KRAKEN

KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIOD ENDING JUNE 30, 2023

(Expressed in thousands of Canadian dollars unless otherwise stated)

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 six-month period ending June 30, 2023 and should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2022, which are available on SEDAR at www.sedar.com. This MD&A is current as at August 28, 2023, the date of preparation.

The June 30, 2023 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, 2022, with the exception of revenue recognition as the Company changed its revenue recognition for its battery products from point in time to over time using the input cost method. 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, 2022 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.

Non-IFRS Measures

This MD&A also includes certain figures that are not performance measures consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These measures are defined at the end of this MD&A under the heading "Non-IFRS Measures".

Notice Regarding Forward-Looking Statements

*This MD&A, and, in particular, the sections below entitled "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 profitably execute on its contracts announced for products including: AquaPix® MINSAS, KATFISH™, ALARS, and SeaPower™ batteries; and services using the Sub Bottom Imager™ (SBI), Acoustic Corer™ (AC), KATFISH™ and SeaVision® 3D laser system.*
- *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;*
- *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;*

- *natural disasters, terrorist acts, civil unrest, pandemics and other disruptions and dislocations, such as COVID-19, may adversely affect the Company*
- *the Company's ability to attract new customers;*
- *the Company's reliance on information technology systems or a material disruption in the Company's computer systems;*
- *the Company's ability to attract and retain personnel; and*
- *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, 2022 under the section entitled "Risk Factors", quarterly and annual reports, and supplementary information, which are available under the Company's profile 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.

OVERVIEW

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

Kraken Robotics Inc. 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 significant growth and are now incorporating unmanned vehicles and intelligent sensors in their procurement plans and budgets. In July 2021, Kraken acquired, PanGeo Subsea Inc., which has been renamed Kraken Robotics Services Ltd on January 1, 2023. Kraken Robotics Services specializes in high-resolution 3D acoustic imaging solutions for the sub-seabed with offices in Canada, the United States and the United Kingdom.

Kraken's common shares are publicly traded on the TSX Venture Exchange under the symbol PNG and on the OTCQB under the symbol KRKNF.

VISION, MISSION AND VALUES

The Company's mission is driven by innovation. We develop unique subsea intelligence solutions for clients to overcome the challenges in our oceans – safely, efficiently, and sustainably. Our vision is to transform the future of subsea intelligence and enable our clients to explore, power, and protect the planet. Our core values involve safety and quality first, by being agile and accountable, while delivering value to our clients and stakeholders, and continuously driving innovation, thinking globally and acting locally.

FINANCIAL HIGHLIGHTS

Consolidated revenue in Q2 2023 was $13,655 compared to $14,292 in Q2 2022, and $21,233 for the six month period ended June 30, 2023, compared to $19,804 for the six month period ended June 30, 2022. Revenue in the quarter was driven by the sale of a KATFISH™ to a navy in the Asia-Pacific region and continued work on large orders received in Q4 2022 including SeaPower® subsea batteries, sale of KATFISH™ system to a NATO country and Remote Minehunting and Disposal Systems (RMDS) to the Government of Canada.

Adjusted EBITDA[(1)] in Q2 2023 was $3,040 (Q2-2022 $2,984) for the same period in the prior year with the increase related to improved gross margin related to a change in product mix in the quarter over the prior year. Adjusted EBITDA[(1)] for the six month period ended June 30, 2023 was $3,943 (2022 -$2,616) and also increased from improved gross margin related to a change in product mix.

During the quarter, Kraken derecognized the fair value of the contingent consideration related to the acquisition of PanGeo by $4,044, which had a positive impact on net income. Net income for Q2 2023 was $1,997 (Q2-2022 -$514) or $0.01 per share compared to $0.00 in the prior year. Net income for the six-month period ending June 30, 2023 was $661 compared to net loss of $2,045 for the six month period ending June 30, 2022.

SUMMARY OF RESULTS

Revenue

The Company's product and service revenue can fluctuate significantly on a quarterly basis due to the timing of orders, lead times on part purchases and seasonality.

Kraken's product business consists primarily of our AquaPix® MINSAS sensors, KATFISH™ systems, SeaPower™ subsea battery systems and RMDS. Product revenue in Q2 2023 was $10,493 (Q2 2022 - $8,491) and increased 24% over the prior year due the sale of a KATFISH™ to a navy in the Asia-Pacific region and continued work on large orders received in Q4 2022 including SeaPower® subsea batteries, sale of KATFISH™ system to a NATO country and Remote Minehunting and Disposal Systems (RMDS) to the Government of Canada.

Product revenue for the six month period ending June 30, 2023 was $15,821 (2022- $12,217) an increase of 29% over the prior year due to the sale of a KATFISH™ to a navy in the Asia-Pacific region and continued work on large orders received in Q4 2022 including SeaPower® subsea batteries, sale of KATFISH™ system to a NATO country and Remote Minehunting and Disposal Systems (RMDS) to the Government of Canada.

Kraken's services business consists of services provided by robotics as a service (RaaS) portfolio of equipment including our Sub-Bottom Imager™, Acoustic Corer™, KATFISH™, and SeaVision. Services revenue in Q2 2023 was $3,162 (Q2 2022- $5,801) a decrease of 45% over the prior year due to a large Acoustic Corer™ project that occurred in 2022 which did not repeat itself in 2023. Services in the first six months of 2023 decreased to $5,412 from $7,587 in the prior year due to the non-recurring Acoustic Corer™ project that occurred in 2022.

1. *Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA Margin is a non-IFRS 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-IFRS Measures" section of this MD&A.*

	Three months ended		Six months ended	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Product Revenue	**$ 10,493**	$ 8,491	**$ 15,821**	$ 12,217
Service Revenue	**3,162**	5,801	**5,412**	7,587
Total revenue	**13,655**	14,292	**21,233**	19,804
Cost of sales	**5,911**	7,893	**8,986**	11,589
Gross margin	**7,744**	6,399	**12,247**	8,215
Gross margin percentage	**57%**	45%	**58%**	41%
Administrative expenses	**4,123**	2,903	**7,483**	5,445
Research and development costs	**1,093**	512	**1,867**	992
Depreciation and Amortization	**1,232**	1,146	**2,495**	2,287
Share-based compensation	**98**	441	**259**	482
Investment tax credits recoverable	**(297)**	-	**(796)**	(634)
Income (loss) from operating activities	**1,495**	1,397	**939**	(357)
Foreign exchange loss (gain)	**129**	(66)	**270**	(10)
Financing costs	**418**	714	**971**	1,598
Gain on extinguishment of contingent consideration	**(4,044)**	-	**(4,044)**	-
Impairment of Goodwill	**2,757**	-	**2,757**	-
Loss on disposal of assets	**-**	207	**-**	207
Net income (loss) before taxes	**2,235**	$ 542	**985**	$ (2,152)
Income tax recovery (expense)	**(238)**	(28)	**(324)**	107
Net income (loss)	**$ 1,997**	$ 514	**$ 661**	$ (2,045)

Basic and diluted loss per share	**$ 0.01**	$0.00	**$ 0.00**	$ (0.01)
Basic and diluted weighted average number of shares outstanding	**206,067,120**	201,192,985	**205,832,743**	201,192,985
Adjusted EBITDA [(1)]	**3,040**	2,984	**3,943**	2,616
Adjusted EBITDA margin [(1)]	**22%**	21%	**19%**	13%

Cost of Sales and Gross Margin

Cost of sales reflects the recognition of products based on shipments and the cost of delivery of services revenue as well as the allocation of wages of employees primarily engaged in product and services activities. Cost of sales in the quarter were $5,911 (Q2 2022 - $7,893) and were lower due to product mix of the quarter with higher margin projects year over year. During Q2 2023, the Company realized gross margin of $7,744 (Q2 2022 – $6,399) resulting in a gross margin of 57% compared to 45% in Q2 2022. The increase in gross margin percentage reflects a change in product and service revenue mix in the current quarter to higher margin business compared to the prior year.

1. *Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA Margin is a non-IFRS 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-IFRS Measures" section of this MD&A.*

Cost of sales for the six month period ended June 30, 2023 were $8,986 (2022 - $11,589). As a result, gross margin in Q2 2023 increased to $12,247 (2022 - $8,215). Gross margin percentage year-to-date was 58% compared to 41% in the prior year due to change of revenue mix in 2023 compared to 2022 with higher margins compared to the prior year.

Administration Expenses

Administration expenses in Q2 2023 increased 42% to $4,123 (Q2 2022 - $2,903) due to costs associated with growing our business. Notable items in the administration expense category include: salaries and benefits expenses increased 24% to $1,889 (Q2 2022 - $1,526), travel related costs increased to $426 (Q2 2022 - $306) due to the increased amount of travel for tradeshows and other events, software subscriptions increased to $380 (Q2 2022 - $229), accounting and legal decreased to $298 (Q2 2022 - $325), and office and shop supplies $304 (Q2 2022 - $170).

Transaction and restructuring costs for Q2 2023 were $215 (Q2 2022 -$nil) due to the acquisition of Kraken Robotics Services as well as increasing efficiency in operations. Year-to-date transaction and restructuring costs were $250 compared to $204 in the prior year.

Administration expenses for the six months increased by 37% to $7,483 (2022 - $5,445) due to the increased activity across the Company. At the end of June 2023, Kraken employed 234 employees compared to 218 in the prior year. Notable items in the administration expense category include: salaries and benefits increased to $3,675 (2022 - $2,765) due to decreased government assistance, travel related costs of $1,084 (2022 - $378) which increased due to the return of business meetings, trade shows and conferences, software subscriptions of $616 (2022 - $434). Accounting and legal costs increased to $487 (2022- $434) as well as transfer agency services/public company fees declined to $108 (2021 - $126).

Research and Development costs

R&D costs in the quarter increased to $1,093 (Q2 2022 - $512), due to the timing of expenditures on various R&D programs as well as the timing of government assistance which are netted against R&D. Year-to-date, R&D costs increased to $1,867 (2022 - $992) resulting from the timing of expenditures on various R&D programs and government assistance. Investment tax credits, were $297 in the quarter and $796, year-to-date.

Depreciation and Amortization

Depreciation and amortization increased in the quarter and for the year due to the increased asset base and intangibles associated with the acquisition of Kraken Robotics Services. Depreciation in the quarter totalled $848 (Q2 2022 - $761), while amortization of intangible assets decreased to $384 (Q2 2022 - $385). Year-to-date, depreciation increased to $1,721 (2022 - $1,519) while amortization of intangible assets increased to $774 (2022 - $768).

Share-based compensation

Share-based compensation expense in Q2 2023 was $98 (Q2 2022 - $441), representing the fair value of the options amortized over the vesting period of the underlying options during the quarter. Year-to-date share-based compensation was $259 (2022 - $482).

Financing Costs

Financing costs in Q2 2023 were $418 (Q2 2022 - $714) due to reduced number of bank guarantees and fair value adjustments on debt and contingent consideration.

Year-to-date, financing costs were $971 (2022 - $1,598) due to reduced number of bank guarantees and fair value adjustments on debt and contingent consideration.

1. *Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA Margin is a non-IFRS 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-IFRS Measures" section of this MD&A.*

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June30, 2022
Interest on lease liabilities	**$ 85**	$ 84	**$ 161**	$ 174
Letters of credit and other	**243**	231	**477**	520
Accretion of long-term obligations	**90**	95	**177**	214
Fair value adjustment on contingent consideration	**-**	304	**156**	690
	$ 418	$ 714	**$ 971**	$ 1,598

Impairment of goodwill

The carrying value of the Services cash generating unit (CGU) was determined to be higher than its recoverable amount of $18,765 and an impairment loss of $2,757 (2022 – nil) was recognised. The impairment loss was allocated fully to goodwill, reducing the goodwill included in the Services segment to $4,120. The recoverable amount of the CGU was based on its value in use.

Value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use as at June 30, 2023 was determined similarly to the December 31, 2022 goodwill impairment test and was based on a WACC of 19%, terminal growth rate of 2% and an average estimated compounded growth rate of 4% from 2024 to 2027.

Net Income and Adjusted EBITDA[(1)]

Net income in the quarter was $1,997 and comprehensive net income of $1,945, as compared to net income of $514 and comprehensive net income of $560 for the same period of prior year. Adjusted EBITDA[(1)] in Q2 2023 was $3,040 (Q2-2022 $2,984) or an 22% adjusted EBITDA margin[(1)] compared to an 21% adjusted EBITDA margin[(1)] for the same period a year ago. The change over the prior period was due to the reduction of the fair value of contingent consideration.

Year-to-date the Company recorded net income of $661 and a comprehensive income of $625 compared to a loss of $2,045 and comprehensive loss of $2,024 for the same period of the prior year.

Adjusted EBITDA[(1)] for the six-month period was $3,943 or 19% Adjusted EBITDA margin[(1)] compared to an adjusted EBITDA[(1)] of $2,616 or 13% in the prior year. The increase is from change in product mix with higher margins year over year.

Refer to Non-GAAP section below for further detail.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2023, the Company had negative working capital of $(1,056) (2022 – ($2,035)). Working capital is negative due to the promissory note related to Kraken Robotic Services acquisition. Cash and cash equivalents as at June 30, 2023 were $6,716 as compared with $8,265 at December 31, 2022.

During the six-month period ended June 30, 2023, the Company received proceeds of $29 upon the exercise of 72,500 stock options (June 30, 2022 – proceeds of $nil). During the 3 month period, the Company received proceeds of $9 on the exercise of 15,000 common share purchase warrants.

During the six-month period ended June 30, 2023, the Company experienced cash inflows of $7,599 (June 30, 2022 – cash outflows $3,863) from operating activities. Cash outflows from investing activities were $6,558 versus $707 for the 6 month period of June 30, 2022. Financing activities realized outflows of $2,447 (June 30, 2022 – cash outflows $281).

Overall, excluding the foreign exchange impact on cash, cash decreased by $1,406 to $6,716 (2022 – $8,265).

1. *Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA Margin is a non-IFRS 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-IFRS Measures" section of this MD&A.*

A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$3,108 (C$4,120), US$1,960 (C$2,598) and US$830 (C$1,100) 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.

Financial Contributions Awarded

At June 30, 2023, Kraken had $11.3 million remaining in grant funding to be offset against R&D activities of which cash of $5.5 million has been received for projects to be completed during 2023.

Significant components of this remaining funding are as follows:

In August 2021, Kraken Robotics Services was awarded $2.0 million in funding from the Ocean Supercluster for its development for its GeoScan Wide Area Acoustic Corer of which $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 Technology Demonstration project. This project completed in December 2022.Also in November 2021, Kraken Robotics Services was awarded $4.8 million in funding from OOGIRA for the development of its GeoTrac project of which $4.3 million has been received.

In November 2022, Kraken was awarded $8.0 million in funding to its Brazilian subsidiary to continue development on artificial intelligence, machine learning software and subsea autonomy solutions of which $0.2 has been received.

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.

The geopolitical risk currently being experienced may cause continued economic volatility and impact the supply chain. 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 and long-term obligations. The Company will make adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue debt or sell assets to reduce debt.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2023, 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:

	June 30, 2023	**December 31, 2022**
Cash and cash equivalents	$ 6,716	$ 8,265
Trade and other receivables	13,573	12,221
Contract assets	1,639	4,347
	$ 21,928	$ 24,833

At June 30, 2023, 79% of the trade receivables balance was owing from two customers (Q2 2022 – 60% of the trade receivables was owing from two customers). At June 30, 2023 the Company had recorded contract liabilities of $20,488 (2022 – $11,817).

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. As of June 30, 2023, the Company had a cash balance of $6,716 (December 31, 2022 - $8,265). 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 June 30, 2023, the Company held $6,716 in cash and has drawn $3,386, $559 and $1,260 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.

The Company's exposure to foreign currency risk was as follows:

	June 30, 2022	**December 31, 2022**
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	2,016	$ 581
Trade and other payables GBP	1,118	1,381
Trade and other payables EUR	3,811	1,203
Trade and other payables DKK	131	120
Trade and other payables BRL	255	241
Long-term debt EUR	1,009	1,016
Bank Indebtedness EUR	389	377
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	9,278	4,697
Trade and other receivables GBP	1,385	2,072
Trade and other receivables EUR	999	473
Trade and other receivables DKK	8	6
Trade and other receivables BRL	1,913	21

For the period ended June 30, 2023, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have increased (decreased) the Company's net loss by approximately $170 (2022 - $13).

Fair Value:

During the period ended June 30, 2023, 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.

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 June 30, 2023, the Company:

(a) had 9,980,000 warrants expire on July 26, 2023.
(b) paid the Promissory Notes of $4,000 plus $494 interest to the sellers of PanGeo Subsea on July 31, 2023 in cash.
(c) Increased its line of credit by $5,000 to $9,500 through the Kraken Robotic Systems Inc subsidiary on August 23,

2023.

(d) Advised the sellers of PanGeo that PanGeo hadn't met its criteria for the Second Earnout of the Share Purchase Agreement.

OUTSTANDING SHARE DATA AS AT AUGUST 28, 2023:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	206,111,735

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	1,000,000	1,000,000	0.63	July 14, 2024
Options	1,000,000	1,000,000	0.50	July 30, 2026
Options	50,000	-	0.39	November 29, 2026
Options	5,616,250	2,668,750	0.395	May 3, 2027
Options	100,000	33,333	0.39	September 6, 2027
Options	400,000	133,334	0.59	December 7, 2027
Options	75,000	18,750	0.63	January 30, 2028
Options	100,000	25,000	0.58	February 27, 2028
	8,341,250	4,879,167		

NON-IFRS MEASURES

The Company has included certain non-IFRS financial measures and non-IFRS ratios in this MD&A, including adjusted EBITDA, adjusted EBITDA margin and working capital. Management believes that non-IFRS financial measures and non-IFRS ratios, when supplementing measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. Non-IFRS financial measures and non-IFRS ratios do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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 at adjusted EBITDA divided by Total Revenue.

	Q2 2023	Q2 2022	2023	2022
Net income (loss)	**$1,997**	$514	**$661**	$(2,045)
Income tax	**238**	28	**324**	(107)
Financing costs	**418**	714	**971**	1,598
Gain on extinguishment of contingent consideration	**(4,044)**	-	**(4,044)**	-
Loss on disposal of assets	**-**	207	**-**	207
Impairment of goodwill	**2,757**	-	**2,757**	-
Foreign exchange (loss) gain	**129**	(66)	**270**	(10)
Share-based compensation	**98**	441	**259**	482
Depreciation and Amortization	**1,232**	422	**2,495**	2,287
EBITDA – excluding restructuring and acquisition costs	**2,825**	2,984	**3,693**	2,412
Restructuring and acquisition costs	**215**	-	**250**	204
Adjusted EBITDA	**$3,040**	$2,984	**$3,943**	$2,616
Adjusted EBITDA Margin	**22%**	21%	**19%**	13%

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

	Q2 2023	Q2 2022	2023	2022
Revenue	**$13,655**	$14,292	**$21,233**	$19,804
Cost of sales	**5,911**	7,893	**8,986**	11,589
Gross margin	**7,744**	6,399	**12,247**	8,215
Gross margin percentage	**57%**	45%	**58%**	41%

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.

ADDITIONAL INFORMATION

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 ($)
Q2 2023	13,655	6,151	98	1,997	1,945	0.01
Q1 2023	7,578	4,898	161	(1,336)	(1,320)	(0.01)
Q4 2022	8,813	5,411	178	(1,270)	(1,598)	(0.01)
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)

Note: Operating expenses are defined as administrative expenses, R&D costs and depreciation and amortization.
Comparative balance sheet information for 2023 and 2022 is presented below.

Comparative quarterly balance sheet information is presented below:

	Total Assets ($)	Total Current Assets ($)	Total Current Liabilities ($)	Total Liabilities ($)
Q2 2023	70,487	39,091	40,226	43,660
Q1 2023	65,237	31,315	36,634	40,477
Q4 2022	71,365	37,827	39,862	47,710
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	25,360	37,863
Q3 2021	61,797	27,460	19,163	35,064

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.