



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

This Management Discussion and Analysis ("MD&A") of Kraken Robotics Inc. (the "Company" or "Kraken") provides analysis of the Company's financial results for the three and six-month period ending June 30, 2024 and should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2023, which are available on SEDAR+ at www.sedarplus.com. The information presented in the MD&A is as of August 21, 2024, the date of preparation.

The June 30, 2024 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements. These financial statements were prepared using the same accounting policies and methods of computation, and are subject to the same use of estimates and judgments, as the Company's consolidated financial statements for the year ended December 31, 2023. These condensed consolidated interim financial statements do not include all disclosures required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2023 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in thousands of Canadian dollars, unless otherwise stated.

Non-IFRS Measures

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

Notice Regarding Forward-Looking Statements

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

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

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

- *the Company's competitive position and its expectations regarding competition and its future success in competitive bidding processes.*

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

The Company undertakes no obligation to update forward-looking statements except as required by applicable law. Such forward-looking statements represent management's best judgment based on information currently available. No forward-looking statement can be guaranteed, and actual future results may vary materially. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

COMPANY OVERVIEW

Kraken Robotics Inc. was incorporated on May 14, 2008 under the Business Corporations Act, British Columbia and its registered office is at 100 King Street West, #1600, Toronto, Ontario, M5X 1G5.

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

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

VISION, MISSION AND VALUES

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

QUARTER HIGHLIGHTS

Consolidated revenue in Q2 2024 increased 67% to \$22,758 compared to \$13,655 in Q2 2023. Revenue in the quarter increased by the continued delivery of SeaPower™ subsea batteries, Remote Minehunting and Disposal System (RMDS), SAS and multiple sub-seabed projects in our service business.

Adjusted EBITDA⁽¹⁾ increased 79% in Q2 2024 to \$5,444 compared to \$3,040 in Q2 2023. Adjusted EBITDA margin⁽¹⁾ was 24% compared to 22% for the same period a year ago.

During the quarter the Company entered into a new credit agreement that is expected to provide added financial flexibility to support the Company's continued growth.

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

During the quarter the Company closed a bought deal equity financing for gross proceeds of \$20.1 million by issuing 21,185,300 common shares at a price of \$0.95 per share.

Notable contract activity in the second quarter included:

- Subsea battery orders totalling more than \$8.0 million to be delivered in 2024 and 2025.
- A sub-seabed imaging contract for \$8.0 million in the marine construction industry utilizing our Acoustic Corer™ technology to be completed in 2024.
- KATFISH™ spares, sustainment and SAS orders totalling \$3.7 million.

FINANCIAL OVERVIEW

Revenue

The Company's product and service revenue can fluctuate significantly on a quarterly basis due to the timing of orders, lead times on part purchases and seasonality.

Kraken's product business consists primarily of our AquaPix® MINSAS sensors, KATFISH™ systems, SeaPower™ subsea battery systems and RMDS. Product revenue in Q2 2024 increased 83% to \$19,245 compared to \$10,493 in the prior year. Product revenue in the quarter benefited from the continued delivery of SeaPower® subsea batteries, Remote Minehunting and Disposal System (RMDS) to the Government of Canada, KATFISH™ and related components and the sale of SAS.

Product revenue for the six-month period ending June 30, 2024 increased 123% to \$35,263 compared to \$15,821 in the prior year. Year-to-date, revenue increased due to the sale of a KATFISH™ to a navy in the Asia-Pacific region and continued work on large orders received in Q4 2022 including SeaPower® subsea batteries, sale of KATFISH™ system to a NATO country and Remote Minehunting and Disposal System (RMDS) to the Government of Canada.

Kraken's service business consists of services provided by robotics as a service (RaaS) portfolio of equipment including our Sub-Bottom Imager™, Acoustic Corer™ and KATFISH™. Service revenue in Q2 2024 increased 11% to \$3,513 compared to \$3,162 in the prior year and can fluctuate due to the timing of projects. Service revenue for the six-month period increased 55% to \$8,370 compared to \$5,412 in the prior year.

	Three-months ended		Six-months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Product Revenue	\$ 19,245	\$ 10,493	\$ 35,263	\$ 15,821
Service Revenue	3,513	3,162	8,370	5,412
Total revenue	22,758	13,655	43,633	21,233
Cost of sales	11,151	5,911	22,680	8,986
Gross margin	11,607	7,744	20,953	12,247
Gross margin percentage	51%	57%	48%	58%
Administrative expenses	4,617	4,123	9,141	7,483
Research and development costs	1,695	1,093	2,634	1,867
Depreciation and Amortization	1,373	1,232	2,798	2,495
Share-based compensation	30	98	87	259
Investment tax credits recoverable	(149)	(297)	(298)	(796)
Income from operating activities	4,041	1,495	6,591	939
Foreign exchange loss	138	129	69	270
Financing costs	559	418	947	971
Gain on extinguishment of contingent consideration	-	(4,044)	-	(4,044)
Impairment of Goodwill	-	2,757	-	2,757
Net income before taxes	3,344	\$ 2,235	5,575	\$ 985
Income tax expense	(735)	(238)	(791)	(324)
Net income	\$ 2,609	\$ 1,997	\$ 4,784	\$ 661
Basic income per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.00
Diluted income per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.00
Adjusted EBITDA ⁽¹⁾	5,444	3,040	9,545	3,943
Adjusted EBITDA margin ⁽¹⁾	24%	22%	22%	19%

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 \$11,151 (Q2 2023 - \$5,911) and has increased due to the growth in our product and service revenue. During Q2 2024, the Company realized gross profit of \$11,607 (Q2 2023 – \$7,744) resulting in a gross margin of 51% compared to 57% in Q2 2023. The decrease in gross margin reflects a change in product and service revenue mix in the current quarter compared to the prior year.

Cost of sales for the six-month period ended June 30, 2024 were \$22,680 (2023 - \$8,986). As a result, gross profit in year-to-date increased to \$20,953 (2023 - \$12,247). Gross margin year-to-date was 48% compared to 58% for the comparable period. Gross margin increased over the comparable period due growth in revenue product and service revenue, while gross margin declined due to change in product mix when compared to the prior year.

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

Administration Expenses

Administration expenses in Q2 2024 increased 12% to \$4,617 (Q2 2023 - \$4,123) due to the costs associated with growing the business. At the end of the quarter, Kraken employed 262 employees compared to 234 in the prior year. Notable items in the administration expense category include: salaries and benefits expenses of \$1,957 (Q2 2023 - \$1,889), travel related costs of \$336 (Q2 2023 - \$426), software subscriptions costs of \$536 (Q2 2023 - \$380), accounting and legal costs of \$421 (Q2 2023 - \$298) and office and shop supplies of \$319 (Q2 2023 - \$304).

Transaction and restructuring costs for Q2 2024 were nil compared to \$215 in the prior year.

Administration expenses for the six-month period increased 22% to \$9,141 compared to \$7,483 in the prior year due to growth of the Company. Notable items in the administration expense category year-to-date include: salaries and benefits expenses of \$4,272 (2023 - \$3,675), travel related costs of \$634 (2022 - \$1,084), software subscriptions of \$978 (2022 - \$616), and professional fees of \$637 (2022- \$487).

Transaction and restructuring costs for Q2 2024 were \$nil (Q2 2023 - \$215). Year-to-date, transaction and restructuring costs total \$69 (2023 - \$250).

Research and Development (R&D) Expenses

R&D expenses in the quarter increased 55% to \$1,695 compared to \$1,093 in the prior year, due to the timing of expenditures on various R&D programs as well as the timing of government assistance which is netted against R&D. Investment tax credits (ITCs) recoverable decreased to \$149 (Q2 2023 - \$297) related to timing of scientific research and experimental development (SR&ED) activities.

Year-to-date, R&D expenses increased 41% to \$2,634 compared to \$1,867 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 \$298 compared to \$796 in the prior year.

Depreciation and Amortization

Depreciation in the quarter increased 19% to \$1,013 compared to \$848 in the prior year. For the six-month period, depreciation increased 23% to \$2,116 compared to \$1,721 in the prior year. In Q2 2024, amortization of intangible assets decreased to \$360 compared to \$384 in the prior year and to \$682 for the six-month period compared to \$774 in the prior year.

Share-based compensation

Share-based compensation expense decreased in Q2 2024 to \$30 compared to \$98 in the prior year, while year-to-date share-based compensation declined to \$298 compared to \$796, due to the timing of stock option grants.

Financing Costs

Financing costs in Q2 2024 increased 34% to \$559 compared to \$418 in the prior year with the increase related to costs associated with obtaining new term facility.

Year-to-date, financing costs decreased 2% to \$947 compared to \$971 for the same period a year ago due to no accretion on long-term obligations or fair value adjustment on contingent consideration along with the addition of the transaction costs on the term facility.

	Three-months ended		Six-months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Interest on lease liabilities	\$ 86	\$ 85	\$ 161	\$ 161
Letters of credit and other	291	243	604	477
Amortization of term facility transaction costs	182	-	182	-
Accretion of long-term obligations	-	90	-	177
Fair value adjustment on contingent consideration	-	-	-	156
	\$ 559	\$ 418	\$ 947	\$ 971

Adjusted EBITDA ⁽¹⁾ and Net Income

Adjusted EBITDA ⁽¹⁾ in Q2 2024 increased 79% to \$5,444, a 24% adjusted EBITDA margin⁽¹⁾ compared to \$3,040 in the prior year and an 22% adjusted EBITDA margin ⁽¹⁾. Adjusted EBITDA ⁽¹⁾ for the six-month period ended June 30, 2024 increased 142% to \$9,545, and a 22% adjusted EBITDA margin ⁽¹⁾ compared to \$3,943 for the six-month period ended June 30, 2023 and a 19% adjusted EBITDA margin ⁽¹⁾. Adjusted EBITDA increased due to increased product and service revenue during the period.

Net income in Q2 2024 increased 31% to \$2,609 and a comprehensive net income increased 32% to \$2,575, as compared to net income of \$1,997 and comprehensive net income of \$1,945 for the same period of prior year. Net income for the six-month period ended June 30, 2024 increased 624% to \$4,784 and comprehensive net income increased 646% to \$4,666.

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2024, the Company had working capital of \$40,979 (Q2 2023 – \$3,614). Cash as at June 30, 2024 was \$20,393 as compared with \$5,173 at December 31, 2023.

During the six-month period ended June 30, 2024, the Company received proceeds of \$2,036 upon the exercise of 2,393,750 stock options (June 30, 2023 – proceeds of \$29).

During the six-month period ended June 30, 2024, the Company experienced cash outflows of \$6,564 (2023 – cash inflows of \$7,599) from operating activities. Cash outflows from investing activities were \$1,560 versus \$6,558 for the same quarter in 2023. Financing activities resulted in inflows of \$23,218 (2023 – cash outflows \$2,447).

Overall, excluding the foreign exchange impact on cash, cash increased by \$15,094 to \$20,393 (2023 – decreased by \$1,406).

A commercial bank issued standby letters of credit on behalf of the Company to customers in the amount of US\$837 (C\$1,135) and US\$830 (C\$1,145) on advance guarantees secured by Export Development Canada. The letters of credit expire on August 31, 2024 and October 31, 2024, respectively.

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

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

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

RISKS AND UNCERTAINTIES

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

Industry specific risks include, but are not limited to:

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

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

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should participate. An investor should carefully consider the risks described above and the other information filed with the Canadian securities regulators before investing in the Company's common shares. The risks described above are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of these risks occur, or if others occur, the Company's business, operating results and financial condition could be seriously harmed and investors may lose all of their investment.

CAPITAL MANAGEMENT

The Company's objectives when managing its capital are to maintain a financial position suitable for supporting its operations and growth strategies, to provide an adequate return to shareholders and to meet its current obligations.

The Company's capital structure consists of shareholders' equity, lease liabilities, bank indebtedness, and long-term obligations. The Company will make adjustments to the capital structure depending on economic conditions, its financial position and performance. In order to maintain or adjust the capital structure, the Company may issue new shares, buyback shares, issue debt or sell assets to reduce debt.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2024, the Company's risk exposures and the impact of the Company's financial instruments are summarized below:

Credit Risk:

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

	June 30, 2024 (unaudited)	December 31, 2023
Cash	\$ 20,393	\$ 5,173
Trade and other receivables	7,394	10,382
Contract assets	15,135	9,880
	\$ 42,922	\$ 25,435

At June 30 2024, 54% of the trade receivables balance was owing from two customers (2023 – 79% of the trade receivables was owing from two customers). At June 30, 2024 the Company had recorded contract liabilities of \$5,051 (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. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. As of June 30, 2024, the Company had a cash balance of \$20,393 (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 June 30, 2024, the Company held \$20,393 in cash and has drawn \$469 against its operating line of credit. The drawn operating line of credit bear interest annually at bank prime plus 3.95%, payable monthly. An increase (decrease) of 1,000 basis points in the interest rate would have increased (decreased) the Company's net loss by approximately \$38. 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 \$21. The Company is exposed to interest rate risk on its line of credit balance.

(b) Foreign currency risk

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

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

	June 30, 2024	December 31, 2023
Financial liabilities denominated in a foreign currency:		
Trade and other payables USD	6,951	\$ 2,237
Trade and other payables GBP	377	2,831
Trade and other payables EUR	4,770	1,695
Trade and other payables DKK	288	93
Trade and other payables BRL	505	462
Long-term debt EUR	430	770
Bank indebtedness EUR	320	543
Financial assets denominated in a foreign currency:		
Trade and other receivables USD	4,887	2,419
Trade and other receivables GBP	1,197	3,365
Trade and other receivables EUR	386	1,027
Trade and other receivables DKK	10	6
Trade and other receivables BRL	642	1,475

For the period ended June 30, 2024, with other variables remaining constant, a 10% increase (decrease) in the exchange rate of the US dollar, British Pound, Euro, Brazilian Real and Danish Krone to the Canadian dollar exchange rate would have increased (decreased) the Company's net income by approximately \$1,411 (2023 - \$170).

Fair Value:

During the three-months and six-months ended June 30, 2024 there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

OUTSTANDING SHARE DATA AS AT AUGUST 21, 2024:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	230,132,035

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	25,000	-	0.39	November 29, 2026
Options	4,153,750	2,945,000	0.395	May 3, 2027
Options	50,000	16,667	0.37	September 6, 2027
Options	400,000	266,667	0.59	December 7, 2027
Options	75,000	37,500	0.63	January 30, 2028
Options	100,000	50,000	0.58	February 27, 2028
Options	400,000	133,334	0.495	November 17, 2028
Options	5,990,000	-	1.14	July 9, 2031
	11,193,750	3,449,168	\$ 0.805	

NON-IFRS MEASURES

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

Adjusted EBITDA and Adjusted EBITDA Margin

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

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

	Q2 2024	Q2 2023	2024	2023
Net income	\$2,609	\$1,997	\$4,784	\$661
Income tax	735	238	791	324
Financing costs	559	418	947	971
Gain on extinguishment of contingent consideration	-	(4,044)	-	(4,044)
Impairment of goodwill	-	2,757	-	2,757
Foreign exchange loss	138	129	69	270
Share-based compensation	30	98	87	259
Depreciation and Amortization	1,373	1,232	2,798	2,495
EBITDA – excluding restructuring and acquisition costs	5,444	2,825	9,476	3,693
Restructuring and acquisition costs	-	215	69	250
Adjusted EBITDA	\$5,444	\$3,040	\$9,545	\$3,943
Adjusted EBITDA Margin	24%	22%	22%	19%

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

	Q2 2024	Q2 2023	2024	2023
Revenue	\$22,758	\$13,655	\$43,633	\$21,233
Cost of sales	11,151	5,911	22,680	8,986
Gross profit	11,607	7,744	20,953	12,247
Gross margin	51%	57%	48%	58%

Working capital

Working capital is defined as current assets less current liabilities.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

ADDITIONAL INFORMATION

Summary of Quarterly Information

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

	Revenue (\$)	Operating activity less share based payments (\$)	Share-based payments (\$)	Net income (loss) (\$)	Comprehensive income (loss) \$	Basic and diluted income (loss) per share (\$)
Q2 2024	22,758	7,536	30	2,609	2,575	0.01
Q1 2024	20,875	6,739	57	2,175	2,091	0.01
Q4 2023	28,006	7,222	58	2,584	2,464	0.01
Q3 2023	20,342	7,663	61	2,301	2,499	0.01
Q2 2023	13,655	6,151	98	1,997	1,945	0.01
Q1 2023	7,578	4,898	161	(1,336)	(1,320)	(0.01)
Q4 2022	8,813	5,411	178	(1,270)	(1,598)	(0.01)
Q3 2022	12,291	4,272	137	(928)	(1,258)	0.00
Q2 2022	14,292	4,561	441	514	560	0.00

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

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

Comparative quarterly balance sheet information is presented below:

	Total Assets (\$)	Total Current Assets (\$)	Total Current Liabilities (\$)	Total Liabilities (\$)
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
Q2 2022	63,444	31,796	25,596	37,383

OTHER INFORMATION

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