



**KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIOD ENDING September 30, 2022**

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 periods ended September 30, 2022 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. This MD&A is current as at November 28, 2022, the date of preparation.

The September 30, 2022 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, 2021. 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, 2021 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in thousands of 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. 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 underwater software centric sensors, batteries, and 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 provides 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.
- In September 2022, Kraken signed a follow-on contract to supply minehunting systems as part of a contract for new Mine Countermeasure Vessels (MCMVs) for a leading NATO Navy

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.

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 2023 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 2022, Kraken will deliver 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 and 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 \$9.5 million, up to a maximum payment of \$4.5 million (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 \$21.5 million, up to a maximum payment of \$4.5 million 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 Promissory Notes also provide Kraken with the option, subject to TSXV approval at the time, to satisfy up to 40% of any principal amount owing under the Promissory Notes by issuing Common Shares in accordance with the terms of the PanGeo Agreement.

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 \$1.6 million remains outstanding at September 30, 2022.

FINANCIAL CONTRIBUTIONS AWARDED

At September 30, 2022, Kraken had \$8.8 million remaining in grant funding to be offset against research and development activities of which cash of \$7.4 million has been received. This excludes the remaining \$0.5 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 \$2.3 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 \$0.6 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 \$2.0 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

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 (\$)
Q3 2022	12,291	4,272	137	(928)	(1,258)	0.00
Q2 2022	14,292	4,561	441	514	560	0.00
Q1 2022	5,512	3,529	41	(2,559)	(2,584)	(0.01)
Q4 2021	15,018	4,918	13	548	855	0.00
Q3 2021	5,061	4,211	189	(2,573)	(2,563)	(0.01)
Q2 2021	1,950	1,378	113	(907)	(934)	(0.01)
Q1 2021	3,601	2,395	118	(604)	(689)	(0.00)
Q4 2020 *	2,057	3,903	74	(3,365)	(3,372)	(0.02)

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

** During 2021, 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 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 2022, 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 (\$)
Q3 2022	65,492	34,510	32,654	40,552
Q2 2022	63,444	31,796	25,596	37,383
Q1 2022	63,915	30,313	27,072	38,855
Q4 2021	65,465	31,724	25,359	37,863
Q3 2021	61,797	27,460	19,163	35,063
Q2 2021*	34,639	20,233	15,410	19,848
Q1 2021*	32,037	22,273	12,199	16,445
Q4 2020*	34,820	25,115	14,696	18,809

*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 September 30, 2022

The Company recorded revenues of \$12,291 (2021 - \$5,060) an increase of 143% over the prior year. Product revenue in the quarter was \$7,603 (2021 - \$4,604) from product sales an increase of 65% over the prior year. Product revenue growth was generated primarily from KATFISH™ system orders from the Royal Danish Navy, Batteries and SAS sensors. Services revenue in the quarter were \$4,688 (2021- \$456) an increase over the prior year and grew from the acquisition of PanGeo. The Company's revenue can fluctuate significantly on a quarterly basis mainly due to seasonality, the timing of orders and lead times on parts purchases. At September 30, 2022, the Company had contract liabilities of \$7,043 (2021 - \$4,639), which represent customer advances on product 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 \$7,862 (2021 - \$3,114). The increase in cost of sales was due to the cost associated with the manufacturing of KATFISH™ systems, the cost associated with manufacturing of sensors as well as the acquisition of PanGeo. The Company realized gross profit of \$4,429 (2021 - \$1,946). Gross margin for the quarter was 36%, compared to 38% in the prior year.

Administrative expenses in the quarter increased 15% to \$3,032 compared to \$2,630 due to the addition of PanGeo. At the end of the quarter, Kraken employed 211 employees compared to 220 in the prior year. Notable items in the administrative expense category include: salaries and benefits expenses increased to \$2,063 (2021 - \$1,077), company costs decreased to \$33 (2021 - \$127) and software subscriptions increased to \$249 (2021 - \$235). Also included were travel related costs which increased to \$363 (2021 - \$41) due to the easing COVID related restrictions for business meetings, trade shows and conferences.

Research and development costs ("R&D") costs in the quarter decreased to \$94 (2021 - \$583), 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 September 30, 2022, the Company received government assistance, excluding the OceanVision project, in the amount of \$1,254 (2021 - 1,220). Government Assistance has been classified as a decrease to Cost of Sales \$nil (2021 - \$434), reduction to Research & Development expense \$1,006 (2021 - \$411), Administrative expense \$154 (2021 - \$375) and Construction in Process \$94 (2021 - \$nil).

During the three months ended September 30, 2022, the Company received reimbursement under the OceanVision project, including \$189 (2021 - \$250) in reimbursements from the Ocean SuperCluster and \$12 (2021 - \$244) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$161 (2021 - \$353), Administrative expense \$12 (2021 - \$39) and Construction in progress of \$28 (2021 - \$102).

Depreciation in the quarter totalled \$753 (2021 - \$661) due to a larger asset base associated with the PanGeo acquisition, while amortization of intangible assets increased to \$393 (2021- \$337) due the acquisition of PanGeo.

Share-based compensation expense of \$137 was recorded, representing the fair value of the options amortized over the vesting period of the underlying options during the three months ended September 30, 2022. During the same period of the prior year, the Company recorded share-based compensation of \$189.

Financing costs in the quarter totalled \$847 (2021 - \$457) due to the accretion of long term obligations and the fair value adjustment on contingent consideration.

The Company recorded a loss of \$725 and comprehensive loss of \$1,055 for the quarter, as compared to a loss of \$2,572 and comprehensive loss of \$2,563 for the same period of prior year.

Adjusted EBITDA⁽¹⁾ in the quarter was \$1,745 or 14% compared to an adjusted EBITDA loss⁽¹⁾ of \$1,267 adjusted EBITDA Margin⁽¹⁾ in the prior year. Refer to Non-GAAP section below for further detail. ⁽¹⁾

Nine Months Ended September 30, 2022

The Company recorded revenues of \$32,095 (2021 - \$10,611) from progress revenue mainly from the Danish Navy contract and subsea batteries, an increase of 202% compared to the same period a year ago. Prior year revenue was driven by the delivery of a KATFISH™, subsea batteries, the provision of software services and survey support work. The Company's revenue can fluctuate significantly on a quarterly basis mainly due to the timing of orders, progress towards completion and lead times on parts purchases. At September 30, 2022, the Company had contract liabilities of \$7,043 (December 31, 2021 - \$4,639), which represent customer advances on product orders, for which the Company has not yet met the criteria for revenue recognition. The company had contract asset of \$7,518 (2021 - \$2,699), which represent unbilled revenue recognized on customer orders.

Cost of sales were higher than that of the prior year at \$19,451 (2021 - \$5,755). The increase in cost of sales was due to the cost associated with the manufacturing of a KATFISH™ as part of the DALO contract, subsea batteries and labour. The Company realized gross profit of \$12,644 (2021 - \$4,856). Gross margin for the first three quarters were 39%, as compared to 46% gross margin in the prior year.

Administrative expenses in the period were higher than that of the prior year at \$8,477 compared to \$5,348. At the end of September 30, 2022, Kraken employed 211 employees compared to 220 in the prior year. Other notable items in the Administrative expense category include accounting and legal \$521 (2021 - \$542). Also included were salary and benefit expenses of \$4,828 (2021 - \$2,240) due to increased headcount and software subscriptions \$684 (2021 - \$575) due to increased headcount and project activity. During the first three quarters, the Company realized a foreign exchange gain of \$110 (2021 foreign exchange loss - \$202).

Depreciation in the period totalled \$2,271 (2021 - \$1,315) and increased due to a higher property and equipment base mainly attributed to acquisition of PanGeo. Amortization of intangible assets increased to \$1,162 (2021- \$485) due to acquisition of PanGeo.

Research and development costs ("R&D") in the nine month period decreased to \$1,086 (2021 - \$1,129), 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.

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.*

During the nine months ended September 30, 2022, the Company received government assistance, excluding the OceanVision project, in the amount of \$3,793 (2021 - \$3,228). Government Assistance has been classified as a reduction to Cost of Sales \$117 (2021 - \$646), Research & Development expense \$2,202 (2021 - \$1,724) and Administrative expense \$317 (2021 - \$858) and Construction in Process \$1,157 (2021 - \$nil).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project, including \$779 (2021 - \$1,157) in reimbursements from the Ocean SuperCluster and \$488 (2021 - \$694) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense of \$1,037 (2021 - \$1,195), Administrative expense \$106 (2021 - \$102) and Construction in progress of \$124 (2021 - \$554).

Share-based compensation of \$619 was recorded, representing the fair value of the options amortized over the vesting period of the underlying options during the nine months ended September 30, 2022. During the same period of the prior year, the Company recorded share-based compensation of \$420. The increase over the prior comparative period is a result of increased options granted in 2022.

Financing costs in the nine month period totalled \$2,445 (2021 - \$1,013) due to the accretion of long term obligations and the fair value adjustment on contingent consideration.

The Company recorded net loss of \$2,973 and comprehensive loss of \$3,282 for the period, as compared to a net loss of \$4,085 and comprehensive loss of \$4,188 for the same period of prior year.

Adjusted EBITDA⁽¹⁾ in the nine month period was \$4,361 or 14% compared to an adjusted EBITDA loss⁽¹⁾ of \$1,327 adjusted EBITDA Margin⁽¹⁾ in the prior year. Refer to Non-GAAP section below for further detail.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2022, the Company had working capital⁽²⁾ of \$1,856 (2021 - \$6,364). Cash as at September 30, 2022 was \$4,741 as compared with \$6,754 at December 31, 2021.

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 \$1,090 related to the offering were \$8,910. Use of proceeds from the offering included: cash consideration for PGH Capital - \$3,000; partial repayment of PanGeo indebtedness - \$689; transaction costs related to acquisition of PanGeo - \$534 and working capital and general corporate purposes of both Kraken and PanGeo - \$4,687.

During the three months ended September 30, 2022, the Company received proceeds of \$nil due to no stock option exercises in the quarter (September 30, 2021 - proceeds of \$304 on the exercise of 1,310,590 stock options).

During the nine months ended September 30, 2022, the Company experienced cash outflows of \$475 (2021 - cash outflows \$9,620) from operating activities. Cash outflows from investing activities were \$1,048 versus \$10,342 for 2021. Financing activities realized outflows of \$94 (2021 - cash inflows \$8,680).

Overall, excluding the foreign exchange impact on cash, cash decreased by \$1,617 (2021 - \$11,282).

A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$6,215 (C\$8,511), US\$1,960 (C\$2,684) and US\$830 (C\$1,136) on advance guarantees secured by Export Development Canada. The letters of credit expire on October 30, 2023, November 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 quarter the company experienced minor delays in procuring components and conducting sea trials.

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 September 30, 2022, 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, 2022	December 31, 2021
Cash	\$ 4,741	\$ 6,754
Trade and other receivables	8,627	6,095
Contract assets	7,518	2,699
	\$ 20,886	\$ 15,548

At September 30, 2022, 80% of the trade receivables balance was owing from two customers (2021 – 60% of the trade receivables was owing from three customers). At September 30, 2022 the Company had recorded contract liabilities of \$7,043 (2021 – \$4,639).

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 September 30, 2022, the Company had a cash balance of \$4,741 (December 31, 2021 - \$6,754), and positive working capital⁽¹⁾ of \$1,856 (December 31, 2021 - \$6,365). 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 September 30, 2022, the Company held \$4,741 in cash and has drawn \$4,269, \$604, and \$1,120 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:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The Company does not record any asset or liability at fair value on an ongoing basis.

The carrying values of cash, restricted cash, accounts receivable, trade and other payables and bank indebtedness approximate their fair values due to their short term to maturity.

The fair values of the long-term obligations are estimated using a discounted cash flow valuation technique.

The fair value measurement for contingent consideration uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at September 30, 2022. The carrying value of the contingent consideration equals fair value as it is categorized as fair value through profit and loss. The fair value of the long-term debt approximates the amortized cost. For the fair value of contingent consideration, changes to the risk-adjusted discount rate of 1% at September 30, 2022, while holding other inputs constant. An increase (decrease) in discount rate would have increased (decreased) the Company's net loss by approximately \$43 and (\$44) respectively.

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.

OUTSTANDING SHARE DATA AS AT November 28, 2022:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	201,217,985

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	75,000	75,000	0.44	May 1, 2023
Options	1,200,000	1,200,000	0.57	July 14, 2023
Options	1,000,000	1,000,000	0.63	July 14, 2024
Options	1,000,000	750,000	0.50	July 30, 2026
Options	100,000	25,000	0.39	November 29, 2026
Options	5,950,000	1,487,500	0.395	May 3, 2027
Options	100,000	-	0.37	September 6, 2027
	9,425,000	4,537,500		

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.

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income (loss)	\$(928)	\$(2,572)	\$(2,973)	\$(4,085)
Income tax	201	(135)	94	(273)
Financing costs	847	457	2,445	1,013
Loss (gain) on disposal of assets	-	-	207	-
Foreign exchange (loss) gain	(100)	(204)	(110)	(202)
Share-based compensation	137	189	619	420
Depreciation and Amortization	1,146	998	3,433	1,800
EBITDA – excluding restructuring and acquisition costs	1,303	(1,267)	3,715	(1,327)
Restructuring and acquisition costs	442	-	646	-
Adjusted EBITDA	\$1,745	\$(1,267)	\$4,361	\$(1,327)
Adjusted EBITDA Margin	14%	N/A	14%	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 and on the Company’s website at www.krakenrobotics.com.