KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE-MONTH PERIOD ENDING SEPTEMBER 30, 2024
(Expressed in thousands of Canadian dollars unless otherwise stated)

This Management Discussion and Analysis ("MD&A") of Kraken Robotics Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and nine-month period ending September 30, 2024 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 on SEDAR+ at www.sedarplus.com. The information presented in the MD&A is as of November 20, 2024, the date of preparation.

The September 30, 2024 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, 2023. These condensed consolidated interim financial statements do not include all disclosures required by 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, 2023 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in thousands of Canadian dollars, unless otherwise stated.

Non-IFRS Measures

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

Notice Regarding Forward-Looking Statements

*This MD&A, and, in particular, the sections below entitled "Use of Estimates and Judgments", "Capital Management", "Financial Instruments and Risk Management" and "Risks and Uncertainties" contain "forward-looking statements" and "forward-looking information" (collectively, "**forward-looking statements**") within the meaning of applicable Canadian securities legislation.*

In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "seek", "potential", "estimate", "anticipate", "believe", "could", "would", "should", "continue", "plans", "target", "is/are likely to", or the negative of these terms, or similar expressions intended to identify forward-looking statements. Within this MD&A, forward-looking statements may include, without limitation, statements with respect to Kraken's future plans, strategies and objectives, including:

- *expectations regarding revenue, expenses and operations;*
- *the ability to profitably execute on its contracts announced for products including: AquaPix® MINSAS, KATFISH™, ALARS,* Remote Minehunting and Disposal System (RMDS), *and SeaPower™ batteries; and services using the Sub Bottom Imager™ (SBI), Acoustic Corer™ (AC), KATFISH™ and SeaVision® 3D laser system.*
- *anticipated cash needs and the Company's needs for, and the Company's ability to secure, additional financing and/or government funding for working capital needs, debt repayment obligations and other contractual obligations of the Company;*
- *the Company's ability to maintain current and projected revenue if it fails to effectively compete for additional contracts;*
- *our ability and intention to expand Robotics as a Service and data analytics revenue;*
- *the Company's ability to protect, maintain and enforce its intellectual property rights;*
- *the Company's ability to defend itself against third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by the Company;*
- *natural disasters, terrorist acts, civil unrest, pandemics and other disruptions and dislocations, such as COVID-19, may adversely affect the Company;*
- *the Company's ability to attract new customers;*

- *the Company's reliance on information technology systems or a material disruption in the Company's computer systems;*
- *the Company's ability to attract and retain personnel; and*
- *the Company's competitive position and its expectations regarding competition and its future success in competitive bidding processes.*

Forward-looking statements reflect the Company's current views with respect to future events and are subject to various known and unknown risks and uncertainties, which are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Kraken, are inherently beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein, including but not limited to the factors referred to below under " Risks and Uncertainties". For additional information with respect to certain of these risks or uncertainties, reference should be made to the section entitled " Risks and Uncertainties" in this MD&A and to Kraken's continuous disclosure materials filed from time to time with the Canadian Securities Regulatory Authorities, including the Company's Annual Information Form for the financial year ended December 31, 2023 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.

COMPANY 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, underwater robotics equipment and services for military and commercial applications. The Company is recognized as world leading innovators of Synthetic Aperture Sonar (SAS) - a revolutionary underwater imaging technology that dramatically improves seabed surveys by providing ultra-high resolution imagery at superior coverage rates. Both military and commercial markets are showing significant growth and are now incorporating unmanned vehicles and intelligent sensors in their procurement plans and budgets. In July 2021, Kraken acquired, PanGeo Subsea Inc., which has been renamed Kraken Robotics Services Ltd on January 1, 2023. Kraken Robotics Services specializes in high-resolution 3D acoustic imaging solutions for the sub-seabed with offices in Canada, the United States and the United Kingdom.

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

VISION, MISSION AND VALUES

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

QUARTER HIGHLIGHTS

Consolidated revenue in Q3 2024 decreased 4% to $19,550 compared to $20,342 in Q3 2023. Revenue in the quarter decreased due to a lower KATFISH™ revenue and lower revenue related to Remote Minehunting and Disposal System (RMDS) project while revenue from subsea batteries and services remained strong.

Adjusted EBITDA(1) decreased 6% in Q3 2024 to $4,148 compared to $4,423 in Q3 2023. Adjusted EBITDA margin(1) was 21% compared to 22% for the same period a year ago.

1. *Adjusted EBITDA is a non-IFRS financial measure and Adjusted EBITDA Margin is a non-IFRS ratio, in each case with no standard meaning under IFRS, and may not be comparable to similar financial measures disclosed by other issuers. Refer to the "Non-IFRS Measures" section of this MD&A.*

FINANCIAL OVERVIEW

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 Q3 2024 decreased 27% to $12,492 compared to $17,151 in the prior year. The decline compared to the comparable quarter related primarily to lower KATFISH and RMDS revenue with subsea power revenue increasing significantly in the quarter.

Product revenue for the nine-month period ending September 30, 2024 increased 45% to $47,755 compared to $32,972 in the prior year. Year-to-date, revenue increased due to the sale of a KATFISH™ to a navy in the Asia-Pacific region and continued work on large orders received including SeaPower® subsea batteries, sale of KATFISH™ system to a NATO country and RMDS to the Government of Canada.

Kraken's service business consists of services provided by robotics as a service (RaaS) portfolio of equipment including our Sub-Bottom Imager™, Acoustic Corer™ and KATFISH™. Service revenue in Q3 2024 increased 121% to $7,058 compared to $3,191 in the prior year due to an increase in demand for equipment in the marine construction industry. Service revenue for the nine-month period increased 79% to $15,428 compared to $8,603 in the prior year.

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	Three-months ended		Nine-months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Product Revenue	**$ 12,492**	$ 17,151	**$ 47,755**	$ 32,972
Service Revenue	**7,058**	3,191	**15,428**	8,603
Total revenue	**19,550**	20,342	**63,183**	41,575
Cost of sales	**9,293**	10,347	**31,973**	19,333
Gross profit	**10,257**	9,995	**31,210**	22,242
Gross profit margin	**52%**	49%	**49%**	53%
Administrative expenses	**4,464**	5,331	**13,605**	12,814
Research and development costs	**1,794**	1,272	**4,428**	3,139
Depreciation and Amortization	**1,430**	1,209	**4,228**	3,704
Share-based compensation	**414**	61	**501**	320
Investment tax credits recoverable	**(149)**	(149)	**(447)**	(945)
Income from operating activities	**2,304**	2,271	**8,895**	3,210
Foreign exchange (gain) loss	**343**	(292)	**412**	(22)
Financing costs	**636**	291	**1,583**	1,262
Gain on extinguishment of contingent consideration	**-**	-	**-**	(4,044)
Gain (loss) on sale of property and equipment	**(3)**	2	**(3)**	2
Impairment of Goodwill	**-**	-	**-**	2,757
Net income before taxes	**1,328**	$ 2,270	**6,903**	$ 3,255
Income tax expense (recovery)	**(303)**	(31)	**488**	293
Net income	**$ 1,631**	$ 2,301	**$ 6,758**	$ 2,962

Basic income per share	**$ 0.01**	$ 0.01	**$ 0.03**	$ 0.01
Diluted income per share	**$ 0.01**	$ 0.01	**$ 0.03**	$ 0.01
Adjusted EBITDA (1)	**4,148**	4,423	**13,693**	8,366
Adjusted EBITDA margin (1)	**21%**	22%	**22%**	20%

Cost of Sales and Gross Profit

Cost of sales reflects the recognition of products based on shipments and the cost of delivery of services revenue as well as the allocation of wages of employees primarily engaged in product and services activities. Cost of sales in the quarter were $9,293 (Q3 2023 - $10,347) and has decreased due to lower product revenue in the quarter. During Q3 2024, the Company realized gross profit of $10,257 (Q3 2023 – $9,995) resulting in a gross profit margin of 52% compared to 49% in Q3 2023. The increase in gross profit margin relates to higher margin projects in the quarter when compared to the prior year.

Cost of sales for the nine-month period ended September 30, 2024 were $31,973 (2023 - $19,333). As a result, gross profit in year-to-date increased to $31,210 (2023 - $22,242). Gross profit margin year-to-date was 49% compared to 53% for the comparable period. Gross profit margin declined on a year-to-date basis due to lower margin product revenue recognized in the first half of the year.

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Administration Expenses

Administration expenses in Q3 2024 increased to $4,464 (Q3 2023 - $4,449) excluding transaction and restructuring costs. At the end of the quarter, Kraken employed 272 employees compared to 240 in the prior year. Notable items in the administration expense category include: salaries and benefits expenses of $2,161 (Q3 2023 - $2,425), travel related costs of $435 (Q3 2023 - $474), software subscriptions costs of $512 (Q3 2023 - $375), accounting and legal costs of $192 (Q3 2023 - $305) and office and shop supplies of $314 (Q3 2023 - $204).

Administration expenses for the nine-month period increased 16% to $13,536 compared to $11,682 in the prior year due to growth of the Company excluding transaction and restructuring costs. Notable items in the administration expense category year-to-date include: salaries and benefits expenses of $6,433 (2023 - $5,792), travel related costs of $1,069 (2023 - $1,513), software subscriptions of $1,485 (2023 - $991), and professional fees of $829 (2023- $792).

Transaction and restructuring costs for Q3 2024 were $nil (Q3 2023 - $882). Year-to-date, transaction and restructuring costs total $69 (2023 - $1,132).

Research and Development (R&D) Expenses

R&D expenses in the quarter increased 41% to $1,794 compared to $1,272 in the prior year, due to the timing of expenditures on various R&D programs as well as the timing of government assistance which is netted against R&D. Investment tax credits (ITCs) recoverable remained constant at $149 (Q3 2023 - $149) related to timing of scientific research and experimental development (SR&ED) activities.

Year-to-date, R&D expenses increased 41% to $4,428 compared to $3,139 in the prior year resulting from the timing of R&D expenditures on various R&D programs and government assistance. Year-to-date, ITCs were $447 compared to $945 in the prior year.

Depreciation and Amortization

Depreciation in the quarter increased 26% to $1,085 compared to $864 in the prior year. For the nine-month period, depreciation increased 24% to $3,201 compared to $2,585 in the prior year. In Q3 2024, amortization of intangible assets remained flat at $345 compared to $345 in the prior year and decreased to $1,027 for the nine-month period compared to $1,119 in the prior year.

Share-based compensation

Share-based compensation expense increased in Q3 2024 to $414 compared to $61 in the prior year, while year-to-date share-based compensation increased to $501 compared to $320, due to the timing of stock option grants. During the nine-month period the Company granted 6,040,000 stock options to employees and directors. The options have a seven-year term, with vesting in four equal instalments on the annual year anniversaries of the initial date of the grant.

Financing Costs

Financing costs in Q3 2024 increased 119% to $636 compared to $291 in the prior year with the increase related to costs associated with obtaining new credit facility entered into in April 2024 which totalled $233, which related to amortization of debt issuance costs during the quarter

Year-to-date, financing costs increased 25% to $1,583 compared to $1,262 for the same period a year ago due in part due to costs associated with obtaining new credit facility of $430 and slightly higher debt levels.

	Three-months ended		Nine-months ended	
	September 30, 2024	September 30, 2023	**September 30, 2024**	September 30, 2023
Interest on lease liabilities	**$ 105**	$ 70	**$ 266**	$ 231
Letters of credit and other	**298**	191	**887**	668
Amortization of credit facility transaction costs	**233**	-	**430**	-
Accretion of long-term obligations	**-**	30	**-**	207
Fair value adjustment on contingent consideration	**-**	-	**-**	156
	$ 636	$ 291	**$ 1,583**	$ 1,262

Adjusted EBITDA [(1)] and Net Income

Adjusted EBITDA [(1)] in Q3 2024 decreased 6% to $4,148, a 21% adjusted EBITDA margin[(1)] compared to $4,423 in the prior year and an 22% adjusted EBITDA margin [(1)]. Adjusted EBITDA [(1)] for the nine-month period ended September 30, 2024 increased 64% to $13,693, and a 22% adjusted EBITDA margin [(1)] compared to $8,366 for the nine-month period ended September 30, 2023 and a 20% adjusted EBITDA margin [(1)]. Adjusted EBITDA increased due to increased product and service revenue during the period.

Net income in Q3 2024 decreased 29% to $1,631 and a comprehensive net income decreased 16% to $2,092, as compared to net income of $2,301 and comprehensive net income of $2,499 for the same period of prior year. Net income for the nine-month period ended September 30, 2024, increased 117% to $6,415 and comprehensive net income increased 116% to $6,758 as compared to net income of $2,962 and comprehensive net income of $3,124 for the same period of prior year.

Please refer to Non-IFRS Measures section below for further detail.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2024, the Company had working capital of $43,270 (Q3 2023 – $2,833). Cash as at September 30, 2024 was $14,936 as compared to $5,173 at December 31, 2023.

During Q2 2024 the Company closed a bought deal equity financing for gross proceeds of $20.1 million by issuing 21,185,300 common shares at a price of $0.95 per share. The net proceeds of the offering are expected to be used by the Company to (i) to facilitate its long term strategy, including potential investment in facilities, expanding manufacturing capacity, anticipated working capital for expansion of sole-source/single award programs and high probability pipeline opportunities; (ii) to further strengthen the Company's balance sheet in anticipation of upcoming customer and partners decisions and source selection on additional large, new program and contract opportunities; and (iii) for general corporate purposes. Per the final short form prospectus the anticipated and approximate amounts used are below:

Principal Purpose	**Anticipated Amount**	**Approximate Amount Used**
Capital expenditures	$ 5,000	$ -
Supply chain/parts and inventory	6,000	2,707
General corporate purposes and working capital	7,569	4,093
Offering expenses	350	657
Total	$ 18,919	$ 7,457

During the nine-month period ended September 30, 2024, the Company received proceeds of $1,334 upon the exercise of 2,528,750 stock options (September 30, 2023 – proceeds of $29).

During the nine-month period ended September 30, 2024, the Company experienced cash outflows of $9,967 (2023 – cash inflows of $4,098) from operating activities. Cash outflows from investing activities were $2,621 versus $6,973 for the same quarter in 2023. Financing activities resulted in inflows of $21,900 (2023 – cash outflows $4,786).

Overall, excluding the foreign exchange impact on cash, cash increased by $9,312 to $14,936 (2023 – decreased by $7,661).

A commercial bank issued standby letters of credit on behalf of the Company to a customer in the amount of US$830 (C$1,122) on an advance guarantee secured by Export Development Canada. The letter of credit expires on February 27, 2025.

The Company's credit Facilities consist of: (i) a revolving 3-year term facility of up to $35 million (subject to meeting certain borrowing base requirements based on eligible receivables and inventory) (the "Revolver"); (ii) a $10 million revolving capital expenditure line of credit; (iii) a $10 million uncommitted letter of credit facility; and (iv) an uncommitted accordion facility of up to $30 million (the "Accordion"). The Company has no plans to draw on the Accordion at this time.

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 faces competitive risks in the underwater sonar and robotics sector and will face all the risks inherent in developing a business including: access to capital, ability to attract and retain qualified employees, ability to attract and maintain customers and the ability to put in place appropriate operating and control procedures.

Industry specific risks include, but are not limited to:

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

The geopolitical risk currently being experienced globally may cause economic volatility and impact the supply chain. The Company has experienced in the past minor delays in procuring components.

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, bank indebtedness, 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, issue debt or sell assets to reduce debt.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2024, 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, 2024	December 31, 2023
Cash	**$ 14,936**	$ 5,173
Trade and other receivables	**9,432**	10,382
Contract assets	**19,368**	9,880
	$ 43,763	$ 25,435

At September 30, 2024, 95% of the trade receivables were owing from two customers (December 31, 2023 - 79% of trade receivables were owing from two customers). At September 30, 2024 the Company had recorded contract liabilities of $5,041 (December 31, 2023 – $10,848).

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 September 30, 2024, the Company had a cash balance of $14,936 (December 31, 2023 - $5,173). The Company's ability to meet obligations as they come due is dependent on the Company's future generation of cash from operations, ability to obtain financing and to manage contract negotiations with payments to be received in advance to fulfill contracts. There can be no assurance that the Company will generate sufficient cash flows from operations to meet its contractual obligations as they come due. The failure of the Company to generate sufficient cash flows or to obtain additional financing could materially adversely affect the Company's financial condition and results of operations.

Market Risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

At September 30, 2024, the Company has drawn $518 against its operating line of credit in Kraken Power GmbH. The drawn operating line of credit bears interest annually at bank prime plus 3.95%, payable monthly. The Company has also drawn $14,684 against the term revolving credit facility, which bears interest at bank prime plus margin, payable monthly. An increase (decrease) of 1,000 basis points in the interest rate would have increased (decreased the Company's net income by approximately $68.

(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:

	September 30, 2024	December 31, 2023
Financial liabilities denominated in a foreign currency:		
Trade and other payables USD	**8,342**	$ 2,237
Trade and other payables GBP	**595**	2,831
Trade and other payables EUR	**4,853**	1,695
Trade and other payables DKK	**1,511**	93
Trade and other payables BRL	**654**	462
Long-term debt EUR	**383**	770
Bank indebtedness EUR	**342**	543
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	**1,646**	2,419
Trade and other receivables GBP	**2,250**	3,365
Trade and other receivables EUR	**1,038**	1,027
Trade and other receivables DKK	**5**	6
Trade and other receivables BRL	**485**	1,475

For the period ended September 30, 2024, 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 by approximately $1,897 (September 30, 2023 - $1,066).

Fair Value:

During the three-months and six-months ended September 30, 2024, 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 relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

OUTSTANDING SHARE DATA AS AT NOVEMBER 20, 2024:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	262,550,785

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	25,000	-	$ 0.39	November 29, 2026
Options	4,078,750	2,850,000	0.395	May 3, 2027
Options	50,000	16,667	0.37	September 6, 2027
Options	400,000	266,667	0.59	December 7, 2027
Options	75,000	37,500	0.63	January 30, 2028
Options	100,000	50,000	0.58	February 27, 2028
Options	400,000	133,334	0.495	November 17, 2028
Options	5,990,000	-	1.14	July 9, 2031
Options	50,000	-	1.46	August 23, 2031
	11,168,750	**3,354,168**	**$ 0.81**	

NON-IFRS MEASURES

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

Adjusted EBITDA and Adjusted EBITDA Margin

The Company believes that, in addition to conventional measures prepared in accordance with IFRS, adjusted EBITDA is useful to securities analysts, investors and other interested parties in evaluating operating performance by presenting the results of the Company on a basis which excludes the impact of certain non-operational items which enables the primary readers of the MD&A to evaluate the results of the Company such that it was operating without certain non-cash and non-recurring items. Adjusted EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization, stock-based compensation expense and non-recurring impact transactions, if any.

Adjusted EBITDA margin is defined at adjusted EBITDA divided by Total Revenue.

	Q3 2024	Q3 2023	YTD 2024	YTD 2023
Net income	**$1,631**	$2,301	**$6,415**	$2,961
Income tax	**(303)**	(31)	**488**	294
Financing costs	**636**	291	**1,583**	1,262
Gain on extinguishment of contingent consideration	**-**	-	**-**	(4,044)
Impairment of goodwill	**-**	-	**-**	2,757
Foreign exchange loss/(gain)	**343**	(292)	**412**	(22)
Loss/(gain) on disposal of assets	**(3)**	2	**(3)**	2
Share-based compensation	**414**	61	**501**	320
Depreciation and Amortization	**1,430**	1,209	**4,228**	3,704
EBITDA – excluding restructuring and acquisition costs	**4,148**	3,541	**13,624**	7,234
Restructuring and acquisition costs	**-**	881	**69**	1,131
Adjusted EBITDA	**$4,148**	$4,423	**$13,693**	$8,366
Adjusted EBITDA margin	**21%**	22%	**22%**	20%

Gross profit is defined as revenue less cost of total sales. Gross profit margin is defined as gross profit divided by total sales.

	Q3 2024	Q3 2023	YTD 2024	YTD 2023
Revenue	**$19,550**	$20,342	**$63,183**	$41,575
Cost of sales	**9,293**	10,347	**31,973**	19,333
Gross profit	**10,257**	9,995	**31,210**	22,242
Gross profit margin	**52%**	49%	**49%**	53%

Working capital

Working capital is defined as current assets less current liabilities.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

ADDITIONAL INFORMATION

Summary of Quarterly Information

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

	Revenue ($)	Operating activity less share based payments ($)	Share-based payments ($)	Net income (loss) ($)	Comprehensive income (loss) $	Basic and diluted income (loss) per share ($)
Q3 2024	19,550	7,539	414	1,631	2,092	0.01
Q2 2024	22,758	7,536	30	2,609	2,575	0.01
Q1 2024	20,875	6,739	57	2,175	2,091	0.01
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

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 ($)	Total Liabilities ($)
Q3 2024	101,174	67,647	24,377	42,261
Q2 2024	98,466	64,873	23,894	42,099
Q1 2024	73,467	41,735	35,183	38,676
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

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.