KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017

This Management Discussion and Analysis ("MD&A") of Kraken Robotics Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and nine month period ended September 30, 2017 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine month period ended September 30, 2017, which are available on SEDAR at www.sedar.com. This MD&A is current as at November 29, 2017, the date of preparation.

The September 30, 2017 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. 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, 2016. 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, 2016 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

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

NATURE OF BUSINESS

Kraken Sonar Inc. (formerly Anergy Capital Inc.) was incorporated on May 14, 2008 under the Business Corporations Act, British Columbia. Its registered office at 100 King Street West, #1600, Toronto, Ontario, M5X 1G5

On February 18, 2015, Kraken Sonar Systems Inc. and Anergy Capital Inc. ("Anergy"), a company classified as a Capital Pool Company ("CPC") as defined under Policy 2.4 of the TSX Venture Exchange (the "Exchange"), completed a reverse take-over transaction ("RTO" or "Transaction") through the closing of a Share Exchange Agreement (the "SEA") dated November 20, 2014, as amended January 29, 2015. After the RTO, Anergy changed its name to Kraken Sonar Inc. and the Company was continued under the Canada Business Corporations Act ("CBCA").

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

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

Effective September 22, 2017, Kraken Sonar Inc. changed its name to Kraken Robotics Inc. The Company's Canadian operating subsidiary, Kraken Sonar Systems Inc. has been renamed Kraken Robotic Systems Inc. The name change was intended to reflect the Company's continued growth as it evolves from manufacturing sensors to supplying complete robotic systems, software and services in the global Unmanned Maritime Systems ("UMS") market.

At September 30, 2017, the Company had not yet achieved profitable operations, had experienced significant losses and negative cash flows from operations since inception, and had a working capital deficit of $885,518 and a deficit of $6,686,103. It may incur further losses in the development of its business. The continued operations of the Company are dependent on its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and upon securing

additional financing. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

Company Overview

Kraken Robotics Inc. is a marine technology company supplying advanced sonar and optical sensors and underwater robotics equipment for military and commercial applications. The Company is recognized as world leading innovators of Synthetic Aperture Sonar (SAS) - a revolutionary underwater imaging technology that dramatically improves seabed surveys by providing ultra-high resolution imagery at superior coverage rates.

Both military and commercial markets are showing encouraging growth as they are now incorporating unmanned vehicles and intelligent sensors in their procurement plans and budgets. In fact, industry analyst Market Info Group estimates that the global unmanned maritime systems market will reach $2 billion by 2020.

AQUAPIX® MINSAS SENSOR FOR UNDERWATER VEHICLES

The AquaPix® MINSAS sensor is based upon Kraken's core Synthetic Aperture Sonar technology. The MINSAS compact receiver array length of only 60cm provides high-resolution 3cm x 3cm imagery at ranges up to 120m per side. The lightweight array is integrated into a modular payload section of less than eight-inch diameter, which can be easily mobilized in customers' Unmanned Underwater Vehicles (UUVs) of all sizes. The MINSAS payload section also includes Kraken's latest generation Real Time SAS Processor, the RTSAS MK-II. The RTSAS enables real-time, onboard processing of SAS imagery and bathymetry, and allows operators to leverage Kraken's suite of post-processing tools, including the newly developed SASView 3D visualization and control software. The MINSAS plus RTSAS provides operators with an area coverage rate of $1km^2$ per hour at full SAS resolution, enabling highly efficient survey operations.

During Q3, Kraken delivered MINSAS sensors to two customers for integration onto their AUVs. These included a leading European defence contractor and Atlas Elektronik, a large German defense contractor.

In September 2017, the Company announced it had been awarded a contract valued at approximately $3,000,000 by Ocean Infinity. The Company will supply and integrate its AquaPix® solution onboard eight of Ocean Infinity's HUGIN Autonomous Underwater Vehicles (AUV). We expect to deliver and recognize revenue on the first two systems during Q4 2017 representing approximately 30% of the total contract award.

SEAVISION™ 3D LASER SYSTEM

Kraken Robotik GmbH ("KRG"), a wholly-owned subsidiary of the Company, commenced operations in January 2017. Its focus is the development of 3D imaging sensors, machine learning, and artificial intelligence (AI) algorithms for underwater robotic platforms. During Q3, KRG added three world class team members including Dr. Jan Albiez, Patrick Paranhos, and Dr. Sylvain Joyeux. Each of these team members bring strong technical capabilities in the areas of underwater robotics, AI, and machine learning but also relationships across the commercial market and specifically oil and gas. Of note, all 3 were senior technical and project leaders on the BG/Shell FlatFish AUV project in Brazil and helped develop and train a 20-person robotics team in Brazil.

In Q2 2017 at the Ocean Business conference, Kraken Robotik GmbH, introduced its new SeaVision™ 3D laser system. SeaVision™ is the world's first RGB underwater laser imaging system that offers the resolution, range and scan rate to deliver dense full colour 3D point cloud images of subsea infrastructure with millimetre accuracy in real time. The ability to generate accurate 3D reconstruction of underwater infrastructure is an important requirement for commercial, military and ocean research applications. The initial system is designed for deployment on underwater robotic platforms such as Remotely Operated Vehicles (ROVs) and UVs.

In Q2 2017, Kraken Robotik GmbH was awarded a contract to design and build a 6,000m rated 3D laser/optical imaging system for the prestigious Alfred Wegener Institute, Helmholtz Centre for Polar and Marine Research (AWI) in Bremerhaven. The

custom version of the SeaVision™ system was successfully delivered in Q3 and generated revenue of approximately $160,000 in the quarter.

In early September 2017, Kraken Robotik GmbH was awarded the Go-3D prize for its SeaVision™ system presented by the Fraunhofer Institute for Computer Graphics Research in association with BITKOM, the German Association for Information Technology, Telecommunications and News Media. The award was established to recognize outstanding technical achievement in the field of 3D visualization.

SeaVision™ production units are expected to be available in Q1 2018 and will be sold for approximately $100,000 per system. Kraken has seen significant interest in SeaVision™ from customers across many industries from defense to oil and gas, to renewable energy and nuclear. Several sea trials are planned with potential customers in Q1 2018.

KATFISH™ TOWED UNDERWATER VEHICLE

After a multi year development effort, the Company has developed the Kraken Active Towed Fish (KATFISH™) for high speed, high resolution seabed mapping. The system enables real-time seabed imagery, bathymetry and advanced 3D digital terrain models of the seabed – optimized for both manned and unmanned surface vessels.

KATFISH™ is a high resolution, high speed seabed imaging platform. Coupled with Kraken's revolutionary AquaPix® - Miniature Interferometric Synthetic Aperture Sonar (MINSAS), it is especially well-suited for both military and commercial seabed surveys.

In the commercial seabed survey market, KATFISH™ offers offshore oil and gas exploration and production companies the advantage of comprehensive, high-resolution surveys of existing infrastructure, such as pipelines and subsea stations, completed in at least half the time as more conventional methods. KATFISH™ operates at speeds up to 8 knots, versus the slow moving 1-2 knots of ROV or the medium 3-4 knots of the passively stable sonar systems, thus reducing operating time and cost.

In the defence market, there is a growing global requirement for modernization of mine countermeasures solutions. The previous generation of single-role mine hunting vessels designed and built between the 1970's - 1990's are now being withdrawn from service. This leaves a growing requirement for high resolution, high speed seabed imaging platforms.

The ability of the KATFISH™ platform to generate centimetre-scale sonar resolution in all three dimensions can provide significant improvement in the detection, classification and identification of small seabed objects for both military and commercial seabed survey missions.

Kraken's KATFISH™ product offering sells for US$1.5 million (Commercial Off The Shelf:COTS) to US$2.5 million (Military Standard: MIL-STD).

At the end of Q3, Kraken had 1 completed KATFISH™ in inventory awaiting a planned sea trial test with the customer and was starting to build 2 additional units.

AUTONOMOUS UNDERWATER VEHICLES

In March of this year, the Company announced a strategic move to further strengthen its IP portfolio, with the signing of an exclusive licensing agreement for underwater robotics technology with Germany's Fraunhofer Institute for Optronics, System Technologies and Image Exploitation (IOSB).

Kraken will license Fraunhofer software for use in its ThunderFish® AUV, which is currently under development. The Company will pay Fraunhofer a royalty based on a percentage of each sale with minimum commitments starting in 2022. Kraken will exclusively license the ThunderFish® Alpha software and hardware IP and technology for large AUVs.

Fraunhofer is the largest organization for applied research in Europe with 69 institutes, over 24,500 employees and a €2.1 billion annual budget. Since 2012, Fraunhofer has been developing intellectual property and technology related to underwater robotics. Over C$6 million has been invested in Fraunhofer's underwater sensor robotics programs, culminating in the development of the ThunderFish®.

In late June, the Company took delivery of the 6000m rated ThunderFish® Alpha AUV which is designed for deep sea military, commercial and scientific applications for use as a sensor and robotics technology demonstration platform to support ongoing development of the Company's underwater sensor and robotics programs. Kraken paid $378,200 (Euro 250,000) towards the AUV's total cost of Euro 1,000,000. At September 30, 2017, an amount of $1,110,975 (Euro 750,000) was included in accrued liabilities, representing the three remaining quarterly payments of Euro 250,000 each, in respect of the acquisition of the AUV.

In addition, Kraken has established a long term technical co-operation program with Fraunhofer for hydrodynamic control systems, mission planning and autonomy algorithms that can be deployed in Kraken's ThunderFish® AUV program. Kraken has committed to granting research and development projects to Fraunhofer of a minimum Euro 300,000 per year for a period of five years.

In Q3, the Company was awarded its first "Robotics as a Service" ("RaaS") contract by OEX Recovery Group Incorporated, to conduct a search for nine Avro Arrow free flight models launched over Lake Ontario in series of tests during 1954 - 1957. The models are one-eighth scale replicas of the famed flying jet, and were part of the final flight design tests done prior to the production of the CF-105 Arrow. The goal of the search was to discover the resting place of nine models, recover them and ultimately house them at the Canada Aviation and Space Museum in Ottawa and the National Air Force Museum of Canada in Trenton, Ontario.

Using Kraken's ThunderFish® underwater robot, the search for the lost Avro Arrow test models occurred in Q3 and Kraken generated revenues of approximately $475,000 on this contract in the quarter. The search generated significant national and international media interest when the successful discovery of a free-flight Avro Arrow model on the floor of Lake Ontario was announced September 8, 2017. While the sonar search has completed for this year, management believes the Company may be contracted for additional RaaS surveys on this project in 2018.

KRAKEN POWER GMBH

In May 2017, the Company announced that it has acquired a minority interest in ENITECH Subsea GmbH of Rostock, Germany and that the company has been renamed Kraken Power GmbH. Under the agreement, Kraken has taken a 19.9% equity interest and provided a €110,000 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, Kraken can choose to increase its ownership stake to 75% of the common shares of Kraken Power GmbH.

Kraken Power GmbH designs and manufactures unique pressure tolerant thrusters, drives, batteries, battery management systems, and electronics. These are specialized deep-sea components for AUVs and ROVs. Kraken Power's technology and products enable a significant reduction in bill of material costs for our ThunderFish® AUV. In addition, Kraken Power will continue to sell its products to the subsea industry.

Kraken's investment precipitated additional funding in Germany by an arms-length third party involved in regional economic development activities that provided Kraken Power with working capital for operations, hiring of additional personnel and funds for the purchase of inventory and capital assets.

Since being re-capitalized, Kraken Power has successfully restarted operations and is seeing strong international interest in its products. This includes signed contracts for more than C$500,000 for a variety of batteries, thrusters, and custom electronics used by commercial and defense customers. The company has received a $100,000 initial prototype order for innovative rim thrusters from a commercial market customer. This customer forecasts that it will require several million dollars of Kraken Power thrusters on an annual basis with volume purchases starting in 2018. Finally, Kraken Power has quoted several companies addressing the offshore oil and gas market who have interest in contracting Kraken Power to supply battery systems, thrusters and drives for ROVs and AUVs.

FINANCIAL CONTRIBUTIONS AWARDED

In March 2017, Kraken announced that it will receive a non-refundable financial contribution of up to $1,470,000 from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP). NRC-IRAP's continued backing and assistance in the form of technical and business advisory services and funding is being used to support the development of Kraken's underwater robotics program, which involves development of a technology demonstration platform. The first phase of the program will utilize the Fraunhofer Institute's DEDAVE AUV (now called ThunderFish®) as the base platform. The AUV will be enhanced with hydrodynamic, control system and payload upgrades.

In May 2017, the Company announced that it has been awarded a non-refundable financial contribution of $745,950 by the Research & Development Corporation (RDC) of Newfoundland and Labrador. Funding will support development of Kraken's ThunderFish® AUV program. The ThunderFish® program will combine smart sonar, laser and optical sensors, advanced pressure tolerant battery and thruster technologies and cutting edge artificial intelligence algorithms integrated onboard a cost effective 6,000 metre depth rated AUV.

To summarize, non-refundable financial contributions of up to $2,215,950 were awarded by governmental agencies during the first nine months of fiscal 2017, which will be used to support the development of the Company's underwater robotics program. At September 30, 2017, the Company had drawn down assistance totaling $765,555 leaving $1,450,395 remaining to be invoiced over the next 3-4 quarters.

RESULTS OF OPERATIONS

Selected Annual Information

Statement of Comprehensive Loss	**Year Ended December 31, 2016 ($)**	**Year Ended December 31, 2015 ($)**	**Year Ended December 31, 2014 ($)**
Total Revenues	2,267,818	1,893,299	2,353,982
Cost of Sales	1,018,349	960,542	1,138,540
Loss from operating activities	(1,408,876)	(1,784,625)	(848,958)
Net loss and comprehensive loss	(1,420,175)	(1,992,410)	(1,310,240)
Basic and diluted loss per share	(0.02)	(0.03)	(0.03)
Statement of Financial Position			
Total Assets	2,188,578	2,042,676	2,943,303
Total Current Assets	1,771,898	1,857,733	2,813,957
Total Current Liabilities	1,416,353	1,074,373	3,050,759
Total Liabilities	1,416,353	1,074,373	3,050,759
Total Shareholders' Equity (Deficiency)	772,225	968,303	(107,456)

**Note: the 2014 comparative information provided above is that of Kraken Sonar Systems Inc.*

*** Note: Reclassification of Employee Costs and Government Assistance in Fiscal 2017 and Fiscal 2016 for financial statement presentation purposes has resulted in expense reallocation to Cost of Sales, Research and Development Expense, and Administrative Expense reported in prior periods.*

The Company incurred a loss of $1,420,175 for the year ended December 31, 2016, as compared with a loss of $1,992,410 for the year ended December 31, 2015. In 2015, the Company recorded aggregate costs of $751,695 in relation to its Transaction, comprised of a listing expense of $526,695 and transaction costs of $225,000. Share-based compensation of $143,500 (2015 - $131,000) were recorded upon the grant of incentive stock options pursuant to the Company's incentive stock option plan. During fiscal 2016, the Company continued to ramp-up its business activities

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

Summary of Quarterly Information

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

	Revenue ($)	Operating expenses ($)	Share-based compensation ($)	Net income (loss) ($)	Comprehensive income (loss) $	Basic and diluted income (loss) per share ($)
Q3 2017	1,585,664	1,018,855	18,100	109,712	(42,860)	(0.00)
Q2 2017	161,917	909,269	73,600	(1,115,902)	(1,175,008)	(0.01)
Q1 2017	246,498	1,310,247	39,000	(717,904)	(717,904)	(0.01)
Q4 2016	146,644	811,075	35,000	(846,552)	(846,552)	(0.01)
Q3 2016	944,941	561,960	5,900	19,234	19,234	0.00
Q2 2016	465,543	642,772	32,500	(475,261)	(475,261)	(0.01)
Q1 2016	710,690	637,048	70,100	(117,593)	(117,593)	(0.00)
Q4 2015	297,147	661,201	42,300	(426,777)	(426,777)	(0.01)

**Note: Reclassification of Employee Costs and Government Assistance in Fiscal 2017 and Fiscal 2016 for financial statement presentation purposes has resulted in expense reallocation to Cost of Sales, Research and Development Expense, and Administrative Expense reported in prior periods.*

Comparative balance sheet information for the first three quarters of 2017 and 2016 is presented below:

	Total Assets ($)	Total Current Assets ($)	Total Current Liabilities ($)	Total Liabilities ($)
Q3 3017	5,032,126	3,070,138	3,955,656	3,955,656
Q2 2017	3,661,117	1,670,790	2,559,887	2,559,887
Q1 2017	2,268,631	1,977,338	2,120,310	2,120,310
Q3 2016	2,571,357	2,173,186	987,579	987,579
Q2 2016	1,740,318	1,469,421	1,254,272	1,254,272
Q1 2016	2,072,517	1,873,698	1,151,710	1,151,710

Three Months Ended September 30, 2017

The Company recorded revenues of $1,585,664 (2016 - $944,941) from product sales and services, marking an increase of $640,723 over the same period of the prior fiscal year. Revenue in the quarter predominantly related to successful execution of our first "Robotics as a Service" contract using ThunderFish® and two customer shipments of MINSAS systems. In addition, Kraken Robotik GmbH recorded its first revenues with the delivery of a custom version of its new SeaVision™ product during the period. Higher revenues in the 2017 quarter compared to revenues in the 2016 quarter reflect our growth as we expand our customer list and evolve from manufacturing only sensors to supplying complete robotic systems, software and services. The Company had deferred revenues of $1,042,214 (2016 - $nil) which relate to customer advances on new orders during the quarter.

Cost of sales was higher from that of the prior year at $419,694 (2016 - $366,967), or approximately 114% of the costs incurred in the same period of the prior fiscal year. The Company recorded gross margins of $1,165,970 (2016 –$577,974). The increase in gross margins is due to higher revenues as well as an increase in high margin service revenue in the quarter.

The Company recorded net income of $109,712 and comprehensive loss of ($42,860) for the three months ended September 30, 2017, as compared to a net income of $19,234 and comprehensive income of $19,234 for the same period of prior year. An amount of $152,572 (2016 - $Nil) is attributable to cumulative translation adjustment arising from foreign exchange differences on amounts recorded by the Company and its Germany subsidiary.

Administrative expenses increased by $182,586 to $550,856 (2016 - $368,270) due to both an increase in headcount and various administrative expenses such as rent and public company costs.. Some notable items in the Administrative expense category include travel related costs of $47,991 (2016 - $61,624), rent of $97,982 (2016 - $39,379), and transfer agency

services/public company fees of $65,672 (2016 - $46,702). During the quarter, the Company realized a foreign exchange loss of $25,264 compared to a foreign exchange gain in 2016 - $9,774.

Research and development costs ("R&D") costs were higher than those of the prior year, totaling $449,899 (2016 - $187,790), as a result of the timing of expenditures on various R&D programs and increased R&D employee hiring.

Employee costs which previously captured all Salaries and Wages, and Government Assistance which was a recovery for Employee Costs, are now reclassified for presentation purposes for fiscal 2017 and 2016. This reclassification has resulted in changes to the operating expenses reported in prior periods for R&D costs, Administrative Expense, and Cost of Sales on the financial statements

Government assistance totaled $340,413 (2016 - $109,025) during the quarter and applied against Costs of Sales and R&D expenses. Additionally, the Company filed a Scientific Research and Experimental Development (SR&ED) Expenditures Claim with the Canada Revenue Agency for the fiscal year ended December 31, 2015 and is entitled to a refundable Provincial Investment Tax Credit of approximately $96,174 (2016 - $Nil).

Share-based compensation of $18,100 was recorded, representing the fair value of the options that vested during the three months ended September 30, 2017. During the same period of the prior fiscal year, the Company recorded share-based compensation of $5,900.

Nine Months Ended September 30, 2017

The Company recorded revenues of $1,994,079 (2016 - $2,121,174) from product sales and services, marking a decrease of $127,095 over the same period of the prior fiscal year. The Company had recorded deferred revenues of $1,042,214 (2016 - $nil).

Cost of sales increased from that of the prior year at $1,095,438 (2016 - $820,021), or approximately 134% of the costs incurred in the same period of the prior fiscal year. The Company recorded gross margins of $898,641 (2016 - $1,301,153). The decrease in gross margins were a result of lower revenues as well as a $57,859 write-off of inventory.

The Company recorded a net loss of $1,724,095 and comprehensive loss of $1,935,773 for the nine months ended September 30, 2017, as compared to a net loss and comprehensive loss of $573,623 for the same period of prior year. The increased net loss is a combination of lower revenues and lower margins; combined with an increase in operating expenses undertaken to position the company to handle an expected increase in orders.

Administrative expenses rose by $513,007 to 1,766,510 (2016 - $1,253,503). This amount included travel related costs of $189,570 (2016 - $235,976), rent of 246,991 (2016 - $111,284), and transfer agency services/public company fees of $205,292 (2016 - $125,094). Accounting and legal costs incurred totaled $144,852, as compared to $83,256 during the first nine months of 2016. During the period, the Company realized a foreign exchange loss of $72,945 (2016 - $22,375).

Research and development costs ("R&D") costs totaled $1,437,334 (2016 - $480,137) – representing a 206% increase over the same period of the prior year. Of this increase, approximately $180,000 was attributable to Kraken Robotik GmbH, the Company's wholly-owned subsidiary. The Company has multiple R&D programs underway – KATFISH™, SeaVision™, ALARS, and ThunderFish®.

Employee costs which previously captured all Salaries and Wages, and Government Assistance which was a recovery for Employee Costs, are now reclassified for presentation purposes for fiscal 2017 and 2016. This reclassification has resulted in changes to the operating expenses reported in prior periods for R&D costs, Administrative Expense, and Cost of Sales on the financial statements.

Government assistance totaled $878,128 (2016 - $684,692) during the period. In addition, the Company filed a Scientific Research and Experimental Development (SR&ED) Expenditures Claim with the Canada Revenue Agency for the fiscal year ended December 31, 2015 and is entitled to a refundable Provincial Investment Tax Credit of approximately $96,174 (2016 - $Nil).

Share-based compensation of $130,700 was recorded, representing the fair value of the options that vested during the nine months ended September 30, 2017. During the same period of the prior fiscal year, the Company recorded share-based compensation of $108,500.

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$650,000. A gain of $707,562 was recorded upon the sale of the investment. There were no similar transactions completed during the same period of the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2017, the Company had negative working capital of $885,518 (December 31, 2016 – positive working capital of $355,545). Cash as at September 30, 2017 was $574,809 as compared to $85,650 held at December 31, 2016.

During the period, the Company disposed of its investment in the private robotics firm, a non-core asset, for consideration of $864,882 (US$650,000). A gain of $707,562 was recorded upon the sale of the investment.

At September 30, 2017, proceeds of $70,000 had been received upon the exercise of 466,666 share purchase warrants. As well, proceeds of $30,000 were received for the exercise of 200,000 share purchase warrants, just prior to quarter end however, new shares were not issued from treasury for this warrant exercise until just after quarter end. The $30,000 proceeds were recorded as a liability to settle in Q4. In Q2, the Company completed a non-brokered private placement of 11,806,660 units at a price of $0.18 to raise gross proceeds of $2,125,199. Each unit consists of one common share and one half of one common share purchase warrant. Each full warrant is exercisable at a price of $0.30 for a period of two years. The Company paid share issue costs of $85,882, inclusive of cash finder's fees paid on the private placement.

Non-refundable financial contributions of up to $2,215,950 were awarded by governmental agencies during the first nine months of fiscal 2017, which will be used to support the development of the Company's underwater robotics program. At September 30, 2017, the Company had drawn down assistance totaling $765,555 leaving $1,450,395 remaining to be invoiced over the next 3-4 quarters.

During the nine months ended September 30, 2017, the Company experienced cash outflows of $1,651,750 (2016 – $1,599,377) from operating activities. Investing activities provided cash of $30,113 (2016 – used cash of $254,341), of which $492,078 (2016 - $97,021) was used for the purchase of property and equipment. An amount of $864,882 was recorded in relation to the sale of the Company's investment in a private robotics firm, as compared to the investment of $157,320 in the same period of the prior year. Other investing activities, related to Kraken Power GmbH, used cash of $192,691. Bank indebtedness decreased by $150,000 (2016 - $Nil) during the period. Financing activities realized inflows of $2,109,317, representing proceeds of $70,000 (2016 - $8,750) from warrant exercises and $2,125,199 (2016 - $1,073,930) from a private placement financing. Share issue costs totaled $85,882. In the prior year, an increase of $194,317 (2017- $Nil) pertaining to director loans was recorded. Overall, cash increased by $487,680, as compared to a decrease of $619,504 during the first nine months of the prior year.

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

RISKS AND UNCERTAINTIES

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

Industry specific risks include, but are not limited to:

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

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

RELATED PARTY TRANSACTIONS

As at September 30, 2017 an amount of $60,608 (2016 - $60,608) was receivable from key management personnel for share subscriptions.

CAPITAL MANAGEMENT

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

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2017, the Company's risk exposures and the impact of the Company's financial instruments are summarized below:

Credit Risk:

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

	September 30, 2017	December 31, 2016
Cash	$ 574,809	$ 85,650
Trade and other receivables	934,368	550,696
Investment tax credits receivable	96,174	-
Note receivable	150,773	-
Derivative asset	10,440	-
Share subscriptions receivable	76,833	76,833
	$ 1,843,397	$ 713,179

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

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

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2017, the Company had a cash balance of $574,809 (December 31, 2016 - $85,650) to settle current liabilities of $3,955,655 (December 31, 2016 - $1,416,353).

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, 2017, the Company held a cash balance of $574,809 and had drawn $0 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 and GBP, certain purchases of inventory in USD, GBP and EUR, and its note receivable. The Company does not use any form of hedging against fluctuations in foreign exchange.

Fair Value:

During the nine months ended September 30, 2017, 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, 2017	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash	$ 574,809	$ -	$ -
Trade and other receivables	-	934,368	-
Investment tax credits recoverable	-	96,174	-
Note receivable	-	150,773	-
Derivative asset	-	-	10,440
Investment	-	-	30,530
Share subscription receivables	-	76,833	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	-	-
Trade and other payables	-	2,913,442	-

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30,2017 and the date of this MD&A, pursuant to a licensing agreement Kraken has committed to grant research and development projects to Fraunhofer of a minimum Euro 300,000 per year for a period of five years commencing in 2017.

USE OF ESTIMATES

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

Changes to the Company's significant accounting policies and estimates are included in Note 4 of its unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017. The 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, 2016 prepared in accordance with IFRS as issued by the IASB.

SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company;

(a) Appointed retired Vice Admiral Michael J. Connor, United States Navy to our Board of Directors. Vice Admiral Connor is a welcome addition to the Kraken team and recognized globally as one of the foremost authorities in undersea robotics and autonomous systems. Admiral Connor has already introduced the company to several new business opportunities and provided additional support on existing opportunities Kraken has been pursuing. We look forward to combining his knowledge and insight with Kraken's technology.

(b) Entered a strategic partnership with Avitas Systems, a GE venture, to integrate AUVs, acoustic and laser sensor technology and artificial intelligence-based navigation software into unique subsea inspection solutions for the oil and gas, offshore renewable energy, and shipping industries

(c) Announced a $750,000 contract with Petroleum Research Newfoundland and Labrador (PRNL) for the development of underwater sensors and robotics that will advance digitalization of integrated operations within Newfoundland and Labrador's offshore oil and gas sector. Contract funding is being provided by PRNL, InnovateNL and industry partners. The contract will commence in the fourth quarter of 2017 and conclude in the fourth quarter of 2018.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRIC 23, Uncertainty over Income Tax Treatments:

The Interpretation provides guidance on the accounting for current and deferred tax liabilities 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 15, Revenue from Contracts with Customers:

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimated and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, Financial Instruments:

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

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 Company is currently evaluating the impact of this standard on the consolidated financial statements.

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 intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

OUTSTANDING SHARE DATA AS AT NOVEMBER 29, 2017:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	90,792,740

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	1,310,000	1,310,000	0.25	March 17, 2018
Options	250,000	250,000	0.20	May 13, 2018
Options	100,000	100,000	0.21	July 1, 2018
Options	600,000	200,000	0.15	October 12, 2019
Options	300,000	100,000	0.15	December 1, 2019
Options	2,000,000	1,250,000	0.21	June 1, 2020
Options	250,000	83,333	0.17	March 8, 2020
Options	350,000	116,667	0.17	September 8, 2020
	5,160,000	3,410,000		

(c) Summary of warrants outstanding:

Security	Number	Exercise Price	Expiry Date
Warrants	13,596,660	0.15	February 18, 2018
Warrants	3,579,767	0.30	August 12, 2018
Warrants	116,666	0.30	August 22, 2018
Warrants	5,903,330	0.30	April 11, 2019
	23,196,423		

(d) Summary of escrowed shares: At the date of this report, there are a total of 7,647,108 common shares subject to escrow restrictions. The escrow shares will be released on February 18, 2018.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

OTHER INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.krakenrobotics.com.