



Kraken Robotics Reports Strong Q2 2023 Financial Results

Reiterates F2023 Guidance of \$66-78 Million in Revenue and \$12-17 Million in Adjusted EBITDA

ST. JOHN'S, Newfoundland and Labrador, Aug. 29, 2023 -- Kraken Robotics Inc. (TSX-V: PNG, OTCQB: KRKNF) ("Kraken" or the "Company"), announced it has filed financial results for the quarter ended June 30, 2023 ("Q2 2023").

Management Comments

"With solid results in the first half of 2023, we look forward to a continued ramp in the 2nd half of 2023 and beyond," said Kraken President and CEO Greg Reid. "Our sonar and subsea power business are seeing strong growth opportunities, and with significant contracts in hand, we have been focused on adding depth across the organization and sharpening our execution as we scale.

With the recent expiry of share purchase warrants, the repayment of the acquisition debt and no further contingent consideration from the PanGeo acquisition, and increases to our credit facilities, we have de-risked our balance sheet and potential for share dilution. Having secured several long-term contracts and customer relationships and added more depth in areas such as engineering, project management, and production, we are building future value. Our outlook, driven by industry trends in subsea security and offshore renewables, is strong. We believe our value in the market is not reflective of our significant investment to date, our unique competitive position, and strong pipeline. We will continue our focus on execution as we believe we are in the early days of creating significant shareholder value."

Q2 2023 Financial Highlights

- Products revenue in the quarter was \$10.5 million, an increase of 24% over the comparable quarter. The increase was the result of continued sales of KATFISH™, subsea batteries, work with the Canadian Navy on its RMDs program as well as the sale of synthetic aperture sonar (SAS) systems.
- Services revenue in the quarter was \$3.2 million, a decrease of 45% over the comparable quarter due to a large Acoustic Corer™ project in the comparable quarter a year ago. Sequentially, services revenues increased 41% from Q1 2023.
- Consolidated revenue for Q2 2023 was \$13.7 million compared to \$14.7 million for the quarter ending June 30, 2022, a decline of 4% due to the large services project in Q2 2022. Sequentially, consolidated revenue increased 80% in the quarter compared to Q1 2023.
- Gross margin in Q2 2023 was 57% compared to 45% in Q2 2022 and increased due to the sale of higher margin products during the quarter compared to the prior year.
- Adjusted EBITDA¹ for the quarter was \$3.0 million compared to an Adjusted EBITDA of \$3.0 million in the comparable quarter. Adjusted EBITDA¹ margin in the quarter was 22% compared to 21% in the comparable quarter due to improved gross margins.
- During the quarter it was determined that PanGeo (acquired in July 2021) would not meet its second earn-out under the terms of the Share Purchase Agreement. As a result, the Company recorded a gain on the extinguishment of contingent consideration of \$4.0 million and recorded an impairment of goodwill \$2.8 million.
- Net income in the quarter was \$2.0 million, compared to net income of \$0.5 million in Q2 2022.
- Subsequent to the quarter, warrants for shares of 10.0 million expired on July 26th and the Company paid Promissory Notes and interest associated with the acquisition of PanGeo of \$4.4 million. This combined with the extinguishment of contingent consideration and other debt payments has resulted in debt reduction of \$11.4 million.
- In addition, after the quarter, credit facilities were increased by \$5.0 million to \$9.5 million for our main subsidiary, Kraken Robotic Systems Inc. Consolidated lines of credit now stand at \$11.7 million. The increase provides greater flexibility on working capital predominantly on increased government defense programs.
- At June 30, 2023, Kraken had \$11.3 million in previously awarded non-repayable funding to draw upon from government agencies and project partners for research and development. Of this, \$5.5 million of cash has been received for contracts to be completed.
- Total assets were \$70.5 million on June 30, 2023, compared to \$63.4 million on June 30, 2022.

Highlights year-to-date June 30, 2023

- Product revenue year-to-date was \$15.8 million compared to \$12.2 million to June 30th, 2022, an increase of 29%.
- Service revenue year-to-date was \$5.4 million, a decrease of 29% compared to the comparable period ending June 30th, 2022, due to a large project completed in Q2 of the prior year.

- Consolidated revenue year-to-date was \$21.2 million compared to \$19.8 million, an increase of 7% over the comparable period ending June 30th, 2022.
- Gross margins year-to-date were 58% as compared to 42% in YTD Q2 2022 and increased due to sale of higher margin product revenue during the year compared to the prior year.
- Adjusted EBITDA¹ year-to-date was \$3.9 million compared to an Adjusted EBITDA¹ of \$2.6 million in the comparable period, an increase of 41%. Adjusted EBITDA¹ margin year-to-date was 19% compared to 13% in the comparable year due to improved gross margins.

Financial Update

Kraken is reiterating its financial guidance for 2023. Revenue and adjusted EBITDA will continue to accelerate in the second half of 2023 as the Company executes on the large number of orders received in late 2022 and early 2023. The Company expects revenue to be in the \$66 - \$78 million range and adjusted EBITDA in the \$12 - \$17 million range. The mid-point of our guidance range (\$72 million in revenue and \$14.5 million in EBITDA) implies revenue growth of 76% over 2022 and adjusted EBITDA growth of 275%. Capex in 2023 is expected to be approximately \$6 million.

NON-GAAP MEASURES

Non-GAAP measures, including non-GAAP financial measures and non-GAAP ratios not recognized under IFRS are provided where management believes they assist the reader in understanding Kraken's results. The Company utilizes the following terms for measurement within the MD&A that do not have a standardized meaning or definition as prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other entities and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Adjusted EBITDA and Adjusted EBITDA Margin

The Company believes that, in addition to conventional measures prepared in accordance with IFRS, Adjusted EBITDA is useful to securities analysts, investors and other interested parties in evaluating operating performance by presenting the results of the Company on a basis which excludes the impact of certain non-operational items which enables the primary readers of the MD&A to evaluate the results of the Company such that it was operating without certain non-cash and non-recurring items. Adjusted EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization, stock-based compensation expense and non-recurring impact transactions, if any. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by Total Revenue.

Reconciliation of Net Loss to Adjusted EBITDA

	Three Months		Six Months	
	Q2 2023	Q2 2022	Q2 2023	Q2 2022
Net Loss	1,997	514	661	(2,045)
Income Tax	238	28	324	(107)
Financing costs	418	714	971	1,598
Gain on extinguishment of contingent consideration	(4,044)	-	(4,044)	-
Foreign exchange (loss) gain	129	(66)	270	(10)
Share-based compensation	98	441	259	482
Loss on disposal of assets	-	207	-	207
Impairment of Goodwill	2,757	-	2,757	-
Depreciation and Amortization	1,232	1,146	2,495	2,287
EBITDA - excluding restructuring and other costs	2,825	2,984	3,693	2,412
Acquisition costs and restructuring	215	-	250	204
Adjusted EBITDA	3,040	2,984	3,943	2,616
Adjusted EBITDA Margin	22.3%	20.9%	18.6%	13.2%

Gross margin is defined as revenue less cost of total sales. Gross margin percentage is defined as gross margin divided by total sales.

	Three Months		Six Months	
	Q2 2023	Q2 2022	Q2 2023	Q2 2022
Revenue	13,655	14,292	21,233	19,804
Cost of sales	5,911	7,893	8,986	11,589
Gross margin	7,744	6,399	12,247	8,215
Gross margin percentage	56.7%	44.8%	57.7%	41.5%

ABOUT KRAKEN ROBOTICS INC.

Kraken Robotics Inc. (TSX.V: PNG) (OTCQB: KRKNF) is a marine technology company providing complex subsea sensors, batteries, and robotic systems. Our high-resolution 3D acoustic imaging solutions and services enable clients to overcome the challenges in our oceans - safely, efficiently, and sustainably. Kraken Robotics is headquartered in Canada and has offices in North and South America and Europe. Kraken is ranked as a Top 100 marine technology company by Marine Technology Reporter.

LINKS:

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Forward Looking Statements

The Company and its management believe that the statements regarding 2023 revenue and adjusted EBITDA contained in this press release are reasonable as of the date hereof, are based on management's current views, strategies, expectations, assumptions and forecasts, and have been calculated using accounting policies that are generally consistent with the Company's current accounting policies. These statements are considered future-oriented financial outlooks and financial information (collectively, "FOFI") under applicable securities laws. These statements and any other FOFI included herein have been approved by management of the Company as of the date hereof. Such FOFI are provided for the purposes of presenting information about management's current expectations and goals relating to the Company's expected growth in its Products and Services groups. However, because this information is highly subjective and subject to numerous risks, including the risks discussed in the disclaimer for forward looking statements below, it should not be relied on as necessarily indicative of future results. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the FOFI prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Although management of the Company has attempted to identify important risks, uncertainties and factors which could cause actual results to differ materially, there may be others that cause results not to be as anticipated, estimated or intended. The Company disclaims any intention or obligation to update or revise any FOFI, whether as a result of new information, future events or otherwise, except as required by securities laws.

Certain information in this news release constitutes forward-looking statements. When used in this news release, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. In particular, this news release contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties, including without limitation, changes in market, competition, governmental or regulatory developments, general economic conditions and other factors set out in the Company's public disclosure documents. Many factors could cause the Company's actual results, performance or achievements to vary from those described in this news release, including without limitation those listed above. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this news release and such forward-looking statements included in, or incorporated by reference in this news release, should not be unduly relied upon. Such statements speak only as of the date of this news release. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Neither the TSX Venture Exchange Inc. nor its Regulation Services Provide (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release, and the OTCQB has neither approved nor disapproved the contents of this press release.

¹Adjusted EBITDA is a non-GAAP financial measure and gross margin, and adjusted EBITDA margin are non-GAAP ratios, in each case with no standard meaning under IFRS, and may not be comparable to similar financial measures disclosed by other issuers. Refer to the "Non-GAAP Measures" section of this press release.