



KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTH PERIOD ENDING December 31, 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 year ended December 31, 2024 and should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2024, which are available under the Company's profile on SEDAR+ at www.sedarplus.com. This MD&A is current as at April 28, 2025, the date of preparation.

The December 31, 2024 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 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: SAS, 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;*
- the adverse affect of natural disasters, terrorist acts, civil unrest, pandemics and other disruptions and dislocations on 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.ca. 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 providing ultra-high-resolution sensors, power systems, subsea batteries and underwater robotics equipment and services. The Company is recognized as world leading innovators in sonar design, remote sensing, and signal processing for Synthetic Aperture Sonar ("SAS") - a revolutionary underwater imaging technology that dramatically improves seabed surveys by providing ultra-high resolution imagery at superior coverage rates and 3D optical imaging. Both military and commercial markets are showing significant growth and are now incorporating unmanned vehicles, intelligent sensors and subsea power solutions 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 2024 was \$28,109 compared to \$28,006 in Q4 2023, and \$91,292 for 2024, compared to \$69,581 for 2023. Revenue growth in the year was driven by SeaPower™ subsea batteries, and a strong year for the services business.

Adjusted EBITDA¹ in Q4 2024 was \$7,020 (Q4 2023 – \$5,728). Adjusted EBITDA for the year ended December 31, 2024 was \$20,711 (2023 – \$14,094), an increase due to revenue volumes and improved gross profit² related to a change in product mix.

Net income for Q4 2024 was \$13,674 (Q4 2023 – \$2,584) or \$0.05 per share compared to \$0.01 in the prior year. Net income for the year ended December 31, 2024 was \$20,089 compared to \$5,546 for the year ended December 31, 2023 or \$0.09 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 SAS, KATFISH™ systems and subsea battery systems.

Product revenue in Q4 2024 decreased 6% to \$18,558 compared to \$19,646 in Q4 2023. The decline related primarily to lower KATFISH™ and RMDS revenue with subsea power revenue increasing significantly in Q4 2024.

Product revenue for the year ended December 31, 2024 increased 26% to \$66,313 (2023- \$52,618), due to higher sales of SeaPower® subsea batteries, RMDS and 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 2024 increased 14% to \$9,551 (Q4 2023- \$8,360), due to a large Acoustic Corer™ project that occurred in the second half of 2024. Service revenue in 2024 increased 47% to \$24,979 from \$16,963 in the prior year, due to a large Acoustic Corer™ project along with increased number of Sub-Bottom Imager™ projects.

¹ Adjusted EBITDA is a non-IFRS financial measure with no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. For further information and detailed reconciliations to the most directly comparable IFRS measures, see "Non-IFRS Measures" in this MD&A.

² Gross profit is a non-IFRS financial measure with no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. For further information and detailed reconciliations to the most directly comparable IFRS measures, see "Non-IFRS Measures" in this MD&A.

	Three-months ended		Twelve months ended	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Product Revenue	\$ 18,558	\$ 19,646	\$ 66,313	\$ 52,618
Service Revenue	9,551	8,360	24,979	16,963
Total revenue	28,109	28,006	91,292	69,581
Cost of sales	14,627	16,292	46,600	35,625
Gross profit	13,482	11,714	44,692	33,956
Gross profit margin	48%	42%	49%	49%
Administrative expenses	6,432	4,714	20,037	17,528
Research and development costs	1,805	1,348	6,233	4,487
Depreciation and Amortization	1,498	1,236	5,726	4,940
Share-based compensation	447	58	948	378
Investment tax credits recoverable	(1,620)	(76)	(2,067)	(1,021)
Income from operating activities	4,920	4,434	13,815	7,644
Foreign exchange (gain) loss	(369)	997	43	975
Financing costs	852	369	2,435	1,631
Gain on extinguishment of contingent consideration	-	-	-	(4,044)
Gain (loss) on sale of property and equipment	-	1	(3)	3
Interest income	(688)		(688)	
Impairment of Goodwill	-	-	-	2,757
Net income before taxes	5,125	3,067	12,028	6,322
Income tax expense (recovery)	(8,549)	483	(8,061)	776
Net income	\$ 13,674	\$ 2,584	\$ 20,089	\$ 5,546
Basic income per share	\$ 0.05	\$ 0.01	\$ 0.09	\$ 0.03
Diluted income per share	\$ 0.05	\$ 0.01	\$ 0.09	\$ 0.03
Adjusted EBITDA	7,020	5,728	20,711	14,094
Adjusted EBITDA margin ³	25%	20%	23%	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 \$14,627 (Q4 2023 - \$16,292), being a decrease compared to Q4 2023 due to lower product sales in the quarter. During Q4

³ Adjusted EBITDA margin is a non-IFRS financial measure with no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. For further information and detailed reconciliations to the most directly comparable IFRS measures, see “Non-IFRS Measures” in this MD&A.

2024, the Company realized gross profit of \$13,482 (Q4 2023 – \$11,714) resulting in a gross profit margin⁴ of 48% compared to 42% in Q4 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 twelve-month period ended December 31, 2024 were \$46,600 (2023 - \$35,625). As a result, gross profit in year ended December 31, 2024 increased to \$44,692 (2023 - \$33,956). Gross profit margin year-to-date was 49% compared to 49% for the comparable period.

Administration Expenses

Administration expenses in Q4 2024 increased to \$6,432 (Q4 2023 - \$4,714) excluding transaction and restructuring costs. At the end of the quarter, Kraken employed 283 employees compared to 244 in same period of the prior year. Notable items in the administration expense category include: salaries and benefits expenses of \$2,774 (Q4 2023 - \$2,241), travel related costs of \$733 (Q4 2023 - \$335), software subscriptions costs of \$610 (Q4 2023 - \$469), accounting and legal costs of \$657 (Q4 2023 - \$383) and office and shop supplies of \$60 (Q4 2023 - \$138).

Administration expenses for the twelve-month period ended December 31, 2024 increased 14% to \$20,037 compared to \$17,528 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 \$9,207 (2023 - \$9,166), travel related costs of \$1,802 (2023 - \$1,566), software subscriptions of \$2,095 (2023 - \$991), and professional fees of \$1,486 (2023- \$792).

Transaction and restructuring costs for Q4 2024 were \$143 (Q4 2023 - \$nil). Year-to-date, transaction and restructuring costs total \$212 (2023 - \$1,132).

Research and Development (“R&D”) Expenses

R&D expenses in Q4 2024 increased 34% to \$1,805 compared to \$1,348 in the same period of 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 increased to \$2,054 (Q4 2024 - \$76) related to timing of scientific research and experimental development activities.

Year-to-date, R&D expenses increased 39% to \$6,233 compared to \$4,487 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 \$2,067 compared to \$1,021 in the prior year.

Depreciation and Amortization

Depreciation in Q4 2024 increased 20% to \$1,122 compared to \$933 in the same period of the prior year. For the twelve-month period ended December 31, 2024, depreciation increased 23% to \$4,323 compared to \$3,518 in the prior year. In Q4 2024, amortization of intangible assets increased to \$376 compared to \$304 in the prior year and decreased to \$1,403 for the twelve-month period ended December 31, 2024, compared to \$1,422 in the prior year.

Share-based compensation

Share-based compensation expense increased in Q4 2024 to \$447 compared to \$58 in the same period of the prior year, while year-to-date share-based compensation increased to \$948 compared to \$378, due to the timing of stock option grants. During the twelve-month period ended December 31, 2024, the Company granted 6,040,000 stock options to employees and directors. The options have seven-year terms, with vesting in four equal instalments on the annual year anniversaries of the initial date of each grant.

Financing Costs

Financing costs in Q4 2024 increased 131% to \$852 compared to \$369 in the same period of the prior year with the increase related to costs associated with obtaining the new credit facility entered in April 2024 totalling \$260, which related to amortization of debt issuance costs during the quarter

Year-to-date, financing costs increased 49% to \$2,435 compared to \$1,631 in the prior year due in part due to costs associated with obtaining the new credit facility of \$675 and slightly higher debt levels.

⁴ Gross profit margin is a non-IFRS financial measure with no standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. For further information and detailed reconciliations to the most directly comparable IFRS measures, see “Non-IFRS Measures” in this MD&A.

	Three-months ended		Twelve-months ended	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Interest on lease liabilities	74	72	340	\$ 303
Letters of credit and interest expense	518	297	1,420	965
Amortization of credit facility transaction costs	260	-	675	-
Accretion of long-term obligations	-	-	-	207
Fair value adjustment on contingent consideration	-	-	-	156
	852	369	2,435	\$ 1,631

Adjusted EBITDA and Net Income

In Q4 2024, adjusted EBITDA increased 23% to \$7,020, compared to \$5,728 in Q4 2023, and a 25% adjusted EBITDA margin compared to 20% in Q4 2023. Adjusted EBITDA for the twelve-month period ended December 31, 2024 increased 47% to \$20,711 compared to \$14,094 for the prior year, and a 23% adjusted EBITDA margin compared to 20% for the prior year. Adjusted EBITDA increased due to increased product and service revenue during the period.

Net income in Q4 2024 increased 429% to \$13,674 and comprehensive income increased 451% to \$13,571, as compared to net income of \$2,584 and comprehensive income of \$2,464 for the same period of prior year. Net income for the twelve-month period ended December 31, 2024, increased 262% to \$20,089 and comprehensive income increased 264% to \$20,329 as compared to net income of \$5,546 and comprehensive income of \$5,588 for the prior year.

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

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2024, the Company had working capital of \$94,416 (December 31, 2023 – \$3,614). Cash as at December 31, 2024 was \$58,518 as compared to \$5,173 as at December 31, 2023.

During 2024 the Company closed two bought deal equity financings for gross proceeds of \$71.87 million by issuing 21,185,300 common shares at a price of \$0.95 per share in the first financing and 32,343,750 common shares at a price of \$1.60 per share in the second. The net proceeds of the offerings 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	\$ 17,200	\$ 933
Supply chain/parts and inventory	27,200	7,776
General corporate purposes and working capital	22,982	6,778
Offering expenses	700	902
Total	\$ 68,082	\$ 16,389

During the twelve-month period ended December 31, 2024, the Company received proceeds of \$1,395 upon the exercise of 2,666,303 stock options (2023 – proceeds of \$179).

During the twelve-month period ended December 31, 2024, the Company experienced cash outflows of \$11,590 (2023 – cash inflows of \$8,427) from operating activities. Cash outflows from investing activities were \$5,149 versus \$9,807 for the same quarter in 2023. Financing activities resulted in inflows of \$69,880 (2023 – cash outflows \$2,155).

Overall, excluding the foreign exchange impact on cash for the twelve-month period ended December 31, 2024, cash increased by \$53,141 to \$58,518 (2023 – decreased by \$3,535).

A commercial bank issued standby letters of credit on behalf of the Company to a customer in the amount of US\$830 (C\$1,193) on an advance guarantee secured by Export Development Canada. The letter of credit expired 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); (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 drawn US\$5,000 of the Accordion subsequent to December 31, 2024.

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* – Competition within the market of the Company may reduce its ability to procure future contracts and sales. The industry in which the Company operates is competitive. Many of the competitors of the Company are large, diversified corporations in the sensor and marine robotics products and services industry. Some of the competitors of the Company may have more extensive or more specialized engineering, manufacturing, and marketing capabilities. There can be no assurance that the Company can continue to compete effectively with these companies;
- *Technology risk* – The future success of the Company will depend on its ability to develop new technologies that achieve market acceptance. The marine sensor, robotics and battery markets are 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, or at reasonable cost. If any of the suppliers fail to meet the needs of the Company, it may not have readily available alternatives;
- *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. The termination of funding for a government program would result in a loss of anticipated future revenues attributable to that program that 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.

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 December 31, 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:

	December 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 58,518	\$ 5,173
Trade and other receivables	18,699	10,382
Contract assets	17,707	9,880
	\$ 94,924	\$ 25,435

At December 31, 2024, 63% of the trade receivables were owing from two customers (December 31, 2023 - 70% of trade receivables were owing from two customers). At December 31, 2024 the Company had recorded contract liabilities of \$1,083 (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 December 31, 2024, the Company had a cash balance of \$58,518 (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 December 31, 2024, the Company has drawn \$nil 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:

	December 31, 2024	December 31, 2023
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	\$ 2,473	\$ 2,237
Trade and other payables GBP	975	2,831
Trade and other payables EUR	23,268	1,695
Trade and other payables DKK	129	93
Trade and other payables BRL	382	462
Long-term debt EUR	503	770
Bank indebtedness EUR	-	543
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	5,944	2,419
Trade and other receivables GBP	427	3,365
Trade and other receivables EUR	336	1,027
Trade and other receivables DKK	4	6
Trade and other receivables BRL	373	1,475

For the twelve-month period ended December 31, 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 \$107 (2023 - \$1,205).

Fair Value:

During the three-months and year ended December 31, 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 APRIL 28, 2024:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	262,788,338

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	3,936,250	2,782,500	0.395	May 3, 2027
Options	50,000	16,667	0.37	September 6, 2027
Options	400,000	400,000	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	266,667	0.495	November 17, 2028
Options	5,940,000	-	1.14	July 9, 2031
	10,901,250	3,553,334	\$ 0.815	

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 profit, gross profit 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 as adjusted EBITDA divided by Total Revenue.

	Q4 2024	Q4 2023	2024	2023
Net income	\$13,674	\$2,584	\$20,089	\$5,546
Income tax	(8,549)	483	(8,061)	776
Financing costs	852	369	2,435	1,631
Interest income	(688)	-	(688)	-
Gain on extinguishment of contingent consideration	-	-	-	(4,044)
Impairment of goodwill	-	-	-	2,757
Foreign exchange loss/(gain)	(369)	997	43	975
Loss/(gain) on disposal of assets	-	1	(3)	3
Share-based compensation	447	58	948	378
Depreciation and Amortization	1,498	1,236	5,726	4,940
EBITDA – excluding restructuring and acquisition costs	7,299	5,278	20,923	12,962
Restructuring and acquisition costs	155	-	212	1,132
Adjusted EBITDA	\$7,020	\$5,278	\$20,711	\$14,094
Adjusted EBITDA margin	25%	20%	23%	20%

Gross Profit and Gross Profit Margin

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

	Q4 2024	Q4 2023	YTD 2024	YTD 2023
Revenue	\$28,109	\$28,006	\$91,292	\$69,581
Cost of sales	14,627	16,292	46,600	35,625
Gross profit	13,482	11,714	44,692	33,956
Gross profit margin	48%	42%	49%	49%

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 – Certification of Disclosure in Issuers’ Annual and Interim Filings. 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

	Year Ended December 31, 2024 (\$)	Year Ended December 31, 2023 (\$)	Year Ended December 31, 2022 (\$)
Statement of Comprehensive Loss			
Total Revenues	91,292	69,581	40,908
Cost of Sales	46,600	35,625	23,871
Income (loss) from operating activities	13,815	4,887	(1,533)
Net income (loss)	20,089	5,546	(4,243)
Basic income (loss) per share	0.09	0.03	(0.02)
Diluted income (loss) per share	0.09	0.03	(0.02)

	Year Ended December 31, 2024 (\$)	Year Ended December 31, 2023 (\$)	Year Ended December 31, 2022 (\$)
Statement of Financial Position			
Total Assets	162,613	76,419	71,365
Total Current Assets	117,772	44,075	37,827
Total Current Liabilities	23,356	40,461	39,862
Total Liabilities	40,878	44,360	47,710
Total Shareholders' Equity	121,735	32,059	23,655

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 2024	28,109	8,115	447	13,674	13,571	0.05
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)

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 2024	162,613	117,772	23,356	40,878
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.ca and on the Company's website at www.krakenrobotics.com.