KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTH PERIOD ENDING December 31, 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 year ended December 31, 2023 and should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2023, which are available under the Company's profile on SEDAR+ at www.sedarplus.com. This MD&A is current as at April 18, 2024, the date of preparation.

The December 31, 2023 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in thousands of Canadian dollars, unless otherwise stated.

Non-IFRS Measures

This MD&A also includes certain figures that are not performance measures consistent with IFRS as issued by the IASB. 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™, Autonomous Launch and Recovery System (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 most recent Annual Information Form 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.sedarplus.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 was renamed Kraken Robotics Services Ltd. ("Kraken Robotics Services") 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 Q4 2023 was $28,006 compared to $8,813 in Q4 2022, and $69,581 for 2023, compared to $40,908 for 2022. Revenue was driven by the sale of the continued work on large orders received in Q4 2022 including SeaPower™ subsea batteries, Remote Minehunting and Disposal Systems (RMDS) to the Government of Canada and a strong year for the services business.

Adjusted EBITDA[(1)] in Q4 2023 was $5,728 (Q4 2022 – $931) with the increase related to the above noted projects as well as improved gross margin[(1)] related to a change in revenue product mix in the quarter over the prior period. Adjusted EBITDA[(1)] for the year ended December 31, 2023 was $14,094 (2022 – $4,862), an increase due to revenue volumes and improved gross margin[(1)] related to a change in product mix.

Net income for Q4 2023 was $2,584 (Q4 2022 – net loss of $1,270) or $0.01 per share compared to $(0.01) in the prior year. Net income for the year ended December 31, 2023 was $5,546 compared to net loss of $4,243 for the year ended December 31, 2022 or $0.03 per share compared to $(0.03) in the prior year.

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 Q4 2023 was $19,646 (Q4 2022 - $5,080), an increase of 287% over the prior year due to continued work on large orders recently received including SeaPower® subsea batteries, KATFISH™ system and RMDS.

Product revenue for the year ended December 31, 2023 was $52,618 (2022- $24,900), an increase of 111% 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, RMDS and strong SAS sales to unmanned underwater vehicle customers.

Kraken's service business consists of a robotics as a service (RaaS) portfolio of equipment including our Sub-Bottom Imager™, Acoustic Corer™, KATFISH™, and SeaVision. Service revenue in Q4 2023 was $8,360 (Q4 2022- $3,733), an increase of 124% over the prior year due to a large Acoustic Corer™ project that occurred in Q4 of 2023. Service revenue in 2023 increased to $16,963 from $16,008.

1. *Adjusted EBITDA, gross margin and working capital are non-IFRS financial measures and Adjusted EBITDA Margin and gross margin percentage are non-IFRS ratios, 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		Twelve months ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Product Revenue	**$ 19,646**	$ 5,080	**$ 52,618**	$ 24,900
Service Revenue	**8,360**	3,733	**16,963**	16,008
Total revenue	**28,006**	8,813	**69,581**	40,908
Cost of sales	**16,292**	4,420	**35,625**	23,871
Gross margin[1]	**11,714**	4,393	**33,956**	17,037
Gross margin percentage[1]	**42%**	50%	**49%**	42%
Administrative expenses	**4,714**	3,887	**17,528**	12,364
Research and development costs	**1,348**	176	**4,487**	1,262
Depreciation and Amortization	**1,236**	1,348	**4,940**	4,781
Share-based compensation	**58**	178	**378**	797
Investment tax credits recoverable	**(76)**	-	**(1,021)**	(634)
Impairment of Goodwill	**-**	-	**2,757**	-
Income (loss) from operating activities	**4,434**	(1,196)	**4,887**	(1,533)
Foreign exchange loss	**997**	411	**975**	301
Financing costs	**369**	816	**1,631**	3,261
Gain on extinguishment of contingent consideration	**-**	-	**(4,044)**	-
Loss on disposal of assets	**1**	-	**3**	207
Net income (loss) before taxes	**3,067**	$ (2,423)	**6,322**	$ (5,302)
Income tax recovery (expense)	**(483)**	1,153	**(776)**	1,059
Net income (loss)	**$ 2,584**	$ (1,270)	**$ 5,546**	$ (4,243)

Basic income (loss) per share	**$ 0.01**	$ (0.01)	**$ 0.03**	$ (0.02)
Diluted income (loss) per share	**$ 0.01**	$ (0.00)	**$ 0.03**	$ (0.02)
Adjusted EBITDA[1]	**5,728**	931	**14,094**	5,292
Adjusted EBITDA margin[1]	**20%**	11%	**20%**	13%

Cost of Sales and Gross Margin

Cost of sales reflects the recognition of the costs of material as well as the allocation of wages of employees primarily engaged in product and service activities. Cost of sales in the quarter were $16,262 (Q4 2022 - $4,420). During Q4 2023, the Company realized gross margin[1] of $11,714 (Q4 2022 - $4,393) resulting in a gross margin percentage[1] of 42% compared to 50% in Q4 2022. The decrease in gross margin percentage[1] reflects a change in product and service revenue mix in the current quarter compared to the prior year.

1. *Adjusted EBITDA, gross margin and working capital are non-IFRS financial measures and Adjusted EBITDA Margin and gross margin percentage are non-IFRS ratios, 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 year ended December 31, 2023 were $35,625 (2022 - $23,871). As a result, gross margin[1] in 2023 increased to $33,956 (2022 - $17,037). Gross margin percentage[1] year-to-date was 49% compared to 42% 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 Q4 2023 increased 21% to $4,714 (Q3 2022 - $3,887) due to costs associated with growing our business. Administration expenses include transaction and restructuring costs for Q4 2023 of $nil (Q4 2022 -$204) related to the acquisition of Kraken Robotics Services as well as increasing efficiency in operations.

Notable items in the administration expenses excluding transaction and restructuring costs by category include: salaries and benefits expenses which increased 34% to $2,241 (Q4 2022 - $1,678), travel related costs which decreased to $335 (Q4 2022 - $438) due to decreased global travel, software subscriptions which increased to $469 (Q4 2022 - $311), accounting and legal which increased to $383 (Q4 2023 - $289), and office and shop supplies of $138 (Q4 2022 - $269).

Administration expenses for the year ended excluding transaction and restructuring costs increased by 42% to $17,528 (2022 - $12,364) due to the increased activity across the Company. Year-to-date transaction and restructuring costs were $1,132 compared to $850 in the prior year. At the end of December 2023, Kraken employed 244 employees compared to 211 in the prior year resulting in higher salaries and benefits. Notable items in the administration expense category include: salaries and benefits, excluding restructuring costs, which increased to $9,116 (2022 - $6,111) due to decreased government assistance, travel related costs of $1,566 (2022 - $1,066) and advertising and tradeshows of $483 (2022 - $229) which increased due to global travel, software subscriptions of $1,450 (2022 - $994), accounting and legal costs which increased to $1,175 (2022- $810) and office and shop supplies of $642 (2022 - $773).

Research and Development costs

Research and development (R&D) costs in the quarter increased to $1,348 (Q4 2022 - $176) 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 $4,487 (2022 - $1,262) resulting from the timing of expenditures on various R&D programs and government assistance. Investment tax credits were $76 (2022 - $nil) in the quarter and $1,021 year-to-date (2022 - $634).

Depreciation and Amortization

Depreciation in the quarter totalled $933 (Q4 2022 - $964), while amortization of intangible assets decreased to $304 (Q4 2022 - $384). Year-to-date, depreciation increased to $3,518 (2022 - $3,236) while amortization of intangible assets decreased to $1,422 (2022 - $1,545).

Share-based compensation

Share-based compensation expense in Q4 2023 was $58 (Q4 2022 - $178), representing the fair value of the options recognized over the vesting period of the underlying options during the quarter. Year-to-date share-based compensation was $378 (2022 - $797).

Financing Costs

Financing costs in Q4 2023 were $102 (Q4 2022 - $816) and year-to-date financing costs were $1,631 (2022 - $3,261). Both the quarter and year-to-date amounts declined due to the reduced number of bank guarantees and lower fair value adjustments on debt and contingent consideration associated with the acquisition of PanGeo Subsea Inc. (now Kraken Robotics Services Ltd.).

1. *Adjusted EBITDA, gross margin and working capital are non-IFRS financial measures and Adjusted EBITDA Margin and gross margin percentage are non-IFRS ratios, 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		Twelve months ended	
	December 31, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
Interest on lease liabilities	**$ 71**	$ 75	**$ 303**	$ 327
Letters of credit and other	**298**	360	**965**	1,216
Accretion of long-term obligations	**-**	109	**207**	436
Fair value adjustment on contingent consideration	**-**	272	**156**	1,282
	$ 369	$ 816	**$ 1,631**	$ 3,261

Impairment of goodwill

During Q2 2023, the Company completed a goodwill impairment test and determined that the carrying value of the 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 recognized. 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 determined by discounting the future cash flows to be generated from continuing use of the CGU. The value in use as at June 30, 2023 was determined similarly to the December 31, 2022 goodwill impairment test and was based on WACC of 19%, terminal growth rate of 2% and an average estimated compounded growth rate of 4% from 2024 to 2027.

On December 31, 2023, the aggregate carrying amount of the Services CGU goodwill totaled $4,120 (2022 - $6,878) intangibles with indefinite useful lives with an aggregate carrying amount of $893 (2022 - $893). In performing the discounted cash flow in the Services CGU, a WACC of 19% was used, a terminal growth rate of 3% and an average estimated compounded growth rate of 15% from 2024 to 2028. As the recoverable amount of the Services CGU was determined to be greater than the carrying amount, no impairment loss was recorded Q4 2023.

Net Income and Adjusted EBITDA(1)

Net income in the quarter was $2,584 and comprehensive net income was $2,464, as compared to net loss of $1,270 and comprehensive net loss of $1,598 for the same period in the prior year. Adjusted EBITDA(1) in Q4 2023 was $5,728 (Q4 2022 - $931) or a 21% Adjusted EBITDA margin(1) compared to a 11% Adjusted EBITDA margin(1) for the same period a year ago. The change over the prior period was due to the increase in revenue and gross margin(1) for the Company year over year.

Year-to-date, the Company recorded net income of $5,546 and comprehensive income of $5,588 compared to a loss of $4,243 and comprehensive loss of $4,880 for the same period of the prior year.

Adjusted EBITDA(1) for the twelve month period was $14,094 or 20% Adjusted EBITDA margin(1) compared to an adjusted EBITDA(1) of $5,292 or 13% in the prior year. The increase is from a change in product mix with higher margins year over year.

Refer to the "*Non-IFRS Measures*" section below for further detail.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2023, the Company had working capital of $3,614 (2022 – ($2,035)). Cash and cash equivalents as at December 31, 2023 were $5,173 as compared with $8,265 at December 31, 2022.

During the twelve month period ended December 31, 2023, the Company received proceeds of $179 upon the exercise of 453,750 stock options (December 31, 2022 – proceeds of $132 upon exercise of 326,250 stock options).

1. *Adjusted EBITDA, gross margin and working capital are non-IFRS financial measures and Adjusted EBITDA Margin and gross margin percentage are non-IFRS ratios, 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.*

During the twelve month period ended December 31, 2023, the Company generated cash inflows of $8,427 (December 31, 2022 – cash inflows $5,237) from operating activities. Cash outflows from investing activities were $9,807 versus $3,366 for the twelve month period of December 31, 2022 which includes a $2,250 payment against contingent consideration in Q1 2023. Financing activities resulted in outflows of $2,001 (December 31, 2022 – cash outflows $41), including a promissory note payment of $4,494 including interest in Q3 2023.

Overall, excluding the foreign exchange impact, for the twelve month period cash decreased by $3,381 to $5,173 (2022 – $8,265).

A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US$1,208 (C$1,601) and US$830 (C$1,100) on advance guarantees secured by Export Development Canada. The letters of credit expire on April 30, 2024 and November 30, 2025, respectively.

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

RISKS AND UNCERTAINTIES

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

Industry specific risks include, but are not limited to:

- *Competitive risk* – the sonar industry in which the Company operates is highly competitive. The competitors of the Company range from small single product companies to diversified corporations in the military, sonar and marine imaging industry. Some of the competitors of the Company may have more extensive or more specialized engineering, manufacturing, and marketing capabilities;
- *Technology risk* – The future success of the Company will depend on its ability to develop new technologies that achieve market acceptance. The sonar market is characterized by rapidly-changing technologies and evolving industry standards;
- *Protection of Intellectual Property*: The Company may be unable to adequately protect its intellectual property rights, which could affect its ability to compete. Protecting the Company's intellectual property rights is critical to its ability to compete and succeed as a company. The Company currently has trademark registrations and relies on a combination of copyright, trademark, and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information. However, all of these measures afford only limited protection;
- *Outside suppliers*: The Company's operations depend on component availability and the manufacture and delivery by key suppliers of certain products and services. Further, the Company's operations are dependent on the timely delivery of materials by outside suppliers. The Company cannot be sure that materials, components, and subsystems will be available in the quantities required, if at all;
- *Government contracts*: The Company will depend, in part, on government contracts, which may only be partially funded, subject to termination, heavily regulated, and audited. The termination of one or more of these contracts could have a negative impact on the operations of the Company; and
- *Competitive bidding*: The Company will derive significant revenue from contracts awarded through a competitive bidding process, which can impose substantial costs upon it, and the Company could fail to maintain its current and projected revenue if it fails to compete effectively.

1. *Adjusted EBITDA, gross margin and working capital are non-IFRS financial measures and Adjusted EBITDA Margin and gross margin percentage are non-IFRS ratios, 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.*

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.

RELATED PARTY TRANSACTIONS

Compensation of key management personnel including CEO, CFO, EVP Products, EVP Services and board of directors that occupied those positions throughout the period:

	2023	2022
Share-based payments	**$ 237**	$ 240
Short-term employee benefits	**171**	148
Salaries and wages	**3,058**	1,899
	$ 3,466	$ 2,287

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 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:

	December 31, 2023	**December 31, 2022**
Cash and cash equivalents	$ 5,173	$ 8,265
Trade and other receivables	10,382	12,221
Contract assets	9,880	4,347
	$ 25,435	$ 24,833

At December 31, 2023, 70% of the trade receivables balance was owing from two customers (Q4 2022 – 52% of the trade receivables balance was owing from two customers). At December 31, 2023 the Company had recorded contract liabilities of $10,848 (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 December 31, 2023, the Company had a cash balance of $5,173 (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 December 31, 2023, the Company has drawn $7,824, $717 and $1,110 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:

	December 31, 2023	December 31, 2022
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	$ 2,237	$ 581
Trade and other payables GBP	2,831	1,381
Trade and other payables EUR	1,695	1,203
Trade and other payables DKK	93	120
Trade and other payables BRL	462	241
Long-term debt EUR	770	1,016
Bank indebtedness EUR	543	377
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	2,419	4,697
Trade and other receivables GBP	3,365	2,072
Trade and other receivables EUR	1,027	473
Trade and other receivables DKK	6	6
Trade and other receivables BRL	1,475	21

For the year ended December 31, 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 income (loss) by approximately $1,025 (2022 - $245).

Fair Value:

During the period ended December 31, 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 December 31, 2023, the Company:

(a) had stock options totaling 1,000,000 exercised, for proceeds of $500.
(b) entered into a new standby letter of credit to its customer in the amount of US$837 ($1,109) with an expiry of August 31, 2024.

OUTSTANDING SHARE DATA AS AT APRIL 18, 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	25,000	-	0.39	November 29, 2026
Options	4,707,500	2,100,000	0.395	May 3, 2027
Options	100,000	33,333	0.39	September 6, 2027
Options	400,000	266,667	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
Options	400,000	133,334	0.495	November 20, 2028
	7,807,500	**4,577,084**		

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

(a) The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The Company intends to adopt these standards, amendments and interpretations when they become effective. While under review, the Company does not anticipate that the adoption of these new or revised standards will have a material impact on our reported financial results.

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

The amendments to IAS 1 specify the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively.

(b) The following amended IFRS pronouncements were adopted effective January 1, 2023 and had no impact to the Company's financial statements:

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2023.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021 the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023.

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, gross 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 transactions, if any.

Adjusted EBITDA Margin is defined at Adjusted EBITDA divided by Total Revenue.

	Q4 2023	Q4 2022	2023	2022
Net income (loss)	**$2,584**	$(1,270)	**$5,546**	$(4,243)
Income tax	**483**	(1,153)	**776**	(1,059)
Financing costs	**369**	816	**1,631**	3,261
Gain on extinguishment of contingent consideration	**-**	-	**(4,044)**	-
Loss on disposal of assets	**1**	-	**3**	301
Impairment of goodwill	**-**	-	**2,757**	-
Foreign exchange gain	**997**	441	**975**	301
Share-based compensation	**58**	178	**378**	797
Depreciation and Amortization	**1,236**	1,348	**4,940**	4,781
EBITDA – excluding restructuring and acquisition costs	**5,728**	330	**12,962**	4,045
Restructuring and acquisition costs	**-**	204	**1,132**	850
	-	397	**-**	397
Adjusted EBITDA	**$5,728**	$931	**$14,094**	$5,292
Adjusted EBITDA Margin	**20%**	11%	**20%**	13%

Gross margin is defined as revenue less cost of total sales. Gross margin percentage is defined as Gross margin divided by Total Revenues.

	Q4 2023	Q4 2022	2023	2022
Revenue	**$28,006**	$8,813	**$69,581**	$40,908
Cost of sales	**16,292**	4,420	**35,625**	23,871
Gross margin	**11,714**	4,393	**33,956**	17,037
Gross margin percentage	**42%**	50%	**49%**	42%

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 National Instrument NI 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

Selected Annual Information

Statement of Comprehensive Loss	**Year Ended December 31, 2023 ($)**	**Year Ended December 31, 2022 ($)**	**Year Ended December 31, 2021 ($)**
Total Revenues	69,581	40,908	25,629
Cost of Sales	35,625	23,871	14,310
Income (loss) from operating activities	4,887	(1,533)	(2,015)
Net income (loss)	5,546	(4,243)	(3,537
Basic income (loss) per share	0.03	(0.02)	(0.02)
Diluted income (loss) per share	0.03	(0.02)	(0.02)

Statement of Financial Position	**Year Ended December 31, 2023 ($)**	**Year Ended December 31, 2022 ($)**	**Year Ended December 31, 2021 ($)**
Total Assets	76,419	71,365	65,465
Total Current Assets	44,075	37,827	31,724
Total Current Liabilities	40,461	39,862	25.358
Total Liabilities	44,360	47,710	37,862
Total Shareholders' Equity	32,059	23,655	27,603

Summary of Quarterly Information

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

	Revenue ($)	**Operating activity less share based payments ($)**	**Share-based payments ($)**	**Net income (loss) ($)**	**Comprehensive income (loss) $**	**Basic and diluted income (loss) per share ($)**
Q4 2023	28,006	7,222	58	2,584	2,464	0.01
Q3 2023	20,342	7,663	61	2,301	2,499	0.01
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)

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

Quarterly results have been positively impacted over the past two years from the growth of our KATFISH™, subsea battery, sensor and systems and service businesses.

Comparative quarterly balance sheet information is presented below:

	Total Assets ($)	Total Current Assets ($)	Total Current Liabilities ($)	Total Liabilities ($)
Q4 2023	76,419	44,075	40,461	44,360
Q3 2023	70,511	40,408	37,574	41,124
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

OTHER INFORMATION

Additional information regarding the Company is available on SEDAR+ at www.sedarplus.com and on the Company's website at www.krakenrobotics.com.