KRAKEN

KRAKEN ROBOTICS INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIODS ENDED June 30, 2025

(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 six-month periods ending June 30, 2025 and should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2025 and the notes thereto, and the Company's audited consolidated financial statements for the year ended December 31, 2024, and the notes thereto, which are available on SEDAR+ at www.sedarplus.ca. The information presented in the MD&A is as of August 20, 2025, the date of preparation.

The June 30, 2025 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board that are 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 audited consolidated financial statements for the year ended December 31, 2024. The Company's 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, 2024 prepared in accordance with IFRS. All amounts other than per-share amounts are expressed in thousands of Canadian dollars, unless otherwise stated.

Non-IFRS Measures

The Company has included certain non-IFRS measures including adjusted EBITDA, adjusted EBITDA margin, gross profit, gross profit margin, and working capital. Management believes that non-IFRS measures, when supplementing measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. Further information, including reconciliations of these measures to the most directly comparable IFRS measures, can be found at the end of this MD&A under the heading "Non-IFRS Measures".

Notice Regarding Forward-Looking Statements

Certain forward-looking statements contained in this MD&A ("forward-looking statements") constitute "forward-looking information" within the meaning of applicable Canadian securities laws. A statement is forward-looking when it uses what the Company knows and expects today to make a statement about the future. In certain cases, forward-looking statements can be identified by the use of forward-looking terminology such as "seeks", "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes", or variations of such words and phrases, or statements that certain actions, conditions, events or results "may", "could", "should", "would", "might", or "will be taken", "occur" or "be achieved", or the negative forms of any of these words and other similar expressions. In addition, statements or information that refer to estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, and any other statements that are not statements of fact, are forward-looking statements.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- *expectations regarding revenue, expenses and operations;*
- *the performance of the Company's business and operations;*
- *the intention to grow the business, operations and potential activities of the Company*
- *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™, LiDAR 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 (RaaS) 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;*
- *the Company's competitive position and its expectations regarding competition and its future success in competitive bidding processes; and*
- *the Company's business objectives and milestones and the anticipated timing of execution.*

Forward-looking statements reflect the Company's expectations and assumptions about the future based on management's perception of historical trends, current conditions, and expected future developments, and other factors that management believes are appropriate in the circumstances. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including, but not limited to: market and industry trends competition; the Company will continue to be in compliance with regulatory requirements; the Company's ability to maintain current and projected revenue if it fails to effectively compete for additional contracts; the continued employment of key personnel, and that the Company will be able to obtain and retain additional qualified personnel, as needed, in a timely and cost-efficient manner; foreign exchange rates; the continuance of current tax, environmental and other laws; the continuance of relevant supply chains; inflation rates in the jurisdictions where the Company conducts its business; and tariffs and other controls on imports and exports, tax, immigration or other policies that may impact relations with foreign countries or result in retaliatory policies.

Forward-looking statements reflect expectations and assumptions that the Company believed were reasonable as of the date of this MD&A. However, there can be no assurance that those expectations and assumptions will prove to be correct. Forward-looking statements are subject to a number of known and unknown risks, uncertainties and other factors, that may cause the Company's actual results, performance or achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Specific reference is made to "Risk Factors" in this MD&A, the section entitled "Risk Factors" in the Company's most recent annual information form, and the risks described in the Company's continuous disclosure materials filed from time to time with the Canadian securities regulatory authorities, which are available under the Company's profile on SEDAR+ at www.sedarplus.ca. Although the Company has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other risk factors not presently known to the Company or that the Company currently believes are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking statements. The Company cautions that the above list of risk factors is not exhaustive. Should one or more of these known or unknown risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results could vary materially from those expressed or implied by these forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements contained in this MD&A.

Forward-looking statements are made as of the date of this MD&A unless otherwise indicated, and speak only as of the date they are made. The Company assumes no obligation to publicly update or revise any forward-looking statements, except to the extent required by applicable law. If the Company does update one or more forward-looking statements, no inference should be drawn that the Company will make additional updates with respect to those or other forward-looking statements. The forward-looking statements contained in this MD&A are expressly qualified in their entirety by the foregoing cautionary statement.

COMPANY OVERVIEW

Kraken Robotics Inc. was incorporated on May 14, 2008, and is continued under the Business Corporations Act. 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. 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.

3D AT DEPTH ACQUISITION

On April 1, 2025, the Company, through its wholly owned U.S. subsidiary, completed the acquisition of substantially all of the assets of 3D at Depth, Inc. ("3D at Depth"), a privately held company headquartered in Colorado, USA, specializing in advanced subsea LiDAR laser scanning and data services for offshore energy, defense, and scientific applications. The total purchase consideration was $23.5 million, comprised of cash on closing and the assumption of certain liabilities and subject to customary working capital adjustments.

The acquisition of 3D at Depth expands Kraken's presence in the United States, adds a proven and complementary technology to our product and services portfolio, and enhances our capacity to deliver integrated subsea survey and inspection solutions. 3D at Depth's proprietary LiDAR technology offers sub-millimeter accuracy for subsea metrology, which, when combined with Kraken's existing sonar, sub-bottom, and robotics platforms, will enable broader service offerings to our offshore energy and defense customers. The acquisition also provides access to a highly experienced technical and operations team as well as an established customer base.

The acquisition was accounted for as a business combination under IFRS 3, *Business Combinations*. The purchase price allocation is preliminary and subject to change as the Company finalizes the fair value assessment of the acquired assets and liabilities, including identifiable intangible assets and goodwill. As at June 30, 2025, the provisional allocation resulted in the recognition of intangible assets related to technology, customer relationships, and trademarks, as well as goodwill reflecting expected synergies.

FINANCIAL HIGHLIGHTS

Consolidated revenue in Q2 2025 increased 13% to $26,390 (Q2 2024 - $22,758). Revenue in the quarter was driven by continued growth in our subsea battery business, and both organic growth and the acquisition of 3D at Depth within our service business. Consolidated revenue for the six-month period ending June 30, 2025, declined 3% to $42,518 (2024 -$43,633) as growth in our subsea battery and services businesses was offset by lower product revenue in the current period resulting from our RMDS project and the timing of KATFISH™ sales. Net loss in Q2 2025 was $699 (Q2 2024 – net income of $2,609), while net loss for the six-month period ended June 30, 2025 was $484 (2024 – net income of $4,784). Adjusted EBITDA[1] in Q2 2025 was $4,674 (Q2 2024 – $5,444), while Adjusted EBITDA for the six-month period ended June 30, 2025, was $7,468 (2024 – $9,545).

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[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.

Revenue

The Company produces revenue from sales in two categories: products and services.

Kraken’s product business consists primarily of subsea sensor products, including our SAS, KATFISH™ and RMDS systems and subsea battery systems.

Product revenue in Q2 2025 decreased 14% to $16,546 (Q2 2024 - $19,245). Product revenue for the six-month period ended June 30, 2025, decreased 27% to $25,708 (2024- $35,263). For the quarter and for the six-month period, revenue from subsea battery system continued to grow at a significant pace, while revenue from RMDS was lower in the current year due to the near completion of the project and KATFISH™ revenue was lower due to timing of deliveries.

Kraken’s service business consists of a robotics as a service (RaaS) portfolio of equipment including our Sub-Bottom Imager™, Acoustic Corer™, KATFISH™, SeaVision and the recently acquired 3D at Depth service offering of subsea LIDAR imaging.

Service revenue in Q2 2025 increased 180% to $9,844 (Q2 2024- $3,513) due to organic growth and the acquisition of 3D at Depth. Service revenue in the six-month period ended June 30, 2025, increased 100% to $16,810 (2024 - $8,370) due to a high utilization of Sub-Bottom Imager™ assets and the acquisition of 3D at Depth.

	Three-months ended		Six-months ended	
	June 30, 2025	June 30, 2024	**June 30, 2025**	June 30, 2024
Product Revenue	**$ 16,546**	$ 19,245	**$ 25,708**	$ 35,263
Service Revenue	**9,844**	3,513	**16,810**	8,370
Total revenue	**26,390**	22,758	**42,518**	43,633
Cost of sales	**11,628**	11,151	**17,638**	22,680
Gross profit[2]	**14,762**	11,607	**24,880**	20,953
Gross profit margin[3]	**56%**	51%	**59%**	48%
Administrative expenses	**9,487**	4,617	**15,895**	9,141
Research and development costs	**1,785**	1,695	**3,304**	2,634
Depreciation and Amortization	**2,339**	1,373	**3,918**	2,798
Share-based compensation	**672**	30	**1,076**	87
Investment tax credits recoverable	**(272)**	(149)	**(540)**	(298)
Income from operating activities	**751**	4,041	**1,227**	6,591
Foreign exchange loss	**693**	138	**260**	69
Financing costs	**981**	559	**1,682**	947
Interest income	**(208)**	-	**(519)**	-
Net income (loss) before taxes	**(715)**	3,344	**(196)**	5,575
Income tax recovery (expense)	**16**	(735)	**(288)**	(791)
Net income (loss)	**$ (699)**	$ 2,609	**$ (484)**	$ 4,784

Basic earnings per share	**$ (0.00)**	$ 0.01	**$ (0.00)**	$ 0.02
Diluted earnings per share	**$ (0.00)**	$ 0.01	**$ (0.00)**	$ 0.02
Adjusted EBITDA	**4,674**	5,444	**7,468**	9,545
Adjusted EBITDA margin[4]	**18%**	24%	**18%**	22%

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 was $11,628 (Q2 2024 - $11,151), an increase due to higher revenue in the quarter as well of change of revenue mix. During Q2 2025, the Company realized gross profit of $14,628 (Q2 2024 – $11,607) resulting in a gross

[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.
[3] Gross profit margin is a non-IFRS financial ratio 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.
[4] Adjusted EBITDA margin is a non-IFRS financial ratio 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.

profit margin of 56% compared to 51% in Q2 2024. The increase in gross profit margin relates to improved mix of higher margin projects in both products and services, in the quarter when compared to the prior year.

Cost of sales for the six-month period ended June 30, 2025 were $17,638 (2024 - $22,680). As a result, gross profit in year ended June 30, 2025 increased to $24,880 (2024 - $20,953). Gross profit margin year-to-date was 59% compared to 48% for the comparable period and increased due an improved mix of higher margin projects in both products and services, in the year to date as compared to the prior year period.

Administrative Expenses

Administrative expenses in Q2 2025 increased to $8,575 (Q2 2024 - $4,617) excluding transaction and restructuring costs, with in the increase due in part due to the acquisition of 3D at Depth as well as increased expenditures to execute on the opportunities in our business pipeline. At the end of the quarter, Kraken employed 378 employees compared to 262 in the same period of the prior year. Notable items in the administrative expense category include: salaries and benefits expenses of $4,062 (Q2 2024 - $1,957), travel related costs of $671 (Q2 2024 - $336), software subscriptions costs of $632 (Q2 2024 - $536), accounting and legal costs of $435 (Q2 2024 - $421) and office and shop supplies of $567 (Q2 2024 - $319).

Administrative expenses for the six-month period ended June 30, 2025, increased to $14,648 compared to $9,072 in the prior year due to growth of the Company excluding transaction and restructuring costs and increased in part due to the acquisition of 3D at Depth as well as the continued investment of in our business in business development, systems and technology. Notable items in the administrative expense category year-to-date include: salaries and benefits expenses of $7,447 (2024 - $4,272), travel related costs of $1,269 (2024 - $634), software subscriptions of $1,272 (2024 - $978), and professional fees of $902 (2024- $637).

Transaction and restructuring costs for Q2 2025 were $912 (Q2 2024 - $nil). Year-to-date, transaction and restructuring costs total $1,247 (2024 - $69) and relate to the transaction costs associated with the acquisition of 3D at Depth.

Research and Development ("R&D") Expenses

R&D expenses in Q2 2025 increased 5% to $1,785 (Q2 2024 - $1,695) 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 $272 (Q2 2024 - $149) related to timing of scientific research and experimental development activities.

Year-to-date, R&D expenses increased 25% to $3,304 (2024 - $2,634) from the timing of R&D expenditures on various R&D programs and government assistance. Year-to-date, ITCs were $540 (2024 - $298).

Depreciation and Amortization

Depreciation in Q2 2025 increased 55% to $1,568 (Q2 2024 -$1,013). For the six-month period ended June 30, 2025, depreciation increased 30% to $2,761 (2024- $2,116) due to increased capital expenditures. In Q2 2025, amortization of intangible assets increased to $771 (Q2 2024- $360) and increased to $1,156 for the six-month period ended June 30, 2025 (2024 - $682) in the prior year due to the growth in intangible assets including those associated with the acquisition of 3D at Depth.

Share-based compensation

Share-based compensation expense increased in Q2 2025 to $672 (Q2 2024 - $30), while year-to-date share-based compensation increased to $1,076 (2024 - $87), due to the timing of stock option grants.

Financing Costs

Financing costs in Q2 2025 increased to $981 (Q2 2024 - $559) in the same period of the prior year. Year-to-date, financing costs increased to $1,682 (2024 -$947) with the increase due to the amortization of credit facility transaction costs.

	Three-months ended		Six-months ended	
	June 30, 2025	**June 30, 2024**	**June 30, 2025**	**June 30, 2024**
Interest on lease liabilities	**$ 236**	$ 86	**$ 396**	$ 161
Letters of credit and interest expense	**450**	291	**716**	604
Amortization of credit facility transaction costs	**295**	182	**570**	182
	$ 981	$ 559	**$ 1,682**	$ 947

Adjusted EBITDA and Net Income (loss)

In Q2 2025, adjusted EBITDA decreased 16% to $4,674 (Q2 2024 - $5,444) in Q2 2024, an 18% adjusted EBITDA margin compared to 24% in Q2 2024. Adjusted EBITDA for the six-month period ended June 30, 2025, decreased 22% to $7,468 (2024 - $9,545), an 18% adjusted EBITDA margin compared to 22% in the prior year. Adjusted EBITDA decreased in the current year was due lower project revenue and increased administrative costs as we invest in increased resources to execute on the opportunities in our business pipeline.

Net loss in Q2 2025 was $699 and comprehensive income was a loss of $3,754, as compared to net income of $2,609 and comprehensive income of $2,575 for the same period of prior year. Net loss for the six-month period ended June 30, 2025, was $484 and comprehensive loss decreased to $4,011 as compared to net income of $4,784 and comprehensive income of $4,666 for the prior year.

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

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2025, the Company had working capital, defined as current assets less current liabilities, of $71,813 (June 30, 2024 – $40,979). Cash as at June 30, 2025, was $32,867 as compared to $20,393 as at June 30, 2024.

During the six-month period ended June 30, 2025, the Company experienced cash inflows of $1,539 (2024 – cash outflows of $6,564) from operating activities. Cash outflows from investing activities were $32,408 versus $1,560 for the same period in 2024. Financing activities resulted in inflows of $6,988 versus $23,218 for the same period in 2024.

During 2024 the Company closed two bought deal equity financings for gross proceeds of $7,187 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	$ 8,516
Supply chain/parts and inventory	27,200	18,375
General corporate purposes and working capital	22,982	22,983
Offering expenses	700	902
Total	$ 68,082	$ 50,776

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 $6,840 (US$5,000) of the Accordion during the quarter.

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 June 30, 2025, the Company's risk exposures and the impact of the Company's financial instruments are summarized below:

Credit Risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	June 30, 2025	December 31, 2024
Cash and cash equivalents	**$ 32,867**	$ 58,518
Trade and other receivables	**16,844**	18,699
Investment tax credits recoverable	**784**	1,018
Long-term investment tax credits recoverable	**1,817**	1,571
Contract assets	**18,268**	17,707
	$ 70,580	$ 97,513

At June 30, 2025, 80% of the trade receivables were owing from two customers (June 30, 2024 - 54% of trade receivables were owing from two customers). At June 30, 2025, the Company had recorded contract liabilities of $11,033 (December 31, 2024 – $1,083).

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 June 30, 2025, the Company had a cash balance of $32,867 (December 31, 2024 - $58,518). 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 June 30, 2025, 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 $1.

(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:

	June 30, 2025	**December 31, 2024**
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	**$ 1,403**	$ 2,473
Trade and other payables GBP	**444**	920
Trade and other payables EUR	**2,714**	3,268
Trade and other payables DKK	**143**	129
Trade and other payables BRL	**543**	382
Long-term debt EUR	**162**	503
Bank indebtedness EUR	**-**	-
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	**8,670**	5,944
Trade and other receivables GBP	**2,913**	427
Trade and other receivables EUR	**347**	336
Trade and other receivables DKK	**4**	4
Trade and other receivables BRL	**2**	373

For the six-month period ended June 30, 2025, 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 $1,034 (2024 - $107).

Fair Value:

During the three-months and year ended June 30, 2025, 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.

SUBSEQUENT EVENT

On July 7, 2025, the Company closed a public offering of 43,240,000 common shares at a price of $2.66 per Common Share, for aggregate gross proceeds of $115,018, inclusive of the full exercise of the over-allotment option by the underwriters of the offering. The Company expects to use the net proceeds of the offering to support the Company's growth into a scalable global prime contractor, including: (1) enhancing the ability to consider larger accretive acquisitions particularly in the United States and Europe given the Company's strengthened global profile; (2) demonstrating a stronger balance sheet when bidding for larger governmental and commercial contracts; and (3) for general corporate purposes.

OUTSTANDING SHARE DATA AS AT AUGUST 20, 2025:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	306,249,835

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	3,599,700	3,599,700	0.395	May 3, 2027
Options	40,000	40,000	0.37	September 6, 2027
Options	400,000	400,000	0.59	December 7, 2027
Options	75,000	56,250	0.63	January 30, 2028
Options	100,000	75,000	0.58	February 27, 2028
Options	400,000	266,667	0.495	November 17, 2028
Options	5,840,000	33,333	1.14	July 9, 2031
Options	3,425,000	62,500	2.42	June 4, 2032
	13,879,700	**4,533,450**	**$ 1.22**	

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.

	Q2 2025	Q2 2024	**YTD 2025**	YTD 2024
Net income (loss)	**$(699)**	$2,609	**$(484)**	$4,784
Income tax	**(16)**	735	**288**	791
Financing costs	**981**	559	**1,682**	947
Interest income	**(208)**	-	**(519)**	-
Foreign exchange loss	**693**	138	**260**	69
Share-based compensation	**672**	30	**1,076**	87
Depreciation and Amortization	**2,339**	1,373	**3,918**	2,798
EBITDA – excluding restructuring and transaction costs	**3,762**	5,444	**6,221**	9,476
Restructuring and transaction costs	**912**	-	**1,247**	69
Adjusted EBITDA	**$4,674**	$5,444	**$7,468**	$9,545
Adjusted EBITDA margin	**18%**	24%	**18%**	22%

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.

	Q2 2025	Q2 2024	**YTD 2025**	YTD 2024
Revenue	**$26,390**	$22,758	**$42,518**	$43,633
Cost of sales	**11,628**	11,151	**17,638**	22,680
Gross profit	**14,762**	11,607	**24,880**	20,953
Gross profit margin	**56%**	51%	**59%**	48%

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

Summary of Quarterly Results

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

	Revenue ($)	Operating expenses less share-based payments ($)	Share-based payments ($)	Net income (loss) ($)	Comprehensive income (loss) $	Basic and diluted income (loss) per share ($)
Q2 2025	26,390	13,339	672	(699)	(3,621)	(0.00)
Q1 2025	16,128	9,238	404	215	(257)	0.00
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

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

The Company's revenue can fluctuate significantly on a quarterly basis due to the timing of orders, lead times on part purchases, and the timing of procurement processes. The Company has found that government orders for equipment, which constitute a significant proportion of the Company's products revenue, do not occur on regular or predictable intervals. In recent years, the Company has found that government orders tend to peak in Q3, with deliveries targeted in Q4, and that new orders from governments slow in Q1, though actual outcomes depend on the timing of contract specific negotiations and actual production and delivery. 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 ($)	Total Liabilities ($)
Q2 2025	184,267	101,986	30,173	65,256
Q1 2025	179,021	123,202	28,634	57,103
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

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.