KRAKEN

# KRAKEN SONAR INC.
# MANAGEMENT DISCUSSION AND ANALYSIS
# FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2016

*This Management Discussion and Analysis ("MD&A") of Kraken Sonar Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and six month period ended June 30, 2016 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the notes thereto for the three and six month period ended June 30, 2016, which are available on SEDAR at www.sedar.com. This MD&A is current as at August 26, 2016, the date of preparation.*

*The June 30, 2016 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, 2015, except as disclosed in note 4(a) to the condensed consolidated interim financial statements. 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, 2015 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars, unless otherwise stated.*

***Forward-Looking Statements***

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

**NATURE OF BUSINESS**

Kraken Sonar Inc. (formerly Anergy Capital Inc.) was incorporated on May 14, 2008 under the *Business Corporations Act, British Columbia*) and has its registered office at Suite 700, 595 Burrard Street, PO Box 49290, Vancouver, BC V7X 1S8.

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

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

The Company's principal business is the design, manufacture and sale of underwater sonar and acoustic sensor equipment. It is classified as a Tier 2 Technology Issuer on the Exchange with its common shares traded under the symbol "PNG".

At June 30, 2016, the Company had not yet achieved profitable operations, had experienced significant losses and negative cash flows from operations since inception, and had a deficit of $4,134,691. It may incur further losses in the development of its business. The continued operations of the Company are dependent on continued support from its directors, its ability to achieve and maintain profitable operations and positive cash flows from operations in the future and upon securing additional financing. Subsequent to the end of the second quarter, the Company completed a private placement financing that raised gross proceeds of $1,073,930. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

**Company Overview**

Kraken Sonar Inc. is a marine technology company engaged in the design, development and marketing of advanced sonar and acoustic velocity sensors for Unmanned Underwater Vehicles used in 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.

***KATFISH***

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

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.

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

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

In February 2016, the Company announced that it will receive non-refundable financial contributions of up to $495,000 from the National Research Council of Canada Industrial Research Alliance Program (NRC-IRAP) to develop the KATFISH for high speed, high resolution seabed mapping. The system will enable real-time seabed imagery, bathymetry and advanced 3D digital terrain models of the seabed – optimized for both manned and unmanned surface vessels.

In late February 2016, the Company announced that it was supplying its KATFISH towed sonar system to Elbit Systems Ltd. "Elbit"), a major international defence contractor based in Israel. Work continues on KATFISH development with the first system expected to be delivered to Elbit in late Q4 of this year or early 2017.

***STRATEGIC PARTNERSHIP WITH SQUARE ROBOT, INC.***

In June 2016, the Company announced the signing of a strategic partnership agreement with Square Robot, Inc. ("Square Robot"), a US-based privately-held company, for the design, manufacture and support of advanced sensors and robotic systems for confined area inspection applications used by the worldwide oil and gas industry.

Square Robot is building a service-based business for confined area inspection applications. Working in conjunction with Square Robot, Kraken will co-develop a series of innovative robotic devices that will use advanced acoustic, optical and laser sensors to conduct remote inspection of confined area assets used by the global oil and gas industry. The combined technological capabilities, intellectual property and expertise under this new partnership looks to create an innovative robotic platform capable of significantly improving confined area inspection applications.

The Company has become a minority shareholder in Square Robot. Longer term, Kraken will be the exclusive manufacturing and product support partner to Square Robot and expects to work with Square Robot on the development of additional robotic systems for other inspection applications. Kraken expects an initial software purchase order agreement (SPOA) from Square Robot in Q3, 2016.

***KRAKEN NAMED TO MARINE TECHNOLOGY TOP 100***

For the fourth year in a row, the Company has the honour and distinction of being named by Marine Technology Reporter to the MTR 100 - a list of the 100 most influential companies in the international marine technology marketplace.

## RESULTS OF OPERATIONS

### Selected Annual Information

| Statement of Comprehensive Loss | Year Ended December 31, 2015 ($) | Year Ended December 31, 2014 ($) | Year Ended December 31, 2013 ($) |
|---|---|---|---|
| Total Revenues | 1,893,299 | 2,353,982 | 576,049 |
| Cost of Sales | 960,542 | 1,138,540 | 133,100 |
| Loss from operating activities | (1,784,625) | (848,958) | (129,785) |
| Net loss and comprehensive loss | (1,992,410) | (1,310,240) | (136,926) |
| Basic and diluted loss per share | (0.03) | (0.03) | (0.00) |

| Statement of Financial Position | Year Ended December 31, 2015 ($) | Year Ended December 31, 2014 ($) | Year Ended December 31, 2013 ($) |
|---|---|---|---|
| Total Assets | 2,042,676 | 2,943,303 | 354,908 |
| Total Current Assets | 1,857,733 | 2,813,957 | 320,696 |
| Total Current Liabilities | 1,074,373 | 3,050,759 | 593,941 |
| Total Liabilities | 1,074,373 | 3,050,759 | 593,941 |
| Total Shareholders' Equity (Deficiency) | 968,303 | (107,456) | (239,033) |

**Note: the comparative information provided above for 2014 and 2013 is that of Kraken Sonar Systems Inc.*

The Company incurred a loss of $1,992,410 for the year ended December 31, 2015, as compared with a loss of $1,310,240 for the year ended December 31, 2014. In 2015, the Company recorded aggregate costs of $751,695 in relation to its Transaction, comprised of a listing expense of $526,695 and transaction costs of $225,000. There were no similar costs incurred in the prior fiscal year. Share-based payments of $131,000 (2014 - $1,212,500) were recorded upon the grant of incentive stock options pursuant to the Company's incentive stock option plan. During fiscal 2015, the Company continued to ramp-up its business activities. Administrative expenses rose by roughly 35% to $1,274,686 (2014 - $947,353); however, employee costs more than doubled over those of the prior year, increasing to $785,001 (2014 - $324,623).

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

### Summary of Quarterly Information

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

| | Revenue ($) | Operating expenses ($) | Share-based payments ($) | Net income (loss) ($) | Basic and diluted income (loss) per share ($) |
|---|---|---|---|---|---|
| Q2 2016 | 465,543 | 654,502 | 32,500 | (475,262) | (0.01) |
| Q1 2016 | 710,690 | 615,701 | 70,100 | (226,872) | (0.00) |
| Q4 2015 | 297,147 | 661,201 | 42,300 | (426,777) | (0.01) |
| Q3 2015 | 493,558 | 700,440 | 7,100 | (393,932) | (0.01) |
| Q2 2015 | 426,588 | 425,260 | 2,500 | (333,215) | (0.00) |
| Q1 2015 | 676,006 | 930,481 | 79,100 | (838,486) | (0.01) |
| Q4 2014 | 696,673 | 1,419,506 | 1,212,500 | (1,457,504) | (0.03) |
| Q3 2014 | 336,330 | 173,092 | - | (62,045) | (0.00) |

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

Comparative balance sheet information for the first two quarters of 2016 and 2015 is presented below:

| | Total Assets ($) | Total Current Assets ($) | Total Current Liabilities ($) | Total Liabilities ($) |
|---|---|---|---|---|
| Q2 2016 | 1,862,486 | 1,591,589 | 1,376,441 | 1,376,441 |
| Q1 2016 | 2,072,517 | 1,873,698 | 1,151,710 | 1,151,710 |
| Q2 2015 | 2,128,425 | 1,799,477 | 389,813 | 389,813 |
| Q1 2015 | 2,576,329 | 2,452,055 | 524,668 | 524,668 |

***Three Months Ended June 30, 2016***

The Company recorded revenues of $465,543 (2015 - $426,588) from product sales, marking an increase of $38,955 over the same period of the prior fiscal year. Cost of sales was lower than that of the prior year at $282,279 (2015 - $334,543), or approximately 84% of the costs incurred in the same period of the prior fiscal year. Gross margins were $183,264 (2015 - $92,045), marking a 99% improvement over the same three month period of 2015. While the Company's product gross margins are generally in the 55% to 70% range, reported quarterly gross margins may fluctuate due to product mix as well as the level of R&D spending (as R&D expenses are recorded as part of gross margin). At June 30, 2016, the Company had deferred revenues of $182,397 (December 31, 2015 - $201,864).

The Company recorded a net loss of $475,262 for the three months ended June 30, 2016, as compared to a net loss of $333,215 for the same period of prior year.

Administrative expenses rose by $118,558 to $369,493 (2015 - $250,935). This amount included travel related costs of $96,717 (2015 - $50,332), rent of $41,918 (2015 - $13,500), and transfer agency services/public company fees of $44,052 (2014 - $10,923). Accounting and legal costs incurred totaled $30,013, as compared to $91,742 during the same three month period of 2015. During the quarter the Company realized a foreign exchange loss of $4,024 (2015 –$5,528).

Net employee costs for the three months ended June 30, 2016 totaled $252,509 (2015 – $166,297), reflecting the high degree of corporate growth. Government assistance, offset against employee costs, totaled $289,968 (2015 -$137,220) during the quarter.

Share-based compensation of $32,500 was recorded, representing the fair value of the previously granted options that vested during the three months ended June 30, 2016. During the same period of the prior fiscal year, the Company recorded share-based compensation of $2,500.

***Six Months Ended June 30, 2016***

The Company recorded revenues of $1,176,233 (2015 - $1,102,594) from product sales, marking an increase of $73,639 over the same period of the prior fiscal year. Cost of sales was lower than that of the prior year at $466,739 (2015 - $633,707), or approximately 74% of the costs incurred in the same period of the prior fiscal year. Gross margins were $709,494 (2015 - $468,887), marking a 51% improvement over the first half of 2015.

The Company recorded a net loss of $592,858 for the first half of fiscal 2016, as compared to a net loss of $1,171,701 for the same period of prior year. During 2015, the Company recorded listing expenses of $526,695 and transaction costs of $225,000 in connection with the Anergy RTO. There were no such costs recorded in 2016.

Administrative expenses rose by $204,035 to $673,603 (2015 - $469,568). This amount included travel related costs of $174,352 (2015 - $114,672), rent of $71,905 (2015 - $27,000), and transfer agency services/public company fees of $78,392 (2015 - $19,210). Accounting and legal costs incurred totaled $54,458, as compared to $126,463 during the first half of 2015. During the period the Company realized a foreign exchange loss of $32,149 (2015 – gain of $26,815). In the first half of the prior year, the Company paid or accrued interest of $59,847 on convertible debt. There were no similar interest costs incurred during 2016.

Employee costs for the six month period ended June 30, 2016 totaled $494,000 (2015 – $304,693), the increase indicative of the level corporate growth during the current fiscal year. Government assistance, offset against employee costs, totaled $575,667 (2014 -$287,559) during the period.

Share-based compensation of $102,600 was recorded, representing the fair value of the previously granted options that vested during the six months ended June 30, 2016. During the same period of the prior fiscal year, the Company recorded stock-based compensation of $81,600.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2016, the Company had working capital of $215,148 (December 31, 2015 - $783,360). Cash and cash equivalents as at June 30, 2016 was $81,028, as compared to $771,940 held at December 31, 2015.

During the six months ended June 30, 2016, the Company experienced cash outflows of $781,284 (2015 – $143,977) from operating activities. Investing activities used cash of $111,945 (2015 – provided cash of $37,427), of which $59,781 (2015 - $24,405) was used for the purchase of property and equipment and $52,164 (2015 - $Nil) was invested in a private robotics firm. In the prior year, $61,832 was received upon completion of the RTO, which represented Anergy's cash balance. Financing activities realized inflows of $202,317 (2015 – outflows of $320,675) reflecting proceeds of $8,000 received upon warrant exercises and repayment of directors loans of $194,317. Overall, cash decreased by $690,912, as compared to $427,225 during the first six months of the prior year.

At June 30, 2016, the Company had $529,593 that it has not yet collected from two government grants that have been awarded. These monies are expected to be collected over the coming 6 months as Kraken is reimbursed for KATFISH program expenses.

In August 2016, the Company announced that it had completed a non-brokered private placement of 7,159,534 units priced at $0.15 for aggregate gross proceeds of $1,073,930. Each unit consists of one common share and one-half of one common share purchase warrant with each whole common share purchase warrant entitling the holder thereof to acquire an additional common share of the Company at a price of $0.30 for a period of 24 months. Cash finder's fees of $18,025 were paid in connection with the placement.

Further, the Company has entered into a debt settlement agreement with an arms' length creditor whereby it will issue 233,333 common shares from treasury at a deemed price of $0.15 per share and 116,666 share purchase warrants exercisable at $0.30 for a period of 24 months to settle debt of $35,000, thus preserving some of its cash.

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

## RISKS AND UNCERTAINTIES

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

Industry specific risks include, but are not limited to:

- *Competitive risk* – the sonar industry in which the Company operates is highly competitive. The competitors of the Company range from small single product companies to diversified corporations in the military, sonar and marine imaging industry. Some of the competitors of the Company may have more extensive or more specialized engineering, manufacturing, and marketing capabilities;
- *Technology risk* – The future success of the Company will depend on its ability to develop new technologies that achieve market acceptance. The sonar market is characterized by rapidly-changing technologies and evolving industry standards;
- *Protection of Intellectual Property*: The Company may be unable to adequately protect its intellectual property rights, which could affect its ability to compete. Protecting the Company's intellectual property rights is critical to its ability to compete and succeed as a company. The Company currently has trademark registrations and relies on a combination

of copyright, trademark, and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information. However, all of these measures afford only limited protection;

- *Outside suppliers*: The Company's operations depend on component availability and the manufacture and delivery by key suppliers of certain products and services. Further, the Company's operations are dependent on the timely delivery of materials by outside suppliers. The Company cannot be sure that materials, components, and subsystems will be available in the quantities required, if at all;
- *Government contracts*: The Company will depend, in part, on government contracts, which may only be partially funded, subject to termination, heavily regulated, and audited. The termination of one or more of these contracts could have a negative impact on the operations of the Company; and
- *Competitive bidding*: The Company will derive significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively.

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

**RELATED PARTY TRANSACTIONS**

At June 30, 2016, the Company had $nil (December 31, 2015 - $194,317) loans receivable from a director of the Company, as this loan was repaid on April 26, 2016. The loan, bearing interest at 5% per annum, was unsecured and payable in whole or in part at any time without penalty or premium.

Compensation of key management personnel during the first half of fiscal 2016 totaled $296,094 (2015 - $196,885) comprised of: share-based payments of $85,700 (2015 - $72,059); salaries of $198,750 (2015 - $116,667); and, short-term benefits of $11,644 (2015 - $8,159).

As at June 30, 2016 an amount of $60,608 (2015 - $60,608) was receivable from key management personnel for share subscriptions.

**CAPITAL MANAGEMENT**

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

The Company's capital structure consists of shareholders' equity (deficiency) and advances from directors. 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 June 30, 2016, 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, 2016 | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $ 81,028 | $ 771,940 |
| Trade and other receivables | 668,993 | 376,571 |
| Share subscriptions receivable | 76,833 | 76,833 |
| Loans receivable from a director | - | 194,317 |
| | $826,854 | $ 1,419,661 |

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

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

***Liquidity Risk:***

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of June 30, 2016 the Company had a cash and cash equivalents balance of $81,028 (December 31, 2015 - $771,940) to settle current liabilities of $1,376,441 (December 31, 2015 - $1,074,373). At June 30, 2016, cash and cash equivalents included $Nil (December 31, 2015 - $118,728), which was restricted and held as a demand deposit.

***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, 2016, the Company held a cash balance of $81,028.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to US$ sales and certain purchases of inventory. The Company does not use any form of hedging against fluctuations in foreign exchange.

***Fair Value:***

During the six months ended June 30, 2016, 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:

| **June 30, 2016** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets classified as loans and receivables: | | | |
| Cash and cash equivalents | $ 81, 028 | $ - | $ - |
| Trade and other receivables | - | 668,993 | - |
| Share subscriptions receivable | - | 76,833 | - |
| Financial liabilities at amortized cost: | | | |
| Trade and other payables | - | 1,194,044 | - |

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of June 30, 2016 and as at the date of this MD&A.

## USE OF ESTIMATES

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

Changes to the Company's significant accounting policies and estimates are included in Note 4 of its unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2016. The condensed consolidated interim financial statements do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015 prepared in accordance with IFRS as issued by the IASB.

## SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the Company:

(a) completed a non-brokered private placement of 7,159,534 units priced at $0.15 for aggregate gross proceeds of $1,073,930. Each unit consists of one common share and one-half of one common share purchase warrant with each whole common share purchase warrant entitling the holder thereof to acquire an additional common share of the Company at a price of $0.30 for a period of 24 months. Cash finder's fees of $18,025 were paid in connection with the placement; and,

(b) entered into a debt settlement agreement with an arms' length creditor whereby it will issue 233,333 common shares from treasury at a deemed price of $0.15 per share and 116,666 share purchase warrants exercisable at $0.30 for a period of 24 months to settle a trade payable of $35,000.

## FUTURE ACCOUNTING PRONOUNCEMENTS

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

***IFRS 15, Revenue from Contracts with Customers:***

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimated and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on 1 January 2017. The extent of the impact of adoption of the standard has not yet been determined.

***IFRS 9, Financial Instruments:***

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

***IFRS 6, Leases:***

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

**OUTSTANDING SHARE DATA AS AT AUGUST 26, 2016:**

(a) Authorized and issued share capital:

| Class | Par Value | Authorized | Issued Number |
|---|---|---|---|
| Common | No par value | Unlimited | 71,121,547 |

(b) Summary of options outstanding:

| Security | Number | Number Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|---|
| Options | 1,910,000 | 1,276,666 | 0.25 | March 17, 2018 |
| Options | 250,000 | 250,000 | 0.20 | May 13, 2018 |
| Options | 2,000,000 | 500,000 | 0.21 | June 1, 2020 |
| Options | 100,000 | 100,000 | 0.21 | July 1, 2018 |
| | 4,260,000 | 2,126,666 | | |

(c) Summary of warrants outstanding:

| Security | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| Warrants | 280,000 | 0.15 | October 10, 2016 |
| Warrants | 444,444 | 0.40 | October 10, 2016 |
| Warrants | 14,063,326 | 0.15 | February 18, 2018 |
| | 14,787,770 | | |

(d) Summary of escrowed shares: At the date of this report, there are a total of 30,601,764 common shares subject to escrow restrictions. The escrow shares will be released in tranches every six months until February 18, 2018.

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

**OTHER INFORMATION**

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