



**KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2020**

This Management Discussion and Analysis ("MD&A") of Kraken Robotics Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and nine month period ended September 30, 2020 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine month period ended September 30, 2020, which are available on SEDAR at www.sedar.com. This MD&A is current as at November 23, 2020, the date of preparation.

The September 30, 2020 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. The Company has previously adopted IFRS 16 with a date of initial application of January 1, 2019. Except as noted under "Use of Estimates" and "New and Revised IFRS Accounting Pronouncements", 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, 2019. 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, 2019 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars, unless otherwise stated.

Forward-Looking Statements

*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, 2019 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 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 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.

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 modular payload section of less than eight-inch diameter, which can be easily mobilized in customers' Unmanned Underwater Vehicles (UUVs) of all sizes. The MINSAS payload section also includes Kraken's latest generation Real Time SAS Processor, the RTSAS MK-II. The RTSAS enables real-time, onboard processing of SAS imagery and bathymetry at full resolution and allows operators to leverage Kraken's suite of post-processing tools, including the newly developed SASView 3D sonar visualization and control software. The MINSAS plus RTSAS provides operators with an area coverage rate of higher than 3km² per hour at full SAS resolution, enabling highly efficient survey operations. Development continues 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.

So far this year, Kraken has delivered a new man portable MINSAS sensor to the U.S. Navy under the FCT program and received an additional order for this product which will be delivered in Q4. In addition, during the quarter the Company

delivered a MINSAS sensor to a US defense customer that has ordered several MINSAS sensors from Kraken over the last 5 years. Technical discussions and quote activity for Kraken's MINSAS sensors is healthy with numerous AUV manufacturers showing interest in Kraken's MINSAS sensors for AUV platforms both large and small.

SEAVISION® 3D LASER SYSTEM FOR UNDERWATER VEHICLES

Kraken Robotik GmbH ("KRG"), a wholly-owned subsidiary of the Company, commenced operations in January 2017 in Bremen, Germany. Its focus is the development of 3D imaging sensors, machine learning, and artificial intelligence (AI) algorithms for underwater robotic platforms.

KRG, with support from Kraken engineers in Canada, has developed the SeaVision® 3D laser system. SeaVision® is the world's first RGB underwater laser imaging system that offers the resolution, range and scan rate to deliver dense full colour 3D point cloud images of subsea infrastructure with 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 has seen significant interest in SeaVision® from customers across many industries from defense to oil and gas, to renewable energy and nuclear.

In collaboration with an international oil and gas company, Kraken's development of a unique, non-contact mooring chain inspection tool continues, with commercialization scheduled for first half 2021. This tool, utilizing 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.

During Q3, 2019, KRG was awarded a contract to deliver 3,000 meter rated SeaVision® laser scanning sensors to the GEOMAR Helmholtz Centre for Ocean Research in Germany. GEOMAR is a leading global institute for marine research with approximately 1,000 employees. Under this contract, Kraken will deliver a twin pod SeaVision® 3D laser scanner as well as three SeaVision® profilers (each consisting of a Kraken SmartCam™ and separate laser). The contract value is approximately \$0.5 million with delivery expected during Q4, 2020.

During Q4 2019, Kraken signed a Parks Canada contract for our SeaVision® underwater laser imaging platform. Due to COVID restrictions Kraken has been working remotely with Parks Canada to complete the testing of the SeaVision metrology system and augmented Falcon ROV and this was completed during the quarter. Trials to date have demonstrated Kraken's ability to collect high resolution laser scan data using observation class ROVs.

During Q3, Kraken provided its final report to an offshore oil and gas customer who availed of Kraken's SeaVision® laser scanner for a mooring chain inspection job. The high-resolution data collected is being used for corrosion analysis on these subsea mooring chains.

Kraken continues development of its SeaVision® laser profiler product which can be integrated on AUVs and tow bodies from Kraken and other manufacturers.

KATFISH™ TOWED UNDERWATER VEHICLE

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

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. The contract was entered into in the ordinary course, in accordance with applicable European procurement laws, and on terms normally observed in agreements of such nature.
- 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. It is expected that the equipment will be delivered during the second half 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 more years (2019-2021), these projects will be awarded to Fraunhofer as various statement of works are agreed upon and purchase orders issued. The remaining commitment under this program is €487,651. These projects will be expensed as incurred.

As a result of funding included in Kraken’s OceanVision project, in Q3 Kraken kicked off development of 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 its in-house developed 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.

AUTONOMOUS LAUNCH AND RECOVERY SYSTEMS (ALARS)

Launch and recovery of equipment offshore is one of the most dangerous phases of any ROV or AUV operation. Through the hiring of former Rolls Royce Marine employees in 2016, Kraken's Handling Systems Division has an experienced LARS engineering team with a proven track record. This group is developing both an intelligent winch system (TENTACLE™) and an autonomous LARS system that can launch AUVs from vessels, host facilities and docking stations. Kraken expects its winch and ALARS products will range in price from \$250,000 to \$1 million. This group's capabilities are integral to various customer opportunities that Kraken is involved in or pursuing.

During Q3, as part of the OceanVision™ project, Kraken completed successful sea testing of the Kraken's ALARS, Tentacle Winch® and, the KATFISH™ towed Synthetic Aperture Sonar underwater vehicle. Both the Tentacle Winch® and the ALARS are constructed of non-welded aluminum for high strength, low weight, and low magnetic signature.

KRAKEN POWER GMBH

Effective December 31, 2019, Kraken owns a 100% of Kraken Power GmbH, an increase from 75% at the end of Q3, 2019. Kraken Power GmbH designs and manufactures unique pressure tolerant thrusters, drives, batteries, battery management systems, and electronics. These are specialized deep-sea components for AUVs and ROVs. Kraken Power's 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 Power's technology and products enable a significant reduction in bill of material costs for our ThunderFish® AUV over acquiring conventional batteries.

On December 31, 2019 Kraken acquired the remaining 25% of Kraken Power not currently owned for €350,000, consisting of €250,000 in cash and the issuance of 236,258 common shares of the Company at \$0.62 per share. The shares issued have a four-month statutory hold period commencing on the date of issuance. The transaction triggered a change of control payment to an arm's length third-party lender to Kraken Power in an amount equal to €120,000 payable in two tranches of €60,000 over calendar 2020 for which Kraken is responsible. The purchase price has been reflected in the Statement of Changes in Shareholders' Equity while the change in control payment has been recognized on the income statement in Q4 2019.

In Q3, 2018, Kraken announced a \$9.0 million deep-sea battery contract with Ocean Infinity. Ocean Infinity noted that by using Kraken's battery technology, "we can increase our energy capacity by over 50% in the same physical form factor as our existing conventional batteries. From an operational perspective this gives us considerable flexibility to optimise mission plans, increase area coverage, manage weather impact and ultimately increase value for our customers." During Q3/Q4 2019 sixteen 6000-meter rated pressure tolerant battery systems were delivered to Ocean Infinity, representing approximately 1,300 kWh. Ocean Infinity has noted that they are achieving AUV mission lengths of almost 700-line kilometers with Kraken batteries as compared to approximately 300-line kilometers with the original AUV batteries. This has resulted in launch and recovery operations being reduced by approximately 50%, yielding increased safety and cost efficiencies.

Year to date, Kraken has delivered batteries to a US military customer which placed its third order of Kraken batteries. In addition, during Q3 Kraken delivered initial battery shipments to Dive Technologies in the U.S. for their large diameter AUV.

ACOUSTIC SIGNAL PROCESSING GROUP (ASPG)

Kraken's Acoustic Signal Processing Group (ASPG) was established in mid 2018 and its employees have 80+ years of combined experience in sonar systems development and integration. Their core competency is implementation of digital signal processing and user interface software for Anti-Submarine Warfare (ASW) sonar applications. This work frequently involves integration with embedded processing platforms for shipboard or shore-based analysis systems. The group can process and display data from fixed and mobile underwater as well as airborne systems to take advantage of machine automation, active and passive array technology improvements, hardware and software upgrades of submarine, surface and airborne ASW systems.

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 remains small, Kraken is bidding on opportunities involving both shallow and deeper water surveys with the KATFISH™ and ThunderFish® as well as our SeaVision® 3D laser system. In addition, the Company's OceanVision™ project proposal to the Ocean Supercluster is focused on the development of a RaaS offering for underwater seabed imagery and mapping.

OCEANVISION™ PROJECT

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 project, Canada's Ocean Supercluster's investment is \$6.3 million, while the balance of the project is provided by government agencies, industry partners (Petroleum Research Newfoundland and Labrador, Ocean Choice International and Nunavut Fisheries Association) and Kraken. During Q3, 2020 Kraken announced that NSP Maritime Link Inc (NSPML), a wholly owned subsidiary of Emera Inc. joined Kraken's OceanVision™ project. NSPML will contribute over \$500,000 during the term of the project. Of the \$18.8 million project costs, \$7.2 million has been spent to September 30, 2020. Kraken's commitment to the project is \$4.4 million, of which \$2.7 million remains outstanding at September 30, 2020.

FINANCIAL CONTRIBUTIONS AWARDED

At September 30, 2020, Kraken had \$3.6 million remaining in grant funding to be drawn down against research and development activities. This excludes the remaining \$8.9 million of funding to be received under the OceanVision™ project.

Major components of this remaining funding are as follows:

In May 2018, the Company's German subsidiary, Kraken Robotik GmbH was awarded over \$0.9 million in contracts for two development initiatives for evaluation of SeaVision® sensors and AI control for software for autonomous underwater vehicles. The two projects are called ARIM and RoboVaaS and are collaborative research activities funded by the German Federal Ministry for Economic Affairs and Energy as part of the MarTERA Horizon 2020 initiative of the European Commission.

In December 2018, the Company was awarded a \$0.6 million contract with Public Works and Procurement Canada under the Defence Innovation Research Program (DIRP). Kraken will develop a low frequency, ultra-wideband Synthetic Aperture Sonar (SAS) for use in underwater operational environments.

In March 2019, the Company was awarded a \$1.0 million financial contribution from the Government of Newfoundland and Labrador under the Innovation and Business Development Funding (IBDF) program. The funding will be used for the initial phase of the OceanVision™ project as part of the Ocean Supercluster initiative.

In August 2019, the Company was awarded funding for the development of a mooring chain laser inspection sensor for use in offshore oil and gas applications. Under the project, a total of \$1.8 million in funding is being provided in cash and in-kind services from Husky (\$1.26M) and the Government of Newfoundland and Labrador, through the Innovation and Business Investment Corporation (\$540,000). The project cash component received by Kraken will be \$720,000, of which \$100,000 has been received.

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. The Thunderfish® Funding on this project in the amount of \$174,000 was received in the quarter.

RESULTS OF OPERATIONS

Selected Annual Information

	Year Ended December 31, 2019 (\$)	Year Ended December 31, 2018 (\$)	Year Ended December 31, 2017 (\$)
Statement of Comprehensive Loss			
Total Revenues	15,145,976	6,707,956	3,533,605
Cost of Sales	8,441,506	3,902,538	1,936,463
Loss from operating activities	(3,208,728)	(3,982,668)	(3,006,573)
Net loss	(3,003,486)	(2,852,389)	(2,397,229)
Basic and diluted loss per share	(0.02)	(0.03)	(0.03)

	Year Ended December 31, 2019 (\$)	Year Ended December 31, 2018 (\$)	Year Ended December 31, 2017 (\$)
Statement of Financial Position			
Total Assets	18,090,876	14,028,465	5,258,148
Total Current Assets	13,498,657	9,738,966	3,458,421
Total Current Liabilities	6,262,178	4,815,590	4,722,736
Total Liabilities	8,427,558	5,731,030	4,722,736
Total Shareholders' Equity	9,663,318	8,297,435	535,412

The Company incurred a loss of \$3,003,486 for the year ended December 31, 2019, as compared with a loss of \$2,852,389 for the year ended December 31, 2018. Share-based payments of \$1,370,745 (2018 - \$342,600) were recorded upon the grant of incentive stock options pursuant to the Company's incentive stock option plan.

During 2019, the Company continued to execute its growth plan. Administrative expenses increased 32% with those of the prior year at \$5,313,419 (2018 - \$4,028,757). Research and Development costs, net of related government assistance declined 20% to \$1,886,861 (2018 - \$2,369,455) due to increased government assistance including those related to the OceanVision project.

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

Summary of Quarterly Information

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

	Revenue (\$)	Operating expenses, excluding share based payments (\$)	Share-based payments (\$)	Net income (loss) (\$)	Comprehensive income (loss) \$	Basic and diluted income (loss) per share (\$)
Q3 2020	1,545,463	2,796,150	412,319	(2,603,496)	(2,593,227)	(0.02)
Q2 2020	2,281,929	1,689,057	220,420	(128,724)	(165,953)	0.00
Q1 2020	6,390,675	1,882,739	235,358	727,937	1,005,882	0.00
Q4 2019	4,616,644	2,146,226	288,276	(247,364)	(553,913)	0.00
Q3 2019	7,822,452	2,585,027	999,469	95,242	317,253	0.00
Q2 2019	1,337,495	2,486,264	8,200	(1,988,914)	(1,944,881)	(0.01)
Q1 2019	1,369,385	1,663,155	74,800	(862,450)	(782,344)	(0.01)
Q4 2018	1,484,919	1,724,071	141,100	(966,471)	(856,344)	(0.01)

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

Comparative quarterly balance sheet information is presented below:

	Total Assets (\$)	Total Current Assets (\$)	Total Current Liabilities (\$)	Total Liabilities (\$)
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
Q4 2019	18,090,876	13,498,657	6,262,178	8,427,558
Q3 2019	17,273,370	12,492,410	4,776,548	7,116,466
Q2 2019	20,090,135	13,892,388	8,867,266	11,164,027
Q1 2019	18,726,179	12,266,678	5,718,495	8,000,358
Q4 2018	14,028,465	9,738,966	4,815,590	5,731,030

Three Months Ended September 30, 2020

The Company recorded revenues of \$1,545,463 (2019 - \$7,822,452) from product sales and services, a decline compared to the same period a year ago mainly due to the delivery of \$5.5 million in subsea batteries to a customer in the prior year. 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 September 30, 2020, the Company had contract liabilities of \$486,810 (2019 - \$2,445,223), which represent customer advances on product orders.

Cost of sales were lower than that of the prior year at \$741,777 (2019 - \$4,707,193). The decrease in cost of sales was due the cost associated with the manufacturing of subsea batteries and labour associated with providing service revenue. The Company realized gross profit of \$803,686 (2019 - \$3,115,259). Gross margin for the quarter was 52%, higher than the 40% gross margin in the prior year due to subsea battery sales which carried a lower gross margin.

Administrative expenses in the quarter increased 37% to \$2,006,167 compared to \$1,464,357 in the prior year due to both an increase in headcount and various administrative expenses such as accounting and legal, rent and software subscriptions. At the end of September 30, 2020, Kraken employed 124 employees compared to 88 in the prior year. Notable items in the administrative expense category include accounting and legal \$246,925 (2019 - \$148,143), travel related costs declined to \$32,994 (2019 - \$238,324) due to COVID related cancellations for business meetings, trade shows and conferences. Also included were rent of \$69,171 (2019 - \$26,808), and software subscriptions \$152,241 (2019 - \$70,823) due to the

implementation of a new ERP system. During the quarter, the Company realized a foreign exchange loss of \$139,771 (2019 foreign exchange gain - \$34,634).

Depreciation in the quarter totalled \$186,960 (2019 - \$191,475), while amortization of intangible assets declined to \$75,242 (2019- \$266,669) due to the customers contract portion of intangibles being fully amortized.

Research and development costs ("R&D") costs in the quarter declined to \$527,781 (2019 - \$662,526), 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, 2020, the Company received government assistance, excluding the OceanVision project, in the amount of \$1,322,687 (2019 - \$235,325). Government Assistance has been classified as a reduction to Cost of Sales \$99,325 (2019 - \$138,087), Research & Development expense \$923,134 (2019 - \$82,809) and Administrative expense \$300,228 (2019 - \$14,429).

The financial statements reflect a cost reimbursement under Kraken's OceanVision project, including \$738,880 (2019 - \$Nil) in reimbursements from the Ocean SuperCluster and \$305,708 (2019 - \$Nil) in reimbursements by funding partners. Assistance related to the OceanVision project has been classified as a reduction to Research & Development expense \$851,695 (2019 - \$Nil), Cost of sales \$32,282 (2019 - \$Nil), Administrative expense \$45,341 (2019 - \$Nil) and Construction in progress of \$115,271 (2019 - \$Nil).

Share-based compensation of \$412,319 was recorded, representing the fair value of the options that vested during the three months ended September 30, 2020. During the same period of the prior year, the Company recorded share-based compensation of \$999,469. The decrease over the prior year is attributable to the timing of stock options issued to management and employees in 2019.

The Company recorded a loss of \$2,603,496 and a comprehensive loss of \$2,593,227 for the quarter, as compared to income of \$95,242 and comprehensive income of \$317,253 for the same period of prior year.

Nine Months Ended September 30, 2020

The Company recorded revenues of \$10,218,067 (2019 - \$10,529,332) from product sales and services, marking a decrease of \$311,265 over the same period of the prior fiscal year. The Company's revenue can fluctuate significantly on a quarterly basis mainly due to the timing of orders and lead times on parts purchases. The Company had contract liabilities of \$486,810 (2019 - \$2,445,223) which relate to customer advances on orders.

Cost of sales reflects the recognition of product based on shipments in the quarter as well as the allocation of wages of employees primarily engaged in production activities and was lower from that of the prior year at \$5,353,778 (2019 - \$6,196,658). Gross margins for the first three quarters were \$4,864,289 or 48% (2019 - gross margin \$4,332,674 or 41%).

The Company recorded a net loss of \$2,070,888 and comprehensive loss of \$1,819,903 for the nine months ended September 30, 2020, as compared to a loss of \$2,756,122 and comprehensive loss of \$2,490,140 for the same period of prior year. A gain of \$250,985 (2019 - \$265,982 gain) was attributable to cumulative translation adjustment arising from the translation of the German subsidiaries' financial statements into Canadian dollar presentation currency of the parent company.

Administrative expenses for the nine months increased by \$1,177,366 to \$4,824,911 (2019 - \$3,647,545) due to both an increase in headcount to 124 employees compared to 88 in the prior year and various administrative expenses such as accounting and legal, software subscriptions and public company costs. Administrative expense category include accounting and legal of \$460,062 (2019- 292,839), software subscriptions of \$389,165 (2019 - \$159,770), travel related costs of \$145,734 (2019 - \$608,227), rent of \$186,415 (2019 - \$184,854), and transfer agency services/public company fees of \$156,613 (2019 - \$131,102). During the nine months, the Company realized a foreign exchange loss of \$123,619 (2019 - loss \$47,133).

Depreciation and amortization costs related to the adoption of IFRS 16 on leases and the intangible assets acquired with Kraken Power GmbH also attributed to the expense increase during the nine months. Depreciation amortization expenses incurred during the nine-month period totalled \$771,249 compared to \$1,424,954 in the same period prior year.

Research and development costs decreased versus those of the prior year, totaling \$771,786 (2019 - \$1,661,947) resulting from the timing of expenditures on various R&D programs. Government assistance excluding the OceanVision project totaled \$3,035,389 (2019 - \$1,341,575) during the period of which \$174,703 (2019 - \$331,387) was applied against Costs of Sales, \$2,377,878 (2019 - \$995,759) was applied to R&D expenses and \$482,808 (2019 - \$14,429) was applied to Administrative expense. The OceanVision project received assistance from the Ocean SuperCluster of \$2,189,651 (2019 - \$Nil) and funding partners of \$725,053 (2019 - \$Nil) during the period, of which \$2,024,102 (2019 - \$Nil) was applied to R&D expenses, \$58,578 (2019 - \$Nil) was applied to Cost of Sales, \$58,233 (2019 - \$Nil) was applied to Administrative expenses and \$773,790 (2019 - \$Nil) was applied to construction in progress.

Share-based compensation of \$868,097 was recorded, representing the fair value of the options that vested during the nine months ended September 30, 2020. During the same period of the prior year, the Company recorded stock-based compensation of \$1,082,469.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2020, the Company had working capital of \$6,783,092 (December 31, 2019 – \$7,236,479). Cash and cash equivalents as at September 30, 2020 was \$1,853,555 as compared with \$2,097,199 at December 31, 2019.

During the nine months ended September 30, 2020, the Company received proceeds of \$670,482 (December 31, 2019 - \$157,620) upon the exercise of 3,231,667 stock options (December 31, 2019 – 1,025,666 stock options).

During the nine months ended September 30, 2020, the Company experienced cash outflows of \$158,074 (2019 – (\$4,988,275)) from operating activities. Cash outflows from investing activities were \$858,112 versus \$367,274 for 2019. Financing activities realized inflows of \$795,380 (2019 – \$3,064,786).

Overall, excluding the foreign exchange impact on cash, cash decreased by \$220,806 as compared to \$2,290,763 during the prior year nine-month period.

A commercial bank issued a standby letter of credit on behalf of the Company to a customer in the amount of US\$1,802,916 (C\$2,404,910) on an advance guarantee secured by Export Development Canada. The letter of credit expires December 31, 2021.

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 global outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to protect against the spread of the virus. These measures, which include, among other things, limitations on travel, self-imposed quarantine periods and social distancing measures, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any government and/or central bank interventions. 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 Company and its operating subsidiaries in future periods.

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 and long-term obligations and lease liabilities. The Company makes adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares or pay dividends, issue new debt and sell assets to reduce debt.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2020, 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, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,853,555	\$ 2,097,199
Trade and other receivables	2,372,933	5,083,740
	\$ 4,226,488	\$ 7,180,939

At September 30, 2020, 73% of the trade receivables balance was owing from 3 customers (2019 – 84% of the trade receivables was owing from 2 customers). At September 30, 2020, the Company had recorded contract liabilities of \$486,810 (2019– \$2,445,223).

Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2020, the Company had a cash balance of \$1,853,555 (December 31, 2019 - \$2,097,199) to settle current liabilities of \$4,644,690 (December 31, 2019 - \$6,262,178).

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, 2020, the Company has cash balances of \$1,853,555.

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 and EUR, certain purchases of inventory in USD, GBP and EUR. The Company does not use any form of hedging against fluctuations in foreign exchange.

Fair Value:

During the twelve months ended September 30, 2020, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts.

The following table provides the disclosures of the fair value and the level in the hierarchy:

September 30, 2020	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 1,853,555	\$ -	\$ -
Trade and other receivables	-	2,372,933	-
Financial liabilities at amortized cost:			
Trade and other payables	-	(3,595,010)	-
Long-term note payable	-	(572,910)	-
Bank indebtedness	-	(302,416)	-

USE OF ESTIMATES AND JUDGMENTS

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 September 30, 2020, the Company:

- (a) On October 26, 2020, the Company closed a bought deal, short form prospectus offering for 15,500,000 common shares of the Company at a price of \$0.67 per Common Share for aggregate gross proceeds of \$10,385,000. Net

proceeds by the Company to accelerate its Robotics as a Service recurring revenue model, for leasehold improvements, capital expenditures, parts and inventory, future acquisitions and for general corporate and working capital purposes.

- (b) During the months of October 2020 and November 2020, 200,000 options were exercised by employees for proceeds of \$36,000.
- (c) During the month of October 2020 495,000 warrants were exercised at \$0.60 for proceeds of \$297,000.
- (d) On October 1, 2020, incorporated Kraken Robotic Denmark ApS in conjunction with its contract to supply mine-hunting sonar equipment to the Royal Danish Navy with no material activity being performed to date.
- (e) On October 22, 2020 Kraken Power GmbH entered into a facilities expansion loan in the amount of €1,052,000 (\$1,644,381). This loan bears interest at 1.23%, payable monthly, and is repayable over 72 months.
- (f) A commercial bank issued a standby letter of credit on behalf of the Company to a customer in the amount of US\$6,214,595 (\$8,265,411) on an advance guarantee secured by Export Development Canada. The letter of credit expires October 30, 2023. In addition, the commercial bank issued a standby letter of credit to a customer in the amount of US\$829,802 (\$1,106,873) on a performance guarantee secured by a guaranteed investment certificate. The performance guarantee expires on October 31, 2024.

OUTSTANDING SHARE DATA AS AT NOVEMBER 23, 2020:

- (a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	166,603,853

- (b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	1,223,501	1,223,501	0.18	December 18, 2020
Options	450,000	450,000	0.185	February 20, 2021
Options	833,333	833,333	0.26	July 18, 2021
Options	500,000	333,333	0.70	March 5, 2022
Options	1,500,000	1,000,000	0.63	July 14, 2022
Options	400,000	400,000	0.63	July 14, 2022
Options	2,713,333	1,795,051	0.53	September 8, 2022
Options	75,000	25,000	0.44	May 1, 2023
Options	1,500,000	500,000	0.57	July 13, 2023
Options	300,000	100,000	0.51	August 4, 2023
Options	1,000,000	500,000	0.63	July 14, 2024
	10,495,167	7,160,218		

- (c) Summary of warrants outstanding:

Security	Number	Exercise Price	Expiry Date
Warrants	55,000	0.60	December 20, 2020

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.