

**KWESST MICRO SYSTEMS INC.
(FORMERLY FOREMOST VENTURES CORP.)
MANAGEMENT DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

OVERVIEW

The following management discussion and analysis (“MDA”) of the financial position of KWESST Micro Systems Inc. (formerly Foremost Ventures Corp., referred to herein as Foremost) (“the Company”), and results of operations prepared on October 30, 2020, should be read in conjunction with the unaudited financial statements for the three and six months ended August 31, 2020 and the audited financial statements for the year ended February 29, 2020. All amounts are stated in Canadian dollars unless otherwise indicated. These financial statements together with this MDA are intended to provide investors with a reasonable basis for assessing the financial performance of the Company.

The head office, the principal address, and the registered and records office of the Company are located 155 Terrence Matthews Cr., Unit#1, Ottawa, ON, K2M 2A8.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at www.sedar.com or by requesting further information from the Company’s head office in Ottawa.

DESCRIPTION OF BUSINESS

Foremost was incorporated under the Business Corporations Act (British Columbia) on November 28, 2017. It was incorporated for the purposes of becoming a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4.

Foremost completed its final prospectus on May 2, 2018 for the purposes of completing an IPO becoming a CPC trading on the TSX-V. In June 2018, Foremost completed its IPO, issuing 2,000,000 common shares at \$0.10 per share for total gross proceeds of \$200,000. Foremost also issued non transferrable agents warrants to purchase 200,000 common shares at a price of \$0.10, expiring 24 months from the date of issuance.

The principal business of Foremost was to identify and evaluate businesses and assets with a view to completing a Qualifying Transaction (“QT”). The Final Prospectus was filed and is available for view on SEDAR.

On March 2, 2020, Foremost and KWESST Inc. (“KWESST”) entered into a letter of intent regarding a transaction comprising a business combination by way of a: share exchange; merger; amalgamation; arrangement; takeover bid; or other similar form of transaction that will result in KWESST becoming a wholly owned subsidiary of Foremost or otherwise combining its corporate existence with a wholly owned subsidiary of Foremost.

On September 17, 2020 Foremost completed its QT with KWESST. The resulting issuer changed its name to KWESST Micro Systems Inc. and its shares started trading on the TSX Venture Exchange under the stock symbol KWE on September 22, 2020. As part of the QT, the subscription receipts issued by KWESST on July 9, 2020 pursuant to a brokered private placement, were automatically converted, into shares of KWESST. The private placement consisted of 4,409,553 subscription receipts issued by KWESST at \$0.70 per Subscription Receipt for gross proceeds of about \$3.1 million.

Prior to the completion of the QT, Foremost effected a consolidation of its outstanding common shares on the basis of one post-consolidation common share for every 4.67 pre-consolidation common shares. The QT was done by way of a three-cornered amalgamation (the "Amalgamation") pursuant to which, among other things, (i) KWESST Inc. amalgamated with a wholly-owned subsidiary of Foremost, incorporated for the purposes of the Amalgamation, pursuant to the provisions of the Business Corporations Act (Ontario), (ii) Foremost changed its name to KWESST Micro Systems Inc., and (iii) all of the outstanding common shares of KWESST Inc. (the "KWESST Shares") were cancelled and, in consideration therefor, the holders thereof received post-consolidation common shares of KWESST Micro Systems Inc. on the basis of one KWESST Micro System Inc. share for each KWESST Share.

Refer to the Company's Filing Statement dated August 28, 2020 and filed on SEDAR (www.sedar.com) on September 2, 2020, for information concerning KWESST including, but not limited to, corporate structure, key risk factors, audited financial statements and MD&A for KWESST's year ended December 31, 2019, interim unaudited financial statements and MD&A for KWESST's quarter ended March 31, 2020, pro forma consolidated capitalization, directors and officers, and pending acquisition.

RESULTS OF OPERATIONS

At August 31, 2020, the Company had no continuing source of operating revenues and related expenditures.

During the six months period ended August 31, 2020, the Company reported a net loss of \$33,556 compared to a net loss of \$12,589 for the six months period ended August 31, 2019. The increase in net loss is primarily attributable to additional audit and accounting fees in preparation for the QT, coupled with higher volume of transfer agent and filing transactions. Legal fees and TSX Venture Exchange review fees relating to the QT were deferred and reported as "deferred transaction costs" in the statements of financial position, which amounted to \$85,891 for the six months period ended August 31, 2020.

The Company has not paid any dividends on its common shares and has no present intention of paying dividends, as it anticipates that all available funds for the foreseeable future will be used to finance its business activities.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The following is a summary of selected financial information compiled from the quarterly interim financial statements ending August 31, 2020:

	Net loss for the period	Loss per share
November 30, 2018	\$484	\$0.00
February 28, 2019	\$23,367	\$0.04
May 31, 2019	\$2,915	\$0.00
August 31, 2019	\$9,674	\$0.00
November 30, 2019	\$17,013	\$0.01
February 29, 2020	\$24,171	\$0.02
May 31, 2020	\$11,553	\$0.01
August 31, 2020	\$23,882	\$0.01

Discussion

The variability of net loss during the last two quarters of fiscal year ended February 2019 was mainly due to the increase in activity and services utilized in connection to the Company's completion of the prospectus and completion of the IPO.

Due to the limited historical activity in the Company, and its increase in activity in preparation of the prospectus, filing its IPO and completion of a qualifying transaction, no trends have been noted in reviewing the summary of selected financial information for the eight quarters ended August 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date through the issuance of common shares. The Company continues to seek capital through various means including the issuance of equity and/or debt.

As disclosed in the "Description of Business" section of this MD&A, the Company closed its QT with KWESST on September 17, 2020. As part of the QT, the subscription receipts issued by KWESST on July 9, 2020 pursuant to a brokered private placement (the "KWESST Subscription Receipts"), were automatically converted, into shares

of KWESST. The private placement which was completed through PI Financial Corp. as agent, consisted of 4,409,553 KWESST Subscription Receipts issued at \$0.70 per subscription receipt for gross proceeds of approximately \$3.1 million.

Following the completion of the QT, there were 41,266,821 shares of the Company outstanding, of which 40,367,678 were held by the former shareholders of KWESST (representing approximately 97.8% of the outstanding shares of KWESST) and 899,143 were held by the shareholders of Foremost prior to the QT.

The following table provides the number and percentage of outstanding securities of the Company on a fully diluted basis following the completion of the QT:

	Outstanding after giving effect to the Qualifying Transaction	Percentage of total securities outstanding after giving effect to the Qualifying Transaction
Resulting Issuer Shares		
Current KWESST Shareholders	31,274,275	59.3%
Current Foremost Shareholders	899,143	1.7%
KWESST Financing	4,409,553	8.4%
KWESST SageGuild Shares	557,000	1.1%
KWESST 2019 Convertible Notes ⁽¹⁾	418,777	0.8%
KWESST 2020 Convertible Notes ⁽²⁾	2,477,853	4.7%
KWESST Finders' Fee Shares	1,000,000	1.9%
Subtotal	41,036,601	77.9%
Resulting Issuer Warrants		
KWESST Warrants	9,585,050	18.2%
Subtotal	9,585,050	18.2%
Resulting Issuer Options		
KWESST Options ⁽³⁾	1,994,000	3.8%
Foremost Options	85,714	0.2%
Subtotal	2,079,714	3.9%
TOTAL RESULTING ISSUER SHARES (FULLY DILUTED)	52,701,365	100%

(1) Includes \$17,411 of accrued and unpaid interest as of the date hereof.

(2) Includes \$32,076 of accrued and unpaid interest as of the date hereof.

(3) Comprised of 925,000 KWESST Options exercisable on or before February 27th, 2025, each entitling the holder to acquire one KWESST Share at a price of \$0.65 per share, 244,000 options exercisable on or before June 1st, 2021, each entitling the holder to acquire one KWESST share at a price of \$0.50, and 825,000 options exercisable on or before July 13, 2025, each entitling the holder to acquire one KWESST share at a price of \$0.70.

There was no material capital transaction since the completion of the QT.

Available Funds

As disclosed in the Company's Filing Statement dated August 28, 2020, the following table provides a summary of the Company's estimated source of funds and principal use funds following the QT:

	Estimated Amount
Sources of Funds:	
Estimated <i>pro forma</i> working capital as of the Closing Date ⁽¹⁾	\$1,262,208
Gross proceeds from KWESST Financing	\$3,086,678
Total Sources:	\$4,348,895
Principal Use of Funds:	
Costs related to complete the Qualifying Transaction ⁽²⁾	\$150,000
Selling commissions and fees	\$189,520
Royalties ⁽³⁾	\$150,000
Products development, assembly, testing, tooling and demonstration	\$1,395,000
Marketing costs	\$345,000
Loan repayment ⁽⁴⁾	\$114,049
Unallocated working capital to fund ongoing operations ⁽⁵⁾	\$2,005,326
Total Uses of Funds	\$4,348,895

- (1) Pro forma working capital equals starting cash of \$1,262,208 as of KWESST's June 30, 2020 (preliminary), not taking into account transaction costs.
- (2) Includes estimated legal fees, auditor costs and regulatory costs.
- (3) Royalties payable to AerialX under the terms and conditions of the AerialX License.
- (4) To be paid to the President and CEO of KWESST and his spouse.
- (5) Unallocated working capital will be used to cover future ongoing G&A costs and/or other corporate purposes consistent with the business plan of KWESST as described herein

The Company's projected G&A expenditures for the following twelve months are broken down as follows:

Expenses	Amount Dedicated
Salaries and wages	\$875,167
Rent	\$106,754
Insurance and other costs	\$65,000
Transfer agent and filing fees	\$60,000
Total:	\$1,106,921

Based on the above analysis, management has concluded that the Company's current capital is expected to provide sufficient liquidity to meet cash outflow requirements for at least the next 12 months.

RELATED PARTY TRANSACTIONS

During the period ended August 31, 2020, the Company did not incur transactions with directors and officers, or companies that are controlled by directors or officers of the Company.

FINANCIAL RISK MANAGEMENT

The Company is exposed to minimal financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Interest rate

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as it does not have any assets or liabilities that are affected by changes in interest rates.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash on hand to meet its financial obligations.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk is on its cash held in bank accounts. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to currency risk.

Capital Management

The Company's capital structure consists of cash and share capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to complete a Qualifying Transaction. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned activities and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management since inception. The Company is not subject to externally imposed capital requirements.

Classification of financial instruments

Fair values

The fair values of cash and accounts payable approximate their carrying values due to the short-term to maturities of these financial instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash is measured at fair value using level 1 input.

ADDITIONAL INFORMATION

Off-Balance Sheet Arrangements

As at August 31, 2020, and up to the current date, the Company had no off-balance sheet arrangements.

Legal proceedings

As at the current date management was not aware of any legal proceedings involving the Company.

Outstanding Share Data

As at August 31, 2020, the Company has the following outstanding securities (pre-QT):

- 1) Common shares: 4,196,000
- 2) Stock options: 400,000

Refer to “Liquidity and Capital Resources” above for outstanding securities as of the date of this MD&A (adjusted for the QT).

Contingent liabilities

As at August 31, 2020 and up to the current date management was not aware of any outstanding contingent liabilities relating to the Company's activities.

Any forward-looking information in this MDA is based on the conclusions of management. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations. With respect to the company's operations, actual events may differ from current expectations due to economic conditions, new opportunities, changing budget priorities of the company, and other factors.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Board of Directors on October 30, 2020. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities. The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the audit committee meets annually with the external auditors, with or without the Company's management, to review their respective audit plans and discuss the results of their examination. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

DIRECTORS

Certain directors of the Company are also directors, officers and/or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.