

This short form base PREP prospectus has been filed under the procedures of each of the provinces of Canada except Québec that permit certain information about these securities to be determined after the prospectus has become final and that permit the omission of that information from this short form base PREP prospectus. The procedures require the delivery to purchasers of a supplemented PREP prospectus containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All of the information contained in the supplemented PREP prospectus that is not contained in this short form base PREP prospectus will be incorporated by reference into this short form base PREP prospectus as of the date of the supplemented PREP prospectus.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the “1933 Act”), or any state securities laws. Accordingly, these securities may not be offered or sold to, or for the account or benefit of, persons in the “United States” (as such term is defined in Regulation S under the 1933 Act (“Regulation S”)) or “U.S. persons” (as such term is defined in Regulation S) (“U.S. Persons”) except in compliance with exemptions from the registration requirements of the 1933 Act and all applicable state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby to, or for the account or benefit of, persons in the United States or U.S. Persons. See “Plan of Distribution”.

All of the information contained in the supplemented short form PREP prospectus that is not contained in this short form base PREP prospectus will be incorporated by reference into this short form base PREP prospectus as of the date of the supplemented short form PREP prospectus.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of KWESST Micro Systems Inc. at its registered office is located at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3, Canada (Telephone: (613) 319-0537) and copies are also available electronically at www.sedar.com.

SHORT FORM BASE PREP PROSPECTUS

New Issue

November 7, 2022



KWESST MICRO SYSTEMS INC.

US\$●
● Units

This short form base PREP prospectus (the “**Prospectus**”) qualifies the distribution (the “**Offering**”) by KWESST Micro Systems Inc. (the “**Corporation**”, “**KWESST**”, “**we**”, “**us**” or “**our**”) of ● units (the “**Units**”) at a price of US\$● per Unit (the “**Offering Price**”).

Each Unit is comprised of one of our common shares (a “**Unit Share**”) and one common share purchase warrant (a “**Warrant**”). Each Warrant entitles its holder to purchase one common share (a “**Warrant Share**”) at an exercise price of US\$● for a period of 5 years from the closing date of the Offering (the “**Closing Date**”). The Units will separate into Unit Shares and Warrants immediately upon the Closing Date. The Warrants will be governed by a warrant indenture (the “**Warrant Indenture**”) to be entered into on or before the Closing Date between us and TSX Trust Company, as warrant agent (the “**Warrant Agent**”). **The Warrants are non-voting securities of the Corporation and carry no right to participate in earnings of the Corporation and, on liquidation or winding up of the Corporation, in its assets.** See “*Description of Securities Being Distributed*” and “*Plan of Distribution*”.

The Units are being issued and sold pursuant to an underwriting agreement dated ●, 2022 (the “**Underwriting Agreement**”) between the Corporation and PI Financial Corp. (the “**Underwriter**”) acting as sole bookrunner and underwriter. The Underwriter, as principal, conditionally offers the Units, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement. The Units are to be taken up, if at all, by the Underwriter on or before a date not later than 42 days after the date of the receipt for this Prospectus. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The terms of the Offering were determined by arm’s length negotiation between

the Corporation and the Underwriter in the context of the market and in accordance with the offering price of the Common Units offered in the US IPO (as such terms are defined herein). See “*Consolidation*” and “*Recent Developments*”.

The Units will be offered in each of the provinces of Canada other than Québec through the Underwriter. Subject to applicable law, the Underwriter may offer the Units in such other jurisdictions outside of Canada as agreed between the Corporation and the Underwriter. See “*Plan of Distribution*”.

Our outstanding common shares (the “**Common Shares**”) are listed on the TSX Venture Exchange (the “**TSXV**”) under the trading stock symbol “**KWE.V**”, quoted on the OTCQB® Venture Market (the “**OTCQB**”) under the stock symbol of “**KWEMF**”, and listed on the Frankfurt Stock Exchange under the stock symbol of “**62U**”. On November 4, 2022, the last trading day prior to this Prospectus, the closing price of our Common Shares on the TSXV was \$7.29. We have applied to list the Unit Shares and the Warrant Shares distributed under this Prospectus to be issued pursuant to the Offering on the TSXV. Listing will be subject to our fulfilling all the listing requirements of the TSXV. The Corporation applied for the Common Shares and the warrants to be issued under the US IPO to be approved for listing on the Nasdaq Capital Market (“**Nasdaq**”) under the symbol “**KWE**” and “**KWESW**”, respectively. The listing date will be confirmed prior to closing of the Offering. Both the Common shares and the warrants issued in the US IPO are expected to commence trading on Nasdaq one day after the pricing of the US IPO. In order to meet Nasdaq’s initial listing criteria, all Common Units being offered in the US IPO as well as all the Units being offered in this Offering will need to be sold. It is also a condition precedent to the Underwriter’s obligation to purchase the securities being offered in this Offering, and a condition precedent to the US Underwriter’s (as such term is defined herein) obligation to purchase the securities being offered in the US IPO that Nasdaq approve the listing of our Common Shares and warrants to be issued under the US IPO. Accordingly, if Nasdaq does not approve the listing of our Common Shares and warrants to be issued under the US IPO, we will not and cannot proceed with this Offering.

An investment in the Units is subject to certain risks. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the securities purchased under this Prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation. Prospective investors should carefully consider the risks described under “Risk Factors”.

Price: US\$● per Unit

	Price to the public ⁽¹⁾		Underwriter’s Fee ⁽²⁾		Net proceeds ⁽³⁾
Per Unit	US\$ ●	US\$	●	US\$	●
Total ⁽⁴⁾	US\$ ●	US\$	●	US\$	●

- (1) The Offering Price was determined by arm’s length negotiation between us and the Underwriter, on behalf of the Underwriter and in accordance with the offering price of the Common Units offered in the US IPO.
- (2) In connection with the Offering, we have agreed to pay the Underwriter a cash commission equal to 7.0% of the gross proceeds from the sale of the Units (the “**Underwriter’s Fee**”), being US\$● per Unit. In addition to the Underwriter’s Fee, The Corporation has also agreed to issue to the Underwriter as additional consideration, that number of non-transferable options (the “**Compensation Options**”) as is equal to 7.0% of the Units sold pursuant to the Offering. Each Compensation Option is exercisable to purchase one Unit at the Offering Price for a period of 24 months from the Closing Date. This Prospectus also qualifies the distribution of the Compensation Options and the distribution of the Unit Shares and Warrant Shares underlying such Compensation Options. See “*Plan of Distribution*”.
- (3) Taking into account the Underwriters’ Commission which will be paid out of the gross proceeds of the Offering, but before deducting the expenses of the Offering (estimated to be US\$500,000), which will be paid out of the gross proceeds of the Offering.

The following table sets out the number of our securities that may be offered by us pursuant to the Compensation Options:

Underwriter’s position	Maximum number of securities	Exercise period	Exercise price
Compensation Options	● Compensation Options	For a period of 24 months from Closing Date	US\$● per Compensation Option

Subject to applicable laws and in connection with the Offering, the Underwriter may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market.

Such transactions, if commenced, may be discontinued at any time. The Underwriter may decrease the price at which the Units are distributed pursuant to the Prospectus to a price that is lower than the Offering Price. See “*Plan of Distribution*”.

It is expected that the Corporation will arrange for the instant deposit of the Units under the book-based system of registration, to be registered to CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee and deposited with CDS on the Closing Date, or as may otherwise be agreed to among the Corporation and the Underwriter. No certificates evidencing the Units and the underlying Unit Shares and Warrants are expected to be issued, except in certain limited circumstances. CDS will record the CDS participants who hold Unit Shares or Warrants included in the Units on behalf of owners who have purchased them in accordance with the book-based system. A purchaser of the Units will receive only a customer confirmation from the Underwriter or other registered dealer or broker which is a CDS participant from or through whom a beneficial interest in the Units is purchased. See “*Plan of Distribution*”.

Subscriptions for the Units will be received subject to rejection or allotment, in whole or in part, and the Underwriter reserves the right to close the subscription books at any time without notice. The Closing Date of the Offering is expected to take place on or about ●, 2022, or such other date as may be agreed upon by the Corporation and the Underwriter.

Certain legal matters relating to Canadian law with respect to the Offering will be passed upon on our behalf by Fasken Martineau DuMoulin LLP and on behalf of the Underwriter by DS Lawyers Canada LLP.

Our registered office is at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3.

Mr. Paul Mangano, director of the Corporation, resides outside of Canada. He has appointed us as agent for service of process at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3, Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person who resides outside of Canada, even if the party has appointed an agent for service of process. See “*Enforcement of Judgments Against Foreign Persons*”.

You should rely only on the information contained in or incorporated by reference into this Prospectus. We have not authorized anyone to provide you with different information. We are not offering to sell these securities in any jurisdiction where the offer and sale are not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

Prospective purchasers are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any provincial, foreign and other tax consequences of acquiring, holding or disposing of the Units, including the Canadian federal income tax consequences applicable to a foreign-controlled Canadian corporation that acquires the Units.

TABLE OF CONTENTS

GENERAL MATTERS	1	PLAN OF DISTRIBUTION	22
CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION	1	PRIOR SALES	23
NON-IFRS FINANCIAL PERFORMANCE MEASURES ..	1	TRADING PRICE AND VOLUME	26
FORWARD-LOOKING STATEMENTS AND FINANCIAL OUTLOOK INFORMATION	2	PROMOTER	27
MARKET AND INDUSTRY DATA	3	CANADIAN FEDERAL INCOME TAX CONSIDERATIONS	27
TRADEMARKS AND TRADE NAMES	3	RISK FACTORS	31
DOCUMENTS INCORPORATED BY REFERENCE	4	AUDITORS, TRANSFER AGENT AND REGISTRAR	35
MARKETING MATERIALS	5	LEGAL MATTERS	35
CONSOLIDATION	5	INTERESTS OF EXPERTS	35
ELIGIBILITY FOR INVESTMENT	6	PURCHASERS' STATUTORY RIGHTS	35
THE CORPORATION	7	ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS	36
OUR BUSINESS	8	CERTIFICATE OF THE CORPORATION	C-1
RECENT DEVELOPMENTS	17	CERTIFICATE OF THE PROMOTER	C-2
USE OF PROCEEDS	18	CERTIFICATE OF THE UNDERWRITER	C-3
CONSOLIDATED CAPITALIZATION	19		
DESCRIPTION OF SECURITIES BEING DISTRIBUTED	20		

GENERAL MATTERS

In this Prospectus, unless otherwise indicated or the context otherwise requires, the terms “KWESST”, “Corporation”, “we”, “us” and “our” are used to refer to KWESST Micro Systems Inc. together with its subsidiaries.

The financial statements incorporated by reference in this Prospectus, are reported in Canadian dollars and in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as described in Note 2 to the consolidated financial statements for the three and nine months ended June 30, 2022, the fiscal year ended September 30, 2021, the nine months ended September 30, 2020, and the year ended December 31, 2019. In September 2020, we changed our fiscal year from December 31st to September 30th. The Corporation does not undertake to update the information contained or incorporated herein by reference, except as required by the applicable securities laws.

The Units being offered for sale under this Prospectus may only be sold in those jurisdictions in which offers and sales of the Units are permitted. This Prospectus is not an offer to sell or a solicitation of an offer to buy the Units in any jurisdiction where it is unlawful to do so. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or of any sale of the Units.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

Unless otherwise indicated, all references in this Prospectus to “\$” or “dollars” are to Canadian dollars. All references to “US\$” or “U.S. dollars” are to the currency of the United States.

The following table sets forth, for the periods indicated, the high, low, average and period-end indicative rates of exchange for United States dollars expressed in Canadian dollars, as provided by the Bank of Canada.

	Year ended September 30, 2020	Year ended September 30, 2021
	CAD\$	CAD\$
End of period	1.3228	1.2741
High	1.4058	1.3349
Low	1.3087	1.2040
Average.....	1.3539	1.2644

On November 4, 2022, the last trading day prior to the filing of this Prospectus, the daily average rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was US\$1.00 = \$1.3517.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

This Prospectus and the documents incorporated by reference herein contain references to certain measures that are not defined under IFRS. The Corporation uses two non-IFRS financial performance measures: earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) and EBITDA that has been adjusted for the removal of stock-based compensation, foreign exchange loss (gain) and any one-time, irregular and nonrecurring items (“**Adjusted EBITDA**”). The disclosure of these metrics is to provide readers with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also uses non-IFRS measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, and to evaluate our financial performance. We believe that these non-IFRS financial measures enable us to identify underlying trends in our business that could otherwise be hidden by the effect of certain expenses that we exclude in the calculations of the non-IFRS financial measures.

Accordingly, we believe that these non-IFRS financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis in the business and provides useful information to investors and securities analysts, and other interested parties in understanding and evaluating our operating results, enhancing their overall understanding of our past performance and future prospects. These non-IFRS financial measures do not replace the presentation of our IFRS financial results and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with IFRS. There are limitations in the use of non-IFRS measures because they do not include all the expenses that must be included under IFRS as well as they involve the exercise of judgment concerning exclusions of items from the comparable non-IFRS

financial measure. Furthermore, other peers may use other non-IFRS measures to evaluate their performance, or may calculate non-IFRS measures differently, all of which could reduce the usefulness of our non-IFRS financial measures as tools for comparison.

FORWARD-LOOKING STATEMENTS AND FINANCIAL OUTLOOK INFORMATION

This Prospectus and the documents incorporated or deemed to be incorporated by reference herein contain forward-looking statements and forward-looking information (collectively, “**forward-looking statements**”) within the meaning of applicable securities laws. These forward-looking statements relate to future events or the future performance of the Corporation. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue”, or the negative of these terms or other comparable terminology. These forward-looking statements are only predictions. Actual events or results may differ materially. In addition, this Prospectus and the documents incorporated by reference herein may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Forward-looking statements in this Prospectus and the documents incorporated by reference herein speak only as of the date of this Prospectus or as of the date specified in the documents incorporated by reference herein.

Forward-looking statements in this Prospectus and the documents incorporated by reference herein include, but are not limited to, statements with respect to:

- the Corporation’s expectations regarding its business, financial condition and results of operations;
- the future state of the legislative and regulatory regimes, both domestic and foreign, in which the Corporation conducts business and may conduct business in the future;
- the Corporation’s expansion in domestic and international markets;
- the Corporation’s ability to attract customers and clients;
- the Corporation’s marketing and business plans and short-term objectives;
- the Corporation’s ability to obtain and retain the licences and personnel it requires to undertake its business;
- the Corporation’s strategic relationships with third parties;
- the Corporation’s anticipated trends and challenges in the markets in which it operates;
- governance of the Corporation as a public corporation; and
- expectations regarding future developments of products.

Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Corporation cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Corporation nor any other person assumes responsibility for the outcome of the forward-looking statements. Many of the risks and other factors are beyond the control of the Corporation which could cause results to differ materially from those expressed in the forward-looking statements contained in this Prospectus and the documents incorporated by reference herein. The risks and other factors include, but are not limited to:

- limited operating history;
- failure to realize growth strategy;
- failure to complete transactions or realize anticipated benefits;
- reliance on key personnel;
- regulatory compliance;
- competition;
- changes in laws, regulations and guidelines;
- demand for the Corporation's products;
- fluctuating prices of raw materials;
- pricing for products;
- ability to supply sufficient product;
- expansion to other jurisdictions;
- damage to the Corporation's reputation;
- operating risk and insurance coverage;

- negative operating cash flow;
- management of growth;
- product liability;
- product recalls;
- environmental regulations and risks;
- ownership and protection of intellectual property;
- constraints on marketing products;
- reliance on management;
- fraudulent or illegal activity by the Corporation's employees, contractors and consultants;
- breaches of security at the Corporation's facilities or in respect of electronic documents and data storage and risks related to breaches of applicable privacy laws;
- certain events may be outside of the control of the Corporation;
- government regulations with regards to the novel coronavirus (“COVID-19”) outbreak, employee health and safety regulations;
- the duration and impact of COVID-19, and including variants of COVID-19, on the Corporation's operations;
- regulatory or agency proceedings, investigations and audits; future capital requirements;
- conflicts of interest;
- litigation;
- risks related to U.S. and other international activities;
- risks related to security clearances and risks relating to the ownership of the Corporation's Common shares such as potential volatility of share price;
- no assurance of an active market for the Corporation's Common Shares and Warrants; and
- approval of our Nasdaq listing application.

These factors should not be considered exhaustive. See "*Risk Factors*". With respect to forward-looking statements contained in this Prospectus and the documents incorporated by reference herein, the Corporation has made assumptions concerning availability of capital resources, business performance, market conditions, and customer demand.

Readers are cautioned that the foregoing list of factors is not exhaustive and that additional information on these and other factors that could affect the Corporation's operations or financial results is discussed in this Prospectus and certain of the other documents on file with Canadian securities regulatory authorities and incorporated by reference herein. Copies of these documents are available through the System for Electronic Document Analysis and Retrieval (“**SEDAR**”), which can be accessed online at www.sedar.com. The above summary of assumptions and risks related to forward-looking statements is included in this Prospectus and the documents incorporated by reference herein in order to provide readers with a more complete perspective on the future operations of the Corporation. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this Prospectus and in the documents incorporated by reference herein are expressly qualified by this cautionary statement. The Corporation is not under any duty to update or revise any of the forward-looking statements except as expressly required by applicable securities laws.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Prospectus, and the documents incorporated herein by reference, concerning the Corporation's industry and the markets in which it plans to operate or seeks to operate, including its estimates and projections relating to size of market and market share, is inherently imprecise and cannot be verified due to limitations on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations inherent in any market research or other survey. Management's estimates are based on internal research, its knowledge of the relevant market and industry and extrapolations from third-party sources. While we are not aware of any material misstatements regarding the market and industry data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those factors discussed "*Risk Factors*".

TRADEMARKS AND TRADE NAMES

This Prospectus and the documents incorporated herein by reference include references to the trademarks and trade names of the Corporation, such as PARA OPS and ARWEN, which may be protected under applicable intellectual property laws of one or more countries and which the Corporation believes is its property. Solely for convenience, the Corporation's trademarks

referred to in this Prospectus, and the documents incorporated herein by reference, may appear without the TM or ® symbols, but such references are not intended to indicate, in any way, its rights in such marks or that the Corporation will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names. All other trademarks and trade names referenced in this Prospectus and the documents incorporated herein by reference are the property of their respective owners. The use or display of these third parties' trademarks is not intended to, and does not imply, a relationship with the Corporation, or an endorsement or sponsorship by or of the Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Corporate Secretary of the Corporation at 155 Terence Matthews Crescent, Unit #1, Ottawa, Ontario, K2M 2A8, Canada, telephone: (613) 319-0537 and are also available electronically at www.sedar.com.

The following documents, filed by us with the securities commissions or similar authorities in each of the provinces of Canada, are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) our audited consolidated financial statements, the notes thereto and the auditor's report thereon for the fiscal year ended September 30, 2021, and nine-month period ended September 30, 2020 (the "**Annual Financial Statements**");
- (b) our management's discussion and analysis of financial condition and results of operations for the fiscal year ended September 30, 2021 (the "**Annual MD&A**");
- (c) our unaudited interim condensed consolidated financial statements and the notes thereto for the three-month and nine-month periods ended June 30, 2022, and 2021 (the "**Interim Financial Statements**");
- (d) our management's discussion and analysis for the three-month and nine-month periods ended June 30, 2022 (the "**Interim MD&A**");
- (e) our management proxy circular dated February 11, 2022 prepared in connection with our annual and special meeting of shareholders held on March 31, 2022;
- (f) our material change report dated March 21, 2022 in connection with the completion of a non-secured loan financing of \$1.8 million, including 20% bonus shares resulting in the issuance of 900,000 Pre-Consolidation Common Shares;
- (g) our material change report dated March 21, 2022 in connection with the Corporation's closing on an additional \$200,000 subscriptions to the \$1.8 million non-secured loan financing, announced on March 14, 2022;
- (h) our annual information form dated June 24, 2022 for the fiscal year ended September 30, 2021 (the "**AIF**");
- (i) our material change report dated July 19, 2022 in connection with the Corporation's completion of a private placement, resulting in the issuance of 1,600,000 Pre-Consolidation units of KWESST, at a price of \$0.215 per unit, for aggregate gross proceeds of \$344,000;
- (j) our material change report dated August 16, 2022 in respect with the Corporation's filing of a registration statement on Form F-1 (the "**Registration Statement**") with the United States Securities and Exchange Commission (the "**SEC**") relating to a proposed public offering of Common Units, consisting of one Common Share and one warrant to purchase one Common Share, and Pre-funded Units (as such term is defined herein), consisting of one Pre-Funded Warrant (as such term is defined herein) to purchase one Common Share and a warrant to purchase one Common Share;
- (k) our material change report dated September 2, 2022, in connection with the Corporation's completion of two non-secured loans in the amount of US\$200,000 per loan with a third-party lender for an aggregate amount of US\$400,000, including an issuance of 20% of the value of the loan in Pre-Consolidation Common Shares on the first loan of US\$200,000 resulting in the issuance of 296,754 Pre-Consolidation Common Shares;

- (l) our indicative term sheet for the Offering dated September 12, 2022;
- (m) our material change report dated September 2, 2022, in connection with the Offering;
- (n) our investor presentation for the Offering dated October 18, 2022;
- (o) our material change report dated October 28, 2022 in connection with the Consolidation;
- (p) our revised indicative term sheet for the Offering dated November 7, 2022; and
- (q) our revised investor presentation for the Offering dated November 7, 2022

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* filed by the Corporation with a securities commission or similar regulatory authority in Canada after the date of this Prospectus and before completion or withdrawal of the Offering, will be deemed to be incorporated by reference into this Prospectus. The Annual Financial Statements, the Interim Financial Statements, the Annual MD&A and the Interim MD&A listed above do not reflect the Consolidation.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

MARKETING MATERIALS

Any “template version” of “marketing materials” (as such terms are defined in National Instrument 41-101 – *General Prospectus Requirements*) will be incorporated by reference in the final short form prospectus. However, such template version of marketing materials will not form part of the final short form prospectus to the extent that its contents are modified or superseded by a statement contained in the final short form prospectus. Any template version of the marketing materials filed by the Corporation with a securities commission or other similar authority in Canada after the date of the final short form prospectus and before the termination of the distribution of the Units will be deemed to be incorporated by reference into the final short form prospectus.

CONSOLIDATION

On August 16, 2022, the Corporation announced that it had publicly filed the Registration Statement with the U.S. Securities Exchange Commission (“SEC”) relating to a proposed US\$11.5 million public offering of common units (each a “**Common Unit**”), consisting of one Common Share and one warrant to purchase one Common Share (the “**US IPO**”) and pursuant to an underwriting agreement between the Corporation and ThinkEquity LLC (the “**US Underwriter**”), acting as the sole book-running manager and underwriter for the US IPO. The Corporation is also offering to those purchasers in the US IPO, if any, whose purchase of Common Units in the US IPO would otherwise result in the purchaser, together with its affiliates and certain related parties, beneficially owning more than 4.99% (or, at the election of the purchaser, 9.99%) of the Corporation’s Common Shares immediately following the consummation of the US IPO, the opportunity to purchase, if the purchaser so chooses, pre-funded units (each a “**Pre-funded Unit**”) in lieu of Common Units. Each Pre-funded Unit will consist of one pre-funded warrant to purchase one Common Share of the Corporation at an exercise price of US\$0.01 per share (each a “**Pre-funded Warrant**”) and one warrant. The purchase price of each Pre-funded Unit is equal to the price per Common Unit being sold to the public in the US IPO, minus US\$0.01. Neither the Corporation’s insiders nor the Corporation’s affiliates have indicated an intention to purchase Pre-funded Units in the US IPO. For each Pre-funded Unit sold, the number of Common Units offered in the US IPO will be decreased on a one-for-one basis. Unless expressly stated otherwise, the Prospectus assumes that only Common Units will be issued in the US IPO. In connection with the underwriting agreement, the Corporation’s directors, executive officers, and certain shareholders who own 5% or more of outstanding Common Shares have agreed with the US

Underwriter to not offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any of our securities for a period of 90 days from the date of closing of the US IPO.

Concurrently with the US IPO, the Corporation applied for its Common Shares and the warrants to be issued in the US IPO to be approved for listing on Nasdaq under the symbol “KWE” and “KWESW”, respectively. The listing date will be confirmed prior to closing of the Offering.

In connection with its Nasdaq listing and US IPO, prior to Closing and following TSXV and shareholder approvals, the Corporation consolidated all of its issued and outstanding Common Shares on the basis of a ratio of seventy (70) pre-consolidated Common Shares for one (1) post-consolidated Common Share (the “**Consolidation**”) in order to meet the Nasdaq’s listing requirements, which include, among others, a minimal listing price of US\$4.00 per share. Except for our audited consolidated financial statements, the notes thereto and the auditor’s report thereon for the fiscal year ended September 30, 2021, and nine-month period ended September 30, 2020, our management’s discussion and analysis of financial condition and results of operations for the fiscal year ended September 30, 2021, our unaudited interim condensed consolidated financial statements and the notes thereto for the three-month and nine-month periods ended June 30, 2022, and 2021, our management’s discussion and analysis for the three-month and nine-month periods ended June 30, 2022 and unless the context otherwise indicates or requires, references in this Prospectus to the Common Shares, Unit Shares and Warrant Shares reflects the completion of the Consolidation. Accordingly, all references to the number of Units and the Offering Price reflects the completion of the Consolidation. Following receipt of written approval by shareholders holding in aggregate greater than 50% of the issued and outstanding Common Shares, as such approval is required by the rules of the TSXV, the board of directors of the Corporation approved the Consolidation, with an effective date of October 28, 2022. Furthermore, the Consolidation received the approval of the TSXV on October 26, 2022. The Consolidation became effective on the TSXV on October 28, 2022 and the Common Shares began trading on a Post-Consolidation basis at that date.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, our counsel, based on the current provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder (the “**Regulations**”) in force as of the date hereof, the Unit Shares, Warrants and Warrant Shares, if issued on the date hereof, would be “qualified investments” under the Tax Act at the time of their acquisition by a trust governed by a registered retirement savings plan (“**RRSP**”), registered retirement income fund (“**RRIF**”), registered disability savings plan (“**RDSP**”), registered education savings plan (“**RESP**”) or tax-free savings account (“**TFSA**”) (each a “**Registered Plan**”) or a deferred profit sharing plan (“**DPSP**”), each as defined in the Tax Act, provided that:

- (a) in the case of the Unit Shares and Warrant Shares (as applicable), they are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes the TSXV) or the Corporation otherwise qualifies as a “public corporation” other than a “mortgage investment corporation” (each as defined in the Tax Act); and
- (b) in the case of the Warrants, either the Warrants are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes the TSXV) or the Warrant Shares are qualified investments as described in (a) above and neither the Corporation, nor any person with whom the Corporation does not deal at arm’s length for the purposes of the Tax Act, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, such Registered Plan or DPSP.

Notwithstanding the foregoing, if the Unit Shares, Warrants or Warrant Shares are a “prohibited investment” within the meaning of the Tax Act for a Registered Plan, the holder of a TFSA or RDSP, the subscriber under an RESP or the annuitant under an RRSP or RRIF, as the case may be, will be subject to penalty taxes under the Tax Act. The Unit Shares, Warrants and Warrant Shares will generally be a “prohibited investment” if the holder of a TFSA or RDSP, the subscriber under an RESP or the annuitant of an RRSP or RRIF, as the case may be, does not deal at arm’s length with the Corporation for the purposes of the Tax Act or such holder, subscriber or annuitant has a “significant interest” (as defined in the Tax Act) in the Corporation. In addition, the Unit Shares and Warrant Shares will generally not be a “prohibited investment” if such securities are “excluded property” (as defined in the Tax Act for the purposes of the “prohibited investment” rules) for the Registered Plan.

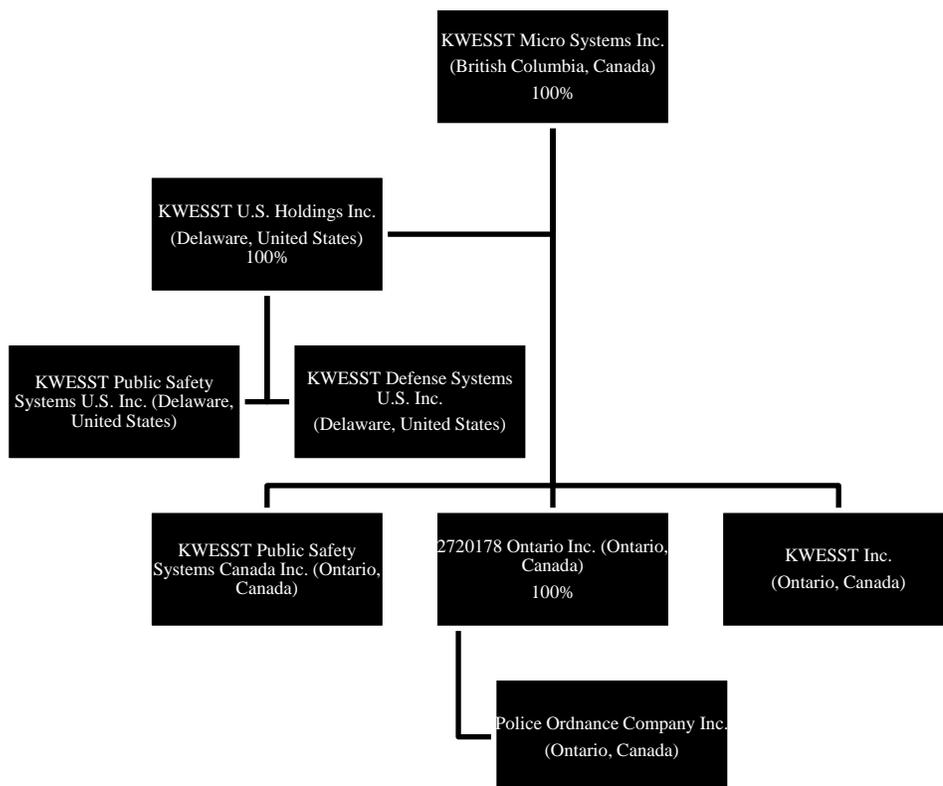
Prospective investors who intend to hold Unit Shares, Warrants or Warrant Shares in a Registered Plan or a DPSP should consult their own tax advisors with regard to the application of these rules in their particular circumstances.

THE CORPORATION

KWESST Micro Systems Inc. is a corporation domiciled in Canada and was incorporated on November 28, 2017 pursuant to the *Business Corporations Act* (British Columbia) (the “BCBCA”). We develop and commercialize next-generation tactical systems for military, security, and personal defense markets. Key market segments and solutions addressed by our proprietary solutions are:

- (i) non-lethal products with broad application in the professional and personal defense market,
- (ii) modernized digitization of tactical teams for shared real-time situational awareness in the military and civilian markets, and
- (iii) counter-measures against threats such as drones, lasers and electronic detection for the military market.

Our business activities are carried on by the following wholly-owned subsidiaries:



KWESST U.S. Holdings Inc.

On May 2, 2022, we incorporated a wholly-owned United States holding subsidiary in Delaware (United States).

KWESST Public Safety Systems U.S. Inc.

On May 2, 2022, we incorporated a wholly-owned United States subsidiary in Delaware (United States), for the PARA OPS product line in the United States.

KWESST Defense Systems U.S. Inc. (formerly KWESST U.S., Inc.)

On January 28, 2021, we incorporated a wholly-owned United States subsidiary in Delaware (United States), named KWESST U.S., Inc., and established an office in Stafford, Virginia (United States) to further pursue Digitization and Counter-Threat business opportunities in the United States. On June 3, 2022, we amended the certificate of incorporation of the subsidiary to change the name to KWESST Defense Systems U.S. Inc.

KWESST Public Safety Systems Canada Inc.

On April 6, 2022, we incorporated a wholly-owned subsidiary in Ontario (Canada), for the PARA OPS business line in Canada.

2720178 Ontario Inc. and Police Ordnance Company Inc.

On December 15, 2021, we acquired 2720178 Ontario Inc., which owns all of the issued and outstanding shares of Police Ordnance Company Inc., a company incorporated in Ontario (Canada). These are wholly-owned subsidiaries of KWESST.

KWESST Inc.

On April 24, 2017, we incorporated a company in Ontario (Canada) named KWESST Inc. for the Digitization and Counter-Threat business lines.

On September 17, 2020, pursuant to a qualifying transaction, KWESST Inc. amalgamated with 2751530 Ontario Ltd., with the amalgamated company retaining the name of “KWESST Inc.”

OUR BUSINESS

Business Overview

We develop and commercialize next-generation technology solutions that deliver a tactical advantage for military, public safety agencies and personal defense markets. Our core mission is to protect and save lives. For more information on our business, refer to the AIF.

Principal Products and Services

The following is a summary of our main product and service categories for each business line:

Non-Lethal	Digitization	Counter-Threat
<p>PARA OPS products: <i>Non-reciprocating devices:</i></p> <ul style="list-style-type: none"> • A single-shot device • A five-shot device • 12 gauge shotgun <p><i>Reciprocating devices</i></p> <ul style="list-style-type: none"> • Replica pistol • AR style <p><i>Ammunitions</i></p> <p>ARWEN products:</p> <ul style="list-style-type: none"> • Single shot 37mm launcher • Multi-round 37mm launcher • Ammunitions 	<p>Products:</p> <ul style="list-style-type: none"> • TASCs IFM • TASCs NORS <p>Services:</p> <ul style="list-style-type: none"> • ATAK Centre of Excellence • Critical Incident Management System (“CIMS”) 	<p>Products:</p> <ul style="list-style-type: none"> • Battlefield Laser Defense System (“BLDS”) • Phantom Electronic Warfare device • GhostNet Counter-Drone system

Non-Lethal Products

Non-reciprocating PARA OPS devices

We are in the Low Rate Initial Production (“LRIP”) phase for the .67 caliber single shot and expect to complete our sales, marketing and distribution plan by the end of Fiscal 2022; whereas we are in the prototype phase for the .67 multi-shot devices, with LRIP planned for Q1 Fiscal 2023 and commercialization in Q2 Fiscal 2023. Both will be offered to the professional and personal defense markets, including our proprietary projectiles for these devices. These devices can resemble

a TV remote control, a flashlight or a replica firearm depending on the proposed use. These devices do not use gunpowder or compressed gas.



(Single shot)



(Multi-shot)



(Proprietary cartridge and projectile)

We will offer three types of payload for projectiles based on customer needs:

- solid slug for practice or pain compliance,
- inert colored powder for practice or realistic close quarters combat simulation, and
- incapacitating irritant pepper powder for operation use.

Reciprocating PARA OPS devices

We plan to begin the design and prototype of PARA OPS high-capacity automatic pistols and carbines (referred as reciprocating devices) for non-lethal operations and force-on-force training in Q1 Fiscal 2023.

ARWEN launchers

As a result of the Police Ordinance Acquisition, we are currently selling the following ARWEN products and related ammunition to law enforcement agencies:



(Multi-shot launcher)



(Single shot launcher)

Digitization

For the Digitization business line, our products share the same core technology platforms and leverages our domain knowledge, proprietary sensor-software integration, algorithms and electronic circuitry in order to develop and deliver integrated solutions to our clients who operate in the primarily dismounted domain (*i.e.*, away from supporting platforms such as vehicles, aircraft and armored vehicles):

- Micro Integrated Sensor Software Technology (“**MISST**”) a proprietary integration of miniaturized sensors, optics, ballistics and software that provides an advancement in affordable smart systems and mission capability. Current applications and offerings of the MISST technology enable: (i) a real-time networked situational awareness for soldiers and their weapons systems, and (ii) smart management of ordnance systems. MISST also provides solutions for countering drone attacks and countermeasures against weaponized lasers in our Counter-Threat business line.
- Android Team Awareness Kit (“**ATAK**”). ATAK is a United States government owned situational awareness software application that is hosted on Android end user devices. Based on our observation, ATAK is becoming the de facto standard in the United States, Canada, and NATO for software based situational awareness and as a command and control battle management application in the dismounted domain. While the base software is United States Government owned and is available at no cost, being able to develop specific plug-ins and secure tactical networks is beyond the capacity of most user organizations. We have the experience and expertise to offer ATAK integration and networking services to prospective clients.
- After successfully developing digital technologies for tactical military applications which provide real-time exchange of situational awareness, navigation, imagery, and operational information for soldiers on the ground, we saw opportunities to apply these digitization solutions to the public safety market. These solutions solve critical challenges for law enforcement, fire, emergency response, search and rescue, and natural disaster management, all of whom require networked situational awareness to understand, decide, and act faster and more effectively in response to a critical incident. When responders are facing a public emergency, they need information quickly. Whether it is a wildfire, active shooter scenario or a natural disaster, they need to know what they’re walking into and where their resources are located. They also need to communicate and collaborate in real-time — across teams and information sources and often across departments.

We entered the civilian public safety market by launching our CIMS for enhanced public safety. A critical incident is any situation that requires swift, decisive action involving multiple components in response to and occurring outside of the normal routine business activities of a public safety response, which generally involves the police department, the fire department, and can also involve the Office of Emergency Management. The primary goal of addressing a critical incident is the resource management of first responders, equipment, and the integration of communications and technology. Our CIMS is a digital technology solution that addresses this need by integrating emergency operations, incident command post, incident commanders, and all responders whether mobile or dismounted. Our CIMS architecture is a native cloud-based Microsoft environment (MS Azure) integrated with Team Awareness Kit (“**TAK**”). This provides key stakeholders with seamless fusion and sharing of crucial real-time position location, imagery, and time-sensitive emergency services data and information for effective and coordinated delivery of emergency services, including rescue, fire suppression, emergency medical care, law enforcement, and other forms of hazard control and mitigation.

The following is a summary of our Digitization main products that are ready for commercialization in Fiscal 2022:



TASCs Indirect Fire Module

- The TASCs IFM equips existing direct and indirect weapons systems with a sensor pack that accurately locates the weapon on the battlefield and provides a high-resolution bearing line indicating the direction in which the weapon is pointed. When connected to a display, and combined with our ballistic algorithm built into ATAK, the operator can engage targets in less time and with greater accuracy. When networked across an ATAK-based network, targeting information can be received from and on any source of the network, and once a weapon is activated in the integrated fires modules systems mode, the impact point of the ammunition is displayed on all systems, giving friendly forces the ability to know if they are inadvertently being targeted and to take appropriate action. It also enables all networked systems to see where potential targets are and who is engaging them. The TASCs IFM is utilized primarily on systems that ordinarily require the user to have direct line of sight to the target, leaving them exposed. With TASCs IFM, they can engage from positions of cover and at longer distances, improving safety and survivability of the user.
- TASCs IFM can be developed for any weapon type; particularly crew served direct and indirect firing systems such as Artillery, Mortars, Anti-Armour, Heavy and Medium Machine Guns, Sniper Systems, etc.



TASCs Networked Observation and Reconnaissance System ("TASCs NORS")

- The TASCs NORS consists of a sensor package mounted to a soldier weapon and a display running a user interface program typically known as battlefield management system. The TASCs equips sniper weapons and spotters' stations with sensor packages that allow them to be accurately located on the battlefield. TASCs NORS is equipped with cameras that allows viewing through the snipers' sight or the spotters' scope on the display device provided. The systems are networked through the user's communication network to allow the sharing of target information and imagery. Target information can be shared between the sniper and the spotter, and to all TASCs equipped systems in the network. With the TASCs system, target information can readily be passed, including a picture of the target, helping reduce incidents of friendly fire and collateral damage.



Critical Incident Management System

Comprehensive Critical Incident Management System (CIMS) architecture and Solution:

Native Cloud-based Microsoft environment (MS Azure) with Team Awareness Kit (TAK)

Seamless INTEGRATION and FUSION of crucial real-time position location, imagery, and targeted time-sensitive emergency services data and information for the effective and coordinated delivery of emergency services

Supporting stakeholders from Emergency Operations Centres (EOC), Incident Command Post (ICP), Incident Commanders, and all first responders whether mobile or dismounted

Data managed and stored in compliance with NFPA 1600

On December 1, 2021, we entered into a master professional services agreement (the "MPSA") with GDMS to support the development of digitization solutions for future Canadian land C4ISR programs under Strong, Secure, Engaged: Canada's Defence Policy. This includes TAK integration and CIMS services over 12 months. The MPSA serves as the master agreement and governs the basic terms and conditions for all future statements of work ("SOW") but does not in itself give rise to financial rights or obligations for either GDMS or us nor does it ensure that a future SOW will be awarded. Concurrently with entering in the MPSA, we entered into a SOW with GDMS for the first phase of the project which was delivered by the end of Q3 Fiscal 2022 and fully collected. Based on recent discussions with GDMS, we expect to enter into a SOW before the end of Q4 Fiscal 2022 and another SOW in Q2 Fiscal 2023, for an aggregate value of approximately \$0.4 million.

On July 7, 2022, we announced that we won our first CIMS related contract - a three-year contract with CounterCrisis Technology Inc. ("CC-T"). See "Recent Developments" for further information.

Counter Threats

We offer the following proprietary next-generation counter-threat solutions to protect against hostile enemy lasers, electronic detection, and drones.



Phantom

- Our Phantom is a compact portable multi-function device that includes the ability to emulate the electronic communications of any NATO country in order to spoof adversaries as to the location of NATO forces.
- Our Phantom is a patented version of much larger vehicle-mounted Electronic Warfare systems. Its small size means it can be deployed at the tactical level by ground personnel or by drones or mounted on light tactical vehicles.



Battlefield Laser Defense System ("BLDS")

- BLDS is a unique, proprietary system that detects and can locate lasers and alert ground personnel with KWESST's networked Digitization applications.
- We have three variant of BLDS: individual personnel-worn, squad version, and vehicle mounted for mobile operations.

Other products under development

In Q4 Fiscal 2021, we partnered with Alare in the United States to establish the technical feasibility of a kinetic system to neutralize small Unmanned Aircraft Systems ("UAS") to neutralize small UAS and loitering munitions without collateral damage. The nature of our contract with Alare is of a short-term consulting agreement in which we agree to pay for engineering services as rendered. Further details of this drone project, referred as GhostNet, remain confidential for security and competitive reasons at the present time. We discontinued further investment in another drone project under development, referred as GreyGhost, which was a licensed technology with AerialX Drone Solutions Inc. ("AerialX") providing a kinetic interceptor that could use multiple methods to engage target drones. To date, AerialX has not successfully delivered a functional prototype and as a result we redirected our investment to the above GhostNet project, a niche market which we are well positioned to leverage using our specialized counter-threat knowledge and technology.

We have also started the development of Shot Counter which is largely based on the same sensor technology as the TASCs, and which can be incorporated into a firearm in order to count the number of rounds fired by the weapon. It is a small device that fits inside the pistol grip of most weapons, and functions with no user input for up to ten years on a single battery. Today we have reached the concept design; but, we have not yet built a prototype.

Over the last three financial years we have made significant investment to further advance our product development and position ourselves with OEM partners for expected commercialization during Fiscal 2023. We also concluded two acquisitions, the PARA OPS and Phantom solutions. At the moment, only the ARWEN product line is considered to be in full production.

The following table provides an update of our current product development cycle by product line and estimated timeline by quarter (fiscal year ended September 30th) to reach production:

	Concept & Design	Prototype ⁽¹⁾	Market Testing ⁽²⁾	Pre-Production ⁽³⁾	Commercialization ⁽⁴⁾
<i>PARA OPS–single-shot device</i> ⁽⁵⁾			Q4 FY22	Q4 FY22	Q1 FY23
<i>PARA OPS–multi-shot device</i> ⁽⁵⁾		Q4 FY22	Q4 FY22	Q1 FY23	Q2 FY23
<i>PARA OPS –reciprocating devices</i>	Q1 FY23	Q1 FY23	Q2FY23	Q2 FY23	Q3 FY23
<i>TASCS IFM</i>					To Be Determined
<i>BLWS</i>					To Be Determined
<i>Phantom</i>					To Be Determined

Notes:

- (1) Includes prototype Version 1 (V1), integration, and testing.
- (2) Includes field testing and prototype V2.
- (3) Includes final product development and sales demonstration units. A product is not ready for pre-production until it reaches Technology Readiness Level (TRL) of 5 to 6.
- (4) Subject to market demand for KWESST’s product.
- (5) Includes the cartridges for the devices.

We consider a product to have reached commercialization phase when we have begun LRIP and we have completed and are ready with a sales, marketing, and distribution plan.

The following table provides management’s estimate of the additional investment to reach commercialization, excluding our existing internal engineering labor costs:

	Concept & Design	Prototype	Market Testing	Pre-production	Total
<i>Single-shot PARA OPS (non-reciprocating devices)</i>	N/A	N/A	N/A	\$25,000	\$25,000
<i>Multi-shot PARA OPS (non-reciprocating devices)</i>	N/A	N/A	\$50,000	\$150,000	\$200,000
<i>PARA OPS (reciprocating devices)</i>	N/A	\$125,000	\$50,000	\$175,000	\$350,000
<i>TASCS IFM</i>	N/A	N/A	N/A	Funded ⁽¹⁾	Funded ⁽¹⁾
<i>BLDS</i>	N/A	N/A	N/A	\$50,000	\$50,000
<i>Phantom</i>	N/A	N/A	N/A	\$100,000 ⁽²⁾	\$100,000
TOTAL	\$Nil	\$125,000	\$100,000	\$500,000	\$725,000

Notes:

- (1) Funded by customer orders.
- (2) We are in the process of enhancing our existing Phantom units following feedback received from invitation-only U.S. military trials that took place during August 2022.

Principal Markets

Our total revenues by category of activity and geographic market for each of the last three financial years were as follows:

	Year ended September 30, 2021	Nine months ended September 30, 2020	Year ended December 31, 2019
<i>Major products / service lines</i>			
TASCS System	\$ 1,255,982	\$ 835,097	\$ 472,749
Other	<u>19,822</u>	<u>26,820</u>	<u>36,399</u>
	\$ 1,275,804	\$ 861,917	\$ 509,148
<i>Primary geographical markets</i>			
United States	\$ 1,238,063	\$ 835,097	\$ 472,749
Canada	<u>37,741</u>	<u>26,820</u>	<u>36,399</u>
	\$ 1,275,804	\$ 861,917	\$ 509,148

The revenues earned in the last three financial years were driven substantially from one-time contracts as a result of our pre-commercialization phase. These one-time contracts were strategic in positioning KWESST for anticipated follow-on work and large multi-year programs with NATO countries. The timing for this is uncertain due to the long sales cycle for military contracts. While this revenue trend continued into Fiscal 2022, the acquisition of Police Ordnance has provided us with a new revenue stream (the ARWEN product line).

Market Opportunities

Non-Lethal

According to Allied Market Research: *Non-Lethal Market*, May 2021, the global non-lethal weapons market was approximately US\$7.4 billion in 2020 and is projected to reach US\$12.5 billion in 2028 (a 7.4% compound annual growth rate). We plan to target the following two markets, with an initial focus in the United States:

- *Professional market:*

Our main focus in the short-term is the professional market in the United States as it represents a major opportunity for our non-lethal security products. According to the U.S. Bureau of Labor Statistics, in the United States there are nearly 917,000 police officers, detectives and criminal investigators. Cases involving police shootings and deaths related to the use of conductive energy devices have increased in the United States. According to The Washington Post, there have been over 6,300 shootings in the United States since 2015 involving police.

A Reuters report estimates that at least 1,000 people have died as a result of being stunned by conductive energy devices in the United States. In over 150 of those deaths, the conductive energy device was determined to be a cause or a contributing factor.

There are several other security-related occupations which we believe are potential customers for our non-lethal products. These include 800,000 private security guards, 346,000 corrections officers and 90,000 private detectives, according to the U.S. Bureau of Labor Statistics. We believe that our PARA OPS products could play a meaningful role in addressing the tragic increase in school shooting events. According to the Naval Postgraduate School's Center for Homeland Defense and Security, there have been approximately 460 shooting events in K-12 schools during the last five years. We believe our non-lethal security products offer school personnel important options to create a tactical advantage in school shootings without using lethal firearms.

According to the U.S. Department of Education, there are over 132,000 elementary and secondary schools and nearly 6,000 colleges and universities in the United States. We believe there is an opportunity to utilize our products to enhance school safety.

Other public spaces such as grocery stores, houses of worship, bars and nightclubs, concert venues, sporting arenas and public transportation centers are also confronted with increased security challenges. Each of these locations

represents an opportunity for us as they could improve security without introducing lethal firearms into crowded civilian environments by equipping their employees and security personnel with our non-lethal products.

Other market opportunities that we intend to further explore include the international professional market, realistic force-on-force training for military and police, realistic high-action gaming and animal control, both in the United States and internationally.

The principal market for the ARWEN product line of non-lethal systems is law enforcement, primarily in Canada and United States.

- *Consumer market:*

According to Gallup and United States Census Bureau, as at January 2022, there are approximately 82 million gun owners in the United States. We believe our PARA OPS devices will offer gun owners and members of their households a safer, personal defense option, without the risk of loss of human life.

In addition to personal defense, we believe we have an opportunity to disrupt the recreational market – specifically for paintball guns, which are air-based devices rather than cartridge. According to market research by Statista, the paintball gun market size in the United States was \$1.3 billion in 2020.

Digitization

The principal market for our digitization business lines is primarily among military and public safety agencies in countries that are members of NATO, as well as Australia and New Zealand. As the largest purchaser and user of military and public safety products, the United States is our primary focus, followed by the other NATO member countries, and to a lesser extent, the Middle and Far East.

In addition to increased military spending in the United States and other members of NATO, another important trend that we have observed is an increase in funding within the military for projects related to precision munitions for weapons already in use by the military (legacy weapons) to further enhance survivability of soldiers and their operational effectiveness. Our TASCs products are expected to benefit from these trends by transforming “dumb” legacy weapons into “smart” weapons (with better accuracy).

For our CIMS offering, our principal market is public safety agencies, primarily in Canada and United States. Public safety agencies across the United States are seeking to implement digital solutions that can improve responder safety and incident management. According to Accenture, digital transformation presents one of the biggest challenges for public safety agencies. Globally, the public safety and security market was US\$435 billion in 2021 and is expected to reach US\$868 billion by 2028, growing at a CAGR of 10.4%, according to Fortune Business Insights.

The major factors fueling the public safety market include rising instances of mass shooting, natural disasters, terrorist activities and security breaches as well as increasing law enforcement requirements for public safety and investments in public safety measures for smart cities.

Counter Threat

Our BLDS and Phantom products were developed expressly to address the health and safety threats from weaponized and/or targeting laser devices by adversaries in the field.

We are also in the counter unmanned aircraft system (“**Counter-UAS**”) market including loitering munitions. The proliferation of small hostile drones continue to be a growing worldwide problem for military forces, sensitive facilities, and public security agencies. Most counter-drone systems are electronic, designed to detect, identify, track and, if possible, disrupt the communications protocols of drones to prevent completion of their mission. Increasingly, however, drones are being developed by adversaries that are difficult or impossible to disrupt electronically. Military and Homeland Security agencies are therefore seeking alternatives for stopping drones kinetically but without collateral damage. We are working with Alare Technologies Inc. to develop a proprietary drone to address this opportunity.

Competitive Conditions

Non-lethal

We expect our competition for non-lethal PARA OPS products will primarily be manufacturers of:

- handheld CO₂-powered launchers of chemical irritant projectiles, including Byrna Technologies Inc. (which sells products under the Byrna® HD brand), United Tactical Systems, LLC (which sells products under the PepperBall brand), and FN Herstal;
- conductive energy devices, including Axon Enterprises, Inc. (which sells the TASER device); and
- remote restraint devices, including Wrap Technologies Inc.

Our competitive advantage is principally our proprietary system consisting of:

- a low energy cartridge system with a cartridge casing that generates spin to a projectile, a far more reliable platform than air-based launchers;
- inexpensive firing platforms in any design that fire only our PARA OPS;
- different payloads in the projectile for various applications;
- velocities and muzzle energy far below the “lethal” threshold;
- simple internal mechanisms with few components simplifying the manufacturing process; and
- specifically configured interior mates with projectile to generate self-stabilizing spin for accuracy and distance.

Our Executive Chairman was the inventor of PARA OPS. He was previously the founder of Simunition, a manufacturer of non-lethal training ammunition, since sold to General Dynamics. Further, he was also the CEO and Executive Chairman of United Tactical Systems, LLC, a company offering public-safety products for law enforcement, military and personal defense (owns the PepperBall brand). Accordingly, he brings a wealth of market knowledge to us. Additionally, our President and CEO has almost 20 years of firearms manufacturing experience. He was previously the General Manager of Colt Canada (the Canadian division of the American firearms manufacturer). In August 2021, we also hired a senior Technical Manager with over 17 years of firearms manufacturing, he previously held senior roles at Colt Canada including most recently R&D Manager and Product Support Engineering. While we do not build lethal firearms, this experience is very relevant for building our PARA OPS business.

Many air-powered (CO₂-powered) devices are complex and less reliable, specifically:

- ambient temperature causes performance to vary, especially in colder weather;
- synthetic seals and “O” rings dry out and can cause catastrophic failures; and
- such devices entail long logistics tails (for example, heavy air tanks, compressors and spare parts).

We have filed a patent application with the U.S. Patent and Trademark Office (“USPO”) for our proprietary cartridge-based firing system. On October 18, 2022, we were advised by USPO that a notice of publication of application had been issued in relation to our patent application (#17/669,420).

Additionally, we filed patent applications for our PARA OPS system with the Canadian Intellectual Property Office (Filing Certification pending) on October 24, 2022 and with the Australian Patent Office (Serial No. 2022259822) on October 27, 2022.

For the ARWEN’s product line, our primary competitors are the following:

- DEFTEC / Safariland’s 40 mm LTM launchers; and
- ALS (a Pacem Defense Company)’s single shot 37mm and 40mm launchers and 40mm multi-shot launchers.

A further market advantage is the access to the law enforcement market through our ownership of ARWEN, and the strength of its brand, which has been selling non-lethal systems to law enforcement agencies internationally for over 30 years. As a result of our acquisition of Police Ordnance, we believe there are synergies between our PARA OPS and ARWEN products such as access to law enforcement market for PARA OPS, providing a low-energy cartridge for ARWEN launchers and combining facilities and engineering.

Digitization and Counter-Threat

Our competition for digitization and counter threat business lines is primarily:

- R&D labs funded by the U.S. Department of Defense for developing systems like TASCs;
- Fabrique Nationale Herstal S.A. for their remote weapon stations (although these do not offer high angular resolution like TASCs); and

- known developers of electronic decoy systems including Motorola (Tactical TV Decoys), Synchopated Engineering (Mockingbird RF Signal Emulator), and CACI Systemware (MAGPIE).

We are currently not aware of any major direct competitors for our BLDS technology.

Our competitive advantage is the significant experience that our team of engineers and technicians have in soldier systems (which we consider to be any device that a soldier carries onto the battlefield, ranging from a communications device to a sensor), weapons, and sensor fields. Our expertise in the field of networked weapons has been recognized by the United States military who requested that we participate in the NATO working group tasked with developing standards and requirements for these types of networked weapons.

We are also not aware of any major direct competitors for our CIMS.

RECENT DEVELOPMENTS

The following is a summary of developments in our business since June 30, 2022, the date of our most recently completed interim period.

On July 7, 2022, the Corporation announced that it has been awarded a three-year contract by CounterCrisis Technology Inc. (“**CC-T**”) to design, develop, and implement a significant component of a national Ground Search and Rescue Incident Command System (GSAR ICS) for Public Safety Canada. Under the contract, KWESST and CC-T will create a Search And Rescue (SAR) planning, operations management, and situational awareness service that incorporates a custom SAR plug-in application for ATAK. ATAK is increasingly the preferred software system throughout NATO for enabling real-time shared situational awareness.

On July 14, 2022, the Corporation announced that the closing of a non-brokered private placement of 1,600,000 Pre-Consolidation units at a price of \$0.215 per unit, for aggregate gross proceeds to KWESST of \$344,000. Directors and officers of KWESST purchased 406,975 Pre-Consolidation units for a total consideration of \$87,500.

On July 27, 2022, the Corporation announced it has awarded stock options pursuant to its Long-Term Performance Incentive Plan, to its Chief Financial Officer to purchase up to an aggregate of 100,000 Pre-Consolidation Common Shares of the Corporation. The stock options are exercisable at a price of \$0.205 per share and will expire on July 22, 2027.

On July 29, 2022, the Corporation entered into a consulting agreement with an arm’s length specialized engineering company (the “**Consultant**”) in the non-lethal firearm industry based in the United States which maintains an FFL license. The Corporation engaged this Consultant to evaluate and test our PARA OPS devices. The Corporation has since expanded its business relationship to include low-rate initial production for the single-shot PARA OPS devices during the quarter ended September 30, 2022. The Corporation expects to partner with an FFL U.S. manufacturing company by December 31, 2022, for high-volume production of devices and projectiles during 2023.

On August 16, 2022, the Corporation announced that in connection with the US IPO it had publicly filed the Registration Statement with the SEC relating to a proposed US\$11.5 million public offering of Common Units, consisting of one Common Share and a warrant to purchase one Common Share, and Pre-Funded Units, consisting of a Pre-Funded Warrant to purchase one Common Share and a warrant to purchase one Common Share. The number of units and price range for the proposed offering have yet to be determined. The US IPO is expected to take place after the SEC completes its review process, subject to market and other customary conditions. Contingent on the closing of the US IPO, KWESST has applied to list its Common Shares on the Nasdaq under the ticker symbol “KWE” and the warrants offered in the US IPO under the ticker symbol “KWESW”. On August 26, 2022, we received a comment letter from the SEC relating to our filed Registration Statement. On September 16, 2022, in response to the SEC comment letter, we filed an amendment no. 1 to the Registration Statement as well as our response to the SEC comment letter. On September 28, 2022, we received a subsequent letter of comments from the SEC, in response to which we filed an amendment no. 2 to the Registration and a response letter on October 6, 2022. On October 20, 2022, we received a subsequent letter of comments from the SEC. On October 20, 2022, we received a third letter of comments from the SEC, to which we replied by filing a response letter and an amendment no. 3 to the Registration Statement on October 24, 2022. On November 3, 2022, the SEC issued a fourth letter of comments, to which we replied by filing a response letter and an amendment no. 4 to the Registration Statement on November 7, 2022.

On August 29, 2022, the Corporation announced that it has closed two non-secured loans in the amount of US\$200,000 per loan with a third-party lender for an aggregate amount of US\$400,000.

The employment agreement of Mr. Jeffrey MacLeod, the Corporation’s CEO & President, will expire on September 30, 2022. The Corporation and Mr. MacLeod have agreed to renew the employment agreement for another period of two years.

On October 18, 2022, we were advised by USPO that a notice of publication of application had been issued in relation to our patent application (#17/669,420) for our proprietary cartridge-based firing system.

We filed patent applications for our PARA OPS system with the Canadian Intellectual Property Office (Filing Certification pending) on October 24, 2022 and with the Australian Patent Office (Serial No. 2022259822) on October 27, 2022.

On November 2, 2022, we won our first customer order of US\$330,000 from Nordic Defence & Security AS of Oslo, Norway, a trading and consulting agency offering solutions for the army, navy, air force in addition to other professional users such as the police, fire departments and different security dependent organizations, for the provision of four BLDS to be delivered by May 2, 2023. These BLDS units are to be mounted and integrated on the new combat patrol vehicles for Norwegian Special Operating Forces (“SOF”) now in prototype build. Through this initial order, we are well positioned to supply a higher quantity of BLDS once the Norwegian SOF combat vehicle proceeds into full production in calendar year 2024. There is no assurance on this timing or that we will receive additional orders for our BLDS from Norwegian SOF.

USE OF PROCEEDS

The net proceeds to be received by the Corporation from the Offering, after deducting the Underwriter’s Fee of US\$710,000 and the expenses of the Offering, which are estimated to be approximately US\$500,000, will be approximately US\$2,290,000.

The net proceeds to be received by the Corporation from the US IPO, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by KWESST of approximately US\$2.0 million, will be approximately US\$9.5 million (approximately US\$11.1 million if the US Underwriter exercises its over-allotment option in full), based on an assumed offering price of US\$4.95 per unit and US\$4.95 per Pre-Funded Unit.

We had negative cash flow from operating activities for the nine months ended June 30, 2022, as well as for the fiscal years ended September 30, 2021, and 2020. As at August 31, 2022, we had a negative working capital balance of approximately US\$3.0 million, including approximately US\$2.0 million of unsecured borrowings becoming due within 12 months. We intend to use the net proceeds from the combined offerings to fund principally our current negative working capital and anticipated negative cash flow from operating activities over the next 12 months. Excluding any potential sales from the commercialization of the PARA OPS product line and other prospective customer contracts anticipated in Fiscal 2023, we have estimated approximately \$4.7million of negative cash flow from operating activities over the next 12 months to meet our business objectives and all non-discretionary operating expenditures to be funded from the net proceeds from the offerings (included in the “Corporate, general & administration, and working capital” line item in the table below).

The following table illustrates the estimated use of the combined net proceeds from this Offering and the US IPO over the next 12 months:

Use of Net Proceeds ⁽¹⁾	In US Dollars
Repayment of non-secured borrowings:	
Issued in March 2022 ⁽²⁾	\$1,460,000
Issued in August 2022 ⁽³⁾	\$220,000
CEBA loans ⁽⁴⁾	\$51,000
Product development ⁽⁵⁾	\$529,000
Corporate, general & administration, and working capital:	
General and administrative	\$2,469,000
Selling and marketing	\$1,355,000
Research and development, net	\$296,000
Negative working capital at August 31, 2022 (excluding above loans)	\$1,187,000
Unallocated working capital	\$4,263,000

Total use of net proceeds	\$11,830,000
----------------------------------	---------------------

Notes:

- (1) For Canadian dollars denominated expenses, the amounts were converted at a rate of CAD\$1.37 to US\$1.00.
- (2) The net proceeds were used to fund the Corporation's working capital.
- (3) One of the two non-secured loans contains certain provisions allowing the Corporation to apply to the TSXV to repay the principal amount by issuing Common Shares in accordance with the rules and regulations of the TSXV. The Corporation intends to do so by including this issuance of Common Shares in the US IPO
- (4) This is net of \$23,077 forgivable amount as the Corporation intends to repay the CEBA loans due to the Canadian Government before December 31, 2023; on January 12, 2022, the government of Canada announced the repayment deadline for the CEBA loans to qualify for partial loan forgiveness is being extended from December 31, 2022, to December 31, 2023, for all eligible borrowers in good standing. Repayment on or before the new deadline of December 31, 2023, will result in loan forgiveness of up to a third of the loans. Refer to the Interim Financial Statements, for further information.
- (5) Refer to "Our Business" section of this Prospectus.

The Corporation may also use a portion of the net proceeds from this offering for acquisitions or strategic investments in complementary businesses or technologies. We do not currently have any plans for any such acquisitions or investments. It has not allocated specific amounts of net proceeds for any of these purposes.

The actual allocation of the net proceeds may vary depending on future developments in the Corporation's business or unforeseen events. Pending such application of the net proceeds of the Offering, the Corporation may elect to invest such funds, in whole or in part, in short-term investment-grade securities or bank deposits. The Corporation intends to use the net proceeds as stated in this Prospectus; however there may be circumstances where, for sound business reasons, a reallocation of proceeds may be deemed prudent or necessary. See "Risk Factors – Risks Relating to the Offering – Discretion in the use of Proceeds".

CONSOLIDATED CAPITALIZATION

Except as disclosed below, there has been no material change in the share and loan capital of the Corporation, on a consolidated basis, since June 30, 2022, being the date of the most recently-filed unaudited interim condensed consolidated financial statements of the Corporation. The following table sets out the Corporation's consolidated capitalization, on a Pre-Consolidation basis, as at (i) June 30, 2022, (ii) June 30, 2022 after giving effect of the US IPO, and (iii) June 30, 2022 after giving to the US IPO and the Offering. The table should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three- and nine-month periods ended June 30, 2022, and 2021, along with the related notes thereto and the associated management's discussion and analysis incorporated by reference in this Prospectus. See "Description of Securities Being Distributed", "Prior Sales" and "Consolidation".

On July 14, 2022, the Corporation announced that the closing of a non-brokered private placement of 1,600,000 Pre-Consolidation units at a price of \$0.215 per Pre-Consolidation unit, for aggregate gross proceeds to KWESST of \$344,000.

On August 29, 2022, the Corporation announced that it has closed two non-secured loans in the amount of US\$200,000 per loan with a third-party lender for an aggregate amount of US\$400,000.

Description of Capital (Pre-Consolidation)	Outstanding as at June 30, 2022 ⁽¹⁾	Outstanding as at June 30, 2022 after giving effect to the US IPO ^{(1) (2)}	Outstanding as at June 30, 2022 after giving effect to the US IPO and the Offering ^{(1) (3)}
Equity			
Common Shares	52,187,107	145,116,387	●
Options	4,209,703	4,209,703	4,209,703
RSUs	1,527,974	1,527,974	1,527,974
PSUs	832,000	832,000	832,000
DSUs	-	-	-
SARs	186,000	186,000	186,000
Warrants	12,687,018	110,262,778	●
Compensation Options	58,616	58,616	●
Debt			
Lease obligations	\$291,860	\$291,860	\$291,860
Unsecured borrowings	\$1,752,865	\$1,752,865	\$1,752,865

Notes:

- (1) On a Pre-Consolidation basis; the Consolidation became effective on the TSXV on October 28, 2022 and the Common Shares began trading on a Post-Consolidation basis at that date.
- (2) Assuming an issuance in the US IPO of 8,131,340 warrants to the US Underwriter (116,162 Post-Consolidation) and 162,626,240 Common Units (2,323,232 Post-Consolidation) comprised of: (i) 162,626,240 Common Shares (2,323,232 Post-Consolidation); and (ii) 162,626,240 Warrants (2,323,232 Post-Consolidation).
- (3) Assuming an issuance of ● Units (● Post-Consolidation) comprised of ● Unit Shares (● Post-Consolidation), ● Warrants (● Post-Consolidation) and ● Compensation Options (● Post-Consolidation) in the Offering.

During the fiscal year ended September 30, 2021, the Corporation had net loss and negative operating cash flows. As an early-stage company, except for the ARWEN product line acquired in December 2021, the Corporation has not yet reached commercial production of its products and has incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. The Corporation incurred \$9.3 million net loss and negative operating cash flows of approximately \$6.3 million for the year ended September 30, 2021 (nine months ended September 30, 2020: -\$3.5 million net loss and negative operating cash flows of \$1.8 million; twelve months ended December 31, 2019: -\$1.1 million net loss and negative operating cash flows of \$1.1 million).

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Offering

The Offering consists of Units, each of which is comprised of one Unit Share and one Warrant. The Units will separate into Unit Shares and Warrants immediately upon the closing of the Offering. The Units are offered at the Offering Price of US\$●.

Our authorized share capital consists of an unlimited number of Common Shares without par value. See “*Description of Capital Structure*” in the AIF.

Common Shares

The Unit Shares and Warrant Shares are Common Shares in our share capital.

As of the date of this Prospectus and following the Consolidation, we are authorized to issue an unlimited number of Common Shares without nominal or par value, of which 780,873 Common Shares are issued and outstanding as of the date hereof. In addition, options to acquire 57,102 Common Shares compensation options to acquire 837 Common Shares, warrants to acquire 191,673 Common Shares, and restricted share units and performance stock units to acquire 16,346 Common Shares are issued and outstanding as of the date of this Prospectus. See “*Consolidation*” for further information.

The holders of Common Shares are entitled to receive notice of and attend all meetings of shareholders with each Common Share held entitling its holder to one vote. The holders of Common Shares are entitled to dividends if, as and when declared by our board of directors. The Common Shares are entitled, upon our liquidation, dissolution or winding up, to receive our remaining assets available for distribution to shareholders.

Warrants

The following is a summary of the principal attributes of the Warrants and refers to the Warrant Indenture mentioned hereunder. Such summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture in the form to be agreed upon by the parties. A copy of the Warrant Indenture may be obtained on request from our Corporate Secretary and will be available electronically at www.sedar.com.

Each whole Warrant will be transferable and entitles its holder, upon the payment of the exercise price of US\$●, to acquire one Warrant Share for a period of 5 years from the Closing Date, subject to adjustment in certain customary events, after which period each such Warrant will expire. Certificates representing the Warrants will be issued to subscribers for Units through a book-based system. See “*Plan of Distribution*”.

The Warrants will be governed by the Warrant Indenture. We will designate TSX Trust Company, at its Vancouver office located at 650 West Georgia Street, suite 2700, Vancouver, British Columbia, V6B 4N9, as Warrant Agent where the Warrants can be surrendered for exercise, transfer or exchange. Prior to the closing of the Offering, we may name any other agent with respect to the Warrants. Under the Warrant Indenture, the Corporation may, subject to applicable law, purchase by private contract or otherwise, any of the Warrants then outstanding, and any Warrants so purchased will be cancelled.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (i) the issuance of our Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of our Common Shares by way of a stock dividend or other distribution (other than a dividend paid in the ordinary course or a distribution of Common Shares upon the exercise of any outstanding warrants or options);
- (ii) the subdivision, redivision or change of the outstanding Common Shares into a greater number of shares;
- (iii) the consolidation, reduction or combination of the outstanding Common Shares into a lesser number of shares;
- (iv) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase the Common Shares, or securities exchangeable for or convertible into the Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the “Current Market Price”, as defined in the Warrant Indenture, of the Common Shares on such record date; and
- (v) the issuance or distribution to all or substantially all of the holders of the Common Shares of the securities, including rights, options or warrants to acquire shares of any class or securities exchangeable or convertible into any such shares or property or assets and including evidence of indebtedness, or any property or other assets.

The Warrant Indenture will also provide for adjustment in the class and/or number of securities issuable upon the exercise of the Warrants and/or exercise price per security in the event of the following additional events:

- (i) the reclassification of the Common Shares;
- (ii) our consolidation, amalgamation, arrangement or merger with or into any other corporation or other entity (other than a consolidation, amalgamation, arrangement or merger which does not result in any reclassification of the outstanding Common Shares or a change of the Common Shares into other shares); or
- (iii) the transfer of our undertakings or assets as an entirety or substantially as an entirety to another corporation or other entity.

No adjustment in the exercise price or number of Warrant Shares will be required to be made unless the cumulative effect of such adjustment or adjustments would result in a change of at least 1% in the exercise price of a Warrant Share, provided, however, that any adjustments which are not required to be made by reason of this threshold shall be carried forward and taken into account in any subsequent adjustments.

We will covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, we will give notice to the Warrant Agent and the Warrant holders of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 10 business days prior to the record date of such event, if any.

No fraction of a Warrant Share will be issued upon the exercise of a Warrant and no cash payment will be made in lieu thereof. Warrant holders are not entitled to any voting rights or pre-emptive rights or any other rights conferred upon a person as a result of being a holder of Common Shares of the Corporation.

The Warrant Indenture will provide that, from time to time, we may amend or supplement the Warrant Indenture for certain purposes, without the consent of the holders of the Warrants, including curing defects or inconsistencies or making any change that does not prejudice the rights of any holder. Any amendment or supplement to the Warrant Indenture that would prejudice the interests of the holders of Warrants may only be made by “extraordinary resolution”, which will be defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing of at least 20% of the aggregate number of the then outstanding Warrants (unless such meeting is adjourned to a prescribed later date due to the lack of quorum) and passed by the affirmative vote of the holders of Warrants present in person or by proxy, and passed by the affirmative vote of the holders of Warrants representing not less

than 66^{2/3}% of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66^{2/3}% of the aggregate number of all the then outstanding Warrants.

The Warrants will not be exercisable by, or for the account or benefit of, a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares issuable upon exercise of the Warrants be registered or delivered to an address in the United States, unless an exemption from registration under the 1933 Act and all applicable state securities laws is available.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated ●, 2022 between the Corporation and the Underwriter, as underwriter, the Corporation has agreed to sell and the Underwriter has agreed to purchase on the Closing Date, ● Units at the Offering Price, for aggregate gross consideration of US\$3 million, payable in cash to the Corporation against delivery of the Units.

The Underwriter is obligated to take up and pay for all of the securities if any of the securities are purchased under the Underwriting Agreement. The obligations of the Underwriter under the Underwriting Agreement are subject to certain closing conditions and may be terminated at its discretion on the basis of “due diligence out”, “market out”, “disaster out”, “regulatory out”, “breach out” and “material adverse change out” clauses exercisable until the Closing Date and may also be terminated upon the occurrence of certain other stated events.

The terms of the Offering were determined by arm’s length negotiation between the Corporation and the Underwriter in the context of the market and in accordance with the offering price of the Common Units offered in the US IPO.

In consideration for the services provided by the Underwriter in connection with the Offering, and pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to pay the Underwriter the Underwriter’s Fee equal to 7% of the aggregate gross proceeds from the Offering. As additional compensation, the Corporation will issue such number of Compensation Options to the Underwriter as is equal to 7% of the aggregate number of Units sold. Each Compensation Option entitles the holder thereof to purchase one Unit at the Offering Price for a period of 24 months after the Closing Date. This Prospectus also qualifies the distribution of the Compensation Options and the distribution of the Unit Shares and Warrant Shares underlying such Compensation Options to the Underwriter.

Pursuant to the terms of the Underwriting Agreement, the Corporation has agreed to reimburse the Underwriter for certain expenses incurred in connection with the Offering and to indemnify the Underwriter and any of its affiliates and each of their directors, officers, employees and securityholders against certain liabilities and expenses and to contribute to payments the Underwriter may be required to make in respect thereof.

Under the Underwriting Agreement, the Corporation has agreed to indemnify and hold harmless the Underwriter and its affiliates and subsidiaries, and their respective directors, officers, partners, agents, employees, and each other person, if any, controlling the Underwriter or its subsidiaries and affiliates against certain liabilities, including civil liabilities under Canadian securities legislation, and to contribute to payments the Underwriter may be required to make in respect thereof.

The Corporation has applied to list the Unit Shares and Warrant Shares on the TSXV. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSXV. The Corporation has applied to list its Common Shares and the warrants to be issued in the US IPO on Nasdaq, subject to approval of the listing application by Nasdaq and the Registration Statement being declared effective by the SEC. If Nasdaq does not approve the listings of the Corporation’s Common Shares and the warrants to be issued in the US IPO, the Corporation will not proceed with this Offering or the US IPO. The Corporation’s Common Shares and the warrants issued under the US IPO are expected to commence trading on Nasdaq one day after the pricing of the US IPO. In order to meet Nasdaq’s initial listing criteria, all Common Units being offered in the US IPO as well as all the Units being offered in this Offering will need to be sold. It is also a condition precedent to the Underwriter’s obligation to purchase the securities being offered in this Offering, and a condition precedent to the US Underwriter’s (as such term is defined herein) obligation to purchase the securities being offered in the US IPO that Nasdaq approve the listing of our Common Shares and warrants to be issued under the US IPO. Accordingly, if Nasdaq does not approve the listing of our Common Shares and warrants to be issued under the US IPO, we will not and cannot proceed with this Offering. See “Risk Factors”.

Pursuant to policy statements of certain securities regulators, the Underwriter may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions including: (i) a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry

Regulatory Organization of Canada relating to market stabilization and passive market making activities, (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution, provided that the bid or purchase was for the purpose of maintaining a fair and orderly market and not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities, or (iii) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. Consistent with these requirements, and in connection with the Offering, the Underwriter may effect transactions that are intended to stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail in the open market. If these activities are commenced, they may be discontinued by the Underwriter at any time. The Underwriter may carry out these transactions on the TSXV, in the over-the-counter market or otherwise.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriter at any time. The Underwriter may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or as otherwise permitted by applicable law.

The Underwriter proposes to offer the Units to the public initially at the Offering Price. After the Underwriter has made a reasonable effort to sell all of the Units at the Offering Price, the offering price for the Units may be decreased and may be further changed from time to time to amounts not greater than the Offering Price, and the compensation realized by the Underwriter will be decreased by the amount that the aggregate price paid by the purchasers of the Units is less than the amount paid by the Underwriter to the Corporation. Any such reduction will not affect the net proceeds received by the Corporation.

Subscriptions for the Units will be received subject to rejection or allotment, in whole or in part, and the Underwriter reserve the right to close the subscription books at any time without notice. Closing of the Offering is expected to take place on or about ●, 2022, or such other date as may be agreed upon by the Corporation and the Underwriter. It is anticipated that the Units will be delivered under the book-based system through CDS or its nominee and deposited in electronic form, or will otherwise be delivered registered as directed by the Underwriter, on the Closing Date. Except in limited circumstances, a purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Units on behalf of owners who have purchased Units in accordance with the book-based system. No definitive certificates will be issued unless specifically requested or required.

The Units, Unit Shares, Warrants and Warrant Shares have not been and will not be registered under the 1933 Act or any state securities laws and may not be offered, sold or delivered, directly or indirectly, to, or for the account or benefit of, persons in the United States or U.S. Persons. The Offering is being made in each of the provinces of Canada, except Québec, pursuant to the exclusion from the registration requirements of the 1933 Act afforded by Rule 903 of Regulation S. The Underwriter will agree that it will not offer or sell the Units at any time to, or for the account or benefit of, persons in the United States or U.S. Persons as part of its distribution. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Units to, or for the account or benefit of, a person in the United States.

PRIOR SALES

For the twelve-month period prior to the date of this Prospectus, the Corporation issued the following Common Shares and securities convertible into or exchangeable for Common Shares:

Common Shares

Date of issuance	Number of Common Shares (Pre-Consolidation)	Price per Share
September 7, 2022	16,696	\$0.175
August 25, 2022	296,754	\$0.175
August 4, 2022	25,000	\$0.59
July 14, 2022	1,600,000	\$0.215

Date of issuance	Number of Common Shares (Pre-Consolidation)	Price per Share
May 2, 2022	80,000	\$0.52
April 30, 2022	237,500	\$1.65
April 30, 2022	24,000	\$1.24
April 30, 2022	100,000	\$1.96
April 22, 2022	61,264	\$1.36
April 19, 2022	200,000	\$0.20
March 30, 2022	200,000	\$0.20
March 29, 2022	40,000	\$0.20
March 28, 2022	40,000	\$0.20
March 18, 2022	475,000	\$0.20
March 15, 2022	125,000	\$0.20
March 15, 2022	650,000	\$0.37
March 11, 2022	350,000	\$0.37
February 11, 2022	12,600	\$0.93
February 1, 2022	7,746	\$0.66
January 19, 2022	75,000	\$1.24
December 31, 2021	250,000	\$0.50
December 16, 2021	5,790	\$1.38
December 15, 2021	277,576	\$1.36
October 25, 2021	10,000	\$1.90
September 22, 2021	34,609	\$1.25
September 22, 2021	34,609	\$1.75
September 20, 2021	86,400	\$1.75
September 17, 2021	124,800	\$1.75
September 16, 2021	50,200	\$1.75
September 16, 2021	750,000	\$2.00

Warrants

Date of issuance	Number of Warrants (Pre-Consolidation)	Exercise price	Expiry date
July 14, 2022	800,000	\$0.285	July 14, 2024
December 15, 2021	200,000	\$1.72	December 15, 2024
September 22, 2021	34,609	\$1.01	April 23, 2023
September 16, 2021	750,000	\$2.35	September 16, 2023
September 16, 2021	45,000	\$2.00	September 16, 2023

Options

Date of issuance	Number of Options (Pre-Consolidation)	Exercise price	Expiry date
July 24, 2022	300,000	\$0.205	75,000 each on October 24, 2022, January 24, 2023, April 24, 2023, and July 24, 2023
January 4, 2022	100,000	\$1.24	25,000 each on July 4, 2022, January 4, 2023, July 4, 2023, and January 4, 2024
November 30, 2021	215,000	\$1.81	53,750 each on February 28, 2022, May 28, 2022, August 28, 2022, and November 28, 2022
October 20, 2021	50,000	\$1.70	Expired

Restricted Share Units (RSUs)

Date of issuance	Number of RSUs (Pre-Consolidation)	Exercise price	Expiry date
March 31, 2022	550,000	\$0.59	137,500 each on June 30, 2022, September 30, 2022, December 30, 2022, and March 30, 2023

Date of issuance	Number of RSUs (Pre-Consolidation)	Exercise price	Expiry date
March 11, 2022	128,204	\$0.40	32,051 each on June 11, 2022, September 11, 2022, December 11, 2022, and March 11, 2023
January 4, 2022	72,580	\$1.24	18,145 each on April 4, 2022, July 4, 2022, October 4, 2022, and January 4, 2023

Performance Share Units (PSUs)

Date of issuance	Number of PSUs (Pre-Consolidation)	Exercise price	Expiry date
March 31, 2022	1,200,000	\$0.59	September 30, 2022
March 11, 2022	20,000	\$0.40	September 30, 2022

TRADING PRICE AND VOLUME

Our Common Shares are listed for trading on the TSXV under the symbol KWE.V since September 22, 2020 and on the OTCQB ® under the symbol KWEMF since February 4, 2021. On March 29, 2022, the Common Shares commenced trading on the Frankfurt Stock Exchange under the symbol “62U.” The following table sets out the price range and trading volume (Pre-Consolidation) of the Common Shares as reported by the TSXV for the periods indicated.

<u>Calendar Period</u>	<u>Monthly High Price</u>	<u>Monthly Low Price</u>	<u>Monthly Volume</u>
2021			
September	\$2.68	\$1.78	4,015,416
October	\$2.06	\$1.56	1,855,910
November	\$2.07	\$1.68	1,162,229
December.....	\$1.90	\$1.18	1,542,939
2022			
January	\$1.30	\$0.61	2,175,097
February.....	\$0.92	\$0.49	1,851,966
March.....	\$0.76	\$0.38	2,361,487
April.....	\$0.63	\$0.47	448,015
May.....	\$0.53	\$0.32	979,585
June.....	\$0.35	\$0.21	592,958
July	\$0.24	\$0.18	361,321
August.....	\$0.27	\$0.14	718,585
September	\$0.21	\$0.11	780,143
October 1 st to October 27 th	\$0.13	\$0.08	368,236
October 28 th to October 31 st . ⁽¹⁾	\$6.30	\$6.30	11
November (until November 4 th) ⁽¹⁾	\$7.29	\$6.00	1,688

Notes:

(1) Reflects the Consolidation that became effective on the TSXV on October 28, 2022.

On August 31, 2021, the Warrants issued in KWESST’s private placement that closed on April 2021 were listed for trading on the TSXV under the symbol “KWE.WT.” For more information, see “General Development of the Business – Three Year Business Development – Fiscal 2021 Highlights” in the AIF. The following table sets forth information relating to the trading (Pre-Consolidation) of the Warrants on the TSXV for the periods indicated.

<u>Calendar Period</u>	<u>Monthly High Price</u>	<u>Monthly Low Price</u>	<u>Monthly Volume</u>
2021			
September.....	\$0.90	\$0.31	559,800
October.....	\$0.75	\$0.30	149,980
November.....	\$0.47	\$0.35	11,183
December.....	\$0.35	\$0.20	10,500
2022			
January.....	\$0.25	\$0.16	27,000
February.....	\$0.16	\$0.15	9,000
March.....	\$0.14	\$0.05	30,100
April.....	-	-	-
May.....	-	-	-
June.....	-	-	-
July.....	-	-	-
August.....	-	-	-
September.....	-	-	-
October 1 st to October 27 th	-	-	-
October 28 th to October 31 st (1)	-	-	-
November (until November 4 th)(1)	-	-	-

Notes:

(1) Reflects the Consolidation that became effective on the TSXV on October 28, 2022.

PROMOTER

During the two years immediately preceding the date of this Prospectus, the promoters of the Corporation have been as follows:

Promoter	Number of Securities Beneficially owned as of the date of this Prospectus⁽¹⁾	% of Common Shares Beneficially owned without giving effect to this Offering⁽¹⁾	% of Common Shares Beneficially owned after giving effect to the US IPO⁽¹⁾	% of Common Shares Beneficially owned after giving effect to this Offering and the US IPO⁽¹⁾
2573685 Ontario Inc. ⁽²⁾	9,895,244 Common Shares	19.0	●	●
Jeffrey MacLeod	1,840,000 Warrants ⁽³⁾	14.2	●	●

Notes:

- (1) On a Pre-Consolidation basis; the Consolidation became effective on the TSXV on October 28, 2022 and the common shares began trading on a Post-Consolidation basis at that date.
- (2) A private holding company owned as to 50% by Jeffrey MacLeod, the President and CEO of the Company, and 50% by his spouse.
- (3) Each warrant entitles its holder to purchase one Common Share at a price of \$0.20 per Common Shares until June 14, 2024, including 1,000,000 held by his spouse

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Corporation, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the Tax Act and the Regulations generally applicable to the acquisition, holding and disposition of Unit Shares, Warrants and Warrant Shares. This summary is applicable to a holder who acquires, as beneficial owner, Units pursuant to the Offering and who, for purposes of the Tax Act and the Regulations and at all relevant times: (i) holds the Unit Shares and Warrants issued under the Offering and the Warrant Shares issuable pursuant to the Warrants as capital property, (ii) deals at arm’s length with the Corporation and the Underwriter, and (iii) is not affiliated with the Corporation, the Underwriter or a subsequent purchaser of the Unit Shares, Warrants or Warrant Shares (a “**Holder**”).

The Unit Shares, Warrants and Warrant Shares will generally be considered capital property to a Holder unless either the Holder holds such Unit Shares, Warrants or Warrant Shares in the course of carrying on a business of buying and selling securities or the Holder has acquired the Unit Shares, Warrants or Warrant Shares (or is deemed to have acquired them) in a transaction or series of transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Holder: (i) that is a “specified financial institution” as defined in the Tax Act; (ii) that is, for purposes of certain rules (referred to as the mark-to-market rules), a “financial institution”, as defined in the Tax Act; (iii) an interest in which is a “tax shelter investment” within the meaning of the Tax Act; (iv) that has elected to report its “Canadian tax results”, as defined in the Tax Act, in a currency other than the Canadian currency; (v) that has entered or will enter into a “synthetic disposition arrangement” or a “derivative forward agreement”, each as defined in the Tax Act, with respect to such Unit Shares, Warrants or Warrant Shares, (vi) that is exempt from tax under Part I of the Tax Act; (vii) that is a partnership, or (viii) that receives dividends on Unit Shares or Warrant Shares under or as part of a “dividend rental arrangement”, as defined in the Tax Act. Additionally, this summary does not address the deductibility of interest by a Holder who has borrowed money or otherwise incurred debt in connection with the acquisition of Unit Shares, Warrants or Warrant Shares. Such Holders should consult their own tax advisors.

Additional considerations, not discussed herein, may be applicable to a Holder that is a corporation resident in Canada and is, or does not deal at arm’s length with a corporation resident in Canada for purposes of the Tax Act that is, or becomes, as part of a transaction or event or series of transactions or events that includes the acquisition of the Unit Shares, Warrants or Warrant Shares, controlled by a non-resident person or a group of non-resident persons that do not deal with each other at arm’s length (within the meaning of the Tax Act) for purposes of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act. Such Holders should consult their tax advisors with respect to the consequences of acquiring the Unit Shares, Warrants or Warrant Shares.

This summary is based on the current provisions of the Tax Act and the Regulations in force as of the date hereof, and specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Proposals”), the current provisions of the Canada-United States Tax Convention (1980), as amended (the “Canada-U.S. Tax Convention”) and counsels’ understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) published in writing prior to the date hereof. No assurance can be given that the Proposals will be enacted as proposed, if at all. This summary does not take into account or anticipate any other changes in law, whether by legislative, regulatory, administrative or judicial decision or action or changes in the administrative policies or assessing practices of the CRA, is not exhaustive of all Canadian federal income tax considerations and does not take into account other federal tax considerations or provincial, territorial or foreign income tax legislation or considerations which may differ significantly from the Canadian federal income tax considerations discussed in this summary.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. This summary is not exhaustive of all Canadian federal income tax considerations applicable to a Holder acquiring Units pursuant to the Offering. Prospective Holders should consult their own tax advisors with respect to the income tax consequences of investing in Units based on the Holder’s particular circumstances.

Allocation of the Offering Price

The total Offering Price to a Holder must be allocated on a reasonable basis between the Unit Share and the Warrant comprising the Unit to determine the cost of each for purposes of the Tax Act. The Corporation intends to allocate US\$● of the Offering Price as consideration for the issue of each Unit Share and US\$● of the Offering Price as consideration for the issue of each Warrant. Although the Corporation believes that its allocation is reasonable, it is not binding on the CRA or the Holder. Counsels express no opinion with respect to such allocation.

Adjusted Cost Base of Unit Shares

The Holder’s adjusted cost base of the Unit Share comprising a part of each Unit will be determined by averaging the cost allocated to the Unit Share with the adjusted cost base to the Holder of all of the Common Shares of the Corporation (determined immediately before the acquisition of the Unit Share) owned by the Holder as capital property immediately prior to such acquisition.

Exercise or Expiry of Warrants

The exercise of a Warrant to acquire a Warrant Share will not constitute a disposition of property for the purposes of the Tax Act and, consequently, no gain or loss will be realized by a Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder’s cost of the Warrant Share acquired thereby will be the aggregate of the Holder’s adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder’s adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Holder of all of the

Common Shares of the Corporation (determined immediately before the acquisition of the Warrant Share) owned by the Holder as capital property immediately prior to such acquisition.

The expiry of an unexercised Warrant will generally result in a capital loss to the Holder equal to the adjusted cost base of the Warrant to the Holder immediately before its expiry. The tax treatment of capital losses is discussed in greater detail below under the subheading “Residents of Canada - Taxation of Capital Gains and Capital Losses”.

Holders Resident of Canada

The following section of this summary applies to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, is or is deemed to be resident in Canada at all relevant times (a “**Canadian Holder**”). A Canadian Holder whose Unit Shares might not otherwise constitute capital property may make, in certain circumstances, an irrevocable election permitted by subsection 39(4) of the Tax Act to have the Unit Shares and Warrant Shares, and all other “Canadian securities” (as defined in the Tax Act) held by such Canadian Holder in the taxation year of the election and in all subsequent taxation years, deemed to be capital property. This election does not apply to Warrants. Canadian Holders should consult their own tax advisors regarding this election.

Dispositions of Unit Shares, Warrants and Warrant Shares

A Canadian Holder who disposes of or is deemed to dispose of a Unit Share or Warrant Share (other than to the Corporation, unless purchased by the Corporation in the open market in the manner in which shares are normally purchased by any member of the public in the open market), or a Warrant (other than a disposition arising on the exercise or expiry of a Warrant), will realize a capital gain (or incur a capital loss) equal to the amount by which the Canadian Holder’s proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the aggregate of the adjusted cost base of such Unit Shares, Warrants or Warrants Shares, as the case may be, to the Canadian Holder immediately before the disposition. The taxation of capital gains and losses is described below under the subheading “Taxation of Capital Gains and Capital Losses”.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized by a Canadian Holder must be included in income for the taxation year of disposition and one-half of any capital loss (an “**allowable capital loss**”) incurred by a Canadian Holder is generally required to be deducted against any taxable capital gains realized in the same taxation year. Any excess of allowable capital losses over taxable capital gains for the year of disposition (or deemed disposition) is generally deductible against net taxable capital gains realized in any of the three prior taxation years or in any subsequent taxation year in the circumstances and to the extent described in the Tax Act.

The amount of any capital loss realized on the disposition (or deemed disposition) of a Unit Share or Warrant Share by a Canadian Holder that is a corporation may be reduced by the amount of dividends (including deemed dividends) received (or deemed to be received) by the Canadian Holder on such Unit Share or Warrant Share or a share substituted for such share in the circumstances and to the extent prescribed by the Tax Act. Similar rules may apply where a corporation is, directly or through a trust or partnership, a member of a partnership or a beneficiary of a trust which owns Unit Shares or Warrant Shares.

A Canadian Holder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be subject to an additional refundable tax in respect of its “aggregate investment income” for the year (which is defined in the Tax Act to include an amount in respect of taxable capital gains).

Dividends

Dividends received or deemed to be received by a Canadian Holder on the Unit Shares or Warrant Shares will be included in computing the Canadian Holder’s income for purposes of the Tax Act. The gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations will apply to dividends received by an individual (other than certain trusts). An enhanced gross-up and dividend tax credit will be available to individuals in respect of “eligible dividends” designated by the Corporation to the Canadian Holder in accordance with the provisions of the Tax Act. Dividends received by a corporation will normally be deductible in computing its taxable income. There may be limitations on the ability of the Corporation to designate dividends or deemed dividends as eligible dividends.

A corporation that is a “private corporation” or a “subject corporation” for purposes of the Tax Act generally will be liable to pay a refundable tax on dividends received or deemed to be received on the Unit Shares or Warrant Shares to the extent that such dividends are deductible in computing the corporation’s taxable income.

In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Canadian Holder that is a corporation on Unit Shares or Warrant Shares as proceeds of disposition or a capital gain. Canadian Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

Alternative Minimum Tax

Capital gains realized (or deemed to be realized) and dividends received (or deemed to be received) by a Canadian Holder that is an individual or a trust, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act. Canadian Holders should consult their own tax advisors with respect to the application of alternative minimum tax.

Holders Non-Resident of Canada

The following section of this summary is generally applicable to a Holder who, at all relevant times, (i) for the purposes of the Tax Act and any applicable income tax treaty or convention, is not resident or deemed to be resident in Canada at any time while the Holder holds the Unit Shares, Warrants or Warrant Shares; and (ii) does not use or hold and is not deemed to use or hold the Unit Shares, Warrants or Warrant Shares in the course of carrying on a business or part of a business in Canada (a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere or an “authorized foreign bank” as defined in the Tax Act. The term “U.S. Holder”, for the purposes of this summary, means a Non-Resident Holder who, for purposes of the Canada-U.S. Tax Convention, is at all relevant times a resident of the United States and a “qualifying person” within the meaning of the Canada-U.S. Tax Convention. In some circumstances, persons deriving amounts through fiscally transparent entities (including limited liability companies) may be entitled to benefits under the Canada-U.S. Tax Convention. U.S. Holders are urged to consult their own tax advisors to determine their entitlement to benefits under the Canada-U.S. Tax Convention based on their particular circumstances.

Dividends

Dividends paid or credited (or deemed to be paid or credited) to a Non-Resident Holder on the Unit Shares or Warrant Shares will generally be subject to Canadian withholding tax at a rate of 25%, subject to reduction under the provisions of an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

Such rate is generally reduced under the Canada-U.S. Tax Convention to 15% if the beneficial owner of such dividend is a U.S. Holder. The rate of withholding tax is further reduced to 5% if the beneficial owner of such dividend is a U.S. Holder that is a company that owns at least 10% of the voting stock of the Corporation. Non-Resident Holders should consult their own tax advisors regarding the application of any applicable tax treaty or convention to dividends based on their particular circumstances.

Dispositions of Unit Shares, Warrants and Warrant Shares

Generally, a Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition of Unit Shares, Warrants or Warrant Shares unless such securities constitute (or are deemed to constitute) “taxable Canadian property” to the Non-Resident Holder for purposes of the Tax Act and the gain is not exempt from tax pursuant to the terms of an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

Provided that the Unit Shares and Warrant Shares are then listed on a “designated stock exchange” within the meaning of the Tax Act (which includes the TSXV), the Unit Shares, Warrants and Warrant Shares will generally not constitute taxable Canadian property of the Non-Resident Holder unless at any time during the 60-month period immediately preceding their disposition or deemed disposition, the following two conditions are met concurrently: (a) one or any combination of (i) the Non-Resident Holder, (ii) persons with whom the Non-Resident Holder did not deal at arm’s length for the purposes of the Tax Act, and/or (iii) partnerships in which the Non-Resident Holder or a person described in (ii) held a membership interest (either directly or indirectly through one or more partnerships), owned 25% or more of the issued shares of any class or series of shares of the Corporation’s capital stock, and (b) at such time, more than 50% of the fair market value of the Corporation’s securities was derived directly or indirectly from one, or any combination of, real or immovable property situated in Canada, Canadian

resource properties (as defined in the Tax Act), timber resource properties (as defined in the Tax Act) or an option in respect of, or an interest in, or for civil law a right in, such property. Certain provisions of the Tax Act may deem property to be “taxable Canadian property” of a Non-Resident Holder in specific circumstances.

Even if a Unit Share, Warrant or Warrant Share is taxable Canadian property to a Non-Resident Holder, any capital gain realized upon the disposition of such securities may not be subject to tax under the Tax Act if such capital gain is exempt from Canadian tax pursuant to the provisions of an applicable income tax treaty or convention.

A Non-Resident Holder’s capital gain (or capital loss) in respect of Unit Shares, Warrants or Warrant Shares that constitute or are deemed to constitute taxable Canadian property (and are not “treaty-protected property” as defined in the Tax Act) will generally be computed in the manner described above under the subheadings “Holders Resident of Canada – Dispositions of Unit Shares, Warrants and Warrant Shares” and “Holders Resident of Canada – Taxation of Capital Gains and Capital Losses”.

Non-Resident Holders whose Unit Shares, Warrants or Warrant Shares are taxable Canadian property should consult their own tax advisors.

RISK FACTORS

An investment in the Units offered hereby is subject to certain risks. **In addition to the risk factors set forth herein, additional risk factors relating to the Corporation’s business are discussed in the AIF and in the MD&A, which risk factors are incorporated herein by reference.** The Corporation considers these risks to be the most significant to potential investors in the Corporation, but do not represent all of the risks associated with an investment in securities of the Corporation. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the board of directors of the Corporation are currently unaware or which they consider not to be material in relation to the Corporation’s business, actually occur, the Corporation’s assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. Such risks discussed below also include forward-looking information and the Corporation’s actual results may differ substantially from those discussed in these forward-looking statements.

Risks Relating to the Corporation

We are an early-stage company.

We are an early-stage company and as such, we are subject to many risks including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenue. There is no assurance that we will be successful in achieving a return on shareholders’ investment and the likelihood of success must be considered in light of our early stage of operations. Our prospects must be considered speculative in light of the risks, expenses, and difficulties frequently encountered by companies in their early stages of operations, particularly in the highly competitive and rapidly evolving markets in which we operate. To attempt to address these risks, we must, among other things, successfully implement our business plan, marketing, and commercialization strategies, respond to competitive developments, and attract, retain, and motivate qualified personnel. A substantial risk is involved in investing in us because, as a smaller commercial enterprise that has fewer resources than an established company, our management may be more likely to make mistakes, and we may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond our control.

We currently have negative operating cash flows.

Since inception, we have generated significant negative cash flow from operations, financed in great part through equity financing. There can be no certainty that we will ever achieve or sustain profitability or positive cash flow from our operating activities. In addition, our working capital and funding needs may vary significantly depending upon a number of factors including, but not limited to:

- progress of our manufacturing, licensing, and distribution activities;
- collaborative license agreements with third parties;
- opportunities to license-in beneficial technologies or potential acquisitions;
- potential milestone or other payments that we may make to licensors or corporate partners;
- technological and market consumption and distribution models or alternative forms of proprietary technology for game-changing applications in the military and homeland security market that affect our potential revenue levels or competitive position in the marketplace;

- the level of sales and gross profit;
- costs associated with production, labor, and services costs, and our ability to realize operation and production efficiencies;
- fluctuations in certain working capital items, including product inventory, short-term loans, and accounts receivable, that may be necessary to support the growth of our business; and
- expenses associated with litigation.

While we expect to become profitable in 12-24 months from the date of this Prospectus, there is no guarantee that it will happen, and we may never become profitable. To date, we have generated limited revenues and a large portion of our expenses are fixed, including expenses related to facilities, equipment, contractual commitments and personnel. With the anticipated commercialization for certain of our product offerings during Fiscal 2023, we expect our net losses from operations will improve. Our ability to generate additional revenues and potential to become profitable will depend largely on the timely productization of our products, coupled with securing timely, cost-effective outsourced manufacturing, order processing, warehousing, pick and pack and shipping arrangements and marketing our products. There can be no assurance that any such events will occur or that we will ever become profitable. Even if we achieve profitability, we cannot predict the level of such profitability. If we sustain losses over an extended period of time, we may be unable to continue our business.

A significant portion of our revenues are non-recurring.

A significant portion of our revenue for Fiscal 2021 was prior to commercial production of TASCs IFM and considered to be non-recurring. While we expect to reach commercialization stage for certain product offerings during Fiscal 2023, there is no assurance we will succeed.

With the completion of the PARA OPS system technology acquisition in April 2021, we expect to launch the commercialization of our non-lethal PARA OPS devices during Fiscal 2023 which we anticipate will drive product revenue on a monthly basis with the use of distributors and an e-commerce platform. However, there is no assurance that we will successfully complete timely the productization of our PARA OPS devices or obtain market acceptance of these products.

Global inflationary pressure may have an adverse impact on our gross margins and our business.

Since December 31, 2021, we have experienced increases in global inflation, resulting in an increase in cost for some of the raw materials (batons / custom chemicals and casings) that we source to manufacture the ammunition for our ARWEN launchers. However, this increase in cost had a small negative impact to the overall gross margin earned from the sales of ARWEN ammunition (our current gross margin for ammunition is greater than 30% excluding indirect costs).

As we are not yet in the production phase for digitization and counter-threat business lines, we do not currently procure large volume of raw materials and therefore the current inflation is negligible for these business lines except for labor costs relating to research and development activities. During Fiscal 2022, we incurred significant payroll cost increases for some of our employees in order to retain and hire engineers given the strong local demand for experienced software and hardware engineers. While we believe we will be able to pass on this inflation cost to our prospect military customers, there is no assurance that we will succeed. Accordingly, continued inflationary pressure may have an adverse impact on our gross margins and could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We will be subject to regulation in the United States for our non-lethal systems.

While our PARA OPS devices are non-lethal (based on the kinetic energy of our projectiles), these are automatically classified as form of a firearm under the United States Bureau of Alcohol, Tobacco and Firearms (“ATF”) rules and regulations because we use pyrotechnic based primers in our proprietary ammunition cartridges. We have therefore self-classified our .67 caliber PARA OPS single shot device as not only a firearm, but a “destructive device” in accordance with the ATF regulations. We intend to self-classify our other PARA OPS devices as a form of a firearm under ATF regulations until such time we have found an alternative for primers (*i.e.*, a non-pyrotechnic gas generator) to launch our projectiles, and therefore be subject to ATF regulations. We are currently reviewing an alternative to replace the primer. While we are confident of identifying an alternative by the end of Q1 Fiscal 2023 in order to offer “non-firearm” PARA OPS devices to the consumers market, there is no assurance that we will succeed and consequently this may adversely affect our future revenues and related results of operations, business, prospects, and financial condition. Further, in the event we have implemented an alternative to replace the primer and then self-classify our PARA OPS devices as “non-firearm”, there is no assurance that the ATF may not contest our self-classification, which could result in discontinuing sales to consumers with no firearm license where required by state

law. Accordingly, this could also adversely affect our future revenues and related results of operations, business, prospects, and financial condition.

Because our business model relies on outsourced production, we have no plans of becoming a firearm manufacturer in the United States but rather to continue to partner with a FFL manufacturer for the production and distribution of our PARA OPS products. Accordingly, post commercialization in the United States the burden to comply with ATF rules and regulations applicable to the manufacturing and distribution process will be with our FFL business partners. Our primary risk of governmental interruption of manufacturing and distribution therefore lies within the operations and attendant internal control environment of our FFL business partners.

Furthermore, with respect to transfers to end users (government, military, or consumer), the obligation to comply with ATF rules and regulations and any applicable state laws resides with the downstream FFL wholesaler/distributor/retailer and any penalties levied upon such parties do not flow up the distribution chain.

Risks Relating to the Offering

Potential Loss of Investment

An investment in the Units of the Corporation is speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high-risk investments and who can afford to lose their entire investment should consider purchasing the Units of the Corporation, as there is no assurance that the Corporation will commence commercial production.

Reduced Liquidity as a Result of the Consolidation

The liquidity of the Common Shares may be affected adversely by the Consolidation given the reduced number of shares that are now outstanding, especially if the market price of our Common Shares does not increase as a result of the Reverse Split. In addition, the Reverse Split may increase the number of stockholders who own odd lots (less than 100 shares) of our Common Shares, creating the potential for such shareholders to experience an increase in the cost of selling their shares and greater difficulty effecting such sales. Although the Corporation believes that a higher market price of its Common Shares may help generate greater or broader investor interest, there can be no assurance that our increased share price following the Consolidation will actually attract new investors, including institutional investors. In addition, there can be no assurance that the market price of our Common Shares will satisfy the investing requirements of those investors. As a result, the trading liquidity of our Common Shares may not necessarily improve.

Nasdaq Listing as a Condition Precedent

This Offering is contingent on the approval of our Nasdaq listing application to list our Common Shares and warrants issued under the US IPO on the Nasdaq and the sale of all Common Units in the US IPO as well as all Units being offered in this Offering. It is also a condition precedent to the Underwriter's obligation to purchase the securities being offered in this Offering, and a condition precedent to the US Underwriter's obligation to purchase the securities being offered in the US IPO, that Nasdaq approve the listing of our Common Shares and warrants to be issued under the US IPO. Accordingly, if Nasdaq does not approve the listing of our Common Shares and warrants to be issued under the US IPO, we will not and cannot proceed with this Offering.

Compliance with the Minimum Bid Price Requirement of Nasdaq

The Consolidation was intended, among other reasons, to allow us to achieve the requisite increase in the market price of our Common Shares to be in compliance with the minimum bid price of Nasdaq. Although our share price meets such minimum bid price requirements as of the date hereof, there is no guarantee that the price of our Common Shares will stay above the minimum requirements for the time period required by Nasdaq. Further, there can be no assurance that the market price of our Common Shares will remain at the level required for continuing compliance with the minimum price requirements. It is not uncommon for the market price of a company's common shares to decline in the period following a reverse stock split. If the market price of our Common Shares declines, the percentage decline may be greater than would have occurred in the absence of the Consolidation. If the market price of our common were to experience such a decline, or if other factors unrelated to the number of shares of our Common Shares outstanding, such as negative financial or operational results, adversely affect the market price of our Common Shares, that may jeopardize our ability to meet or maintain the minimum bid price requirement of the exchange on which our Common Shares is listed.

Use of Proceeds of an Offering

Management will have discretion concerning the use of the proceeds of an Offering as well as the timing of their expenditure. As a result, an investor will be relying on the judgment of management for the application of the proceeds of an Offering. Management may use the net proceeds of an Offering other than as described under the heading “*Use of Proceeds*” in this Prospectus if they believe it would be in the Corporation’s best interest to do so and in ways that an investor may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the Corporation’s results of operations may suffer.

Future Financings May Cause Dilution

The Corporation may sell additional equity securities, or securities convertible or exercisable into equity securities, in subsequent offerings to finance its operations. The Corporation cannot predict the size of future sales and issuances of equity securities or the effect, if any, that future sales and issuances of equity securities will have on the market price of the Common Shares. Sales or issuances of a substantial number of equity securities or the perception that such sales could occur, may have a material adverse effect on the prevailing market prices for the Common Shares. With any additional sale or issuance of equity securities, investors will suffer dilution of the voting power and may experience dilution in the Corporation’s earnings per Common Share.

Forward-Looking Information May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Current Global Financial Condition

Current global financial conditions have been subject to increased volatility and access to debt and equity financing has been, or may be, negatively impacted by the liquidity crisis and market turmoil. These factors, which include the nature, effects and timing of administrative and legislative change, may impact the ability of the Corporation to obtain equity financing in the future whether on terms favourable to the Corporation or at all. If these increased levels of volatility and market turmoil continue, or worsen, the Corporation’s operations could be adversely impacted and the trading price of the Common Shares could be adversely affected.

Absence of a Public Market for Warrants

There is no public market for the Warrants, and the Corporation does not intend to apply for listing of the debt securities, warrants, subscription receipts or units on any securities exchanges. If the Warrants are traded after their initial issuance, they may trade at a discount from their initial offering prices depending on prevailing interest rates (as applicable), the market for similar securities and other factors, including general economic conditions and the Corporation’s financial condition. There can be no assurance as to the liquidity of the trading market for the debt securities, warrants, subscription receipts or units, or that a trading market for these Warrants will develop at all.

Market Price of Common Shares

The trading prices of TSXV-listed and Nasdaq-listed companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada, North America and globally, and market perceptions of the attractiveness of particular industries. The trading price of the Common Shares is also likely to be significantly affected by changes from time to time in the Corporation’s operating results, financial condition, liquidity and other internal factors.

No Current Plans to Pay Cash Dividends

The Corporation has no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the board of directors and will depend on, among other things, the Corporation’s financial results, cash requirements, contractual restrictions and other factors that the board of directors may deem relevant. In addition, the Corporation’s ability to pay dividends may be limited by covenants of any existing and future

outstanding indebtedness that the Corporation or its subsidiaries incur. As a result, investors may not receive any return on an investment in their Units unless they sell their Units for a price greater than which they paid for them.

If any of the foregoing events, or other risk factor events not described herein occur, the Corporation's business, financial condition or results of operations could suffer. In that event, the market price of the Corporation's securities could decline and investors could lose all or part of their investment.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are KPMG LLP, with offices at 150 Elgin St Suite 1800, Ottawa, Ontario, K2P 2P8.

The transfer agent and registrar for our Common Shares is TSX Trust Company at its Vancouver office located at 650 West Georgia Street, suite 2700, Vancouver, British Columbia, V6B 4N9.

LEGAL MATTERS

Certain legal matters in respect of the Offering, including the matters referred to under "Eligibility for Investment" and "Canadian Federal Income Tax Considerations", will be passed upon on our behalf by Fasken Martineau DuMoulin LLP. As at the date hereof, the partners and associates of Fasken Martineau DuMoulin LLP, as a group, and the partners and associates of DS Lawyers Canada LLP, as a group, each beneficially owned, directly or indirectly, less than one percent of our outstanding Common Shares.

INTERESTS OF EXPERTS

The Annual Financial Statements included in this Prospectus have been audited by the Corporation's auditors, KPMG LLP, with offices at 150 Elgin St Suite 1800, Ottawa, Ontario, K2P 2P8. KPMG LLP have advised us that they are independent of the Corporation within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

The audited financial statements for the nine-month period ended September 30, 2020 incorporated in the Annual Financial Statements included in this Prospectus have been audited by the Corporation's former auditors, Kreston GTA LLP, located at 8953 Woodbine Ave, Markham, ON L3R 0J9. Kreston GTA LLP have advised that they are independent of the Corporation in accordance within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

Based on information provided by the relevant persons, and except as otherwise disclosed in this Prospectus, none of the persons or companies referred to above has received or will receive any direct or indirect interests in the Corporation's property or the property of an associated party or an affiliate of the Corporation or have any beneficial ownership, direct or indirect, of the Corporation's securities or of an associated party or an affiliate of the Corporation.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limits prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

In an offering of Units, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the Prospectus is limited, in certain provincial securities legislation, to the price at which the Unit is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon exercise of Warrants forming part of the Units, those additional amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchasers should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Mr. Paul Mangano is a director of the Corporation and resides outside of Canada. He has appointed us as agent for service of process at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3, Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person who resides outside of Canada, even if the party has appointed an agent for service of process.

CERTIFICATE OF THE CORPORATION

November 7, 2022

This short form prospectus, together with the documents incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(signed) *Jeffrey MacLeod*
Jeffrey MacLeod, CEO & President

(signed) *Steven Archambault*
Steven Archambault, CFO

On behalf of the Board of Directors

(signed) *David Luxton*
David Luxton, Director

(signed) *John McCoach*
John McCoach, Director

CERTIFICATE OF THE PROMOTER

November 7, 2022

This short form prospectus, together with the documents incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(signed) *Jeffrey MacLeod*

Jeffrey MacLeod, CEO & President

CERTIFICATE OF THE UNDERWRITER

November 7, 2022

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces of Canada, except Québec.

PI FINANCIAL CORP.

(signed) *Vay Tham*

Vay Tham, Managing Director, Investment Banking