Kraken Robotics Inc.

Condensed Consolidated Interim Financial Statements

For the three and six-months ended June 30, 2026 and 2025
(Expressed in thousands of Canadian Dollars unless otherwise noted)

(Unaudited)

Q2 Fiscal 2026

June 30, 2026

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Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in thousands of Canadian Dollars)

	June 30, 2026	December 31, 2025
ASSETS		
Current assets:		
Cash and cash equivalents	$ **91,266**	$ 120,507
Trade and other receivables (note 4)	**31,373**	27,319
Contract asset (note 8)	**12,633**	14,822
Current tax receivable	**69**	52
Short-term Investment tax credits recoverable	**2,344**	1,547
Inventory (note 5)	**49,917**	34,664
Subscription receipt proceeds held in escrow (note 6)	**396,745**	-
Prepayments (note 6)	**20,826**	10,566
	605,173	209,477
Prepayments	**1,737**	271
Property and equipment (note 8)	**51,593**	41,132
Long-term investment tax credit recoverable	**2,442**	2,066
Right-of-use assets (note 14)	**13,335**	13,889
Intangible assets	**15,741**	16,168
Goodwill (note 7)	**16,876**	16,417
Deferred tax asset	**17,852**	14,259
TOTAL ASSETS	**724,749**	$ 313,679
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade and other payables	**27,514**	23,157
Contract liabilities (note 9)	**10,342**	6,596
Current tax payable	**6,496**	4,437
Current portion of long-term obligations (note 13)	**1,102**	1,097
Subscription receipts obligation (note 6)	**405,208**	-
Current portion of lease liabilities (note 14)	**2,730**	2,626
	453,392	37,913
Long-term obligations (note 13)	**24,638**	22,683
Lease liabilities (note 14)	**11,226**	11,736
Deferred tax liability	**1,870**	2,012
Shareholders' equity:		
Share capital (note 15)	**237,350**	236,082
Contributed surplus	**6,349**	3,983
Accumulated other comprehensive loss	**(395)**	(1,893)
(Deficit) retained earnings	**(9,681)**	1,163
	233,623	239,335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 724,749**	$ 313,679

Commitments (note 21) Subsequent events (note 22)

On Behalf of the Board:

"Greg Reid" Director ***"Shaun McEwan"*** Director

The accompanying notes form part of the condensed consolidated financial statements.

KRAKEN

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Income (Loss)
(Unaudited)
For the Three and Six-Months Ended June 30, 2026 and 2025
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	Three-months ended		Six-months ended	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Product Revenue (note 9)	**$ 16,870**	$ 16,546	**$ 30,644**	$ 25,708
Service Revenue (note 9)	**10,450**	9,844	**18,381**	16,810
	27,320	26,390	**49,025**	42,518
Cost of sales (note 5)	**11,083**	11,628	**20,552**	17,638
	16,237	14,762	**28,473**	24,880
Administrative expenses	**11,722**	9,487	**23,085**	15,895
Research and development costs	**2,247**	1,785	**3,314**	3,304
Depreciation and Amortization	**3,189**	2,339	**6,071**	3,918
Share-based compensation (note 15 (d))	**1,850**	672	**2,759**	1,076
Investment tax credits recoverable	**(772)**	(272)	**(1,172)**	(540)
	18,236	14,011	**34,057**	23,653
(Loss) Income from operating activities	**(1,999)**	751	**(5,584)**	1,227
Foreign exchange loss	**134**	693	**364**	260
Interest income	**(605)**	(208)	**(1,244)**	(519)
Other loss (note 20)	**6,911**	-	**6,911**	-
Financing costs (note 17)	**897**	981	**1,650**	1,682
	7,337	1,466	**7,681**	1,423
Loss before income taxes	**(9,336)**	(715)	**(13,265)**	(196)
Income tax recovery (expense)	**1,818**	16	**2,421**	(288)
Net loss	**$ (7,518)**	$ (699)	**$ (10,844)**	$ (484)
Basic earnings per share (note 10)	**$ (0.02)**	$ 0.00	**$ (0.03)**	$ 0.00
Diluted earnings per share (note 10)	**$ (0.02)**	$ 0.00	**$ (0.03)**	$ 0.00

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Income (Loss)
(Unaudited)
For the Three and Six-Months Ended June 30, 2026 and 2025
(Expressed in thousands of Canadian Dollars except per share and share amounts)

	Three-months ended		Six-months ended	
	June 30, 2026	**June 30, 2025**	**June 30, 2026**	**June 30, 2025**
Net Loss	**$ (7,518)**	$ (699)	**$ (10,844)**	$ (484)
Other comprehensive loss				
Items that may be reclassified to profit or loss				
Currency translation adjustment	**2,247**	(2,922)	**1,498**	(3,394)
Other comprehensive income (loss)	**2,247**	(2,922)	**1,498**	(3,394)
Comprehensive income (loss)	**$ (5,271)**	$ (3,621)	**$ (9,346)**	$ (3,878)

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Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
For the Three and Six-Months Ended June 30, 2026 and 2025
(Expressed in thousands of Canadian Dollars except share amounts)

2026	Number of Shares	Share capital (note 15)	Contributed Surplus	Accumulated other comprehensive loss	(Deficit) retained earnings	Total
Balance at January 1, 2026	306,588,838	$ 236,082	$ 3,983	$ (1,893)	$ 1,163	$ 239,335
Net loss	-	-	-	-	(10,844)	(10,844)
Other comprehensive loss	-	-	-	1,498	-	1,498
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	1,080,000	1,268	(393)	-	-	875
Share-based compensation	-	-	2,759	-	-	2,759
Shareholders' equity as at June 30, 2026	**307,668,838**	**$ 237,350**	**$ 6,349**	**$ (395)**	**$ (9,681)**	**$ 233,623**

2025	Number of Shares	Share capital (note 15)	Contributed Surplus	Accumulated other comprehensive loss	(Deficit) retained earnings	Total
Balance at January 1, 2025	262,688,338	$ 121,890	$ 1,812	$ (270)	$ (1,697)	$ 121,735
Net loss	-	-	-	-	(484)	(484)
Other comprehensive loss	-	-	-	(3,394)	-	(3,394)
Transactions with shareholders, recorded directly in equity:						
Issue of common shares on stock option exercises	296,497	139	(46)	-	-	93
Share-based compensation	-	-	1,076	-	-	1,076
Share issue costs	-	(15)	-	-	-	(15)
Shareholders' equity as at June 30, 2025	**262,984,835**	**$ 122,014**	**$ 2,842**	**$ (3,664)**	**$ (2,181)**	**$ 119,011**

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Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
For the Three and Six-Months Ended June 30, 2026 and 2025
(Expressed in thousands of Canadian Dollars)

	June 30, 2026	June 30, 2025
Cash flows (used in) provided by operating activities		
Net loss	**$ (10,844)**	$ (484)
Adjustments for items not involving cash:		
Depreciation	**4,063**	2,761
Amortization of intangible assets	**2,008**	1,157
Share-based payments	**2,759**	1,076
Investment tax credit	**(1,172)**	(12)
Financing Costs	**1,650**	981
Income tax expense	**(2,421)**	288
Changes in non-cash working capital (note 19)	**(12,278)**	(4,228)
Net cash flows (used in) provided by operating activities	**(16,235)**	1,539
Cash flows used in investing activities		
Acquisition of 3D at Depth, Inc. (net of cash acquired) (note 7)	**-**	(23,361)
Purchase of property and equipment	**(14,233)**	(7,582)
Purchase of intangible assets	**(1,723)**	(1,465)
Net cash flows used in investing activities	**(15,956)**	(32,408)
Cash flows provided by financing activities		
Proceeds from exercise of options	**875**	93
Payment of share issue costs	**-**	(15)
Payment of principal on leases	**(843)**	(1,170)
Payment of interest on leases	**(413)**	(396)
Payment of principal on long-term obligations	**(413)**	(649)
Payment of interest on long-term obligations	**(583)**	(483)
Proceeds from long term obligations	**2,285**	9,608
Net cash flows provided by financing activities	**908**	6,988
Net decrease in cash and cash equivalents	**(31,283)**	(23,881)
Effect of foreign exchange on cash	**2,042**	(1,770)
Cash and cash equivalents at beginning of period	**120,507**	58,518
Cash and cash equivalents at end of period	**$ 91,266**	$ 32,867

1. Corporate Information:

Kraken Robotics Inc. ("Kraken" or the "Company") was incorporated on May 14, 2008 under the Business Corporations Act, British Columbia and was continued under the Canada Business Corporations Act on February 17, 2015 and its registered office is at 100 King Street West, #1600, Toronto, Ontario, M5X 1G5.

The Company's principal business is supplying advanced sonar and optical sensors, batteries, and underwater robotics equipment and services for military and commercial applications.

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting. 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, 2025, except for the adoption of the applicable new standards or amendments to the existing standards, if any, with an effective date for the accounting periods commencing on or after January 1, 2026, as noted in the annual consolidated financial statements of the Company.

These condensed consolidated interim financial statements do not include all disclosures required by IFRS® Accounting Standards ("Accounting Standards") 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, 2025.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 26, 2026.

(b) Basis of measurement:

These condensed consolidated financial statements have been prepared on a historical cost basis.

The condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

(c) Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly owned subsidiaries):

Subsidiary	Domiciled
Kraken Robotic Systems Inc	Canada
Kraken Robotics US Inc	United States of America
Kraken Robotics Brasil Ltda	Brazil
Kraken Robotics Services UK Limited	United Kingdom
Kraken Robotik GmbH	Germany
Kraken Power GmbH	Germany
Kraken Robotics Denmark ApS	Denmark
3D at Depth, Inc.	United States of America
3D at Depth, Ltd.	United Kingdom

As of January 1, 2026 Kraken Robotics Services Limited and PGH Capital Inc were amalgamated into Kraken Robotic Systems Inc.

(d) Critical accounting estimates and judgments:

The preparation of condensed consolidated financial statements in accordance with IFRS Accounting Standards requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods. The more significant areas requiring the use of management estimates and judgments are discussed below:

i) Revenue recognition

The Company has multi-year contracts with its customers and must make judgments about when the Company has satisfied the performance obligations to its customers, either over a period of time or at a point in time. Revenue from some contracts are recognized over time using the input cost method, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Judgement is used in determining the estimates of costs to complete.

ii) Estimates of useful lives of property and equipment

Useful lives and residual value of property and equipment are reviewed by management on a regular basis to ensure assumptions are still valid. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognized. Any changes in estimates would impact on the useful lives and the residual values of the assets and, therefore, future depreciation charges could be revised.

iii) Recovery of deferred tax assets

Deferred tax assets, including those arising from tax loss carryforwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of net loss and comprehensive loss.

iv) Share-based payments

The amounts recorded for share-based compensation are based on estimates. The Black Scholes model is used to estimate the fair value of stock options at the date of grant based on estimates of assumptions for share price, expected volatility, dividend yield, risk-free interest rate, expected forfeitures and expected life of the options. Changes in these assumptions may result in a material change to the amounts recorded for the issuance of stock options.

3. Adoption of new accounting pronouncements:

(a) Adoption of new accounting amendments

Classification and Measurement of Financial Instruments ("IFRS 7 and "IFRS 9")

In May 2024, the IASB issued amendments to IFRS 7 and IFRS 9, Classification and Measurement of Financial Instruments to clarify that financial liabilities are derecognized on the 'settlement date'. The amendments also provide clarification on how to assess cash flow characteristics for financial assets including environmental, social, and governance ("ESG")-linked features, and the treatment of non-recourse assets and contractually linked instruments. The amendments further require additional disclosures in IFRS 7 for equity instruments classified at fair value through other comprehensive income, and financial assets and liabilities that include contractual terms referencing a contingent event.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026 and as a result, the Company has applied the amendments for the first time effective January 1, 2026. The impact of these changes was determined to not be material to the Company's interim consolidated financial statements.

(b) Accounting standards issued but not yet adopted

Presentation and Disclosure in Financial Statements ("IFRS 18")

In April 2024, the IASB issued IFRS 18. The objective of the new standard is to improve comparability and transparency of communication in financial statements. This standard introduces new requirements on presentation and disclosure within the statement of net income (loss) and requires disclosure of management-identified performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified "roles" of the primary financial statements and the notes. The standard is effective for annual periods beginning after January 1, 2027, with early adoption permitted. The Company is assessing the impact of this new standard on its consolidated financial statements and intends to adopt the new standard on the required effective date with restatement of the prior period comparatives.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

4. Trade and other receivables:

Trade and other receivables consist of the following:

	June 30, 2026	December 31, 2025
Trade receivables (net of expected credit loss of $nil (2025 - $2,057))	**$ 26,397**	$ 22,504
Government assistance receivable and other	**4,976**	4,815
	$ 31,373	$ 27,319

5. Inventory:

Inventory consists of the following:

	June 30, 2026	December 31, 2025
Raw materials	**$ 31,378**	$ 24,736
Work in progress	**18,539**	9,928
	$ 49,917	$ 34,664

Included in the cost of sales for the three-months and six-months ended June 30, 2026 is inventory of $3,734 (2025 - $6,365) and $6,611 (June 30, 2025 - $10,629). Inventory write-downs consisted of $Nil (2025 - $Nil).

6. Subscription receipt offering and pending acquisition:

On March 3, 2026, the Company entered into an agreement to acquire Covelya Group Limited for a total consideration of $615 million, excluding transaction costs and subject to adjustment.

The purchase price is intended to be satisfied with a combination of common shares and cash. The cash portion of the purchase price is intended to be financed at closing from an offering of 47,353,550 subscription receipts, completed March 12, 2026, at a price of $8.50 each for gross proceeds of $402.5 million and a non-revolving term loan. The net proceeds (gross proceeds from the sale of the subscription receipts, less 50% of the underwriters' fees, together with any interest and other income received or credited thereon) will be held in escrow and are expected to be used to finance a portion of the purchase price of the acquisition.

The subscription receipt arrangement creates the following separate financial instruments, which have been recorded on the unaudited condensed interim consolidated statements of financial position:

a) **Subscription receipt proceeds held in escrow** - a financial asset (non-cash), recorded net of the underwriters' fees, plus interest earned on the subscription receipt proceeds held in escrow, representing the proceeds that the Company expects to receive upon the closing of the Acquisition; and
b) **Subscription receipts obligation** - a financial liability representing the Company's obligation to reimburse the holders of the subscription receipts representing the original proceeds, plus interest earned, pursuant to the subscription receipt agreement. The obligation arises in the event that the acquisition of Covelya Group Limited is not completed.

The offsetting amount for the underwriters' fees ($8,463) recognized to date, have been recorded in prepaids on the unaudited condensed interim consolidated statement of financial position. For the three-months and six-months ended June 30, 2026, $2,217 and $2,703 respectively of interest was earned on the amounts held in escrow relating to the subscription receipt offering. An update regarding the acquisition is disclosed in subsequent event note 22.

7. Business combination:

On April 1, 2025, the Company acquired a 100% interest in 3D at Depth, Inc. ("3D at Depth"). The consideration paid by the Corporation to acquire 3D at Depth was US$16,526 (C$23,712) in cash, net of adjustments of US$235 (C$336). The Company has determined that this transaction is a business combination as the assets acquired and liabilities assumed constitute a business.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

8 . Property and equipment:

(a) As at June 30, 2026 property and equipment are pledged as security of a Long-term obligation (note 13).

(b) Reconciliation of property and equipment:

	Furniture, tools and equipment	Computer equipment	Construction in progress	Leasehold improvements	Marine Equipment	Software	Total
Cost							
Balance at January 1, 2025	**$5,351**	**$2,324**	**$4,302**	**$1,940**	**$13,892**	**1,916**	**$29,725**
Additions	2,200	643	18,615	57	4,987	-	26,502
Purchase of 3D at Depth	81	68	-	24	994	14	1,181
Government assistance applied	-	-	(2,244)	-	-	-	(2,244)
Transfers from construction in progress	-	-	(5,838)		5,838	-	-
Disposals	(8)	-	-	-	-	-	(8)
Foreign Exchange	153	18	-	14	(41)	-	144
Balance at December 31, 2025	**$7,777**	**$3,053**	**$14,835**	**$2,035**	**$25,670**	**$1,930**	**$55,300**
Additions	4,710	262	6,181	1,218	1,837	25	14,233
Government assistance applied	-	-	(910)	-	-	-	(910)
Transfers from construction in progress	1,394	-	(13,122)	11,621	107	-	-
Foreign Exchange	38	16	-	2	12	-	68
Balance at June 30, 2026	**$13,919**	**$3,331**	**$6,984**	**$14,876**	**$27,626**	**1,955**	**$68,691**
Accumulated depreciation							
Balance at January 1, 2025	**2,290**	**1,447**	-	**1,536**	**4,169**	**672**	**10,114**
Depreciation	617	446	-	197	2,399	395	4,054
Balance at December 31, 2025	**$2,907**	**$1,893**	**-**	**$1,733**	**$6,568**	**$1,067**	**$14,168**
Depreciation	507	255	-	242	1,729	197	2,930
Balance at June 30, 2026	**$3,414**	**$2,148**	**-**	**$1,975**	**$8,297**	**$1,264**	**$17,098**
Carrying amounts							
At December 31, 2025	**$ 4,870**	**$ 1,160**	**$ 14,835**	**$ 302**	**$ 19,102**	**$ 863**	**$ 41,132**
At June 30, 2026	**$ 10,505**	**$ 1,183**	**$ 6,984**	**$ 12,901**	**$ 19,329**	**$ 691**	**$ 51,593**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

9. Revenue:

Disaggregation of revenues

The following table groups the Company's revenue based on the timing of revenue recognition for its products and services:

	Three-months ended June 30, 2026	**Six-months ended June 30, 2026**	Three-months ended June 30, 2025	Six-months ended June 30, 2025
Product sales – transferred at a point in time	**$ 18,411**	**$ 31,446**	$ 14,327	$ 21,599
Product sales – transferred over time	**(1,541)**	**(802)**	2,219	4,109
Service revenue - transferred over time	**10,450**	**18,381**	9,844	16,810
	$ 27,320	**$ 49,025**	$ 26,390	$ 42,518

Refer to note 18 for external revenue by geographic areas.

Contract balances

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company recognizes contract assets where professional services are performed or products are delivered prior to the Company's ability to invoice in accordance with the contract terms, or contract liabilities when revenue is recognized subsequent to invoicing.

The following tables detail the changes in contract assets and contract liabilities during the period.

	Contract assets
Opening balance – January 1, 2026	**$ 14,822**
Increase in unbilled from revenue recognized	**7,737**
Decrease in unbilled from transfer to trade receivables and other adjustments	**(9,926)**
Ending Balance – June 30, 2026	**$ 12,633**

	Contract liabilities
Opening balance – January 1, 2026	**$ 6,596**
Increase in contract liabilities from payments received, excluding revenue recognized	**7,688**
Decreases in contract liabilities from revenue recognized	**(3,942)**
Ending Balance – June 30, 2026	**$ 10,342**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

10. Earnings per common share:

	Three-months ended		Six-months ended	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Net loss	**$ (7,518)**	$ (699)	**$ (10,844)**	$ (484)
Weighted average number of common shares	**308,947,126**	262,799,228	**307,339,800**	263,040,353
Dilutive securities[1]:				
Effect of share options	**-**	-	**-**	-
Effect of subscription receipts	**-**	-	**-**	-
Weighted average number of diluted common shares	**308,947,126**	262,799,228	**307,339,800**	263,040,353
Basic earnings per share	**$ (0.02)**	$ (0.00)	**$ (0.03)**	$ (0.00)
Diluted earnings per share	**$ (0.02)**	$ (0.00)	**$ (0.03)**	$ (0.00)

11. Financial instruments:

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, 2026	**December 31, 2025**
Cash and cash equivalents	**$ 91,266**	$ 120,507
Trade and other receivables	**31,373**	27,319
Investment tax credits recoverable	**2,344**	1,547
Long-term investment tax credits recoverable	**2,442**	2,066
Contract assets	**12,633**	14,822
	140,058	$ 166,261

Credit risk is defined as the Company's exposure to a financial loss if a debtor fails to meet its obligations in accordance with the terms and conditions of its arrangements with Kraken. The Company is exposed to credit risk on accounts receivable and certain other assets through normal commercial activities. The Company is also exposed to credit risk through the normal treasury activities on cash and cash equivalents. Credit risks arising from normal commercial activities are managed with regards to customer credit risk. The Company's customers are mainly established companies as well as government agencies, which facilitates risk assessment and monitoring. In addition, the Company frequently receives substantial advance payments for contracts with customers. The Company does not hold any collateral as security. The credit risk on cash and cash equivalents and restricted cash is mitigated by the fact that the majority of the cash is held with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Trade receivables include a provision for expected credit losses. As of June 30, 2026, the amount is $nil (December 31, 2025 - $2,057).

[1] Effect of share options and subscription receipts are not included for 2026 as they are anti-dilutive

(Expressed in thousands of Canadian Dollars except share price and share amounts)

Revenues from the top three customers represented 53% of the Company's revenue in the period ended June 30, 2026 (2025 – top three customers represented 62% of revenue). At June 30, 2026, 57% of the trade receivables balance were owing from two customers (December 31, 2025 – 80% of trade receivables was owing from two customers). At June 30, 2026, the Company had recorded contract liabilities of $10,342 (December 31, 2025 – $11,033).

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, 2026, the Company had a cash balance of $91,266 (December 31, 2025 - $120,507). 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.

The following are the contractual maturities of financial liabilities based on the earliest date on which the Company can be required to repay such liabilities:

	0-12 months	1-2 years	2-4 years	Beyond four years
Trade and other payables	**27,514**	**-**	**-**	**-**
Long-term obligations	**1,102**	**15,068**	**4,665**	**3,305**
Current tax payable	**6,043**	**-**	**-**	**-**
Lease liabilities	**2,730**	**4,152**	**2,564**	**9,042**
	37,389	**19,220**	**7,229**	**12,347**

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, 2026, the Company has drawn $nil against its operating lines of credit. An increase (decrease) of 10% in interest would have (decreased) increased the Company's net income by approximately $nil. 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 100 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $33. The Company has drawn $1,428 against the revolving capital expenditure facility. An increase (decrease) of 100 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $5. The Company has also drawn $5,776 on a term loan of US$5,000 bearing interest at bank prime plus margin, repayable in quarterly installments of 3.75% over 5 years. An increase (decrease) of 100 basis points in the interest rate would have increased (decreased) the Company's net income by approximately $25.

(b) Foreign currency risk

The Company's exposure to foreign currency risk is limited to sales and certain purchases in USD, EUR, GBP, DKK and BRL. The Company does not use any form of hedging against fluctuations in foreign exchange.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

The Company's exposure to foreign currency risk was as follows:

	June 30, 2026	December 31, 2025
Financial liabilities denominated in foreign currency:		
Trade and other payables USD	**$ 2,381**	$ 2,633
Trade and other payables GBP	**556**	880
Trade and other payables EUR	**3,443**	4,821
Trade and other payables DKK	**6,250**	167
Trade and other payables BRL	**672**	560
Long-term debt EUR	**146**	146
Long-term debt USD	**4,438**	4,438
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	**16,211**	13,286
Trade and other receivables GBP	**2,040**	3,647
Trade and other receivables EUR	**810**	702
Trade and other receivables DKK	**-**	2
Trade and other receivables BRL	**137**	63

For the period ended June 30, 2026, 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 (decreased) increased the Company's net income by approximately $1,151 (2025 - increased (decreased) net loss by approximately $1,034).

Fair Value:

The Company provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and bank indebtedness approximate their fair values due to their short term to maturity.

The fair values of the long-term obligations is $25,740 and the valuation uses level 2 inputs using a discounted cash flow valuation technique.

12. Credit facilities

As at June 30, 2026, Kraken Power GmbH has a €500 line of credit for general operating purposes. The line bears interest of 3.95%, payable monthly. As at June 30, 2026 a total of $nil (December 31, 2025 - $nil) was drawn against this facility. The line of credit is guaranteed by a German regional economic development organization.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

13. Long-term obligations:

The term facility consists 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; (iv) an uncommitted accordion facility of up to $30 million (the "Accordion"); (v) a US$5 million term loan ("Term Loan #1"); and (vi) a $150 million facility ("Term Loan #2").

The three-year maturing revolving facility was entered into during April 2024, and in March 2026 the credit agreement was amended to extend the maturity date to March 3, 2031. Interest is payable monthly at Bank Prime plus a margin (between 1.00% and 1.75% based on the Company's total leverage ratio) with repayments and reborrow advances on a revolving basis. The facility is secured substantially by the Company's assets and is guaranteed by its material subsidiaries. Financial covenants include the following: (i) a total leverage ratio not greater than 3.00 to 1; and (ii) a fixed charge coverage ratio at greater than or equal to 1.15 to 1. As at June 30, 2026, the Company is compliant with its financial covenants, and the Company expects to be compliant over the next 12 months.

	June 30, 2026	**December 31, 2025**
Loan, bearing interest at 1.50%, in the amount of €89, repayable in equal installments of €1 over 72 months, and maturing on December 31, 2026.	**$ 12**	$ 24
Loan, bearing interest at 1.23%, repayable in equal installments over 67 months plus interest, and maturing on September 30, 2026.	**70**	211
Term revolving credit facility of up to $35,000, bearing interest at bank prime plus margin, interest payable monthly, and maturing on March 3, 2031.	**14,684**	14,755
Atlantic Canada Opportunities Agency ("ACOA") loan, non-interest bearing, repayable in monthly installments of $28, payments beginning in December 2026, and maturing in November 2035. As of June, 2026, $3,000 has been drawn on this facility, the carrying value is net of a fair value adjustment of $830	**2,170**	1,616
Revolving capital expenditure line of credit, bearing interest at bank prime + 1%, interest only payable monthly.	**3,028**	1,416
Term loan, of US$5,000 bearing interest at bank prime plus margin, repayable in quarterly installments of 3.75% over 5 years commencing June 2025.	**5,776**	5,758
	25,740	23,780
Less current portion of long-term obligations	**(1,102)**	(1,097)
	$24,638	$22,683

(Expressed in thousands of Canadian Dollars except share price and share amounts)

The following tables detail the changes in long-term obligations during the period:

Opening balance – January 1, 2026	$ 23,780
Proceeds from debt	2,285
Fair value adjustment	(119)
Payment of principle	(413)
Foreign Exchange	207
Ending Balance – June 30, 2026	$ 25,740

14. Leases:

Set out below are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended June 30, 2026 and comparatives for June 30, 2025:

	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2025	$ 3,107	$ 3,560
Depreciation expense	(910)	-
Interest expense	-	396
Payments	-	(1,566)
Purchase of 3D at Depth	1,043	1,031
Additions	9,991	9,991
Foreign exchange	44	271
Subtotal	13,275	13,683
Less: current portion	-	(1,896)
As at June 30, 2025	$ 13,275	$ 11,787
	Right-of-use assets (Leased Properties)	**Lease liabilities**
As at January 1, 2026	$ 13,889	$14,362
Depreciation expense	(1,133)	-
Interest expense	-	413
Payments	-	(1,256)
Disposals	-	(68)
Additions	555	555
Foreign Exchange	24	(50)
Subtotal	13,335	13,956
Less: current portion	-	(2,730)
As at June 30, 2026	$ 13,335	$ 11,226

(Expressed in thousands of Canadian Dollars except share price and share amounts)

15. Share capital:

Authorized: Unlimited number of common shares

See the condensed consolidated statements of changes in shareholders' equity for a summary of changes in Share capital and Contributed surplus for the period ended June 30, 2026 and the year ended December 31, 2025.

(a) Share purchase warrants

At June 30, 2026 and December 31, 2025, there were no share purchase warrants outstanding.

(b) Share options

The Company has a stock option plan, under which the Board of Directors is authorized to grant options to employees, directors and officers, enabling them to acquire up to 10% of the issued and outstanding share capital of the Company. The exercise price of each option is based on the market price of the Company's share as calculated on the date of grant. The options can be granted for a maximum term of ten years. Vesting provisions for other options are determined by the Company's Board of Directors.

The following options were outstanding as at June 30, 2026 and December 31, 2025:

	Six-months ended June 30, 2026		**Twelve-months ended December 31, 2025**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	**13,715,750**	**1.313**	10,901,250	$ 0.815
Granted	**1,950,000**	**8.500**	3,755,000	2.602
Exercised	**(1,080,000)**	**0.802**	(660,500)	0.519
Forfeiture	**(205,000)**	**3.033**	(280,000)	1.075
Ending balance	**14,380,750**	**1.220**	13,715,750	$ 1.313
Options exercisable	**5,607,416**	**0.892**	5,752,833	$ 0.645

Weighted Average Exercise Price	**Expiry Date**	**Number Outstanding**	**Number Exercisable**	**Weighted Average Remaining Contractual Life**
0.395	May 3, 2027	2,557,000	2,557,000	0.84 years
0.37	September 6, 2027	40,000	40,000	1.19 years
0.59	December 7, 2027	400,000	400,000	1.44 years
0.63	January 30, 2028	75,000	75,000	1.59 years
0.58	February 27, 2028	100,000	100,000	1.66 years
0.495	November 20, 2028	400,000	400,000	2.39 years
1.14	July 9, 2031	5,341,250	1,160,416	5.03 years
2.42	June 4, 2032	3,337,500	875,000	5.93 years
3.46	August 22, 2032	30,000	-	6.15 years
4.59	October 1, 2032	150,000	-	6.26 years
8.50	March 30, 2033	1,800,000	-	6.71 years
8.50	April 15, 2033	150,000	-	6.80 years
$ 1.356		**14,380,750**	**5,607,416**	**3.25 years**

(Expressed in thousands of Canadian Dollars except share price and share amounts)

(c) Share unit plans

In June 2026, the Company established the Omnibus Incentive Plan (the Plan). Under the terms of the Plan, the Company can grant deferred share units (DSUs), performance share units (PSUs) and restricted share units (RSUs).

The Company has offered DSUs to its independent directors under the Plan, entitling them to elect to receive all of or any portion of their annual compensation in the form of DSUs in place of cash compensation. Under the terms of the award, each DSU represents the right to acquire one common share or the cash equivalent which is determined at the discretion of the Board. The DSUs vest immediately upon grant and are expected to be equity settled. The amount expensed for the three and six months ended June 30, 2026 is $337 (June 30, 2025 - $nil) in relation to granting of 47,395 DSUs at a fair value of $7.11.

At June 30, 2026, no PSUs or RSUs have been granted.

(d) Share-based compensation

The weighted average fair value of the options granted during the six-month period ended June 30, 2026 was $3.89. The fair value of the options is estimated using the Black-Scholes option pricing model with the following assumptions:

	Six-months ended June 30, 2026
Risk-free interest rate	2.88%
Expected life of options	3.21 years
Expected volatility	56.20%
Weighted average share price	$8.50
Dividend yield	nil

16. Government assistance:

During the three-months and six-months ended June 30, 2026, the Company received government assistance in the amount of $38 (2025 - $1,104) and $1,938 (2025 – $1,414). Government assistance for the three-months and six-months ended June 30, 2026 has been classified as a reduction to Research and development expense of $nil (2025 - $6) and $990 (2025 - $11), Administrative expense of $nil (2025 - $nil) and $nil (2025 - $43), and Construction in progress of $38 (2025 - $1,098) and $948 (2025 – $1,360).

The Company receives refundable and non-refundable investment tax credits (ITCs) from the Government of Canada in respect of eligible expenditures incurred under various research and development and capital investments. During the three-months and six-months ended June 30, 2026, the Company recognized $185 (2025 - $149) and $367 (2025 - $298) respectively of refundable ITCs and $586 (2025 - $123) and $804 (2025 - $242) respectively of non-refundable ITCs.

(Expressed in thousands of Canadian Dollars except share price and share amounts)

17. Financing costs:

	Three-months ended		Six-months ended	
	June 30, 2026	June 30, 2025	June 30, 2026	June 30, 2025
Interest on lease liabilities	**$ 261**	$ 236	**$ 412**	**$ 396**
Letters of credit and interest expense	**458**	450	**867**	**716**
Amortization of credit facility transaction costs	**178**	295	**371**	**570**
	$ 897	$ 981	**$ 1,650**	**$ 1,682**

18. Segmented information:

The Company operates in two reportable operating segments, being: 1) "Products" which is the design, manufacture and sale of equipment including underwater vehicle platforms, Synthetic Aperture Sonar and subsea power equipment; 2) "Services" which is the provision of services for underwater sonar and laser scanner sensor equipment and underwater vehicle platforms.

The following tables present the operations of the Company's reportable segments as at and for the three months ended June 30, 2026 and June 30, 2025:

June 30, 2026	**Products**	**Services**	**Consolidated**
Revenue	**$ 16,870**	**$ 10,450**	**$ 27,320**
Cost of goods sold, expenses and gain/losses	**$ 27,351**	**$ 9,305**	**$ 36,656**
Pre-tax income (loss)	**$ (10,481)**	**$ 1,145**	**$ (9,336)**
Segment capital expenditures	**$ 7,744**	**$ 443**	**$ 8,187**

June 30, 2025	**Products**	**Services**	**Consolidated**
Revenue	$ 16,546	$ 9,844	$ 26,390
Cost of goods sold, expenses and gain/losses	$ 17,113	$ 9,992	$ 27,105
Pre-tax income (loss)	$ (567)	$ (148)	$ (715)
Segment capital expenditures	$ 4,462	$ 446	$ 4,908

(Expressed in thousands of Canadian Dollars except share price and share amounts)

The following tables present the operations of the Company's reportable segments as at and for the six-months ended June 30, 2026 and June 30, 2025:

June 30, 2026	**Products**	**Services**	**Consolidated**
Revenue	**$ 30,644**	**$ 18,381**	**$ 49,025**
Cost of sales and expenses	**$ 44,831**	**$ 17,459**	**$ 62,290**
Pre-tax income (loss)	**$ (14,187)**	**$ 922**	**$ (13,265)**
Segment capital expenditures	**$ 13,260**	**$ 973**	**$ 14,233**

June 30, 2025	**Products**	**Services**	**Consolidated**
Revenue	$ 25,708	$ 16,810	$ 42,518
Cost of sales and expenses	$ 27,518	$ 15,196	$ 42,714
Pre-tax income (loss)	$ (1,810)	$ 1,614	$ (196)
Segment capital expenditures	$ 6,766	$ 816	$ 7,582

Revenues from external customers are attributed to geographic areas based on the location of the contracting customers.

The following table sets forth external revenue by geographic areas:

	Three-months ended June 30, 2026	Three-months ended June 30, 2025	**Six-months ended June 30, 2026**	Six-months ended June 30, 2025
Total revenues:				
Asia Pacific	**$ 2,508**	$ 15,216	**$ 14,739**	$ 20,625
Europe, Middle East and Africa	**12,594**	5,135	**16,058**	11,271
North America	**12,030**	5,389	**17,556**	9,972
South America	**188**	650	**672**	650
	$ 27,320	$ 26,390	**$ 49,025**	$ 42,518

19. Change in non-cash working capital:

	June 30, 2026	June 30, 2025
(Increase) decrease in trade and other receivables	**$ (4,054)**	$ 1,855
(Increase) decrease in contract assets	**2,189**	(561)
Increase in inventory	**(15,253)**	(5,499)
Increase in prepayments	**(3,263)**	(5,635)
Decrease in trade and other payables	**4,357**	(5,021)
Increase (decrease) in contract liabilities	**3,746**	9,950
Subtotal	**$ (12,278)**	$ (4,911)
Non-cash working capital acquired (note 7)	**-**	785
Total	**$ (12,278)**	$ (4,126)

20. Other loss:

During the quarter, the Company recognized a provision of $6,911 for probable costs associated with an arbitration proceeding related to a supplier contract entered in 2017. The provision represents management's best estimate of the expected obligation and is based on the royalty amounts owed and related interest, and reimbursement of the supplier's legal and arbitration costs as set out in a July 2026 arbitration decision.

21. Commitments:

(a) The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. The total value of these short-term lease commitments at June 30, 2026, is $47.

22. Subsequent events:

Subsequent to June 30, 2026, the Company:

(a) On July 2, 2026, the Company acquired 100% of the shares of Covelya Group Limited ("Covelya"), for approximately $615,000 (consisting of $355,000 cash on hand (including cash from subscription receipt offering), $125,000 term loan and $135,000 through the issuance of 15,882,352 common shares) subject to adjustment for, among other things, any debt indirectly assumed or paid out on closing and to customary working capital adjustments.

The Company will report the acquired business as part of its Products and Services segments and will be accounted for as a business combination using the acquisition method. Given the proximity of the transaction closing, the initial accounting for the transaction has not yet been completed when these financial statements were authorized for issue.