applicable state securities laws are available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States or to, or for the account or benefit of, any U.S. Person, see "Plan of Distribution".*

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Kraken Robotics Inc. at 189 Glencoe Drive, Mount Pearl, NL, A1N 4P6, telephone 709-757-5757, and are also available electronically at [www.sedar.com](http://www.sedar.com) ("**SEDAR**").

## PRELIMINARY SHORT FORM PROSPECTUS

New Issue

October 7, 2020



**KRAKEN ROBOTICS INC.**

**\$10,050,000**

**15,000,000 Common Shares**

**\$0.67 per Common Share**

This short form prospectus (the "**Prospectus**") qualifies the distribution (the "**Offering**") of 15,000,000 common shares (the "**Offered Shares**") in the capital of Kraken Robotics Inc. (the "**Company**" or "**Kraken**") at a price of \$0.67 per Offered Share (the "**Offering Price**").

The Offered Shares are being issued and sold pursuant to an underwriting agreement (the "**Underwriting Agreement**") dated October 7, 2020 among the Company and Canaccord Genuity Corp., as lead underwriter and sole bookrunner (the "**Lead Underwriter**"), and including Stifel GMP and Beacon Securities Limited (collectively with the Lead Underwriter, the "**Underwriters**"). The Offering Price has been determined by negotiation between Kraken and the Lead Underwriter on behalf of the Underwriters. See "*Plan of Distribution*".

The Company's outstanding common shares (the "**Common Shares**") are traded on the TSX Venture Exchange Inc. ("**TSXV**") under the symbol "PNG" and on the OTCQB under the symbol "KRKNF". On October 6, 2020, the last trading day before the date of this Prospectus, the closing price of the Common Shares on the TSXV was \$0.69, and on the OTCQB was US\$0.521.

The Company has applied to list the Offered Shares on the TSXV, including the Over-Allotment Shares (hereinafter defined) issuable upon exercise of the Over-Allotment Option (hereinafter defined). Listing will be subject to the Company fulfilling all of the listing requirements of the TSXV.

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**\$0.67 per Offered Share**

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	<b>Price to the Public<sup>(1)</sup></b>	<b>Underwriters' Fee<sup>(2)</sup></b>	<b>Net Proceeds to the Company<sup>(3)</sup></b>
Per Offered Share .....	\$0.67	\$0.0402	\$0.6298
Total .....	\$10,050,000	\$603,000	\$9,447,000

Notes:

- (1) The Offering Price was determined by arm's length negotiation between the Company and the Lead Underwriter, on behalf of the Underwriters, in the context of the market.
- (2) The Company has agreed to pay the Underwriters a cash fee (the "**Underwriters' Fee**") equal to 6.0% of the gross proceeds from the Offering, (including any gross proceeds raised on exercise of the Over-Allotment Option (hereinafter defined)). See "*Plan of Distribution*".
- (3) After deducting the Underwriters' Fee, but before deducting the expenses of the Offering (estimated to be approximately \$350,000), which will be paid from the proceeds of the Offering.

The Underwriters have been granted an over-allotment option, exercisable in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from and including the Closing Date, to purchase up to an additional 2,250,000 Common Shares (the "**Over-Allotment Shares**") at the Offering Price to cover the Underwriters' over-allocation position, if any, and for market stabilization purposes (the "**Over-Allotment Option**"). If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Company" will be \$11,557,500, \$693,450 and \$10,864,050, respectively. This Prospectus qualifies the distribution of the Over-Allotment Option and the Over-Allotment Shares. A purchaser who acquires Over-Allotment Shares forming part of the Underwriters' over-allocation position acquires those Over-Allotment Shares under this Prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".

Unless the context otherwise requires, all references herein to the "Offering" and "Offered Shares" includes all securities issuable assuming the exercise of the Over-Allotment Option.

In connection with the Offering, the Company has been advised by the Underwriters that, subject to applicable laws, the Underwriters may over-allocate or effect transactions which stabilize or maintain the market price of the Offered Shares. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may decrease the price at which the Offered Shares are distributed pursuant to the Prospectus to a price that is lower than the Offering Price. See "*Plan of Distribution*".**

The following table sets out the maximum number of securities under options issuable to the Underwriters in connection with the Offering:

<b>Underwriters' Position</b>	<b>Maximum Number of Securities</b>	<b>Exercise Period</b>	<b>Exercise Price</b>
Over-Allotment Option	2,250,000 Over-Allotment Shares	For a period of 30 days from and including the Closing Date	\$0.67 per Over-Allotment Share

Underwriters' Position	Maximum Number of Securities	Exercise Period	Exercise Price
Total securities under option issuable to the Underwriters	2,250,000 Common Shares		

**Investing in the Offered Shares is speculative and involves significant risks. You should carefully review and evaluate the risk factors contained in this Prospectus and in the documents incorporated by reference herein before purchasing the Offered Shares, see “Forward-Looking Information” and “Risk Factors”. Potential investors are advised to consult their own legal counsel and other professional advisors in order to assess the income tax, legal and other aspects of the Offering.**

Subscriptions for the Offered Shares will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserves the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about October 26, 2020, or such other date as may be agreed upon by the Company and the Lead Underwriter, but in any event not later than 42 days after the date of the receipt for the final short form prospectus (the “**Closing Date**”). See “*Plan of Distribution*”.

It is anticipated that the Offered Shares will be delivered under the book-based system through CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee and deposited in electronic form. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer from or through which the Offered Shares are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Offered Shares on behalf of owners who have purchased Offered Shares in accordance with the book-based system. No definitive certificates will be issued unless specifically requested or required, see “*Plan of Distribution*”.

Vice-Admiral Michael Connor (Director), who resides outside of Canada, has appointed Gowling WLG (Canada) LLP, 100 King Street West, Suite 1600, Toronto, ON M5X 1G5, as his agent for service of process in Canada. Prospective purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process, see “*Risk Factors*”.

**Information contained on the Company’s website shall not be deemed to be a part of this Prospectus or incorporated by reference herein and may not be relied upon by prospective investors for the purpose of determining whether to invest in the securities qualified for distribution under this Prospectus.**

The Company’s head office is located at 189 Glencoe Drive, Mount Pearl, NL, A1N 4P6, and its registered office is located at Suite 1600, 100 King Street West, Toronto, ON M5X 1G5.

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## GENERAL MATTERS

Throughout this Prospectus, references to “Kraken”, the “Company”, “its”, “our”, “us” and “we”, or related terms refer to Kraken Robotics Inc., and includes, where the context requires, its subsidiaries.

An investor should rely only on the information contained or incorporated by reference in this Prospectus. The Company or the Underwriters have not authorized anyone to provide investors with additional or different information. The Company and the Underwriters are not making an offer to sell or seeking offers to buy the Offered Shares in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing or incorporated by reference in this Prospectus is accurate only as at the respective dates thereof, regardless of the time of delivery of the Prospectus or of any sale of the Offered Shares. The Company’s business, financial condition, results of operations and prospects may have changed since that date.

All currency amounts in this Prospectus are stated in Canadian dollars, unless otherwise noted.

## FORWARD-LOOKING INFORMATION

Certain statements contained in this Prospectus and the documents incorporated by reference herein constitute “forward-looking information” and “forward-looking statements” (collectively, “**forward-looking statements**”) within the meaning of applicable Canadian securities laws. Forward-looking statements include statements concerning the Company’s current expectations, estimates, projections, assumptions and beliefs, and, in certain cases, can be identified by the use of forward-looking terminology such as “seeks”, “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes”, or variations of such words and phrases or statements that certain actions, conditions, events or results “may”, “could”, “should”, “would”, “might”, or “will be taken”, “occur” or “be achieved”, or the negative forms of any of these words and other similar expressions.

Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. Such forward-looking statements are made as of the date of this Prospectus, or in the case of documents incorporated by reference herein, as of the date of each such document. Forward-looking statements in this Prospectus and the documents incorporated by reference herein include, but are not limited to, statements with respect to:

- the performance of the Company’s business and operations;
- the intention to grow the business, operations and potential activities of the Company;
- the competitive and business strategies of the Company;
- the Company’s anticipated operating cash requirements and future financing needs;
- the anticipated future gross revenues and profit margins of the Company’s operations;
- the Company’s expectations regarding its revenue, expenses and operations;
- the applicable laws, regulations and any amendments thereof;
- expectations with respect to the advancement and adoption of new products;
- the acceptance by customers and the marketplace of new products and solutions;
- the ability to attract new customers and develop and maintain existing customers, including its engagements with the Royal Danish Navy and the Polish Navy;
- the ability to protect, maintain and enforce the Company’s intellectual property rights;

- the ability to successfully leverage current and future strategic partnerships and alliances;
- the ability to attract and retain personnel;
- the anticipated labour and materials costs;
- the Company's intended use of the NRC-IRAP grant funding for the Company's proposed ThunderFish® XL autonomous underwater vehicle and the capabilities thereof, see "*Description of the Business – Recent Developments*";
- the Company's ability to successfully integrate its minehunting systems with the Royal Danish Navy and the Polish Navy, see "*Description of the Business – Recent Developments*";
- the Company's competitive condition and expectations regarding competition, including pricing and demand expectations and the regulatory environment in which the Company operates;
- the anticipated trends and challenges in the Company's business and the markets and jurisdictions in which the Company operates;
- the impact of COVID-19 on the Company's business;
- the completion of the Offering and the receipt of all regulatory and stock exchange approvals in connection therewith;
- the approval by the TSXV for the listing of the Offered Shares and the Over-Allotment Shares;
- the use of the net proceeds of the Offering; and
- the Company's business objectives and milestones and the anticipated timing of execution.

Forward-looking statements reflect the Company's current expectations and assumptions, and are subject to a number of known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Should one or more of these risks and uncertainties materialize, or should underlying factors or assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. In making the forward-looking statements included in this Prospectus, and the documents incorporated by reference herein, the Company has made various material assumptions, including, but not limited to:

- the Company will continue to be in compliance with regulatory requirements;
- the Company will have sufficient working capital and be able to secure additional funding necessary for the continued operation and development of the Company; and
- key personnel will continue their employment with the Company and the Company will be able to obtain and retain additional qualified personnel, as needed, in a timely and cost-efficient manner.

Purchasers are cautioned not to place undue reliance on the forward-looking statements or the assumptions on which the Company's forward-looking statements are based. Purchasers are also advised to carefully review and consider the risk factors identified in this Prospectus, see "*Risk Factors*", and in the documents incorporated by reference herein, for a discussion of the factors that could cause the Company's actual results, performance and achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Although the Company believes that the assumptions on which the forward-looking statements are made are reasonable, based on the information available to the Company on the date such statements were made, no assurances can be given as to whether these assumptions will prove to be correct. The forward-looking statements contained in this Prospectus and the documents incorporated by reference herein are expressly qualified in their entirety by the foregoing cautionary statements and those made in our other filings with applicable securities regulators in Canada. These factors are not intended to represent a complete list of the factors that could affect the Company and readers should not place undue reliance on forward-looking statements in this Prospectus and the documents incorporated by reference herein.

Forward-looking statements speak only as of the date the statements are made. The Company assumes no obligation to update publicly or otherwise revise any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable securities laws. If the Company does update one or more forward-looking statements, no inference should be drawn that the Company will make additional updates with respect to those or other forward-looking statements. The forward-looking statements contained in this Prospectus and the documents incorporated by reference herein are expressly qualified in their entirety by this cautionary statement.

### **TRADEMARKS AND SERVICE MARKS**

This prospectus includes trademarks, trade names and service marks which are protected under applicable intellectual property laws for use in connection with the operation of our business, and which are the property of the Company. All other trade names, trademarks or service marks appearing in this prospectus that are not identified as marks owned by us are the property of their respective owners.

Solely for convenience, trademarks, service marks and trade names referred to in this prospectus may be listed without the ®, (TM) and (sm) symbols, however, we will assert, to the fullest extent under applicable law, our applicable rights in these trademarks, service marks and trade names.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, each of which has been filed with the securities regulatory authorities in each of the provinces of Canada, excluding Québec, are specifically incorporated by reference and form an integral part of this Prospectus:

- (a) the annual information form of the Company dated August 27, 2020 for the year ended December 31, 2019 (the “**Annual Information Form**”);
- (b) the Company’s audited consolidated financial statements for the years ended December 31, 2019 and 2018, and related notes thereto, together with the independent auditors’ report thereon;
- (c) the Company’s management discussion and analysis dated April 29, 2020 for the year ended December 31, 2019;
- (d) the Company’s unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and 2019;

- (e) the Company's management discussion and analysis dated August 24, 2020 for the three and six months ended June 30, 2020;
- (f) the Company's management information circular dated May 19, 2020 in respect of its annual general and special meeting held on June 26, 2020;
- (g) the Company's material change report dated October 2, 2020 in respect of the Offering; and
- (h) the Company's material change report dated October 6, 2020 in respect of the Company's contract with the Danish Royal Navy;

Any documents of the type referred to in paragraphs (a)-(h) above or similar material and any documents required to be incorporated by reference herein pursuant to National Instrument 44-101 – *Short Form Prospectus Distributions*, including any annual information form, all material change reports (excluding confidential reports, if any), all annual and interim financial statements and management's discussion and analysis relating thereto, or information circular or amendments thereto that the Company files with any securities commission or similar regulatory authority in Canada after the date of this Prospectus and prior to the termination of this Offering will be deemed to be incorporated by reference in this Prospectus and will automatically update and supersede information contained or incorporated by reference in this Prospectus.

**Any statement contained in this Prospectus or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies, replaces or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded.**

## DESCRIPTION OF THE BUSINESS

### Summary of the Business

Kraken is a marine technology company providing ultra-high-resolution software-centric sensors, power systems, and underwater robotic systems. The Company's mission is to become a leading provider of underwater robotics equipment and services. At December 31, 2019, Kraken had 107 employees with a head office in St. John's, Newfoundland, Canada and has shipped product to customers in 10 countries.

Kraken has a highly capable team of engineers, scientists, and technicians with specialized skills. Scientific staff have world-leading expertise in sonar design, remote sensing, and signal processing for synthetic aperture sonar, anti-submarine warfare, and 3D optical imaging. Kraken's electrical and mechanical engineering teams have extensive experience designing

tethered/towed and untethered/free-swimming underwater vehicles, custom payload sections, and launch and recovery systems. Kraken's software engineering group develops applications for data acquisition, real-time processing, vehicle control, 3D visualization, telemetry, artificial intelligence, machine learning and data post-processing. The Company is supported by a team of technicians that perform assembly, inspection, testing, calibration, and troubleshooting of mechanical and electrical systems. Kraken's technical staff also have extensive experience performing system integration onboard customer-owned vehicles and conducting operations at sea to collect data for a variety of surveys, technical demonstrations, and collaborative research projects.

Kraken's products are sold into both the manned and the unmanned maritime vehicle ("UMV") market. The UMV market can be divided into unmanned underwater vehicles ("UUVs") and unmanned surface vessels ("USVs"). UUVs are either autonomous underwater vehicles, remotely operated vehicles, or towed underwater vehicles tethered to a ship and towed beneath the surface of the water. UUVs are used extensively for military and commercial applications, such as undersea search and survey missions. USVs may be remotely operated or be fully autonomous.

Kraken was founded with the objective of commercializing a software-centric version of SAS at the lowest cost in the market to compete with more hardware-dependent and expensive SAS solutions. SAS is an advanced imaging technology which dramatically improves seabed surveys by providing ultra-high-resolution imagery at superior area coverage rates ("ACRs") as compared to conventional side scan sonar ("SSS") technologies. These legacy SAS systems were seen as the domain of global defense contractors using SAS for military surveillance purposes to detect seabed mines or other types of unexploded ordnances. SAS is the next generation of sonar, following side scan sonar and multi-beam echo sounders, which while capable of producing high resolution images of objects on the seabed, only do so at short range and corresponding low ACR. SAS, on the other hand, is capable of producing ultra-high-resolution imagery at long ranges, which can be more than ten times the range of conventional side scan sonar, all while achieving significantly higher ACR.

SAS is the underwater equivalent of synthetic aperture radar ("SAR") used in the satellite and communications industry. This technology is 'rare air technology' with Kraken having only a handful of competitors at the high end of the market. Customers using SAS technology are looking to get maximum ACR at the highest resolution, for the lowest cost. One factor affecting ACR is the length of the aperture (antenna). Traditional sonar technology such as SSS uses real apertures that are limited by the size of the underwater vehicle they are deployed on. SAS, on the other hand, uses the motion of the underwater vehicle along with highly sophisticated signal processing algorithms to 'spoof' the system into thinking the aperture is 40-50 times longer than it really is. The result is up to a 10-times increase in area coverage rates over traditional SSS. In other words, more area can be surveyed at a much higher resolution in less time.

In addition to improved area coverage rate, Kraken provides this data in real time, without the traditional limitations of extensive post mission processing. Furthermore, all of Kraken's SAS systems are Interferometric, meaning that they are able to simultaneously provide real-time ultra-high definition SAS bathymetry that is co-registered with the SAS imagery. Through a partnership with Teledyne CARIS Inc., a business unit of Teledyne Technologies Inc., Kraken also offers Caris Onboard, an automated hydrographic processing workflow which can combine the imagery and bathymetry into real-time hydrographic databases certified to IHO SP44 standards.

As the Company has grown, it has developed additional sensors as well as designed and produced its own UUVs. In addition to selling products, Kraken has a nascent Robotics as a

Service (“**RaaS**”) business. The Company believes that certain customers would prefer to hire the Company to provide product output to them (i.e. imaging and bathymetry data) using the Company’s own equipment. This is the genesis of our RaaS offering. Kraken has branded its RaaS offering as SeaScout®, a complete seabed mapping and intelligence solution.

## Recent Developments

On August 31, 2020, the Company announced the award of a non-refundable \$2,909,891 grant from the National Research Council of Canada Industrial Research Assistance Program (“**NRC-IRAP**”). Funding will be provided over a 26-month period and will be used by the Company to support the development of its seabed resident ThunderFish® XL autonomous underwater vehicle (“**ThunderFish**”) which will possess capabilities lacking in similarly sized underwater vehicles in use today, including (i) the ability to transition, in-mission, from high-speed survey mode to “zero” speed hovering mode; (ii) through-the sensor acoustic, laser and optical target detection, image recognition and inspection; and, (iii) functional onboard sensors to improve vehicle navigational accuracy.

On September 8, 2020, Kraken secured a contract through a competitive bid process with the Danish Ministry of Defence, Acquisition and Logistics Organization to supply mine-hunting sonar equipment to the Royal Danish Navy. Under the program, Kraken will provide its minehunting KATFISH™ towed SAS system, the Tentacle® Winch system, and Autonomous Launch and Recovery System (“**ALARS**”) to be integrated onboard the Royal Danish Navy’s optionally unmanned surface vessels. The value of the contract is \$36 million, with the majority of funds to be received over the two year acquisition phase.

Also on September 8, 2020, Kraken entered into an agreement with Remontowa Shipbuilding S.A. to supply the Polish Navy with its minehunting KATFISH™ towed SAS system, the Tentacle® Winch system, and ALARS. Kraken’s equipment will be integrated onboard the Polish Navy’s new KORMORAN II Mine CounterMeasure vessels in Gdansk, Poland.

## CONSOLIDATED CAPITALIZATION

The following table sets out the share and loan capital of the Company as at June 30, 2020, both before and after giving effect to the Offering.

	<u>As at June 30, 2020</u>		
	<u>Outstanding as at June 30, 2020 (unaudited)</u>	<u>Outstanding as at June 30, 2020 after giving effect to the Offering<sup>(1)</sup></u>	<u>Outstanding as at June 30, 2020 after giving effect to the Offering and the full Over-Allotment Option<sup>(2)</sup></u>
<b>Share Capital</b>	Unlimited Common Shares	Unlimited Common Shares	Unlimited Common Shares
<b>Common Shares</b>	149,377,186	164,377,186	166,627,186
<b>Options</b>	9,926,834	9,926,834	9,926,834
<b>Warrants</b>	550,000	550,000	550,000
<b>Total assets</b>	\$19,136,681	\$28,233,681	\$29,650,731
<b>Deficit</b>	(\$14,190,208)	(\$14,190,208)	(\$14,190,208)
<b>Total capitalization</b>	\$11,429,640	\$20,526,640	\$21,943,690

Notes:

- (1) Based on the issuance of 15,000,000 Offered Shares for aggregate gross proceeds of \$10,050,000, less the Underwriters' Fee of \$603,000 and expenses of the Offering, estimated at \$350,000.
- (2) Based on the issuance of 17,250,000 Offered Shares for aggregate gross proceeds of \$11,557,500, less the Underwriters' Fee of \$693,450 and expenses of the Offering, estimated at \$350,000.

## USE OF PROCEEDS

### Proceeds

The net proceeds to the Company from the Offering are estimated to be \$9,447,000, before deducting the expenses of the Offering (estimated to be approximately \$350,000). If the Over-Allotment Option is exercised in full, the net proceeds to the Company from the Offering are estimated to be \$10,864,050, before deducting the expenses of the Offering.

### Principal Purposes

The Company currently anticipates using the net proceeds from the Offering (assuming no exercise of the Over-Allotment Option) as set forth in the following table:

<u>Principal Purpose</u>	<u>Approximate Use of Net Proceeds</u>
Leasehold improvement and capital expenditures <sup>(1)</sup>	\$1,000,000
Acceleration of the Company's RaaS recurring revenue model <sup>(2)</sup>	\$2,000,000
Parts and Inventory <sup>(3)</sup>	\$2,000,000
Future Acquisitions	\$2,000,000
General corporate purposes and working capital <sup>(4)</sup>	\$2,097,000
Offering Expenses	\$350,000
<b>Total</b>	<b>\$9,447,000.00</b>

Notes:

- (1) Additional manufacturing space and equipment in Newfoundland, Nova Scotia and Rostock, Germany.
- (2) Construction of internal robotics sensors and systems equipment to generate service revenue.
- (3) Inventory build of KATFISH™ and ALARS to shorten product lead times.
- (4) Includes marketing expenses, costs associated with enhanced software implementation and other costs, including travel expenses, associated with the evaluation of prospective acquisitions.

The above noted allocation represents the Company's intentions with respect to its use of proceeds based on current knowledge, planning and expectations of management of the Company. Actual expenditures may differ from the estimates set forth above. There may be circumstances where for sound business reasons, the Company reallocates the use of proceeds, see "*Risk Factors – Additional Capital*".

Until applied, the net proceeds will be held as cash balances in the Company's bank account or invested in certificates of deposit and other instruments issued by banks or obligations of or guaranteed by the Government of Canada or any province thereof.

The Company had negative operating cash flow for the financial years ended December 31, 2019 and 2018. As at August 31, 2020, the Company had a working capital balance of approximately \$4,800,000. Although the Company anticipates it will have positive cash flow from operating activities in future periods, the Company cannot guarantee it will have a cash flow positive status from operating activities in future periods. To the extent that the Company has negative cash flow

in any future period, certain of the proceeds from the Offering may be used to fund such negative cash flow from operating activities, see “*Risk Factors – Negative Cash Flow from Operations*”.

If the Over-Allotment Option is exercised in full for Over-Allotment Shares, the Company will receive additional net proceeds of \$1,417,050. The net proceeds from the exercise of the Over-Allotment Option, if any, is expected to be added to general working capital.

### **Business Objectives and Milestones**

The primary business objectives for the Company over the next 12 months are to:

1. Execute on recent large contract wins including with the Royal Danish Navy and the Polish Navy;
2. Continue to advance our RaaS business model for ocean floor mapping and subsea asset inspection;
3. Continue to make contract progress with the United States Navy and U.S. defense contractors and move ahead with NAVSEA battery certification;
4. Further advance new product initiatives towards commercialization including Thunderfish® and Multispectral SAS, the Company’s in-development ultra-wideband acoustic remote sensing system for seafloor imaging and mapping.

Significant events that need to occur for the business objectives to be accomplished are as follows:

- a. Continue to build and acquire sensor and system products for use in RaaS business and evaluate additional services to provide more complete service solution to potential RaaS customers;
- b. Continue to engage with our U.S. consultant to advance NAVSEA battery certification;
- c. Complete additional field evaluation trials of our sensor and systems products; and
- d. Complete this Offering and deploy the proceeds as described under the heading “*Use of Proceeds*” to implement the Company’s Business Objectives and Milestones.

### **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Company has agreed to sell and the Underwriters have severally (and not jointly or jointly and severally) agreed to purchase, as principals on the Closing Date, 15,000,000 Offered Shares at the Offering Price for aggregate gross proceeds of \$10,050,000 payable in cash to the Company against delivery of the Offered Shares. The Offering Price and the other terms of the Offering were determined by arm’s length negotiation between the Company and the Lead Underwriter on behalf of the Underwriters, with reference to the prevailing market price of the Common Shares. The obligations of the Underwriters under the Underwriting Agreement are several (and not joint or joint and several), are subject to certain closing conditions and may be terminated at their discretion on the basis of “disaster out”, “material change out”, “regulatory out” and “breach out” provisions in the Underwriting Agreement, and may also be terminated upon the occurrence of certain stated events. The Underwriters are,

however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement.

The Company has granted to the Underwriters an Over-Allotment Option, exercisable, in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from and including the Closing Date, to purchase up to an additional 2,250,000 Over-Allotment Shares at the Offering Price to cover the Underwriters' over-allocation position, if any, and for market stabilization purposes. This Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Over-Allotment Shares issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Over-Allotment Shares forming part of the Underwriters' over-allocation position acquires those Over-Allotment Shares under this Prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In consideration for the services provided by the Underwriters in connection with the Offering, and pursuant to the terms of the Underwriting Agreement, the Company has agreed to pay the Underwriters' Fee consisting of a cash fee equal to 6% of the gross proceeds from the Offering (including any gross proceeds raised on exercise of the Over-Allotment Option).

The Offering is being made in each of the provinces of Canada, excluding Québec. The Offered Shares will be offered in each of the relevant provinces through the Underwriters or their affiliates who are registered to offer the Offered Shares for sale in such provinces and such other registered dealers as may be designated by the Underwriters. Subject to applicable law, the Underwriters may offer the Offered Shares in such other jurisdictions outside of Canada and the United States as agreed between the Company and the Underwriters.

The Company has applied to list the Offered Shares (including any issuable upon exercise of the Over-Allotment Option) on the TSXV. Listing will be subject to the Company fulfilling all of the requirements of the TSXV.

**The Underwriters propose to offer the Offered Shares initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Offered Shares at the Offering Price, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than the Offering Price, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Company.**

Upon completion of the Offering, the Company agrees not to, for a period ending 90 days from the Closing Date, without the prior written consent of the Lead Underwriter, on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed, authorize, sell or issue or announce its intention to authorize, sell or issue, or negotiate or enter into an agreement to sell or issue, any securities of the Company (including those that are convertible or exchangeable into securities of the Company) other than: (i) pursuant to the Offering (including the Over-Allotment Option); (ii) the grant or exercise of stock options and other similar issuances pursuant to the share incentive plan of the Company and other share compensation arrangements; (iii) the exercise of outstanding convertible securities; (iv) obligations of the Company in respect of existing agreements; (v) the issuance of securities by the Company in connection with acquisitions in the normal course of business; or (vi) in the case of a person other than the Company, in order to accept a bona fide take-over bid made to all securityholders of the Company or similar business combination transaction. The Company further acknowledges and

understands that it will cause its officers, directors and use reasonable commercial efforts to cause certain shareholders holding more than 10% of the Common Shares to enter into an agreement in favour of the Underwriters pursuant to which each of such individuals will agree, for a period ending 90 days after the Closing Date, not to directly or indirectly, offer, sell, contract to sell, grant any option to purchase, make any short sale, or otherwise dispose of, or transfer, or announce any intention to do so, any Common Shares, whether now owned directly or indirectly, or under their control or direction, or with respect to which each has beneficial ownership, or enter into any transaction or arrangement that has the effect of transferring, in whole or in part, any of the economic consequences of ownership of Common Shares, whether such transaction is settled by the delivery of Common Shares, other securities, cash or otherwise other than pursuant to a take-over bid or any other similar transaction made generally to all of the shareholders of the Company.

Pursuant to policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions including: (a) a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities, (b) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution, provided that the bid or purchase was for the purpose of maintaining a fair and orderly market and not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities, or (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. Consistent with these requirements, and in connection with this distribution, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on the TSXV, in the over-the-counter market or otherwise.

Subscriptions will be received subject to rejection or allotment, in whole or in part, and the Underwriters reserve the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about October 26, 2020, or such other date as may be agreed upon by the Company and the Underwriters, but in any event not later than 42 days after the date of the receipt of the final short form prospectus.

Pursuant to the terms of the Underwriting Agreement, the Company has agreed to reimburse the Underwriters for certain expenses incurred in connection with the Offering and to indemnify the Underwriters and their directors, officers, employees, and agents against certain liabilities and expenses and to contribute to payments the Underwriters may be required to make in respect thereof.

### **Non-Certificated Inventory System**

It is anticipated that the Offered Shares will be delivered under the book-based system through CDS or its nominee and deposited in electronic form. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer from or through which the Offered Shares are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Offered Shares on behalf of owners who have purchased Offered Shares in accordance with the book-based system. No definitive certificates will be issued unless specifically requested or required.

## DESCRIPTION OF SECURITIES BEING DISTRIBUTED

### Common Shares

Kraken is authorized to issue an unlimited number of Common Shares, of which 150,408,853 Common Shares are issued and outstanding as of the date hereof.

Holders of Common Shares are entitled to dividends if, as and when declared by the board of directors of Kraken, to receive notice of and one vote per Common Share at meetings of shareholders and, upon liquidation, dissolution or winding up of Kraken, to share rateably in such assets of Kraken as are distributable to the holders of Common Shares.

### PRIOR SALES

The following table sets forth the details regarding all issuances of Common Shares, including issuances of all securities convertible or exchangeable into Common Shares, during the 12-month period before the date of this Prospectus.

<u>Date</u>	<u>Number of Securities Issued</u>	<u>Type</u>	<u>Issuance / Exercise Price Per Security</u>
October 7, 2019	13,333	Common Shares <sup>(1)</sup>	\$0.18
October 10, 2019	300,000	Common Shares <sup>(1)</sup>	\$0.15
November 13, 2019	300,000	Common Shares <sup>(1)</sup>	\$0.15
December 17, 2019	236,258	Common Shares <sup>(2)</sup>	\$0.62
December 18, 2019	8,333	Common Shares <sup>(1)</sup>	\$0.18
January 3, 2020	25,000	Common Shares <sup>(1)</sup>	\$0.18
January 15, 2020	166,667	Common Shares <sup>(1)</sup>	\$0.25
February 3, 2020	8,333	Common Shares <sup>(1)</sup>	\$0.53
June 1, 2020	2,000,000	Common Shares <sup>(1)</sup>	\$0.21
July 7, 2020	25,000	Common Shares <sup>(1)</sup>	\$0.18
August 11, 2020	5,000	Common Shares <sup>(1)</sup>	\$0.18
August 11, 2020	50,000	Common Shares <sup>(1)</sup>	\$0.18
August 12, 2020	50,000	Common Shares <sup>(1)</sup>	\$0.18
August 27, 2020	93,334	Common Shares <sup>(1)</sup>	\$0.30
August 31, 2020	200,000	Common Shares <sup>(1)</sup>	\$0.21
September 8, 2020	300,000	Common Shares <sup>(1)</sup>	\$0.18
September 10, 2020	300,000	Common Shares <sup>(1)</sup>	\$0.18
September 22, 2020	8,333	Common Shares <sup>(1)</sup>	\$0.18

Notes:

- (1) Common Shares issued pursuant to an exercise of options.
- (2) Common Shares issued as consideration for the acquisition of the remaining 75% interest in Kraken Power GmbH.

### TRADING PRICE AND VOLUME

The outstanding Common Shares are currently traded on the TSXV under the trading symbol “PNG” and on the OTCQB under the trading symbol “KRKNF”. The following table sets forth the

reported high and low prices and monthly trading volumes of the Common Shares on the TSXV for the 12-month period prior to the date of this Prospectus.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
October 1-6, 2020	\$0.83	\$0.67	3,653,761
September 2020	\$0.83	\$0.53	9,923,138
August 2020	\$0.59	\$0.51	2,922,839
July 2020	\$0.62	\$0.50	4,348,997
June 2020	\$0.63	\$0.485	3,167,692
May 2020	\$0.56	\$0.390	2,184,992
April 2020	\$0.45	\$0.34	2,424,816
March 2020	\$0.53	\$0.275	4,906,004
February 2020	\$0.62	\$0.425	4,825,246
January 2020	\$0.63	\$0.54	3,102,725
December 2019	\$0.67	\$0.56	1,988,390
November 2019	\$0.71	\$0.62	1,361,911
October 2019	\$0.72	\$0.58	2,944,329

On October 6, 2020, the last day of trading prior to the date of this Prospectus, the closing price per Common Share on the TSXV was \$0.69, and on the OTCQB was US\$0.521.

### ELIGIBILITY FOR INVESTMENT

In the opinion of Gowling WLG (Canada) LLP counsel to the Company, and Goodmans LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder, in force as of the date hereof and the proposals to amend the Tax Act and the regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, the Offered Shares, if issued on the date hereof, would be qualified investments for trusts governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan, registered disability savings plan, tax-free savings account, as those terms are defined in the Tax Act (collectively referred to as “**Registered Plans**”) or a deferred profit sharing plan (as defined in the Tax Act), provided that the Offered Shares are listed on a “designated stock exchange” for the purposes of the Tax Act (which currently includes the TSXV).

Notwithstanding the foregoing, the holder or subscriber of, or an annuitant under a Registered Plan, as the case may be, (the “**Controlling Individual**”) will be subject to a penalty tax in respect of Offered Shares held in the Registered Plan if such securities are a “prohibited investment” (as defined in the Tax Act) for the particular Registered Plan. An Offered Share generally will be a “prohibited investment” for a Registered Plan if the Controlling Individual does not deal at arm’s length with the Company for the purposes of the Tax Act or the Controlling Individual has a “significant interest” (as defined in subsection 207.01(4) of the Tax Act) in the Company. The Offered Shares generally will not be a “prohibited investment” if they are “excluded property” (as defined in the Tax Act) for purposes of the prohibited investment rules for a Registered Plan.

Prospective purchasers who intend to hold Offered Shares in their Registered Plan or deferred profit sharing plan should consult their own tax advisors having regard to their own particular circumstances.

## **RISK FACTORS**

An investment in the Offered Shares is speculative and involves certain risks. When evaluating the Company and its business, prospective purchasers of the Offered Shares should consider carefully the information set out in this Prospectus and the risks described below and in the documents incorporated by reference in this Prospectus, including those risks identified and discussed under the heading “*Risk Factors*” in the Annual Information Form, which is incorporated by reference.

The risks and uncertainties described or incorporated by reference herein are not the only ones the Company faces. Additional risks and uncertainties, including those that the Company is unaware of or that are currently deemed immaterial, may also adversely affect the Company and its business.

### **Risks Related to the Business**

#### *Implications of a COVID-19 Outbreak*

The global outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to protect against the spread of the virus. These measures, which include, among other things, limitations on travel, self-imposed quarantine periods and social distancing measures, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any government and/or central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

As of the date of this Prospectus, the Company has successfully continued operations under COVID-19 protocols. However, if the Company or its vendors and suppliers are unable to continue operations or keep up with increasing demands as a result of COVID-19, customers may experience delays or interruptions in service or the delivery of products, which may be detrimental to the Company's reputation and business. The Company cautions that it is impossible to fully anticipate or quantify the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving. The extent to which COVID-19 impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken by governments to contain it or treat its impact, including shelter in place directives, which, if extended, may impact the economies in which the Company now operates, or may in the future operate, key markets into which the Company sells products and delivers services, and markets through which the Company's key suppliers source their products.

### **Risks Related to the Offering**

#### *An Investment in the Offered Shares is Speculative*

An investment in the Offered Shares and the Company's prospects generally, are speculative due to the risky nature of its business and the present state of its development. Investors may lose

their entire investment and should carefully consider the risk factors described below and under the heading “*Risk Factors*” in the Annual Information Form.

#### *Negative Cash Flow from Operations*

The Company had negative operating cash flow for the financial years ended December 31, 2019 and 2018. As at August 31, 2020, the Company had a working capital balance of approximately \$4,800,000. Although the Company anticipates it will have positive cash flow from operating activities in future periods, the Company cannot guarantee it will have a cash flow positive status in the future due to its desire to increase the number of employees. To the extent that the Company has negative cash flow in any future period, certain of the proceeds from the Offering may be used to fund such negative cash flow from operating activities, see “*Use of Proceeds*”.

#### *Discretion in the Use of Proceeds*

Management will have discretion concerning the use of the proceeds of the Offering as well as the timing of their expenditure. As a result, an investor will be relying on the judgment of management for the application of the proceeds of the Offering. Management may use the net proceeds of the Offering other than as described under the heading “*Use of Proceeds*” if they believe it would be in the Company’s best interest to do so and in ways that an investor may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the Company’s results of operations may suffer.

#### *Additional Financing*

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its business objectives, including with respect to the expansion of its product offerings, completing future acquisitions, and entering into strategic partnerships. The Company intends to fund its business objectives by way of additional offerings of equity and/or debt financing as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. The Company will then require additional financing to fund its operations until positive cash flow is achieved, see “*Risk Factors – Negative Cash Flow from Operations*”.

#### *Volatile Market Price of the Common Shares*

The market price of the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company’s control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company’s operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts’ estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by government and regulatory authorities, the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares.

Financial markets have at times historically experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

#### *Risk Factors Related to Dilution*

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

#### *Profitability*

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. The marine robotics industry requires significant financial resources, and there is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's business development and marketing activities. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its research and development efforts or in the future reduce its marketing efforts or forego certain business opportunities.

### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

### **LEGAL MATTERS**

Certain legal matters in connection with this Offering will be passed upon on behalf of the Company by Gowling WLG (Canada) LLP, and on behalf of the Underwriters by Goodmans LLP. As at the date hereof, the partners and associates of Gowling WLG (Canada) LLP and Goodmans LLP, each as a group, beneficially own, directly and indirectly, in the aggregate, less than one percent of the Common Shares.

## **AUDITOR, TRANSFER AGENT AND REGISTRAR**

KPMG LLP are the auditors of the Company and have confirmed that they are independent of the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc. with an office at 510 Burrard Street, 2nd Floor Vancouver, British Columbia V6C 3B9.

## CERTIFICATE OF THE COMPANY

October 7, 2020

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation in each of the provinces of Canada, excluding Québec.

*(signed) "Karl Kenny"*

Chief Executive Officer

*(signed) "Joseph MacKay"*

Chief Financial Officer

### **On behalf of the Board of Directors:**

*(signed) "Lawrence Puddister"*

Director

*(signed) "Shaun McEwan"*

Director

**CERTIFICATE OF THE UNDERWRITERS**

October 7, 2020

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation in each of the provinces of Canada, excluding Québec.

**CANACCORD GENUITY CORP.**

*(signed) "Myles Hiscock"*

Managing Director

**STIFEL NICOLAUS CANADA INC.**

*(signed) "Harris Fricker"*

President

**BEACON SECURITIES LIMITED**

*(signed) "Stephen J.A. Delaney"*

Managing Director