



**KRAKEN ROBOTICS INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR December 31, 2021**

*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 year ended December 31, 2021 and should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2021, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is current as at April 28, 2022, the date of preparation.*

*The December 31, 2021 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars, unless otherwise stated.*

**Forward-Looking Statements**

*This MD&A, and, in particular, the sections below entitled "Nature of Business", "Use of Estimates and Judgments", "Capital Management", "Financial Instruments and Risk Management" and "Risks and Uncertainties" contain "forward-looking statements" and "forward-looking information" (collectively, "**forward-looking statements**") within the meaning of applicable Canadian securities legislation.*

*In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "seek", "potential", "estimate", "anticipate", "believe", "could", "would", "should", "continue", "plans", "target", "is/are likely to", or the negative of these terms, or similar expressions intended to identify forward-looking statements. Within this MD&A, forward-looking statements may include, without limitation, statements with respect to Kraken's future plans, strategies and objectives, including:*

- *expectations regarding revenue, expenses and operations;*
- *the ability to execute on its contracts announced for products including: AquaPix® MINSAS, SeaVision® 3D laser system, KATFISH™, ThunderFish® AUV, ALARS, batteries and thruster products;*
- *anticipated cash needs and the Company's needs for, and the Company's ability to secure, additional financing and/or government funding for working capital needs, debt repayment obligations and other contractual obligations of the Company;*
- *the Company's ability to maintain current and projected revenue if it fails to effectively compete for additional contracts;*
- *our ability and intention to expand Robotics as a Service and data analytics revenue;*
- *our expectations respecting our OceanVision™ project for the development of new marine technologies and products to enable an underwater robotics data acquisition and data analytics as a service business;*
- *the Company's ability to protect, maintain and enforce its intellectual property rights;*
- *the Company's ability to defend itself against third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by the Company;*
- *expectations regarding capital markets and the Company's ability to continue to obtain financing while markets are affected by the global COVID-19 pandemic;*
- *the Company's ability to attract new customers;*
- *the Company's ability to attract and retain personnel;*
- *the Company's competitive position and its expectations regarding competition and its future success in competitive bidding processes.*

*Forward-looking statements reflect the Company's current views with respect to future events and are subject to various known and unknown risks and uncertainties, which are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Kraken, are inherently beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein, including but not limited to the factors referred to below under "Risks and Uncertainties". For additional information with respect to certain of*

*these risks or uncertainties, reference should be made to the section entitled " Risks and Uncertainties" in this MD&A and to Kraken's continuous disclosure materials filed from time to time with the Canadian Securities Regulatory Authorities, including the Company's Annual Information Form for the financial year ended December 31, 2021 under the section entitled "Risk Factors", quarterly and annual reports, and supplementary information, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional risks and uncertainties not presently known to the Company or that Kraken believes to be less significant may also adversely affect the Company.*

*The Company undertakes no obligation to update forward-looking statements except as required by applicable law. Such forward-looking statements represent management's best judgment based on information currently available. No forward-looking statement can be guaranteed, and actual future results may vary materially. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.*

## **NATURE OF BUSINESS**

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

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

### **Company Overview**

Kraken Robotics Inc. (PNG: TSX-V) is a marine technology company supplying advanced sonar and optical sensors, batteries, and underwater robotics equipment and services 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 July 2021, Kraken acquired PanGeo Subsea, a leading services company specializing in high-resolution 3D acoustic imaging solutions for the sub-seabed. PanGeo with offices in Canada, the United States and the United Kingdom is now a wholly owned subsidiary of Kraken.

### **AQUAPIX® MINSAS SENSOR FOR UNDERWATER VEHICLES**

The AquaPix® MINSAS (Miniature Interferometric Synthetic Aperture Sonar) sensor is based upon Kraken's core Synthetic Aperture Sonar technology. The MINSAS compact receiver array length of only 60cm recently improved the AquaPix® SAS image resolution from 3.0 x 3.3 cm (across along track) to an industry-leading 1.9 x 2.1 cm while maintaining a constant Ultra HD resolution across ranges up to 120M per side. The lightweight array is integrated into a small modular payload section, which can be easily mobilized in customers' Unmanned Underwater Vehicles (UUVs) of all sizes. The MINSAS includes a Real Time SAS Processor and the combination with the lightweight array provides operators with a high area coverage rate at full SAS resolution, enabling highly efficient survey operations. Development continues upon Kraken's core Synthetic Aperture Sonar technology. The MINSAS light weight receiver array recently reduced the weight by 40% while maintaining the AquaPix® SAS image resolution of 3.0 x 3.3 cm. Development continues of our new Multispectral SAS product, this product will provide a unique capability, enabling simultaneous ultra-high-resolution acoustic imagery and buried object detection from the same sensor. While our SAS technologies are focused on the Mine Counter Measures (MCM) market, Kraken also has a core competency in implementation of digital signal processing and user interface software for Anti-Submarine Warfare (ASW) sonar applications and is working on developments in passive array technologies for the ASW market.

### **OPTICAL**

The SeaVision® 3D laser system 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 millimeter 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 AUVs. Kraken continues to see significant interest in SeaVision® from customers across many industries from defense, to offshore oil and gas and renewable energy. This interest has led to numerous pilots

and demonstrations with major energy players in North America, South America, and Europe. As this activity continues, Kraken is focusing its efforts in building a subsea infrastructure inspection service offering.

Kraken's development of a unique, non-contact mooring chain inspection tool continues with commercialization scheduled for 2022. This tool, utilizing the SeaVision® platform can be used to support existing offshore oil and gas inspection requirements, as well as upcoming offshore wind inspection requirements. This new platform is anticipated to significantly reduce the cost of inspecting critical infrastructure, which must be inspected regularly.

## **UNDERWATER VEHICLES**

### **KATFISH™**

Kraken 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. Coupled with Kraken's revolutionary AquaPix® MINSAS, it is especially well-suited for both military and commercial seabed surveys.

KATFISH™ is a tightly integrated intelligent winch system (TENTACLE™) and an autonomous LARS system that can launch AUVs from vessels, host facilities and docking stations. Both the Tentacle Winch® and the ALARS are constructed of non-welded aluminum for high strength, low weight, and low magnetic signature.

In the commercial seabed survey market, KATFISH™ offers offshore energy 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 10 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 countermeasure (MCM) 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 has high expectations for the KATFISH™ which provides high performance underwater mapping and mine hunting capabilities from a towed platform for both the military and commercial markets and expects it to be a key revenue driver for the Company. The Company has in the past and will in the future partner as a supplier to large defense contractors who are involved in various multi-unit bids.

Recent updates and developments with KATFISH™ include:

- In September 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 mine-hunting 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 aggregate value of the contract is \$36 million, deliverable over a 5-to-10-year period, with the majority of funds (approximately \$22 million) to be received over the two-to-three-year product acquisition phase, with the remaining funds (approximately \$14 million) being allocated to post sales service arrangements which will continue for the duration of the remaining term.
- In September 2020, Kraken signed a contract for supply of mine-hunting systems to Remontowa Shipbuilding S.A., to be integrated on the Polish Navy's new KORMORAN II CounterMeasure (MCMV) vessels. This system was delivered during the fourth quarter of 2021.

### **THUNDERFISH® AUTONOMOUS UNDERWATER VEHICLE (AUV)**

Kraken continues its ThunderFish® AUV development program. Kraken's original ThunderFish® AUV prototype is a technical upgrade of Fraunhofer's DeDave AUV. Kraken will pay Fraunhofer a royalty based on a percentage of each sale with minimum

commitments starting in 2022. The ThunderFish® AUV was 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 has established a long-term technical co-operation program with Fraunhofer for technologies that can be deployed in Kraken's ThunderFish® AUV program. While Kraken is committed to grant research and development projects to Fraunhofer of €300,000 per year for a period of three years (2019-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued.

As a result of funding included in Kraken's OceanVision project, in Q3 2020 Kraken kicked off development of a ThunderFish® XL.

Building from the previous development efforts of the ThunderFish® Alpha AUV, the ThunderFish® XL AUV is being designed to be larger with an increased depth rating, larger payload capacity and longer mission endurance. It is being developed with the following key capabilities:

1. The ability to transition from high-speed survey mode to "zero" speed hovering mode in-mission;
2. Through-the sensor acoustic, laser and optical target detection, image recognition and inspection; and,
3. Using onboard sensors to improve vehicle navigational accuracy.

In the AUV space, Kraken is focused on using the ThunderFish® XL AUVs and procured AUVs to build a fleet of vehicles capable of providing Robotics as a Service rather than having a primary focus on selling AUVs. We expect that this will provide Kraken with a unique and valuable market position. The ThunderFish® XL AUV is expected to be in service in 2022 with R&D costs (excluding monies paid to Fraunhofer) being part of the OceanVision™ project.

### **POWER SYSTEMS**

Kraken 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's unique pressure tolerant gel encapsulation technology for lithium polymer batteries provides an attractively priced, eco-friendly and superior alternative to oil compensated batteries currently used for subsea battery applications. Kraken's technology and products enable a significant reduction in bill of material costs for our ThunderFish® AUV over acquiring conventional batteries. During 2021, Kraken delivered batteries to both defence and commercial customers.

### **ROBOTICS AS A SERVICE (RaaS)**

Kraken believes that certain customers would prefer to hire the company to provide product output (i.e. imaging and bathymetry data) to them using the Kraken's own equipment, rather than the customer buying the equipment and having to own and operate and maintain the equipment. This is the genesis of Kraken's RaaS offering. Kraken expects RaaS to become a growing part of its revenue mix over time. Kraken will provide RaaS services to customers using Kraken's KATFISH™ towed underwater vehicles and AUVs such as ThunderFish® XL and Dive-LD and innovative sensors like the SeaVision® 3D laser system. While RaaS revenue is starting from a small base, Kraken is bidding on opportunities involving both shallow and deeper water surveys with the KATFISH™, ThunderFish®, and Dive-LD as well as our SeaVision® 3D laser system. In July 2021 Kraken was awarded a \$0.6 million RaaS job to survey a subsea electric cable using the company's KATFISH™ and ALARS survey platform. Over the last 12 months, Kraken has been actively bidding on RaaS-type survey contracts and recently hired a Marine Survey Manager to lead the efforts to grow this offering. In addition, Kraken expects RaaS growth to accelerate and expects significant revenue synergies from its acquisition of PanGeo Subsea, which was completed in July 2021.

### **PANGEO SUBSEA**

On July 30, 2021 Kraken closed its acquisition of PGH Capital Inc. PGH Capital operates its business through its subsidiaries, PanGeo Subsea Inc. and PanGeo Subsea Scotland Limited (collectively with PGH Capital, "PanGeo"). PanGeo was a private Canadian services company specializing in high-resolution 3D acoustic imaging solutions for the sub-seabed with offices in St.

John's, Newfoundland and Aberdeen, United Kingdom. PanGeo's assets consist primarily of human capital, know-how and equipment comprised mostly of sub bottom imaging units and acoustic imaging units that are used to provide sub-seabed survey services.

The aggregate purchase price for PanGeo is up to \$23 million comprised of the following:

- \$3 million payable on closing;
- 12,068,965 Common Shares having a value of \$0.58 each and \$7 million in the aggregate issued on closing;
- \$4 million to be paid in cash, plus interest at a rate of 6% per annum, on the second anniversary of the Closing Date, by a non-transferable promissory notes; and
- Up to an aggregate of \$9 million to be paid pursuant to an earn-out on the following terms:
  - an amount equal to 300% of the amount by which certain qualifying revenues in the one-year period immediately following the Closing Date exceeds \$9,500,000, up to a maximum payment of \$4,500,000 (the "First Earn-Out Amount"); and
  - the amount equal to 300% of the amount by which certain qualifying revenues in the two-year period immediately following the Closing Date exceeds \$21,500,000, up to a maximum payment of \$4,500,000 less any amount paid pursuant to the First Earn-Out Amount (the "Second Earn-Out Amount", and together with the First Earn-Out Amount, the "Earn-Out Amounts").

The Earn-Out Amounts will be paid within thirty business days following the filing deadline date or the actual filing date on SEDAR, whichever is the earliest, of Kraken's quarterly financial statements for the quarter that includes first or second year anniversary of the Closing Date, as the case may be. At Kraken's option and, subject always to the approval of the TSX Venture Exchange (the "TSXV") at the time, payments required to be made in respect of the Earn-Out Amounts may be satisfied by way of a cash payment equal to 50% of the Earn-Out Amount and the issuance of Common Shares having an aggregate value equal to the remaining 50% of the Earn-Out Amount then due and payable.

The Corporation has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. Fair value of cash, accounts receivable and trade and other payables were deemed to be approximate to their carrying amounts due to the short-term nature of these assets and liabilities. Fair value of fixed assets and right-of-use assets has been determined based on market comparison and replacement cost techniques. Replacement cost of these assets has been determined and depreciated replacement cost reflects fair value.

### ***OCEANVISION™ PROJECT***

The Company's OceanVision™ project is focused on the development of a RaaS offering for underwater seabed imagery and mapping. The OceanVision™ project began in the second half of 2019, with the contract formally signed in January 2020. OceanVision™ is a three-year, \$18.8 million project focused on the development of new marine technologies and products to enable an underwater robotics data acquisition and data analytics as a service business. This will be a turnkey service solution for ultra-high definition seafloor imaging, mapping and analytics, including simultaneous acquisition of ocean environmental and marine habitat data. It will result in an end-to-end digitalization solution offering advanced sensors, robots and data analytics as a turnkey service solution for seafloor imaging and mapping. Rapid high-throughput data analytics will make it possible to significantly reduce the cost of obtaining high resolution seafloor imaging and mapping allowing end-users to make more informed operational decisions in real-time.

The new technologies Kraken will develop within the scope of the OceanVision™ project are currently unavailable in a fully matured and tightly integrated offering in the commercial industry. The combination of a hovering-capable AUV with the potential for subsea residency, and a cutting-edge suite of acoustic and optical sensors, is a powerful package. As Kraken is the manufacturer of all the major vehicle components (i.e., sensors, batteries, propulsion system and software), it is Kraken's belief that its robotics platforms and services can be provided at a much lower overall cost than competing systems.

The project began in Q3 2019 and Kraken has deployed its sensors and unmanned underwater platforms to conduct ultra-high-definition seabed imaging and mapping on the Grand Banks of Newfoundland and other areas of Atlantic Canada as part of the OceanVision™ project. To date, Kraken has completed three offshore campaigns under this project.

To fund the OceanVision project, Canada’s Ocean Supercluster will provide an investment of \$6.3 million, while the balance of the project of \$12.5 million will be provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Nunavut Fisheries Association and NSP Maritime Link Incorporated) and Kraken. Kraken’s commitment to the project is \$4.7 million, of which \$2.1 million remains outstanding at December 31, 2021.

#### **FINANCIAL CONTRIBUTIONS AWARDED**

At December 31, 2021, Kraken had \$11.4 million remaining in grant funding to be offset against research and development activities of which cash of \$3.6 million has been received for projects to be completed during 2022. This excludes the remaining \$3.6 million of funding to be received under the OceanVision™ project.

Significant components of this remaining funding are as follows:

In August 2020, the Company was awarded \$2.9 million funding from the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP). This funding is being used to support research and development of Kraken’s Thunderfish® XL Autonomous Underwater Vehicle (AUV) and is also part of Kraken’s OceanVision™ project of which \$1.1 million has been received.

In August 2021, PanGeo was awarded \$2.0 million in funding from the Ocean Supercluster for its development for its GeoScan Wide Area Acoustic Corer of which \$0.1 million has been received.

In November 2021, Kraken was awarded \$2.3 million in funding from the Newfoundland Offshore Oil and Gas Industry Recovery Assistance (OOGIRA) Fund for the development of its Fast Remote 3D Digital Inspection (FR3DI) Technology Demonstration project of which \$1.1 million has been received.

Also in November 2021, PanGeo was awarded \$4.8 million in funding from the Newfoundland Offshore Oil and Gas Industry Recovery Assistance (OOGIRA) Fund for the development of its GeoTrac project of which \$2.4 million has been received.

#### **RESULTS OF OPERATIONS**

##### **Selected Annual Information**

	<b>Year Ended December 31, 2021 (\$)</b>	<b>Year Ended December 31, 2020 (\$)</b>	<b>Year Ended December 31, 2019 (\$)</b>
<b>Statement of Comprehensive Loss</b>			
Total Revenues	25,629,227	12,274,899	15,145,976
Cost of Sales	14,310,435	6,452,048	8,441,506
Loss from operating activities	(2,015,423)	(4,450,669)	(2,760,688)
Net loss	(3,536,552)	(5,212,352)	(2,587,135)
Basic and diluted loss per share	(0.02)	(0.03)	(0.02)

	<b>Year Ended December 31, 2021 (\$)</b>	<b>Year Ended December 31, 2020 (\$)</b>	<b>Year Ended December 31, 2019 (\$)</b>
<b>Statement of Financial Position</b>			
Total Assets	65,465,341	34,820,074	18,090,876
Total Current Assets	31,723,695	25,115,120	13,498,657
Total Current Liabilities	25,359,523	14,696,183	6,262,178
Total Liabilities	37,863,044	18,808,651	8,427,558
Total Shareholders’ Equity	27,602,297	16,011,423	9,663,318

The Company incurred a loss of \$3,536,552 for the year ended December 31, 2021, as compared with a loss of \$5,212,352 for the year ended December 31, 2020. Share-based payments of \$432,717 (2020 - \$652,718) were recorded upon the grant of incentive stock options pursuant to the Company's incentive stock option plan.

### Summary of Quarterly Information

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

	Revenue (\$)	Operating activity less share based payments (\$)	Share-based payments (\$)	Net income (loss) (\$)	Comprehensive income (loss) \$	Basic and diluted income (loss) per share (\$)
Q4 2021	15,017,772	4,918,077	13,158	548,284	855,176	0.00
Q3 2021	5,060,517	4,211,163	189,150	(2,572,741)	(2,563,401)	(0.01)
Q2 2021	1,949,734	1,377,642	112,754	(907,739)	(934,572)	(0.01)
Q1 2021	3,601,204	2,394,616	117,655	(604,356)	(689,056)	(0.00)
Q4 2020 *	2,056,832	3,902,994	74,390	(3,364,628)	(3,372,210)	(0.02)
Q3 2020 *	1,545,463	2,796,150	279,269	(2,470,446)	(2,460,177)	(0.02)
Q2 2020 *	2,281,929	1,038,919	144,664	(52,968)	(90,197)	0.00
Q1 2020 *	6,390,675	1,882,739	154,396	808,900	1,086,845	0.00

Note: Operating expenses are defined as administrative expenses, R&D costs and depreciation and amortization.

\* During the year, management identified an overstatement of share-based compensation expense recognized due to a calculation error. The immaterial adjustments resulted in a decrease to share-based compensation for the year ended December 31, 2020, and quarters ended March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020 an increase in net income and comprehensive income or decrease in net loss and comprehensive loss, and an decrease in basic and diluted loss per share

Comparative balance sheet information for 2021 and 2020 is presented below. Total assets in 2021 increased due to the acquisition of PanGeo as well as inventory related for two large contracts. Total liabilities increased in 2021 due to the acquisition of PanGeo and the associated promissory note and contingent consideration.

Comparative quarterly balance sheet information is presented below:

	Total Assets (\$)	Total Current Assets (\$)	Total Current Liabilities (\$)	Total Liabilities (\$)
Q4 2021	65,465,341	31,723,695	25,359,523	37,863,044
Q3 2021	61,797,344	27,460,001	19,163,223	35,063,381
Q2 2021*	34,638,853	20,232,723	15,409,989	19,847,949
Q1 2021*	32,037,380	22,272,962	12,199,159	16,445,491
Q4 2020*	34,820,074	25,115,120	14,696,183	18,808,651
Q3 2020	16,522,469	11,427,782	4,644,690	7,073,870
Q2 2020	19,136,681	14,166,234	5,320,246	7,707,041
Q1 2020	19,248,329	14,224,596	5,983,912	8,293,155

\*The company has adjusted the Q4 2020, Q1 2021 and Q2 2021 comparative statements of financial position to correct a misclassification in prepayments in the year ended December 31, 2020, Q1 2021 and Q2 2021 between current assets and non-current assets consistent with the presentation as at December 31, 2021.

### **Three Months Ended December 31, 2021**

The Company recorded revenues of \$15,017,772 (2020 - \$2,056,832) an increase of 630% over the prior year. Product revenue in the quarter was \$12,682,118 (2020 - \$2,056,832) from product sales an increase of 517% over the prior year. Product revenue growth was generated primarily from KATFISH™ system orders from the Royal Danish Navy, Remontowa Shipbuilding, the sale of subsea batteries and SAS sensors. Services revenue in the quarter were \$2,335,654 (2020- \$nil) an increase over the prior year and grew from the acquisition of PanGeo as well as the completion of RaaS type survey contract. The Company's revenue can fluctuate significantly on a quarterly basis mainly due to the timing of orders and lead times on parts purchases. At December 31, 2021, the Company had contract liabilities of \$4,638,786 (2020 - \$8,761,477), which represent customer advances on product orders. The decline year-over-year relates to revenue recognized during the year related to the Royal Danish Navy and Remontowa Shipbuilding orders.

Cost of sales reflects the recognition of product based on shipments and the cost of delivery of services revenue in the quarter as well as the allocation of wages of employees primarily engaged in product and services activities and was higher than that in the prior year at \$8,555,220 (2020 - \$1,098,270). The increase in cost of sales was due the cost associated with the manufacturing of KATFISH™ systems, the cost associated with manufacturing of subsea batteries and sensors as well as the acquisition of PanGeo. The Company realized gross profit of \$6,462,552 (2020 - \$958,562). Gross margin for the quarter was 43%, compared to 47% in line with the prior years gross margin.

Administrative expenses in the quarter decreased 7% to \$2,922,678 compared to \$3,138,616 due to lower salaries and benefits. At the end of the quarter, Kraken employed 225 employees compared to 132 in the prior year. Notable items in the administrative expense category include: salaries and benefits expenses decreased to \$1,228,015 (2020 - \$2,362,918) due to increased government assistance and staff utilization on projects, accounting and legal increased to \$422,569 (2020 - \$276,038), public company costs increased to \$58,469 (2020 - \$52,354) and software subscriptions increased to \$234,129 (2020 - \$100,707). Also included were travel related costs which increased to \$136,308 (2020 - \$17,912) due to the easing COVID related restrictions for business meetings, trade shows and conferences.

Research and development costs ("R&D") costs in the quarter increased to \$881,015 (2020 - \$431,494), as a result of the timing of expenditures on various R&D programs as well as the timing of government assistance and reimbursements from the Ocean SuperCluster/funding partners which are netted against R&D.

During the three months ended December 31, 2021, the Company received government assistance, excluding the OceanVision project, in the amount of \$846,954 (2020 - \$1,473,650). Government Assistance has been classified as an decrease to Cost of Sales \$nil (2020 - \$117,678), reduction to Research & Development expense \$480,556 (2020 - \$943,600), Administrative expense \$94,035 (2020 - \$364,723) and Construction in Process \$272,363 (2020 - \$47,649).

During the three months ended December 31, 2021, the Company received reimbursement under the OceanVision project, including \$248,003 (2020 - \$401,311) in reimbursements from the Ocean SuperCluster and \$243,768 (2020 - \$247,486) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$336,531 (2020 - \$366,181), Administrative expense \$87,469 (2020 - \$33,470) and Construction in progress of \$67,771 (2020 - \$249,146). Restructuring costs in the quarter were \$282,215.

Depreciation in the quarter totalled \$795,928 (2020 - \$332,884) due to a larger asset base associated with the PanGeo acquisition, while amortization of intangible assets increased to \$318,456 (2020- \$76,459) due the acquisition of PanGeo.

Share-based compensation expense of \$13,158 was recorded, representing the fair value of the options amortized over the vesting period of the underlying options during the three months ended December 31, 2021. During the same period of the prior year, the Company recorded share-based compensation of \$74,390. The decline year-over-year reflects the timing of when options are issued to employees.

The Company recorded a net income of \$548,284 and a comprehensive net income of \$855,176 for the quarter, as compared to a loss of \$3,364,628 and comprehensive loss of \$3,372,210 for the same period of prior year.



Adjusted EBITDA<sup>(1)</sup> in the quarter was \$2,995,766 or 20% adjusted EBITDA Margin<sup>(1)</sup> compared to an adjusted EBITDA loss<sup>(1)</sup> of \$2,611,548 in the prior year. Refer to Non-GAAP section below for further detail. <sup>(1)</sup>

### **Twelve Months Ended December 31, 2021**

The Company recorded revenues of \$25,629,227 (2020 - \$12,274,899) from product sales and services an increase of \$13,354,328 over the same period of the prior year primarily from KATFISH™ system orders from the Royal Danish Navy, Remontowa Shipbuilding, the sale of subsea batteries, SAS sensors and the acquisition of PanGeo. The Company had contract liabilities of \$4,638,786 (2020 - \$8,761,477) which relate to customer advances on orders with the decline year-over-year relates to revenue recognized during the year related to the Royal Danish Navy and Remontowa Shipbuilding orders.

Cost of sales reflects the recognition of product and service costs as well as the allocation of wages of employees primarily engaged in these operations. Cost of sales increased over the prior year to \$14,310,435 (2020 - \$6,452,048) due to the cost associated with the manufacturing of a KATFISH™, as part of the DALO and Remontowa Shipbuilders contracts, subsea batteries and labour. Gross margins for the year were \$11,318,792 or 44% (2020 – gross margin \$5,822,851 or 47%).

Administrative expenses for the twelve months increased by \$307,532 to \$8,271,059 (2020 - \$7,963,527) due to the acquisition of PanGeo, increased headcount, and various administrative expenses. At the end of 2021, Kraken employed 225 employees compared to 132 in the prior year. Notable items in the administrative expense category include: salaries and benefits decreased to \$3,726,001 (2020 - \$4,909,592) due to increased government assistance, accounting and legal of \$964,285 (2020- \$736,100), software subscriptions of \$808,661 (2020 - \$489,872). Also included were travel related costs of \$231,634 (2020- \$159,646) which increased due to due to COVID related restrictions began to ease for business meetings, trade shows and conferences and transfer agency services/public company fees which declined to \$360,904 (2020 - \$208,967). Transaction costs related to PanGeo were \$534,290, while restructuring costs were \$282,215.

During the twelve months, the Company realized a foreign exchange gain of \$29,231 (2020 – loss \$363,430).

Investment tax credits recoverable decreased to \$593,564 (2020 - \$650,138) related to decreased scientific research and experimental development activities.

Depreciation and amortization of intangible expenses incurred during the twelve-month period totaled \$2,914,139 compared to \$1,104,133 in the same period prior year. Depreciation during the year increased to \$2,110,817 (2020 - \$805,657) due to an increased property and equipment base and the acquisition of PanGeo, while amortization of intangibles increased to \$803,322 (2020 - \$298,476) due to the acquisition of PanGeo.

Research and development costs increased the prior year, totaling \$2,309,864 (2020 - \$1,203,280) resulting from the timing of expenditures on various R&D programs and government assistance. Government assistance excluding the OceanVision project totaled \$4,075,345 (2020 - \$4,509,039) during the period of which \$632,783 (2020 - \$292,381) was applied against Costs of Sales, \$2,217,934 (2020 - \$3,279,017) was applied to Research and development expenses, \$952,265 (2020 - \$889,992) was applied to Administrative expense and \$272,363 (2020 - \$47,649) was applied to Construction in Process. The OceanVision project received assistance from the Ocean SuperCluster of \$1,404,545 (2020 - \$2,590,963) and funding partners of \$937,967 (2020 - \$972,538) during the period, of which \$1,531,772 (2020 - \$2,390,283) was applied to R&D expenses, \$nil (2020 - \$58,578) was applied to Cost of Sales, \$189,060 (2020 - \$91,703) was applied to Administrative expenses and \$621,680 (2020 - \$1,022,937) was applied to construction in progress.

Share-based compensation of \$432,717 (2020 - \$652,718) representing the fair value of the options amortized over the vesting period of the underlying options during 2021. The decline year-over-year reflects the timing of when options are issued to employees.

The Company recorded a net loss of \$3,536,552 and a comprehensive loss of \$3,331,853 for the year compared to a loss of \$5,212,352 and comprehensive loss of 4,968,949 for the same period of prior year.

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1. *Adjusted EBITDA is a non-GAAP financial measure and Adjusted EBITDA Margin is a non-GAAP ratio, 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 MD&A.*

Adjusted EBITDA<sup>(1)</sup> for the year was \$2,147,938 or 8% Adjusted EBITDA Margin<sup>(1)</sup> compared to an Adjusted EBITDA loss<sup>(1)</sup> of \$2,693,818 in the prior year.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2021, the Company had working capital<sup>(1)</sup> of \$6,364,172 (2020 – \$10,418,937). Cash and cash equivalents as at December 31, 2021 was \$4,460,169 as compared with \$12,924,509 at December 31, 2020. The Company had restricted cash of \$2,294,130 compared to \$1,057,982 in the prior year.

In October 2020, the Company closed a bought deal short form prospectus offering of common shares of the Company. A total of 15,500,000 common shares were sold at a price of \$0.67 per common share for gross proceeds of \$10,385,000. Share issues costs related to the bought deal including brokers commission, legal and accounting fees amounted to \$946,407.

On July 26, 2021, the Company completed a bought deal financing for 20,000,000 units (the “Units”) at a price of \$0.50 per Unit for gross proceeds of approximately \$10 million (the “Offering”). Each Unit consisted of one common share of the Company (a “Common Share”) and one-half of one Common Share purchase warrant (each whole purchase warrant, a “Warrant”). Each Warrant entitles the holder to acquire one Common Share (a “Warrant Share”) at a price of \$0.60 per Warrant Share for a period of two years following the closing of the Offering, subject to acceleration in certain circumstances.

Net proceeds from the offering after underwriters’ commission and legal and accounting expenses of \$1,089,941 related to the offering were \$8,910,059. Use of proceeds from the offering included: cash consideration for PGH Capital - \$3,000,000; partial repayment of PanGeo indebtedness - \$688,769; transaction costs related to acquisition of PanGeo - \$534,290 and working capital and general corporate purposed of both Kraken and PanGeo - \$4,687,000.

During the year ended December 31, 2021, the Company received proceeds of \$303,951 upon the exercise of 1,310,590 stock options (December 31, 2020 – proceeds of \$928,743 on the exercise of 4,641,244 stock options). During 2020, the Company received proceeds of \$297,000 on the exercise of 495,000 share purchase warrants.

During the twelve months ended December 31, 2021, the Company experienced cash outflows of \$11,005,991 (2020 – cash inflows \$2,842,701) from operating activities. Cash outflows from investing activities were \$7,243,701 versus \$3,236,438 for 2020. Financing activities realized inflows of \$11,923,389 (2020 – \$11,051,430).

Overall, excluding the foreign exchange impact on cash, cash decreased by \$6,326,303 to \$4,460,169 (2020 – \$12,924,509).

A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$6,214,595 (C\$7,907,792) and US\$829,802 (C\$1,055,886) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023 and October 31, 2024, respectively.

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.

## 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 robotics 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.

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.

With the outbreak of coronavirus, specifically identified as "COVID-19", there has been significant economic volatility and supply change disruption. In addition, the geopolitical risk currently being experienced may cause continued economic volatility and impact on the supply change. 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 Corporation and its operating subsidiaries in future periods. During the year the company experienced minor delays in procuring components and conducting sea trials. The company received government assistance under the CEWS (Canada Emergency Wage Subsidy) program as disclosed in Note 19.

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.

## **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, lease liabilities, contingent consideration, and long-term obligations. The Company will make adjustment 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 debt or sell assets to reduce debt.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2021, 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:

	December 31, 2021	December 31, 2020
Cash and cash equivalents and restricted cash	\$ 6,754,299	\$ 13,982,491
Trade and other receivables	6,094,656	2,595,731
Contract assets	2,698,757	524,189

At December 31 2021, 47% of the trade receivables balance was owing from two customers (2020 – 63% of the trade receivables was owing from two customers). At December 31, 2021 the Company had recorded contract liabilities of \$4,638,786 (2020 – \$8,761,477).

### **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. As of December 31, 2021, the Company had a cash balance of \$6,754,299 (December 31, 2020 - \$12,924,509), and positive working capital<sup>(1)</sup> of \$6,364,172. The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance to fulfill contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

### **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 December 31, 2021, the Company held \$6,754,299 in cash and cash equivalents and restricted cash and has drawn \$4,270,000, \$578,116 and \$95,000 against its operating lines of credit. The drawn operating line of credit bears interest annually at bank prime plus 2.5%, 3.95% and bank prime plus 2.5% respectively, payable monthly.

The Company is exposed to interest rate risk on its line of credit balance.

#### (b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales in USD, GBP, EUR, DKK and BRL. The Company does not use any form of hedging against fluctuations in foreign exchange.

**Fair Value:**

During the twelve months ended December 31, 2021, 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:

<b>December 31, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets at amortized cost:			
Cash and cash equivalents	\$ 6,754,299	\$ -	\$ -
Trade and other receivables	-	6,094,656	-
Restricted cash	-	-	-
Financial liabilities at amortized cost:			
Bank indebtedness	-	4,943,116	-
Trade and other payables	-	10,667,352	-
Long-term obligations	-	5,744,804	-
Financial liabilities at FVTPL			
Contingent consideration	-	-	7,106,601

**USE OF ESTIMATES AND JUDGEMENTS**

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.

**SUBSEQUENT EVENTS**

Subsequent to December 31, 2021, the Company:

- (a) PanGeo has received a non-interest bearing repayable loan from Atlantic Canada Opportunities Agency (ACOA) in the amount of \$295,125, this amount will be claimed throughout 2022 with \$21,206 currently outstanding. Repayment of the loan will be made in monthly installments beginning June 1, 2023 through May 1, 2027.

**OUTSTANDING SHARE DATA AS AT APRIL 28, 2022:**

(a) Authorized and issued share capital:

<b>Class</b>	<b>Par Value</b>	<b>Authorized</b>	<b>Issued Number</b>
Common	No par value	Unlimited	201,192,985

(b) Summary of options outstanding:

<b>Security</b>	<b>Number</b>	<b>Number Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Options	1,200,000	1,200,000	0.63	July 14, 2022
Options	400,000	400,000	0.63	July 14, 2022
Options	2,498,333	2,498,333	0.53	September 8, 2022
Options	75,000	50,000	0.44	May 1, 2023
Options	1,200,000	800,000	0.57	July 14, 2023
Options	1,000,000	1,000,000	0.63	July 14, 2024
Options	1,000,000	500,000	0.50	July 30, 2026
Options	100,000	25,000	0.39	November 29, 2026
	7,473,333	6,473,333		

**ADOPTION OF NEW ACCOUNTING PROOUNCMENTS:**

- (a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The company intends to adopt these standards, amendments and interpretations when they become effective.

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

*Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)*

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

*Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*

On May 14, 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

#### *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

On May 7, 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments narrow the scope of the initial recognition exemption so that it does not apply to the transactions that give rise to equal and offsetting temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

#### *Definition of Accounting Estimates (Amendments to IAS 8)*

On February 12, 2021 the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The extent of the impact of the change has not yet been determined.

- (b) The following amended IFRS pronouncements were adopted effective January 1, 2020 and had no impact to the Company's financial statements:

#### *IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors*

On October 31, 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

#### *IFRS 3 – Business Combinations*

On October 22, 2018 the IASB issued an amendment to IFRS 3 *Business Combinations* to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively.

## **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.

	<b>Q4 2021</b>	<b>Q4 2020</b>	<b>2021</b>	<b>2020</b>
Net loss	\$548,284	\$(3,364,628)	\$(3,536,552)	\$(5,212,352)
Income tax	166,819	(79,153)	(106,124)	(12,548)
Financing costs	643,832	168,170	1,656,833	374,463
Loss (gain) on disposal of assets	5	16,978	(349)	36,338
Foreign exchange (loss) gain	172,377	239,811	(29,231)	363,430
Share-based compensation	13,158	74,390	432,717	652,718
Depreciation and Amortization	1,114,384	332,884	2,914,139	1,104,133
EBITDA – excluding restructuring and acquisition costs	2,658,859	(2,611,548)	1,331,433	(2,693,818)
Restructuring and acquisition costs	336,907	-	816,505	-
Adjusted EBITDA	\$2,995,766	\$(2,611,548)	\$2,147,938	\$(2,693,818)
Adjusted EBITDA Margin	20%	N/A	8%	N/A

#### Working capital

Working capital is defined as current assets less current liabilities.

#### 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](http://www.sedar.com) and on the Company’s website at [www.krakenrobotics.com](http://www.krakenrobotics.com).