

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-39389

**KWESST Micro Systems Inc.**

(Exact name of Registrant as specified in its charter)

**British Columbia**

(Jurisdiction of incorporation or organization)

**155 Terence Matthews Crescent, Unit #1, Ottawa, Ontario, Canada, K2M 2A8**

(Address of principal executive offices)

**Kris Denis, (613) 250-9752, denis@kwesst.com**

**155 Terence Matthews Crescent, Unit #1, Ottawa, Ontario, Canada, K2M 2A8**  
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Shares, no par value	KWE	Nasdaq Capital Market
Warrants	KWESW	Nasdaq Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: N/A

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 1,579,174 Common Shares

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the Company is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes

No

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Company has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Company was required to submit and post such files). Yes  No

Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark which basis of accounting the Company has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued By the International Accounting Standards Board

Other

If "Other" has been checked in response to previous question, indicate by check mark which financial statement item the Company has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## INTRODUCTION

In this Annual Report on Form 20-F (the "Annual Report"), "KWESST," "Company," "we," "us" and "our" refer to KWESST Micro Systems Inc. and its consolidated subsidiaries.

Information contained in this Annual Report is given as of September 30, 2024, the fiscal year end of Company, unless otherwise specifically stated.

Market and industry data used throughout this Annual Report was obtained from various publicly available sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainty inherent in any statistical survey of market size, conditions and prospects.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we file any of these documents as an exhibit to this Annual Report, you may read the document itself for a complete description of its terms.

Unless otherwise indicated, all references in this Annual Report to "dollars" or "CAD" or "\$" are to Canadian dollars and all references to "USD", "US\$" or "USDS\$" are to United States dollars.

The following table sets forth the rate of exchange for the Canadian dollar, expressed in United States dollars in effect at various times.

Canadian Dollars to U.S. Dollars	Year Ended September 30,	Year Ended September 30,
	2024	2023
High for period	0.7573	0.7617
Low for period	0.7207	0.7217
Average rate for period	0.7349	0.7416
Rate at end of period	0.7408	0.7396

The daily average exchange rate on December 23, 2024 as reported by the Bank of Canada for the conversion of USD into CAD was US\$1.00 equals CAD\$1.4395.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains "forward-looking statements" and "forward-looking information" within the meaning of applicable Canadian and United States securities laws (together, "forward-looking statements"). Such forward-looking statements include, but are not limited to, information with respect to our objectives and our strategies to achieve these objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. These forward-looking statements may be identified by the use of terms and phrases such as "may", "would", "should", "could", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", or "continue", the negative of these terms and similar terminology, including references to assumptions, although not all forward-looking statements contain these terms and phrases. Forward-looking statements are provided for the purposes of assisting the reader in understanding us, our business, operations, prospects and risks at a point in time in the context of historical and possible future developments and therefore the reader is cautioned that such information may not be appropriate for other purposes.

Forward-looking statements relating to us include, among other things, statements relating to:

- our expectations regarding our business, financial condition, results of operations and future capital raises;
- the future state of the legislative and regulatory regimes, both domestic and foreign, in which we conduct business and may conduct business in the future;
- our expansion into domestic and international markets;
- our ability to attract customers and clients;
- our marketing and business plans and short-term objectives;
- our ability to obtain and retain the licenses and personnel we require to undertake our business;
- our ability to deliver under contracts with customers;
- anticipated revenue from professional service contracts with customers;
- our strategic relationships with third parties;
- our anticipated trends and challenges in the markets in which we operate;
- governance of us as a public company; and
- expectations regarding future developments of products and our ability to bring these products to market.

Forward-looking statements are based upon a number of assumptions and are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the following risk factors:

- 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 our products;
- fluctuating prices of raw materials;
- pricing for products;
- ability to supply sufficient product;
- potential cancellation or loss of customer contracts if we are unable to meet contract performance requirements;
- expansion to other jurisdictions;
- damage to our 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 our employees, contractors and consultants;
- breaches of security at our facilities or in respect of electronic documents and data storage and risks related to breaches of applicable privacy laws;

- government regulations regarding public or employee health and safety regulations, including public health measures in the event of pandemics or epidemics;
- regulatory or agency proceedings, investigations and audits;
- additional capital requirements to support our operations and growth plans, leading to further dilution to shareholders;
- the terms of additional capital raises;
- conflicts of interest;
- litigation;
- risks related to United States' and other international activities, including regional conflicts that may impact our operations;
- risks related to security clearances;
- risks relating to the ownership of our securities, such as potential extreme volatility in the price of our securities;
- risks related to our foreign private issuer status;
- risks related to our emerging growth company status;
- risks related to our failure to meet the continued listing requirements of Nasdaq Capital Market ("Nasdaq"), particularly the minimum bid price requirements within the second extension period;
- risks related to shareholder vote required for a share consolidation to remediate our current Nasdaq minimum bid price deficiency;
- risks related to the liquidity of our common shares (the "Common Shares"); and
- significant changes or developments in U.S. trade policies and tariffs may have a material adverse effect on our business and financial statements.

Although the forward-looking statements contained in this Annual Report are based upon what we believe are reasonable assumptions, investors are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking statements. Certain assumptions were made in preparing the forward-looking statements concerning availability of capital resources, business performance, market conditions and customer demand.

Consequently, all of the forward-looking statements contained in this Annual Report are qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking statements contained in this Annual Report are provided as of the date hereof, and we do not undertake to update or amend such forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by applicable law.

#### STATUS AS AN EMERGING GROWTH COMPANY

We are an "emerging growth company" as defined in Section 3(a) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We will continue to qualify as an "emerging growth company" until the earliest to occur of: (a) the last day of the fiscal year during which we had total annual gross revenues of USD\$1,235,000,000 (as such amount is indexed for inflation every 5 years by the United States Securities and Exchange Commission ("SEC")) or more; (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of equity securities pursuant to an effective registration statement under the United States Securities Act of 1933, as amended (the "Securities Act"); (c) the date on which we have, during the previous 3-year period, issued more than USD\$1,000,000,000 in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer", as defined in Exchange Act Rule 12b-2. We expect to continue to be an emerging growth company for the immediate future.

Generally, a registrant that registers any class of its securities under Section 12 of the Exchange Act is required to include in the second and all subsequent annual reports filed by it under the Exchange Act a management report on internal control over financial reporting and, subject to an exemption available to registrants that are neither an "accelerated filer" or a "large accelerated filer" (as those terms are defined in Exchange Act Rule 12b-2), an auditor attestation report on management's assessment of internal control over financial reporting. However, for so long as we continue to qualify as an emerging growth company, we will be exempt from the requirement to include an auditor attestation report on management's assessment of internal controls over financial reporting in its annual reports filed under the Exchange Act, even if we were to qualify as an "accelerated filer" or a "large accelerated filer". In addition, Section 103(a)(3) of the Sarbanes-Oxley Act of 2002 (the "SOX") has been amended by the JOBS Act to provide that, among other things, auditors of an emerging growth company are exempt from any rules of the Public Company Accounting Oversight Board requiring a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the company.

#### FOREIGN PRIVATE ISSUER FILINGS

We are considered a "foreign private issuer" pursuant to Rule 405 promulgated under the Securities Act. In our capacity as a foreign private issuer, we are exempt from certain rules under the Exchange Act that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. In addition, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information. For as long as we are a "foreign private issuer" we intend to file our annual financial statements on Form 20-F and furnish our quarterly financial statements on Form 6-K to the SEC for so long as we are subject to the reporting requirements of Section 13(g) or 15(d) of the Exchange Act. However, the information we file or furnish may not be the same as the information that is required in annual and quarterly reports on Form 10-K or Form 10-Q for United States domestic issuers. Accordingly, there may be less information publicly available concerning us than there is for a company that files as a domestic issuer.

We may take advantage of these exemptions until such time as we are no longer a foreign private issuer. We are required to determine our status as a foreign private issuer on an annual basis at the end of our second fiscal quarter. We would cease to be a foreign private issuer at such time as more than 50% of our outstanding voting securities are held by United States residents and any of the following three circumstances applies: (1) the majority of our executive officers or directors are United States citizens or residents; (2) more than 50% of our assets are located in the United States; or (3) our business is administered principally in the United States. If we lose our "foreign private issuer status" we would be required to comply with Exchange Act reporting and other requirements applicable to United States domestic issuers, which are more detailed and extensive than the requirement for foreign private issuers.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Reserved.**

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

**Risks Relating to Our Business**

*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.

There is no guarantee that we will ever 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 our fiscal year ending September 30, 2024 ("Fiscal 2024"), 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 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.

***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.

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 ("R&D") activities. During our Fiscal 2024, 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 may not be able to successfully execute our business plan.***

The execution of our business plan poses many challenges and is based on a number of assumptions. We may not be able to successfully execute our business plan. If we experience significant cost overruns, or if our business plan is more costly than we anticipate, certain activities may be delayed or eliminated, resulting in changes or delays to our current plans. Also, we may be compelled to secure additional funding (which may or may not be available or available at conditions unfavorable to us) to execute our business plan. We cannot predict with certainty our future revenues or results from our operations. If the assumptions on which our revenues or expenditures forecasts are based change, the benefits of our business plan may change as well. In addition, we may consider expanding our business beyond what is currently contemplated in our business plan. Depending on the financing requirements of a potential business expansion, we may be required to raise additional capital through the issuance of equity or debt. If we are unable to raise additional capital on acceptable terms, we may be unable to pursue a potential business expansion.

***A significant portion of our revenues are non-recurring.***

A significant portion of our revenue for Fiscal 2024 is prior to commercialization of our significant projects and is considered to be non-recurring. We have significantly reduced our reliance on non-recurring revenues during Fiscal 2024 with the ARWEN business line, the staffing of Directorate Land Command Systems Program Management Software Engineering Facility ("DSEF") and the land command, control, communications, computers, intelligence, surveillance and reconnaissance ("Land C4ISR") resources, the ramp-up of the PARA OPS division and the monthly Ground Search and Rescue ("GSAR") resources.

***There is uncertainty with respect to our revenue growth.***

There can be no assurance that we can generate substantial revenue growth, or that any revenue growth that is achieved can be sustained. Revenue growth that we have achieved or may achieve may not be indicative of future operating results. In addition, we may further increase our operating expenses in order to fund higher levels of R&D, increase our sales and marketing efforts and increase our administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, our business, operating results and financial condition will be materially adversely affected.

***We may not be able to fully develop our products, which could prevent us from ever becoming profitable.***

If we experience difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, we may not be able to fully develop market-ready commercial products at acceptable costs, which would adversely affect our ability to effectively enter the market. A failure by us to achieve a low-cost structure through economies of scale or improvements in manufacturing processes would have a material adverse effect on our commercialization plans and our business, prospects, results of operations and financial condition.

***We may experience delays in product sales due to marketing and distribution capabilities.***

In order to successfully commercialize our products, we must continue to develop our internal marketing and sales force with technical expertise and with supporting distribution capabilities or arrange for third parties to perform these services. In order to successfully commercialize any of our products, we must have an experienced sales and distribution infrastructure. The continued development of our sales and distribution infrastructure will require substantial resources, which may divert the attention of our management and key personnel and defer our product development and commercialization efforts. To the extent that we enter into marketing and sales arrangements with other companies, our revenues will depend on the efforts of others.

Additionally, in marketing our products, we would likely compete with companies that currently have extensive and well-funded marketing and sales operations. Despite marketing and sales efforts, we may be unable to compete successfully against these companies. We may not be able to do so on favorable terms.

In the event we fail to develop substantial sales, marketing and distribution channels, or to enter into arrangements with third parties for those purposes, we will experience delays in product sales, which could have a material adverse effect on prospects, results of operations, financial condition and cash flows.

***There is no assurance that our products will be accepted in the marketplace or that we will turn a profit or generate immediate revenues.***

There is no assurance as to whether our products will be accepted in the marketplace. While we believe our products address customer needs, the acceptance of our products may be delayed or not materialize. We have incurred and anticipate incurring substantial expenses relating to the development of our products, the marketing of our products and initial operations of our business. Our revenues and possible profits will depend upon, among other things, our ability to successfully market our products to customers. There is no assurance that revenues and profits will be generated.

***Strategic alliances may not be achieved or achieve their goals.***

To achieve a scalable operating model with minimal capital expenditures, we plan to rely upon strategic alliances with original equipment manufacturers ("OEMs") for the manufacturing and distribution of our products. There can be no assurance that such strategic alliances can be achieved or will achieve their goals.

***We are dependent on key suppliers for our ARWEN product line.***

We are only able to purchase certain key components of our products from a limited number of suppliers for our ARWEN product line within our less-lethal business line. As of the date of this Annual Report, we do not have any commercial or financial contracts with any key suppliers who we have procured raw materials from. Procurement is done in the form of individual, non-related standard purchase orders. As a result, there is no contract in place to ensure sufficient quantities are available timely on favorable terms and consequently this could result in possible lost sales or uncompetitive product pricing.

***We may incur higher costs or unavailability of components, materials and accessories.***

As we expect to commercialize certain of our product lines in our fiscal year ending September 30, 2025 ("Fiscal 2025"), we may depend on certain domestic and international suppliers for the delivery of components and materials used in the assembly of our products and certain accessories including ammunition, used with our products. Further, any reliance on third-party suppliers may create risks related to our potential inability to obtain an adequate supply of components or materials and reduced control over pricing and timing of delivery of components and materials. We currently have no long-term agreements with any of our suppliers and there is no guarantee the supply will not be interrupted.

In light of the current global supply chain challenges caused by Russia's invasion of Ukraine, components used in the manufacture of our products may be delayed, become unavailable or discontinued. Any delays may take weeks or months to resolve. Further, parts obsolescence may require us to redesign our product to ensure quality replacement components. While we have not been impacted significantly from the above events to date, there is no assurance that we will not experience significant setback in operations if the global supply chain challenges worsen or continue to persist for a longer period of time. Accordingly, supply chain delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations.

Additionally, our shipping costs and the timely delivery of our products could be adversely impacted by a number of factors which could reduce the profitability of our operations, including: higher fuel costs, potential port closures, customs clearance issues, increased government regulation or changes for imports of foreign products into Canada, delays created by terrorist attacks or threats, public health issues and pandemics and epidemics, national disasters or work stoppages, and other matters. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability, and financial condition.

***We rely upon a limited number of third parties for manufacturing, shipping, transportation, logistics, marketing and sales of our products.***

We rely on third parties to ship, transport, and provide logistics for our products. Further, we plan on relying on third parties to manufacture, market and sell our PARA OPS system products. Our dependence on a limited number of third parties for these services leaves us vulnerable due to our need to secure these parties' services on favorable terms. Loss of, or an adverse effect on, any of these relationships or failure of any of these third parties to perform as expected could have a material and adverse effect on our business, sales, results of operations, financial condition, and reputation.

***We may be subject to product liability proceedings or claims.***

We may be subject to proceedings or claims that may arise in the ordinary conduct of the business, which could include product and service warranty claims, which could be substantial. Product liability for us is a major risk as some of our products will be used by military personnel in theaters-of-war (for the Tactical and Counter-Threat product offerings) and by consumers and law enforcement (for the less-lethal systems). The occurrence of product defects due to non-compliance of our manufacturing specifications and the inability to correct errors could result in the delay or loss of market acceptance of our products, material warranty expense, diversion of technological and other resources from our product development efforts, and the loss of credibility with customers, manufacturers' representatives, distributors, value-added resellers, systems integrators, OEMs and end-users, any of which could have a material adverse effect on our business, operating results and financial conditions. To mitigate product liability risk, our products will be sold with a liability disclaimer for misuse of the product.

***If we are unable to successfully design and develop or acquire new products, our business may be harmed.***

To maintain and increase sales we must continue to introduce new products and improve or enhance our existing products or new products. The success of our new and enhanced products depends on many factors, including anticipating consumer preferences, finding innovative solutions to consumer problems or acquiring new solutions through mergers and acquisitions, differentiating our products from those of our competitors, and maintaining the strength of our brand. The design and development of our products as well as acquisitions of other businesses.

***Our business could be harmed if we are unable to accurately forecast demand for our products or our results of operations.***

To ensure adequate inventory supply, we forecast inventory needs and often place orders with our manufacturers before we receive firm orders from our retail partners or customers. If we fail to accurately forecast demand, we may experience excess inventory levels or a shortage of products.

If we underestimate the demand for our products, we or our suppliers may not be able to scale to meet our demand, and this could result in delays in the shipment of our products and our failure to satisfy demand, as well as damage to our reputation and retail partner relationships. If we overestimate the demand for our products, we could face inventory levels in excess of demand, which could result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would harm our gross margins. In addition, failures to accurately predict the level of demand for our products could cause a decline in sales and harm our results of operations and financial condition.

In addition, we may not be able to accurately forecast our results of operations and growth rate. Forecasts may be particularly challenging as we expand into new markets and geographies and develop and market new products for which we have no or limited historical data. Our historical sales, expense levels, and profitability may not be an appropriate basis for forecasting future results. Our lack of historical data related to new products makes it particularly difficult to make forecasts related to such products. These effects are expected to last through the remainder of the pandemic. Pandemic related variables require a very quick pivot and adjustments to the supply chain, production and marketing. If we are unable to make these changes quickly or at all our inventory, production and sales may be materially affected.

Failure to accurately forecast our results of operations and growth rate could cause us to make poor operating decisions that we may not be able to correct in a timely manner. Consequently, actual results could be materially different than anticipated. Even if the markets in which we compete expand, we cannot assure you that our business will grow at similar rates, if at all.

***Undetected flaws may be discovered in our products.***

There can be no assurance that, despite testing by us, flaws will not be found in our products and services, resulting in loss of, or delay in, market acceptance. We may be unable, for technological or other reasons, to introduce products and services in a timely manner or at all in response to changing customer requirements. In addition, there can be no assurance that while we are attempting to finish the development of our technologies, products and services, a competitor will not introduce similar or superior technologies, products and services, thus diminishing our advantage, rendering our technologies, products and services partially or wholly obsolete, or at least requiring substantial re-engineering in order to become commercially acceptable. Failure by us to maintain technology, product and service introduction schedules, avoid cost overruns and undetected errors, or introduce technologies, products and services that are superior to competing technologies, products and services would have a materially adverse effect on our business, prospects, financial condition, and results of operations.

***We will be reliant on information technology systems and may be subject to damaging cyber-attacks.***

We use third parties for certain hardware, software, telecommunications and other information technology ("IT") services in connection with our operations. Our operations depend, in part, on how well we and our suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. Our operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact our reputation and results of operations. Moreover, failure to meet the minimum cybersecurity requirements for defense contracts may disqualify us from participating in the tendering process. To date, we have not experienced any losses relating to cyber-attacks or other information security breaches, but there can be no assurance that we will not incur such losses in the future. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

***In certain circumstances, our reputation could be damaged.***

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Reputational risk for us is a major risk as some of our products will be used by military personnel in theaters-of-war or by law enforcement personnel. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding us and our activities, whether true or not. Although we believe that we operate in a manner that is respectful to all stakeholders and that we take care in protecting our image and reputation, we do not ultimately have direct control over how we are perceived by others. Reputational loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

***Our results of operations are difficult to predict and depend on a variety of factors.***

There is no assurance that the production, technology acquisitions, and the commercialization of proprietary technology for game-changing applications in the military, security forces and personal defense markets will be managed successfully. Any inability to achieve such commercial success could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects. In addition, the comparability of results may be affected by changes in accounting guidance or changes in our ownership of certain assets. Accordingly, the results of operations from year to year may not be directly comparable to prior reporting periods. As a result of the foregoing and other factors, the results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future period.

***Protecting and defending against intellectual property claims may have a material adverse effect on our business.***

Our ability to compete depends, in part, upon successful protection of our intellectual property. While we have some patents and trademarks, we also rely on trade secrets to protect our technology, which is inherently risky. Going forward, we will attempt to protect proprietary and intellectual property rights to our technologies through available copyright and trademark laws, patents and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright, trademark and patent laws afford only limited practical protection in certain countries where we distribute our products. As a result, it may be possible for unauthorized third parties to copy and distribute our products or certain portions or applications of our intended products, which could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

Litigation may also be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation, infringement or invalidity claims could result in substantial costs and the diversion of resources and could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

***We face risks from doing business internationally.***

Our commercialization strategies for our products include sales efforts outside Canada and deriving revenues from international sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control.

These risks may include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- anti-corruption laws and regulations such as the Foreign Corrupt Practices Act that impose strict requirements on how we conduct our foreign operations and changes in these laws and regulations;

- changes in local regulatory requirements, including restrictions on content and differing cultural tastes and attitudes;
- international jurisdictions where laws are less protective of intellectual property and varying attitudes towards the piracy of intellectual property;
- financial instability and increased market concentration of buyers in foreign markets;
- the instability of foreign economies and governments;
- fluctuating foreign exchange rates;
- the spread of communicable diseases in such jurisdictions, which may impact business in such jurisdictions; and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-Canadian sources, which could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects. Protection of electronically stored data is costly and if our data is compromised in spite of this protection, we may incur additional costs, lost opportunities, and damage to our reputation.

***We maintain information in digital form as necessary to conduct our business, including confidential and proprietary information and personal information regarding our employees.***

Data maintained in digital form is subject to the risk of intrusion, tampering, and theft. We develop and maintain systems to prevent this from occurring, but it is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering, and theft cannot be eliminated entirely, and risks associated with each of these acts remain. In addition, we provide confidential information, digital content and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk that data systems of these third parties may be compromised. If our data systems or data systems of these third parties are compromised, our ability to conduct our business may be impaired, we may lose profitable opportunities, or the value of those opportunities may be diminished, and we may lose revenue as a result of unlicensed use of our intellectual property. A breach of our network security or other theft or misuse of confidential and proprietary information, digital content or personal employee information could subject us to business, regulatory, litigation, and reputation risk, which could have a materially adverse effect on our business, financial condition, and results of operations.

***Our success depends on management and key personnel.***

Our success depends largely upon the continued services of our executive officers and other key employees. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. If we are unable to attract and retain top talent, our ability to compete may be harmed. Our success is also highly dependent on our continuing ability to identify, hire, train, retain and motivate highly qualified personnel. Competition for highly skilled executives and other employees is high in our industry, especially from larger and better capitalized defense and security companies. We may not be successful in attracting and retaining such personnel. Failure to attract and retain qualified executive officers and other key employees could have a material adverse effect on our business, prospects, financial condition, results of operations, and cash flows.

***Our directors, officers or members of management may have conflicts of interest.***

Certain of our directors, officers, and other members of management serve (and may in the future serve) as directors, officers, and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as one of our directors, officers or members of management and their duties as a director, officer or member of management of such other companies. Our directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and we will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of our directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the BCBCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

***It may not be possible for foreign investors to enforce actions against us, and our directors and officers.***

We are a corporation organized under the laws of the Province of British Columbia and our Canadian subsidiaries are organized under the laws of the Province of Ontario and our United States subsidiaries are organized under the laws of Delaware. All of our directors and executive officers reside principally in Canada. Because all or a substantial portion of our assets and the assets of these persons are located in Canada, it may not be possible for foreign investors, including United States investors, to effect service of process from outside of Canada upon us or those persons, or to realize in the United States upon judgments of United States courts predicted upon civil liabilities under the Exchange Act or other United States laws. Furthermore, it may not be possible to enforce against us foreign judgments obtained in courts outside of Canada based upon the civil liability provisions of the securities laws or other laws in those jurisdictions.

***The loss of services of members of our management team may have a material adverse effect on our business, financial condition, and results of operations.***

Our success depends in large part upon the continued service of key members of our management team. Because we do not maintain "key person" life insurance on any of our executive officers, employees or consultants, any delay in replacing such persons, or an inability to replace them with persons of similar expertise, may have a material adverse effect on our business, financial condition, and results of operations.

***Our internal computer systems are vulnerable to damage and failure.***

Despite the implementation of security measures and backup storage, our internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war, and telecommunication and electrical failure. Any system failure, accident or security breach that causes interruption in our operations could result in a material disruption of our projects. To the extent that any disruption or security breach results in a loss or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we may incur liability as a result. In addition, our technology program may be adversely affected, and the further development of our technology may be delayed. We may also incur additional costs to remedy the damages caused by these disruptions or security breaches.

***Business interruptions could adversely affect our operations.***

Our operations are vulnerable to outages and interruptions due to fire, floods, power loss, telecommunications failures, and similar events beyond our control. Although we have developed certain plans to respond in the event of a disaster, there can be no assurance that they will be effective in the event of a specific disaster. Any losses or damages incurred by us could have a material adverse effect on our business and results of operations.

***We are subject to risks associated with possible acquisitions, licensing, business combinations, or joint ventures.***

While to date we have mainly focused on developing our own products, from time to time, we could be engaged in discussions and activities with respect to possible business and/or technology acquisitions or licensing, sale of assets, business combinations, or joint ventures with the view of either complementing or expanding our internally developed products. These acquisitions and licensing activities are not crucial to our long-term business success. The anticipated benefit from any of the transactions we may pursue may not be realized as expected. Regardless of whether any such transaction is consummated, the negotiation of a potential transaction and the integration of the acquired business or technology, acquired or licensed, could incur significant costs and cause diversion of management's time and resources. Any such transaction could also result in impairment of goodwill and other intangibles, development write-offs, and other related expenses. Such transactions may pose challenges in the consolidation and integration of IT, accounting systems, personnel, and operations. We may have difficulty managing the combined entity in the short term if we experience a significant loss of management personnel during the transition period after a significant acquisition. We may also have difficulty managing the product development and commercialization following a technology acquisition or licensing. No assurance can be given that expansion, licensing or acquisition opportunities will be successful, completed on time, or that we will realize expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits. Any of the foregoing could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

***Claims against us relating to any acquisition, licensing or business combination may necessitate seeking claims against the seller for which the seller may not indemnify us or that may exceed the seller's or licensor's indemnification obligations.***

There may be liabilities assumed in any technology acquisition or licensing or business combination that we did not discover or that we underestimated in the course of performing our due diligence. Although a seller or licensor generally will have indemnification obligations to us under a licensing, acquisition or merger agreement, these obligations usually will be subject to financial limitations, such as general deductibles and maximum recovery amounts, as well as time limitations. There is no assurance that our right to indemnification from any seller or licensors will be enforceable, collectible or sufficient in amount, scope or duration to fully offset the amount of any undiscovered or underestimated liabilities that we may incur. Any such liabilities could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

***Growth may cause pressure on our management and systems.***

Our future growth may cause significant pressure on our management, and our operational, financial, and other resources and systems. Our ability to manage our growth effectively will require that we implement and improve our operational, financial, manufacturing, and management information systems, hire new personnel and then train, manage, and motivate these new employees. These demands may require the hiring of additional management personnel and the development of additional expertise within the existing management team. Any increase in resources devoted to production, business development, and distribution efforts without a corresponding increase in our operational, financial, and management information systems could have a material adverse effect on our business, financial condition, and results of operations.

***We may infringe on the intellectual property rights of third parties.***

For certain of our product lines, we have elected to protect our technology and products as trade secrets as opposed to seeking patent protection. We may, in future, elect to seek patent protection for some of our future products. While we believe that our products and other intellectual property do not infringe upon the proprietary rights of third parties, our commercial success depends, in part, upon us not infringing on the intellectual property rights of others. A number of our competitors and other third parties have been issued or may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those utilized by us. Some of these patents may grant very broad protection to the owners of the patents. While we have engaged external intellectual property legal counsels to undertake an extensive review of existing third-party patents and prepare our patent applications for some of our products (see Item 4.B. - Business Overview), there is no assurance that their reviews and conclusion will not prevail if challenged by a third party of an alleged infringement of their intellectual properties. We may become subject to claims by third parties that our technology infringes their intellectual property rights due to the growth of products in our target markets, the overlap in functionality of those products and the prevalence of products. We may become subject to these claims either directly or through indemnities against these claims that we provide to end-users, manufacturer's representatives, distributors, value-added resellers, system integrators and OEMs. Litigation may be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish our proprietary rights. Some of our competitors have, or are affiliated with companies having, substantially greater resources than we and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than us. Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, cause product shipment delays or stoppages, divert management's attention and focus away from the business, subject us to significant liabilities and equitable remedies, including injunctions, require that we enter into costly royalty or licensing agreements and require that we modify or stop using infringing technology.

We may be prohibited from developing or commercializing certain technologies and products unless we obtain a license from a third party. There can be no assurance that we will be able to obtain any such license on commercially favorable terms or at all. If we do not obtain such a license, we could be required to cease the sale of certain of our products.

***Significant changes or developments in U.S. laws or policies, including changes in U.S. trade policies and tariffs and the reaction of other countries thereto, may have a material adverse effect on our business and financial statements.***

Significant changes or developments in U.S. laws and policies, such as laws and policies surrounding international trade, foreign affairs, manufacturing and development and investment in the territories and countries where we or our customers operate, can materially adversely affect our business and financial statements. President-elect Donald Trump has indicated that he intends to impose tariffs, including a 60% tariff on goods imported from China and a 25% on all other U.S. imports, which could result in a trade war. Similar trade restrictions in the future may have a material adverse effect on our business and financial statements.

**Risks Relating to Our Industry**

The following risks relate specifically to Digitization and Counter-Threat business lines:

***We are subject to extensive government regulation in the United States for our products designed for the military market.***

Our customers in the United States are global defense contractors and they are subject to various United States government regulations which some may be passed on to us in order for them to be compliant. The most significant regulations and regulatory authorities that may affect our future business include the following:

- the Federal Acquisition Regulations and supplemental agency regulations, which comprehensively regulate the formation and administration of, and performance under, United States government contracts;
- the Truth in Negotiations Act, which requires certification and disclosure of all factual cost and pricing data in connection with contract negotiations;
- the False Claims Act and the False Statements Act, which impose penalties for payments made on the basis of false facts provided to the government and on the basis of false statements made to the government, respectively;
- the Foreign Corrupt Practices Act, which prohibits United States companies from providing anything of value to a foreign official to help obtain, retain or direct business, or obtain any unfair advantage; and
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes or determined to be "controlled unclassified information" and the exportation of certain products and technical data.

Our failure to comply with applicable regulations, rules and approvals; changes in the United States government's interpretation of such regulations, rules and approvals as have been and are applied to our contracts, proposals or business or misconduct by any of our employees could result in the imposition of fines and penalties, the loss of security clearances, a decrease in profitability, or the loss of our subcontract contracts with United States defense contractors generally, any of which could harm our business, financial condition and results of operations.

***A decline in the United States and other government budgets, changes in spending or budgetary priorities, or delays in contract awards may significantly and adversely affect our future revenue.***

For the years ended September 30, 2024, 2023 and 2022, 10%, 3%, and 54%, respectively, of the Company's revenue was denominated in U.S. dollar driven by contracts with U.S. prime contractors in the defense sector. Our results of operations could be adversely affected by government spending caps or changes in government budgetary priorities, as well by delays in the government budget process, program starts, or the award of contracts or orders under existing contracts. As a result, the market for our military solution may be impacted due to shifts in the political environment and changes in the government and agency leadership positions under the new United States administration. If annual budget appropriations or continuing resolutions are not enacted timely, we could face United States government shutdown, which could adversely impact our business and our ability to receive indirectly timely payment from United States government entities on future contracts.

***United States government contracts are generally not fully funded at inception and contain certain provisions that may be unfavorable to us.***

We have entered into defense contracts with United States prime defense contractors, which it in turns transact directly with the United States government.

United States government contracts typically involve long lead times for design and development and are subject to significant changes in contract scheduling. Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations. The termination or reduction of funding for a government program would result in a loss of anticipated future revenue attributable to that program. In addition, United States government contracts generally contain provisions permitting termination, in whole or in part, at the government's convenience or for contractor default.

The actual receipt of revenue on future awards subcontracted to us may never occur or may change because a program schedule could change or the program could be cancelled, or a contract could be reduced, modified or terminated early.

While we had no outstanding United States government contracts (directly or indirectly) as of the date of this Annual Report, we are exposed to the above risk for future United States government related contracts.

***We may not be able to comply with changes in government policies and legislation.***

The manufacture, sale, purchase, possession and use of weapons, ammunitions, firearms, and explosives are subject to federal, provincial and foreign laws. If such regulation becomes more expansive in the future, it could have a material adverse effect on our business, operating results, financial condition, and cash flows. New legislation, regulations, or changes to or new interpretations of existing regulation could impact our ability to manufacture or sell our products and our projectiles, or limit their market, which could impact our cost of sales and demand for our products. Similarly changes in laws related to the domestic or international use of chemical irritants by civilians or law enforcement could impact both our cost of sales and the size of our reachable market.

We may be subject, both directly and indirectly, to the adverse impact of existing and potential future government regulation of our products, technology, operations, and markets. For example, the development, production, exportation, importation, and transfer of our products and technology is subject to Canadian and provincial laws. Further, as we plan to conduct business in the United States, we will also be subject to United States and foreign export control, sanctions, customs, import and anti-boycott laws and regulations, including the Export Administration Regulations (the "EAR") (collectively, the "Trade Control Laws"). If one or more of our products or technology, or the parts and components we buy from others, is or become subject to the International Traffic in Arms Regulations (the "ITAR") or national security controls under the EAR, this could significantly impact our operations, for example by severely limiting our ability to sell, export, or otherwise transfer our products or technology, or to release controlled technology to foreign person employees or others in the United States or abroad. We may not be able to retain licenses and other authorizations required under the applicable Trade Control Laws. The failure to satisfy the requirements under the Trade Control Laws, including the failure or inability to obtain necessary licenses or qualify for license exceptions, could delay or prevent the development, production, export, import, and/or in-country transfer of our products and technology, which could adversely affect our revenues and profitability.

Failure by us, our employees, or others working on our behalf to comply with the applicable government policies and regulations could result in administrative, civil, or criminal liabilities, including fines, suspension, debarment from bidding for or performing government contracts, or suspension of our export privileges, which could have a material adverse effect on us.

The following risk relates specifically to PARA OPS business line:

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

While our PARA OPS devices are less-lethal (based on the kinetic energy of our projectiles), these are automatically classified as a form of 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 with actuator technology that is in the developmental phase and accordingly, there is no assurance that we will succeed and consequently the replacement of the primer 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 federal firearms license ("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.

See *Item 4.B. - Business Overview - Government Regulations - Less-Lethal* for a summary of relevant regulation in the United States for our less-lethal business line.

The following risks apply to all business lines:

***Rapid technological development could result in obsolescence or short product life cycles of our products.***

The markets for our products are characterized by rapidly changing technology and evolving industry standards, which could result in product obsolescence or short product life cycles. Accordingly, our success is dependent upon our ability to anticipate technological changes in the industries we serve and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements. There can be no assurance that we will successfully develop new products or enhance and improve our existing products or that any new products and enhanced and improved existing products will achieve market acceptance. Further, there can be no assurance that competitors will not market products that have perceived advantages over our products, or which render the products currently sold by us obsolete or less marketable.

We must commit significant resources to developing, testing and demonstrating new products before knowing whether our investments will result in products the market will accept. To remain competitive, we may be required to invest significantly greater resources than currently anticipated in R&D and product enhancement efforts, and result in increased operating expenses.

***Our industry is highly competitive.***

The industry for military and security forces and personal defense is highly competitive and composed of many domestic and foreign companies. We have experienced and expect to continue to experience substantial competition from numerous competitors whom we expect to continue to improve their products and technologies. Competitors may announce and introduce new products, services or enhancements that better meet the needs of end-users or changing industry standards, or achieve greater market acceptance due to pricing, sales channels or other factors. With substantially greater financial resources and operating scale than we do currently, certain competitors may be able to respond more quickly than us to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products. Such competition could adversely affect our ability to win new contracts and sales.

***Since we operate in evolving markets, our business and future prospects may be difficult to evaluate.***

Our technological solutions are in new and rapidly evolving markets. The military, civilian public safety, professional and personal defense markets we target are in early stages of customer adoption. Accordingly, our business and future prospects may be difficult to evaluate. We cannot accurately predict the extent to which demand for our products and services will develop and/or increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact our ability to do the following:

- generate sufficient revenue to obtain and/or maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly-qualified personnel;

- successfully develop and commercially market products and services;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required or on reasonable terms.

If we fail to address these and other challenges, risks and uncertainties successfully, our business, results of operations and financial condition would be materially harmed.

***Uncertainty related to exportation could limit our operations in the future.***

We must comply with Canadian federal and provincial laws regulating the export of our products. In some cases, explicit authorization from the Canadian government is needed to export certain products. The export regulations and the governing policies applicable to our business are subject to change. We cannot provide assurance that such export authorizations will be available for our products in the future. To date, compliance with these laws has not significantly limited our operations but could significantly limit them in the future. Noncompliance with applicable export regulations could potentially expose us to fines, penalties and sanctions. If we cannot obtain required government approvals under applicable regulations, we may not be able to sell our products in certain international jurisdictions, which could adversely affect our business, prospects, financial condition and results of operations.

***Global economic turmoil and regional economic conditions in the United States could adversely affect our business.***

Global economic turmoil may cause a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, levels of intervention from the United States federal government and other foreign governments, decreased consumer confidence, overall slower economic activity, and extreme volatility in credit, equity, and fixed income markets. A decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our products, thus reducing our revenues and earnings. A decline in economic conditions could reduce sales of our products.

**Risks Relating to Our Financial Condition**

***We face substantial capital requirements and financial risk.***

To be successful, our business requires a substantial investment of capital. The production, acquisition, and distribution of proprietary technology for game-changing applications in the military and security forces and personal defense markets require substantial capital. A significant amount of time may elapse between our expenditure of funds and the receipt of revenues. This may require a significant portion of funds from equity, credit, and other financing sources to fund the business. There can be no assurance that these arrangements will continue to be successfully implemented or will not be subject to substantial financial risks relating to the production, acquisition, and distribution of proprietary technology for game-changing applications in the military and security forces and personal defense markets. In addition, if demand increases through internal growth or acquisition, there may be an increase to overhead and/or larger up-front payments for production and, consequently, these increases bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

***We may require additional capital which may result in dilution to existing shareholders.***

We may need to engage in additional equity or debt financings to secure additional funds to fund our working capital requirement and business growth. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of the Common Shares. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities.

We can provide no assurance that sufficient debt or equity financing will be available on reasonable terms or at all to support our business growth and to respond to business challenges and failure to obtain sufficient debt or equity financing when required could have a material adverse effect on our business, prospects, financial condition, results of operations, and cash flows.

Over the short-term, we expect to incur operating losses and generate negative cash flow until we can produce sufficient revenues to cover our costs. We may never become profitable. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future. There are substantial uncertainties associated with our ability to achieving and sustaining profitability. We expect our current cash position will be reduced due to future operating losses and working capital requirements, and we cannot provide certainty as to how long our cash position will last or that we will be able to access additional capital if and when necessary.

Exercise of options or warrants or vesting of restricted stock units will have a dilutive effect on your percentage ownership and will result in a dilution of your voting power and an increase in the number of Common Shares eligible for future resale in the public market, which may negatively impact the trading price of our Common Shares.

***We may need to divest assets if there is insufficient capital.***

If sufficient capital is not available, we may be required to delay, reduce the scope of, eliminate or divest one or more of our assets or products, any of which could have a material adverse effect on our business, financial condition, prospects, or results of operations.

***We have broad discretion over the use of net proceeds from future capital raises.***

We will have broad discretion over the use of the net proceeds from any future capital raises. Because of the number and variability of factors that will determine our use of such proceeds, the ultimate use might vary substantially from the planned use. Investors may not agree with how we allocate or spend the proceeds from future capital raises. We may pursue collaborations that ultimately do not result in an increase in the market value of the Common Shares and that instead increase our losses.

***Currency fluctuations may have a material effect on us.***

Fluctuations in the exchange rate between the United States dollar, other currencies and the Canadian dollar may have a material effect on our results of operations. To date, we have not engaged in currency hedging activities. To the extent that we may seek to implement hedging techniques in the future with respect to our foreign currency transactions, there can be no assurance that we will be successful in such hedging activities.

***Unavailability of adequate director and officer insurance could make it difficult for us to retain and attract qualified directors and could also impact our liquidity.***

We have directors and officers liability ("D&O") insurance we believe to be adequate to cover risk exposure for us and our directors and officers, who we indemnify to the full extent permitted by law, there is no guaranty that such coverage will be adequate in the event of litigation.

Our coverage needs for D&O insurance may change or increase in the future for various reasons including changes in our market capitalization, changes in trading volume or changes in the listing rules of exchanges or marketplaces on which our securities may trade from time to time. There is no guaranty that such coverage will be available or available at reasonable rates. While we have obtained new D&O insurance before completing the Nasdaq listing and may need to increase our D&O coverage as needed in the future, there can be no assurance that we will be able to do so at reasonable rates or at all, or in amounts adequate to cover expenses and liability should litigation occur. Without adequate D&O insurance, the costs of litigation including amounts we would pay to indemnify our officers and directors should they be subject to legal action based on their service to us could have a material adverse effect on our financial condition, results of operations and liquidity. Further, if we are unable to obtain adequate D&O insurance in the future for any reason, we may have difficulty retaining and attracting talented and skilled directors and officers, which could adversely affect our business, and may be unable to list our Common Shares on a national exchange in the United States, which could impact the liquidity and value of our stock.

***Our insurance policies may be inadequate to fully protect us from material judgments and expenses.***

We require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage as well as general aviation liability coverage. Although we maintain insurance policies, we cannot provide assurance that this insurance will be adequate to protect us from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all. A successful product liability claim could result in substantial costs to us. If insurance coverage is unavailable or insufficient to cover any such claims, our financial resources, results of operations and prospects could be adversely affected.

Even if we are fully insured as it relates to a claim, the claim could nevertheless diminish our brand and divert management's attention and resources, which could have a negative impact on our business, prospects, financial condition and results of operations.

**Risks Relating to the Ownership of our Securities**

***An investment in our securities involves significant risks.***

Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business and operations and cause the trading price of our securities to decline. If any of the following or other risks occur, our business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of our securities could decline, and security holders could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

***Our Common Shares may experience extreme stock price volatility unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our Common Shares.***

Recently, there have been instances of extreme stock price run-ups followed by rapid price declines and strong stock price volatility in equity securities of issuers that are similarly situated to us. As a relatively small-capitalization company with relatively small public float, we may experience greater stock price volatility, extreme price run-ups, lower trading volume and less liquidity than large-capitalization companies. In particular, our Common Shares may be subject to rapid and substantial price volatility, low volumes of trades and large spreads in bid and ask prices. Such volatility, including any stock-run up, may be unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our Common Shares.

In addition, if the trading volumes of our Common Shares are low, persons buying or selling in relatively small quantities may easily influence prices of our Common Shares. This low volume of trades could also cause the price of our Common Shares to fluctuate greatly, with large percentage changes in price occurring in any trading day session. Holders of our Common Shares may also not be able to readily liquidate their investment or may be forced to sell at depressed prices due to low volume trading. If high spreads between the bid and ask prices of our Common Shares exist at the time of a purchase, the stock would have to appreciate substantially on a relative percentage basis for an investor to recoup their investment. Broad market fluctuations and general economic and political conditions may also adversely affect the market price of our Common Shares.

As a result of this volatility, investors may experience losses on their investment in our Common Shares. A volatile market price of our Common Shares also could adversely affect our ability to issue additional shares of Common Shares or other securities and our ability to obtain additional financing in the future.

***The market price of our securities may be volatile.***

The market price for our securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including, but not limited to, the following: (i) actual or anticipated fluctuations in our quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to us; (iv) departure of executive officers or other key personnel; (v) issuances or anticipated issuances of additional Common Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and (vii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have historically experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of our securities may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, the trading price of the Common Shares may be materially adversely affected.

***There can be no assurance of active market for the Common Shares.***

The Common Shares are listed on the TSX Venture Exchange ("TSXV") since September 22, 2020, Nasdaq since December 7, 2022, and the Frankfurt Stock Exchange since March 29, 2022. Additionally, the warrants issued on December 9, 2022 in the public offering in the United States (the "U.S. IPO Warrants") are listed on Nasdaq. There can be no assurance an active and liquid market for the Common Shares or U.S. IPO Warrants will be maintained.

***If we are unable to satisfy the requirements of Sarbanes-Oxley or our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned.***

We are subject to the requirements of SOX. Section 404 of SOX ("Section 404") requires companies subject to the reporting requirements of United States securities laws to complete a comprehensive evaluation of their internal controls over financial reporting. To comply with this statute, we will be required to document and test our internal control procedures and our management will be required to assess and issue a report concerning our internal controls over financial reporting. Pursuant to the JOBS Act, as amended, we are classified as an "emerging growth company." Under the JOBS Act, emerging growth companies are exempt from certain reporting requirements, including the independent auditor attestation requirements of Section 404(b) of SOX. Under this exemption, our independent auditor is not be required to attest to and report on management's assessment of our internal controls over financial reporting during a five year transition period, except in the event this is accelerated if we lose our status as an "emerging growth company". We will need to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. Furthermore, we believe that our business will grow both domestically and internationally, organically and through acquisitions, in which case our internal controls will become more complex and will require significantly more resources and attention to ensure our internal controls remain effective overall. During the course of our testing, management may identify material weaknesses or significant deficiencies, which may not be remedied in a timely manner to meet the deadline imposed by SOX. If management cannot favorably assess the effectiveness of our internal controls over financial reporting, or our independent registered public accounting firm identifies material weaknesses in our internal controls, investor confidence in our financial results may weaken, and the market price of our securities may suffer.

## **Risk Related to Our Securities**

***If the Company were to constitute a "passive foreign investment company" or "PFIC", adverse U.S. federal income tax consequences may result for U.S. investors.***

The Company believes that it was not a PFIC for its most recently completed tax year. Based on current business plans and financial expectations, the Company expects that it likely will not be a PFIC for its current tax year. The Company's PFIC classification for its current or future tax years may depend on, among other things, how quickly the Company may raise cash raised pursuant to recent offerings, the manner in which, and how quickly, the Company utilizes its cash on hand and the cash proceeds received from recent offerings, as well as on changes in the market value of its Common Shares. Whether the Company is a PFIC for any taxable year will also depend on the composition of its income and the composition, nature and value of its assets from time to time (including the value of its goodwill, which may be determined by reference to the value of the Common Shares, which could fluctuate). Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. No opinion of legal counsel or ruling from the IRS concerning the status of the Company as a PFIC has been obtained or is currently planned to be requested. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question, and is determined annually. Consequently, there can be no assurance that the Company has never been, is not, and will not become a PFIC for any tax year during which U.S. Holders hold Common Shares. If the Company is a PFIC for any year during a U.S. taxpayer's holding period of Common Shares, then such U.S. taxpayer generally will be required to treat any gain realized upon a disposition of its Common Shares, or any so-called "excess distribution" received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distribution. In certain circumstances, the sum of the tax and the interest charge may exceed the total amount of proceeds realized on the disposition, or the amount of excess distribution received, by the U.S. taxpayer. Subject to certain limitations, these tax consequences may be mitigated if a U.S. taxpayer makes a timely and effective QEF Election (as defined below) or a Mark-to-Market Election (as defined below). U.S. taxpayers should be aware that, for each tax year, if any, that the Company is a PFIC, the Company can provide no assurances that it will satisfy the record-keeping requirements of a PFIC, or that it will make available to U.S. Holders the information such U.S. Holders require to make a QEF Election with respect to the Company or any subsidiary that also is classified as a PFIC. Accordingly, prospective investors should assume that a QEF Election will not be available. A U.S. taxpayer that makes the Mark-to-Market Election with respect to the Common Shares generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the taxpayer's basis therein. This paragraph is qualified in its entirety by the discussion below under the heading "*Certain United States Federal Income Tax Considerations - Passive Foreign Investment Company ("PFIC") Rules.*" Each potential investor who is a U.S. taxpayer should consult its own tax advisor regarding the tax consequences of the PFIC rules and the acquisition, ownership, and disposition of the Common Shares.

***Proposed legislation in the U.S. Congress, including changes in U.S. tax law, may adversely impact the Company and the value of the Common Shares.***

Changes to U.S. tax laws (which changes may have retroactive application) could adversely affect the Company or holders of Common Shares. In recent years, many changes to U.S. federal income tax laws have been proposed and made, and additional changes to U.S. federal income tax laws are likely to continue to occur in the future.

In addition, the Inflation Reduction Act of 2022 includes provisions that impact the U.S. federal income taxation of corporations. Among other items, this legislation includes provisions that impose a minimum tax on the book income of certain large corporations and an excise tax on certain corporate stock repurchases that would be imposed on the corporation repurchasing such stock. It remains unclear in certain respects how this legislation will be implemented by the U.S. Department of the Treasury and the Company cannot predict how this legislation or any future changes in tax laws might affect the Company or purchasers of the Common Shares.

***Our status as a Foreign Private Issuer under United States Securities Laws.***

We are a "foreign private issuer", under applicable United States federal securities laws, and are, therefore, not subject to the same requirements that are imposed upon United States domestic issuers by the SEC. Under the Exchange Act, we are subject to reporting obligations that, in certain respects, are less detailed and less frequent than those of United States domestic reporting companies. As a result, we do not file the same reports that a United States domestic issuer would file with the SEC, although we are required to file with or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell Common Shares, as the reporting periods under the corresponding Canadian insider reporting requirements are longer.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While we comply with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive the same information at the same time as such information is provided by United States domestic companies. In addition, we may not be required under the Exchange Act to file annual and quarterly reports with the SEC as promptly as U.S. domestic companies whose securities are registered under the Exchange Act.

In order to maintain our status as a foreign private issuer, a majority of the Common Shares must be either directly or indirectly owned by non-residents of the United States unless we satisfy one of the additional requirements necessary to preserve this status. We may in the future lose our foreign private issuer status if a majority of our Common Shares are held in the United States and if we fail to meet the additional requirements necessary to avoid loss of our foreign private issuer status. The regulatory and compliance costs under United States federal securities laws as a United States domestic issuer may be significantly more than the costs incurred as a Canadian foreign private issuer using the standard foreign form. If we are not a foreign private issuer, we would not be eligible to use the foreign issuer forms and would be required to file periodic and current reports and registration statements on United States domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer.

*As a foreign private issuer, we follow certain home country corporate governance practices instead of certain Nasdaq corporate governance requirements applicable to United States domestic companies.*

As a foreign private issuer whose securities are listed on Nasdaq, we are permitted to follow certain home country corporate governance practices instead of certain corporate governance requirements of Nasdaq. We follow the TSXV listing rules in respect of private placements instead of Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as issuances that will result in a change of control, certain transactions other than a public offering involving issuances of a 20% or greater interest in us and certain acquisitions of the stock or assets of another company) and the minimum quorum requirement for a shareholders meeting. Under Nasdaq listing rules, the required minimum quorum for a shareholders meeting is 33 1/3% of the outstanding Common Shares. Under Canadian law and pursuant to our notice of articles, a quorum shall be present at a shareholder meeting if two or more holders of Common Shares representing at least 5% of the total number of voting rights attaching to the said Common Shares entitled to be voted at the meeting are present or represented by proxy. Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq corporate governance rules for domestic issuers.

*We are an emerging growth company and rely on exemptions from certain disclosure requirements which may make our Common Shares less attractive to investors.*

We are an "emerging growth company" as defined in section 3(a) of the Exchange Act (as amended by the JOBS Act, enacted on April 5, 2012), and we will continue to qualify as an emerging growth company until the earliest to occur of: (a) the last day of the fiscal year during which we have total annual gross revenues of USD\$1,235,000,000 (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of our fiscal year following the fifth anniversary of the date of our first sale of common equity securities pursuant to an effective registration statement under the Securities Act; (c) the date on which we have, during the previous three year period, issued more than USD\$1,000,000,000 in non-convertible debt; and (d) the date on which we are deemed to be a "large accelerated filer", as defined in Rule 12b-2 under the Exchange Act. We will qualify as a large accelerated filer (and would cease to be an emerging growth company) at such time when on the last business day of our second fiscal quarter of such year the aggregate worldwide market value of its common equity held by non-affiliates will be USD\$700,000,000 or more.

For so long as we remain an emerging growth company, we are permitted to and intend to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404. We cannot predict whether investors will find our Common Shares or warrants less attractive because we rely upon certain of these exemptions. If some investors find our Common Shares or warrants less attractive as a result, there may be a less active trading market for the Common Shares or warrants and the price per Common Share and warrant may be more volatile. On the other hand, if we no longer qualify as an emerging growth company, we would be required to divert additional management time and attention from our development and other business activities and incur increased legal and financial costs to comply with the additional associated reporting requirements, which could negatively impact our business, financial condition and results of operations.

*We may fail to meet the continued listing requirements of Nasdaq which could result in a delisting of our securities.*

If we fail to satisfy the continued listing requirements of Nasdaq, such as minimum bid price requirements, Nasdaq may take steps to delist our Common Shares and/or warrants issued in our U.S. IPO (as defined below). Such a delisting would have a materially adverse effect on the price of our outstanding securities, impair the ability to sell or purchase our Common Shares or securities convertible or exercisable into Common Shares when persons wish to do so, and materially adversely affect our ability to raise capital or pursue strategic restructuring, refinancing or other transactions on acceptable terms, or at all.

To maintain the listing of our Common Shares on Nasdaq, we must satisfy minimum financial and other continued listing requirements and standards, including those related to the price of our Common Shares. Pursuant to the requirements of Nasdaq, if the closing bid price of a company's stock falls below US\$1.00 per share for 30 consecutive business days (the "Minimum Bid Requirement"), Nasdaq will notify the company that it is no longer in compliance with the Nasdaq listing qualifications. If a company is not in compliance with the Minimum Bid Requirement, the company will have 180 calendar days to regain compliance. On May 16, 2024, we initially received notice from Nasdaq that we were no longer in compliance with the Minimum Bid Requirement (the "Initial Nasdaq Non-Compliance Notice").

On November 13, 2024, in accordance with Nasdaq Listing Rule 5810(c)(3)(A), we were provided with an additional and final 180 calendar day period, or until May 12, 2025, to regain compliance (the "Compliance Date"), with the Minimum Bid Requirement. To regain compliance, the closing bid price of our Common Shares must meet or exceed US\$1.00 per share for a minimum of ten consecutive business days at any time prior to the Compliance Date, unless the Nasdaq staff exercises its discretion to extend this ten-day period pursuant to Nasdaq Listing Rule 5810(c)(3)(H).

If we do not qualify for, or fail to regain compliance during this second compliance period, then the Nasdaq staff will provide us written notification that the Common Shares will be subject to delisting. At that time, we may appeal the Nasdaq staff's delisting determination to the Nasdaq Hearings Panel.

There can be no assurance that we will regain and maintain compliance with the Minimum Bid Requirement and the other listing requirements of the Nasdaq, or that we will not be delisted. If we are not able to stay in compliance with the relevant Minimum Bid Requirement, there is a risk that the Common Shares may be delisted from Nasdaq, which would adversely impact liquidity of our Common Shares and potentially result in even lower bid prices for our Common Shares.

A delisting from Nasdaq could also have other negative results, including the potential loss of institutional investor interest and fewer business development opportunities, as well as a limited amount of news and analyst coverage. In the event of a delisting, we would attempt to take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our securities to become listed again, stabilize the market price or improve the liquidity of our securities, prevent our Common Shares from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with Nasdaq's listing requirements.

***We may not obtain shareholder approval for a share consolidation to remediate the Minimum Bid Requirement.***

Following receipt of the Initial Nasdaq Non-Compliance Notice, the Company's initial plan to address the non-compliance was through a share consolidation, intending to execute a consolidation ratio higher than 10-for-1 for which shareholder approval was required. However, the Company's shareholders did not approve the proposal. Accordingly, the Company was only able to proceed with a share consolidation at a 10-for-1 ratio, which initially proved insufficient to bring the share price above the Minimum Bid Requirement.

To address the deficiency, the Company pursued additional financings and amended the terms of certain outstanding pre-funded warrants to reclassify the pre-funded warrants from liabilities to equity. These actions enabled the Company to demonstrate to Nasdaq that its estimated shareholders' equity exceeded the required USD \$5 million threshold as of November 12, 2024. Consequently, the Company was able to obtain an extension of 180 days from Nasdaq to address its non-compliance with Nasdaq's Minimum Bid Requirement.

Nasdaq Listing Rule 5810(3)(A)(iv) restricts listed issuers that are not in compliance with Nasdaq's Minimum Bid Requirement from effecting one or more reverse stock splits over a two-year period with a cumulative ratio of 250 shares or more to one. Accordingly, given the 2024 Reverse Split (as defined below), the Company is currently restricted under the Nasdaq Listing Rules from consolidating shares at a ratio exceeding 25-for-1. Given these constraints, the Company acknowledges that completing another share consolidation will be necessary to remediate the bid price deficiency before the Compliance Date, which will require shareholder approval. There can be no assurance that shareholders will vote in favour of another share consolidation.

***The liquidity of our Common Shares may be decreased as a result of the 2024 Reverse Split.***

On October 23, 2024, we effected a one for ten (1-for-10) reverse stock split of our Common Shares (the "2024 Reverse Split"). Accordingly, all shareholders of record at the opening of business on October 23, 2024, received one issued and outstanding post-reverse split Common Share of the Company in exchange for 10 outstanding pre-reverse split common Shares of the Company. No fractional shares were issued in connection with the 2024 Reverse Split. All fractional shares created by the 2024 Reverse Split were rounded to the nearest whole number of Common Shares, with any fractional interest representing 0.5 or more Common Shares entitling holders thereof to receive one whole Common Share. Effective on the date of the 2024 Reverse Split, our outstanding securities that are convertible or exercisable into Common Shares were proportionately adjusted to reflect the 2024 Reverse Split in accordance with each security's terms.

The liquidity of the shares of our Common Shares may be affected adversely by the 2024 Reverse Split 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 2024 Reverse Split. In addition, the 2024 Reverse Split may increase the number of shareholders who own odd lots (less than 100 shares) of our Common Shares, creating the potential for such stockholders to experience an increase in the cost of selling their shares and greater difficulty effecting such sales.

Although we believe that a higher market price of our Common Shares may help generate greater or broader investor interest, there can be no assurance that our increased share price following the 2024 Reverse Split 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.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

###### **Name, Address and Incorporation**

KWESST Micro Systems Inc. is a corporation domiciled in Canada and was incorporated under the BCBCA on November 28, 2017. 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) less-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 our wholly-owned subsidiaries, see Item 4.C. - *Organizational Structure*.

Our registered office is located at 2900 - 550 Burrard Street, Vancouver, British Columbia V6C 0A3 and our principal place of business is located at 155 Terence Matthews Crescent, Unit #1, Ottawa, Ontario, Canada, K2M 2A8.

Our Common Shares are listed and posted for trading on Nasdaq under the symbol "KWE", the TSXV under the trading stock symbol "KWE.V" and the Frankfurt Stock Exchange under the stock symbol of "62U". Our U.S. IPO Warrants are listed and posted for trading on Nasdaq under the symbol "KWESW".

Following the closing of the Qualifying Transaction on September 17, 2020 (as defined below) pursuant to the policies of the TSXV, we changed our fiscal year end from December 31<sup>st</sup> to September 30<sup>th</sup>.

The SEC maintains an internet site at <http://www.sec.gov/edgar> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our internet site is <https://www.kwesst.com>; our telephone number is (613)319-0537.

###### **Events in the Development of the Business**

All share-related information presented in this section gives effect to the 2024 Reverse Split.

###### *Inception to 2019 Highlights*

KWESST was formed in April 2017. KWESST was founded to pursue advanced projects within the defense and security fields. We opened our offices in Ottawa, Ontario in May of 2017 and began development of what would become our core technology, TASCs. Our TASCs consists of a sensor package mounted to a soldier weapon and a display running a user interface program typically known as the Battlefield Management System ("BMS").

Between May and September of 2017, we developed the first-generation prototype of the sensor package forming part of TASCs, combined with a basic BMS system. KWESST started to collaborate with a United States military drone supplier, AeroVironment, Inc. ("AeroVironment").

In March 2018, we successfully integrated AeroVironment's drone data feed into KWESST's TASCs.

From April 20, 2018, to December 14, 2018, KWESST completed several financings (collectively "KWESST 2018 Financing") in the amount of \$940,255 by way of revenue sharing agreements, related party loans and 10% convertible debentures to fund our working capital requirements.

### 2019 Highlights

On April 12, 2019, we won our first contract with AeroVironment valued at USD\$100,000. In August 2019, we were in discussions with AeroVironment for a further contract to integrate our TASCs IFM with AeroVironment's Augmented Weapon Sight technology for the preproduction development of 60mm and 81mm mortar and machine gun mounts. This was delayed to April 2020 due to COVID-19 restrictions.

On October 1, 2019, we entered into an executive service agreement with DEFSEC Corporation ("DEFSEC") in which its CEO, David Luxton, agreed to serve as our Executive Chairman (refer to *Compensation* for remuneration information).

On October 24, 2019, we completed a private placement of Common Shares for gross proceeds of \$1,015,000 at a price of \$140 per share, resulting in the issuance of 7,250 Common Shares (the "October 2019 Private Placement").

On October 24, 2019, the revenue sharing agreements and convertible debentures that we issued as part of the KWESST 2018 Financing were settled by the issuance of: (i) 4,435 Common Shares, and (ii) \$234,515 in principal amount of convertible notes, bearing interest at a rate of 10% per annum (the "KWESST 2019 Convertible Notes").

On November 18, 2019, we entered into a non-exclusive licensing agreement with AerialX (the "AerialX Licensing Agreement") and licensed a technology required to manufacture, operate and use a drone whose principal function and purpose is to act as a projectile to intercept aerial threats using kinetic force.

During the quarter ended December 31, 2019, we started developing proprietary laser defense products to protect ground forces from a portable laser attack weapon developed and produced by a foreign adversary.

### Fiscal 2020 Highlights

On January 30, 2020, we completed a private placement of 3,750 Common Shares at a price of \$280 per Common Share for gross proceeds of \$1,050,000.

On March 1, 2020, we entered into a consulting agreement with SageGuild, LLC ("SageGuild") to provide United States business development support to facilitate the integration of our solutions/services into the U.S. Department of Defense markets. The monthly consulting fee comprised of cash and 43 Common Shares at a price of \$350 per share. In preparation for a go-public transaction, the Common Shares issuable in satisfaction of the consulting fee were amended to stock options starting from May 31, 2020, in which the exercise price was satisfied by services rendered by SageGuild.

On March 25, 2020, we completed a private placement of 1,208 Common Shares at a price of \$350 per Common Share for gross proceeds of \$422,875.

On April 30, 2020, Foremost Ventures Corp. ("Foremost"), together with its wholly owned subsidiary, 2751530 Ontario Ltd. ("Subco"), entered into an amalgamation agreement with KWESST Inc. (the "Amalgamation Agreement") pursuant to which Subco and KWESST Inc. agreed to amalgamate (the "Amalgamation") to complete an arm's length qualifying transaction, in accordance with the policies of the TSXV (the "Qualifying Transaction" or "QT").

On April 25, 2020, AeroVironment issued an additional purchase order valued at USD\$635,000 to provide increased capability to the AWS system. This generated approximately \$530,000 of revenue in our fiscal year ended September 30, 2020 ("Fiscal 2020").

On May 8, 2020, we issued an aggregate amount of \$1,115,034 in convertible notes comprised of (i) \$1,081,504 in principal amount of convertible notes convertible at \$315.00 per Common Share, bearing interest at a rate of 15% per annum ("KWESST May 2020 Private Placement Convertible Notes") and (ii) a convertible note with a principal amount of \$33,530 issued to a third party for services rendered in connection with the private placement, all of which convertible notes (including accrued interest thereon) were automatically converted into 3,727 Common Shares upon closing of the Qualifying Transaction on September 17, 2020. Additionally, as an inducement, the note holders were entitled to receive 25% of the principal amount in the form of Common Shares based on a stock price of \$315.00 per share, resulting in the issuance of 858 Common Shares concurrently with the above conversion event.

On June 12, 2020, we entered into a technology agreement with SageGuild pursuant to which KWESST acquired GhostStep technology (the "GhostStep Technology Purchase Agreement"). We have since rebranded it as Phantom. The total purchase consideration was valued at approximately \$482,000. For further information, see *Item 4.A. - History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On July 9, 2020, KWESST issued 6,299 subscription receipts of KWESST at \$490.10 per subscription receipt for aggregate gross proceeds of approximately \$3,087,138, before share issuance costs. As part of the Qualifying Transaction, in September 2020, the 6,299 subscription receipts were converted into Common Shares of KWESST, which were subsequently cancelled, and Common Shares were issued in exchange therefore.

On July 20, 2020, we won a contract with a United States military customer valued at USD\$405,000 to integrate our TASCs IFM with a mortar system.

On September 17, 2020, KWESST completed the Qualifying Transaction with Foremost. The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation, named "KWESST Inc.," became a wholly owned subsidiary of Foremost, which changed its name to "KWESST Micro Systems Inc.". Immediately following the completion of the Amalgamation, there were 58,951 Common Shares outstanding, and the former shareholders of KWESST Inc., along with the holders of the subscription receipts and convertible notes of KWESST Inc., owned approximately 97.8% of the issued and outstanding Common Shares. This constituted a reverse acquisition for accounting purposes under IFRS.

On September 22, 2020, the Common Shares began trading on the TSXV under the stock symbol "KWE".

#### Fiscal 2021 Highlights

On December 16, 2020, following successful trials, a United States military customer awarded a follow-on order of USD\$799,000 with new hardware and software requirements coupled with additional military trials.

On January 14, 2021, we entered into a definitive technology purchase agreement to acquire the Low Energy Cartridge ("LEC") technology from DEFSEC (the "DEFSEC Purchase Agreement"), a proprietary less-lethal cartridge-based firing system (rebranded as the "PARA OPS" system) for a total purchase consideration of approximately \$2.9 million, subject to closing conditions. For further information, see *Item 4.A. - History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On February 4, 2021, the Common Shares commenced quotation on the OTCQB under the stock symbol "KWEMF."

On April 5, 2021, KWESST and AerialX entered into an amended and restated license agreement in which we obtained exclusive rights to gain exclusive rights to manufacture, operate, and use its drone for the C-UAS (Counter Unmanned Aerial Systems) market, for the United States Department of Defense and Canada's Department of National Defense. For further information, see *Item 4.A. - History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On April 29, 2021, we completed a private placement of 5,108 units at a price of \$875.00 per unit for gross proceeds of \$4,470,071 (the "April 2021 Private Placement"), as amended in August 2021. Each unit consisted of one Common Share and seventy Common Share purchase warrants, exercisable to acquire 1/70 of a Common Share at a price of \$17.50 each (70 warrants for one Common Share) for a period of 24 months. Following this closing, we also closed the acquisition of the PARA OPS system on the same day.

On July 9, 2021, we held our first live demonstration of the PARA OPS system in Whistler, British Columbia. Following this successful live demonstration, on July 12, 2021, we announced details of our commercialization road map for the PARA OPS system, including the unveiling our products at the 2022 SHOT Show® in Las Vegas, Nevada to be held on January 18-21, 2022.

On July 21, 2021, we announced that Brandon Tatum agreed to be our strategic advisor and advocate for the LEC System. Mr. Tatum is a former Tucson Police Officer and runs a successful You-Tube channel called "The Officer Tatum", with over 1.9 million subscribers, as well as other social media platforms and a nationally syndicated radio show on the Salem Radio Network.

On August 31, 2021, the Common Share purchase warrants issued in the April 2021 Private Placement were listed for trading on the TSXV under the stock symbol "KWE.WT."

On September 16, 2021, we completed a private placement of 1,071 units at a price of \$1400 per unit for gross proceeds of \$1,500,000 (the "September 2021 Private Placement"). Each unit consisted of one Common Share and seventy Common Share purchase warrants, exercisable at a price of \$23.50 for each 1/70 of a Common Share (70 warrants for one Common Share) for a period of 24 months.

On September 28, 2021, we announced our strategic partnership with Stryk Group USA for the commercialization of our PARA OPS system in the United States.

#### Fiscal 2022 Highlights

On October 4, 2021, we announced the introduction to market our Phantom electronic battlefield decoy, including advanced negotiation with a global defense contractor to provide Phantom units as part of the contractor tender for armored vehicles to a large NATO customer. There are only two bidders that have qualified for this opportunity.

On October 13, 2021, we announced that we are accelerating the readiness of deployable and man-wearable Battlefield Laser Detection Systems ("BLDS") for first deliveries available by end of Q1 of our fiscal year ended September 30, 2022 ("Fiscal 2022"), following military interest from a number of NATO land and Special Operation Forces at the signature European defense show, DSEI, which took place in London, UK, on September 13 to 18, 2021. While no deliveries took place in Fiscal 2022, on November 2, 2022, we won our first customer order of USD\$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 if the Norwegian SOF combat vehicle proceeds into full production. There is no assurance on timing or that we will receive additional orders for our BLDS from Norwegian SOF.

On November 12, 2021, we announced that General Dynamics Land Systems ("GDLS") selected KWESST's Phantom electronic battlefield decoy as part of its ongoing efforts to develop a next generation multi-million domain mobile capability at the tactical level. If GDLS wins the contract with their United States military customer, we have estimated the potential value for this contract to KWESST could be more than USD\$40 million, depending on the number of Phantom units per military vehicle and final pricing based on volume. Accordingly, there is no assurance that we will be awarded this contract or if we are, what the value of such contract will be to KWESST.

On November 15, 2021, we conducted live fire demonstration of our initial less-lethal cartridge-based single shot device for investors near Toronto, Ontario, including an opportunity for these investors to use the devices. Further, on January 14, 2022, we announced the unveiling of our less-lethal cartridge-based products under the brand PARA OPS at the 2022 SHOT Show® in Las Vegas held on January 18<sup>th</sup> to 21<sup>st</sup> 2022.

On November 23, 2021, in connection with an updated capital markets strategy, we submitted our initial application to list our Common Shares on Nasdaq.

On December 2, 2021, we announced that we engaged the New York-based public relations firm AMW Public Relations to lead our public relations, brand strategy, and media communication initiatives.

On December 8, 2021, our United States military customer accepted the delivery of the final milestone of the USD\$0.8 million relating to the integration of our TASCs IFM with the 81 mortar system. Final payment was received in January 2022.

On December 14 and 16, 2021, we announced that we signed a Master Services Agreement with GDMS - Canada to support the development of digitization solutions for future Canadian Land C4ISR programs. We estimate the contract's value to KWESST to be up to \$1.0 million over the next 12 months.

On December 15, 2021, we completed the non-cash acquisition of Police Ordnance Company Inc. – see *Item 4.A. – History and Development of the Company – Principal Capital Expenditures and Divestitures* for further details. On January 10, 2022, we announced that Police Ordnance Company Inc. received orders from law enforcement agencies for approximately \$0.4 million in ARWEN products, all have since been delivered as of the date of this Annual Report. However, as most of the shipments related to open customer orders at the acquisition date, these were not recorded as revenue during the quarter but rather as a reduction of intangible assets in accordance with IFRS.

At the 2022 SHOT Show® held in Las Vegas from January 18th to 21st 2022, we showcased our initial PARA OPS single shot device. Since this event, we have continued to make further improvements to this device based on positive feedback from the SHOT Show®. As of the date of this Annual Report, we have finalized the design of the single shot device and are in the process of producing small quantities for market testing prior to commercial launch this summer. We are also in the process of optimizing the design of our multi-shot device for market testing in June 2022 and commercial launch soon after. Our initial sales focus will be law enforcement agencies. (see *Item 4.B. – Business Overview – Government Regulations*).

On February 11, 2022, we filed United States patent application No. 17/669,420 claiming priority to a provisional patent application serial 63/148,163 by the USPO for our PARA OPS system.

On March 11, 2022, we closed a non-secured and non-convertible loan financing transaction with a syndicate of lenders for aggregate loan proceeds of \$1.8 million and an additional \$0.2 million on March 15, 2022, for a gross total of \$2.0 million (the "Unsecured Loans"). The Unsecured Loans bear interest at a rate of 9.0% per annum, compounded monthly and not in advance, and have a maturity of thirteen months, with KWESST having the option to repay the whole or any part of the Unsecured Loans, without penalty or premium, at any time prior to the close of business on the maturity date. The principal amount is due only at maturity. As part of the terms of the Unsecured Loans, we issued an aggregate of 1,428 bonus Common Shares to the lenders. These Common Shares were issued pursuant to prospectus exemptions of applicable Canadian securities laws and therefore subject to a four-month plus one day trading restriction.

On March 29, 2022, the Common Shares commenced trading on the Frankfurt Stock Exchange under the stock symbol "62U." We believe this listing will provide us with the opportunity to further increase our investor base globally, improve our stock liquidity, and promote KWESST to the European financial markets.

We announced on April 4, 2022, with the war in Ukraine, that we are currently actioning a number of NATO and non-NATO country requests for quotations of our Phantom electronic decoy and laser detection products. While we are confident that this activity will generate sales orders before the end of Fiscal 2022, there is no assurance that we will be successful.

On April 22, 2022, we issued 87 Common Shares to the selling shareholders of Police Ordnance as a result of achieving the performance milestone as defined in the share purchase agreement.

On April 25, 2022, we announced that we engaged RedChip Companies ("RedChip") to lead our investor relations efforts in the United States, in advance of our pending Nasdaq listing. Headquartered in Orlando, Florida, RedChip provides investor relations, financial media, and research for microcap and small-cap stocks.

On July 6, 2022, we won our first CIMS related contract and entered into a three-year contract with Counter-Crisis Technology Inc. to design, develop, and implement a significant component of a national GSAR Incident Command System for Public Safety Canada, with the Ontario Provincial Police ("OPP") as technical advisory stakeholder for this project. The total contract value is approximately \$0.7 million, net of in-kind contributions of \$76,000, over three years of services commencing in late July 2022. Either party may, at any time and for any reason, terminate the contract for convenience upon at least 30 business days' notice. In the event of termination for convenience, we may recover only the actual cost of work completed to the date of termination in approved units of work or percentage of completion.

On July 14, 2022, we closed a non-brokered private placement, resulting in the issuance of 2,285 units of KWESST, at a price of \$150.50 per unit, for aggregate gross proceeds of \$0.34 million. Each unit consisted of one Common Share and seventy one-half Common Share purchase warrants, exercisable at a price of \$2.85 each per share for a period of 24 months. Each warrant converts into 0.01428571 Common Shares or 70 warrants for one Common Share. Certain of our directors and officers participated in the amount of \$87,500.

On August 16, 2022, we announced that we publicly filed a registration statement on Form F-1 with the SEC relating to a proposed public offering in the United States of common units (the "U.S. IPO Common Units"), consisting of one Common Share and one U.S. IPO Warrant, and pre-funded units, consisting of a pre-funded warrant to purchase one Common Share and a warrant to purchase one Common Share (the "U.S. IPO").

On August 29, 2022, we announced that we closed two non-secured loans in the amount of USD\$200,000 per loan with a third party lender for an aggregate amount of USD\$400,000. The first non-secured loan of USD\$200,000 bears interest of 6% per annum and will mature on August 31, 2023. In connection with the first non-secured loan, we issued 423 bonus shares to the lender. The second non-secured loan of USD\$200,000 (the "Second Loan") bears interest of 6% per annum and will mature on August 31, 2023. For both loans, the repayment will be 110% of its principal and both loans are senior to our other unsecured indebtedness. The Second Loan contains certain provisions allowing us to apply to the TSXV to repay the principal amount by issuing Common Shares in accordance with the rules and regulations of the TSXV.

On September 13, 2022, we announced the commencement of an underwritten public offering in Canada of units (the "Canadian Units") consisting of one Common Share and one Common Share purchase warrant (the "Canadian Warrants") for gross proceeds of approximately USD\$3 million (the "Canadian Offering") following the filing of a preliminary short form base PREP prospectus with the securities regulatory authorities in each of the provinces of Canada, except Québec.

#### Fiscal 2023 Highlights

On October 28, 2022, in advance of the Nasdaq listing, we effected a one for seventy (1-for-70) reverse stock split of our Common Shares to meet Nasdaq's initial listing requirements.

On November 2, 2022, we won our first customer order from an overseas NATO country for our BLDS product (see *Item 4.B. – Business Overview – Principal Products and Services*). These BLDS are for Special Forces who will be battle-testing the system in operational conditions. Subject to successful testing, we expect follow-on requirements, though there is no assurance there will be any follow-on orders.

On December 6, 2022, our Common Shares and the U.S. IPO Warrants were approved for trading on Nasdaq under the symbols "KWE" and "KWESW", respectively, and commenced trading on December 7, 2022. The SEC declared our Form F-1 Registration Statement effective on December 6, 2022.

On December 9, 2022, we announced the closing of the U.S. IPO and Canadian Offering, for aggregate gross proceeds of USD\$14.1 million. In the U.S. IPO, we sold 250,000 U.S. IPO Common Units at a public offering price of USD\$41.30 per unit. Each Common Unit consisted of one Common Share and one U.S. IPO Warrant. The U.S. IPO Warrants have a per share exercise price of USD\$50.00, can be exercised immediately, and expire five years from the date of issuance. The U.S. IPO Warrants are listed on Nasdaq under the symbol "KWESW". In connection with the closing of the U.S. IPO, the underwriter partially exercised its over-allotment option to purchase an additional 19,900 pre-funded Common Share purchase warrants (the "U.S. IPO Pre-funded Warrants") and 37,500 U.S. IPO Warrants (the "U.S. IPO Option Warrants"). In the Canadian Offering, we sold 72,639 Canadian Units at a price to the public of USD\$41.30 per unit. The Canadian Warrants have a per Common Share exercise price of USD\$50.00, are exercisable immediately and expire five years from the date of issuance. The Canadian Warrants are not listed on any exchange.

On January 30, 2023, we announced the highlights of the 2023 SHOT SHOW where the Company's new PARA OPS products and its ARWEN less-lethal launcher were showcased, in Las Vegas. The Company was invited to demonstrate and brief its ARWEN 37mm launcher system to symposiums in 2023 to highlight the effectiveness of the ARWEN platform for crowd control and for SWAT teams conducting high-risk arrests.

On February 14, 2023, we announced that the Company was showcasing its products at IDEX in Abu Dhabi, United Arab Emirates, and to exhibit and speak at Future Soldier 2023 Technology Conference in London, United Kingdom, as part of our international market development program.

On February 27, 2023, we announced the key business pursuits arising from IDEX in Abu Dhabi, United Arab Emirates including: (i) a digitization project to provide first responders with shared, real-time situational awareness in critical incident response; (ii) a digitization project to feed video footage directly to shipborne and ground personnel from airborne platforms conducting maritime patrol operations in the Gulf; (iii) equipping police and security forces in the MENA region with the Company's new PARA OPS less-lethal system through distributors the Company met with; and (iv) potential co-ventures with UAE defense technology agencies and financial partners, arranged through the Company's investment bankers, Think Equity, New York.

On March 1, 2023, we announced that Steven Archambault stepped down as Chief Financial Officer ("CFO") of the Company to pursue a new opportunity overseas.

On March 17, 2023, we announced the prospect of new European opportunities with military and major defense industry suppliers arising from our presentation at the *Future Soldier Technology* conference and its subsequent meetings in the United Kingdom.

On March 24, 2023, we announced that a G7 capital police force had adopted the Company's new Overwatch Commander system for critical incident management.

On April 3, 2023, we announced that David Luxton assumed the role of Interim CFO in addition to his role as Executive Chairman.

On April 27, 2023, the TSXV approved the listing of the Canadian Warrants issued in the Canadian Offering in December 2022, commencing trading on May 1, 2023.

On May 2, 2023, we announced that the Company received notice of a contract award under a joint venture with two other defence industry partners, to perform software systems engineering work for the Canadian Department of National Defence ("DND") for approximately \$20 million over a span of five years (the "Canadian Government Contract").

On May 29, 2023, we announced that at CANSEC 2023, the Company planned to feature its capability to rapidly integrate and exploit digital information for the dismounted and mounted soldier to more than thirty visiting countries, including TAK integration, Tactical Digital Fires System and Command and Control On The Move, all vital aspects of soldier modernization for survivability.

On May 30, 2023, we announced the appointment of Sean Homuth as CFO and Chief Compliance Officer, effective June 12, 2023.

On July 19, 2023, we announced that we had entered into definitive agreements with a group of accredited and institutional investors for the issuance and sale of Common Shares (or Common Share equivalents) on a brokered private placement basis, for aggregate gross proceeds of approximately USD\$5.6 million (the "July 2023 Private Placement").

On July 21, 2023, we announced the closing of the offering and the issuance and sale of 247,274 Common Shares (or Common Share equivalents), for aggregate gross proceeds of USD\$5,588,396.92. As a part of the offering, the Company issued 154,219 Common Shares at a price of USD\$22.60 per Common Share and 93,054 pre-funded warrants at a price of USD\$22.59 per pre-funded warrant, with each Common Share and pre-funded warrant being bundled with one Common Share purchase warrant of the Company. As compensation for services rendered, the Company paid to ThinkEquity LLC ("ThinkEquity") a cash fee of \$475,013.14 representing 8.5% of the aggregate gross proceeds of the offering and issued 12,363 warrants to purchase a number of Common Shares.

On July 25, 2023, we announced that we had filed a U.S. patent application for the core module of our next-generation Battlefield Laser Detection System branded "BlaDE", and that we will make the BlaDE module available as a plug-and-play offering to third-party OEMs for incorporation into their new and legacy electro-optical systems on armored vehicles.

### Fiscal 2024 Highlights

On October 18, 2023, we announced our “Lightning” scalable situational awareness solution for Public Safety market agencies during a critical incident. KWESST Lightning will improve interoperability between agencies with lightning-fast time to engagement, offered as fully cloud-based Software as a Service (“SaaS”) product. Built using the “TAK” – the U.S. government Team Awareness Kit (“TAK”) software at the foundation, the solution addresses the issues of scalability, interoperability, and time to engagement while customizing the user experience to meet the demands of the specific mission sets that responders encounter. On October 24, 2023, we announced that we received a Notice of Allowance for the Luxton LEC patent from the U.S. Patent Office, which supports our PARA OPS product line. The patent was subsequently issued on October 31, 2023.

On October 24, 2023, we announced that we received Notice of Allowance for the LEC patent from USPTO and notification that the USPTO will issue the patent October 31, 2023.

On October 31, 2023, we announced that we intended to issue 4,670 Common Shares at a deemed price per share of CAD\$20.90 in settlement of a debt in an amount of approximately CAD\$97,615.

On November 13, 2023, we announced plans to expand our ARWEN business, including the introduction of a new 40mm cartridge for third-party riot control launchers, which constitute the bulk of launchers worldwide. In order to scale supply and deliver orders in a more responsive fashion we announced a planned reorganization of the business to satisfy the backlog of ARWEN orders and drive sales growth. We also reported on the scale-up of PARA OPS™ production on the heels of successful demonstrations to law enforcement agencies over the summer and fall of 2023.

On November 27, 2023, we announced that Sean Homuth was appointed as President and CEO.

On December 6, 2023, we announced the appointment of General (Retired) Rick Hillier to our Board of Directors (the “Board”).

On December 13, 2023, we announced that our less-lethal PARA OPS™ and ARWEN products will be available for law enforcement agencies to purchase on-line (with link from KWESST website) on Monday, December 23, 2023. PARA OPS™ has been in initial production through the fall of 2023. KWESST also introduced its new ARWEN 40mm cartridge at the SHOT Show in response to substantial interest from many law enforcement agencies.

On February 2, 2024, we announced that Dave Ibbetson, former General Manager of General Dynamics C4 Systems International, and General Dynamics Mission Systems International has been engaged as a Strategic Defence Advisor.

On February 5, 2024, we announced highlights from our attendance at SHOT Show 2024. This included law enforcement agencies at the federal, state and local level, plus foreign distributors from Europe, Asia, Latin America and the Middle East, specifically seeking out the Company to view the new products. The Company has started receiving initial small quantity orders for test and evaluation of its 40mm baton ammunition as well as requests from various agencies for live demonstrations of the PARA OPS™ products.

On February 12, 2024, we announced that we were invited to demonstrate and brief on our public safety products at an international gathering of special intervention units, which was held overseas in April 2024. We have also been demonstrating and briefing on our new PARA OPS™ less-lethal system, our new 40mm ARWEN cartridge for riot control and tactical teams and our new Lighting and T-SAS™ systems for sharing situational awareness among responders and commanders to various police agencies in North America.

On February 28, 2024, we announced the signing of a binding letter of intent with O'Dell Engineering Ltd., in Southwestern Ontario, Canada, for the sale and distribution of PARA OPS™ products in Canada for the civilian market. Subsequently, on November 13, 2024, the Company effectively advised O'Dell that it would not be pursuing a definitive agreement. The Company has engaged the services of an external manufacturer for assembly of its Arwen ammunition and is currently discussing their potential (based on their interest) to become an outsourced manufacturer as well as global distributor of the PARA OPS™ products.

On March 8, 2024, we announced that we had been awarded a contract by the OPP to deliver training and certification to the force's lead TAK users and trainers.

On March 12, 2024, we reported on our demonstrations of PARA OPSTM to Southern California law enforcement agencies at their request following demonstrations at SHOT Show 2024 in Las Vegas in January.

On April 3, 2024, we announced an offering of Common Shares (and/or pre-funded warrants in lieu thereof) in an underwritten United States public offering.

On April 4, 2024, we announced the pricing of our underwritten public offering of 153,850 Common Shares (or pre-funded warrants in lieu thereof) at a public offering price of US\$6.50 per share, for gross proceeds of approximately US\$1,000,000, before deducting underwriting discounts, commissions and offering expenses.

On April 9, 2024, we announced the closing of our previously announced underwritten public offering of 73,500 Common Shares and 80,350 pre-funded warrants with an exercise price of \$0.01 at a public offering price of US\$6.50 per share and US\$6.49 per pre-funded warrant, less the underwriting discount.

On April 30, 2024, we provided a corporate update ahead of our fiscal Q2 result, highlighting status of our military digitization contracts through 2028, an MOU signed with the University of Ottawa to hire software coding graduates, work with a large Canadian police agency as first adopter of KWESST Lightning™ in advance of full market release, ARWEN scaling to multiples of historical revenue and, major agencies continue evaluations of PARA OPS™.

On May 17, 2024, we announced that we had been awarded a contract with its teaming partner CounterCrisis Tech ("CCT") for a proof of concept project (the "Project") to provide a situational awareness app in support of Canadian Red Cross ("CRC") emergency and disaster relief operations.

On May 20, 2024, we announced that we received written notification from Nasdaq on May 16, 2024, indicating that the Company is not in compliance with the minimum bid price requirement set forth in the Nasdaq rules for continued listing on Nasdaq, which requires listed securities to maintain a minimum bid price of US\$1.00 per share.

On May 23, 2024, we announced the appointment of MNP LLP ("MNP") as our new, successor auditor until the close of the next annual general meeting.

On June 10, 2024, we reported that we had been awarded a sub-contract by Thales Canada (the "Thales Subcontract"). Under the sub-contract, KWESST will deliver specialized software services for work under the Canadian DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through advanced Land C4ISR systems.

On June 12, 2024, we announced an offering of Common Shares (and/or pre-funded warrants in lieu thereof) in a best efforts United States public offering.

On June 12, 2024, we announced the pricing of our best efforts public offering of 290,000 Common Shares at a public offering price of US\$5.80 per share, for gross proceeds of approximately US\$1,682,000, before deducting placement agent fees and offering expenses. All of the Common Shares were offered by the Company.

On June 14, 2024, we announced the closing of our previously announced public offering of 290,000 Common Shares at a public offering price of US\$5.80 per share, less the placement agent fees. The gross proceeds from the offering, before deducting placement agent fees of \$0.435 per Common Share (being an aggregate of US\$126,150 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately US\$1,682,000.

On August 7, 2024, the Company announced that a G7 capital city police service (the "Agency") has taken delivery of three T-SAS™ systems and in conjunction has entered into an agreement (at the close of business on August 6) with the Company for a limited time free trial of KWESST Lightning™. The trial has been initially rolled out to a team within the Tactical unit of the Agency to stress-test the equipment and services provide valuable user feedback that will shape the full commercial version once released, and as part of the trial, KWESST will provide training and support to obtain maximum user engagement. During the three-month trial period, the Agency will have access to the full capability of command, communication, and critical-incident management through the KWESST Lightning™ interface on all Android-based devices and leverage peer-to-peer and cloud-based secure networked tactical video streams across KWESST's secure SaaS cloud service.

On August 12, 2024, the Company announced that it had entered into definitive agreements for the purchase and sale of 471,500 Common Shares at a purchase price of US\$2.00 per Common Share in a registered direct offering. The gross proceeds to the Company from the offering were approximately US\$943,000 before deducting placement agent fees and other offering expenses payable by the Company. In a concurrent private placement, the Company issued unregistered warrants to purchase up to 471,500 Common Shares at an exercise price of US\$2.50 per share that were immediately exercisable upon issuance and will expire five years following the date of issuance. The registered direct offering closed on August 13, 2024.

On August 27, 2024, we announced the results of our 2024 Annual and Special Meeting of shareholders held on Monday, August 26, 2024, which included electing all the nominees to the Board, appointing MNP as auditor of the Company for the ensuing year, authorizing the Board to determine auditor's compensation, and approving the Company's amended LTIP. We also announced the addition of new directors Sean Homuth and Jennifer Welsh, and the departure of outgoing director John McCoach.

On September 27, 2024, the Company announced the postponement of the special meeting of KWESST shareholders in connection with the proposed consolidation of the Company's share capital.

Year - to - Date Fiscal 2025 Highlights

On October 1, 2024, we updated investors on the ramp-up of activity on our Thales Subcontract in support of the Canadian DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through advanced Land C4ISR systems program. As of November 16, 2024, KWESST had completed its staffing with conditional offers accepted for all of the 16 positions on the program, representing an annualized revenue of approximately CAD\$3.3M. Once the new staff are onboarded to the program, we estimate our annualized revenue across Land C4ISR and DSEF will be approximately CAD\$3.8M. The Company expects to continue to increase staffing, and related revenue, as future taskings are received. The Company's maximum potential workshare under the Land C4ISR and DSEF remains approximately CAD\$48M and CAD\$27M for the initial contract periods of 6 and 5 years, respectively.

On October 10, 2024, we announced our plan to proceed with a consolidation of our outstanding Common Shares on the basis of ten (10) pre-consolidation shares for each one (1) post-consolidation share (the "Reverse Split"). The Company believed that the Reverse Split was in the best interests of shareholders as it allowed the Company to ensure continued compliance with the Nasdaq minimum bid price requirements.

On October 23, 2024, the 2024 Reverse Split was effected.

On October 23, 2024, we announced that our wholly-owned subsidiary, KWESST Inc., had entered into a receivables facility agreement with a US-based global financing company. The facility provides up to CAD\$250,000 advanced at a rate of 2.5% for the first thirty days and 1% for each ten days thereafter until receipt of funds from the receivable payee and limited to a total of 20% of the value of the receivable funded. Funds are advanced at 80% up front of the face value of the receivable with a 20% fee deposit retained by the financing company until the amount funded is fully repaid, following which any balance remaining of the 20% fee deposit is returned to KWESST Inc. The agreement grants security against KWESST Inc.'s receivables and other assets for funds advanced by the financing company. The initial term is for 12 months and may be terminated within such a term by KWESST Inc., subject to the payment of an early termination fee of 3% of the total limit of the facility.

On October 23, 2024, we announced we had completed our plan to ramp up volume production of ARWEN cartridges, including the new 40mm baton round following successful characterization testing by a recognized ballistics laboratory. The ARWEN system is long-established in the law enforcement community and was designed as an alternative to lethal force for maintaining public order in the event of riots and civil unrest during protests and demonstrations. Historically, the Company has offered a 37mm cartridge that fires from its ARWEN launchers. In a move to expand the market for ARWEN branded products and to leverage the large installed base of third-party 40mm firing platforms, KWESST announced and showcased a new 40mm baton cartridge at the annual SHOT Show in January 2024. Live fire demonstrations at the SHOT Show Range Day and other events since then have demonstrated the notable performance of the new 40mm baton cartridge.

On November 1, 2024, we announced the closing of a public offering of 3,889,000 pre-funded warrants at a public offering price of USD\$0.90 per Common Share. The gross proceeds from the offering were approximately USD\$3,500,000, before deducting placement agent fees of US\$0.0675 per Common Share (being an aggregate of USD\$262,508 or 7.5% of the public offering price of the securities) and estimated offering expenses were approximately US\$300,000. In addition, the Company issued to the placement agent as compensation for its services 194,450 Common Share purchase warrants with an exercise price of US\$1.125 per share.

On November 11, 2024, we announced our intention to issue a total of 119,047 Common Shares at a deemed price per Common Share of CAD\$0.84 per share, representing a 20% discount on the closing price of the Common Shares on the TSXV for settlement for reimbursement of business expenses incurred while representing the Company in an aggregate amount of CAD\$100,000 owed to a company controlled by Mr. David Luxton, Executive Chairman of the Company.

On November 12, 2024, we announced the closing of a brokered private placement offering to an institutional accredited investor for aggregate gross proceeds of approximately CAD\$3.4 million (the "November 2024 Offering"). As a part of the November 2024 Offering, the Company issued 4,145,200 pre-funded warrants to acquire one Common Share at a price of CAD\$0.824 per pre-funded warrant, inclusive of the exercise price of CAD\$0.001 per Common Share. Each pre-funded warrant was bundled with one Common Share purchase warrant of the Company. We also announced that the Company amended the terms of the outstanding pre-funded warrants issued on November 1, 2024, as part of the Company's best efforts public offering in the United States. The amendments revised the exercise price of the pre-funded warrant from USD\$0.001 to CAD\$0.0014, revised currency references from USD to CAD, and removed the ability for the holder to exercise the pre-funded warrant on a cashless basis. The foregoing amendments were agreed to by the holder of such pre-funded warrants pursuant to a pre-funded warrant amendment agreement.

On November 13, 2024, we announced that we received a letter from Nasdaq, notifying the Company that it is eligible for an additional 180 calendar day period, or until May 12, 2025, to regain compliance with the Minimum Bid Requirement. The Company was first notified by Nasdaq of its failure to maintain the Minimum Bid Requirement on May 16, 2024, and was given until November 12, 2024, to regain compliance. The Company did not regain compliance with the Minimum Bid Requirement during the first 180 calendar day period.

On November 13, 2024, in accordance with Nasdaq Listing Rule 5810(c)(3)(A), we were provided with an additional and final 180 calendar day period, or until May 12, 2025, to regain compliance with the Minimum Bid Requirement. To regain compliance, the closing bid price of our Common Shares must meet or exceed US\$1.00 per share for a minimum of ten consecutive business days at any time prior to the Compliance Date, unless the Nasdaq staff exercises its discretion to extend this ten-day period pursuant to Nasdaq Listing Rule 5810(c)(3)(H). Should the Company fail to cure the deficiency in the second 180-day extension period which ends May 12, 2025, no further extensions will be granted and the Nasdaq will initiate delisting procedures.

In December 2024, the LEC royalty payment (see Contractual Obligations and Commitments below) due April 2025, in the amount of \$200,000 was paid early to DEFSEC in exchange for a \$25,000 reduction resulting in a net payment of \$175,000.

#### **Principal Capital Expenditures and Divestitures**

We made the following capital expenditures over the last three financial years. All share-related information presented in this section gives effect to the 2024 Reverse Split.

##### *Fiscal 2024*

- There were no significant capital expenditures or divestitures in Fiscal 2024.

##### *Fiscal 2023*

- There were no significant capital expenditures or divestitures in our fiscal year ending September 30, 2023 ("Fiscal 2023").

##### *Fiscal 2022*

- On December 15, 2021, we acquired 2720178 Ontario Inc., an Ontario (Canada) corporation, which owns all of the issued and outstanding shares of Police Ordnance (the "Police Ordnance Acquisition"). Located in Bowmanville, Ontario, with ancillary operations in Florida, Police Ordnance owns all intellectual properties to the ARWEN product line of less-lethal systems, and a proprietary line of 37 mm less-lethal cartridges designed for riot control and tactical teams. Police Ordnance has law enforcement customers across Canada, the United States, and abroad. The Police Ordnance Acquisition provides us with a strategic opportunity to leverage its law enforcement customer base to accelerate growth within our specialty ordnance business (see *Item 4.B. – Business Overview*).
- On December 15, 2021, the closing date of the Police Ordnance Acquisition, the fair value of the purchase consideration was \$0.6 million, which comprised of: (i) 396 Common Shares, (ii) 20,000 Common Share purchase warrants exercisable at a price of \$17.20 per warrant (one warrant converts to 0.01428571 Common Share or 70 warrants for one Common Share) and expiring on December 15, 2024; and (ii) 87 Common Shares contingent on fulfillment of a financial milestone, which was met in April 2022 resulting in the issuance of these Common Shares.

#### **B. Business Overview**

##### **Principal Products and Services**

KWESST Micro Systems Inc. is an early-stage technology company that develops and commercializes next-generation tactical systems for military and security forces and public safety markets.

Our product development has focused on three niche market segments as follows:



Our core mission is to protect and save lives. At Fiscal 2023, year-end we began to group our offerings for commercialization purposes into Military and Public Safety missions.

KWESST's Public Safety offerings are comprised of:

- KWESST Lightning: leverages the Company's military digitization technology to provide responders to any type of incident with instant onboarding to the mission and TAK-enabled real-time situational awareness SaaS. The Company is currently engaging in trials and pilots of the product as it continues development towards the commercial release that is currently expected to be available in Fiscal 2025.
- Less-Lethal Munitions Systems:
  - PARA OPS™, a next-generation less-lethal system just being introduced to market now.
  - ARWEN™ 37mm system, plus a new 40mm munition.

KWESST's Military offerings are comprised of:

- Digitization: real-time data sharing at the tactical level, including integration with Battlefield Management Applications (BMS) including ATAK and TAK;
- Digitized firing platforms;
- BLDS; and
- Digitized Electro Magnetic Spectrum Operations.

*Strategy*

Our strategy is to pursue and win large defense contracts for multi-year revenue visibility with prime defense contractors for next-generation situational awareness, with a particular focus on ATAK applications that can be leveraged to address similar requirements in the Public Safety Market complemented by our proprietary ARWEN and PARA OPS™ less-lethal products, where it is possible to drive sales and where the sales cycle is typically shorter than the more programmatic defense market.

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

Less-lethal	Digitization	Counter-Threat
<p><b>PARA OPS products:</b>  <i>Non-reciprocating devices:</i></p> <ul style="list-style-type: none"> <li>• A single-shot device</li> <li>• A five-shot device</li> <li>• 12-gauge shotgun</li> </ul> <p><i>Reciprocating devices</i></p> <ul style="list-style-type: none"> <li>• Replica pistol</li> <li>• AR style rifle</li> </ul> <p><i>Ammunition</i></p> <ul style="list-style-type: none"> <li>• Blunt / training</li> <li>• Inert marking powder</li> <li>• Irritant powder</li> </ul> <p><b>ARWEN products:</b></p> <ul style="list-style-type: none"> <li>• Single shot 37mm launcher</li> <li>• Multi-round 37mm launcher</li> <li>• Baton blunt impact</li> </ul>	<p><b>Products:</b></p> <ul style="list-style-type: none"> <li>• TASCs IFM</li> <li>• TASCs NORS</li> <li>• T-SAS™</li> </ul> <p><b>Services:</b></p> <ul style="list-style-type: none"> <li>• ATAK Centre of Excellence</li> <li>• Lightning SaaS for Critical Incident Management System (<i>not yet commercially available</i>)</li> </ul>	<p><b>Products:</b></p> <ul style="list-style-type: none"> <li>• Battlefield Laser Defense System (BLDS)</li> <li>• Phantom Electronic Warfare device</li> </ul>

**Less-lethal Products**

***Non-reciprocating PARA OPS devices***

We are in the low-rate initial production ("LRIP") phase for the .67 caliber single shot and multi-shot devices. We expect to complete our sales, marketing and distribution plan and will begin the higher volume production phase for these devices during Fiscal 2025. Both will be offered to the public safety market, including our proprietary projectiles for these devices.



(Single shot)



(Pro 5 Magnum)



(Proprietary cartridge and projectile)

We plan to 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 have a plan to prototype PARA OPS as a high-capacity automatic pistol and carbine (referred as reciprocating devices) for less-lethal operations and force-on-force training, along with a reciprocating PARA OPS cartridge in the second quarter of Fiscal 2026.

See below for further details of our projected product development cycle and estimated additional investment to reach full commercialization for our PARA OPS devices.

***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 leverage our domain knowledge, proprietary sensor-software integration, proprietary algorithms and electronic circuitry in order to develop and deliver integrated shared situational awareness solutions to our clients who operate in the primarily dismounted domain (*i.e.*, away from supporting platforms such as vehicles, aircraft and armored vehicles):

- 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 North Atlantic Treaty Organization ("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 in real time 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.
- Based on experience gained from our work in the civilian public safety market with our CIMS concept for enhanced public safety, KWESST is working to bring its Lightning™ SaaS app announced in October 2023 to full market release late Calendar 2024. KWESST is currently working to contract with early adopters from a major Canadian police agency to refine the product as part of a pre-market release early adoption phase.

The following is a summary of our Digitization main products that are being commercialized through Fiscal 2024 and Fiscal 2025, subject to customer orders.



**KWESST Lightning™**  
Comprehensive Critical Incident Management System architecture and Solution for Public Safety markets.  
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.

### **Counter Threats**

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



**Battlefield Laser Defense System**

- BLDS is a unique, proprietary system that detects and can locate lasers and alert ground personnel with KWESST's networked Digitization applications.
- We have systems that support both a vehicle-mounted and personnel-worn applications.



**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.
- In order to optimize the Company's R&D spending, management has put the Phantom project on hold and has suspended further development until there is a stronger customer demand.

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

	<b>Concept &amp; Design</b>	<b>Prototype<sup>(1)</sup></b>	<b>Market Testing<sup>(2)</sup></b>	<b>LRIP Production<sup>(3)</sup></b>	<b>Higher Volume Production<sup>(4)</sup></b>
<b>PARA OPS- single shot device <sup>(5)</sup></b>	Completed	Completed	Q3 FY23 - Ongoing	Q4 FY23 - Q1 FY24	Q3-Q4 FY25
<b>PARA OPS- Pro 5 Magnum <sup>(5)</sup></b>	Completed	Completed	Q3 FY23 - Ongoing	Q4 FY23 - Q2 FY24	Q3-Q4 FY25
<b>PARA OPS - reciprocating devices</b>	Q1 FY26	Q2 FY26	Q3FY26	Q4 FY26	Q1 FY27
<b>BLDS</b>	Completed	Ongoing	Ongoing	Ongoing	TBD per market demand
<b>ARWEN 37mm Ammunition</b>	Completed	Completed	Completed	Completed	Completed
<b>ARWEN 40mm Ammunition</b>	Completed	Completed	Ongoing	Ongoing	Q2 FY25
<b>KWESST Lightning™</b>	Ongoing	Ongoing	FY2025	FY2025	FY2026

- Notes:**
- (1) Prototype Version 1 (V1) and Version 2 (V2), integration, and testing have been completed. Next Generation BLDS prototyping is ongoing.
  - (2) Includes field testing and prototype V2.
  - (3) "Low Rate Initial Production". Includes final product development, LRIP, and sales demonstration units. A product is not ready for pre-production until it reaches Technology Readiness Level (TRL) of 5 to 6. Version 2 has been delivered to the customer for integration under this phase.
  - (4) Awaiting customer validation and follow-on orders.
  - (5) Includes the cartridges for the devices.

We consider a product to have reached the commercialization phase when we have begun LRIP and we have a sales, marketing, and distribution plan for the product.

#### **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, 2024	Year ended September 30, 2023	Year ended September 30, 2022
<b><i>Major products / service lines</i></b>			
Digitization	\$ 1,034,257	\$ 819,604	\$ 354,620
Less-Lethal	465,082	411,758	330,658
Training and services	1,028	-	34,590
Other	3,961	3,088	1,651
	<u>\$ 1,504,328</u>	<u>\$ 1,234,450</u>	<u>\$ 721,519</u>
<b><i>Primary geographical markets</i></b>			
United States	\$ 155,103	\$ 42,780	\$ 389,210
Canada	1,349,225	743,200	332,309
Europe	-	448,470	-
	<u>\$ 1,504,328</u>	<u>\$ 1,234,450</u>	<u>\$ 721,519</u>

#### **Market Opportunities**

##### ***Less-lethal***

According to Fact.MR: *Non-Lethal Weapons Market*, April 2023, the global non-lethal weapons market was approximately USD\$4.95 billion in 2023 and is projected to reach USD\$7.6 billion in 2028 (a 4.3% 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 and overseas as these represent a major opportunity for our less-lethal security products. According to the U.S. Bureau of Labor Statistics, in the United States there are nearly 796,800 police officers, detectives and criminal investigators. Cases involving police shootings and deaths related to the use of conductive energy devices and less-lethal shotgun ammunition have increased in the United States. According to The Washington Post, there have been over 10,329 fatal police 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 less-lethal products. These include 1.2 million security guards, 387,500 corrections officers and 38,800 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 less-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 less-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 less-lethal systems is law enforcement, primarily in Canada and United States.

- Consumer market:

According to Pew Research Center, nearly a third of U.S. adults say they personally own a gun based on 2023 survey data. 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-based (see *Item 4.B. - Business Overview - Competitive Conditions*). According to market research by FactMR, published by Yahoo Finance, the paintball gun market size in the United States was \$127.21 million in 2023 and projected to be \$403.5 million by 2033.

#### **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 East and Asia.

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.

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 USD\$435 billion in 2021 and is expected to reach USD\$868 billion by 2028, growing at a CAGR of 10.4%, according to Fortune Business Insights. We have evolved a CIMS system under a SaaS model, branded "KWESST Lightning" to appeal to public safety agencies who may find it attractive to adopt this as a service rather than purchase hardware and software.

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 product was developed expressly to address the health and safety threats from weaponized and/or targeting laser devices utilized by adversaries in the field and to aid in the prevention of friendly fire incidents.

Our Phantom product was developed to provide additional protection to friendly forces by confusing adversaries' Electronic Warfare operators, preventing them from targeting our forces.

We also continue to explore potential application of our technologies to the counter unmanned aircraft system ("C-UAS") market. The rapid proliferation of small hostile drones continues 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 have been conferring with various C-UAS vendors regarding a system for the domestic market that can be made interoperable with our digitization offerings to provide public safety agency a full solution.

### Competitive Conditions

#### *Less-lethal*

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

- handheld CO<sub>2</sub>-powered or air 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 LEC 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 cartridges;
- 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
- a patented system whereby the cartridge casing generates spin to a projectile to stabilize it for accuracy over 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 Chief Executive Officer and Executive Chairman of United Tactical Systems, LLC, a company offering public-safety products for law enforcement, military and personal defense under the PepperBall™ brand. Accordingly, he brings a wealth of market knowledge to us. Additionally, we have staff with many years of experience in firearms development and manufacturing. In August 2021, we also hired a senior Technical Manager with over 17 years of firearms manufacturing experience. 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 (CO<sub>2</sub>-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).

Our patent application with the U.S. Patent and Trademark Office ("USPO") for our proprietary cartridge-based firing system was approved and the patent issued effective October 31, 2023.

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 less-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.

We have developed a 40mm ARWEN baton cartridge which we believe has the superior performance of the 37 mm cartridge and is designed to work in most third-party 40mm launchers. We are currently in the process of introducing this to selected law enforcement tactical teams for test and evaluation, with plans for volume production and roll-out to the market in Q1 Fiscal 2025.

#### **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 apart from legacy detection systems that provide very basic detection.

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 (KWESST Lightning™ as a SaaS).

#### **Seasonality**

We do not expect our less-lethal business line will be exposed to seasonality. While our Digitization and Counter-Threat business lines may be affected by national military budgetary cycles, as well as federal, state and local government spending, we expect the various customers having different spending cycles will mitigate our potential cyclical exposure.

#### **Manufacturing and Availability of Raw Materials**

##### ***Less-lethal***

We have currently outsourced the engineering work for the PARA OPS devices to a third party, with oversight by us. Additionally, we plan to rely upon strategic alliances with OEMs for the manufacturing and distribution of our PARA OPS products.

For the ARWEN launchers, components are outsourced to various suppliers and assembled by an outsourced manufacturer.

Today, we are not aware of material sourcing issues or pricing volatility of raw materials, except for price volatility for certain components to manufacture ARWEN ammunition that will be required for our less-lethal business line (see *Item 3.D. - Risk Factors - We Are Dependent on Key Suppliers for our ARWEN Product Line*).

#### **Digitization and Counter-Threat**

Today we have assembled a team of engineers, technicians and advisors that have significant experience 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. It is this combination of disparate knowledge sets that enables us to integrate and develop innovative solutions. We leverage from this same pool of talent to deploy our Lightning™ SaaS product for the public safety market.

All current product development is done at our facility in Ottawa (see *Item 4.D. - Property, Plants and Equipment*). For as long as market demand justifies a low rate of production quantities, we will internally produce these products. Once demand reaches quantities necessitating commercial-level production quantities, we will outsource our production to companies specifically suited to producing each particular product. We are not aware of any material regulatory approvals that are required for us to outsource production.

#### **Marketing Plans and Strategies**

##### ***Less-lethal***

Initially we plan to sell our PARA OPS to the professional market which includes law enforcement agencies and then to the consumer market through an e-commerce store and a network of distributors. We plan to hire sales and marketing resources during 1H Fiscal 2025 for the commercialization of PARA OPS.

For the ARWEN launchers, we plan to continue direct sales to law enforcement agencies, with marketing via tradeshow and social media/web-based.

As part of our marketing efforts, we are planning to attend the following tradeshows to promote all KWESST products and services:

Tradeshow	Location	Date of Event
CACP Canadian Public Safety Interoperability Workshop	Toronto, ON	2-4 February 2025
EnforceTac	Nuremburg, Germany	24-26 February 2025
Police Technology Conference and Expo	Mississauga, ON	4-5 March 2025
CADSI Outlooks	Ottawa, ON	8-10 April 2025
International Association Chiefs of Police (IACP)	Indianapolis, IN	5-7 May 2025
CANSEC	Ottawa, ON	28-29 May 2025
LAPD Less-Lethal Expo	Los Angeles, CA	June 2025
PTEX	Location TBD	Date TBD
International Association Chiefs of Police (IACP)	Denver, CO	18-21 October 2025

**Proprietary Protection**

**Public Safety**

We have the following registered trademarks:

Trademark	Country	Application # / Registration #	Status / Registration Date
ARWEN	Canada	TMA657,575	January 31, 2006
ARWEN	Great Britain	UK00001247086	July 27, 1985
ARWEN	Singapore	T9105613J	June 8, 1991
ARWEN	United States	1,404,833	August 12, 1986

We have the following trademark and design mark pending applications:

Trademark	Country	File Date for Pending	Application # / Registration #	Status / Registration Date
PARA OPS	United States	February 2, 2022	97/248,319	Pending
EVERYONE GOES HOME ALIVE	Canada	August 10, 2022	2,203,009	Pending
EVERYONE GOES HOME ALIVE	United States	September 16, 2022	97/594,701	Pending
	Canada	November 5, 2021	2,145,500	Abandoned
GREY GHOST	Canada	8/10/2020	2,044,815	Pending
PARA SHOT	Canada	11/9/2023	2,292,216	Pending
PARA SHOT	United States	11/30/2023	98/292,215	Pending
KWESST LIGHTNING	Canada	11/17/2023	2,293,584	Pending
KWESST LIGHTNING	United States	11/30/2023	98/292,239	Pending

We have the following patent pending or issued applications:

Product line	Country	File Date for Pending	Application # / Registration #	Status / Registration Date
LOW ENERGY CARTRIDGE (PARA OPS)	Canada	October 24, 2022	3,179,723	Pending
LOW ENERGY CARTRIDGE (PARA OPS)	Australia	October 27, 2022	2022259822	Pending

Product line	Country	File Date for Pending	Application # / Registration #	Status / Registration Date
LOW ENERGY CARTRIDGE (PARA OPS)	United States	February 11, 2022	17/669,420 (Patent No. 11802754 B2)	Issued October 31, 2023
Lightning™	United States	October 13, 2023	63/590,029	Expired
Lightning™	United States	October 11, 2024	PCT/CA2024/051340	Filed
ARWEN	United States	December 12, 2024	18/978,828	Pending

Country	Serial Number	Filed Date	Title	Status
International	PCT/CA2024/050848	6/24/2024	BATTLEFIELD LASER DETECTION EQUIPMENT MODULE AND SYSTEM COMPRISING THE SAME	Pending
United States	18/377,113	10/5/2023	LOW ENERGY CARTRIDGE	Issued

**Digitization**

While we rely significantly on trade secrets to protect our internally developed technologies, we currently have the following patent pending applications regarding our digitization business lines:

Product line	Country	Application #	File Date	Title	Status
TASCS IFM	International	PCT/CA2021/050993	Filed on July 19, 2021 which claims the benefit of 63/054,435	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Published as W02022/016260 Completed Applicant is KWESST Inc.
TASCS IFM	Canada	3,186,490	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending Applicant is KWESST Inc.
TASCS IFM	Australia	2021312552	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.
TASCS IFM	Europe	21845180.5	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Withdrawn Applicant is KWESST Inc.
TASCS IFM	Israel	300031	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.

TASCS IFM	India	202327004493	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Abandoned Applicant is KWESST Inc.
TASCS IFM	Jordan	PCT/JO/2023/14	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Abandoned Applicant is KWESST Inc.
TASCS IFM	Japan	2023-504725	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Abandoned Applicant is KWESST Inc.
TASCS IFM	South Korea	10-2023-7005420	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Abandoned Applicant is KWESST Inc.
TASCS IFM	New Zealand	NZ796573	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.
TASCS IFM	Saudi Arabia	523442231	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.
TASCS IFM	Singapore	11202300411W	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.
TASCS IFM	United States	18/006,055	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending <sup>1</sup> Applicant is KWESST Inc.
TASCS IFM	South Africa	2023/00978	Filed on July 19, 2021	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Closed Applicant is KWESST Inc.

<sup>1</sup> The Company has decided to no longer pursue these applications.

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**Counter Threat**

While we rely significantly on trade secrets to protect our internally developed technologies, we currently have the following patent and pending patent applications regarding our counter-threat business lines:

Product line	Country	Application #	File Date	Title	Status
Phantom	United States	16/686,095	Filed on November 15, 2019 which claims the benefit of 62/657,706	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Issued as Patent No. 10,969,467 (assigned to KWESST Inc.)
Phantom	United States	16/116,914	Filed on August 30, 2018 which claims the benefit of 62/657,706	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Issued as Patent No. 11,096,243 (assigned to KWESST Inc.)
Phantom	United States	17/163,546	Filed on January 31, 2021 which claims benefit of 16/116,914	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Abandoned
Phantom	United States	17/405,021	Filed on August 17, 2021 which claims the benefit of 16/116,914	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Issued as Patent No. 12,058,782
Phantom	United States	18/138,071	Filed on January 31, 2021 which claims the benefit of 16/116,914	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending (temporarily abandoned - reinstatement due May 1, 2025)
Phantom	International	PCT/CA2021/050038	Filed on January 15, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Published as W02022/150901 Completed Applicant is KWESST Inc.
Phantom	Canada	3,205,090	Filed on January 15, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending (assigned to KWESST Inc.)
Phantom	Australia	2021418936	Filed on January 15, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending (assigned to KWESST Inc.)
Phantom	Canada	3,106,716	Filed on January 21, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Issued as Patent No. 3,106,716 (assigned to KWESST Inc.)
Phantom	Australia	2021200556	Filed on January 29, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending (assigned to KWESST Inc.)
BLDS	United States	63/523,726	Filed on June 28, 2023	Battlefield Laser Detection Equipment Module and System Comprising the Same	Expired

We have the following pending trademark applications:

Trademark	Country	Application #	File Date	Status
Phantom	Canada	2,047,424	August 24, 2020	Pending
Phantom	United States	90/135,612	August 25, 2020	Pending

We also have the following corporate pending trademark applications:

Trademark	Country	Application #	File Date	Status
	Canada	2,063,763	November 12, 2020	Pending
	United States	90/518,212	February 8, 2021	Pending

**Government Regulations**

**Less-lethal**

United States

In February 2022, we retained the services of Orchid Advisors to assist us with the classification and ATF compliance for our PARA OPS devices. Orchid Advisors is an FFL compliance solutions firm headquartered in Hartford, Connecticut.

Based on Orchid Advisor's interpretation of the ATF rules and regulations, we have self-classified the .67 caliber version of the PARA OPS devices as a "destructive device," providing us with the ability to go to market much sooner than waiting for ATF classification ruling. Under the ATF rules, a manufacturer must determine whether the device is a firearm and therefore be subject to ATF regulation and if it is a firearm whether it is subject to National Firearms Act of 1934 ("NFA") regulations.

To be considered a regulated firearm in the United States, the device must be: (i) a weapon that (ii) will or is designed to expel a projectile (iii) by the action of an explosive. Although primers in ammunition cartridges are exempt from control under the explosives regulations as administered by ATF, they are still considered an "explosive" for the purposes of the firearm definition. Because we use primers in the ammunition cartridges for our PARA OPS devices, we have decided to self-classify our PARA OPS devices as a form of firearm in the United States pending any different eventual classification by the ATF.

As the PARA OPS product line is identified as a firearm in the United States, it must be determined whether an additional level of control is imposed by the NFA. Under NFA regulations, there are only two possible types of NFA firearm that PARA OPS could be defined as: (1) a "any other weapon" ("AOW") or (2) a "destructive device". Sale of either of these to consumers is permissible but requires a lengthy approval process conducted by the ATF (the background check process on the consumer); whereas sale to law enforcement agencies, military bodies, or government agencies is a more expedient approval process (usually less than 7 days). Further, the AOW classification requires only a \$5 transfer tax to consumers whereas a destructive device classification results in a \$200 transfer tax to consumers (such tax being borne by the consumer). While our PARA OPS is less-lethal (the kinetic energy of our projectile is well below lethal threshold), we have determined that the current version of our PARA OPS devices are "destructive devices" because the measurement of the bore of our device is currently in excess of the one-half inch in diameter, the maximum size for AOW.

As a result, initial sales of our PARA OPS devices in the United States are expected to come primarily from law enforcement agencies until we reduce the bore diameter of our device to less than one-half inch in diameter for the consumer market. In July 2022, we entered into a consulting agreement with an FFL engineering firm, Bachstein Consulting LLC, in the United States to finalize the prototype for the PARA OPS single and multi-shot devices, including LRIP during Q1 Fiscal 2023. We are currently pursuing development through Fiscal 2023 and the first half of Fiscal 2024 of a non-pyrotechnic energy actuator for PARA OPS in conjunction with a smaller diameter cartridge and projectile which, together, we expect would result in a next-generation version of PARA OPS products that would be considered non-firearms in most jurisdictions. The distribution of our PARA OPS in the United States will be done directly with FFL distributors/firearm dealers for civilian sales. Today, all 50 states of the United States allow civilians to own a firearm subject to the firearm laws of the state (which vary by state). We expect the sales of our PARA OPS devices will position us well for significant recurring revenues through the sale of subsequent ammunition over the next 12 months (see *Item 3.D. – Risk Factors – A Significant Portion of Our Revenues Are Non-Recurring*).

For the less-lethal ARWEN products, we maintain a firearm business license (the "Firearm Business License") issued by the Chief Firearms Office of the Ontario Ministry of the Solicitor General and we are also registered under the Controlled Goods Program in Canada. For further information, see *Item 4.B. – Business Overview – Digitization and Counter Threat*. Additionally, we maintain a Federal Explosives License/Permit for the manufacturing of explosives and a FFL for manufacturer and sale of destructive devices, both issued by the ATF in the United States. These are currently under renewal. All sales of our ARWEN launchers are made directly to law enforcement agencies.

### Rest of the World

As our current focus is commercializing PARA OPS in the United States, we have not begun analyzing the related government regulations for the rest of the world.

### **Digitization and Counter-Threat**

#### Firearm Business License

In Canada, we maintain a Firearm Business License with the Chief Firearms Officer of the Ontario Ministry of Solicitor General for our following business activities:

- Manufacture, modification and assembly: prohibited weapons, ammunition, restricted firearms, prohibited devices, prohibited ammunition, prohibited handguns, non-restricted firearms, prohibited firearms;
- Retail sales (including consignment sales): restricted firearms and non-restricted firearms;
- Consignment sales: prohibited firearms including prohibited handguns;
- Gunsmithing: prohibited firearms, prohibited handguns, non-restricted firearms, restricted firearms;
- Transportation of inventory: prohibited firearms, ammunition, prohibited handguns, non-restricted firearms, prohibited ammunition, prohibited devices, restricted firearms, prohibited weapons;
- Storage of firearms: restricted firearms, non-restricted firearms, prohibited firearms, prohibited handguns.
- Export: ammunition, prohibited handguns, non-restricted firearms, prohibited ammunition, prohibited firearms, prohibited weapons, prohibited devices;
- Possession for the purpose of instruction: restricted firearms, ammunition, non-restricted firearms, prohibited handguns.
- Import: prohibited firearms, non-restricted firearms, prohibited devices, prohibited ammunition, ammunition, prohibited weapons, prohibited handguns and restricted firearms.

The Firearm Business License is delivered for the purposes of: (i) the performance of a contract entered into by the Government of Canada, the government of a province, the government of a municipality acting on behalf of a police force, or a police force, or by a person acting on behalf of such a government or a police force; and (ii) the development, modification or testing of a prohibited firearm, prohibited weapon, prohibited device or prohibited ammunition, or any component or part thereof, for the purpose of training, or supplying goods or training materials used in the training of, a public officer as defined in subsection 117.07(2) of the Criminal Code (Canada), who is acting in the course of his or her duties or employment.

The Company's Executive Chairman holds the role of Chief Firearms Official and has the responsibility of overseeing compliance with our firearms and explosives licenses in all regards. As of the date of this Annual Report, we believe to be fully compliant with all the conditions under which the Firearm Business License is delivered and maintained.

We have applied for and received a Firearms Business License that covers off any potential scenario that we may from time to time be involved in which such a license would be required. We are currently not in the retail or consignment sale of firearms and do not expect to be in this type of business.

For greater clarity, we use real firearms in the development and testing of our products as well as in training users on their use. Any device such as the TASCs IFM or TASCs NORS must be developed and tested on the weapon platforms for which it is designed. The Shot Counter is designed to work on automatic weapons in military and police inventories. These types of weapons are classified as prohibited and are solely utilized in the development and testing of the product. Replica systems are utilized for static demonstration, trade shows and other non-firing events.

We procure ammunition such as those required for mortars, grenade launchers and others weapon types to conduct testing and evaluation. On occasion, we may need to export ammunition in support of demonstrations.

#### Controlled Goods Program

In Canada, an individual or organization must register in the Controlled Goods Program with the Public Services and Procurement Canada if they need to:

- examine, possess or transfer controlled goods (munitions);
- transfer controlled goods outside of Canada; or
- receive bid solicitation documents containing controlled goods or controlled technology.

We are registered in the Controlled Goods Program and believe we are in compliance as of the date of this Annual Report.

#### **Economic Dependence**

As an early-stage company, the revenue stream in our fiscal year ending September 30, 2021 ("Fiscal 2021") for the TASCs system was concentrated on one United States military customer. We recognized 98.3% of the total revenue (USD\$0.8 million) for this United States military customer during Fiscal 2021 (see *Item 5.E. – Critical Accounting Estimates*). We have delivered the remaining milestone and recognized the remaining 2.7% of the total revenue during the first quarter of Fiscal 2022. While we expect follow-on orders for our TASCs IFM 81mm mortar system they are likely to be under multi-year "Joint Fires" programs throughout Fiscal 2025, and there is no assurance of such orders Fiscal 2025.

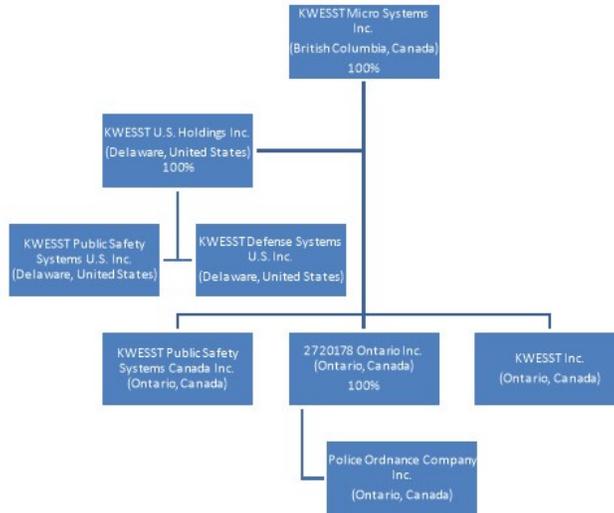
Since September 30, 2021, we have further diversified our revenue base as a result of the Police Ordnance Acquisition. Additionally, on December 1, 2021, we entered into a master professional services agreement (the "MPSA") with General Dynamics Mission System ("GDMS") to support the development of digitization solutions for future Canadian Land C4ISR programs under Strong, Secure, Engaged: Canada's Defence Policy. This includes TAK integration and other digitization 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. Accordingly, there are no material terms in the MPSA except for the termination provision. At its sole discretion, GDMS may terminate the MPSA and/or a SOW by written notice to us. Under such event, GDMS will be liable for work rendered or expenses incurred prior to the effective date of such termination for which payment has not been made to us. GDMS may also terminate the MPSA immediately in the event of default (as defined in the GDMS). 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. GDMS accounted for 41% of our Fiscal 2022 consolidated revenue. During Q1 Fiscal 2023 we entered into another SOW with GDMS for USD\$0.1 million, which we delivered by the end of the quarter. With the commercial launch of PARA OPS product line in Fiscal 2024 and continued product sales from the ARWEN launchers, we anticipate our total consolidated revenue will continue to diversify with various customers, resulting in less dependence on limited customers to drive positive cash flows and profitability.

**Foreign Operations**

We established office space in Stafford, Virginia to conduct United States business development activities and anticipated light assembly and distribution for our less-lethal, Digitization, and Counter-Threat business lines. We released this space in the summer of 2023 and rented alternative space in the premises of our outsourced PARA OPS devices manufacturer in North Carolina for greater economy and convenience.

**C. Organizational Structure**

The following chart illustrates our 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 (see *Item 4.B. - Business Overview*).

**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 (see *Item 4.B. - Business Overview*).

**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, a company incorporated in Ontario (Canada) (see *Item 4.A. - History and Development of the Company - Principal Capital Expenditures and Divestitures*). 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 the Qualifying Transaction (as defined below), KWESST Inc. amalgamated with Subco, with the amalgamated company retaining the name of "KWESST Inc."

**D. Property, Plants and Equipment**

We do not own any real estate property. We operate from leased premises in three different locations, as detailed in the following table:

Location	Area (approx.)	Premise Use	Expiry Date
155 Terence Matthews, Unit#1, Ottawa, Ontario, Canada	7,200 sq. ft.	Corporate offices and administration, R&D, storage of ARWEN and Para Ops products	April 30, 2026 (renewal extension of 5 years)
557 Massey Road, Guelph, Ontario, Canada	5,500 sq. ft.	ARWEN products	July 30, 2026 (renewal extension of 2 years to 2028)
70 Mosswood BVLD, Suite 100 Youngsville, NC 27596	1,500 sq. ft.	Inventory	June 2026

At September 30, 2024, the carrying value of our total tangible fixed assets was approximately \$0.5 million mostly held in Ottawa, Ontario, Canada.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following Operating and Financial Review and Prospects section is intended to help the reader understand the factors that have affected the Company's financial condition and results of operations for the historical period covered by the financial statements and management's assessment of factors and trends which are anticipated to have a material effect on the Company's financial condition and results in future periods. This section is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the other financial information contained elsewhere in this document. Our audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Our discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives and intentions. Our actual results may differ from those indicated in such forward-looking statements.

## A. Operating Results

### Overview

During Fiscal 2024, we had some significant highlights to our operating results:

- On October 18, 2023, we announced that we were developing a patent-pending SaaS product for public safety agencies to enable "lightning fast" real-time shared situational awareness among front-line responders during critical incidents.
- On October 24, 2023, we announced that we received a Notice of Allowance for the Luxton LEC patent from the U.S. Patent Office, which supports our PARA OPS product line. The patent was subsequently issued on October 31, 2023.
- On February 28, 2024, we announced the signing of a binding letter of intent with O'Dell Engineering Ltd., in Southwestern Ontario, Canada, for the sale and distribution of PARA OPS products in Canada for the civilian market.
- On March 8, 2024, we announced that we were awarded a contract by the OPP to deliver training and certification to the force's lead Team Awareness users and trainers.
- On April 9, 2024, we announced the closing of an underwritten public offering of 73,500 Common Shares and 80,350 pre-funded warrants with an exercise price of \$0.01 at a public offering price of USD\$6.50 per share and USD\$6.49 per pre-funded warrant, less an underwriting discount. ThinkEquity acted as sole book-running manager for the offering. The gross proceeds from the offering, before deducting the underwriting discount of USD\$0.4875 per Common Share (being an aggregate of USD\$75,002 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately USD\$1,000,000. In addition, the Company issued to ThinkEquity as compensation for its services 7,692 Common Share purchase warrants with an exercise price of USD\$8.125 per share.
- On May 17, 2024, we announced that we were awarded a contract with our teaming partner CCT for a proof-of-concept project to provide a situational awareness app in support of CRC emergency and disaster relief operations.
- On June 10, 2024, we announced that we were awarded the Thales Subcontract. Under the Thales Subcontract, we will deliver specialized software services for work under the DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through the Land C4ISR Program.
- On June 14, 2024, we announced the closing of the June 2024 Offering. ThinkEquity acted as the sole placement agent for the offering. The gross proceeds from the offering, before deducting placement agent fees of USD \$0.435 per Common Share (being an aggregate of USD\$126,150 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately US\$1,682,000. In addition, the Company issued to the placement agent as compensation for its services 14,500 Common Share purchase warrants with an exercise price of US\$7.25 per share. All of the Common Shares were offered by the Company.
- On August 13, 2024, we announced the closing of a registered direct offering for the purchase and sale of 471,500 Common Shares at a purchase price of \$2.00 per Common Share, and in a concurrent private placement, the Company issued Investor Warrants to purchase up to 471,500 Common Shares at an exercise price of \$2.50 per share that were immediately exercisable upon issuance and will expire five years following the date of issuance. H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2024 Offering and was issued 35,362 Placement Agent's Warrants to purchase a number of Common Shares equal to 7.5% of the aggregate number of Common Shares sold in the August 2024 Offering. The gross proceeds to the Company from the offering were approximately US\$943,000 before deducting placement agent fees and other offering expenses payable by the Company.

Subsequent to Fiscal 2024, we had some significant highlights to our operating results:

- On November 1, 2024, we announced the closing of a public offering of 3,889,000 pre-funded warrants at a public offering price of US\$0.90 per Common Share. The gross proceeds from the offering were approximately USD\$3,500,000, before deducting placement agent fees of USD\$0.0675 per Common Share (being an aggregate of USD\$262,508 or 7.5% of the public offering price of the securities) and estimated offering expenses were approximately USD\$300,000. In addition, the Company issued to the placement agent as compensation for its services 194,450 Common Share purchase warrants with an exercise price of USD\$1.125 per share.
- On November 11, 2024, we announced that we intend to issue a total of 119,047 Common Shares at a deemed price per Common Share of CAD\$0.84 per share, representing a 20% discount on the closing price of the Common Shares on the TSXV for settlement for reimbursement of business expenses incurred while representing the Company in an aggregate amount of CAD\$100,000 owed to a company controlled by Mr. David Luxton, Executive Chairman of the Company.

- On November 12, 2024, we announced the closing of the November 2024 Offering. As a part of the November 2024 Offering, the Company issued 4,145,200 pre-funded warrants to acquire one Common Share at a price of CAD\$0.824 per pre-funded warrant, inclusive of the exercise price of CAD\$0.001 per Common Share. Each pre-funded warrant was bundled with one Common Share purchase warrant of the Company.

## Results of Operations

The following selected financial data has been extracted from the audited Fiscal 2024 financial statements.

	2024	2023	2022	Change 2024 vs 2023 %	Change 2023 vs 2022 %
<b>Revenue</b>	\$ 1,504,328	\$ 1,234,450	\$ 721,519	22%	71%
Cost of sales	(1,017,826)	(1,425,828)	(536,735)	-29%	166%
Gross profit (loss)	486,502	(191,378)	184,784	-354%	-204%
Gross margin %	32.3%	-15.5%	25.6%		
<b>Operating Expenses</b>					
General and administrative	6,269,257	7,244,762	4,915,263	-13%	47%
Selling and marketing	1,538,882	3,024,283	3,296,373	-49%	-8%
R&D	2,477,736	1,644,565	2,064,493	51%	-20%
<b>Total operating expenses</b>	<b>10,285,875</b>	<b>11,913,610</b>	<b>10,276,129</b>	<b>-14%</b>	<b>16%</b>
<b>Operating loss</b>	<b>(9,799,373)</b>	<b>(12,104,988)</b>	<b>(10,091,345)</b>	<b>-19%</b>	<b>20%</b>
<b>Other income (expenses)</b>					
Share issuance costs	(541,566)	(1,985,074)	-	-73%	N/A
Net finance costs	(196,323)	(668,034)	(506,002)	-71%	32%
Foreign exchange gain (loss)	59,191	(98,275)	28,780	-160%	-441%
Change in fair value of warrant liabilities	3,047,568	5,841,192	-	-48%	N/A
Loss on disposals	(7,256)	(291,181)	(1,165)	-98%	24894%
<b>Total other income (expenses), net</b>	<b>2,361,614</b>	<b>2,798,628</b>	<b>(478,387)</b>	<b>-16%</b>	<b>-685%</b>
<b>Loss before income taxes</b>	<b>(7,437,759)</b>	<b>(9,306,360)</b>	<b>(10,569,732)</b>	<b>-20%</b>	<b>-12%</b>
<b>Deferred tax recovery</b>	<b>-</b>	<b>-</b>	<b>49,442</b>	<b>N/A</b>	<b>-100%</b>
<b>Net loss</b>	<b>\$ (7,437,759)</b>	<b>\$ (9,306,360)</b>	<b>\$ (10,520,290)</b>	<b>-20%</b>	<b>-12%</b>
<b>EBITDA loss</b>	<b>\$ (5,963,525)</b>	<b>\$ (7,685,818)</b>	<b>\$ (9,737,239)</b>	<b>-22%</b>	<b>-21%</b>
<b>Adjusted EBITDA loss<sup>(1)</sup></b>	<b>\$ (8,229,701)</b>	<b>\$ (10,778,926)</b>	<b>\$ (7,304,670)</b>	<b>-24%</b>	<b>48%</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (8.99)</b>	<b>\$ (22.80)</b>	<b>\$ (144.05)</b>	<b>-65%</b>	<b>-84%</b>
<b>Weighted average common shares - basic</b>	<b>827,135</b>	<b>408,227</b>	<b>73,030</b>	<b>127%</b>	<b>459%</b>

(1) EBITDA and Adjusted EBITDA are non-IFRS measures. See "Non-IFRS Measures".

In the following table, we have reconciled the EBITDA and Adjusted EBITDA to the most comparable IFRS financial measure.

	2024	2023	2022
<b>Net loss as reported under IFRS</b>	<b>\$ (7,437,759)</b>	<b>\$ (9,306,360)</b>	<b>\$ (10,520,290)</b>
Net finance costs	196,323	668,034	506,002
Depreciation and amortization	1,277,911	952,508	326,491
Deferred tax recovery	-	-	(49,442)
<b>EBITDA loss</b>	<b>(5,963,525)</b>	<b>(7,685,818)</b>	<b>(9,737,239)</b>
<i>Other adjustments:</i>			
Stock-based compensation	291,761	373,554	1,960,072
Share issuance costs	541,566	1,985,074	-
Professional fees relating to financings	-	-	500,112
Fair value adjustment on derivatives	(3,047,568)	(5,841,192)	-
Foreign exchange loss (gain)	(59,191)	98,275	(28,780)
Loss on disposals	7,256	291,181	1,165
<b>Adjusted EBITDA loss</b>	<b>\$ (8,229,701)</b>	<b>\$ (10,778,926)</b>	<b>\$ (7,304,670)</b>

#### Current Year Variance Analysis (2024 vs. 2023)

For Fiscal 2024, KWESST's net loss was \$7.4 million. Fiscal 2024 EBITDA loss was \$6.0 million, a decrease of 20% over the comparable prior period mainly due to an increase in revenue and gross profits from our digitization contracts combined with a decrease in operating expenses resulting from to a reduction in consulting fees and investor relations costs year over year, and a reduction in G&A costs due the impairment charge on the Phantom intangible asset in Fiscal 2023 and decrease in general administrative expenditures year over year. The adjustments to EBITDA loss Fiscal 2024 included the change in fair value of derivative liabilities, and a decrease in share issuance costs from the 2024 financing activities as compared to the U.S. IPO and Canadian Offering, and July 2023 Private Placement in Fiscal 2023. There were no stock options granted in Fiscal 2024, resulting in a reduction in stock-based compensation expense in Fiscal 2024 compared to Fiscal 2023. The decrease in net financing costs year to date ("YTD") Fiscal 2024 over the comparable prior period is due to the costs related to the unsecured loans in Fiscal 2023 whereas the loans were repaid, and no such costs were incurred Fiscal 2024.

#### Revenue

Total revenue increased by \$0.3 million in the year compared to Fiscal 2023, mainly due to an additional \$0.2 million generated from our digitization business line and \$0.1 million from our less-lethal business line (driven from sale of ARWEN products).

At September 30, 2024, our digitization business line consisted of the two governments contracts for the DSEF and Land C4ISR programs, along with the Red Cross and ongoing GSAR programs, which generated \$1M in sales in Fiscal 2024 whereas the Fiscal 2023 \$0.8M in sales was generated by the ongoing GSAR program, delivery of four BLDS units and GDMS contract for future military digitization development.

We expect revenue to increase with the commercial launch of KWESST Lightning™ which we expect to be in calendar 2025, with the expected demand/future orders for the new ARWEN 40mm ammunition and PARA OPS products, as well as from the ramp-up of the Land C4ISR subcontract. Management continues to work with our industry partners to determine the outlook for ramp-up on the DSEF program. Although the temporary slow down from the prior year persists, the Company expects this to normalize with no material impact to the overall potential revenue over the life of the contract

#### Gross Profit

In Fiscal 2024, we earned \$0.5 million or gross margin of 32.3%, compared to negative \$0.2 million or gross margin of -15.5% in Fiscal 2023 mainly due to the cost of sales for the production and delivery of the BLDS units in Fiscal 2023 as well as onerous contracts and consultant fees in Fiscal 2023 that have since been eliminated.

We expect gross profit / margin to continue to increase in Fiscal 2025 from the other product lines described above as well as continued ramp-up on the Canadian Government contracts.

### *Operating Expenses ("OPEX")*

Total OPEX decreased by \$1.6 million, or 14%, over the comparable prior year due to the following factors:

- G&A decreased by \$1 million, or 13%, primarily due the impairment charge on the Phantom intangible asset in Fiscal 2023 (\$1.5 million) and decrease in general administrative expenditures (\$0.3 million), offset by an increase in personnel cost (\$0.4 million) due to an increase in corporate headcount, which was a significant factor in the Company remediating the material internal control weaknesses disclosed in the 2023 annual filings, and related compensation consistent with increased compliance requirements related to our TSX.V and Nasdaq listing, and increase in depreciation from two additional right-of-use assets and capitalization of the ready-for-use LEC intangible asset in Fiscal 2024 (\$0.4 million).
- S&M decreased by \$1.5 million, or 49%, primarily due to a decrease in investor relations costs and related sales and marketing costs (\$1.6 million), and a decrease in business development costs (\$0.3 million), offset by an increase in personnel cost (\$0.4 million) mainly to promote our KWESST and ARWEN products.
- R&D increased by \$0.8 million, or 51%, primarily due to the fact that the LEC has reached commercial feasibility, and any associated costs are no longer being capitalized, while it was still in the development stage in Fiscal 2023 (\$0.5 million), an increase in personnel costs advancing the KWESST Lightning™ and BLDS projects in Fiscal 2024 (\$0.8 million), and impairment charge on the write-off of obsolete inventory (\$0.1 million), offset by a reduction in engineering and production related consulting fees compared to the comparable prior year period (\$0.7 million).

### *Other income (expenses), net*

For Fiscal 2024, our total other income was \$2.4 million, compared to total other income of \$2.8 million for the comparative period 2023 resulting in a decrease of \$0.4 million. The change in other income (expenses) was driven mainly by:

- A decrease of \$1.4 million in Share Offering Costs as \$1.9 million related to the U.S. IPO and Canadian Offering, and July 2023 Private Placement in Fiscal 2023, compared to \$0.5 million associated with the two US public offering financing activities in April and June 2024, and the US registered direct offering in August 2024;
- \$0.5 million decrease in net finance costs is primarily due to the Fiscal 2023 recognition of the remaining unamortized accretion costs and interest expense relating to the repayment of all outstanding loans, following the closing of the U.S. IPO and Canadian Offering;
- A decrease of \$0.3 million in loss on disposal of PP&E due to the impairment charge on the Phantom intangible asset; and
- \$0.2 million increase in foreign exchange gain due to appreciation in the U.S. currency during the period; offset by
- \$3.0 million gain on change in fair value of warrant liabilities as a result of the remeasurement of the warrant liabilities at September 30, 2024, driven by a decrease in the underlying Common Share price on September 30, 2024. Under IFRS, we are required to remeasure the warrant liabilities at each reporting date until they are exercised or expired. They are remeasured due to the fact that the exercise price is different from the Company's functional currency and they have a cashless exercise option which are two factors that determine the classification of these warrants as liabilities instead of equity instruments.

### **Prior Year Variance Analysis (2023 vs. 2022)**

For Fiscal 2023, KWESST's net loss was \$9.3 million. Fiscal 2023 adjusted EBITDA loss was \$10.8 million, an increase of 48% compared to the prior year, mainly due to increased operating expenses driven by increased personnel costs, consulting costs, professional fees, insurance costs, regulatory and compliance costs, and tradeshow. The adjustments to EBITDA loss for Fiscal 2023 included share insurance costs relating to warrant liabilities, and the change in fair value of derivative liabilities, all of which are related to the warrants issued in the U.S. IPO and Canadian Offering and the July Private Placement (see Notes 15 and 16 of the Fiscal 2024 financial statements). There has been a lower volume of stock-based grants in the last 12 months resulting in a material reduction in stock-based compensation expense in the current year compared to Fiscal 2022.

### *Revenue*

Total revenue increased by \$0.5 million in the year compared to Fiscal 2022, mainly due to an additional \$0.4 million generated from our digitization business line and \$0.1 million from our less-lethal business line (driven from sale of ARWEN products).

We had anticipated revenue from our commercial launch of our PARA OPS, which we originally expected to commence in 1H Fiscal 2024, however the Company did not raise enough funds to pursue any market development plans until November 2024 and we now expect to commence in 2H Fiscal 2025.

#### *Gross Profit*

Our gross profit was a negative \$0.2 million in the year compared to a positive gross profit of \$0.2 million in Fiscal 2022. The decrease is due mainly to onerous contracts and consultant fees that have since been eliminated. As we are in the pre-revenue stage for most product lines, we expect continued fluctuation in gross profit / margin during Fiscal 2024 as we ramp up anticipated revenue in the year.

#### *Operating Expenses*

Total OPEX was \$11.9 million for YTD Fiscal 2023 compared to \$10.3 million in YTD Fiscal 2022 for a total increase of \$1.6M. Excluding share-based compensation, total OPEX was \$11.5 million compared to \$8.3 million, a 39% increase over the comparable prior year due to the following factors:

- G&A increased by \$2.3 million, or 47%, primarily due to the impairment charge on the Phantom intangible asset, the retention bonus earned by our former CFO, an increase in salaries due to increase in corporate headcount and related compensation consistent with increased compliance requirements and associated risk from the Nasdaq listing, higher consulting fees and retention bonuses relating to key personnel in the less-lethal business line. Additionally, we incurred an increase in D&O insurance, professional fees, and compliance costs due to KWESST's Nasdaq listing in December 2022 and subsequent regulatory filing compliance.
- S&M decreased by \$0.3 million, or 8%, primarily due to a \$0.4 million decrease in share-based compensation expense, coupled with lower U.S. business development consulting costs in YTD Fiscal 2023. This was partially offset by an increase in tradeshow spend to promote our products and consulting fees.
- R&D decreased by \$0.4 million, or 20%, primarily due to \$0.2 million decrease in share-based compensation expense in Fiscal 2023 in comparison to the prior year. R&D expenses further decreased due to reallocating most of our engineering resources to deliver on customer contracts. The related costs are reported as part of cost of sales (for delivered performance obligations to customers) and work-in-progress inventories. These costs included an increase in payroll costs due to the strong local demand for skilled, experienced engineers.

#### *Other income (expenses), net*

For Fiscal 2023, our total other income was \$2.8 million, compared to total other expenses of \$0.5 million. The change in other income (expenses), net was driven mainly by the \$5.8 million favorable change in fair value of warrant liabilities as a result of the remeasurement of the warrant liabilities at September 30, 2023, driven by a decrease in the underlying Common Share price on September 30, 2023. Under IFRS, we are required to remeasure the warrant liabilities at each reporting date until they are exercised or expired. This was partially offset by:

- \$0.2 million increase in net finance costs is primarily due to the recognition of the remaining unamortized accretion costs and interest expense relating to the repayment of all outstanding loans, following the closing of the U.S. IPO and Canadian Offering;
- \$2.0 million in Share Offering Costs relating to the U.S. IPO and Canadian Offering and the July 2023 Private Placement. Under IFRS, we are required to allocate proportionately the total underwriting and share offering costs (collectively "Share Offering Costs") between equity and warrant liabilities resulting from the U.S. IPO and Canadian Offering and the July 2023 Private Placement. The portion of the Share Offering Costs allocated to warrant liabilities were expensed; and
- \$0.1 million increase in foreign exchange loss due to appreciation in the U.S. currency during the year.

#### **Selected Annual and Quarterly Information**

The following selected financial information is taken from the audited financial statements for the years ended September 30, 2024, 2023 and 2022.

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
<b>Statement of Operations data:</b>			
Revenue	\$ 1,504,328	\$ 1,234,450	\$ 721,519
Gross profit	486,502	(191,378)	184,784
Gross margin %	32.3%	-15.5%	25.6%
Operating loss	(9,799,373)	(12,104,988)	(10,091,345)
Net loss	(7,437,759)	(9,306,360)	(10,520,290)
Loss per share - basic and diluted	(8.99)	(22.80)	(144.05)

	September 30, 2024	September 30, 2023	September 30, 2022
<b>Financial Position data:</b>			
Cash	256,828	5,407,009	170,545
Total assets	5,617,148	11,758,832	11,758,832
Total non-current liabilities	1,273,280	1,439,577	1,434,628
Total shareholders' equity (deficit)	1,368,287	3,935,620	6,123,728

See Item 5.A - Operating Results - Results of Operations for additional details and for the comparison discussion between the periods presented above.

#### Summary of Quarterly Results

The following table summarizes selected results for the eight most recent completed quarters to September 30, 2024.

(\$ in thousands)	2024				2023			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	560	329	486	129	606	150	161	317
Net loss	(2,337)	(1,162)	(3,540)	(399)	(2,419)	(3,452)	(1,227)	(2,208)

#### Quarterly Results Trend Analysis

We experienced volatility with our quarterly revenue during Fiscal 2024 due to uncertain magnitude and timeline of ramp-up on our military government contracts as well as expected ramp-up of revenue for new ARWEN and PARA OPS products. Additionally, we expect further volatility with our quarterly net loss due to the remeasurement of warrant liabilities at each reporting period, with the change in fair value recorded through P&L.

#### Fourth Quarter Fiscal 2024

The following table summarizes our results of operations for the respective periods:

	Three months ended September 30,	
	2024	2023
Revenue	\$ 559,920	\$ 605,445
<b>Operating Expenses</b>		
General and administrative	1,407,259	2,798,250
Selling and marketing	399,469	685,637
R&D	612,122	618,028
<b>Total operating expenses</b>	2,418,850	4,101,915
<b>Net loss</b>	\$ (2,336,628)	\$ (5,854,335)

## Revenue

There was no significant change in revenue from Q4 Fiscal 2023 to Q4 Fiscal 2024. At September 30, 2024, our digitization business line consisted of the two governments contracts for the DSEF and Land C4ISR programs, along with the Red Cross and ongoing GSAR programs whereas sales were generated by the ongoing GSAR program and delivery of two BLDS units in Q4 ended September 2023.

## Operating Expenses

Total OPEX was \$2.4 million in Q4 FY24 compared to \$4.1 million for Q4 FY2023 for a total decrease of \$1.7 million, or 44%, over the comparable prior year quarter due to the following factors:

- G&A decreased by \$1.4 million, or 50%, primarily due to the impairment charge on the Phantom intangible asset incurred in Q4 FY23 (\$1.5 million), and a decrease in general administrative expenditures (\$0.3 million), offset by an increase in personnel cost (\$0.2 million) due to an increase in corporate headcount and related compensation consistent with compliance requirements associated with our TSX.V and Nasdaq listings; and
- S&M decreased by \$0.3 million, or 42%, primarily due to a decrease in investor relations costs and related sales and marketing costs (\$0.3 million) incurred in Q4 FY24 over the comparable prior year period.

## Net Loss

As a result of the above, our net loss was \$2.4 million for the quarter ended September 30, 2024, a \$3.5 million decrease from the Q4 period in Fiscal 2023 as a result of significant efforts to reduce costs as well as introduce new revenue streams throughout Fiscal 2024.

## B. Liquidity and Capital Resources

### Financial Condition

The following table summarizes our financial position:

	September 30, 2024		September 30, 2023		September 30, 2022
<b>Assets</b>					
Current	\$ 1,842,355	\$	6,842,074	\$	1,516,393
Non-current	3,774,793		4,916,758		5,807,070
<b>Total assets</b>	<b>\$ 5,617,148</b>	\$	<b>11,758,832</b>	\$	<b>7,323,463</b>
<b>Liabilities</b>					
Current	\$ 2,975,581	\$	6,383,635	\$	6,925,880
Non-current	1,273,280		1,439,577		1,400,474
Total liabilities	4,248,861		7,823,212		8,326,354
<b>Net assets</b>	<b>\$ 1,368,287</b>	\$	<b>3,935,620</b>	\$	<b>(1,002,891)</b>
<b>Working capital <sup>(1)</sup></b>	<b>\$ (1,133,226)</b>	\$	<b>458,439</b>	\$	<b>(5,409,487)</b>
<b>Indebtedness:</b>					
	September 30, 2024		September 30, 2023		September 30, 2022
Borrowings	\$ -	\$	-	\$	2,278,774
Lease liabilities	302,223		429,523		275,621
Warrant liabilities	847,295		4,335,673		-
<b>Total debt</b>	<b>\$ 1,149,518</b>	\$	<b>4,765,196</b>	\$	<b>2,554,395</b>

(1) Working capital is calculated as current assets less current liabilities.

Our working capital was negative \$1.1 million at September 30, 2024, a decrease of \$1.6 million from September 30, 2023. The decrease was primarily due to the net operating loss for YTD Fiscal 2024, offset by proceeds from three financing activities in Fiscal 2024. Current liabilities include warrant liabilities, a non-cash liability item (see Note 15 of the Fiscal 2024 audited consolidated financial statements). Excluding warrant liabilities, we would have working capital of negative \$0.3 million. These warrant liabilities will be extinguished when the warrants are exercised or expired. If exercised, the proceeds will provide us with additional capital to fund our future working capital requirements. There is no assurance that any warrants will be exercised.

Total assets decreased by \$6.1 million from September 30, 2023, mainly due to a decrease in cash of \$5.2 million and a \$0.9 million decrease in the unamortized value of non-current assets.

Total liabilities decreased by \$3.6 million from September 30, 2023, to \$4.2 million at September 30, 2024, mainly due to the warrant liabilities. As at September 30, 2024, we had \$0.8 million of warrant liabilities, a reduction of \$3.5 million as a result of the remeasurement of the warrant liabilities, driven by a decrease in the underlying Common Share price at September 30, 2024 (\$3.1 million), exercises of warrants throughout 2024 (\$1.8 million), offset by the issuance of warrants from the April 2024 and August 2024 financings (\$1.3 million).

#### Available Liquidity

Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they come due. We regularly perform cash flow forecasts to ensure that we have sufficient cash to meet our operational needs while maintaining sufficient liquidity. At this time, we do not use any derivative financial instruments to hedge our currency risk.

On April 9, 2024, we closed a US public offering pursuant to which we received aggregate gross proceeds of US\$1.0 million (or CAD\$1.4 million), before underwriting and offering costs. On June 14, 2024, we closed a US public offering pursuant to which we received aggregate gross proceeds of US\$1.7 million (or CAD\$2.3 million), before underwriting and offering costs. On August 13, 2024, we closed a US registered direct offering pursuant to which we received aggregate gross proceeds of US\$0.9 million (or CAD\$1.3 million), before underwriting and offering costs. Subsequent to September 30, 2024, the Company closed a public offering and a private placement for combined approximate proceeds of US\$6.0 million (or CAD\$8.1 million) (refer to Subsequent Events for additional information on the financings).

At September 30, 2024, our cash position was \$0.3 million, a decrease of \$5.2 million since September 30, 2023 primarily due to cash used in operations of \$9.1 million, purchase of property plant and equipment of \$0.1 million (IT equipment, office furniture and PARA OPS development equipment), offset by net proceeds of \$4.0 million from two US public offering financing activities in April 2024 and June 2024, respectively and a US registered direct offering in August 2024.

As an early-stage company, we have not yet reached significant revenue levels for most of our other products and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. Our ability to continue as a going concern and realize our assets and discharge our liabilities in the normal course of business is dependent upon closing timely additional sales orders, timely commercial launch of new products, and the ability to raise additional debt or equity financing, when required. There are various risks and uncertainties affecting our future financial position and our performance. However, we may require additional capital in the event we fail to implement our business plan, which could have a material adverse effect on our financial condition and/or financial performance. There is no assurance that we will be able to raise additional capital as they are required in the future. Potential sources of capital may include additional equity and/or debt financings. On October 23, 2024, the Company entered into a receivable facility agreement. The facility provides up to CAD\$250,000 advanced at a rate of 2.5% for the first thirty days and 1% for each ten days thereafter until receipt of funds from the receivable payee and limited to a total of 20% of the value of the receivable funded. Funds are advanced at 80% up front of the face value of the receivable with a 20% fee deposit retained by the financing company until the amount funded is fully repaid, following which any balance remaining of the 20% fee deposit is returned to KWESST Inc. The agreement grants security against KWESST Inc.'s receivables and other assets for funds advanced by the financing company. The initial term is for 12 months and may be terminated within such a term by KWESST Inc., subject to the payment of an early termination fee of 3% of the total limit of the facility. In our view, the availability of capital will be affected by, among other things, capital market conditions, the success of our PARA OPS system market development efforts, timing for winning new customer contracts, potential acquisitions, and other relevant considerations (see *Item 3.D. – Risk Factors*). In the event we raise additional funds by issuing equity securities, our existing shareholders will likely experience dilution, and any additional incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operational and financial covenants that could further restrict our operations. Any failure to raise additional funds on terms favorable to us or at all may require us to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in us not being in a position to advance our commercialization strategy or take advantage of business opportunities.

#### Consolidated Statements of Cash Flows

The following table summarizes our consolidated statements of cash flows for the respective periods:

	September 30, 2024		September 30, 2023		September 30, 2022
<b>Total cash provided by (used in):</b>					
Operating activities	\$ (9,060,744)	\$	(14,078,629)	\$	(4,256,596)
Investing activities	(111,153)		(1,440,734)		(1,113,793)
Financing activities	4,021,716		20,755,827		2,852,829
<b>Net cash outflows</b>	<b>\$ (5,150,181)</b>	<b>\$</b>	5,236,464	<b>\$</b>	<b>(2,517,560)</b>
Cash, beginning of period	5,407,009		170,545		2,688,105
<b>Cash, end of period</b>	<b>\$ 256,828</b>	<b>\$</b>	5,407,009	<b>\$</b>	170,545

*Cash used by operating activities*

Cash flow used in operating activities decreased by \$5.0 million to \$9.1 million for the year ended September 30, 2024 primarily due to payments on overdue payables as well as unpaid voluntary deferred wages, consulting fees, and bonuses in Fiscal 2023 after the close of the U.S. IPO and Canadian Offering in December 2022, coupled with significant prepaid expenses during the nine months ended June 30, 2023 including retention bonus for our general manager of PARA OPS (refundable in the event he voluntarily terminates prior to a specified date as set by us), compared to regular operating activities in Fiscal 2024, with no significant transactions.

*Cash used by investing activities*

Cash flow used in investing activities was \$0.1 million for the year ended September 30, 2024, a decrease of \$1.3 million from the comparable period, mainly due to the Fiscal 2023 additional investment in the product development of our PARA OPS, coupled with additional LRIP equipment for PARA OPS, whereas investments in equipment in Fiscal 2024 related to IT infrastructure, laptops and office furniture to accommodate new hires for the ramp-up of the DSEF and Land C4ISR contracts.

*Cash provided by financing activities*

Cash flow provided by financing activities was \$4.0 million in Fiscal 2024 compared to \$20.8 million in Fiscal 2023 primarily due to the net proceeds received from two US Public Offering and one US registered direct offering financing activities in Fiscal 2024, compared to cash flow provided by financing activities in Fiscal 2023 primarily due to net proceeds generated from the U.S. IPO and Canadian Offering, and July 2023 private placement, partially offset by repayment of all outstanding borrowings during the Fiscal 2023 period to date.

**Capital Resources**

Our objective in managing our capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. Our senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. Our Board is responsible for overseeing this process. From time to time, we could issue new Common Shares or debt to maintain or adjust our capital structure. We are not subject to any externally imposed capital requirements.

Our primary sources of capital to date have been borrowings, security offerings, exercise of stock options and warrants, and, to a lesser extent, pre-commercial revenue. The following is a breakdown of our capital:

	September 30, 2024	September 30, 2023	September 30, 2022
<b>Debt:</b>			
Lease obligations	\$ 302,223	\$ 429,523	\$ 275,621
Warrant Liabilities	847,295	4,335,673	-
Borrowings	-	-	2,278,774
<b>Equity:</b>			
Share capital	37,822,725	33,379,110	19,496,640
Warrants	1,084,687	1,042,657	1,959,796
Contributed surplus	5,152,753	4,769,115	3,551,330
Accumulated other comprehensive loss	(38,520)	(39,663)	(101,418)
Accumulated deficit	(42,653,358)	(35,215,599)	(25,909,239)
<b>Total capital</b>	<b>\$ 2,517,805</b>	<b>\$ 8,700,816</b>	<b>\$ 1,551,504</b>

	September 30, 2024	September 30, 2023	September 30, 2022
March 2022 Loans	\$ -	\$ -	\$ 1,764,630
August 2022 Loans	-	-	435,348
CEBA term loans	-	-	78,796
<b>Total borrowings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,278,774</b>

During Fiscal 2023, we fully repaid all outstanding loans following the closing of the U.S. IPO and Canadian Offering.

#### Contractual Obligations and Commitments

At September 30, 2024, our contractual obligations and commitments were as follows:

Payment due:	Total	Within 1 Year	1 to 3 years	3 to 5 years	5 years and beyond
Minimum royalty commitments	\$ 2,200,000	\$ 200,000	\$ 450,000	\$ 550,000	\$ 1,000,000
Accounts payable and accrued liabilities	1,660,637	1,660,637	-	-	-
Lease obligations	361,272	206,827	154,445	-	-
<b>Total contractual obligations</b>	<b>\$ 4,221,909</b>	<b>\$ 2,067,464</b>	<b>\$ 604,445</b>	<b>\$ 550,000</b>	<b>\$ 1,000,000</b>

See *Item 5.A. – Operating Results – Overview* regarding the minimum royalty payment due within one year.

At September 30, 2024, our authorized capital consists of an unlimited number of Common Shares with no stated par value.

The following table shows the outstanding Common Shares and dilutive securities at September 30, 2024:

	September 30, 2024 <sup>(1)</sup>	Average price (CAD \$)	Proceeds if Exercised
Common shares	1,579,174		
Founders' warrants	-	\$ -	\$ -
Warrants	1,000	\$ 9.90	\$ 9,900
Pre-funded warrants	15,173	\$ 0.10	\$ 1,517
Warrant liabilities	953,972	\$ 30.70	\$ 29,286,940
Over-allotment warrants	37,500	\$ 67.50	\$ 2,531,250
U.S. Underwriter warrants	83,413	\$ 20.40	\$ 1,701,625
Stock options	25,811	\$ 26.40	\$ 681,410
Restricted stock units (RSUs)	-	\$ -	\$ -
Agents' compensation options:			
Common shares	5,084	\$ 55.76	\$ 283,482
Warrants	5,084	\$ 67.51	\$ 343,199
<b>Total common shares and dilutive securities</b>	<b>2,706,211</b>		<b>\$ 34,839,324</b>

(1) Represents the number of shares to be issued upon exercise.

*U.S. IPO and Canadian Offering*

On December 9, 2022, we closed the U.S. IPO and the Canadian Offering. In the U.S. IPO, we sold 250,000 units at a public offering price of US\$41.30 per unit, consisting of one Common Share and one U.S. IPO Warrant. The U.S. IPO Warrants have a per share exercise price of US\$50.00, can be exercised immediately, and expire five years from the date of issuance. In connection with the closing of the U.S. IPO, the underwriter partially exercised its over-allotment option to purchase an additional 19,900 pre-funded Common Share purchase warrants and 37,500 warrants to purchase Common Shares. All these warrants will expire on December 8, 2027.

In the Canadian Offering, we sold 72,639 units, each consisting of one Common Share and one warrant to purchase one Common Share, at a price to the public of US\$41.30 per unit. The warrants will have a per Common Share exercise price of US\$50.00, are exercisable immediately and expire five years from the date of issuance.

The closing of the U.S. IPO and Canadian Offering resulted in aggregate gross proceeds of US\$14.1 million (CAD \$19.4 million). After underwriting discounts and offering expenses, the net proceeds were US\$11 million (CAD \$15 million). See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

*Use of Proceeds*

As of September 30, 2024, the Company has used all of the US \$11M of the net proceeds as outlined below:

	Expected Use of Proceeds In U.S. Dollars	Expected Use of Proceeds In CAD Dollars	Actual Expenditures to Sep 30, 2023 In CAD Dollars <sup>(8)</sup>
<b>Use of Net Proceeds from the US IPO <sup>(1)</sup></b>			
Repayment of non-secured borrowings:			
Issued in March 2022 <sup>(2)</sup>	\$ 1,460,000	\$ 2,000,200	\$ 2,027,517
Issued in August 2022 <sup>(3)</sup>	\$ 220,000	\$ 301,400	\$ 338,976
CEBA loans <sup>(4)</sup>	\$ 51,000	\$ 69,870	\$ 70,000
Product development <sup>(5)</sup>	\$ 529,000	\$ 724,730	\$ 683,450
Corporate, general & administration, and working capital:			
General and administrative <sup>(6)</sup>	\$ 2,469,000	\$ 3,382,530	\$ 4,128,985
Selling and marketing	\$ 1,355,000	\$ 1,856,350	\$ 2,447,930
Research and development, net	\$ 296,000	\$ 405,520	\$ 1,287,581
Negative working capital at September 30, 2022 (excluding above loans)	\$ 2,286,226	\$ 3,132,130	\$ 3,132,130
Unallocated working capital <sup>(7)</sup>	\$ 2,297,213	\$ 3,147,182	\$ 903,342
<b>Total use of net proceeds</b>	<b>\$ 10,963,439</b>	<b>\$ 15,019,911</b>	<b>\$ 15,019,911</b>

(1) For Canadian dollars denominated expenses, the amounts were converted at a rate of \$1.37 to US\$1.00 on as reported by the Bank of Canada on December 16, 2022.

(2) The net proceeds were used to fund the Corporation's working capital.

(3) On December 13, 2022, one of the two non-secured loans issued in August 2022 was settled for KWESST Units (same terms as those Units offered in the Canadian Offering).

(4) This is net of \$23,077 forgivable amount as we have repaid the CEBA loans due to the Canadian Government the repayment deadline for the forgivable amount.

(5) Estimate of Product development costs subsequent to IPO.

(6) Includes litigation settlement for two cases: \$27,179 for an ex-employee & \$141,123 for an ex-consultant. Excludes non-cash items such as depreciation, share-based costs & impairment costs

(7) Remaining unallocated costs incurred relate to PP&E additions, inventory additions and FX.

(8) Use of proceeds calculated on a first in, first out basis.

*Shares for Debt Settlement - December 2022*

On December 13, 2022, we issued 5,614 units to settle \$12,000 of the Unsecured Loans and USD\$223,321 of the secured loans from August 2022, including unpaid accrued interest and 10% premium at maturity. See Notes 12, 15 and 16(a) of Fiscal 2024 financial statements for further details.

*Private Placement - July 2023*

On July 21, 2023, we closed a brokered private placement, for aggregate gross proceeds of USD\$5,588,397 (approximately CAD\$7.4M) (the "July 2023 Offering").

As a part of the July 2023 Offering, the Company issued 154,219 Common Shares at a price of US\$22.60 (CAD\$29.80) per Common Shares and 93,054 pre-funded warrants at a price of US\$22.59 (CAD\$29.79) per pre-funded warrant, with each Common Share and pre-funded warrant being bundled with one Common Share purchase warrant of the Company. Each pre-funded warrant entitles the holder to acquire one Common Share at an exercise price of US\$0.01 per Common Share, and each Common Shares purchase warrant is immediately exercisable and entitles the holder to acquire one Common Share at an exercise price of US\$26.60 (CAD\$35.00) per Common Share for a period of 60 months following the closing of the July 2023 Offering. Although the Common Shares and pre-funded warrant were each bundled with a Common Share purchase warrant, each security was issued separately. See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

#### Use of Proceeds

As of September 30, 2024, the Company has used all of the \$6.3M net proceeds for general working capital purposes. Use of proceeds is calculated on a first in, first out basis. The Company has drawn down on the full net proceeds (CAD \$15M) from the U.S. IPO before drawing down on the net proceeds from the July 2023 Offering.

#### *Shares for Debt Settlement - January 2024*

On January 10, 2024, we issued 4,670 Common Shares in a settlement of debt in an amount of approximately \$97,615. See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

#### *US Public Offering - April 2024*

On April 9, 2024, we closed a brokered US public offering, resulting in the issuance of 73,500 Common Shares, for aggregate gross proceeds of USD\$1,000,025 (approximately CAD\$1.4M). See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

#### Use of Proceeds

As of September 30, 2024, the Company has used all of the \$0.7M net proceeds for general working capital purposes. Use of proceeds is calculated on a first in, first out basis. The company has drawn down on the full net proceeds from previous financings before drawing down on the net proceeds from the April 2024 Public Offering.

#### *US Public Offering - June 2024*

On June 14, 2024, we closed a brokered US public offering, resulting in the issuance of 290,000 Common Shares, for aggregate gross proceeds of approximately USD\$1,682,000 (approximately CAD\$2.3M). See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

#### Use of Proceeds

As of September 30, 2024, the Company has used all of the \$1.8M net proceeds for general working capital purposes. Use of proceeds is calculated on a first in, first out basis. The Company has drawn down on the full net proceeds from previous financings before drawing down on the net proceeds from the June 2024 Public Offering.

#### *US Registered Direct Offering - August 2024*

On August 13, 2024, we closed the August 2024 Offering for the purchase and sale of 471,500 Common Shares at a purchase price of US\$2.00 per Common Share for gross proceeds of US\$943,000 (approximately CAD\$1.4M). See Note 16(a) of Fiscal 2024 audited consolidated financial statements for further details.

#### Use of Proceeds

As of September 30, 2024, the Company has used most of the \$0.9M net proceeds for general working capital purposes. Use of proceeds is calculated on a first in, first out basis. The Company has drawn down on the full net proceeds from previous financings before drawing down on the net proceeds from the August 2024 Offering.

#### *Subsequent Offering*

The Company previously disclosed that half of the net proceeds from the November 1, 2024, financing would be allocated to business development activities related to the Company's products. However, this ratio and the corresponding amount may be adjusted due to several factors. These include the evolving ramp-up needs of current programs and products, fluctuations in general corporate needs, and the timing of business development expenditures to ensure maximum benefit for the Company. As a result, the Company now expects that its business development spending could be lower than initially anticipated as a result of higher-than-expected financing costs associated with the November financings, where a full double commission of 15% was paid due to the tail obligation owed to H.C. Wainwright & Co.; potential economies and efficiencies in the Company's evolving sales channel strategy; and, the necessity to assess capital deployment on a case-by-case basis. Consequently, the Company will continue to evaluate the optimal timing and scale of business development expenditures to best support its strategic goals and operational needs.

Use of Proceeds from Prior Financings

The following table provides an approximate breakdown on the initial allocation of the use of funds for the 2021 brokered private placement and the actual use of proceeds:

Use of Proceeds <sup>(1)</sup>	2021 Financing			Proceeds Unspent as at September 30, 2022
	Expected Allocation of Net Proceeds	Estimated and Unaudited Actual Use of Funds from April 29, 2021 to September 30, 2022		
<b>Products development: <sup>(2)</sup></b>				
TASCS IFM <sup>(3)</sup>	\$ 400,000	\$ 314,087	\$	85,913
BLDS	200,000	305,788		(105,788)
Phantom	500,000	793,852		(293,852)
GreyGhost	200,000	15,840		184,160
ATAK	500,000	304,162		195,838
LEC	500,000	761,943		(261,943)
<b>Total products development</b>	<b>2,300,000</b>	<b>2,495,672</b>		<b>(195,672)</b>
<b>Other specific allocations:</b>				
Repayment of CEO and employee loans	191,600	191,600		-
Repayment of unsecured borrowings	310,527	310,527		-
Prepaid royalties to DEFSEC <sup>(4)</sup>	150,000	150,000		-
<b>Total allocated proceeds</b>	<b>2,952,127</b>	<b>3,147,799</b>		<b>(195,672)</b>
<b>Unallocated proceeds for working capital</b>	<b>2,516,366</b>	<b>2,320,694</b>		<b>195,672</b>
<b>Transferred from 2020 Financing</b>	<b>235,345</b>	<b>235,345</b>		<b>-</b>
<b>Total use of proceeds</b>	<b>\$ 5,703,838</b>	<b>\$ 5,703,838</b>	<b>\$</b>	<b>0</b>

- Notes:**
- (1) Excludes non-cash transactions settled in Common Shares.
  - (2) Includes concept & design, initial prototype, market testing, and pre-production including a few demo units. Costs includes internal labor costs, outsourced engineering costs, and materials (no overhead allocation).
  - (3) Net of customer funding of \$1.0 million.
  - (4) In connection with the PARA OPS System acquisition.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

**C. Research and Development, Patents and Licences, etc.**

See *Item 5.A. - Operating Results - Results of Operations* for a description of our R&D activities during the last three fiscal years.

See *Item 4.B. - Business Overview - Proprietary Protection* for a listing of patents and product development in progress.

**D. Trend Information**

See *Item 5.A. - Operating Results - Results of Operations* and *Item 5.B. - Liquidity and Capital Resources* for trend information.

## E. Critical Accounting Estimates.

The following is a summary of critical accounting policies, requiring management to make significant estimates and assumptions:

### *Revenue*

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the transaction price we expect to receive in exchange for the products or services. Our contracts with customers may include the delivery of multiple products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The accounting for a contract or contracts with a customer that contain multiple performance obligations requires us to allocate the contract or contracts transaction price to the identified distinct performance obligations.

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular obligation to the customer. Contracts based on task oriented, time and materials is measured based on agreed-upon hourly rates, direct labor hours expended and material costs incurred and billed and recognized on a monthly basis.

For performance obligations satisfied over time, we recognize revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligation (for non-recurring engineering services, the input method is based on hours). Under this method, costs that do not contribute to our performance in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. In certain other situations, we might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known. Refer to Note 18 of Fiscal 2024 financial statements for timing of revenue recognition.

We may enter into contractual arrangements with a customer to deliver services on one project with respect to more than one performance obligation, such as non-recurring engineering, procurement, and training. When entering into such arrangements, we allocate the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone price and recognized according to the respective revenue recognition methods described above. For example, for non-recurring engineering services rendered over a contract period the revenue is recognized using the percentage of completion method; whereas for training services the revenue is recognized after the training is delivered (i.e. point in time).

We account for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects our stand-alone selling price of the additional promised goods or services. When the contract modification is not accounted for as a separate contract, we recognize an adjustment to revenue on a cumulative catch-up basis at the date of contract modification. There was no contract modification in the fiscal years ended September 30, 2024, 2023, and 2022.

The timing of revenue recognition often differs from performance payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. At September 30, 2024, and 2023, we had an immaterial amount of unbilled receivable. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of contract liabilities. At September 30, 2024 there was \$121 thousand of contract liabilities (2023 - \$121 thousand).

When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as finance income or expense, as applicable.

### *Accounting for acquisitions and contingent consideration*

During Fiscal 2022, we acquired Police Ordnance and accounted for it pursuant to IFRS 3, Business Combinations. Areas of significant estimation in connection with the accounting of this transaction included:

- the estimated fair value of raw and work-in-progress inventories and intangible assets for the purchase price allocation; and
- the volatility assumption used in the Black Scholes option model to estimate the fair value of the warrants issued to the selling shareholders given our short history as a public company.

During Fiscal 2021, we acquired the PARA OPS system and accounted for it pursuant to IFRS 2, *Share-Based Payment*. Areas of significant estimation in connection with the acquisition of the PARA OPS system included:

- the determination of the discount rate for the present value of the minimum annual royalty payments to DEFSEC; and

- the volatility assumption used in the Black Scholes option model to estimate the fair value of the warrants issued to DEFSEC given our short history as a public company (see *Item 5.E. - Critical Accounting Estimates - Accounting for share-based compensation*).

For further details on the above acquisitions, refer to Note 4 of the Fiscal 2024 audited consolidated financial statements.

#### *Impairment of long-lived assets*

We review property and equipment for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized the carrying value of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, referred as the cash generating unit ("CGU").

In accordance with IFRS, if the sum of the undiscounted expected future cash flows from a long-lived asset is less than the carrying value of that asset, then we recognize an asset impairment charge. The impairment charge is determined based on the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset.

Because we are an early-commercial stage technology company, management exercises significant judgment in establishing key assumptions and estimates to determine the recoverable amount of our CGU, including future cash flows based on historical and budgeting operating results, growth rates, tax rates, and appropriate after-tax discount rates. The actual results may vary and may cause significant adjustments in future periods.

#### *Indication of impairment of non-financial assets*

We review non-financial assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may be impaired. If the recoverable amount of the respective non-financial asset is less than our carrying amount, it is considered to be impaired. Management exercises significant judgement in estimating the recoverable amount for non-financial assets (see *Item 5.E. - Critical Accounting Estimates - Impairment of long-lived assets*).

#### *Accounting for share-based compensation*

We measure share-based compensation at fair value. Key inputs in the Black Scholes option model is the volatility assumption, forfeiture rate, and expected life of our Common Shares. Due to our limited trading history, management has established a relevant peer group of listed companies and selected the weighted average of their volatilities over a period of three to five years, where available. Starting in Fiscal 2021, we have commenced to incorporate a percentage of our stock volatility in the overall calculation of the volatility assumption. We rely on our stock volatility to estimate the fair value of share-based compensation as well as for warrants. As a result of our limited trading history, we have assumed a forfeiture rate of 0%, which will be reassessed annually. The expected life is estimated based on our trading history.

#### *Accounting for Unsecured Loans*

Due to the issuance of bonus Common Shares as part of the unsecured loans transactions during Fiscal 2022, we are required to allocate a percentage of the gross proceeds between the bonus Common Shares and the debt component based on their relative fair value. To measure the fair value of the unsecured loans, we used the income approach and estimated a market discount rate ranging from 22% - 24% to discount the future cash flows of the unsecured loans. Management selected a discount rate based on review of the debt cost for comparable public companies.

For further information on the unsecured loans, see Note 12 of the Fiscal 2024 audited consolidated financial statements.

#### *Broker compensation options*

As a result of the Canadian Offering, we issued broker compensation options. To measure the fair value of the broker compensation options, we used the Monte Carlo valuation model and exercised judgment in estimating the life, risk free rate, and volatility.

For further information on the broker compensation options see Note 16(c) of the Fiscal 2024 audited consolidated financial statements.

#### *Warrant Liabilities*

As a result of the Fiscal 2023 and Fiscal 2024 financings, we issued warrant liabilities. To measure the fair value of the warrant liabilities, we used the Black Scholes valuation model and exercised judgment in estimating the life, risk free rate, and volatility.

For further information on the warrant liabilities, see Note 15 of the Fiscal 2024 audited consolidated financial statements.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. Directors and Senior Management**

The following table sets forth the name of each of our directors and executive officers, as well as such individual's place of residence, position with us, principal business activities performed outside those with us and period of service as a director (if applicable).

**Directors and Executive Officers**

<b>Name</b>	<b>Position With KWESST Micro</b>	<b>Age</b>	<b>Principal Business Activity Outside KWESST Micro</b>	<b>Director/Officer Since</b>
David Luxton <i>Ontario, Canada</i>	Executive Chairman and Director	73	N/A	October 24, 2019 <sup>(1)</sup>
Sean Homuth <i>Ontario, Canada</i>	President, CEO, and Director	45	N/A	June 12, 2023 <sup>(2)</sup>
Paul Mangano <i>Maine, United States</i>	Director	66	CEO of OnPoint Systems, Inc. since August 2022	September 17, 2020
Paul Fortin <i>Ontario, Canada</i>	Director	57	Principal Fortin Consulting Group and Independent Advisor	September 17, 2020
Kris Denis <i>Ontario, Canada</i>	Interim Chief Financial Officer and Chief Compliance Officer	43	N/A	November 27, 2023 <sup>(3)</sup>
Harry Webster <i>Ontario, Canada</i>	Chief Operating Officer	47	N/A	February 15, 2024 <sup>(4)</sup>
Rick Hillier <i>Ontario, Canada</i>	Director	68	Consultant	December 6, 2023
Jennifer Welsh <i>Ontario, Canada</i>	Director	43	Vice President Finance, Indiva of SNDL Inc.	August 26, 2024

**Notes:**

- (1) Date on which Mr. Luxton became a director of KWESST.
- (2) Mr. Homuth became CEO of KWESST on November 27, 2023. From June 12, 2023 to November 26, 2023, Mr. McLeod served as President and CEO of KWESST.
- (3) Date on which Mr. Denis became interim Chief Financial Officer of KWESST.
- (4) Date on which Mr. Webster became Chief Operating Officer.

The following are brief biographies of our directors and executive officers.

**David Luxton, Executive Chairman and Director**

David Luxton is a former Canadian infantry officer, and former senior official with the Canadian and British governments. In 1990 he founded Simunition, a business that develops and sells simulated munitions for realistic close quarters combat training for military and law enforcement. Between 2003 and 2009, he led the expansion of Allen-Vanguard Corporation, a company in the IED countermeasures business, from approximately \$3,000,000 to a run rate of approximately \$300,000,000 in annual revenues, then served as Chairman from 2010 to October 2021. Between 2015 and 2018, he was the Executive Chairman of United Tactical Systems, LLC, a company offering less-lethal products for law enforcement, military and personal defense. From 2003 to the date of this Annual Report, he has been President & Owner of DEFSEC, a company that specializes in strategic transactions in the defense and security industry. Furthermore, from 2016 to 2020, he was a Senior Strategic Advisor to the University of Ottawa. Since 2019, he has been the Executive Chairman of KWESST. He is a graduate of the University of Oxford SMDP postgraduate program. He entered into a confidentiality and non-disclosure agreement through his consulting agreement with us on October 1, 2019.

***Sean Homuth, President and Chief Executive Officer***

Mr. Homuth is a senior financial executive with more than 20 years of experience working with both Canadian and U.S. public companies across a broad range of industries. He has experience with a variety of financing (equity, debt, royalty) and M&A transactions. Since 2008, he has spent the majority of his time in various senior executive roles with emerging companies. Mr. Homuth is a Chartered Professional Accountant (CPA, CA Ontario) and a Certified Public Accountant (Illinois).

***Paul Mangano - Director***

Prior to being invited to join our Board, Mr. Mangano founded and owned Surculus Advisors LLC since 2016, a boutique management consulting firm providing advice, leadership, specialized expertise and transaction consultation services to the industrial and high-tech sectors including aerospace, defense and security. Further, since August 2022, he is the CEO of Onpoint Systems, Inc. From August 2020 to April 2022, he was the General Manager of Steiner Optics Inc., a division of Beretta. Prior to forming Surculus Advisors LLC, from 2006 to 2015, he served as the President of L-3 Communication's Public Safety & Sporting business unit. Mr. Mangano graduated with a BA in Economics from Harvard University and an MBA in High Technology from Northeastern University.

***Paul Fortin - Director***

Prior to being invited to join our Board, Paul Fortin was the director of international business development at Borden Ladner Gervais LLP, a full-service law firm, from 2011 to 2019. Since March 2020, he has been the principal of the Fortin Consulting Group and is an independent advisor within the defense and security industry. Mr. Fortin graduated from Carleton University with a Bachelor's degree in Political Science and from Algonquin College with a specialization in Product Marketing Management.

***Kris Denis - Interim Chief Financial Officer and Chief Compliance Officer***

Mr. Denis brings more than 20 years of finance experience across a range of industries including manufacturing, aviation, mining, technology and defense, including over 10 years with Canadian public companies. Most of his career has been in senior finance roles with early-stage growth companies, which entailed several large equity financings in the mining industry. Mr. Denis is a Chartered Professional Accountant (CPA, CA Ontario).

***Harry Webster - Chief Operating Officer***

Mr. Webster is an experienced aerospace and defence leader. He most recently served as Director of Programs at DRS, overseeing all engineering development and manufacturing programs. With over 20 years of experience in roles spanning engineering development to executive leadership, his career has been built on leading organizations to achieve great business outcomes in the execution of complex engineering projects for platforms such as Canadarm3 at MDA and the Canadian CH-148 Maritime Helicopter Program at GDMS. He holds advanced degrees in Business Administration and Engineering, and licenses as Professional Engineer and Project Management Professional.

***Rick Hillier - Director***

General (Retired) Rick Hillier served over 35 years in the Canadian Armed Forces, culminating his career as the Chief of Defence Staff from 2005-2008. His leadership, geopolitical knowledge and experience on multinational operations, at the tactical, operational and strategic levels, prepares him to help position the Company for success and navigate the Company through its next stages of growth.

***Jennifer Welsh - Director***

Jennifer Welsh has more than 17 years of experience working with Canadian public companies. She is currently the VP Finance Indiva of SNDL Inc. and previously held the role of CFO of Indiva Limited, a TSXV-listed Licensed Producer of cannabis, and previously led a global finance team as Corporate Controller of a TSX-listed junior mining company. Jennifer received her B.Comm. (Accounting) from Carleton University in Ottawa and is a Chartered Professional Accountant (CPA, CA Ontario). In 2020, Jennifer was awarded Ottawa Business Journal's Forty Under 40 Award.

**B. Compensation**

**Compensation for Fiscal 2024**

The aggregate amount of compensation paid during the year ended September 30, 2024 (including accrued amount at September 30, 2024), directly and indirectly, including directors' fees, to our named executive officers and directors in their capacity as such, was \$1.5 million (Fiscal 2023: \$1.5 million).

This discussion describes our compensation program for each person who acted as President and CEO, CFO and the three most highly-compensated executive officers (or three most highly-compensated individuals acting in a similar capacity), other than the CEO and the CFO, whose total compensation was more than \$150,000 in our last fiscal year and who was performing a policy-making function in respect of the Company (each a "NEO" and collectively the "NEOs"). This section addresses our philosophy and objectives and provides a review of the process that the Board follows in deciding how to compensate the NEOs. This section also provides discussion and analysis of the Board's specific decisions about the compensation of the NEOs for Fiscal 2024.

We had five (5) NEOs during the Fiscal 2024, namely: David Luxton, Executive Chairman and Director, Sean Homuth, President & CEO, Jeffery MacLeod, former President and CEO, Kris Denis, Interim CFO and Chief Compliance Officer and Harry Webster, Chief Operating Officer.

#### ***Compensation Philosophy and Objectives***

Our current executive compensation program is designed to provide short and long-term rewards to our executives that are consistent with individual and corporate performance and their contribution to our short and long-term objectives. Our objectives with respect to compensation of executive officers are to provide compensation levels necessary to attract and retain high quality executives, and to motivate key executives to contribute to our interests. These objectives are to be met by the principal components of our executive compensation program, which has been focused on a combination of base compensation, cash bonus remuneration, and long-term incentives in the form of stock options or other security-based compensation.

The executive compensation program adopted by us and applied to our executive officers is designed to:

- (a) attract and retain qualified and experienced executives who will contribute to our growth and success;
- (b) ensure that the compensation of our executive officers provides a competitive base compensation package and a strong link between corporate performance and compensation; and
- (c) motivate executive officers to enhance long-term shareholder value, with current compensation being weighted toward at-risk long-term incentives in the form of options and other security-based incentives so as to foster alignment with the interests of our shareholders and stakeholders.

We do not believe that our compensation programs encourage excessive or inappropriate risk taking because: (i) our employees receive both fixed and variable compensation, and the fixed portion (salary) provides a steady income regardless of Common Share value, which allows employees to focus on our business; and (ii) our LTIP encourages a long-term perspective due to the vesting provisions, which is generally at least over two (2) years. We believe that our compensation program is appropriately structured and balanced to motivate our employees and reward the achievement of annual performance goals, as well as the achievement of long-term growth in shareholder value.

#### ***Compensation Governance and Process***

We have relied on the experience of our Board in setting our executive compensation philosophy and appropriate levels of compensation for our NEOs.

Today, we do not have a separate Compensation Committee. Our Board assumes responsibility as a whole for the oversight over the compensation of directors and executives, including:

- review and approval our remuneration and compensation policies, including short and long-term incentive compensation plans and equity-based plans, bonus plans, pension plans (if any), our LTIP and grants, and benefit plans;
- sole authority to retain and terminate any compensation consultant to assist in the evaluation of director compensation, including sole authority to approve fees and other terms of the retention;
- review and approve at least annually all compensation arrangements for our senior executives;
- review and approve at least annually all compensation arrangements for our directors; and
- review the executive compensation sections disclosed in this Annual Report and our management information circular distributed to shareholders in respect of our annual, and any special, meetings of shareholders.

While David Luxton works with our Board in making recommendations regarding our overall compensation policies and plan as well as specific level of compensation for the other NEOs, they are recused from any Board deliberations and decisions in respect to their own personal compensation. Their respective current fixed compensation was set prior to going public in Canada.

#### **Elements of Compensation**

Our executive compensation program consists of three principal components: base salaries, annual incentive compensation and benefits, and long-term compensation.

##### ***Base Salaries***

Base salaries are intended to reflect an executive officer's position within our corporate structure, his or her years of experience and level of responsibility, and salary norms in the sector and general marketplace. Further, as an early-stage company, we believe we have set the base salaries for the NEOs below market rates, to conserve cash in return for higher stock-based compensation awards. Accordingly, decisions with respect to base salary levels for executive officers are not based on objective identifiable performance measures but for the most part are determined by reference to competitive market information for similar roles and levels of responsibility, coupled with subjective performance factors such as leadership, commitment, accountability, industry experience, and contributions. Our view is that a competitive base salary is a necessary element for retaining qualified executive officers, as it creates a meaningful incentive for individuals to remain with us and not be unreasonably susceptible to recruiting efforts by our competitors.

In determining the base salary compensation of each NEO, the Board considers: (i) recruiting and retaining executives critical to our success and the enhancement of shareholder value; (ii) providing fair and competitive compensation; (iii) balancing the interests of management and our shareholders; and (iv) rewarding performance, both on an individual basis and with respect to operations in general.

***Annual Incentive Compensation and Benefits***

Our Board will consider whether it is appropriate and in our best interests to award discretionary cash bonus to the NEOs for the most recently completed fiscal year and, if so, the amount. Discretionary cash bonuses are awarded to recognize the achievement of annual corporate objectives and to recognize contributions that enhance our intrinsic value.

The following is a summary of the maximum annual incentive compensation as a percentage of base salary / annual consulting fee, for the NEOs based on their respective employment / consulting agreements, at the sole discretion of the Board:

<b>Position</b>	<b>Maximum Annual Incentive Compensation (Percentage of Base Salary)</b>
Executive Chairman	75%
President and CEO	75%
CFO, COO	40% <sup>1</sup>

<sup>1</sup> Subsequent to September 30, 2024 the COO's maximum annual incentive compensation was increased to 50%.

We did not establish explicit goals / milestones for our NEOs for Fiscal 2024 for the annual cash incentive compensation.

***Long-Term Compensation***

The long-term component of compensation for our NEOs, consists of (i) stock options ("Options"), (ii) restricted stock units ("RSUs"), (iii) deferred share units ("DSUs"), (iv) SARs and/or (v) performance stock units ("PSUs") (collectively the "Security-Based Compensation Awards"). This component of compensation is intended to reinforce management's commitment to long-term improvements in our performance.

Our Board believes that incentive compensation in the form of Security-Based Compensation Awards which vest over time, is and has been beneficial and necessary to attract and retain NEOs. Furthermore, the Board believes Security-Based Compensation Awards are an effective long-term incentive vehicle because they are directly tied to our share price over a longer period and therefore motivates NEOs to deliver sustained long-term performance and increase shareholder value and have a time horizon that aligns with long-term corporate goals. As such, our Board does not grant Security-Based Compensation Awards in excessively dilutive numbers or at exercise prices not reflective of the Company's underlying value.

In determining individual equity-based grants, the Board considers the experience, responsibilities and performance of each recipient of an award under the LTIP. Previous grants are also taken into consideration during the grant process.

**Benefits Plans**

The NEOs are entitled to life insurance, health and dental benefits.

We do not maintain a pension plan or retirement benefit plan for the NEOs.

**External Compensation Consultants**

In determining the base salaries for the NEOs, we considered comparable market base salaries, based on information provided by an outside executive search consulting firm and then set the base salaries for the NEOs at the lower end of the range.

**Assessment of Risks Associated with Our Compensation Policies and Practices**

Our Board has assessed the compensation plans and programs for our executive officers to ensure alignment with our business plan and to evaluate the potential risks associated with those plans and programs. Our Board has concluded that the compensation policies and practices do not create any risks that are reasonably likely to have a material adverse effect on the Company.

Our Board considers the risks associated with executive compensation and corporate incentive plans when designing and reviewing such plans and programs. We have not adopted a policy restricting our NEOs or directors from purchasing financial instruments that are designated to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by its NEOs or directors. To our knowledge, none of the NEOs or directors has purchased such financial instruments.

**Performance Graph**

The following graph illustrates the cumulative return to our shareholders based on a \$100 investment in the Common Shares from September 22, 2020, the date we went public in Canada, to September 30, 2024, as compared to the cumulative total return on the Standard & Poor's / TSXV Composite Index for the same period, assuming the reinvestment of cash distributions and/or dividends:



The trend in the above performance graph does not correlate to the trend of the compensation paid to the NEOs. As described under "Elements of Compensation", based salaries reflect each NEO's primary duties and responsibilities and are set at levels based on responsibility, experience and expertise as well as subjective factors such as leadership. We believe that management must be compensated a minimum base salary for the value of the services provided, irrespective of our Common Share price performance. Pursuant to our LTIP, we have granted Options, RSUs, and PSUs to our NEOs, each form a significant portion of compensation, and therefore the total compensation for the NEOs is directly affected by decreases or increases in the price of our Common Shares as the value of such Options, RSUs, and PSUs changes as our Common Share price changes.

**Summary Compensation Table**

The following table provides information concerning the total compensation paid to all individuals who were NEOs in the years ended September 30, 2024, 2023, and 2022.

**Non-equity incentive plan compensation**

Name	Fiscal Year	Fee / Salary	Share-based Awards (1)	Option-based Awards (2)	Annual Incentive Plans (3) (10)	Long-term Incentive Plans	Pension Value (4)	All Other Compensation	Total Compensation
<b>David Luxton (5) (10)</b>	2024	\$ 360,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 360,000
Executive Chairman and Director	2023	\$ 315,000	\$ -	\$ 178,500	\$ -	\$ -	\$ -	\$ -	\$ 493,500
	2022	\$ 180,000	\$ -	\$ -	\$ 308,408	\$ -	\$ -	\$ -	\$ 488,408
<b>Sean Homuth (6) (10)</b>	2024	\$ 350,769	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000	\$ 352,769
President & CEO and Director	2023	\$ 92,308	\$ -	\$ 140,250	\$ -	\$ -	\$ -	\$ 2,000	\$ 234,558
	2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Jeffrey MacLeod (7)</b>	2024	\$ 160,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,000
Former President & CEO and Former Director	2023	\$ 160,000	\$ -	\$ 25,500	\$ -	\$ -	\$ -	\$ -	\$ 185,500
	2022	\$ 160,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,000
<b>Kris Denis (8) (10)</b>	2024	\$ 167,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000	\$ 170,308
Interim CFO and Chief Compliance Officer	2023	\$ -	\$ -	\$ 25,500	\$ -	\$ -	\$ -	\$ -	\$ 25,500
	2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Harry Webster (9) (10)</b>	2024	\$ 260,962	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,000	\$ 278,962
Chief Operating Officer	2023	\$ 23,077	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,077
	2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Steven Archambault (11)</b>	2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CFO and VP, Corporate Services & Compliance	2023	\$ 111,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,930	\$ 239,392
	2022	\$ 155,000	\$ 115,660	\$ 12,334	\$ 171,338	\$ -	\$ -	\$ -	\$ 454,332
<b>Richard Bowes (12)</b>	2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
VP, Operations of Digitization & Tactical Products	2023	\$ 206,471	\$ -	\$ -	\$ 130,000	\$ -	\$ -	\$ -	\$ 336,471
	2022	\$ 155,000	\$ 25,648	\$ 12,334	\$ -	\$ -	\$ -	\$ -	\$ 192,982

(1) Represents the grant value of RSU awards, based the closing price of the Common Shares on the TSXV on the grant date.

(2) Represents the grant value of the option awards, using the Black-Scholes option model. The Black-Scholes option model was selected by us as it is the most widely adopted and used option-valuation method.

(3) In December 2022, the Board awarded a cash bonus of USD\$225,000 to David Luxton in respect to their performance during Fiscal 2022, paid only after the closing of the U.S. IPO and Canadian Offering. For the above table, these amounts were converted to CAD using the daily average exchange rate on September 30, 2022, as reported by the Bank of Canada for the conversion of USD into CAD was USD\$1.00 equals CAD\$1.3707.

(4) The Company does not have a retirement plan.

(5) Effective October 1, 2019, we entered into a professional services agreement with DEFSEC Corporation, a private company owned by Mr. Luxton. The compensation payable to Mr. Luxton is paid to his private company, DEFSEC Corporation.

(6) Mr. Homuth served as CFO of KWESST from June 12, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of KWESST.

(7) Mr. MacLeod retired from his positions as President, CEO and Director of KWESST on October 31, 2023. As part of his departure, the Company is continuing to pay his base salary and provide benefits for a period of one year with no incentive pay. While this arrangement was verbally agreed to, it continues to be subject to formal agreement with Mr. Macleod.

(8) Mr. Denis served as the Company's Corporate Controller from June 26, 2023 to November 26, 2023. On November 27, 2023, Mr. Denis was appointed as Interim CFO and Chief Compliance Officer of KWESST. Mr. Denis' annual salary increased to CAD \$175K effective November, 27, 2023.

(9) Mr. Webster served as the Company's General Manager from August 28, 2023 to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of KWESST. Mr. Webster's annual salary increased to CAD \$260K effective February 15, 2024.

(10) Following September 30, 2024, the Board of Directors approved special bonuses for the Named Executive Officers in recognition of three major achievements completed in November 2024: raising more than USD \$5 million, securing an extension to remedy the NASDAQ bid-price deficiency, and obtaining accepted conditional offers for all Land C4ISR positions. Specifically, the Board awarded:

•Mr. Luxton: A bonus of \$270,000; however, he voluntarily reduced this amount by \$100,000 and additionally forfeited \$70,000 to increase the CEO's bonus in recognition of his exceptional contribution and accomplishments.

•Mr. Homuth (CEO): A total bonus of \$340,000, comprising a 75% bonus target of \$270,000 plus the \$70,000 redirected by Mr. Luxton.

•Mr. Webster: \$130,000, representing a 50% bonus target.

•Mr. Denis: \$43,750, representing 25% of his annual salary.

These bonuses were approved on November 29, 2024, and paid out in December 2024.

(11) Mr. Archambault joined as our CFO on a part-time basis on October 1, 2020, and transitioned to full-time on April 1, 2021. He also took on the role of VP, Corporate Services and Compliance in October 2021 and Interim Corporate Secretary in May 2022. He resigned from his positions with KWESST on June 12, 2023.

(12) From January 25, 2021 to April 12, 2021, the Company entered into a consulting agreement with Mr. Bowes' private company, Cardinal Defence. Effectively April 12, 2022 Mr. Bowes joined KWESST as a full-time employee until February 28, 2023. From March 1, 2023 to November 15, 2023, the Company entered into a consulting agreement once again with Mr. Bowes' private company, Cardinal Defence.

**Employment and Consulting Agreements**

The following summarizes the key salient terms of the employment agreements between us and our NEOs in force as of September 30, 2024.

David Luxton

On October 1, 2019, we entered into a professional services agreement with DEFSEC, a private holding company owned by Mr. Luxton, in which he agreed to serve as our Executive Chairman for an annual fee of \$120,000 per year and raising to \$150,000 per year upon a going public transaction. This agreement was amended effective August 1, 2020, whereby the annual fee was adjusted to \$180,000 per year. Mr. Luxton is entitled to an annual incentive bonus up to 200% of his annual fee at the Board's sole discretion. This agreement expired on December 31, 2022. Subsequent to December 31, 2022, Mr. Luxton's compensation was amended to \$360,000 per year with entitlement to an annual incentive bonus of up to 75% effective January 1, 2023. We have the right to terminate his consulting agreement with twelve (12) month notice period, subject to termination benefits (see *Item 6.B. – Compensation – Outstanding Equity Awards at September 30, 2024 – Potential Termination and Change of Control Benefits*). The notice period increases to 18 months in the event of a change of control.

Jeffrey MacLeod

On October 1, 2019, we entered into an employment agreement with Mr. MacLeod to serve as our President and CEO with an initial base salary of \$140,000 per year and raising to \$160,000 upon a going public transaction. Because Mr. MacLeod's principal residence is based in West Montrose, Ontario, his employment agreement includes a \$1,000 per month housing allowance for accommodations in Ottawa, Ontario while working at our corporate office. For our fiscal year ending September 30, 2019, Mr. MacLeod collected a lower base salary to help us conserve cash to fund our working capital requirements. Further, he did not receive any housing allowance in the last three financial years. Mr. MacLeod is entitled to an annual incentive bonus at the Board's sole discretion and five weeks of vacation per year. Mr. MacLeod's employment agreement was automatically renewed on September 30, 2022, in accordance with its terms for an additional two years. However, Mr. MacLeod retired on October 31, 2023.

Sean Homuth

On July 31, 2023, we entered into an amended and restated employment agreement, with an effective date of June 12, 2023, for Mr. Homuth to serve as Chief Financial Officer and Chief Compliance Officer. Mr. Homuth received an annual base salary of CAD\$300,000 with an annual incentive bonus of up to 50% of his annual base salary at the Board's sole discretion and four weeks of vacation per year. Mr. Homuth also received an initial stock option grant with amount determined at the Board's discretion and vesting in accordance with the terms of the Company's LTIP plan. On November 27, 2023, Mr. Homuth was appointed President and CEO and his employment agreement was amended and restated (the "Homuth Agreement"). Mr. Homuth's salary was increased to \$360,000, the annual incentive bonus was increased up to 75% of his annual salary, his employment may be terminated upon payment of a lump sum equal to 52 weeks salary plus accrued bonus, this lump sum is increased by one week per completed year of service to a maximum of 78 weeks and in the event of a change in control, the foregoing is changed from 52 weeks to 78 weeks.

Harry Webster

On August 28, 2023, we entered into a full-time employment agreement with Mr. Webster to serve as our General Manager. On February 15, 2024, Mr. Webster was appointed COO and he entered into a new employment agreement (the "Webster Agreement"). Mr. Webster's salary was increased to \$260,000, the annual incentive bonus remained up to 40% of his annual salary (which was increased to 50% subsequent to September 30, 2024), his employment may be terminated upon payment of a lump sum equal to 26 weeks salary plus accrued bonus and all security-based compensation held become vested if terminated prior to the first anniversary from the February 15, 2024, contract date. This lump sum is increased by one week per completed year of service to a maximum of 38 weeks and in the event of a change in control, the foregoing is changed from 26 weeks to 52 weeks and the reference to 38 weeks is changed to 64 weeks.

Kristopher Denis

On November 27, 2023, Mr. Denis was appointed Interim CFO and Chief Compliance Officer of the Company and his employment agreement was amended and restated (the "Denis Agreement"). Mr. Denis' salary was increased to \$175,000, an annual incentive bonus up to 40% of his annual salary, four weeks of vacation per year, his employment may be terminated upon payment of a lump sum equal to 26 weeks salary plus accrued bonus and all security-based compensation held become vested if terminated prior to the first anniversary from the November 27, 2023, contract date. This lump sum is increased by one week per completed year of service to a maximum of 38 weeks and in the event of a change in control, the foregoing is changed from 26 weeks to 52 weeks and the reference to 38 weeks is changed to 64 weeks.

**Outstanding Equity Awards at September 30, 2024**

The following table sets forth information concerning all the outstanding equity awards held by each NEO as at September 30, 2024.

	Option-based awards				Share-based awards		
	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup>	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested <sup>(2)</sup>	Market or payout value of vested share-based awards not paid out or distributed
David Luxton <sup>(3)</sup>	142	\$ 875.00	2026-07-02	\$ -	-	\$ -	277
	7,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	6,825
Sean Homuth <sup>(4)</sup>	5,500	\$ 25.50	2026-08-16	\$ -	-	\$ -	5,363
Jeff MacLeod <sup>(5)</sup>	142	\$ 875.00	2026-07-02	\$ -	-	\$ -	277
	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	1,950
Kris Denis <sup>(6)</sup>	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	975
Harry Webster	-	\$ -	n/a	\$ -	-	\$ -	-
<b>Total</b>	<b>14,784</b>			<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>15,666</b>

(1) Based on the difference between the exercise price of the Option and the closing price of the Common Shares on the TSXV on September 30, 2024.

(2) Based on the closing price of the Common Shares on the TSXV on September 30, 2024.

(3) The grants were made to Mr. Luxton's private company, DEFSEC Corporation. His 2021 Option grant vest over two (2) years and his 2023 Option grant vest over two (2) years.

(4) Mr. Homuth served as CFO of KWESST from June 12, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of KWESST. His 2023 Option grant vest over two (2) years.

(5) Mr. MacLeod's 2021 Option grant vest over two (2) years and his 2023 Option grant vest over two (2) years. Mr. MacLeod retired from his positions as President, CEO and Director of KWESST on October 31, 2023, at which time, his 2023 Option grant fully vested.

(6) Mr. Denis served as the Company's Corporate Controller from June 26, 2023 to November 26, 2023. On November 27, 2023, Mr. Denis was appointed as Interim CFO and Chief Compliance Officer of KWESST. His 2023 Option grant vest over two (2) years.

(7) Mr. Webster served as the Company's General Manager from August 28, 2023 to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of KWESST.

There was no exercise of stock options during Fiscal 2024.

#### **Value Vested or Earned During the Year**

The following table sets forth, for each NEO, the value of option-based awards and share-based awards which vested during the fiscal year ended September 30, 2024, and the value of non-equity incentive plan compensation earned during the fiscal year ended during the year ended September 30, 2024.

Name	Option-based awards - value vested during Fiscal 2024 <sup>(1)</sup>	Share-based awards - value vested during Fiscal 2024 <sup>(2)</sup>	Non-equity incentive plan compensation - value earned during Fiscal 2024
David Luxton	\$ -	\$ -	-
Sean Homuth <sup>(3)</sup>	\$ -	\$ -	-
Jeff MacLeod <sup>(4)</sup>	\$ -	\$ -	-
Kris Denis <sup>(5)</sup>	\$ -	\$ -	-
Harry Webster <sup>(6)</sup>	\$ -	\$ -	-

(1) Amounts represent the difference between the exercise price of the Options and the closing price of the Common Shares on the TSXV on the vesting date.

(2) Amounts represent the number of vested Share Units (as defined below) multiplied by the closing price of the Common Shares on the TSXV on the vesting date.

(3) Mr. Homuth served as CFO of KWESST from June 12, 2023, to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of KWESST.

(4) Mr. MacLeod retired from his positions as President, CEO and Director of KWESST on October 31, 2023.

(5) Mr. Denis served as the Company's Corporate Controller from June 26, 2023, to November 26, 2023. On November 27, 2023, Mr. Denis was appointed as Interim CFO and Chief Compliance Officer of KWESST.

(6) Mr. Webster served as the Company's General Manager from August 28, 2023, to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of KWESST.

***Potential Termination and Change of Control Benefits***

All outstanding equity compensation is forfeited / cancelled if we terminate a NEO's employment / consulting agreement for cause. Further, in the event a NEO voluntarily resigns from his employment / consulting with us, any unpaid annual incentive and unvested equity compensation are forfeited in accordance with our LTIP.

We have agreements with the NEOs that set out the terms of their employment / consulting and what they are entitled to in connection with a termination of employment or change of control. These agreements include non-solicitation, confidentiality, and ownership of intellectual property provisions to protect our interests.

The table below sets out the amount that would have been payable to each NEO that was employed by the Company on September 30, 2024, if had there been a change of control of the Company resulting in termination on September 30, 2024:

	Notice Period (months)		Termination Without Cause (pre- Change of Control)	Termination Without Cause in Connection with Change of Control
<b>David Luxton</b>				
Base fee	12	\$	630,000	\$ 945,000
Value of unvested options		\$	7,102	\$ 13,927
Value of unvested RSUs		\$	-	\$ -
Value of vested RSUs not yet issued		\$	-	\$ -
<b>TOTAL</b>		<b>\$</b>	<b>637,102</b>	<b>\$ 958,927</b>
<b>Sean Homuth</b> <sup>(1)</sup>				
Base pay	12	\$	630,000	\$ 810,000
Value of unvested options		\$	5,363	\$ 10,725
Value of unvested RSUs		\$	-	\$ -
Value of vested RSUs not yet issued		\$	-	\$ -
<b>TOTAL</b>		<b>\$</b>	<b>635,363</b>	<b>\$ 820,725</b>
<b>Jeffrey MacLeod</b> <sup>(2)</sup>				
Base pay	12	\$	160,000	\$ 240,000
Value of unvested options		\$	2,227	\$ 2,227
Value of unvested RSUs		\$	-	\$ -
Value of vested RSUs not yet issued		\$	-	\$ -
<b>TOTAL</b>		<b>\$</b>	<b>162,227</b>	<b>\$ 242,227</b>
<b>Kris Denis</b> <sup>(3)</sup>				
Base pay	6	\$	157,500	\$ 245,000
Value of unvested options		\$	975	\$ 1,950
Value of unvested RSUs		\$	-	\$ -
Value of vested RSUs not yet issued		\$	-	\$ -
<b>TOTAL</b>		<b>\$</b>	<b>158,475</b>	<b>\$ 246,950</b>
<b>Harry Webster</b> <sup>(4)</sup>				
Base fee	6	\$	234,000	\$ 364,000
Value of unvested options		\$	-	\$ -
Value of unvested RSUs		\$	-	\$ -
Value of vested RSUs not yet issued		\$	-	\$ -
<b>TOTAL</b>		<b>\$</b>	<b>234,000</b>	<b>\$ 364,000</b>

(1) Mr. Homuth served as CFO of KWESST from May 30, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of KWESST.

(2) Mr. MacLeod retired from his positions as President, CEO and Director of KWESST on October 31, 2023. As part of his departure, the Company is continuing to pay his base salary and provide benefits for a period of one year with no incentive pay. While this arrangement was verbally agreed to, it continues to be subject to formal agreement with Mr. MacLeod.

(3) Mr. Denis served as the Company's Corporate Controller from June 26, 2023 to November 26, 2023. On November 27, 2023, Mr. Denis was appointed as Interim CFO and Chief Compliance Officer of KWESST.

(4) Mr. Webster served as the Company's General Manager from August 28, 2023 to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of KWESST.

A change of control is commonly defined in each of the respective agreements as:

- a) the sale of all or substantially all of our outstanding Common Shares for cash or securities of an entity not managed by our management team and that are determined by our Board to be liquid for all of our shareholders ("Liquid Unrelated Issuer");

- b) a merger, amalgamation, arrangement or other similar transaction involving us where the holders of our Common Shares receive cash or securities of a Liquid Unrelated Issuer, but do not immediately thereafter own securities of the successor corporation which entitle them to cash more than 50% of the votes attaching to all shares in the capital of the successor corporation;
- c) the sale of all or substantially all of our assets followed by a liquidating distribution to the holders of our Common Shares of cash or securities of a Liquid Unrelated Issuer;

provided that our Board shall have the right, in its absolute discretion, to deem any transaction not enumerated above to be a change of control. For greater clarity, a sale or transfer of founders shares between related parties, and/or an initial going public transaction of any kind shall not constitute a change of control.

#### **Compensation of Independent Directors**

In July 2023, our Board approved the following cash compensation for the independent directors retroactive October 1, 2022:

- \$10,000 per quarter; and
- \$2,500 per quarter for the Chair of the Audit Committee.

Prior to December 2020, we made no cash compensation to the directors.

The following table sets out the total compensation for our independent directors who served at any time during the year ended September 30, 2024.

The following table sets out the total compensation for our independent directors who served at any time during the year ended September 30, 2024.

<b>Name</b>	<b>Fees Earned</b>	<b>Stock Awards (1)</b>	<b>Option Awards (2)</b>	<b>Non-equity Incentive Plan Compensation</b>	<b>Pension Value (3)</b>	<b>All Other Compensation</b>	<b>Total Compensation</b>
John McCoach (4)	\$ 36,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,475
Jennifer Welsh (5)	\$ 4,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,918
Paul Fortin	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,000
Paul Mangano	\$ 48,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,607
Rick Hillier (6)	\$ 98,387	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,387

(1) Represents the grant value of RSU awards, based on the closing price of the Common Shares on the TSXV on the grant date.

(2) Represents the grant value of the option awards, using the Black-Scholes option model. The Black-Scholes option model was selected by the Company as it is the most widely adopted and used option-valuation method. There were no stock option grants issued in Fiscal 2024.

(3) The Company does not have a pension plan.

(4) John McCoach did not reelect for the Audit Committee Chairman and ceased to be a Director of KWESST on August 26, 2024.

(5) Jennifer Welsh joined the Board on August 26, 2024 and was appointed Audit Committee Chairman.

(6) Rick Hillier joined the Board on December 6, 2023.

#### **Outstanding Equity Awards at September 30, 2024**

There were no stock options granted to the independent directors in Fiscal 2024.

The following table sets forth information concerning all the outstanding equity awards held by each of our independent directors as at September 30, 2024.

	Option-based awards				Share-based awards		
	Number of securities underlying unexercised options <sup>(1)</sup>	Option exercise price	Option expiration date	Value of unexercised in the-money options <sup>(2)</sup>	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested <sup>(3)</sup>	Market or payout value of vested share-based awards not paid out or distributed
<b>John McCoach</b>	357	\$ 679.00	2025-12-15	\$ -	-	\$ -	\$ 696
	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	\$ 975
<b>Jennifer Welsh</b>	-	-	n/a	\$ -	-	\$ -	\$ -
<b>Paul Fortin</b>	357	\$ 679.00	2025-12-15	\$ -	-	\$ -	\$ 696
	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	\$ 975
<b>Paul Mangano</b>	357	\$ 679.00	2025-12-15	\$ -	-	\$ -	\$ 696
	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	\$ 975
<b>Rick Hillier</b>	1,000	\$ 25.50	2026-08-16	\$ -	-	\$ -	\$ 975
<b>Total</b>	5,071			\$ -	-	\$ -	\$ 5,988

(1) The 2023 Option grants to the directors vest over two (2) years. The 2021 Option grants to the directors vest over two (2) years.

(2) Based on the difference between the exercise price of the Option and the closing price of the Common Shares on the TSXV on September 30, 2024.

(3) Based on the closing price of the Common Shares on the TSXV on September 30, 2024.

There was no exercise of options during Fiscal 2024.

#### Value Vested or Earned During the Year

The following table sets forth, for each independent director, the value of option-based awards and share-based awards which vested during the fiscal year ended September 30, 2024 and the value of non-equity incentive plan compensation earned during the fiscal year ended during the year ended September 30, 2024. No share-based awards have been granted to our directors since inception.

Name	Option-based awards - value vested during Fiscal 2024 <sup>(1)</sup>	Share-based awards - value vested during Fiscal 2024 <sup>(2)</sup>	Non-equity incentive plan compensation - value earned during Fiscal 2024
John McCoach	\$ -	\$ -	-
Jennifer Welsh	\$ -	\$ -	-
Paul Fortin	\$ -	\$ -	-
Paul Mangano	\$ -	\$ -	-
Rick Hillier	\$ -	\$ -	-

(1) Amounts represent the difference between the exercise price of the Options and the closing price of the Common Shares on the TSXV on the vesting date.

(2) Amounts represent the number of vested Share Units (as defined below) multiplied by the closing price of the Common Shares on the TSXV on the vesting date.

#### Equity Compensation Plans

On February 10, 2021, our Board adopted a new LTIP, which was approved by our shareholders on March 31, 2021, and on April 9, 2021, by the TSXV. Our LTIP was subsequently amended to conform with the new TSXV policy issued on November 24, 2021, in relation to security-based compensation. Our shareholders approved this amended LTIP on March 31, 2022, which was subsequently approved by the TSXV on April 14, 2022.

The maximum number of Common Shares issuable under our LTIP for stock options is 10% of our issued and outstanding Common Shares, subject to adjustment or increase pursuant to the terms of the LTIP. Any stock options that have been cancelled, repurchased, expired, or exercised will again be available under the LTIP. At September 30, 2024, we had 25,811 outstanding stock options, leaving 132,106 stock options available for future grants.

Additionally, the maximum number of Common Shares issuable under our LTIP in respect of RSUs, DSUs, SARs, and PSUs (collectively "Share Units") is 4,072. At September 30, 2024, we had 4,072 Share Units available for future grants.

The following is a summary of the salient terms of the equity-based awards available under our amended LTIP. For a more fulsome disclosure of our LTIP, a copy of our amended LTIP is available on SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

#### ***Stock Options***

Key Employees, Directors, Consultants and Persons performing Investor Relations Services (as such terms are defined in the LTIP) are eligible to receive grants of stock options to acquire Common Shares at the time of employment or contract, if applicable, and thereafter as determined by the Board.

#### ***Restricted Share Units***

Key Employees, Directors and Consultants, are eligible to receive grants of RSUs, entitling the holder to receive one Common Share for each RSU, subject to restrictions as the Board may, in its sole discretion, establish in the applicable award agreement. The Board believes the granting of RSUs creates long-term incentive, a sense of ownership and an alignment of the recipients' interests with those of our shareholders and stakeholders. The granting of RSUs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for RSUs in addition to other restrictions, this compensation element is also designed to support long term retention of valuable Key Employees and Directors as well as provide an incentive for the achievement of specific milestones, if applicable.

#### ***Performance Share Units***

Key Employees, Directors, and Consultants are eligible to receive grants of PSUs, entitling the holder to receive one Common Share for each PSU, subject to the achievement or attainment of specific performance criteria ("Performance Criteria") within a specific period ("Performance Cycle"). The number of PSUs and the Performance Criteria which must be satisfied in order for the PSUs to vest and the Performance Cycle in respect of such PSUs shall be specified in the applicable award agreement. The Board believes the granting of the PSUs incentivizes the attainment of specific goals which support our overall strategies and creates a sense of ownership and an alignment of the recipients' interests with those of our shareholders and stakeholders. The granting of PSUs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for PSUs in addition to other restrictions, this compensation element is also designed to support long-term retention of valuable employees as well as provide an incentive for the achievement of specific milestones, if applicable.

#### ***Deferred Share Units***

Key Employees and Directors are eligible to receive grants of DSUs. Directors may elect to receive any part or all of their fees payable in respect of their position as a director as DSUs. Each holder of a DSU is entitled to receive one Common Share for each DSU. The Board believes the granting of DSUs creates long-term incentive, a sense of ownership and an alignment of the recipients' interests with those of our shareholders and Stakeholders. The granting of DSUs is intended to reward directors who are responsible for oversight of our management and growth and to encourage such directors to maintain a long-term vision for us to operate in a manner to maximize shareholder value.

#### ***Stock Appreciation Rights***

Key Employees, Directors, and Consultants are eligible to receive grants of SARs, entitling the recipient to receive a payment in Common Shares equal to the current market price less the grant price of the SAR as determined by the Board at the time of the grant for each SAR. Notwithstanding the foregoing, the Board may, in its sole discretion, satisfy payment of the entitlement in cash rather than in Common Shares. The granting of SARs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for SARs, this compensation element is also designed to support long-term retention of valuable employees as well as provide an incentive for the achievement of specific milestones, if applicable.

#### ***Vesting Provision***

No award issued under the LTIP, other than Options, may vest before the date that is one year following the date it is granted or issued. Notwithstanding this provision, vesting may be accelerated for a Participant who dies or who ceases to be an eligible Participant under the LTIP in connection with a change of control, takeover bid, RTO, or other similar transaction.

For Options grants to Investor Relations service providers, vesting must be over a period of not less than one year, with no more than 25% of such options vesting in any three months.

**Modification of an Award**

Any adjustment, other than as noted in section 4.3 Anti-Dilution of the LTIP, to award granted or issued under our LTIP must be subject to the prior acceptance of the TSXV, including adjustments related to an amalgamation, merger, arrangement, reorganization, spin-off, dividend, or recapitalization.

Further, any decrease in the exercise price of or extension to stock options granted to individuals that are Insiders at the time of the proposed amendment is subject to disinterested shareholder approval.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth the details as at September 30, 2024, the end of our most recently-completed fiscal year, with respect to compensation plans pursuant to which equity securities of the Company are authorized for issuance under our LTIP.

Equity Compensation Plans Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under Equity Compensation Plans (excluding securities listed in column (a))
Equity Compensation Plans approved by the shareholders - LTIP	Share Units: nil	Share Units: \$nil	Share Units: 4,072
Equity Compensation Plans not approved by shareholders	Options: 25,811	Options: \$26.44	Options: 132,106
	n/a	n/a	n/a

**C. Board Practices**

Each of our directors will hold office until the next annual general meeting of our shareholders or until his or her office is earlier vacated, in accordance with our Articles of Incorporation (the "Articles") and the BCBCA. Each of our officers serves at the pleasure of our Board. Please also refer to *Directors and Senior Management* above for further details regarding the periods of service of each of our current directors and officers.

As of September 30, 2024, we did not have any service contracts with any of our independent directors.

**Board Nomination**

The identification of potential candidates for nomination as our directors is carried out by all directors, who are encouraged to participate in the identification and recruitment of new directors. Potential candidates are primarily identified through referrals and business contacts.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

**Corporate Cease Trade Orders**

As at the date of this document, no current director or executive officer of the Company is, or within the ten years prior to the date of this document has been, a director, chief executive officer or chief financial officer of any company (including the Company), that:

(a) was subject to a cease trade order (including any management cease trade order which applied to directors or executive officers of a company, whether or not the person is named in the order), an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an "Order") while that person was acting in that capacity; or

(b) was subject to an Order that was issued after the current director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer

except in the following cases:

Mr. Sean Homuth previously served as the Chief Financial Officer of North Bud Farms Inc. ("North Bud") from October 2019 to December 2019. Subsequently, Mr. Sean Homuth was appointed as the Chief Executive Officer of North Bud in January 2020. On March 31, 2020, a management cease trade order was issued by the Ontario Securities Commission against Mr. Homuth in respect of North Bud. On June 3, 2023, the Ontario Securities Commission issued a cease trade order in connection with North Bud's failure to file financial statements, management's discussion and analysis and officer's certifications. At of the date hereof, the cease trade order has not yet been revoked.

## **Bankruptcy**

To the knowledge of the Company, as at the date of this document, no current director, executive officer, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, or within the ten years prior to the date of this document has:

- (a) been a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver manager or trustee appointed to hold the assets of the current or proposed director, executive officer or shareholder.

except in the following case:

John McCoach was formerly a director and interim CEO of Nautilus Minerals Inc., a Toronto Stock Exchange listed company. Nautilus Minerals Inc. was not able to secure the funding it needed to proceed with its projects. In February 2019, Nautilus Minerals Inc. filed for creditor protection under the Companies' Creditors Arrangement Act (Canada).

Jennifer Welsh, who was CFO of Indiva Limited, a TSXV-listed licensed producer of cannabis which filed on June 13, 2024, for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) due to, among other things, the fragmentation of the cannabis industry, financial underperformance and pressures resulting from the obligations owing to creditors. The company undertook a sales and investment solicitation process and the stalking horse bid from its senior secured debtholder SNDL Inc. was the successful bid.

## **Penalties and Sanctions**

None of our current directors or executive officers has, within the past ten years, been subject to any penalties or sanctions imposed by a court or by a securities regulatory authority relating to securities legislation or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision, with the exception of the following:

On November 25, 2015, L-3, EOTECH, and Paul Mangano, who was then President of EOTECH, (collectively, the "Defendants") entered into a Settlement. The complaint alleged that EOTECH sold defective holographic weapon sights to the U.S. Department of Defense, the U.S. Department of Homeland Security, and the Federal Bureau of Investigation during the period from 2007 through 2014 and that the Defendants became aware that design defects in EOTECH's sights caused them to fail in cold temperature and humid environments. The Government of the United States alleged in its complaint that although EOTECH was contractually obligated to disclose these defects to the military, the Defendants nevertheless concealed them until they believed that EOTECH had product improvements that would correct the defects, and even then failed to disclose the nature and severity of the defects. Under the Settlement, the Defendants admitted, acknowledged and accepted responsibility for several claims. Mr. Mangano admitted, acknowledged and accepted responsibility.

L-3 paid the Settlement Amount of USD \$25.6 million and the Government of the United States released the Defendants and all of their at-that-time and former officers, directors and employees from any civil or administrative monetary claims the United States has for the conduct covered in the complaint under the False Claims Act, the Civil Monetary Penalties Law, the Program Fraud Civil Remedies Act, the Financial Institutions Reform, Recovery and Enforcement Act, the Contract Disputes Act and the common law theories of breach of contract, payment by mistake, unjust enrichment and fraud. The Settlement does not contain any sanctions or penalties imposed on Mr. Mangano and Mr. Mangano did not pay any portion of the Settlement Amount.

## **Audit Committee Disclosure**

### ***The Audit Committee's Charter***

Our directors have adopted a Charter for the Audit Committee, which sets out the Audit Committee's mandate, organization, powers and responsibilities. The full text of our Audit Committee Charter is available on request from us.

### ***Composition of the Audit Committee***

The members of the Audit Committee are Jennifer Welsh (Chair), Paul Mangano, and Paul Fortin. All members are independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules and as defined in National Instrument 52-110 - Audit Committees ("NI 52-110") adopted by the Canadian Securities Administrators), and all members are financially literate (as defined in NI 52-110). The Audit Committee meets regularly on at least a quarterly basis. The members of the Audit Committee do not have fixed terms and are appointed and replaced from time to time by resolution of the Board.

The Board has determined that Paul Mangano and Jennifer Welsh qualify as financial experts (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and Rule 5605(c)(2)(A) of The Nasdaq Stock Market Rules; and (ii) is independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules).

#### **Relevant Education and Experience**

All of the Audit Committee members are senior-level professionals with experience in financial matters; each has a broad understanding of accounting principles used to prepare financial statements and varied experience as to general application of such accounting principles.

For further relevant education and experience of Ms. Welsh and Messrs. Mangano and Fortin, refer to their respective biographies in *Directors, Senior Management and Employees*.

#### **Audit Committee Oversight**

At no time during this past fiscal year have any recommendations by the Audit Committee respecting the appointment and/or compensation of our external auditors not been adopted by the Board.

#### **Pre-Approval Policies and Procedures**

Under its charter, the Audit Committee is required to pre-approve all non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for such non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve a consideration of the potential impact of such services on the independence of the external auditors.

#### **D. Employees**

The following table sets forth the number of employees we had at the end of each fiscal period:

<b>Year</b>	<b>Full Time</b>	<b>Part Time</b>	<b>Total</b>
Fiscal 2022	17	1.2	18.2
Fiscal 2023 <sup>(1)</sup>	28	1.2	29.2
Fiscal 2024 <sup>(2)</sup>	29	1	30

(1) Includes 5 consultants at September 30, 2023.

(2) Includes 6 consultants at September 30, 2024.

None of our employees are members in a labor union.

#### **E. Share Ownership**

As of December 23, 2024, the NEOs named in this Annual Report as well as our current directors and executive officers, as a group, beneficially owned a total of 133,101 Common Shares, representing beneficial ownership of 1.90% of the Common Shares.

The table below sets forth the number of Common Shares beneficially owned by the NEOs named in this Annual Report as well as our directors and executive officers as of December 23, 2024. The persons listed below are deemed to be the beneficial owners of Common Shares underlying options, RSUs, and warrants that are exercisable within 60 days from the above date, including "out-of-the-money" options. The percentages shown below are based on 6,987,223 outstanding Common Shares as of December 23, 2024, plus 1,519,385 Common Shares underlying options, RSUs and warrants that are exercisable within 60 days for the indicated beneficial owner for an aggregate total of 8,506,608.

## Shareholdings of Director s and Executive Officers

### Shareholdings of Director s and Executive Officers

Name of Beneficial Owner	Common Shares held	Exercisable Options	Convertible RSUs	Exercisable Warrants	Number of Common Shares Beneficially Owned	Percent of Outstanding Common Shares
David Luxton <sup>(1)</sup>	129,155	5,392	-	535	135,082	1.59%
Sean Homuth	1,000	4,125	-	-	5,125	0.06%
Paul Mangano	461	1,107	-	-	1,568	0.02%
Paul Fortin	10	1,107	-	-	1,117	0.01%
Harry Webster	1,455	-	-	-	1,455	0.02%
Rick Hillier	-	1,107	-	-	1,107	0.01%
Kris Denis	1,020	750	-	-	1,770	0.02%
Jennifer Welsh	-	-	-	-	-	0.00%
<b>Total</b>	<b>133,101</b>	<b>13,588</b>	<b>-</b>	<b>535</b>	<b>147,224</b>	<b>1.73%</b>

(1) Includes 125,850 Common Shares, 142 exercisable options and 535 exercisable warrants held by Mr. Luxton's private company, DEFSEC.

Refer to section titled, *Compensation*, for the details of the options held by our directors and executive officers as at September 30, 2024. We have since not granted any further options.

We do not have any other equity arrangements for involving employees in our capital, except for the grant of Security-Based Compensation Awards pursuant to our LTIP at the discretion of the Board.

#### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

##### A. Major Shareholders

To our best knowledge, there are no shareholders that beneficially own, directly or indirectly, or exercise control over, shares carrying more than 5% of the outstanding voting rights attached to our Common Shares as at December 23, 2024.

Prior to the closing of our U.S. IPO and Canadian Offering in December 2022, the major changes in the last three years in the percentage ownership of persons who beneficially own 5% of the outstanding voting rights attached to our Common Shares were:

- Our Founder, President & CEO and director, through a holding company (2573685 Ontario Inc.), held 141,360 Common Shares or 18.2% of the total outstanding voting rights.
- DEFSEC increased its beneficial ownership to 68,579 Common Shares or 8.8% as a result of receiving 14,285 Common Shares (and warrants exercisable for 7,142 Common Shares) on April 29, 2021, for selling the PARA OPS technology to KWESST.
- On September 10, 2021, SOL Global Investments Corp. announced its equity ownership of our Common Shares for the first time, reporting 9.6% equity ownership and 10.3% on a partially diluted basis. On December 31, 2021, SOL Global Investments Corp held 77,142 Common Shares and warrants exercisable for an aggregate of 5,714 Common Shares. On March 9, 2022, SOL Global Investments announced that it had reduced their Common Share holdings in KWESST to less than 10% of our total outstanding Common Shares. Immediately prior to the closing of our U.S. IPO and Canadian Offering, SOL Global Investments Corp. held 119,250 Common Shares or 8.7%.

As a result of the U.S. IPO and Canadian Offering, all the above noted shareholders now own less than 5% of the outstanding Common Shares.

In our Annual Report on Form 20-F for Fiscal 2023, we reported two institutional shareholders as having beneficial ownership of more than 5% of the outstanding Common Shares. Based on Schedule 13 beneficial ownership reports filed with the SEC under the Exchange Act during Fiscal 2024, to our knowledge, these two institutional shareholders no longer hold more than 5% of the outstanding Common Shares.

In our Form F-3 Registration Statement filed with the SEC on September 5, 2024, we disclosed one institutional shareholder with beneficial ownership exceeding 5% of the outstanding Common Shares. Based on Form F-3 Registration Statement filed with the SEC on November 29, 2024, to our knowledge, this institutional shareholder no longer holds more than 5% of the outstanding Common Shares.

At December 23, 2024, there were a total of 52 record holders of our Common Shares, of which 9 record holders were resident in the United States, holding a total of 6,874,163 Common Shares, based on available information. This number represents approximately 96% of our total issued and outstanding Common Shares at that date.

We are a publicly owned company, and our Common Shares are owned by Canadian residents, United States residents, and residents of other countries. To our knowledge, we are not directly owned or controlled by another corporation, any foreign government or any other natural or legal person(s), whether severally or jointly. We are not aware of any arrangement, the operation of which may result in a change of control of us.

## **B. Related Party Transactions**

To our knowledge, none of our directors or executive officers, nor any of our subsidiaries or insiders, nor any of our shareholders owning more than 10% of our voting shares, and no person with ties to any of the aforementioned, nor any member of the same group, has had or expects to have an interest in any transactions concluded since the beginning of Fiscal 2021 that has had or could have a material impact on us, or in any projected transactions, except as described below.

### *DEFSEC Purchase Agreement*

The entering into the DEFSEC Purchase Agreement by us was considered to be a "related-party transaction" for purposes of *Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions* ("MI 61-101") and *Policy 5.9 - Protection of Minority Security Holders in Special Transactions of the TSXV*. We relied on exemptions from the formal valuation and minority shareholder approval requirements available under MI 61-101. We were exempt from the formal valuation requirement in section 5.4 of MI 61-101 in reliance on sections 5.5(a) and (b) of MI 61-101 as the fair market value of the transaction was not more than the 25% of our market capitalization, and no securities of ours were listed or quoted for trading on prescribed stock exchanges or stock markets. Additionally, we were exempt from minority shareholder approval requirement in section 5.6 of MI 61-101 in reliance on section 5.7(a) as the fair market value of the transaction was not more than the 25% of our market capitalization. The transaction was reviewed and approved by our independent directors, and we obtained approval from over 51% of disinterested shareholders. Further, on February 19, 2021, the TSXV conditionally approved this asset acquisition. We closed the LEC Technology acquisition shortly after closing the April 2021 Private Placement.

### *Employment and Consulting Agreements*

We have entered into a professional services agreement with DEFSEC to obtain Executive Chairman services from David Luxton and employment agreements with Sean Homuth and Harry Webster (see *Item 6.B. - Compensation - Employment and Consulting Agreements*).

### *Voting Agreement*

On September 14, 2020, we entered into a voting agreement with Messrs. Luxton and MacLeod, pursuant to which Messrs. Luxton and MacLeod agreed to vote the voting securities of us they own and exercise voting control over to ensure that the following individuals are members of our Board: Mr. Luxton, Mr. MacLeod, one person nominated by Mr. Luxton who is from the capital markets industry, one independent person nominated by Mr. Luxton and one independent person nominated by Mr. MacLeod. Further, Messrs. Luxton and MacLeod irrevocably appointed our President as their proxy and granted our President power of attorney to vote their voting securities in a manner described in the voting agreement should either Mr. Luxton or Mr. MacLeod fail to vote or attempt to vote in a manner inconsistent with the voting agreement. This voting agreement expired on March 31, 2022.

### *Related Party Loans*

All related party loans were repaid in December 2022. During Fiscal 2023 and Fiscal 2024, we did not enter into any related party loans.

### *Other Related Party Transactions*

From January 28, 2021, to June 24, 2022, the CEO and sole shareholder of SageGuild agreed to serve as director for our United States subsidiary, KWESST Defense Systems U.S. Inc, and as a result SageGuild was a related party to KWESST for this period. We previously entered into a consulting agreement with SageGuild in March 2020 to provide business development services in the United States. This consulting agreement, including compensation, was not modified as a result of the above. At the time, SageGuild was not a related party and the terms of this consulting agreement were negotiated at arm's length. From January 1, 2021, to September 30, 2021, the total compensation (cash and share-based) amounted to \$339,309. For the three and nine months ended June 30, 2022 the total compensation was \$81,761 and \$251,809 respectively. Effective June 24, 2022, our Executive Chairman replaced SageGuild's CEO as the acting CEO and director for KWESST Defense Systems U.S. Inc. and therefore from this date SageGuild is no longer a related party.

For other immaterial related party transactions, refer to Note 11 of the consolidated financial statements for Fiscal 2024.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

**Financial Statements**

This Annual Report contains the Company's consolidated financial statements as at and for the year ended September 30, 2024, the year ended September 30, 2023, and the year ended September 30, 2022. The audit reports of KPMG LLP and MNP are included therein.

**Legal Proceedings**

We are not a party to any legal proceedings which may have, or have had in the recent past, significant effects on the Company's financial position or profitability.

**Dividend Policy**

We have not, for any of the three most recently completed fiscal years or our current fiscal year, declared or paid any dividends on our Common Shares, and do not currently have a policy with respect to the payment of dividends. For the foreseeable future, we anticipate that we will not pay dividends but will retain future earnings and other cash resources for the operation and development of our business. The payment of dividends in the future will depend on our earnings, if any, our financial condition, and such other factors as our directors consider appropriate.

**B. Significant Changes**

Except as otherwise disclosed in this Annual Report, there have been no significant changes in our financial condition since the most recent audited consolidated financial statements for the year ended September 30, 2024.

**ITEM 9. THE OFFER AND LISTING**

**A. Offer and Listing Details**

Our Common Shares are listed and posted for trading on Nasdaq under the symbol "KWE", the TSXV under the trading stock symbol "KWE.V" and the Frankfurt Stock Exchange under the stock symbol of "62U".

Our U.S. IPO Warrants are listed and posted for trading on Nasdaq under the symbol "KWESW".

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See Item 9.A. - Offer and Listing Details.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

## **B. Memorandum and Articles of Association**

### **Incorporation**

See *Item 4.A. - History and Development of the Company – Name, Address and Incorporation.*

### **Objects and Purposes**

The Articles do not contain a limitation on objects and purposes.

### **Directors**

Article 17 of the Articles deals with a directors' disclosable interest (as defined in the BCBCA) in contracts or transactions into which the Company has entered or proposes to enter. Article 17.2 provides that a director who holds such a disclosable interest is not entitled to vote on any directors' resolution to approve such contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

Pursuant to the BCBCA, a director holds a disclosable interest in a contract or transaction if (a) the contract or transaction is material to the Company, (b) the Company has entered, or proposes to enter, into the contract or transaction, and (c) the director has a material interest in the contract or transaction or the director is a director or senior officer of, or has a material interest in, a person who has a material interest in the contract or transaction. Pursuant to the BCBCA, a director does not have a disclosable interest in a number of prescribed situations, including without limitation in respect of a contract or transaction merely because the contract or transaction relates to the remuneration of the director in that person's capacity as a director of the Company.

The directors may act notwithstanding any vacancy in the Board, but if the Company has fewer directors in office than the number set pursuant to the Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the Board or, subject to the BCBCA, for any other purpose. The quorum necessary for the transaction of the business of the directors may be set by the directors and, if not so set, is deemed to be set at two directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

Article 8 of the Articles deals with borrowing powers. The Company, if authorized by the directors, may: (i) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate; (ii) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate; (iii) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and (iv) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

### **Qualifications of Directors**

The Articles do not specify a retirement age for directors.

Directors are not required to own any Common Shares of the Company.

Section 124 of the BCBCA provides that an individual is not qualified to become or act as a director of a company if that individual is:

1. under the age of 18 years;
2. found by a court, in Canada or elsewhere, to be incapable of managing the individual's own affairs;
3. an undischarged bankrupt; or
4. convicted in or out of the Province of British Columbia of an offence in connection with the promotion, formation or management of a corporation or unincorporated business, or of an offence involving fraud, unless:
  - a. the court orders otherwise;
  - b. 5 years have elapsed since the last to occur of:
    - i. the expiration of the period set for suspension of the passing of sentence without a sentence having been passed;
    - ii. the imposition of a fine;
    - iii. the conclusion of the term of any imprisonment; and

- iv. the conclusion of the term of any probation imposed; or
- c. a pardon was granted or issued, or a record suspension ordered, under the Criminal Records Act (Canada) and the pardon or record suspension, as the case may be, has not been revoked or ceased to have effect.

A director who ceases to be qualified to act as a director of the Company must promptly resign.

Section 120 of the BCBCA provides that every company must have at least one director, and a public company must have at least three directors.

#### **Rights, Preference and Restrictions**

Holders of Common Shares are entitled to receive notice of any meeting of shareholders of the Company, to attend and to cast one vote per share at such meetings. Holders of Common Shares are also entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefor and upon the liquidation, dissolution, or winding up of the Company are entitled to receive on a pro rata basis, the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions, and conditions attaching to any other series or class of shares ranking senior in priority. Common Shares do not carry any pre-emptive, subscription, redemption, conversion rights, sinking fund provisions, liability to further capital calls by the Company, or provisions discriminating against any existing or prospective holder of Common Shares as a result of such shareholder owning a substantial number of Common Shares.

The rights of shareholders of the Company may be altered only with the approval of the holders of two thirds or more of the Common Shares voted at a meeting of the Company's shareholders called and held in accordance with the Articles and applicable law.

#### **Shareholder Meetings**

The BCBCA provides that: (i) a general meeting of shareholders must be held in the Province of British Columbia, unless otherwise provided in the Company's Articles or as approved by ordinary resolution of shareholders; (ii) the Company must hold an annual general meeting of shareholders not later than 15 months after the last preceding annual general meeting and once in every calendar year; (iii) for the purpose of determining shareholders entitled to receive notice of or vote at a meeting of shareholders, the directors may set a date as the record date for that determination, provided that such date shall not precede by more than 2 months (or, in the case of a general meeting requisitioned by shareholders under the BCBCA, by more than 4 months) or be less than 21 days before the date on which the meeting is to be held; (iv) a quorum for the transaction of business at a meeting of shareholders of the Company is the quorum established by the Articles (Article 11.3 of the Articles provide that the quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of Common Shares entitled to vote at the meeting, are present in person; (v) the holders of not less than 5% of the issued shares entitled to vote at a meeting may requisition the directors to call a meeting of shareholders for the purpose of transacting any business that may be transacted at a general meeting; and (vi) the Court may, on its own motion or on the application of the Company, upon the application of a director or the application of a shareholder entitled to vote at the meeting: (a) order that a meeting of shareholders be called, held and conducted in a manner that the Court considers appropriate; and (b) give directions it considers necessary as to the call, holding and conduct of the meeting.

#### **Limitations on Ownership of Securities**

Except as provided in the *Investment Canada Act*, there are no limitations specific to the rights of non-Canadians to hold or vote the Common Shares under the laws of Canada or the Province of British Columbia or in the Company's constating documents.

#### **Change in Control**

There are no provisions in the Company's constating documents or under applicable corporate law that would have the effect of delaying, deferring or preventing a change in the control of the Company, or that would operate with respect to any proposed merger, acquisition or corporate restructuring involving the Company or any of its subsidiaries.

#### **Ownership Threshold**

There are no provisions in the Company's constating documents or under applicable corporate law requiring share ownership to be disclosed. Securities legislation in Canada requires that shareholder ownership (as well as ownership of an interest in, or right or obligation associated with, a related financial instrument of a security of the Company) must be disclosed once a person beneficially owns or has control or direction over, directly or indirectly, securities of a reporting issuer carrying more than 10% of the voting rights attached to all the reporting issuer's outstanding voting securities. This threshold is higher than the 5% threshold under U.S. securities legislation at which stockholders must report their share ownership.

### **Changes to Capital**

There are no conditions imposed by the Articles governing changes in the capital where such conditions are more significant than is required by the corporate laws of the Province of British Columbia for as long as the Company is a public company. Otherwise, Section 26.3 of the Articles provides that no share or designated security may be sold, transferred or otherwise disposed of without the consent of the directors and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

### **Description of Capital Structure**

Our authorized share structure consists of an unlimited number of Common Shares without par value, of which 7,187,223 Common Shares were issued and outstanding as of December 23, 2024. All of the issued Common Shares are fully paid and non-assessable Common Shares in the capital of the Company. The Company does not own any of its Common Shares.

### **C. Material Contracts**

We are a party to the following contracts which management currently considers to be material to the Company and our assets and operations.

- DEFSEC Purchase Agreement
- GhostStep Technology Purchase Agreement
- GDMS MPSA
- CounterCrisis Technology Subcontractor Agreement between KWESST Micro Systems Inc. and CounterCrisis Technology, dated July 6, 2022
- Professional Services Agreement among KWESST Inc., DEFSEC Corporation and David Luxton, dated October 1, 2019 (the "Luxton Agreement")
- The Canadian Government Contract
- Placement Agency Agreement
- Securities Purchase Agreement
- Registration Rights Agreement
- Homuth Agreement
- Webster Agreement
- Denis Agreement
- Underwriting Agreement, by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated April 4, 2024 (the "April 2024 Underwriting Agreement")
- Thales Subcontract
- Placement Agency Agreement, by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated June 12, 2024 (the "June 2024 Placement Agency Agreement")
- Securities Purchase Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto, dated August 9, 2024 (the "August 2024 Securities Purchase Agreement")
- Securities Purchase Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto, dated November 12, 2024 (the "November 2024 Securities Purchase Agreement")
- Registration Rights Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto, dated November 12, 2024 (the "November 2024 Registration Rights Agreement")
- Placement Agency Agreement, by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated November 12, 2024 (the "November 2024 Placement Agency Agreement")

The terms and conditions of these material contracts are described below.

#### **DEFSEC Purchase Agreement**

See Note 4(b) of the audited consolidated financial statements for Fiscal 2024.

#### **GhostStep Technology Purchase Agreement**

See Note 4(b) of the audited consolidated financial statements for Fiscal 2021.

#### **GDMS MPSA**

On December 1, 2021, we entered into a MPSA with General Dynamic Mission Systems - Canada.

See *Item 4.B. - Business Overview - Economic Dependence*.

#### **Counter-Crisis Technology Subcontractor Agreement**

On July 6, 2022, we entered into a three-year contract with CCT to co-implement a national GSAR Incident Command System for Public Safety Canada, with the OPP as technical advisory stakeholder for this project.

See Item 4.A. - *History and Development of the Company - Events in the Development of the Business - Fiscal 2022 Highlights*.

#### **Luxton Agreement**

See Item 6.B. - *Employment and Consulting Agreements - David Luxton*.

#### **Canadian Government Contract**

On May 2, 2023, we announced that DND awarded a CAD\$136 million five-year defense contract to the JV Group (KWESST, Akkodis (MODIS) Canada and Thales Canada). KWESST's workshare under the joint venture agreement is up to 20% which would represent approximately CAD\$27.2M (or an average of CAD\$5.4M per year) of the contract. The contract is a professional services agreement whereby KWESST will provide qualified software and sustainment resources engineering (at rates agreed to in the contract) on a task-based (as-and-when requested basis) to develop specialized (Government of Canada owned) software applications for Land C4ISR (Canadian Army) systems.

#### **Placement Agency Agreement, Securities Purchase Agreement, and Registration Rights Agreement**

See Item 5.A. - *Operating Results - Overview*

#### **Homuth Agreement**

See Item 6.B. - *Employment and Consulting Agreements - Sean Homuth*.

#### **Webster Agreement**

See Item 6.B. - *Employment and Consulting Agreements - Harry Webster*.

#### **Denis Agreement**

See Item 6.B. - *Employment and Consulting Agreements - Kris Denis*.

#### **2024 Underwriting Agreement**

In connection with the April 2024 Offering, we entered into the April 2024 Underwriting Agreement with ThinkEquity, who acted as sole book-running manager. The gross proceeds from the April 2024 Offering, before deducting the underwriting discount of USD\$0.4875 per Common Share (being an aggregate of USD\$75,002 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately USD\$1,000,000. In addition, the Company issued to ThinkEquity as compensation for its services 7,692 Common Share purchase warrants with an exercise price of USD\$8.125 per share, pursuant to the April 2024 Underwriting Agreement.

#### **Thales Subcontract**

On June 10, 2024, we announced that we were awarded the Thales Subcontract, whereby we will deliver specialized software services for work under the DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through the Land C4ISR Program.

Under the Thales Subcontract, our maximum workshare is 20% of all task authorizations awarded to Thales Canada under the Land C4ISR Program and is estimated to be valued up to approximately CAD\$48 million.

Our work will involve the delivery of software engineering development and sustainment services on an as-and-when need basis as directed by rolling task-authorizations throughout the period of performance. Our workscope will include the following types of software development and sustainment work:

- (a) all soldier/dismounted domain battle management application (including Android Tactical Assault Kit (ATAK)) development, integration, and sustainment for soldier/dismounted domain peripherals such as weapons, sensors, and communication systems; and

(b) dynamic call for fires, ballistics calculation, augmented.

The term of the Thales Subcontract will extend through January 14, 2030, with the possibility for three additional awards for option periods of two years each, potentially extending the work through January 14, 2036.

Our work on the program will be directed by Thales Canada through additional work requests ("AWR") in responses to SOW received from the Land C4ISR Program on a rolling as-and-when-needed basis throughout the term of the Thales Subcontract. We will work with Thales Canada to propose the appropriate resources against customer-solicited AWR SOWs. Once approved in the form of task authorizations, we will have the obligation to recruit and apply resources to the projects alongside Thales Canada resources. We will invoice for work within 15 days of its completion and receive payment net sixty (60) days from the actual delivery of the work.

Under the Thales Subcontract, Thales Canada has flowed to us its share of obligations related to industrial and technological benefits ("ITB") and indigenous business. This requires us to execute 100% of the Thales Subcontract value within Canada and flow portions of the contract value into areas such as skills development and training in key technology areas. Under the Thales Subcontract, such ITB obligations attract potential liquidated damages of 20% for any shortfall over the allowable achievement period. Additionally, we are required to achieve not less than 5% of the contract value with Indigenous business.

As is customary with Canadian government contracts, the Thales Subcontract may be suspended or terminated for convenience or default.

#### **June 2024 Placement Agency Agreement**

In connection with the June 2024 Offering, we entered into the June 2024 Placement Agency Agreement with ThinkEquity, who acted as sole placement agent. The gross proceeds from the June 2024 Offering, before deducting placement agent fees of USD\$0.435 per Common Share (being an aggregate of USD\$126,150 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately US\$1,682,000. In addition, the Company issued to the placement agent as compensation for its services 14,500 Common Share purchase warrants with an exercise price of US\$7.25 per share, pursuant to the June 2024 Placement Agency Agreement.

#### **August 2024 Securities Purchase Agreement**

In connection with the August 2024 Offering, we entered into the August 2024 Securities Purchase Agreement with certain investors for the purchase and sale of 471,500 Common Shares at a purchase price of USD\$2.00 per Common Share. In a concurrent private placement, the Company issued unregistered warrants to purchase up to 471,500 Common Shares at an exercise price of USD\$2.50 per share that were immediately exercisable upon issuance and will expire five years following the date of issuance. H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2024 Offering. The gross proceeds to the Company from the offering were approximately USD\$943,000 before deducting placement agent fees and other offering expenses payable by the Company.

#### **November 2024 Placement Agency Agreement, November 2024 Securities Purchase Agreement, and November 2024 Registration Rights Agreement**

In connection with the November 2024 Offering, we entered into the November 2024 Placement Agency Agreement with ThinkEquity, the 2024 Securities Purchase Agreement, and 2024 Registration Rights Agreement with certain investors, for the purchase of 4,145,200 pre-funded warrants at a price of CAD\$0.824 per pre-funded warrant inclusive of the exercise price of CAD\$0.001 per Common Share, with each pre-funded warrant being bundled with one Common Share purchase warrant of the Company. The aggregate gross proceeds from the November 2024 Offering were approximately CAD\$3.4 million.

#### **D. Exchange Controls**

Canada has no system of exchange controls. There are no Canadian governmental laws, decrees, or regulations relating to restrictions on the repatriation of capital or earnings of the Company to non-resident investors. There are no laws in Canada or exchange control restrictions affecting the remittance of dividends or other payments made by the Company in the ordinary course to non-resident holders of the Common Shares by virtue of their ownership of such Common Shares, except as discussed below in *Item 10.E. - Certain United States Federal Income Tax Considerations and Certain Canadian Federal Income Tax Consequences*.

There are no limitations under the laws of Canada or in the organizing documents of the Company on the right of foreigners to hold or vote securities of the Company, except that the *Investment Canada Act* may require that a "non-Canadian" not acquire "control" of the Company without prior review and approval by the Minister of Innovation, Science and Economic Development, where applicable thresholds are exceeded. The acquisition of one-third or more of the voting shares of the Company would give rise a rebuttable presumption of an acquisition of control, and the acquisition of more than fifty percent of the voting shares of the Company would be deemed to be an acquisition of control. In addition, the *Investment Canada Act* provides the Canadian government with broad discretionary powers in relation to national security to review and potentially prohibit, condition or require the divestiture of, any investment in the Company by a non-Canadian, including non-control level investments. "Non-Canadian" generally means an individual who is neither a Canadian citizen nor a permanent resident of Canada within the meaning of the *Immigration and Refugee Protection Act* (Canada) who has been ordinarily resident in Canada for not more than one year after the time at which he or she first became eligible to apply for Canadian citizenship, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

## E. Taxation

### Certain United States Federal Income Tax Considerations

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Common Shares. This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including without limitation specific tax consequences to a U.S. Holder under an applicable income tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any particular U.S. Holder. This summary does not address the U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. In addition, except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. Each prospective U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership, and disposition of Common Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the "IRS") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the conclusions described in this summary.

#### **Scope of this Summary**

##### Authorities

This summary is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention between the United States and Canada with respect to taxes on income and on capital of 1980, as amended (the "Canada-U.S. Tax Convention"), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive, current or prospective basis.

##### U.S. Holders

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of Common Shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

##### Non-U.S. Holders

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of Common Shares that is not a U.S. Holder or is a partnership. This summary does not address the U.S. federal income tax considerations to non-U.S. Holders arising from and relating to the acquisition, ownership and disposition of Common Shares. Accordingly, a non-U.S. Holder should consult its own tax advisors regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local and non-U.S. tax consequences (including the potential application of, and operation of, any income tax treaties) relating to the acquisition, ownership and disposition of Common Shares.

#### U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders that: (a) are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) have a "functional currency" other than the U.S. dollar; (e) own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other integrated transaction; (f) acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); (h) are partnerships and other pass-through entities (and investors in such partnerships and entities); (i) are S corporations (and shareholders or investors in such S corporations); (j) own, have owned or will own (directly, indirectly, or by attribution) 10% or more of the total combined voting power or value of the outstanding shares of the Company; (k) U.S. expatriates or former long-term residents of the U.S.; (l) hold Common Shares in connection with a trade or business, permanent establishment, or fixed base outside the United States, (m) are subject to special tax accounting rules with respect to Common Shares, or (n) are subject to the alternative minimum tax. U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences relating to the acquisition, ownership and disposition of Common Shares.

If an entity or arrangement that is classified as a partnership (or other "pass-through" entity) for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax consequences to such entity and the partners (or other owners) of such entity generally will depend on the activities of the entity and the status of such partners (or owners). This summary does not address the tax consequences to any such owner. Partners (or other owners) of entities or arrangements that are classified as partnerships or as "pass-through" entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal, U.S. federal net investment income, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and non-U.S. tax consequences arising from and relating to the acquisition, ownership, and disposition of Common Shares.

#### **Ownership and Disposition of Common Shares**

The following discussion is subject to the rules described below under the heading "Passive Foreign Investment Company Rules".

#### Taxation of Distributions

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to a Common Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any foreign income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates if the Company is a PFIC for the tax year of such distribution or the preceding tax year. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and thereafter as gain from the sale or exchange of such Common Shares see "Sale or Other Taxable Disposition of Common Shares" below). However, the Company may not maintain the calculations of its earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the Common Shares will constitute ordinary dividend income. Dividends received on Common Shares by corporate U.S. Holders generally will not be eligible for the "dividends received deduction". Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention or the Common Shares are readily tradable on a United States securities market, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC (as defined below) in the tax year of distribution or in the preceding tax year. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

#### Sale or Other Taxable Disposition of Common Shares

A U.S. Holder will generally recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in such Common Shares sold or otherwise disposed of. Any such gain or loss recognized on such sale or other disposition generally will be capital gain or loss, which will be long-term capital gain or loss if, at the time of the sale or other disposition, such Common Shares are held for more than one year.

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

#### **Passive Foreign Investment Company ("PFIC") Rules**

If the Company were to constitute a PFIC for any year during a U.S. Holder's holding period for its Common Shares, then certain potentially adverse rules would affect the U.S. federal income tax consequences to a U.S. Holder resulting from the acquisition, ownership and disposition of Common Shares. The Company believes that it was not a PFIC for its most recently completed tax year. Based on current business plans and financial expectations, the Company expects that it likely will not be a PFIC for its current tax year. The Company's PFIC classification for its current or future tax years may depend on, among other things, how quickly the Company may raise cash raised pursuant to recent offerings, the manner in which, and how quickly, the Company utilizes its cash on hand and the cash proceeds received from recent offerings, as well as on changes in the market value of its Common Shares. Whether the Company is a PFIC for any taxable year will also depend on the composition of its income and the composition, nature and value of its assets from time to time (including the value of its goodwill, which may be determined by reference to the value of the Common Shares, which could fluctuate). No opinion of legal counsel or ruling from the IRS concerning the status of the Company as a PFIC has been obtained or is currently planned to be requested. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question and is determined annually. Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. Consequently, there can be no assurance that the Company has never been, is not, and will not become a PFIC for any tax year during which U.S. Holders hold Common Shares.

In addition, in any year in which the Company is classified as a PFIC, a U.S. Holder will be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require. A failure to satisfy such reporting requirements may result in an extension of the time period during which the IRS can assess a tax. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file an IRS Form 8621 annually.

The Company generally will be a PFIC under Section 1297 of the Code if, after the application of certain "look-through" rules with respect to subsidiaries in which the Company holds at least 25% of the value of such subsidiary, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income (the "income test") or (b) 50% or more of the value of the Company's assets either produce passive income or are held for the production of passive income (the "asset test"), based on the quarterly average of the fair market value of such assets. "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and incidental or outside operations or sources, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

If the Company were a PFIC in any tax year during which a U.S. Holder held Common Shares, such holder generally would be subject to special rules with respect to "excess distributions" made by the Company on the Common Shares and with respect to gain from the disposition of Common Shares. An "excess distribution" generally is defined as the excess of distributions with respect to the Common Shares received by a U.S. Holder in any tax year over 125% of the average annual distributions such U.S. Holder has received from the Company during the shorter of the three preceding tax years, or such U.S. Holder's holding period for the Common Shares. Generally, a U.S. Holder would be required to allocate any excess distribution or gain from the disposition of the Common Shares ratably over its holding period for the Common Shares. Such amounts allocated to the year of the disposition or excess distribution would be taxed as ordinary income, and amounts allocated to prior tax years would be taxed as ordinary income at the highest tax rate in effect for each such year and an interest charge at a rate applicable to underpayments of tax would apply.

While there are U.S. federal income tax elections that sometimes can be made to mitigate these adverse tax consequences (including the "QEF Election" under Section 1295 of the Code and the "Mark-to-Market Election" under Section 1296 of the Code), such elections are available in limited circumstances and must be made in a timely manner.

U.S. Holders should be aware that, for each tax year, if any, that the Company is a PFIC, the Company can provide no assurances that it will satisfy the record-keeping requirements of a PFIC, or that it will make available to U.S. Holders the information such U.S. Holders require to make a QEF Election with respect to the Company or any subsidiary that also is classified as a PFIC.

Certain additional adverse rules may apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether the U.S. Holder makes a QEF Election. These rules include special rules that apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to these special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. U.S. Holders should consult their own tax advisors regarding the potential application of the PFIC rules to the ownership and disposition of Common Shares, and the availability of certain U.S. tax elections under the PFIC rules.

## **Additional Considerations**

### Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or payment received on the sale, exchange or other taxable disposition of Common Shares, generally will be equal to the USD value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into USD at that time). A U.S. Holder will have a basis in the foreign currency equal to its USD value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method with respect to foreign currency received upon the sale, exchange or other taxable disposition of the Common Shares. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

### Foreign Tax Credit

Dividends paid on the Common Shares will be treated as foreign-source income, and generally will be treated as "passive category income" or "general category income" for U.S. foreign tax credit purposes. Any gain or loss recognized on a sale or other disposition of Common Shares generally will be United States source gain or loss. Certain U.S. Holders that are eligible for the benefits of Canada-U.S. Tax Convention may elect to treat such gain or loss as Canadian source gain or loss for U.S. foreign tax credit purposes. The Code applies various complex limitations on the amount of foreign taxes that may be claimed as a credit by U.S. taxpayers. In addition, Treasury Regulations that apply to foreign taxes paid or accrued (the "Foreign Tax Credit Regulations") impose additional requirements for Canadian withholding taxes to be eligible for a foreign tax credit, and there can be no assurance that those requirements will be satisfied. The Treasury Department has recently released guidance temporarily pausing the application of certain of the Foreign Tax Credit Regulations.

Subject to the PFIC rules and the Foreign Tax Credit Regulations, each as discussed above, a U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income that is subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid or accrued (whether directly or through withholding) by a U.S. Holder during a year. The foreign tax credit rules are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances. Accordingly, each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

### Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on U.S. Holders that hold certain specified foreign financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the requirements of filing information returns, including the requirement to file an IRS Form 8938.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, Common Shares generally may be subject to information reporting and backup withholding tax, currently at the rate of 24%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on IRS Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons, such as U.S. Holders that are corporations, generally are excluded from these information reporting and backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding tax rules generally will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner.

The discussion of reporting requirements set forth above is not intended to constitute a complete description of all reporting requirements that may apply to a U.S. Holder. A failure to satisfy certain reporting requirements may result in an extension of the time period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting requirement. Each U.S. Holder should consult its own tax advisors regarding the information reporting and backup withholding rules.

**THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO U.S. HOLDERS WITH RESPECT TO THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF COMMON SHARES. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES.**

**Certain Canadian Federal Income Tax Consequences**

The following summarizes certain Canadian federal income tax consequences generally applicable under the Income Tax Act (Canada) ("Tax Act") and the Canada-U.S. Tax Convention to the holding and disposition of Common Shares.

This summary is restricted to holders of Common Shares each of whom, at all material times for the purposes of the Tax Act and the Canada-U.S. Tax Convention:

- (i) are residents solely in the United States for the purposes of the Canada-U.S. Tax Convention and, for greater certainty, are not residents, or deemed to be residents of Canada;
- (ii) are entitled to the benefits of the Canada-U.S. Tax Convention and each is a "qualifying person" within the meaning of the Canada-U.S. Tax Convention;
- (iii) hold all Common Shares as capital property and as beneficial owner;
- (iv) hold no Common Shares that are "taxable Canadian property" (as defined in the Tax Act) of the holder;
- (v) deal at arm's length with and are not affiliated with the Company;
- (vi) do not use or hold and are not deemed to use or hold any Common Shares in the course of a business or part of a business carried on in Canada;
- (vii) did not, do not and will not have a permanent establishment in Canada within the meaning of the Canada-U.S. Tax Convention;
- (viii) did not acquire Common Shares by virtue of employment;
- (ix) are not financial institutions, authorized foreign banks, partnerships or trusts for the purposes of the Tax Act; and
- (x) are not insurers that carry on business in Canada and elsewhere;

(each such holder, a "U.S. Resident Holder").

Certain U.S.-resident entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) may not in all circumstances be entitled to the benefits of the Canada-U.S. Tax Convention. However, members of or holders of an interest in such entities that hold Common Shares may be entitled to the benefits of the Canada-U.S. Tax Convention for income derived through such entities. Such members or holders should consult their own tax advisors in this regard.

Generally, a holder's Common Shares will be considered to be capital property of the holder provided that the holder is not a trader or dealer in securities, did not acquire, hold or dispose of the Common Shares in one or more transactions considered to be an adventure or concern in the nature of trade and does not hold the Common Shares as inventory in the course of carrying on a business.

This summary is based on the current provisions of the Tax Act and the Canada-U.S. Tax Convention in effect on the date hereof, all specific proposals to amend the Tax Act and Canada-U.S. Tax Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof, and the current published administrative and assessing policies of the Canada Revenue Agency ("CRA"). It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative or assessing practice, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations, which may differ materially from those set out herein.

***This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations, and is not intended to be and should not be construed as legal or tax advice to any particular U.S. Resident Holder. U.S. Resident Holders are urged to consult their own tax advisers for advice with respect to their particular circumstances. The discussion below is qualified accordingly.***

## Currency Conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Common Shares (including dividends, adjusted cost base and proceeds of disposition) must be expressed in Canadian dollars based on the rate as quoted by the Bank of Canada for the applicable day or such other rate of exchange that is acceptable to the CRA.

## Dividends

A U.S. Resident Holder to whom the Company pays or is deemed to pay a dividend on the holder's Common Shares will be subject to Canadian withholding tax, and the Company will be required to withhold the tax from the dividend and remit it to the CRA for the holder's account. The rate of withholding tax under the Tax Act is 25% of the gross amount of the dividend (subject to reduction under the provisions of an applicable tax treaty). Under the Canada-U.S. Tax Convention, a U.S. Resident Holder who beneficially owns the dividend will generally be subject to Canadian withholding tax at the rate of 15% (or 5%, if the U.S. Resident Holder who beneficially owns the dividend is a company that is not fiscally transparent and which owns at least 10% of the voting stock of the Company) of the gross amount of the dividend.

## Dispositions of Common Shares

A U.S. Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Common Share, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Common Share constitutes "taxable Canadian property" to the U.S. Resident Holder for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of the Canada-U.S. Tax Convention.

Provided the Common Shares are listed on a "designated stock exchange", as defined in the Tax Act (which currently includes the TSXV), at the time of disposition, such shares generally will not constitute taxable Canadian property of a U.S. Resident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition of the Common Shares, the following two conditions are met concurrently:

- (i) the U.S. Resident Holder, persons with whom the U.S. Resident Holder does not deal at arm's length, or any partnership in which the U.S. Resident Holder or persons with whom the U.S. Resident Holder did not deal at arm's length holds a membership interest directly or indirectly through one or more partnerships, alone or in any combination, owned 25% or more of the issued shares of any class or series of the capital stock of the Company; and
- (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from, or from 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 options in respect of or interests in, or for civil law a right, in such properties.

Notwithstanding the foregoing, in certain other circumstances, a Common Share may be deemed to be "taxable Canadian property" to a U.S. Resident Holder for purposes of the Tax Act.

A U.S. Resident Holder who disposes or is deemed to dispose of one or more Common Shares that do not constitute taxable Canadian property generally should not thereby incur any liability for tax under the Tax Act in respect of any capital gain arising as a consequence of such disposition.

U.S. Resident Holders who may hold Common Shares that are, or may be, taxable Canadian property should consult their own tax advisors with respect to the application of Canadian capital gains taxation, any potential relief under the Canada-U.S. Tax Convention, and compliance procedures under the Tax Act, none of which is described in this summary.

## F. Dividends and Paying Agents

Not applicable

## G. Statement by Experts

Not applicable.

## H. Documents on Display

Any statement in this Annual Report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this Annual Report, the contract or document is deemed to modify the description contained in this Annual Report. Readers must review the exhibits themselves for a complete description of the contract or document.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov/edgar>.

We are required to file reports and other information with the securities commissions in Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the provincial securities commissions. These filings are also electronically available from SEDAR+, the Canadian equivalent of EDGAR.

Copies of our material contracts are kept at our registered office.

**I. Subsidiary Information**

Not applicable.

**J. Annual Report to Security Holders**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to a number of financial risks arising through the normal course of business, including interest rate risk, foreign currency risk, credit risk, and liquidity risk. Refer to Note 23 of our audited consolidated financial statements for Fiscal 2024 (for the years ended September 30, 2024, 2023 and 2022).

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

There has not been a material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within thirty days, relating to indebtedness of the Company or any of its significant subsidiaries. There are no payments of dividends by the Company in arrears, nor has there been any other material delinquency relating to any class of preference shares of the Company.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**A. to D.**

None.

**E. Use of Proceeds**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**A. Disclosure Controls and Procedures**

As required by National Instrument 52-109 Certification of Disclosure in Issuers Annual and Interim Filings and Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our CEO and Interim CFO, the effectiveness of the design and operation of our disclosure controls and procedures ("DC&P") (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) as of the end of the period covered and disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rule and forms of the Canadian Securities Administrators and SEC.

Based upon the evaluation, our CEO and Interim CFO have concluded that our DC&P were effective as of September 30, 2024, at the reasonable assurance level. Our CEO and Interim CFO and the Company's management have concluded that the consolidated financial statements included in this Annual Report present fairly, in all material respects, the financial position of the Company as at September 30, 2024 in conformance with IFRS and our external auditors have issued an unqualified opinion on our consolidated financial statements as of and for the year ended September 30, 2024.

**B. Management's Annual Report on Internal Control Over Financial Reporting**

In accordance with National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings and as required by Rule 13a-15(f) of the Exchange Act, management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR"). The Company's management, including the CEO and Interim CFO, and designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. ICFR has inherent limitations. ICFR is a process that involves human diligence and compliance and is subject to lapses in judgement and breakdowns resulting from human failures. ICFR also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by ICFR. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management, under the supervision of the CEO and Interim CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under NI 52-109 in Canada and the Exchange Act in the United States, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS Accounting Standards.

Management, under the supervision of the CEO and Interim CFO, has assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2024 based on the criteria set forth in the COSO Framework. Based on this assessment, management has concluded that the Company's ICFR was effective as of September 30, 2024.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

For the year ended September 30, 2024, KWESST is considered an Emerging Growth Company and, thus, is excluded from the audit requirements of Section 404(b) of SOX. Accordingly, the Company's auditors have not issued a report on the effectiveness of Internal Controls over Financial Reporting.

**C. Attestation Report of Registered Public Accounting Firm**

This Annual Report does not include an attestation report of the Company's registered public accounting firm because emerging growth companies are exempt from this requirement for so long as they remain emerging growth companies.

**D. Changes in Internal Controls Over Financial Reporting**

In Fiscal 2024, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board has determined that Paul Mangano and Jennifer Welsh qualify as financial experts (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and Rule 5605(c)(2)(A) of The Nasdaq Stock Market Rules; and (ii) are independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules).

The SEC has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee and the Board who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or Board.

**ITEM 16B. CODE OF ETHICS**

Effective January 16, 2023, we adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers and employees, including our CEO and Interim CFO, which is a "code of ethics" as defined in section 406(c) of SOX. The Code of Business Conduct and Ethics sets out the fundamental values and standards of behavior that we expect from our directors, officers and employees with respect to all aspects of our business. A copy of the Code of Business Conduct is filed as Exhibit 11.1 to this Annual Report.

If we grant any waiver of the Code of Business Conduct and Ethics, whether explicit or implicit, to a director or executive officer, we will disclose the nature of such waiver on its website to the extent required by, and in accordance with, the rules and regulations of the SEC.

The full text of the Code of Business Conduct and Ethics is also posted on our website at [www.kwest.com](http://www.kwest.com) and the System for Electronic Document Analysis and Retrieval (SEDAR+) profile at [www.sedarplus.ca](http://www.sedarplus.ca). The information on or accessible through the website is not part of and is not incorporated by reference into this Annual Report, and the inclusion of the website address in this Annual Report is only for reference.

The Audit Committee is responsible for reviewing and evaluating the Code of Business Conduct and Ethics periodically and will recommend any necessary or appropriate changes thereto to the Board for consideration. The Audit Committee will also assist the Board with the monitoring of compliance with the Code of Business Conduct and Ethics.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Aggregate fees paid and payable to our external auditors, KPMG LLP (PCAOB ID 85) and MNP (PCAOB ID 1930) during the financial years ended September 30, 2024 and 2023 were as follows:

	<u>2024 Fee Amount (\$)</u>		<u>2023 Fee Amount (\$)</u>	
Audit Fees <sup>(1)</sup>	\$	326,350	\$	406,600
Audit-Related Fees <sup>(2)</sup>		152,486		40,179
Tax Fees <sup>(3)</sup>		22,470		56,603
All Other Fees <sup>(4)</sup>		-		-
<b>Total:</b>	<b>\$</b>	<b>501,306</b>	<b>\$</b>	<b>503,382</b>

- Notes:**
- (1) "Audit fees" include fees rendered by the Company's external auditor for professional services necessary to perform the annual audit, quarterly reviews of the Company's financial statements, services rendered in connection with the filing of prospectuses in the United States and Canada, and review of documents filed with the SEC and consents and other services normally provided in connection with statutory and regulatory filings or engagements. This includes fees for the review of tax provisions and for accounting consultations on matters reflected in the financial statements.
  - (2) "Audit-related fees" include fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are not included in the "Audit Fees" category.
  - (3) "Tax fees" include fees for professional services rendered by the Company's external auditor for tax compliance, tax advice and tax planning.
  - (4) "All other fees" include fees for products and services provided by the Company's external auditor, other than services reported under the table headings "Audit Fees", "Audit-Related Fees" or "Tax Fees".

***Pre-Approval Policies and Procedures***

Under its charter, the Audit Committee is required to pre-approve all non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for such non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve consideration of the potential impact of such services on the independence of the external auditors.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN COMPANY'S CERTIFYING ACCOUNTANT**

KPMG, the Company's former independent auditor, resigned effective May 15, 2024. MNP was engaged as the Company's new independent auditor, effective May 22, 2024, until the close of the next annual general meeting.

KPMG's audit report relating to the financial statements of the Company as of and for the fiscal years ended September 30, 2023 and 2022 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that KPMG's report on the consolidated financial statements of the Company as of and for the years ended September 30, 2023 and 2022 contained a separate paragraph stating:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations since inception that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During KPMG's engagement and up to the interim period before KPMG's resignation, there had been no "disagreements" (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between KPMG and us on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference to such matters in their reports, and there had been no "reportable events" of the type described in Item 304(a)(1)(v) of Regulation S-K.

We furnished a copy of the disclosures in this Annual Report to KPMG, requesting that KPMG furnish us with a letter addressed to the SEC stating whether it agrees with the above statements or, if not, stating the respects in which it does not agree. A copy of the letter has been filed as Exhibit 16.1 to the registration statement of which this Annual Report is a part.

**ITEM 16G. CORPORATE GOVERNANCE**

The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and the Common Shares are listed on Nasdaq. Rule 5615(a)(3) of The Nasdaq Stock Market Rules permits foreign private issuers to follow home country practices in lieu of certain provisions of The Nasdaq Stock Market Rules. A foreign private issuer that follows home country practices in lieu of certain provisions of Nasdaq Stock Market Rules must disclose ways in which its corporate governance practices differ from those followed by domestic companies either on its website or in the annual report that it distributes to shareholders in the United States. A description of the ways in which the Company's governance practices differ from those followed by domestic companies pursuant to Nasdaq standards are as follows:

- *Shareholder Meeting Quorum Requirement:* Nasdaq Stock Market Rule 5620(c) ("Rule 5620(c)") requires that the minimum quorum requirement for a meeting of shareholders be 33 1/3 % of the outstanding Common Shares. In addition, Rule 5620(c) requires that an issuer listed on Nasdaq state its quorum requirement in its by-laws. In lieu of following Rule 5620(c), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Independent Nominating Committee:* Nasdaq Stock Market Rule 5605(e)(1) ("Rule 5605(e)(1)") requires having a Nominations Committee comprised solely of independent directors. In lieu of following Rule 5605(e)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Independent Compensation Committee:* Nasdaq Stock Market Rule 5605(d)(2) ("Rule 5605(d)(2)") requires having a Compensation Committee comprised solely of independent directors. In lieu of following Rule 5605(d)(2), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Shareholder Approval Requirement:* Nasdaq Stock Market Rule 5635(d) ("Rule 5635(d)") requires shareholder approval prior to a transaction involving the sale or issuance of a company's common stock (or securities convertible into or exercisable for its common stock): (i) at a price below the greater of book value or market value; and (ii) which together with sales by officers, directors, or substantial stockholders, is equal to 20% or more of the company's outstanding shares of common stock or 20% or more of the voting power prior to issuance. In lieu of following Rule 5635(d), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

**ITEM 16J. INSIDER TRADING POLICIES**

KWESST has adopted an insider trading policy (the "Insider Trading Policy"), which governs the purchase, sale, and other disposal of the Company's securities by directors, executive officers, and employees. KWESST believes that the Insider Trading Policy is reasonably designed to promote compliance with applicable insider trading laws, rules and regulations, and any listing standards applicable to KWESST.

A copy of the Insider Trading Policy is contained in KWESST's Information Disclosure Policy, which is filed as Exhibit 11.2 to this Annual Report.

**ITEM 16K. CYBERSECURITY**

**Risk Management and Strategy**

As of the date of the filing of this Annual Report, the Company has information systems in place and has not suffered a "cybersecurity threat" (as defined in Item 106(a) of Regulation S-K) or "cybersecurity incident" (as defined in Item 106(a) of Regulation S-K). Moreover, the Company is aware of the evolution of cybersecurity risks and is taking proactive steps by keeping up to date our information systems and educating our personnel about these risks.

In order to mitigate these risks to a degree, the Company has engaged a third-party IT provider, Better Networks.

The Company has implemented multiple measures to combat and reduce the risk of cybersecurity threats and cybersecurity incidents such as:

- engaged a third-party IT provider;
- developed internal System Use Policy and Information Security Policies reviewed by the Board enhancing security and awareness of potential threats; and
- engaged BDO LLP to assist with improving internal controls, including IT controls.

**Governance**

The third-party IT provider monitors cybersecurity risks and potential incidents while management periodically reviews the System Use Policy and Information Security policies recommending updates to the policies where needed. Select members of the Company's management, who also receive direct coaching from the third-party IT provider, advise the Board on cybersecurity risk management strategies.

At the time of filing this Annual Report the Company does not have a subcommittee dedicated to cybersecurity. However, as the Company's situation evolves, the Board will consider increased oversight to manage the risks from cybersecurity threats.

PART III

ITEM 17. FINANCIAL STATEMENTS

See *Item 18 - Financial Statements*.

ITEM 18. FINANCIAL STATEMENTS

Our audited consolidated financial statements and schedules appear on pages F-1 through F-53 of this Annual Report and are incorporated herein by reference. Our audited financial statements as prepared by our management and approved by the Board include:

**Consolidated Financial Statements for the Years Ended September 30, 2024, 2023 and 2022**

[Independent Auditors' Reports](#)

[Consolidated Statements of Financial Position](#)

[Consolidated Statements of Net Loss and Comprehensive Loss](#)

[Consolidated Statements of Changes in Shareholders' Equity](#)

[Consolidated Statements of Cash Flows](#)

[Notes to the Consolidated Financial Statements](#)



Consolidated Financial Statements of

**KWESST MICRO SYSTEMS INC.**

Years ended September 30, 2024, 2023, and 2022  
(Expressed in Canadian Dollars)

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**KWESST MICRO SYSTEMS INC.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of KWESST Micro Systems Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statement of financial position of KWESST Micro Systems Inc. (the "Company") as at September 30, 2024, and the related consolidated statements of net loss and comprehensive loss, changes in shareholders' equity (deficit), and cash flows for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2024, and the results of its consolidated operations and its consolidated cash flows for the year then ended, in conformity with IFRS® Accounting Standards as issued by the International Accounting Standards Board.

**Material Uncertainty Related to Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has suffered a net loss and negative operating cash flows, negative working capital and has an accumulated deficit which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ MNP LLP

Chartered Professional Accountants;  
Licensed Public Accountants

We have served as the Company's auditor since 2024.

Ottawa, Canada

December 27, 2024

MNP LLP  
Suite 800, 1600 Carling Avenue, Ottawa ON, K1Z 1G3

T: 613.691.4200 F: 613.726.9009



MNP.ca

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
KWESST Micro Systems Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statement of financial position of KWESST Micro Systems Inc. (the Company) as of September 30, 2023, the related consolidated statements of net loss and comprehensive loss, shareholders' equity (deficit), and cash flows for each of the years in the two-year period ended September 30, 2023, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023, and its financial performances and its cash flows for each of the years in the two-year period ended September 30, 2023, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

### *Going Concern*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations since inception that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We served as the Company's auditor from 2021 to 2024.

Ottawa, ON  
January 17, 2024, except for Note 1(b) as to which the date is October 25, 2024

**KWESST MICRO SYSTEMS INC.**  
**Consolidated Statements of Financial Position**  
**At September 30, 2024 and 2023**

In Canadian dollars	Notes	September 30, 2024	September 30, 2023
<b>ASSETS</b>			
Cash and cash equivalents		\$ 256,828	\$ 5,407,009
Restricted short-term investment	12	30,000	30,000
Trade and other receivables	5	567,875	300,269
Inventories	6	533,163	542,388
Prepaid expenses and other		179,051	562,408
Deferred costs	27	275,438	-
<b>Current assets</b>		<b>1,842,355</b>	<b>6,842,074</b>
Property and equipment	7	311,712	417,296
Right-of-use assets	8	230,124	361,036
Deposit		28,806	26,076
Intangible assets	9	3,174,832	4,112,350
Deferred costs		29,319	-
<b>Non-current assets</b>		<b>3,774,793</b>	<b>4,916,758</b>
<b>Total Assets</b>		<b>\$ 5,617,148</b>	<b>\$ 11,758,832</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 1,660,637	\$ 1,649,876
Accrued royalties liability	4(b)	200,000	150,000
Lease obligations	13	147,078	127,116
Contract liabilities	14	120,571	120,970
Warrant liabilities	15	847,295	4,335,673
<b>Current liabilities</b>		<b>2,975,581</b>	<b>6,383,635</b>
Accrued royalties liability	4(b)	1,118,135	1,137,170
Lease obligations	13	155,145	302,407
<b>Non-current liabilities</b>		<b>1,273,280</b>	<b>1,439,577</b>
<b>Total Liabilities</b>		<b>4,248,861</b>	<b>7,823,212</b>
<b>Shareholders' Equity (Deficit)</b>			
Share capital	16(a)	37,822,725	33,379,110
Warrants	16(b)	1,084,687	1,042,657
Contributed surplus	16(c)	5,152,753	4,769,115
Accumulated other comprehensive loss		(38,520)	(39,663)
Accumulated deficit		(42,653,358)	(35,215,599)
<b>Total Shareholders' Equity</b>		<b>1,368,287</b>	<b>3,935,620</b>
<b>Total Liabilities and Shareholders' Equity (Deficit)</b>		<b>\$ 5,617,148</b>	<b>\$ 11,758,832</b>

See Note 2(a) Going concern and Note 27 Commitments and contingencies.

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:

(signed) Jennifer Welsh, Director

(signed) David Luxton, Director

**KWESST MICRO SYSTEMS INC.**  
**Consolidated Statements of Net Loss and Comprehensive Loss**  
**Years ended September 30, 2024, 2023 and 2022**

In Canadian dollars	Notes	September 30, 2024	September 30, 2023	September 30, 2022
<b>Revenue</b>	18	<b>\$ 1,504,328</b>	\$ 1,234,450	\$ 721,519
Cost of sales		<b>(1,017,826)</b>	(1,425,828)	(536,735)
Gross profit (loss)		<b>486,502</b>	(191,378)	184,784
<b>Operating expenses</b>				
General and administrative		6,269,257	7,244,762	4,915,263
Selling and marketing		1,538,882	3,024,283	3,296,373
Research and development, net		2,477,736	1,644,565	2,064,493
<b>Total operating expenses</b>	19	<b>10,285,875</b>	11,913,610	10,276,129
<b>Operating loss</b>		<b>(9,799,373)</b>	(12,104,988)	(10,091,345)
<b>Other income (expenses)</b>				
Share issuance costs	16(a)	(541,566)	(1,985,074)	-
Net finance costs	21	(196,323)	(668,034)	(506,002)
Foreign exchange gain (loss)		59,191	(98,275)	28,780
Change in fair value of warrant liabilities	15	3,047,568	5,841,192	-
Loss on disposal of property and equipment		(7,256)	(291,181)	(1,165)
<b>Total other income (expenses), net</b>		<b>2,361,614</b>	2,798,628	(478,387)
<b>Loss before income taxes</b>		<b>(7,437,759)</b>	(9,306,360)	(10,569,732)
<b>Income tax recovery</b>				
Deferred tax recovery	22	-	-	49,442
<b>Net loss</b>		<b>\$ (7,437,759)</b>	\$ (9,306,360)	\$ (10,520,290)
<b>Other comprehensive income:</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation differences		1,143	61,755	(92,427)
<b>Total comprehensive loss</b>		<b>\$ (7,436,616)</b>	\$ (9,244,605)	\$ (10,612,717)
<b>Net loss per share</b>				
Basic and diluted	17	<b>\$ (8.99)</b>	\$ (22.80)	\$ (144.05)
<b>Weighted average number of shares outstanding</b>				
Basic and diluted	17	<b>827,135</b>	408,223	73,030

See accompanying notes to the consolidated financial statements.

**KWESST MICRO SYSTEMS INC.**  
**Consolidated Statements of Changes in Shareholders' Equity (Deficit)**  
**Years ended September 30, 2024, 2023 and 2022**

*In Canadian dollars*

	Notes	Share capital	Contingent shares	Warrants	Contributed surplus	Translation reserve	Deficit	Total Shareholders' Equity (Deficit)
Balance, September 30, 2021		\$ 17,215,068	\$ -	\$ 1,848,389	\$ 2,458,211	\$ 8,991	\$ 15,388,949	\$ 6,123,728
Shares issued for debt	16(a)	19,000	-	-	-	-	-	19,000
Shares and warrants issued on acquisition	4(a)	377,503	83,319	132,000	-	-	-	592,822
Shares and warrants issued for cash	16(a),(b)	272,000	-	72,000	-	-	-	344,000
Contingent shares converted to common shares	4(a)	83,319	(83,319)	-	-	-	-	-
Warrants exercised	16(b)	277,098	-	(61,173)	-	-	-	215,925
Warrants expired	16(b)	-	-	(31,420)	31,420	-	-	-
Share-based compensation	16(c)	-	-	-	1,960,072	-	-	1,960,072
Shares for vested RSUs and PSUs	16(c)	874,840	-	-	(874,840)	-	-	-
Vested RSUs and PSUs repurchased for withholding taxes	16(c)	-	-	-	(23,533)	-	-	(23,533)
Shares issued for unsecured loans	12	411,692	-	-	-	-	-	411,692
Share offering costs	16(a)	(33,880)	-	-	-	-	-	(33,880)
Other comprehensive loss		-	-	-	-	(92,427)	-	(92,427)
Net loss		-	-	-	-	-	(10,520,290)	(10,520,290)
<b>Balance, September 30, 2022</b>		<b>\$ 19,496,640</b>	<b>\$ -</b>	<b>\$ 1,959,796</b>	<b>\$ 3,551,330</b>	<b>\$ (101,418)</b>	<b>\$ (25,909,239)</b>	<b>\$ (1,002,891)</b>
Shares issued for public offering	16(a)	16,725,436	-	-	-	-	-	16,725,436
Share offering costs	16(a)	(3,671,791)	-	393,911	125,086	-	-	(3,152,794)
Shares issued for debt	16(a)	233,485	-	-	-	-	-	233,485
Options exercised	16(c)	5,836	-	-	(1,789)	-	-	4,047
Warrants exercised	16(b)	60,000	-	(60,000)	-	-	-	-
Warrants expired	16(b)	-	-	(1,251,050)	1,251,050	-	-	-
Share-based compensation	16(c)	-	-	-	373,554	-	-	373,554
Shares for vested RSUs and PSUs	16(c)	529,504	-	-	(529,504)	-	-	-
Vested RSUs and PSUs repurchased for withholding taxes		-	-	-	(612)	-	-	(612)
Other comprehensive income		-	-	-	-	61,755	-	61,755
Net loss		-	-	-	-	-	(9,306,360)	(9,306,360)
<b>Balance, September 30, 2023</b>		<b>\$ 33,379,110</b>	<b>\$ -</b>	<b>\$ 1,042,657</b>	<b>\$ 4,769,115</b>	<b>\$ (39,663)</b>	<b>\$ (35,215,599)</b>	<b>\$ 3,935,620</b>
Shares issued for public offering	16(a)	3,608,154	-	133,907	-	-	-	3,742,061
Share offering costs	16(a)	(935,778)	-	-	-	-	-	(935,778)
Warrants exercised	16(b)	1,771,239	-	-	-	-	-	1,771,239
Warrants expired	16(b)	-	-	(91,877)	91,877	-	-	-
Share-based compensation	16(c)	-	-	-	291,761	-	-	291,761
Other comprehensive income		-	-	-	-	1,143	-	1,143
Net loss		-	-	-	-	-	(7,437,759)	(7,437,759)
<b>Balance, September 30, 2024</b>		<b>\$ 37,822,725</b>	<b>\$ -</b>	<b>\$ 1,084,687</b>	<b>\$ 5,152,753</b>	<b>\$ (38,520)</b>	<b>\$ (42,653,358)</b>	<b>\$ 1,368,287</b>

See accompanying notes to the consolidated financial statements.

**KWESST MICRO SYSTEMS INC.**  
**Consolidated Statements of Cash Flows**  
**Years ended September 30, 2024, 2023 and 2022**

In Canadian dollars	Notes	September 30, 2024	September 30, 2023	September 30, 2022
<b>OPERATING ACTIVITIES</b>				
Net loss		\$ (7,437,759)	\$ (9,306,360)	\$ (10,520,290)
<i>Items not affecting cash:</i>				
Depreciation and amortization	7, 8, 9 and 20	1,277,911	952,508	326,491
Share-based compensation	16(c)	291,761	373,554	1,960,072
Change in fair value of warrant liabilities (including related foreign exchange gain)	15	(3,047,568)	(5,786,593)	-
Net finance costs	21	196,323	668,034	506,002
Impairment of intangible assets	9	-	1,169,440	-
Loss on disposals		7,256	291,181	1,165
Deferred tax recovery	22	-	-	(49,442)
Changes in non-cash working capital items	24	(343,671)	(2,310,266)	3,639,822
Interest paid		4,997	(130,127)	(120,416)
<b>Cash used in operating activities</b>		<b>(9,060,744)</b>	<b>(14,078,629)</b>	<b>(4,256,596)</b>
<b>INVESTING ACTIVITIES</b>				
Additions of property and equipment	7	(101,330)	(176,949)	(187,478)
Investments in intangible assets	9	(9,823)	(1,123,186)	(1,176,664)
Deposit for advanced royalties	4(b)	-	(148,410)	-
Recognition of open orders from acquisition	9	-	7,811	87,802
Cash acquired on acquisition	4	-	-	162,547
<b>Cash flows used in investing activities</b>		<b>(111,153)</b>	<b>(1,440,734)</b>	<b>(1,113,793)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from U.S. IPO and Canadian Offering, net	16(a)	-	16,346,768	-
Proceeds from the issuance of common shares and warrants	15 and 16(a)	4,965,680	7,357,012	344,000
Payments of share offering costs	16(a)	(747,926)	(542,591)	(33,880)
Proceeds from borrowings	12	-	-	2,543,230
Payments of deferred financing fees	12	-	-	(150,409)
Repayment of borrowings	12	-	(2,333,315)	-
Repayments of lease obligations	13	(197,651)	(75,487)	(42,504)
Proceeds from related party advances	11	-	-	60,000
Repayments to related party advances	11	-	-	(60,000)
Proceeds from exercise of warrants	16(b)	1,613	-	215,925
Proceeds from exercise of stock options		-	4,052	-
Repurchase of vested RSUs and PSUs for withholding taxes		-	(612)	(23,533)
<b>Cash flows provided by financing activities</b>		<b>4,021,716</b>	<b>20,755,827</b>	<b>2,852,829</b>
<b>Net change in cash during the period</b>		<b>(5,150,181)</b>	<b>5,236,464</b>	<b>(2,517,560)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>5,407,009</b>	<b>170,545</b>	<b>2,688,105</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 256,828</b>	<b>\$ 5,407,009</b>	<b>\$ 170,545</b>
<b>Cash and cash equivalents consist of the following:</b>				
Cash held in banks		256,828	4,407,009	170,545
Short-term guaranteed investment certificates		-	1,000,000	-
<b>Cash and cash equivalents, end of year</b>		<b>256,828</b>	<b>5,407,009</b>	<b>170,545</b>

See Note 24 Supplemental cash flow information.

See accompanying notes to the consolidated financial statements.

## KWESST MICRO SYSTEMS INC.

Notes to Consolidated Financial Statements  
Years ended September 30, 2024, 2023, and 2022  
(Expressed in Canadian dollars, except share amounts)

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### 1. Corporate information

#### a) Corporate information

KWESST Micro Systems Inc. (the "Company", "KWESST", "we", "our", and "us") was incorporated on November 28, 2017, under the laws of the Province of British Columbia. Our registered office is located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, Canada, and our corporate office is located at Unit 1, 155 Terrence Matthews Crescent, Ottawa, Ontario, Canada. We have representative offices in the following foreign locations: Washington DC (United States), London (United Kingdom), and Abu Dhabi (United Arab Emirates).

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.

KWESST's common stock is listed on the TSX-Venture Exchange ("TSX-V") under the stock symbol of KWE, on the Nasdaq Capital Market ("Nasdaq") under the stock symbol of KWE and on the Frankfurt Stock Exchange under the stock symbol of 62U. Additionally, warrants issued in the United States are also listed on the Nasdaq under the stock symbol of KWESW. Effective May 1, 2023, the warrants issued in Canada are listed on the TSX-V under the stock symbol of KWE.WT.U.

#### b) 2024 Reverse Stock Split

In October 2024, KWESST effected a ten for one (10-for-1) reverse stock split of its common stock on October 23, 2024 (the "2024 Reverse Split"). Accordingly, all shareholders of record at the opening of business on October 23, 2024, received one issued and outstanding common share of KWESST in exchange for ten outstanding common shares of KWESST. No fractional shares were issued in connection with the 2024 Reverse Split. All fractional shares created by the 2024 Reverse Split were rounded to the nearest whole number of common shares, with any fractional interest representing 0.5 or more common shares entitling holders thereof to receive one whole common share.

Effective on the date of the 2024 Reverse Split, the exercise price and number of common shares issuable upon the exercise of outstanding stock options and warrants were proportionately adjusted to reflect the 2024 Reverse Split. All information respecting outstanding common shares and other securities of KWESST, including net loss per share, in the current and comparative periods presented herein give effect to the 2024 Reverse Split.

#### c) 2022 Reverse Stock Split

In August 2022, we submitted a Form F-1 Registration Statement to the U.S. Securities and Exchange Commission and applied to have its common shares listed on the Nasdaq. In connection with KWESST's listing application on Nasdaq, we effected a seventy for one (70-for-1) reverse stock split of its common stock on October 28, 2022 (the "2022 Reverse Split"). Accordingly, all shareholders of record at the opening of business on October 28, 2022, received one issued and outstanding common share of KWESST in exchange for seventy outstanding common shares of KWESST. No fractional shares were issued in connection with the 2022 Reverse Split. All fractional shares created by the 2022 Reverse Split were rounded to the nearest whole number of common shares, with any fractional interest representing 0.5 or more common shares entitling holders thereof to receive one whole common share.

Effective on the date of the 2022 Reverse Split, the exercise price and number of common shares issuable upon the exercise of outstanding stock options were proportionately adjusted to reflect the 2022 Reverse Split. The restricted share units ("RSUs") and performance stock units ("PSUs") have also been adjusted for the 2022 Reverse Split. While the number of warrants has not changed as a result of the Reverse Split, the conversion rate for each warrant was adjusted from one common share to 0.01428571 common share.

## **KWESST MICRO SYSTEMS INC.**

Notes to Consolidated Financial Statements

Years ended September 30, 2024, 2023, and 2022

(Expressed in Canadian dollars, except share amounts)

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### **2. Basis of preparation**

#### **(a) Going concern**

These consolidated financial statements have been prepared assuming we will continue as a going concern. The going concern basis of presentation assumes we will continue in operation for the foreseeable future and can realize our assets and discharge our liabilities and commitments in the normal course of business.

As an early-stage company, we have not yet reached significant revenue levels for most of our products and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. We have incurred a \$7.4 million net loss and negative operating cash flows of approximately \$9.1 million for the year ended September 30, 2024 (2023 - \$9.3 million net loss and negative operating cash flows of \$14.1 million, 2022 - \$10.5 million net loss and negative operating cash flows of \$4.3 million). At September 30, 2024, we had negative working capital of \$1.1 million (2023 - positive working capital of \$0.5 million) and \$42.7 million in deficit (September 30, 2023 - \$35.2 million).

Our ability to continue as a going concern and realize our assets and discharge our liabilities in the normal course of business is dependent upon closing timely additional sales orders, timely commercial launch of new products, and the ability to raise additional debt or equity financing, when required. There are various risks and uncertainties affecting our future financial position and our performance including, but not limited to:

- The market acceptance and rate of sales of our product offerings;
- Ability to successfully execute our business plan;
- Ability to raise additional capital at acceptable terms;
- General local and global economic conditions, including the ongoing conflict in Gaza and the global disruption from Russia's invasion of Ukraine.
- Instability in Canada's elected leadership and the threatened tariffs from President Elect Donald Trump.

Our strategy to mitigate these material risks and uncertainties is to execute timely a business plan aimed at continued focus on revenue growth, product development and innovation, improving overall gross profit, managing operating expenses and working capital requirements, and securing additional capital, as needed.

Failure to implement our business plan could have a material adverse effect on our financial condition and/or financial performance. There is no assurance that we will be able to raise additional capital as they are required in the future. Accordingly, there are material risks and uncertainties that may cast significant doubt about our ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

#### **(b) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors effective on December 27, 2024.

#### **(c) Basis of consolidation**

These consolidated financial statements incorporate the financial statements of KWESST and the entities it controls.

## KWESST MICRO SYSTEMS INC.

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Control is achieved where we have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, are exposed to, or have rights to, variable returns from our involvement with the entity and have the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to us until the date on which control ceases. Profit or loss of subsidiaries acquired during the year are recognized from the date of acquisition or effective date of disposal as applicable. All intercompany transactions and balances have been eliminated.

At September 30, 2024, we have the following wholly owned subsidiaries:

	Location	Equity %
KWESST Inc.	Ottawa, Canada	100%
2720178 Ontario Inc.	Ottawa, Canada	100%
Police Ordnance Company Inc.	Ottawa, Canada	100%
KWESST U.S. Holdings Inc.	Delaware, United States	100%
KWESST Defense Systems U.S. Inc.	North Carolina, United States	100%
KWESST Public Safety Systems U.S. Inc.	North Carolina, United States	100%
KWESST Public Safety Systems Canada Inc.	Ottawa, Canada	100%

### **(d) Functional and presentation currency**

The consolidated financial statements are presented in Canadian dollars ("CAD"), our functional and presentation currency.

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, KWESST Micro Systems Inc., is CAD as this is the currency of the primary economic environment in which the Company operates. Most of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in CAD.

### **(e) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### **(f) Use of estimates and judgments**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, expenses, and disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

### **Judgments**

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in these consolidated financial statements is included in the following notes:

- Impairment: the Company is required to make a judgment regarding whether indicators of impairment exist at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets.

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### Estimates

Information about assumptions and estimation uncertainties at September 30, 2024, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 6 - *Inventories*: assumptions used in evaluating inventory obsolescence
- Note 15 - *warrant liabilities*: whether the valuation assumptions used in the Black Scholes calculations for the warrant liabilities are reasonable;
- Note 16(c) - *share-based compensation*: whether the determination of KWESST's stock volatility, forfeiture rate, and expected life are reasonable in light of its limited operating history, all significant inputs in the valuation model to fair value options granted; and
- Note 18 - *Revenue*: key assumptions underlying the recognition of revenue based on percentage of completion, including remaining hours and costs to complete.

### 3. Material accounting policies

#### (a) Revenue recognition

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the transaction price we expect to receive in exchange for the products or services. Our contracts with customers may include the delivery of multiple products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The accounting for a contract or contracts with a customer that contain multiple performance obligations requires us to allocate the contract or contracts transaction price to the identified distinct performance obligations based on the stand-alone selling price of each performance obligation.

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular obligation to the customer. Contracts based on task oriented, time and materials is measured based on agreed-upon hourly rates, direct labor hours expended and material costs incurred and billed and recognized on a monthly basis. For product sales, revenue is recognized when the Company transfers control of the product to the customer. Control of the product transfers when the customer takes delivery of the product.

For performance obligations satisfied over time, we recognize revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligation (for non-recurring engineering services, the input method is based on hours). Under this method, costs that do not contribute to the performance of KWESST in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. In certain other situations, we might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such a loss is recognized in its entirety in the period it becomes known.

We may enter into contractual arrangements with a customer to deliver services on one project with respect to more than one performance obligation, such as non-recurring engineering, procurement, and training. When entering into such arrangements, we allocate the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone price and recognized according to the respective revenue recognition methods described above. For example, for non-recurring engineering services rendered over a contract period the revenue is recognized using the percentage of completion method; whereas for training services the revenue is recognized after the training is delivered (i.e. point in time).

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We account for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration to a price which reflects KWESST's stand-alone selling price of the additional promised goods or services. When the contract modification is not accounted for as a separate contract, we recognize an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

The timing of revenue recognition often differs from performance payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of contract liabilities.

When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as finance income or expense, as applicable.

### *(b) Business combinations*

We account for business combinations using the acquisition method. Goodwill arising on acquisitions is measured as the fair value of the consideration transferred less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs that we incur in connection with a business combination are expensed as incurred. We use our best estimates and assumptions to reasonably value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in profit or loss.

Where the total purchase consideration is less than the fair value of identifiable net assets, we recognize a gain on acquisition.

Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions in accordance with the relevant IFRS standards and applicable to the type of asset acquired.

### *(c) Financial instruments*

We recognize a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the instrument.

Trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### Financial assets

All financial assets are recognized and de-recognized on trade date.

Financial assets are recognized at fair value and subsequently classified and measured at:

- a) Amortized cost;
- b) Fair value through other comprehensive income ("FVOCI"); or

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c) Fair value through profit or loss ("FVTPL").

We determine the classification of our financial assets on the basis of both the business model for managing the financial assets and the contractual cash flows characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless we change our business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding. Financial assets classified at amortized cost are measured using the effective interest method. At September 30, 2024, we classified the following as amortized cost:

- Cash and cash equivalents
- Restricted short-term investment
- Trade and other receivables (excluding sales tax recoverable)
- Lease deposit (non-current other asset)

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. At September 30, 2024, we did not have financial assets classified as FVOCI or FVTPL.

*Expected credit losses*

We measure a loss allowance based on the lifetime expected credit losses. The Company has applied the simplified method approach to recognize the lifetime expected credit losses that are estimated based on factors such as our past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

Financial liabilities are recognized at fair value and subsequently classified and measured at amortized cost or fair value through profit or loss ("FVTPL").

We determine the classification of our financial liabilities at initial recognition. We have classified the following as amortized cost:

- Accounts payable and accrued liabilities
- Accrued royalties liability

The warrant liabilities are classified as FVTPL.

Financial liabilities at amortized cost are measured using the effective interest rate method.

*De-recognition of financial liabilities*

KWESST de-recognizes financial liabilities when its obligations are discharged, cancelled or they expire.

*(d) Cash and cash equivalents*

Cash and cash equivalents include cash investments in interest-bearing accounts and term deposits which can readily be redeemed for cash without penalty or are issued for terms of three months or less from date of acquisition.

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### (e) Inventories

KWESST's inventories may consist of raw materials, work-in-progress ("WIP") and finished goods. Inventories are measured at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of WIP and finished goods includes the cost of raw materials, direct labour, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management estimates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

### (f) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. These assets are depreciated over their estimated useful lives using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

The following table provides a summary of estimated useful lives for our property and equipment:

	Rate
Computer equipment	3 years
Computer software	3 years
Office furniture and equipment	5 years
Low-rate initial production equipment	5 years
R&D equipment	5 years
Sales demo equipment	2 years
Leasehold improvements	Shorter of useful life or remaining term of lease

At the end of each reporting period, we review the carrying amounts of its property and equipment to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit, or CGU"). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### (g) Leases

At inception of a contract, we assess whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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We recognize a right-of-use asset and a lease liability at the lease commencement date. The lease obligation is measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using its incremental borrowing rate at the inception of the lease. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if we are reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in our estimate of the amount expected to be payable under a residual value guarantee, or if we change our assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset or, is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

We have elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

### *(h) Intangible assets*

#### (i) Research and development ("R&D") costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we have the intention and sufficient resources to complete the development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditures are recognized in profit or loss when incurred.

#### (ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

#### (iii) Acquired intangible assets

Acquired intangible assets consist of open customer orders, tradenames, customer relationships, patents, and technology assets acquired either through an asset purchase or a business combination transaction. These intangible assets are recorded at their fair value at the acquisition date.

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After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses. For open customer orders, we reduce the amount when we have delivered under the customer contract, with an offset to accounts receivable (i.e. there is no revenue recognized for acquired open customer orders). Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization begins when the related acquired technology is commercialized. We anticipate the estimated useful life for the current technology assets to be five years once commercialized.

### (iv) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset of its useful life. The amortizable amount is the cost of the asset less its estimated residual value. We recognize in profit or loss on a sales-based rate over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in each asset. Where a sales-based rate could not be determined, the straight-line approach is used.

Internally generated intangible assets are not systematically amortized as long as they are not available for use i.e. they are not yet in working condition for their intended use. Accordingly, intangible assets such as development costs are assessed for impairment at least once a year, until such date as they are available for use.

### (v) Impairment

All intangible assets are periodically reviewed for impairment. Management assesses intangible assets for triggers of impairment, including ability to produce future cash flows and the investments required to reach marketability. The estimated present value of future cash flows associated with the intangible asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, and the resulting loss is directly recognized in profit or loss for the period.

### (i) Provisions

A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The accretion of the discount is recognized as a finance cost.

### (j) Income taxes

Income tax expense comprises of current income tax expense and deferred income tax expense. Current and deferred income taxes are recognized as an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in shareholder's equity.

#### *Current income tax*

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable income (tax loss) for a period. Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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### *Deferred income tax*

Deferred tax assets and liabilities are recognized for the temporary differences between transactions and carrying amounts of assets and liabilities that have been included in the consolidated financial statements and the amounts used for taxation purposes. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that it is probable that the deferred income tax assets will be realized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting period. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and we intend to settle our current tax assets and liabilities on a net basis.

### *Investment tax credits*

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation in the Income Tax Act of Canada. Credits are recorded provided there is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the Canada Revenue Agency.

Credits claimed in connection with R&D activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the R&D expenses.

### *(k) Related party transactions*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are in the normal course of business and have commercial substance.

### *(l) Share-based compensation*

We have a Long-Term Incentive Plan ("LTIP") in which we may grant stock options, restricted share units ("RSUs"), performance stock units ("PSUs"), deferred stock units ("DSUs"), and stock appreciation rights ("SARs") to directors, employees, and consultants. We measure share-based compensation at fair value for all share-based awards granted under the LTIP.

### *Equity-settled service award*

The grant date fair value of equity-settled share-based awards is recognized as an expense on a straight-line basis over the requisite service period, with a corresponding increase in equity, over the vesting period of the awards. For stock options, the grant date fair value is determined using the Black-Scholes option model. For share units, the grant date fair value is based on KWESST's closing stock price. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized as an expense is adjusted for estimated forfeitures.

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### *Equity-settled performance award*

The accounting for equity-settled performance award is the same as above, except compensation expense is subject to periodic adjustment based on the achievement of establishment performance criteria.

### *Modified award*

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified and if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employees as measured at the date of acquisition.

### **(m) Equity**

Share capital represents the amount received for shares that have been issued less transaction costs directly attributable to the issuance of common shares net of any related income tax benefits.

### *Valuation of equity instruments*

The Company has adopted a residual method with respect to the measurement of common shares and warrants issued as units. Warrants attached to units are valued based on the fair value of the warrants using the Black Scholes option pricing model and the share price at the time of financing, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares. The proceeds from the issue of the units are allocated between share capital and warrants. In situations when the warrants are categorized as FVTPL the value associated with the warrants is presented as a liability. If and when the warrants are exercised, the applicable amounts of warrants or liability are transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital.

### *Broker warrants*

The Company uses the fair value method based on the Black-Scholes pricing model to determine the fair value of the warrants issued to brokers and records a debit to share issuance costs with a corresponding credit to warrants. Warrants within equity are included in the warrants outstanding.

### **(n) Foreign currency**

#### *Foreign currency transactions*

The financial statements of KWESST and its Canadian wholly owned subsidiaries are measured using CAD as the functional currency. Transactions in currencies other than in CAD are translated at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rates at the date of the transaction and are not subsequently retranslated.

#### *Foreign operations*

The financial statements of KWESST's U.S. owned subsidiaries are measured using the United States dollar ("USD") as its functional currency. Assets and liabilities have been translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which cases the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in shareholders' equity.

### **(o) Earnings (loss) per share**

Basic earnings (loss) per share is computed using net earnings (loss) over the weighted average number of common shares outstanding during the period. We use the treasury stock method to compute the dilutive effect of options, warrants, and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants, and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period.

However, the calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

## **4. Acquisitions**

### **a) Police Ordnance**

On December 15, 2021, we acquired 2720178 Ontario Inc., an Ontario (Canada) corporation, which owns all of the issued and outstanding shares of Police Ordnance Company Inc., an Ontario (Canada) corporation (together, "Police Ordnance"), herein referred as the "Police Ordnance Acquisition". Located in Bowmanville, Ontario, with ancillary operations in Florida, Police Ordnance owns all intellectual properties to the ARWENT<sup>TM</sup> product line of launchers, and a proprietary line of 37 mm cartridges designed for riot control and tactical teams. Police Ordnance has law enforcement customers across Canada, the United States, and abroad. The Police Ordnance Acquisition provides us with a strategic opportunity to leverage its law enforcement customer base to accelerate growth within its specialty ordnance business.

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We accounted for the acquisition of Police Ordnance pursuant to IFRS 3, *Business Combinations*.

*Consideration Transferred:*

The purchase consideration comprised of the following:

	Number		Fair Value
Common shares	396	\$	377,503
Warrants	20,000	\$	132,000
Contingent shares	87	\$	83,319
<b>Total fair value purchase consideration</b>		\$	<b>592,822</b>

The warrants are exercisable at \$17.20 each and expired on December 15, 2024. As a result of the 2022 Reverse Split (see Note 1(e)), each warrant converts into 0.01428571 common share or 70 warrants to receive one common share of KWE.

We issued the 87 contingent common shares to the sellers in April 2022 following the fulfillment of the financial milestone as defined in the share purchase agreement.

We have estimated the fair value as follows:

- *Common shares*: based on KWESST's closing stock price on December 15, 2021.
- *Warrants*: based on using the Black Scholes option model with the following key inputs: a) exercise price of \$17.20, 1/70 of the underlying stock price of \$13.60, risk free rate of 1.04%, expected life of three years, and expected volatility of 84.7%.
- *Contingent shares*: based on KWESST's closing stock price on December 15, 2021, and high probability of achieving the financial milestone as defined in the share purchase agreement.

The net cash inflow as at the closing of the acquisition was as follows:

Cash assumed on acquisition	\$	162,547
less: consideration paid in cash		-
<b>Net cash inflow on acquisition</b>	\$	<b>162,547</b>

*Net Assets Acquired:*

The purchase consideration was allocated to Police Ordnance's net assets as follows:

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<b>Total purchase consideration at fair value</b>	<b>\$ 592,822</b>
<i>Police Ordnance's net assets:</i>	
Cash	162,547
Trade and other receivables	104,432
Inventories	352,685
Intangible assets:	
Purchase orders	100,000
Customer relationships	50,000
ARWENT <sup>TM</sup> tradename	44,000
Accounts payable and accrued liabilities	82,963
Corporate tax liability	32,338
Contract liabilities	29,861
Borrowings	26,238
Deferred tax liabilities	49,442
<b>Net assets at fair value</b>	<b>\$ 592,822</b>

As a result of the above purchase price allocation, we have recorded no goodwill for the Police Ordnance Acquisition.

### *Impact on KWESST's Results of Operations:*

The results of operations of Police Ordnance are included in these consolidated statements of net loss and comprehensive loss from December 16, 2021. For the year ended September 30, 2024, Police Ordnance contributed revenue of \$466,211 (2023 - \$375,758, 2022 - \$355,296) and net loss of \$219,220 (2023 - \$505,733, 2022 - \$198,353) to our consolidated results.

If the acquisition had occurred on October 1, 2021, management estimates that Police Ordnance would have contributed approximately \$846,600 of revenue and approximately \$31,000 of net profit to our operating results for the year ended September 30, 2022, respectively. In determining these amounts, we have assumed that the fair value adjustments that arose on the date of the acquisition would have been the same if the acquisition had occurred on October 1, 2021.

We incurred immaterial acquisition-related costs.

### **b) LEC System**

On April 29, 2021, we acquired the Low Energy Cartridge technology from DEFSEC, a proprietary non-lethal cartridge-based firing system (subsequently branded as PARA OPS<sup>TM</sup> system). This technology acquisition includes all intellectual property rights for the PARA OPS<sup>TM</sup> system. With this acquisition, we will target the following four market segments that currently use a variety of dated "non-lethal" or "less-lethal" systems:

- (i) public order (riots and control of dangerous subjects);
- (ii) military and law enforcement training (realistic force-on-force training);
- (iii) personal defence (home, car, boat, RV, camping, hiking); and
- (iv) high-action gaming.

As DEFSEC is a private company owned by our Executive Chairman, this asset acquisition is a related party transaction. We relied on exemptions from the formal valuation and minority shareholder approval requirements available under Multilateral Instrument 61-101, *Protection of Minority Security Holders in Special Transactions*. However, we obtained approval from over 51% disinterested shareholders as well as from the TSX-V prior to closing the acquisition.

## KWESST MICRO SYSTEMS INC.

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We accounted for the acquisition of the PARA OPS™ pursuant to IFRS 2, *Share-Based Payment*.

The purchase consideration consisted of:

- 1,428 common shares of KWESST; and
- 50,000 warrants to purchase our common shares at \$7.00 each per 1/70 of a common share (70 warrants for one common share); 25% vesting on the first anniversary of the closing of the acquisition and 25% per annum thereafter. These warrants will expire on April 29, 2026.

Additionally, we will pay 7% royalty on annual sales of the PARA OPS™ system to DEFSEC, net of taxes and duties, up to a maximum of \$10 million, subject to minimum annual royalty payments starting in 2022. At the closing of the acquisition, we made an upfront payment of \$150,000 as an advance on future royalty payments.

The minimum annual royalty payments are as follows:

Date	Amount
April 29 2023	\$ 150,000
April 29 2024	\$ 150,000
April 29 2025	\$ 200,000
April 29 2026	\$ 200,000
April 29 2027	\$ 250,000
April 29 2028	\$ 250,000
April 29 2029	\$ 300,000
April 29 2030	\$ 300,000
April 29 2031	\$ 350,000
April 29 2032	\$ 350,000
<b>Total</b>	<b>\$ 2,500,000</b>

The royalty payment obligation of the Purchase Agreement ("Agreement") will expire in 20 years unless terminated earlier under the terms set out in the Agreement. At our sole discretion, we may terminate this Agreement for convenience, including if market conditions for sales of the PARA OPS™ system become unfavorable subject to 60 day's prior written notice. Upon termination, we will be fully released and discharged by DEFSEC including the outstanding future royalties and any unvested warrants shall be immediately cancelled. In return, we will return all intellectual property rights relating to the PARA OPS™ system to DEFSEC.

The purchase price was determined as follows:

	Number	Fair Value
Common shares	1,428	\$ 1,290,000
Warrants	50,000	\$ 425,000
Minimum royalty payments		\$ 1,191,219
<b>Total</b>		<b>\$ 2,906,219</b>
<b>Identifiable intangible assets</b>		
Technology asset		\$ 2,906,219

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We estimated the fair value as follows:

- *Common shares*: based on KWESST's closing stock price on April 29, 2021.
- *Warrants*: based on using the Black Scholes option model with the following key inputs:
  - a) exercise price of \$7.00, 1/70 of the underlying stock price of \$12.90;
  - b) risk free rate of 0.48%;
  - c) expected life of three years; and
  - d) expected volatility of 80%.
- *Minimum royalty payments*: based on the income approach, specifically discounted cash flows, using a discount rate of 13.7% per annum.

During the year ended September 30, 2024, we recorded \$180,965 of accretion cost relating to the discounted minimum royalty payments, which is included in net finance costs in the consolidated statements of net loss and comprehensive loss (2023 - 170,373, 2022 - \$159,451). As at September 30, 2024, \$1,318,135 of accrued royalties liability was outstanding (2023 - \$1,287,170, 2022 - \$1,265,207).

### 5. Trade and other receivables

The following table presents a breakdown of our trade and other receivables:

	September 30, 2024	September 30, 2023
Trade receivables	\$ 455,049	\$ 68,530
Unbilled revenue	42,248	5,211
Sales tax recoverable	70,578	226,528
<b>Total</b>	<b>\$ 567,875</b>	<b>\$ 300,269</b>

There was no impairment of trade and other receivables during the year ended September 30, 2024 (2023 - \$nil).

The following table presents changes in unbilled receivables:

	September 30, 2024	September 30, 2023
Balance, beginning of year	\$ 5,211	\$ 8,881
Revenue billed during the year	(5,211)	(3,670)
Revenue in excess of billings, net of amounts transferred to trade receivables	42,248	-
<b>Balance, end of year</b>	<b>\$ 42,248</b>	<b>\$ 5,211</b>
Current	\$ 42,248	\$ 5,211
Non-current	\$ -	\$ -

### 6. Inventories

The following table presents a breakdown of our inventories:

## KWESST MICRO SYSTEMS INC.

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	September 30, 2024	September 30, 2023
Finished goods	\$ 55,754	\$ 62,730
Work-in-progress	417,890	116,435
Raw materials	59,519	363,223
<b>Total</b>	<b>\$ 533,163</b>	<b>\$ 542,388</b>

In Fiscal 2024, a total of \$139,813 (2023 - \$528,890) of inventories was included in profit or loss as an expense as part of cost of sales.

The Company identified inventory items that were obsolete, no longer in use, or otherwise non-viable for production purposes. These items were specifically considered impaired and subsequently written off to reflect their reduced value. \$113,283 of inventory was written off during the year ended September 30, 2024 (2023 - \$nil).

### 7. Property and equipment

The following is a summary of changes in our property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	LRIP equipment <sup>(1)</sup>	R&D equipment	Leasehold improvements	Sales demo equipment	Total
Balance at September 30, 2022	\$ 106,806	\$ 5,129	\$ 100,933	\$ 77,559	\$ 239,804	\$ 137,037	\$ 550,086	\$ 1,217,354
Additions	37,047	-	8,645	20,099	-	2,680	108,478	176,949
Disposals	-	-	-	-	-	(7,925)	(549,330)	(557,255)
Balance at September 30, 2023	\$ 143,853	\$ 5,129	\$ 109,578	\$ 97,658	\$ 239,804	\$ 131,792	\$ 109,234	\$ 837,048
Additions	46,254	-	14,000	41,076	-	-	-	101,330
Disposals	(1,799)	-	(8,645)	-	(26,387)	-	-	(36,831)
<b>Balance at September 30, 2024</b>	<b>\$ 188,308</b>	<b>\$ 5,129</b>	<b>\$ 114,933</b>	<b>\$ 138,734</b>	<b>\$ 213,417</b>	<b>\$ 131,792</b>	<b>\$ 109,234</b>	<b>\$ 901,547</b>

Cost	Computer equipment	Computer software	Office furniture and equipment	LRIP equipment <sup>(1)</sup>	R&D equipment	Leasehold improvements	Sales demo equipment	Total
Balance at September 30, 2022	\$ 42,525	\$ 1,254	\$ 59,431	\$ 7,002	\$ 84,506	\$ 44,449	\$ 145,706	\$ 384,873
Depreciation	34,937	1,710	20,753	18,749	50,618	21,141	153,045	300,953
Disposals	-	-	-	-	-	(7,925)	(258,149)	(266,074)
Balance at September 30, 2023	\$ 77,462	\$ 2,964	\$ 80,184	\$ 25,751	\$ 135,124	\$ 57,665	\$ 40,602	\$ 419,752
Depreciation	37,788	1,710	15,342	36,760	32,289	21,371	54,398	199,658
Disposals	(1,799)	-	(8,645)	-	(19,131)	-	-	(29,575)
<b>Balance at September 30, 2024</b>	<b>\$ 113,451</b>	<b>\$ 4,674</b>	<b>\$ 86,881</b>	<b>\$ 62,511</b>	<b>\$ 148,282</b>	<b>\$ 79,036</b>	<b>\$ 95,000</b>	<b>\$ 589,835</b>
Carrying value at September 30, 2023	\$ 66,391	\$ 2,165	\$ 29,394	\$ 71,907	\$ 104,680	\$ 74,127	\$ 68,632	\$ 417,296
<b>Carrying value at September 30, 2024</b>	<b>\$ 74,857</b>	<b>\$ 455</b>	<b>\$ 28,052</b>	<b>\$ 76,223</b>	<b>\$ 65,135</b>	<b>\$ 52,756</b>	<b>\$ 14,234</b>	<b>\$ 311,712</b>

(1) Low-rate initial production equipment ("LRIP") includes moulds for developing PARA OPS™ device samples.

### 8. Right-of-use assets

The following table presents our right-of-use assets:

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	<b>Offices</b>
Balance at September 30, 2022	\$ 208,131
Additions	228,020
Depreciation	(75,115)
Balance at September 30, 2023	\$ 361,036
Additions	-
Depreciation	(130,912)
<b>Balance at September 30, 2024</b>	<b>\$ 230,124</b>

In connection with our current lease, we made a total deposit of \$33,726 to be released only at the end of these leases. This was initially recorded at fair value, discounted using the implied interest rate in the lease. At September 30, 2024, \$28,806 (2023 - \$26,076, 2022 - \$23,604) was the carrying value and reported as non-current deposit in the consolidated statements of financial position.

### 9. Intangible assets

The following table shows a breakdown of our intangible assets:

Cost	Phantom™ System	PARA OPS™ System	PARA OPS™ Patent	ARWEN™ Tradenname	Customer Relationships	Purchase Orders	Total
Balance at September 30, 2022	\$ 1,149,585	\$ 3,469,215	\$ 28,783	\$ 37,032	\$ 46,041	\$ 12,198	\$ 4,742,854
Additions	19,855	1,091,819	11,512	-	-	-	1,123,186
Impairment charge	(1,169,440)	-	-	-	-	-	(1,169,440)
Amortization	-	(562,639)	-	(8,800)	(5,000)	-	(576,439)
Recognition of open orders	-	-	-	-	-	(7,811)	(7,811)
Balance at September 30, 2023	\$ -	\$ 3,998,395	\$ 40,295	\$ 28,232	\$ 41,041	\$ 4,387	\$ 4,112,350
Additions	-	9,823	-	-	-	-	9,823
Impairment charge	-	-	-	-	-	-	-
Amortization	-	(933,541)	-	(8,800)	(5,000)	-	(947,341)
<b>Balance at September 30, 2024</b>	<b>\$ -</b>	<b>\$ 3,074,677</b>	<b>\$ 40,295</b>	<b>\$ 19,432</b>	<b>\$ 36,041</b>	<b>\$ 4,387</b>	<b>\$ 3,174,832</b>

The balance at September 30, 2024 for PARA OPS™ represents the acquired technology asset (i.e. intellectual properties), coupled with additional capitalized development costs. As it is available for its intended use, amortization charge was recorded for the year ended September 30, 2024 of \$933,541 (2023 - \$562,639, 2022 - \$nil).

PARA OPS™ was tested for indicators of impairment at September 30, 2024 as it was available for use. The Company determined that there were no indicators of impairment and therefore did not test for impairment. In fiscal 2023, the Company began amortizing the system then stopped as further development was done on the products. As a result, the Company was required to test for impairment in fiscal 2023. The key assumptions used in determining the recoverable amount was that commercialization was reached in fiscal 2024 and that market penetration would be achieved at prices that would be accepted by the marketplace in fiscal 2025.

During the fourth quarter of 2023, the Company determined that the Phantom System was impaired and the asset was written off. The required investment to advance the system to commercialization is considered to be too high and the technology is no longer viable for the Company's operations. The carrying amount of the Phantom System at the beginning of the fiscal year 2023 was \$1,149,585 and additions of \$19,855 were made in the fiscal year 2023. The entire carrying amount of \$1,169,440 was written off as an impairment to intangible assets included in the general and administrative expenses in the Consolidated Statement of Net Loss and Comprehensive Loss for the fiscal year 2023. This has resulted in an expense in the consolidated statement of net loss.

In connection with Police Ordnance Acquisition in 2021 (see Note 4(a)), we have recorded the following intangible assets at fair value: ARWEN™ tradenname, customer relationships and open purchase orders. During the year ended September 30, 2024, we did not deliver on open purchase orders (2023 - \$7,811, 2022 - \$87,802). Management has estimated the useful lives of tradenname and customer relationships of five and ten years, respectively.

**KWESST MICRO SYSTEMS INC.**

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**10. Accounts payable and accrued liabilities**

The following table presents a breakdown of our accounts payable and accrued liabilities:

	September 30, 2024	September 30, 2023
Trade payable	\$ 881,835	\$ 367,128
Accrued liabilities	610,558	1,189,678
Salary and vacation payable	168,244	93,070
<b>Total</b>	<b>\$ 1,660,637</b>	<b>\$ 1,649,876</b>

**11. Related party transactions***Key management personnel compensation*

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of KWESST directly or indirectly, including any of our directors (executive and non-executive).

Key management personnel compensation comprised the following:

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
Wages and benefits	\$ 907,288	\$ 505,026	\$ 641,338
Consulting fees	397,500	628,264	529,529
Directors compensation	228,387	130,000	70,000
Share-based compensation	126,314	167,027	860,400
<b>Total</b>	<b>\$ 1,659,489</b>	<b>\$ 1,430,317</b>	<b>\$ 2,101,267</b>

The consulting fees relate to compensation to our Executive Chairman (via his private corporation, DEFSEC Corp), as well as compensation to our previous Vice President who was an employee prior to fiscal year 2023 and was included in wages and benefits for fiscal year 2022. Fiscal year 2022 also included a bonus to the Executive Chairman, which was approved by our Board of Directors and paid only after the U.S. IPO and Canadian Offering.

*Other related party transactions:*

- In March 2022, two directors, the Executive Chairman, and the CFO of KWESST participated in the March 2022 Loans for an aggregate amount of \$74,000 and received a total of 52 bonus common shares (see Note 12).
- In July 2022, one director, the Executive Chairman, and the CFO of KWESST participated in the July 2022 Offering (see Note 16(a)); collectively, they purchased 581 Units for a total consideration of \$87,500. This transaction was recorded at fair value.
- In August 2022, our Executive Chairman and CFO advanced a total of \$60,000 to KWESST for employee payroll purposes. This advance was repaid on August 30, 2022.

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At September 30, 2024 there was \$471,465 (2023 - \$216,730) outstanding amount in accounts payable and accrued liabilities due to our officers and directors for unpaid wages, director fees and expense reimbursements.

**12. Borrowings**

		<b>CEBA Term Loans</b>		<b>March 2022 Loans</b>		<b>August 2022 Loans</b>		<b>Total Borrowings</b>
Balance, September 30, 2022	\$	78,796	\$	1,764,630	\$	435,348	\$	2,278,774
Accrued interest and accretion expense		11,204		274,887		179,096		465,187
Interest paid		-		(39,517)		(63,661)		(103,178)
Repayment of principal		(70,000)		(1,988,000)		(275,315)		(2,333,315)
Settled in equity		-		(12,000)		(275,468)		(287,468)
Forgivable amount		(20,000)		-		-		(20,000)
<b>Balance, September 30, 2023</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>
<b>Balance, September 30, 2024</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

August 2022 Loans

On August 25, 2022, we closed two unsecured loans in the amount of USD\$200,000 per loan with a third-party lender ("Lender") for an aggregate amount of USD\$400,000 (the "August 2022 Loans").

The August 2022 Loans bear interest at a rate of 6.0% per annum, compounded monthly and not in advance, and have a maturity of twelve months, with KWESST having the option to repay the whole or any part of the August 2022 Loans, without penalty or premium, at any time prior to the close of business on the maturity date. On repayment of the August 2022 Loans, we will pay 110% of the principal amount plus accrued interest on the August 2022 Loans. As part of the terms of one of the August 2022 Loans, we issued an aggregate of 423 common shares to the Lender (the "Bonus Shares"), being an amount equal to twenty percent (20%) of USD\$200,000, converted to CAD\$ at an exchange rate of \$1.2983, divided by the market price of our common shares on the TSX-V at market close on August 24, 2022, being \$122.50. The Bonus Shares were issued in accordance with applicable prospectus exemptions under Canadian securities laws.

As a result of issuing common shares and debt for the first loan of USD\$200,000 (or \$260,698), in Fiscal 2022 we allocated the gross proceeds to these two financial instruments based on their relative fair value. To measure the fair value of the loan, we used the income approach and estimated a market discount rate of 24% to discount the future cash flows of the loan resulting in an estimated fair value of \$214,893. Accordingly, we allocated \$214,893 of the \$260,698 to the first loan and \$45,804 to share capital for the bonus common shares issued (see Note 16(a)).

Concurrently with the closing of the August 2022 Loans, our Executive Chairman and President and Chief Executive Officer (the "KWESST Principals") entered into call option agreements with the Lender whereby the Lender will have the option, pursuant to the terms and conditions of the call option agreements, to purchase 1,059 common shares held by the KWESST Principals at a price of \$122.50 for a period of five years. Additional free-trading common shares may be offered by the KWESST Principals to the Lender should we elect to proceed with a share-for-debt transaction in connection with one of the Loans. KWESST is not a party to the call option agreements.

In connection with the August 2022 Loans, we paid a cash finder's fee to a third-party intermediary in the amount of USD\$32,000.

## **KWESST MICRO SYSTEMS INC.**

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### March 2022 Loans

On March 11, 2022, we closed an unsecured loan financing with various lenders in an aggregate amount of \$1,800,000 and an additional \$200,000 on March 15, 2022, for a total of \$2,000,000 (the "March 2022 Loans"). Certain directors and officers participated in this financing for an aggregate amount of \$74,000. The March 2022 Loans bear interest at a rate of 9.0% per annum, compounded monthly and not in advance, and have a maturity of thirteen months, with KWESST having the option to repay the whole or any part of the March 2022 Loans, without penalty or premium, at any time prior to the close of business on the maturity date. The principal amount is due only at maturity. As part of the terms of the March 2022 Loans, we issued an aggregate of 1,428 bonus common shares to the lenders.

As a result of issuing common shares and debt for a total combined cash consideration of \$2,000,000, we allocated the gross proceeds to these two financial instruments based on their relative fair value. To measure the fair value of the March 2022 Loans, we used the income approach and estimated a market discount rate of 22% to discount the future cash flows of the March 2022 Loans resulting in an estimated fair value of \$1,634,112. Accordingly, we allocated \$1,634,112 of the \$2,000,000 to March 2022 Loans and \$365,888 to share capital for the bonus common shares issued (see Note 16(a)).

The total offering costs were \$90,636, \$74,055 of which was allocated to deferred financing fees and \$16,581 allocated to share offering costs. The deferred financing fees are recognized as a reduction of the gross borrowings to be accreted over the life of the March 2022 Loans as a financing cost and the share offering costs were recognized as a reduction to common shares.

### CEBA Term Loans

In December 2020, the Canadian Federal Government amended the CEBA Term Loan program to increase the loan amount by \$20,000 to \$60,000. We borrowed \$40,000 during the nine-month period ended September 30, 2020, and an additional \$20,000 during the fiscal year ended September 30, 2021. As a result of the Police Ordnance Acquisition (see Note 4(a)), we assumed an additional CEBA Term Loan of \$40,000 during fiscal year ended September 30, 2022.

The CEBA Term Loans are initially recorded at fair value, discounted based on our estimated incremental borrowing rate. This resulted in recording a gain on government grant of \$3,514 for the year ended September 30, 2021 (2020 - \$9,096).

Effective January 1, 2021, the CEBA Term Loans were automatically converted to a 2-year interest free term loan. This was further amended on January 12, 2022, where the government of Canada announced the repayment deadline for the CEBA Term 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.

### Loan Repayments

In December 2022, the Company repaid the remaining balance on the March 2022, August 2022, and CEBA Term Loans, including accrued unpaid interest, net of the total forgivable amount on the CEBA Term loan of \$20,000 and a 10% premium on the August 2022 loan. The loans were repaid with a combination of cash and equity.

### RBC Credit Facility

We maintain corporate credit cards for our key employees with Royal Bank of Canada ("RBC"). To provide security, we entered into a cash collateral agreement for \$30,000 and a general security agreement providing a first lien on all assets. The \$30,000 was invested in a short-term guaranteed investment certificate.

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### 13. Lease obligation

We have entered into long-term office lease contracts which expire on April 30, 2026, May 31, 2026, and October 31, 2026, respectively. The office leases include the right to renew for an additional term following its expiry. Management has not included the renewal option because it was deemed too uncertain whether we would renew at September 30, 2024.

Under the current office lease agreements, we have benefited from the following lease inducements:

- Free rent from inception March 1, 2020 to November 1, 2020;
- Free rent from November 1, 2021, to March 1, 2022; and
- Free rent from August 1, 2023, to October 31, 2023.

The following table presents the movement in our lease obligation for the respective periods:

		Offices		Current Portion		Non-current portion
Balance at September 30, 2022	\$	275,621	\$	69,150	\$	206,471
Additions		228,020		-		-
Lease payments (including interest)		(111,903)		-		-
Interest expense		37,785		-		-
<b>Balance at September 30, 2023</b>	<b>\$</b>	<b>429,523</b>	<b>\$</b>	<b>127,116</b>	<b>\$</b>	<b>302,407</b>
Additions		-		-		-
Lease payments (including interest)		(197,651)		-		-
Interest expense		70,351		-		-
<b>Balance at September 30, 2024</b>	<b>\$</b>	<b>302,223</b>	<b>\$</b>	<b>147,078</b>	<b>\$</b>	<b>155,145</b>

The following table presents the contractual undiscounted cash flows for the lease obligations:

	September 30, 2024	September 30, 2023
Less than one year	\$ 206,828	\$ 197,367
One to five years	154,445	361,388
Total	\$ 361,272	\$ 558,755

### 14. Contract Liabilities

The following table presents the changes in contract liabilities:

	September 30, 2024	September 30, 2023
Balance, beginning of fiscal year	\$ 120,970	\$ 47,271
Amounts invoiced and revenue deferred	108,573	120,970
Recognition of deferred revenue included in the balance at the beginning of period	(108,972)	(47,271)
<b>Balance, end of fiscal year</b>	<b>\$ 120,571</b>	<b>\$ 120,970</b>

### 15. Warrant liabilities

The following table shows a breakdown and balance of warrant liabilities at September 30, 2024:

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	U.S. IPO and Canadian Offering			Private Placement		Debt Settlement	Public Offering	Direct Offering	Total
	2022 Warrants	Over-allotment Pre-Funded Warrants	Over-allotment Warrants	2023 Warrants	Pre-Funded Warrants	Warrants	Pre-Funded Warrants	Warrants	
Balance, beginning of period	\$ 1,042,538	\$ 414,334	\$ 121,173	\$ 798,573	\$ 1,940,914	\$ 18,141	\$ -	\$ -	\$ 4,335,673
Initial recognition	-	-	-	-	-	-	708,054	647,039	1,355,093
Exercised (Gain) Loss on revaluation of financial instruments	-	(119,257)	-	-	(829,720)	-	(820,649)	-	(1,769,626)
Exchange (gain) loss on revaluation	(973,396)	(295,186)	(113,022)	(728,282)	(1,069,466)	(16,996)	104,227	44,553	(3,047,568)
Balance, end of period	(3,377)	109	(507)	(9,918)	(10,390)	-	8,368	(10,562)	(26,277)
<b>Balance, end of period</b>	<b>\$ 65,765</b>	<b>\$ -</b>	<b>\$ 7,644</b>	<b>\$ 60,373</b>	<b>\$ 31,338</b>	<b>\$ 1,145</b>	<b>\$ -</b>	<b>\$ 681,030</b>	<b>\$ 847,295</b>
<b>Number of outstanding securities as at September 30, 2024</b>	<b>322,639</b>	<b>-</b>	<b>37,500</b>	<b>154,219</b>	<b>15,173</b>	<b>5,614</b>	<b>-</b>	<b>471,500</b>	<b>1,006,645</b>

The following table shows a breakdown and balance of warrant liabilities at September 30, 2023:

	U.S. IPO and Canadian Offering			Private Placement		Debt Settlement	Total
	2022 Warrants	Over-allotment Pre-Funded Warrants	Over-allotment Warrants	2023 Warrants	Pre-Funded Warrants	Warrants	
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Initial recognition (Gain) Loss on revaluation of financial instruments	4,617,451	832,698	536,681	1,528,160	2,778,534	80,617	10,374,141
Exchange gain on revaluation	(3,553,175)	(415,996)	(412,247)	(765,212)	(883,961)	(62,476)	(6,093,067)
	(21,738)	(2,368)	(3,261)	35,625	46,341	-	54,599
Balance, end of period	\$ 1,042,538	\$ 414,334	\$ 121,173	\$ 798,573	\$ 1,940,914	\$ 18,141	\$ 4,335,673
Number of outstanding securities as at September 30, 2023	322,639	19,900	37,500	154,219	93,054	5,614	632,926

**U.S. IPO and Canadian Offering**

On December 9, 2022, we closed an underwritten U.S. public offering (the "U.S. IPO") and an underwritten Canadian offering (the "Canadian Offering") for aggregate gross proceeds of CAD\$19.4 million (US\$14.1 million) (see Note 16(a)). As part of the U.S. IPO and Canadian Offering, we have issued 322,639 warrants (the "2022 Warrants") with an exercise price of US\$50.00 per share. Additionally, the U.S. underwriter exercised its over-allotment option to purchase:

- 19,900 Pre-Funded Warrants with an exercise price of US\$0.10 per share for \$38.10 per pre-funded warrant (net of underwriter discount); and
- 37,500 warrants with exercise price of US\$50.00 per share for \$0.001 per warrant.

Refer to Note 16(a) for further information on the U.S. IPO and Canadian Offering.

In accordance with IFRS, the above securities are classified as financial liabilities (referred herein as "warrant liabilities") because the exercise price is denominated in U.S. dollars, which is different to our functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL (see Note 3(c)). Gains on revaluation of the warrant liabilities are presented in Other income (expenses) on the consolidated statements of net loss and comprehensive loss.

**Warrant liabilities**

While the warrants issued in the U.S. IPO were listed on Nasdaq and closed at US\$9.00 per warrant on December 9, 2022, management concluded that this closing price was not reflective of an active market due to short trading window and therefore not representative of fair value. Accordingly, at inception, the 2022 Warrants were measured at fair value using the Black Scholes option pricing model (Level 2). We used the following assumptions:

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	2022 Warrants (1)	Over-allotment Pre-Funded Warrants (2)	Over-allotment Warrants (3)
Number of dilutive securities	328,253	19,900	37,500
Exercise price (in USD)	\$ 50.00	\$ 0.10	
Share price (in USD)	\$ 41.30	\$ 30.80	
Expected life	2.50		
Dividend	\$ -		
Volatility	75%		
Risk free rate	4.20%		
Exchange rate (USD/CAD)	\$ 1.363		
<b>Fair value per warrant (CAD)</b>	<b>\$ 14.31</b>	<b>\$ 41.84</b>	<b>\$ 14.31</b>

(1) Includes debt settlement warrants.

(2) Fair value is measured at the underlying common share closing price on Nasdaq on December 9, 2022, less US\$0.10 exercise price.

(3) Same fair value as calculated for Warrants.

The share price (in USD) for the over-allotment pre-funded warrants was based on the estimated fair value of the common shares issued on December 9, 2022, by deducting the fair value of the warrants of US\$10.50 from the US\$41.30 Unit price and the exercise price of US\$0.10 (see Note 16(a)).

Based on the above fair value, the issuance of the over-allotment pre-funded warrants and warrants to the underwriter resulted in a non-cash charge of \$251,877, which is included in the change in fair value of warrant liabilities in the consolidated statements of net loss and comprehensive loss.

During fiscal year 2024, the 19,900 pre-funded warrants were fully exercised at a weighted average price of US\$0.10 (2023 – nil).

At September 30, 2024, we remeasured the fair value of these warrants using the following assumptions:

	2022 Warrants (1)	Over-allotment Pre-Funded Warrants	Over-allotment Warrants (1)
Number of securities	328,253	-	37,500
Nasdaq closing price (in USD)	\$ 0.151	\$ -	\$ 0.151
Exchange rate (USD/CAD)	\$ 1.3499	\$ -	\$ 1.3499
<b>Fair value per warrant (CAD)</b>	<b>\$ 0.20</b>	<b>\$ -</b>	<b>\$ 0.20</b>

(1) Fair value is based on the Nasdaq closing pricing on September 30, 2024, for the warrants.

At September 30, 2023, we remeasured the fair value of these warrants using the following assumptions:

	2022 Warrants (1)(2)	Over-allotment Pre-Funded Warrants	Over-allotment Warrants (1)
Number of securities	328,253	19,900	37,500
Nasdaq closing price (in USD)	\$ 2.39	\$ 15.50	\$ 2.39
Exchange rate (USD/CAD)	\$ 1.3520	\$ 1.3520	\$ 1.3520
<b>Fair value per warrant (CAD)</b>	<b>\$ 3.23</b>	<b>\$ 20.94</b>	<b>\$ 3.23</b>

(1) Fair value is based on the Nasdaq closing pricing on September 30, 2023, for the warrants.

(2) Includes debt settlement warrants.

(3) Fair value is measured at the Nasdaq closing price on September 30, 2023, for the underlying common stock less US\$0.10 exercise price.

We recognized a gain of \$1,381,604 (excludes the December 2022 Debt Settlement fair value described below) in fair value of warrant liabilities during the year ended September 30, 2024, which was reported in the consolidated statements of net loss and comprehensive loss.

### December 2022 Debt Settlement

On December 13, 2022, we entered into share for debt arrangements with existing lenders (see Note 16(a)), which resulted in issuing 5,614 Units, same terms as the Units as issued in the Canadian Offering except that the underlying securities are subject to a four-month hold period. Accordingly, this resulted in issuing 5,614 common shares and 5,614 warrant liabilities with an exercise price of US\$50.00 per share and maturing on December 13, 2027. We initially recorded the fair value of the warrant liabilities using the Black Scholes option pricing model with an underlying stock price equivalent to the unit price of US\$41.30.

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At September 30, 2024, we remeasured the fair value of these warrant liabilities using the Nasdaq closing price on September 30, 2024, of US\$0.151. The remeasurement resulted in a change in fair value of warrant liabilities \$16,996 for the year ended September 30, 2024 (2023 - \$62,476), which was reported in the consolidated statements of net loss and comprehensive loss.

### Private Placement (July 2023)

On July 21, 2023, we closed an underwritten U.S. private placement for gross proceeds of CAD\$7.4 million (US\$5.59 million) (see Note 16(a)). As part of the private placement, we have issued 154,219 warrants (the "2023 Warrants") with an exercise price of US\$26.60 per share. Additionally, 93,054 pre-funded Warrants with an exercise price of US\$0.01 per share for US\$22.59 per pre-funded warrant were issued.

Refer to Note 16(a) for further information on the private placement.

Under IFRS, the above securities are classified as financial liabilities (referred herein as "warrant liabilities") because the exercise price is denominated in U.S. dollars, which is different to our functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL (see Note 3(c)). Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

### Warrant liabilities

The 2023 warrants issued in the private placement were not listed on Nasdaq and does not represent an active market Level 1 input. Accordingly, at inception, the 2023 Warrants were measured at fair value using the Black Scholes option pricing model (Level 2). We used the following assumptions:

		2023 Warrants		Pre-Funded Warrants (1)
Number of dilutive securities		154,219		93,054
Exercise price (in USD)	\$	26.60	\$	0.010
Share price (in USD)	\$	20.80	\$	20.80
Expected life		2.50		
Dividend	\$	-		
Volatility		67%		
Risk free rate		4.44%		
Exchange rate (USD/CAD)	\$	1.321	\$	1.321
<b>Fair value per warrant (CAD)</b>	<b>\$</b>	<b>9.91</b>	<b>\$</b>	<b>19.82</b>

(1) Fair value is measured at the underlying common share closing price on Nasdaq on July 21, 2023, less US\$0.01 exercise price.

The share price (in USD) for the pre-funded warrants was based on the estimated fair value of the common shares issued on July 21, 2023, by deducting the fair value of the warrants of US\$7.50 from the US\$22.60 Unit price and the exercise price of US\$0.01 (see Note 16(a)).

During fiscal year 2024, 77,881 of the 93,054 pre-funded warrants were exercised at a weighted average price of US\$0.01 (2023 – nil).

At September 30, 2024, we remeasured the fair value of these warrants using the following assumptions:

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	<b>2023</b>		<b>Pre-Funded</b>
	<b>Warrants (1)</b>		<b>Warrants (2)</b>
Number of securities	154,219		15,173
Exercise price (in USD)	\$ 26.60	\$	0.01
Nasdaq closing price (in USD)	\$ -	\$	1.540
Black Scholes fair value (in USD)	\$ 0.29	\$	-
Volatility	98%	\$	-
Risk free rate	3.03%	\$	-
Exchange rate (USD/CAD)	\$ 1.3499	\$	1.3499
<b>Fair value per warrant (CAD)</b>	<b>\$ 0.39</b>	<b>\$</b>	<b>2.07</b>

(1) Fair value is based on the Black Scholes model on September 30, 2024, for the warrants.

(2) Fair value is measured at the Nasdaq closing price on September 30, 2024, for the underlying common stock less US\$0.10 exercise price.

At September 30, 2023, we remeasured the fair value of these warrants using the following assumptions:

	<b>2023</b>		<b>Pre-Funded Warrants (2)</b>
	<b>Warrants (1)</b>		
Number of securities	154,219		93,054
Exercise price (in USD)	\$ 26.60	\$	0.01
Nasdaq closing price (in USD)	\$ -	\$	15.50
Black Scholes fair value (in USD)	\$ 3.83	\$	-
Exchange rate (USD/CAD)	\$ 1.3520	\$	1.3520
<b>Fair value per warrant (CAD)</b>	<b>\$ 5.18</b>	<b>\$</b>	<b>20.82</b>

(1) Fair value is based on the Black Scholes model on September 30, 2023, for the warrants.

(2) Fair value is measured at the Nasdaq closing price on September 30, 2023, for the underlying common stock less US\$0.01 exercise price.

We recognized a gain of \$1,797,748 in fair value of warrant liabilities during the year ended September 30, 2024, which was reported in the consolidated statements of net loss and comprehensive loss.

**US Public Offering (April 2024)**

On April 9, 2024, we closed an underwritten U.S. public offering for gross proceeds of CAD\$1.4 million (US\$1 million) (see Note 16(a)). In this offering, 80,350 pre-funded Warrants with an exercise price of US\$0.01 per share for US\$6.49 per pre-funded warrant were issued.

Refer to Note 16(a) for further information on the offering.

Under IFRS, the above securities are classified as financial liabilities (referred herein as "warrant liabilities") because the exercise price is denominated in U.S. dollars, which is different to our functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL. Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

**Warrant liabilities**

All 80,350 warrants were subsequently exercised at a weighted average exercise price of US\$0.01 and we recognized a loss of \$104,227 in fair value of warrant liabilities during the year ended September 30, 2024, which was reported in the consolidated statements of net loss and comprehensive loss.

**US Registered Direct Offering (August 2024)**

On August 13, 2024, we closed a direct offering for the purchase and sale of 471,500 common shares at a purchase price of US\$2.00 per common share for gross proceeds of CAD\$1.3 million (US\$0.9 million) (see Note 16(a)). In a concurrent private placement, we issued unregistered warrants to purchase up to 471,500 common shares at an exercise price of US\$2.50. This was a unit offering consisting of a share and a warrant. The fair value of the warrants attached to the units are valued based on the Black-Scholes model and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares.

Refer to Note 16(a) for further information on the offering.

Under IFRS, the above securities are classified as financial liabilities (referred herein as "warrant liabilities") because the exercise price is denominated in U.S. dollars, which is different to our functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL. Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

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### Warrant liabilities

At September 30, 2024, we remeasured the fair value of these warrants using the following assumptions:

	2024
	Warrants (1)
Number of securities	471,500
Exercise price (in USD)	\$ 2.50
Nasdaq closing price (in USD)	\$ -
Black Scholes fair value (in USD)	\$ 1.07
Volatility	102%
Risk free rate	3.03%
Exchange rate (USD/CAD)	\$ 1.3499
<b>Fair value per warrant (CAD)</b>	<b>\$ 1.44</b>

(1) Fair value is based on the Black Scholes model on September 30, 2024, for the warrants.

## 16. Share capital and Contributed Surplus

As disclosed in Note 1(b) and Note 1(c), the Reverse Splits have been applied retrospectively herein.

### a) Share capital

#### Authorized

KWESST is authorized to issue an unlimited number of common shares.

#### Issued Common Shares

	September 30, 2024		September 30, 2023		September 30, 2022	
	Number	Amount	Number	Amount	Number	Amount
Balance, beginning of year	561,673	\$ 33,379,110	77,319	\$ 19,496,640	69,951	\$ 17,215,068
Issued for U.S. IPO and Canadian Offering	-	\$ -	322,639	\$ 13,675,120	-	\$ -
Issued in private placement	-	\$ -	154,219	\$ 3,050,316	2,285	\$ 272,000
Issued for debt settlements	4,670	\$ 97,615	5,614	\$ 233,485	14	\$ 19,000
Issued for U.S. public offerings	835,000	\$ 3,608,154	-	\$ -	-	\$ -
Issued for conversion of share units	-	\$ -	1,413	\$ 529,504	834	\$ 874,840
Issued for exercise of warrants	177,831	\$ 1,771,239	357	\$ 60,000	1,900	\$ 277,098
Issued for exercise of stock options	-	\$ -	112	\$ 5,836	-	\$ -
Issued for bonus shares relating to borrowings (Note 12)	-	\$ -	-	\$ -	1,852	\$ 411,692
Issued for acquisition (Note 4(a))	-	\$ -	-	\$ -	396	\$ 377,503
Issued for conversion of contingent shares (Note 4(a))	-	\$ -	-	\$ -	87	\$ 83,319
Less: share offering costs for the year	-	\$ (1,033,393)	-	\$ (3,671,791)	-	\$ (33,880)
<b>Balance, end of year</b>	<b>1,579,174</b>	<b>\$ 37,822,725</b>	<b>561,673</b>	<b>\$ 33,379,110</b>	<b>77,319</b>	<b>\$ 19,496,640</b>

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### 2024 Activities

#### *Debt Settlement (January 2024)*

On January 10, 2024, we issued 4,670 common shares in a settlement of debt in an amount of approximately \$97,615. The debt resulted from a tail obligation relating to services rendered by a third-party consultant, which the Company has elected to pay in common shares. The common shares issued pursuant to the Debt Settlement (signed October 31, 2023) are subject to a four-month hold period pursuant to applicable securities legislation and the policies of the TSX Venture Exchange.

#### *US Public Offering (April 2024)*

On April 9, 2024, we closed a brokered US public offering, resulting in the issuance of 73,500 common shares of KWESST, for aggregate gross proceeds of \$1.4M (US\$1.0M) (the "April 2024 Public Offering").

As a part of the April 2024 Public Offering, the Company issued 73,500 common shares and 80,350 pre-funded warrants with an exercise price of \$0.01 ("Pre-funded Warrants") at a public offering price of \$8.80 (US\$6.50) per share and \$8.81 (US\$6.49) per Pre-funded Warrant, less the underwriting discount.

#### Brokers' Compensation and Share Offering Costs

ThinkEquity acted as sole book-running manager for the April 2024 Public Offering. As compensation for services rendered, the placement agent fees represent \$0.4875 per unit (being an aggregate of \$101,838 (US\$75,002) or 7.5% of the public offering price of the securities). In addition, the Company issued 7,692 warrants to purchase a number of common shares (the "Placement Agent Warrants"), representing 5% of the common shares and Pre-Funded Warrants sold in the April 2024 Public Offering. The Placement Agent Warrants will be exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the April 2024 Public Offering at an initial exercise price of \$11.032 (US\$8.125) per common share. The share offering costs related to the April 2024 Public Offering that was recognized in the consolidated financial statements of net loss and comprehensive loss was \$339,324 and recognized in equity was \$269,400.

The fair value of the broker compensation warrants at the closing of the April 2024 Public Offering was \$43,868, calculated using the Black Scholes model, and total share offering costs were \$608,724.

	<b>Initial Recognition</b>
Number of Warrants	7,692
Stock price (in USD)	\$ 7.45
Exercise price (in USD)	\$ 8.12
Black Scholes fair value (in USD)	\$ 4.20
Volatility	66%
Dividend Yield	Nil
Risk-free interest rate	3.86%
Expected life	5
Exchange rate (USD/CAD)	1.3578
<b>Weighted average fair value per warrant (CAD)</b>	<b>\$ 5.70</b>

#### *US Public Offering (June 2024)*

On June 14, 2024, we closed a brokered US public offering, resulting in the issuance of 290,000 common shares of KWESST, for aggregate gross proceeds of approximately \$2.3M (US\$1.7M) (the "June 2024 Public Offering").

As a part of the June 2024 Public Offering, the Company issued 290,000 common shares at a public offering price of \$8.00 (US\$5.80) per share, less the placement agent fees.

#### Brokers' Compensation and Share Offering Costs

ThinkEquity acted as sole book-running manager for the June 2024 Public Offering. As compensation for services rendered, the placement agent fees represent \$0.435 per common share (being an aggregate of \$173,469 (US\$126,150) or 7.5% of the public offering price of the securities). In addition, the Company issued to the placement agent 14,500 common share purchase warrants with an exercise price of \$10.00 (US\$7.25) per common share, exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the June 2024 Public Offering. All of the share offering costs related to the June 2024 Public Offering were recognized in equity.

The fair value of the broker compensation warrants at the closing of the June 2024 Public Offering was \$61,213, calculated using the Black Scholes model, and total share offering costs were \$384,509.

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	<b>Initial Recognition</b>
Number of Warrants	14,500
Stock price (in USD)	\$ 5.77
Exercise price (in USD)	\$ 7.25
Black Scholes fair value (in USD)	\$ 3.07
Volatility	66%
Dividend Yield	Nil
Risk-free interest rate	3.86%
Expected life	5
Exchange rate (USD/CAD)	1.3751
<b>Weighted average fair value per warrant (CAD)</b>	<b>\$ 4.22</b>

### *US Registered Direct Offering (August 2024)*

On August 13, 2024, we closed a registered direct offering for the purchase and sale of 471,500 common shares at a purchase price of \$2.74 (US\$2.00) per common share for gross proceeds of \$1.4M (US\$0.9M) (the "August 2024 Offering"). In a concurrent private placement, the Company issued unregistered warrants to purchase up to 471,500 common shares at an exercise price of \$3.43 (US\$2.50) per share that are immediately exercisable upon issuance and will expire five years following the date of issuance.

#### Brokers' Compensation and Share Offering Costs

H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2024 Offering. As compensation for services rendered, the placement agent fees were US\$70,725 or 7.5% of the public offering price of the securities). In connection with the closing of the August 2024 Offering, we issued Wainwright or its designees warrants to purchase up to an aggregate of 35,362 common shares at an exercise price of US\$2.50 per share, the warrants are exercisable upon issuance and have a expiry date of August 9, 2029. The shares offered as Brokers' Compensation related to the August 2024 Offering were recognized in equity.

In connection with the August 2024 Offering, Wainwright was also granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The November 1, 2024 and November 12, 2024 financings described in Note 27 fell entirely within the scope of the tail obligation and resulted in a payment of 7.5% of the gross proceeds to Wainwright upon closing of those transactions.

The fair value of the broker compensation warrants at the closing of the August 2024 Offering was \$28,632, calculated using the Black Scholes model. The share offering costs related to the August 2024 Offering that was recognized in the consolidated financial statements of net loss and comprehensive loss was \$202,242 and recognized in equity was \$281,869.

	<b>Initial Recognition</b>
Number of Warrants	35,362
Stock price (in USD)	\$ 1.43
Exercise price (in USD)	\$ 2.50
Black Scholes fair value (in USD)	\$ 0.59
Volatility	91%
Dividend Yield	Nil
Risk-free interest rate	3.12%
Expected life	2.5
Exchange rate (USD/CAD)	1.3723
<b>Weighted average fair value per warrant (CAD)</b>	<b>\$ 0.81</b>

### **2023 Activities**

#### *Share Consolidation*

On October 28, 2022, we finalized the consolidation of our common shares on the basis of one post-consolidation common share for every seventy pre-consolidation common shares issued and outstanding.

#### *U.S. IPO and Canadian Offering*

On December 9, 2022, we closed the U.S. IPO and the Canadian Offering. In the U.S. IPO, we sold 250,000 units at a public offering price of USD\$41.30 per unit (the "Unit"), consisting of one share of common stock and one warrant to purchase one share of common stock ("Warrant"). The Warrants have a per share exercise price of USD\$50.00 and can be exercised immediately. In connection with the closing of the U.S. IPO, the underwriter partially exercised its over-allotment option to purchase an additional 19,900 pre-funded common share purchase warrants ("Pre-Funded Warrants") at US\$41.20 (before underwriter discount) and 37,500 option warrants to purchase common shares at USD\$0.001 each. A Pre-Funded Warrant is a financial instrument that requires the holder to pay little consideration (exercise price of USD\$0.10) to receive the common share upon exercise of the Pre-Funded Warrant (see Note 15). The holder of Pre-Funded Warrants has no voting rights. All of these warrants expire on December 9, 2027.

In the Canadian Offering, we sold 72,639 units, each consisting of one common share and one warrant to purchase one common share, at a price to the public of USD\$41.30 per unit. The warrants will have a per common share exercise price of USD\$50.00, are exercisable immediately and expire in five years on December 9, 2027. Effective May 1, 2023, the warrants are listed on the TSX-V under the stock symbol of KWE.WT.U.

The closing of the U.S. IPO and Canadian Offering resulted in aggregate gross proceeds of \$19.4 million (USD\$14.1 million), before deducting underwriting discounts and offering expenses.

The common shares of KWESST and the Warrants sold in the U.S. IPO began trading on the Nasdaq Capital Market under the symbols "KWE" and "KWESW", respectively, on December 7, 2022.

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ThinkEquity acted as sole book-running manager for the U.S. IPO and PI Financial acted as sole book-running manager for the Canadian Offering.

### Accounting Treatment

Refer to Note 15 for the accounting of the warrants issued in the U.S. IPO and Canadian Offering and the July 2023 Private Placement accounted for as warrant liabilities.

The U.S. underwriter warrants as well as the Canadian broker options from the U.S. IPO and Canadian Offering, 13,495 warrants and 5,084 warrants respectively, were accounted for as equity on initial recognition. The U.S. underwriter warrants from the July 2023 Private Placement, 12,363 warrants, was accounted for as equity on initial recognition.

### Brokers' Compensation and Share Offering Costs

As consideration for the services provided in connection with the U.S. IPO, ThinkEquity received: (a) a broker-dealer cash commission of US\$835,000 (or CAD\$1,138,105) equal to 7.5% of the gross offering proceeds of the U.S. Offering; and (b) underwriter warrants (the "U.S. Underwriter Warrants") to purchase up to 13,495 common shares equal to 5% of the common shares and pre-funded common share purchase warrants issued under the U.S. Offering. Each U.S. Underwriter Warrant is exercisable to acquire one common share at a price of US\$51.625, exercisable as of June 4, 2023, and expiring on December 9, 2027.

As consideration for the services provided in connection with the Canadian Offering, PI Financial received: (a) a cash commission of approximately US\$210,000 (or CAD\$286,230); and (b) 5,084 compensation options (the "Canadian Compensation Options"). Each Canadian Compensation Option is exercisable to acquire one Canadian Unit at a price of US\$41.30 and expiring on December 9, 2024.

In addition to the above brokers' compensation, we also incurred US\$2.1 million share offering costs (or CAD\$2.8 million) for the U.S. IPO and Canadian Offering, of which CAD\$628,262 was incurred and deferred at September 30, 2022.

The total brokers compensation (including fair value of U.S. Underwriter Warrants and Canadian Compensation Options) and share offering costs was US\$3.2 million (or CAD\$4.4 million). This total was allocated proportionately to the fair value of common shares and to share offering costs for the portion allocated to warrants accounted for as warrant liabilities.

### Shares for Debt Settlement (December 2022)

We entered into share for debt arrangements with existing lenders, which closed on December 13, 2022, following TSXV's conditional approval. This resulted in issuing 5,614 Units to settle \$12,000 of the March 2022 Loans and USD\$223,321 (or CAD\$302,197) of the August 2022 Loans, including unpaid accrued interest and 10% premium at maturity (the "Debt Settlements") (see Note 12). The terms of the Units are the same as the Units issued in the Canadian Offering.

### Private Placement (July 2023)

On July 21, 2023, we closed a brokered private placement, resulting in the issuance of 154,219 common shares of KWESST, for aggregate gross proceeds of USD\$5,588,397 (approximately CAD\$7.4M) (the "July 2023 Offering").c

## **KWESST MICRO SYSTEMS INC.**

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As a part of the July 2023 Offering, the Company issued 154,219 common shares at a price of US\$22.60 (CAD\$29.80) per common share and 93,054 pre-funded warrants at a price of US\$22.59 (CAD\$29.79) per pre-funded warrant (each a "Pre-funded Warrant"), with each common share and Pre-funded Warrant being bundled with one common share purchase warrant of the Company (each a "Common Warrant"). Each Pre-Funded Warrant entitles the holder to acquire one common share at an exercise price of US\$0.01 per common share, and each Common Warrant is immediately exercisable and entitles the holder to acquire one common share at an exercise price of US\$26.60 (CAD\$35.00) per common share for a period of 60 months following the closing of the July 2023 Offering. Although the common shares and Pre-funded Warrants are each bundled with a Common Warrant, each security is issued separately.

### **Brokers' Compensation and Share Offering Costs**

ThinkEquity acted as sole placement agent for the Offering. As compensation for services rendered, the Company paid to ThinkEquity a cash fee of \$475,013.14 representing 8.5% of the aggregate gross proceeds of the Offering and issued 12,363 warrants to purchase a number of common shares (the "Placement Agent Warrants"), representing 5% of the common shares and Pre-Funded Warrants sold in the Offering. The Placement Agent Warrants will be exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the Offering at an initial exercise price of US\$26.60 (CAD\$35.00) per common share.

### **2022 Activities**

#### ***Private Placement***

On July 14, 2022, we closed a non-brokered private placement, resulting in the issuance of 2,285 units of KWESST ("July 2022 Units"), at a price of \$150.50 per July 2022 Unit (the "Issue Price"), for aggregate gross proceeds of \$344,000 (the "July 2022 Offering").

Each July 2022 Unit is comprised of one common share and seventy one-half common share purchase warrant (the "July 2022 Warrants"). Accordingly, we issued 80,000 Warrants exercisable at \$2.85 each for a period of 24 months from the closing date. Each Warrant converts into 0.01428571 common shares or 70 warrants for one common share. There was no finder fee paid in this private placement.

Certain of our directors and officers (the "Insiders") purchased 581 Units for a total consideration of \$87,500. The issuance of Units to the Insiders constitutes a related party transaction but is exempt from the formal valuation and minority approval requirements of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101") as KWESST's securities are not listed on any stock exchange identified in Section 5.5(b) of MI 61-101 and neither the fair market value of the units issued to the Insiders, nor the fair market value of the entire private placement, exceeds 25% of our market capitalization.

The securities were issued in accordance with applicable prospectus exemptions under Canadian securities laws.

#### ***Police Ordinance Acquisition***

As disclosed in Note 4(a), we issued 396 common shares to the selling shareholders in December 2021 at the closing of the acquisition and an additional 87 common shares in April 2022 following the achievement of the financial milestone as defined in the share purchase agreement.

#### ***Debt for Equity Settlement***

During the year ended September 30, 2022, we settled \$19,000 of legal fees for 143 common shares.

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**b) Warrants**

The following reflects the warrant activities:

	September 30, 2024		September 30, 2023		September 30, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	1,550,787	\$ 24.90	1,341,716	\$ 7.75	1,390,164	\$ 7.38
Issued	609,405	\$ 3.20	658,786	\$ 52.90	100,000	\$ 5.72
Exercised	(178,135)	\$ 0.02	(25,000)	\$ 5.00	(133,000)	\$ 2.56
Expired	(822,000)	\$ 2.10	(424,715)	\$ 18.60	(15,448)	\$ 5.63
Outstanding, end of year	1,160,057	\$ 32.30	1,550,787	\$ 24.90	1,341,716	\$ 7.75
Exercisable, end of year	1,147,559	\$ 32.60	1,538,286	\$ 25.00	1,279,215	\$ 8.15

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The following table provides additional information on the total outstanding warrants at September 30, 2024:

	Number outstanding	Conversion ratio to Common Shares		Book value	Expiry Date
<b>Classified as Equity</b>					
<i>LEC's Warrants:</i>					
Exercise price of \$7.00	50,000	70 for 1	\$	425,000	April 29, 2026
<i>Acquisition of Police Ordnance (Note 4):</i>					
Exercise price of \$17.20	20,000	70 for 1	\$	132,000	December 15, 2024
<i>December 2022 U.S. Underwriter Warrants</i>					
Exercise price of US\$51.625	13,495	1 for 1	\$	189,592	December 6, 2024
<i>July 2023 U.S. Underwriter Warrants</i>					
Exercise price of US\$26.60	12,363	1 for 1	\$	204,187	December 6, 2024
<i>April 2024 U.S. Underwriter Warrants</i>					
Exercise price of US\$8.125	7,692	1 for 1	\$	43,869	April 9, 2029
<i>June 2024 U.S. Underwriter Warrants</i>					
Exercise price of US\$7.25	14,500	1 for 1	\$	61,213	June 14, 2029
<i>August 2024 U.S. Underwriter Warrants</i>					
Exercise price of US\$2.50	35,362	1 for 1	\$	28,826	August 9, 2029
	153,412		\$	1,084,687	
<b>Classified as liability</b>					
<i>December 2022 Public Offerings:</i>					
Exercise price of US\$50.00	322,639	1 for 1	\$	65,765	December 9, 2027
<i>December 2022 Option Warrants</i>					
Exercise price of US\$51.625	37,500	1 for 1	\$	7,644	December 9, 2024
<i>December 2022 Debt Settlement</i>					
Exercise price of US\$50.00	5,614	1 for 1	\$	1,145	December 9, 2027
<i>July 2023 Public Offerings:</i>					
Exercise price of US\$26.60	154,219	1 for 1	\$	60,373	July 21, 2028
<i>July 2023 Pre-Funded Warrants</i>					
Exercise price of US\$0.01	15,173	1 for 1	\$	31,338	No expiry
<i>August 2024 Public Offering</i>					
Exercise price of US\$2.50	471,500	1 for 1	\$	681,030	August 9, 2029
	1,006,645			847,295	
<b>Total outstanding warrants</b>	<b>1,160,057</b>		<b>\$</b>	<b>1,931,982</b>	

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The weighted average fair value for the warrants issued during the year ended September 30, 2024, was determined by the Black Scholes option pricing model using the following key inputs:

	<b>August 2024 Warrants</b>	
Exercise Price (in USD)	\$	2.50
Stock price (in USD)	\$	1.43
Black Scholes fair value (in USD)	\$	1.00
Volatility		103%
Dividend Yield		Nil
Risk-free interest rate		3.03%
Expected life		5
Exchange rate (USD/CAD)		1.3499
<b>Weighted average fair value per warrant (CAD)</b>	<b>\$</b>	<b>1.35</b>

The weighted average fair value for the warrants issued during the year ended September 30, 2023, was determined by the Black Scholes option pricing model using the following key inputs:

	<b>2023 Warrants</b>		<b>2022 Warrants</b>
Exercise Price (in USD)	\$	26.60	\$ 50.00
Stock price (in USD)	\$	20.80	\$ 41.30
Volatility		67%	75%
Dividend Yield		Nil	Nil
Risk-free interest rate		4.44%	4.20%
Expected life		2.5	2.5
<b>Weighted average fair value per warrant (CAD)</b>	<b>\$</b>	<b>9.90</b>	<b>\$ 14.30</b>

The fair value for the warrants issued during the year ended September 30, 2022, was determined by the Black Scholes option pricing model using the following key inputs:

	<b>Acquisition of POC</b>		<b>July 2022 Warrants</b>
Exercise Price	\$	17.20	\$ 2.850
1/700 of stock price	\$	13.60	\$ 2.150
Volatility		84.7%	90.5%
Dividend Yield		Nil	Nil
Risk-free interest rate		1.04%	3.12%
Expected life		3	2
<b>Weighted average fair value per warrant CAD</b>	<b>\$</b>	<b>6.60</b>	<b>\$ 0.90</b>

**c) Contributed Surplus**

Contributed surplus consists of issued broker compensation options at fair value, the cumulative amortized fair value of share-based compensation grants since inception, less amounts transferred to share capital for exercises. If outstanding options expire or are forfeited, there is no reversal of contributed surplus.

*Broker Compensation Options*

In the Canadian Offering, we issued 5,084 Canadian Compensation Options. Each Canadian Compensation Option is exercisable to acquire one Unit, as defined in Note 16(a), at a price equal to \$56.29 (US\$41.30) for a period of two years (expiring on December 9, 2024). Based on the structure of the Compensation Option, management estimated its fair value using the Monte Carlo method (Level 2). We used the following key inputs in the Monte Carlo model (100,000 simulations):

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	<b>Initial Recognition</b>
Number of securities	5,084
Exercise price - compensation option (in USD)	\$ 41.30
1-Year CAD/USD Forward Exchange Rate	\$ 1.3560
Exercise price - compensation warrant (in USD)	\$ 50.00
2-Year CAD/USD Forward Exchange Rate	\$ 1.3483
Share price (in CAD)	\$ 42.00
Expected life - compensation option	1.00
Expected life - compensation warrant	2.50
Dividend	\$ -
Volatility - compensation option	90%
Volatility - compensation warrant	75%
Risk free rate - compensation option	4.38%
Risk free rate - compensation warrant	3.15%
<b>Fair value per compensation option (CAD)</b>	<b>\$ 24.60</b>

We have recorded \$125,086 of Canadian Compensation Options in contributed surplus, with an equal offset to share offering costs (a non-cash transaction).

*Share-based compensation*

On August 26, 2024, KWESST shareholders approved the renewal of the Long-Term Incentive Plan (the "LTIP"). The number of RSUs, PSUs, DSUs, and SARs (collectively "Share Units") authorized for issuance pursuant to the LTIP is 40,727 Share Units. Accordingly, we have 14,915 Share Units available for future grants.

Further, the disinterested shareholders (shareholders that are not directors, officers, or other insiders of the Company) of KWESST approved to revise the exercise price of 50,981 stock options to \$36.00, the closing price of KWESST common shares on the TSX-V on March 31, 2023. In accordance with IFRS 2, this resulted in an immediate fair value increase of \$77,001 included in share-based compensation, with an offset to contributed surplus.

For the year ended September 30, 2024, we recorded share-based compensation of \$291,761 (2023 - \$373,554, 2022 - \$1,960,072).

## KWESST MICRO SYSTEMS INC.

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### (i) Stock Options

The following is summary of changes in outstanding stock options for the respective periods:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2021	5,953	\$ 959.00
Granted	950	\$ 695.90
Cancelled	(1,192)	\$ 1,317.60
Outstanding at September 30, 2022	5,711	\$ 838.70
Granted	34,000	\$ 25.90
Exercised	(112)	\$ 36.00
Cancelled	(607)	\$ 706.50
Outstanding at September 30, 2023	38,992	\$ 28.00
Cancelled	(13,181)	\$ 31.10
<b>Outstanding at September 30, 2024</b>	<b>25,811</b>	<b>\$ 26.44</b>
<b>Options exercisable at September 30, 2024</b>	<b>14,061</b>	<b>\$ 27.23</b>

At September 30, 2024, the weighted average remaining vesting period was 0.87 years (2023 - 1.87 years, 2022 - 0.88 years).

For the options granted during the year ended September 30, 2024, the per share weighted-average fair value of stock options was \$nil (2023 - \$14.20, 2022 - \$382.10), using the Black-Scholes option model with the following weighted-average assumptions:

	2024	2023	2022
Stock price	\$1.75 to \$24.50	\$25.50 to \$40.00	\$147.00 to \$1,267.00
Exercise price	Nil	\$25.50 to \$40.00	\$147.00 to \$1,267.00
Volatility	Nil	96.37%	90.48%
Dividend yield	Nil	Nil	Nil
Risk-free interest rate	Nil	4.65%	2.04%
Expected life (years)	Nil	2.93	2.91
<b>Weighted-average fair value per option</b>	<b>Nil \$</b>	<b>14.20</b>	<b>\$382.06</b>

The following table summarizes information about stock options outstanding at September 30, 2024:

Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average outstanding strike price	Exercisable	Remaining exercisable contractual life	Weighted average exercisable strike price
\$25.50	23,500	2.88	\$ 25.50	11,750	2.88	\$ 25.50
\$36.00	2,311	2.55	\$ 36.00	2,311	2.55	\$ 36.00
	25,811	2.85	\$ 26.44	14,061	2.83	\$ 27.23

### Amendment to stock option grants

For the years ended September 30, 2024 and 2023, we had no amended stock option grants.

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## (ii) Share Units

The following table shows the changes in Share Units:

	RSUs	PSUs	SARs	Total
Outstanding at September 30, 2021	1,628	285	214	2,127
Granted	1,072	1,794	51	2,917
Vested and converted to common shares	(568)	(266)	-	(834)
Vested and repurchased for withholding taxes	(14)	(24)	-	(38)
Expired / cancelled	-	(1,771)	-	(1,771)
<b>Outstanding at September 30, 2022</b>	<b>2,118</b>	<b>18</b>	<b>265</b>	<b>2,401</b>
Granted	-	-	-	-
Vested and converted to common shares	(2,010)	(18)	-	(2,028)
Vested and repurchased for withholding taxes	-	-	-	-
Expired / cancelled	-	-	-	-
<b>Outstanding at September 30, 2023</b>	<b>108</b>	<b>-</b>	<b>265</b>	<b>373</b>
Granted	-	-	-	-
Vested and converted to common shares	-	-	-	-
Vested and repurchased for withholding taxes	-	-	-	-
Expired / cancelled	(108)	-	(265)	(373)
<b>Outstanding at September 30, 2024</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*RSUs:*

Each RSU entitles the holder to receive one common share in the future, based on continued service during the applicable period.

During the year ended September 30, 2024, we did not grant any RSUs (2023 - nil, 2022 - 1,072), with a weighted-average grant date fair value of \$nil per unit (2023 - \$nil, 2022 - \$435). There were no outstanding RSUs at September 30, 2024 (2023 - weighted average vesting period was 0.1 years, 2022 - weighted average vesting period was 0.18 years).

*PSUs:*

Each PSU entitles the holder to receive one common share in the future, based on the achievement of established performance criteria and continued service during the applicable performance period.

During the year ended September 30, 2024, we did not grant any PSUs (2023 - nil, 2022 - 1,794), with a weighted-average grant date fair value of \$nil per unit (2023 - \$nil, 2022 - \$1,267). There were no outstanding PSUs at September 30, 2024 (2023 - fully vested, 2022 - fully vested).

*SARs:*

Each SAR entitles the holder to receive cash or common share at our discretion in the future, based on continued service during the applicable period. The amount of the cash payment or the value of common shares is determined based on the increase of the share price of KWESST between the grant date and the exercise date. Because we intend to always settle in common shares, we account for SARs as equity-settled awards.

During the year ended September 30, 2024, we did not grant any SARs (2023 - nil, 2022 - 51) at an exercise price of \$nil (2023 - \$nil, 2022 - \$1,267). There were no outstanding SARs at September 30, 2024.

**KWESST MICRO SYSTEMS INC.**

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## (iii) Share-based Compensation

For the year ended September 30, 2024, we recorded share-based compensation of \$291,761 (2023 - \$373,554, 2022 - \$1,960,072).

The following table presents a breakdown of total share-based compensation expense by function:

	Year ended September 30, 2024		Year ended September 30, 2023		Year ended September 30, 2022
General and administrative	\$ 189,692	\$	246,436	\$	1,104,858
Selling and marketing	-		53,800		552,627
Research and development, net	102,069		73,318		302,587
<b>Total share-based compensation</b>	<b>\$ 291,761</b>	\$	<b>373,554</b>	\$	<b>1,960,072</b>

**17. Loss per share**

As disclosed in Note 1(b), and Note 1(c), the Reverse Splits have been applied retrospectively herein.

The following table summarizes the calculation of the weighted average basic number of basic and diluted common shares to calculate the loss per share as reported in the statements of net loss and comprehensive loss:

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
Issued common shares, beginning of year	561,678	77,322	69,951
<i>Effect of shares issued from:</i>			
Debt settlements	3,369	4,475	13
April 2024 U.S. Public Offering (Note 16(a))	34,942	-	-
June 2024 U.S. Public Offering (Note 16(a))	85,573	-	-
August 2024 U.S. Public Offering (Note 16(a))	61,836	-	-
December 2022 U.S. IPO and Canadian Offering (Note 16(a))	-	260,763	-
Over-allotment Pre-Funded Warrants (Note 15)	-	16,083	-
July 2023 Private Placement (Note 16(a))	-	29,998	-
July 2023 Pre-Funded Warrants (Note 15)	-	18,101	-
Conversion of stock units	-	1,181	370
Exercise of options	-	267	-
Exercise of warrants	79,737	33	1,059
Issuance of bonus shares	-	-	826
Private placements	-	-	457
Acquisition of Police Ordnance (Note 4)	-	-	314
Conversion of contingent shares	-	-	38
<b>Weighted average number of basic common shares</b>	<b>827,135</b>	<b>408,223</b>	<b>73,028</b>
<i>Dilutive securities:</i>			
Stock options	-	-	-
Warrants	-	-	-
<b>Weighted average number of dilutive common shares</b>	<b>827,135</b>	<b>408,223</b>	<b>73,028</b>

At September 30, 2024, 2023 and 2022, all dilutive securities were anti-dilutive because we incurred a net loss for the years.

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**18. Revenue**

## a) Revenue streams

KWESST generates revenue from the sale of products to its customers.

## b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines, and timing of revenue recognition.

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
<b>Major products / service lines</b>			
Digitization	\$ 1,034,257	\$ 819,604	\$ 354,620
Less-Lethal	465,082	411,758	330,658
Training and services	1,028	-	34,590
Other	3,961	3,088	1,651
	<b>\$ 1,504,328</b>	<b>\$ 1,234,450</b>	<b>\$ 721,519</b>
<b>Primary geographical markets</b>			
United States	\$ 155,103	\$ 42,780	\$ 389,210
Canada	1,349,225	743,200	332,309
Europe	-	448,470	-
	<b>\$ 1,504,328</b>	<b>\$ 1,234,450</b>	<b>\$ 721,519</b>
<b>Timing of revenue recognition</b>			
Products and services transferred over time	\$ 1,035,285	\$ 819,604	\$ 389,210
Products transferred at a point in time	469,043	414,846	332,309
	<b>\$ 1,504,328</b>	<b>\$ 1,234,450</b>	<b>\$ 721,519</b>

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not yet recognized") and includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. At September 30, 2024, our contracted not yet recognized revenue was \$261,815 (2023 - \$496,199, 2022 - \$625,177), of which 100% of this amount is expected to be recognized over the next 12 months.

For the year ended September 30, 2024, two customers accounted for 36% and 20% (2023 - two customers accounted for 23% and 18%, 2022 - one customer accounted for 41%) of revenue.

**KWESST MICRO SYSTEMS INC.**

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**19. Expenses by nature**

The following table presents a breakdown of expenses by nature for the following periods:

	Year ended September 30, 2024		Year ended September 30, 2023		Year ended September 30, 2022
Employee benefits	\$ 4,670,646	\$	3,011,923	\$	4,883,062
Advertising and promotion	60,823		19,090		1,352,750
Consulting fees	1,294,949		2,743,272		1,315,917
Professional fees	967,938		940,667		1,028,240
Travel and conferences	385,759		804,481		518,140
R&D consulting and material costs, net	774,261		556,013		420,378
Depreciation and amortization	1,277,911		952,508		326,491
Impairment of intangible assets	-		1,174,354		-
Impairment of inventory	113,283		-		-
Other expenses	434,682		691,566		266,822
Insurance	690,014		716,931		236,150
Transfer agent and listing fees	151,854		120,690		94,885
Royalty and license costs	-		305,918		-
<b>Total expenses</b>	<b>10,822,120</b>		<b>12,037,413</b>		<b>10,442,835</b>
Allocation to cost of sales:					
Employee benefits	(536,245)		(123,803)		(166,706)
<b>Total operating expenses</b>	<b>\$ 10,285,875</b>	\$	<b>11,913,610</b>	\$	<b>10,276,129</b>

**20. Depreciation and Amortization**

The following table presents total depreciation and amortization expense of property and equipment, intangible assets, and right-of-use assets by function:

	2024		2023		2022
General and administrative	\$ 1,242,748	\$	833,029	\$	123,960
Selling and marketing	13,655		77,804		129,265
Research and development	21,508		41,675		73,266
<b>Total depreciation and amortization</b>	<b>\$ 1,277,911</b>	\$	<b>952,508</b>	\$	<b>326,491</b>

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**21. Net finance costs**

The following table presents a breakdown of net finance costs for the following periods:

	Year ended September 30, 2024		Year ended September 30, 2023		Year ended September 30, 2022
Interest expense from:					
Unsecured loan	\$ -		\$ 503,251	\$	321,313
Accretion cost - accrued royalties liability	180,965		170,373		159,451
Lease obligations	70,351		37,786		30,112
CEBA term loan	-		8,281		-
Other	694		3,857		1,114
Total interest expense	252,010		723,548		511,990
Interest income	(55,687)		(55,514)		(5,988)
Net finance costs	\$ 196,323	\$	668,034	\$	506,002

**22. Income taxes**

## a) Income tax recovery

Income tax recovery is made up of the following components:

	Year end ended September 30, 2024		Year ended September 30, 2023		Year ended September 30, 2022
Current income tax recovery (expense):	-		-		-
Deferred income tax (recovery) expense:	-		-		(49,442)
	\$ -	\$	-	\$	(49,442)

## b) Reconciliation of effective income tax rate

Our effective income tax rate differs from the statutory rate of 26.5% that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following:

## KWESST MICRO SYSTEMS INC.

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars, except share amounts)

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
Loss before income taxes	\$ (7,437,759)	(9,306,360)	(10,569,732)
Expected statutory tax rate	26.5%	26.5%	26.5%
Expected tax recovery resulting from loss	(1,971,006)	(2,466,185)	(2,800,979)
Increase (reduction) in income taxes resulting from:			
Non-deductible expenses	130,295	149,270	563,842
Foreign operations subject to different tax rates	(21)	1,447	5,329
Fair value of warrant liabilities	(814,569)	(1,547,916)	-
Unrecognized temporary differences	2,655,301	3,863,384	2,182,366
	\$ -	\$ -	\$ (49,442)

KWESST claims research and development deductions for tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to audit by the Canada Revenue Agency ("CRA") and any adjustments that results could affect ITCs recorded in the consolidated financial statements. The following table shows the breakdown of R&D expenses, net of ITCs:

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
R&D expenses	\$ 2,477,736	\$ 1,644,565	\$ 2,064,493
Less:			
Investment tax credits	-	-	-
<b>R&amp;D expenses, net</b>	<b>\$ 2,477,736</b>	<b>\$ 1,644,565</b>	<b>\$ 2,064,493</b>

### c) Deferred tax balances

The following tables deferred tax assets (liabilities) have been recognized in the consolidated financial statements:

	Balance at September 30, 2023	Arising on a business combination	Recognized in profit or loss	Balance at September 30, 2024
<i>Deferred tax assets (liabilities):</i>				
Net operating loss carryforwards	16,869	-	(3,271)	13,598
Intangibles and development costs	(16,869)	-	3,271	(13,598)
	\$ -	\$ -	\$ -	\$ -

**KWESST MICRO SYSTEMS INC.**

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	Balance at September 30, 2022	Arising on a business combination	Recognized in profit or loss	Balance at September 30, 2023
<i>Deferred tax assets (liabilities):</i>				
Net operating loss carryforwards	26,459	-	(9,590)	16,869
Impairment provision	(26,459)	-	9,590	(16,869)
	\$ -	\$ -	\$ -	\$ -

	Balance at September 30, 2021	Arising on a business combination	Recognized in profit or loss	Balance at September 30, 2022
<i>Deferred tax assets (liabilities):</i>				
Net operating loss carryforwards	-	-	26,459	26,459
Impairment provision	-	(49,442)	22,983	(26,459)
	\$ -	\$ (49,442)	\$ 49,442	\$ -

## d) Unrecognized net deferred tax assets

Deferred taxes reflect the impact of loss carryforwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax laws. However, KWESST has not recorded net deferred tax assets at September 30, 2024 and 2023 on the following deductible temporary differences, due to the uncertainty involved in determining whether these deferred tax assets will be realized upon expiration due to KWESST's limited history and cumulative operating losses since its inception.

The following is a summary of KWESST's unrecognized deductible temporary differences:

	Balance at September 30, 2024	Balance at September 30, 2023	Balance at September 30, 2022
Net operating loss carryforwards	42,737,987	30,178,141	18,589,894
Share issuance costs	5,072,949	5,275,081	1,298,783
Intangibles and development costs	171,182	1,356,922	608,705
Scientific research and development expenditures	1,583,058	1,583,058	1,583,058
Other	1,496,897	1,467,509	46,300
	\$ 51,062,073	\$ 39,860,711	\$ 22,126,740

## KWESST MICRO SYSTEMS INC.

Notes to Consolidated Financial Statements

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### e) Available net operating losses

At September 30, 2024, KWESST has the following net operating losses in Canada available to reduce future year's taxable income which expire as follows:

Year of Expiry	Amount
2036	\$ 508,324
2037	747,861
2038	1,174,797
2039	1,732,039
2040	338,504
2041	5,518,336
2042 and thereafter	32,718,126
	\$ 42,737,987

### f) Available research and development investment tax credits

The Company has the following research and development investment tax credits available to reduce future years' income taxes payable which expire as follows:

Year of Expiry	Amount
2038	\$ 13,361
2039	6,742
2040	-
2041	328,480
2042 and thereafter	-
	\$ 348,583

## 23. Financial instruments

### *Fair value of financial instruments*

The fair values of our cash, restricted short-term investment, trade and other receivables (excluding sales tax recoverable), accounts payable and accrued liabilities, and deposit (included in non-current other assets), approximate carrying value because of the short-term nature of these instruments.

Under IFRS, the levels of fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not observable market data (unobservable inputs).

The lease deposit, accrued royalties liability, warrant liabilities and borrowings were recorded at fair value at initial recognition. The fair value measurement for these was Level 2. Subsequently, these were measured at amortized cost and accreted to their nominal value over their respective terms, except warrant liabilities that are measured at fair value. Except for warrant liabilities, the carrying values approximate the fair values. At September 30, 2024, the fair value for accrued royalties liability determined using a discount rate of 24% (2023 - 24%, 2022 - 24%) would be \$1,014,212 (2023 - \$928,776, 2022 - \$869,219, 2021 - \$1,105,756).

### *Financial risk management*

We are exposed to a number of financial risks arising through the normal course of business as well as through its financial instruments. Our overall business strategies, tolerance of risk and general risk management philosophy are determined by our Board of Directors in accordance with prevailing economic and operating conditions.

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### (a) Interest rate risk

Interest rate risk is the risk that the fair value of cash flows of a financial instrument will fluctuate because of changes in market interest rates. At September 30, 2024, our loans were all repaid and therefore not subject to interest rate risk. At September 30, 2023, our loans were all repaid and therefore not subject to interest rate risk. At September 30, 2022, our borrowings were all subject to fixed interest rates and therefore these were not subject to interest rate risk.

### (b) Foreign currency risk

Foreign currency risk is the risk that the future cash flows or fair value of our financial instruments that are denominated in a currency that is not our functional currency will fluctuate due to a change in foreign exchange rates.

For the years ended September 30, 2024, 2023 and 2022, 10% (2023 - 3%, 2022 - 54%) of the Company's revenue was denominated in U.S. dollar driven by contracts with U.S. prime contractors in the defense sector. We also procure certain raw materials denominated in U.S. dollar for product development. Accordingly, we are exposed to the U.S. dollar currency. Where a natural hedge cannot be achieved, a significant change in the U.S. dollar currency could have a significant effect on our financial performance, financial position, and cash flows. Currently, we do not use derivative instruments to hedge its U.S. dollar exposure. Throughout the year we maintained the majority of our cash assets in USD and converted to CAD as needed as we primarily raise our funds in USD.

At September 30, 2024, we had the following net U.S. dollar exposure:

	<b>Total USD</b>
<b>Net assets in U.S. subsidiary</b>	\$ -
<b>US denominated:</b>	
Assets	\$ 156,286
Liabilities	(324,094)
<b>Net US dollar exposure</b>	<b>\$ (167,808)</b>
<b>Impact to profit or loss if 5% movement in the US dollar</b>	<b>\$ (8,390)</b>

During the year ended September 30, 2024, we recorded foreign exchange gain of \$59,903 (2023 - foreign exchange loss of \$98,275, 2022 - foreign exchange gain of \$28,780).

### (c) Credit risk

Credit risk is the risk of financial loss to KWESST if a counterparty to a financial instrument fails to meet its contractual obligations. Our credit risk exposure is limited to cash, and trade and other receivables. Refer to Note 5 for the breakdown of our trade and other receivables. We enter into contracts with either large, financially sound global general contractors or law enforcement agencies, which mitigates the credit risk. At September 30, 2024, our trade receivable was \$455,049 (2023 - \$68,530, 2022 - \$114,877), of which \$27,779 was overdue by more than 60 days from law enforcement agencies.

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*(d) Liquidity risk*

Liquidity risk is the risk that we will be unable to meet our financial obligations as they become due. Our objective is to ensure that we have sufficient cash to meet our near-term obligations when they become due, under both normal and stressed condition, without incurring unacceptable losses or risking reputational damage to KWESST. A key risk in managing liquidity is the degree of uncertainty in our cash flows due to our early stage in operations and the need for additional capital to fund our business strategies (see Note 2(a)).

At September 30, 2024, our contractual obligations were as follows:

Payment due:	Total	Within 1 Year	1 to 3 years	3 to 5 years	5 years and beyond
Minimum royalty commitments	\$ 2,200,000	\$ 200,000	\$ 450,000	\$ 550,000	\$ 1,000,000
Accounts payable and accrued liabilities	1,660,637	1,660,637	-	-	-
Lease obligations	361,272	206,827	154,445	-	-
<b>Total contractual obligations</b>	<b>\$ 4,221,909</b>	<b>\$ 2,067,464</b>	<b>\$ 604,445</b>	<b>\$ 550,000</b>	<b>\$ 1,000,000</b>

At September 30, 2024, we had \$256,828 in cash and \$1,133,226 in negative working capital (current assets less current liabilities). Refer to Note 27 for financing activities subsequent to September 30, 2024.

**24. Supplemental cash flow information**

The following table presents changes in non-cash working capital:

	Year ended September 30, 2024	Year ended September 30, 2023	Year ended September 30, 2022
Trade and other receivables	\$ (267,606)	\$ (128,387)	\$ 631,801
Inventories	9,225	(148,850)	49,446
Prepaid expenses and other	383,357	(440,242)	425,876
Deferred costs	(35,596)	-	-
Accounts payable and accrued liabilities	(257,257)	(1,666,486)	2,515,289
Contract liabilities	(399)	73,699	17,410
Warrant liabilities	(25,395)	-	-
Accrued royalties liability	(150,000)	-	-
	<b>\$ (343,671)</b>	<b>\$ (2,310,266)</b>	<b>\$ 3,639,822</b>

The following is a summary of non-cash items that were excluded from the Statements of Cash Flows for the year ended September 30, 2024:

- 4,670 shares issued for debt settlement of \$97,615. The debt resulted in a tail obligation relating to services rendered by a third-party consultant;
- \$44,868 non-cash share offering costs as part of the net proceeds settlement at the closing of the April 2024 US Public Offering (see Note 16(a));
- \$61,213 non-cash share offering costs as part of the net proceeds settlement at the closing of the June 2024 US Public Offering (see Note 16(a));
- \$28,631 non-cash share offering costs as part of the net proceeds settlement at the closing of the August 2024 US Registered Direct Offering (see Note 16(a)); and
- 178,131 warrants exercised throughout Fiscal 2024 in connection with past financings (see Note 15).

The following is a summary of non-cash items that were excluded from the Statements of Cash Flows for the year ended September 30, 2023:

## KWESST MICRO SYSTEMS INC.

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(Expressed in Canadian dollars, except share amounts)

- \$2,924,880 non-cash share offering costs and \$453,102 accounts payables as part of the net proceeds settlement at the closing of the U.S. IPO and Canadian Offering;
- 25,000 warrants exercised in connection with the GhostStep™ acquisition in June 2020; and
- \$529,504 of shares issued for vested RSUs and PSUs.

The following is a summary of non-cash items that were excluded from the consolidated statements of cash flows for the year ended September 30, 2022:

- \$83,319 fair value of 87 contingent shares settled via common shares (see Note 4(a));
- \$19,000 debt settlement via common shares;
- \$61,173 fair value of warrants exercised and transferred to share capital from warrants; and
- \$125,000 for 25,000 warrants exercised in connection with the GhostStep™ acquisition in June 2020.

### 25. Segmented information

Our Executive Chairman has been identified as the chief operating decision maker. Our Executive Chairman evaluates the performance of KWESST and allocates resources based on the information provided by our internal management system at a consolidated level. We have determined that we have only one operating segment.

At September 30, 2024, we had one right-of-use asset (\$49,563) (2023 - \$79,867, 2022 - \$nil), some inventory (\$153,087) (2023 - \$78,039, 2022 - \$nil), and equipment (\$76,222) (2023 - \$71,906, 2022 - \$70,557) in the United States while all other property and equipment are located in Canada.

### 26. Capital management

Our objective in managing our capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. Our senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support our growth strategy. Our Board of Directors is responsible for overseeing this process. From time to time, we could issue new common shares or debt to maintain or adjust our capital structure (see Note 27). KWESST is not subject to any externally imposed capital requirements.

KWESST's capital is composed of the following:

	September 30, 2024	September 30, 2023
<b>Debt:</b>		
Lease obligations	\$ 302,223	\$ 429,523
<b>Equity:</b>		
Share capital	37,822,725	33,379,110
Warrants	1,084,687	1,042,657
Contributed surplus	5,152,753	4,769,115
Accumulated other comprehensive loss	(38,520)	(39,663)
Accumulated deficit	(42,653,358)	(35,215,599)
<b>Total capital</b>	<b>\$ 1,670,510</b>	<b>\$ 4,365,143</b>

## KWESST MICRO SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended September 30, 2024, 2023, and 2022

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### 27. Subsequent Events

On October 21, 2024, the Company received approval of the TSX Venture Exchange (the "TSX-V") for the consolidation of the Company's issued and outstanding common shares on the basis of ten (10) pre-consolidation Shares for each one (1) post-consolidation Share (the "Consolidation"). The Shares began trading on the TSX-V and Nasdaq Capital Market (the "Nasdaq", and together with the TSX-V, the "Exchanges") on a consolidated basis on October 23, 2024.

On November 1, 2024, the Company announced the closing of a public offering of 3,889,000 pre-funded warrants ("PFW") at a public offering price of \$1.25 (US\$0.90) per common share. The gross proceeds from the offering were approximately \$4.9 million (US\$3.5 million), before deducting placement agent fees of \$0.094 (US\$0.0675) per common share (being an aggregate of \$365,726 (US\$262,508) or 7.5% of the public offering price of the securities) and estimated offering expenses were approximately \$417,960 (US\$300,000). In addition, the Company issued to the placement agent as compensation for its services 194,450 common share purchase warrants with an exercise price of \$1.567 (US\$1.125) per share.

On November 11, 2024, the Company issued a total of 119,047 common shares at a deemed price per common share of \$0.84 per share, representing a 20% discount on the closing price of the Shares on the TSXV for settlement for reimbursement of business expenses incurred while representing the Company in an aggregate amount of \$100,000 owed to a company controlled by Mr. David Luxton, Executive Chairman of the Company.

On November 12, 2024, the Company announced the closing of a brokered private placement offering to an institutional accredited investor for aggregate gross proceeds of approximately \$3.4 million (approximately US\$2.5 million). As a part of the Offering, the Company issued 4,145,200 pre-funded warrants to acquire one common share of the Company, no par value per share at a price of \$0.824 (US\$0.592) per pre-funded warrant, inclusive of the exercise price of \$0.001 per common share. Although the financing was denominated in CAD, the terms of the deal allowed for the proceeds to be sent to the Company in USD for convenience. Each Pre-funded Warrant was bundled with one common share purchase warrant of the Company. Each Common Warrant is immediately exercisable and entitles the holder to acquire one common share at an exercise price of \$1.03 (US \$0.74) per common share for a period of 5 years following the closing of the Offering.

In December 2024, the LEC royalty payment due April 2025, in the amount of \$200,000 was paid early to DEFSEC in exchange for a \$25,000 reduction resulting in a net payment of \$175,000.

ITEM 19. EXHIBITS

Financial Statements

Description	Page
Consolidated Financial Statements and Notes	F1- F53

Exhibit	
No. Item	Description of Exhibit
1.1	Articles of Amendment, as updated September 4, 2020 ( <a href="#">incorporated by reference to Exhibit 3.2 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
2.1	Description of securities registered under Section 12 of the Exchange Act ( <a href="#">incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 20-F filed with the SEC on January 27, 2023</a> )
2.2	Form of Underwriter Warrant For U.S. IPO ( <a href="#">incorporated by reference to Exhibit 4.1 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.3	Form of Warrant Agency Agreement for U.S. IPO Warrants ( <a href="#">incorporated by reference to Exhibit 4.2 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.4	Form of U.S. IPO Warrant ( <a href="#">incorporated by reference to Exhibit 4.3 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.5	Form of U.S. IPO Pre-funded Warrant ( <a href="#">incorporated by reference to Exhibit 4.4 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.6	Form of Warrant Indenture for Canadian Warrants ( <a href="#">incorporated by reference to Exhibit 4.5 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.7	Form of Warrant Certificate for Canadian Warrants ( <a href="#">incorporated by reference to Exhibit 4.6 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )
2.8	Form of Canadian Compensation Option Certificate ( <a href="#">incorporated by reference to Exhibit 4.7 to the Company's Form F-1 filed with the SEC on November 7, 2022</a> )

2.9	Common Share Purchase Warrant Indenture between KWESST Micro Systems Inc. and TSX Trust Company, dated April 29, 2021 ( <a href="#">incorporated by reference to Exhibit 10.7 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
2.10	First Supplemental Warrant Indenture between KWESST Micro Systems Inc. and TSX Trust Company, dated August 25, 2021 ( <a href="#">incorporated by reference to Exhibit 10.8 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
2.11	Form of Private Placement Warrant (included in Exhibit 4.11 hereto)
2.12	Form of Private Placement Pre-funded Warrant (included in Exhibit 4.11 hereto)
2.13	Form of Private Placement Agent's Warrant (included in Exhibit 4.11 hereto)
2.14	Form of Pre-funded Warrant dated April 4, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 of the Company's Form 6-K filed with the SEC on April 8, 2024</a> )
2.15	Form of Underwriter Warrant dated April 4, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 of the Company's Form 6-K filed with the SEC on April 8, 2024</a> )
2.16	Placement Agent Warrant dated June 12, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 of the Company's Form 6-K, filed with the SEC on June 14, 2024</a> )
2.17	Form of Warrant dated August 9, 2024 ( <a href="#">incorporated by reference to Exhibit 4.1 of the Company's Form 6-K, filed with the SEC on August 12, 2024</a> )
2.18	Form of Placement Agent Warrant dated August 9, 2024 ( <a href="#">incorporated by reference to Exhibit 4.2 of the Company's Form 6-K, filed with the SEC on August 12, 2024</a> )
2.19	Form of Placement Agent Warrant dated October 28, 2024 ( <a href="#">incorporated by reference to Exhibit 4.1 of the Company's Form F-1 filed with the SEC on October 28, 2024</a> )
2.20	Form of Pre-funded Warrant dated October 28, 2024 ( <a href="#">incorporated by reference to Exhibit 4.2 of the Company's Form F-1 filed with the SEC on October 28, 2024</a> )
2.21	Form of Amended Pre-funded Warrant dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 4.20 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
2.22	Form of Pre-funded Warrant dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 4.21 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
2.23	Form of Warrant dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 4.22 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
2.24	Form of Placement Agent Warrant dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 4.23 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
3.1	Voting Agreement among KWESST Micro Systems Inc., David Luxton, and Jeff MacLeod, dated September 14, 2020 ( <a href="#">incorporated by reference to Exhibit 9.1 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.1	Amalgamation Agreement among KWESST Micro Systems Inc., Foremost Ventures Corp. and 2751530 Ontario Ltd., dated April 30, 2020 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.2	Definitive Technology Purchase Agreement between KWESST Micro Systems Inc. and DEFSEC Corporation, dated January 15, 2021 ( <a href="#">incorporated by reference to Exhibit 10.2 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.3	GhostStep Technology Purchase Agreement, between KWESST Micro Systems Inc. and SageGuild, LLC, dated June 12, 2020 ( <a href="#">incorporated by reference to Exhibit 10.3 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )

4.4	Long-Term Performance Incentive Plan, effective March 31, 2022 ( <a href="#">incorporated by reference to Exhibit 10.9 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.5	Professional Services Agreement among KWESST Inc., DEFSEC Corporation and David Luxton, dated October 1, 2019 ( <a href="#">incorporated by reference to Exhibit 10.11 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.6	Master Professional Services Agreement between KWESST Inc. and General Dynamics Land Systems - Canada Corporation doing business as General Dynamics Mission Systems - Canada, dated December 1, 2021 ( <a href="#">incorporated by reference to Exhibit 10.15 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.7	Subcontractor Agreement between KWESST Micro Systems Inc. and CounterCrisis Tech, dated July 6, 2022 ( <a href="#">incorporated by reference to Exhibit 10.17 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
4.8†	Canadian Government Contract amongst Modis Canada Inc., Thales Canada Inc., KWESST Inc. and the Canadian Department of National Defence, dated May 1, 2023 ( <a href="#">incorporated by reference to Exhibit 10.11 to the Company's Form F-1 filed with the SEC on August 2, 2023</a> )
4.9	Amended and Restated Employment Contract between KWESST Inc. and Sean Homuth, dated November 27, 2023 ( <a href="#">incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024</a> )
4.10	Form of Placement Agency Agreement between KWESST Micro Systems Inc. and ThinkEquity LLC, dated July 18, 2023 ( <a href="#">incorporated by reference to Exhibit 10.13 to the Company's Form F-1 filed with the SEC on August 2, 2023</a> )
4.11†	Form of Securities Purchase Agreement dated July 18, 2023 between KWESST Micro Systems Inc. and the Purchasers ( <a href="#">incorporated by reference to Exhibit 10.14 to the Company's Form F-1 filed with the SEC on August 2, 2023</a> )
4.12	Form of Registration Rights Agreement dated July 18, 2023 ( <a href="#">incorporated by reference to Exhibit 10.15 to the Company's Form F-1 filed with the SEC on August 2, 2023</a> )
4.13	Employment Contract between KWESST Inc. and Harry Webster, dated August 28, 2023 ( <a href="#">incorporated by reference to Exhibit 4.13 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024</a> )
4.14	Employment Contract between KWESST Inc. and Kris Denis, dated November 23, 2023 ( <a href="#">incorporated by reference to Exhibit 4.14 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024</a> )
4.15	Underwriting Agreement by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated April 4, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on April 8, 2024</a> )
4.16†	Sub-Tier Subcontract Agreement by and between KWESST Inc. and Thales Canada Inc., dated June 7, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on June 12, 2024</a> )
4.17	Placement Agency Agreement by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated June 12, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on June 13, 2024</a> )
4.18	Form of Securities Purchase Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto dated August 9, 2024 ( <a href="#">incorporated by reference to Exhibit 10.1 of the Company's Form 6-K, filed with the SEC on August 12, 2024</a> )
4.19	Form of Placement Agency Agreement by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated October 28, 2024 ( <a href="#">incorporated by reference to Exhibit 1.1 of the Company's Form F-1 filed with the SEC on October 28, 2024</a> )
4.20	Form of Securities Purchase Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto, dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 10.2 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
4.21	Form of Registration Rights Agreement, by and between KWESST Micro Systems Inc. and the Purchasers thereto, dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 10.3 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )

4.22	Form of Placement Agency Agreement, by and between KWESST Micro Systems Inc. and ThinkEquity LLC, dated November 12, 2024 ( <a href="#">incorporated by reference to Exhibit 10.4 of the Company's Form F-3 filed with the SEC on November 29, 2024</a> )
8.1	List of Subsidiaries of KWESST Micro Systems Inc. ( <a href="#">incorporated by reference to Exhibit 21.1 to the Company's Form F-1 filed with the SEC on September 16, 2022</a> )
<a href="#">11.1</a>	<a href="#">Code of Business Conduct and Ethics</a>
<a href="#">11.2</a>	<a href="#">Information Disclosure Policy</a>
<a href="#">12.1</a>	<a href="#">Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934</a>
<a href="#">12.2</a>	<a href="#">Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934</a>
<a href="#">13.1</a>	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">13.2</a>	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">15.1</a>	<a href="#">Consent of KPMG LLP</a>
<a href="#">15.2</a>	<a href="#">Consent of MNP LLP</a>
<a href="#">16.1</a>	<a href="#">Letter from KPMG LLP Regarding Change in Certifying Accountant</a>
97.1	Clawback Policy ( <a href="#">incorporated by reference to Exhibit 97.1 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024</a> )
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document
<a href="#">101.SCH</a>	<a href="#">Inline XBRL Taxonomy Extension Schema Document</a>
<a href="#">101.CAL</a>	<a href="#">Inline XBRL Taxonomy Extension Calculation Linkbase Document</a>
<a href="#">101.DEF</a>	<a href="#">Inline XBRL Taxonomy Extension Definition Linkbase Document</a>
<a href="#">101.LAB</a>	<a href="#">Inline XBRL Taxonomy Extension Label Linkbase Document</a>
<a href="#">101.PRE</a>	<a href="#">Inline XBRL Taxonomy Extension Presentation Linkbase Document</a>
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

† Portions of this exhibit have been omitted in accordance with the rules of the SEC. KWESST Micro Systems Inc. agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request.

#### SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**KWESST MICRO SYSTEMS INC.**

Date: December 27, 2024

By: /s/ Sean Homuth  
Name: Sean Homuth  
Title: Chief Executive Officer

## KWESST MICRO SYSTEMS INC.

### CODE OF BUSINESS CONDUCT AND ETHICS

#### PURPOSE OF THIS CODE

KWESST Micro Systems Inc. (the "**Company**") has adopted this Code of Business Conduct and Ethics (the "**Code**") in order to document the principles of conduct and ethics to be adhered to by the Company's directors, officers and employees, and to establish mechanisms for the reporting of unethical conduct.

The Company is committed to:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- operating in a responsible manner that complies with applicable laws, rules and regulations;
- promoting the avoidance of conflicts of interest;
- promoting the prompt internal reporting of violations of this Code and other policies applicable to the Company;
- providing a safe and healthy workplace
- providing accountability for adherence to the Code; and
- providing full, fair, accurate, timely and understandable disclosure in reports and documents filed with any governing body or which are publicly disclosed;

and the Company requires its directors and officers to provide leadership and direction with respect to these principles and standards.

When used herein, the "**Company**" shall refer to the Company and to its subsidiaries.

#### 1. COMPLIANCE WITH THE CODE

This Code is a reflection of the Company's commitment to the highest standards of governance and ethics. As such, all directors, officers and employees of the Company are required to:

- a) Comply with the Code.
- b) Assist and co-operate with audits and investigations related to the Code and other policies of the Company.
- c) Promptly report violations of the Code.

Directors, officers or employees of the Company who are found to have violated the Code will be subject to disciplinary measures. Such measures may include but are not limited to, taking corrective actions with respect to the violation, suspension, demotion and possible termination of their employment or relationship with the Company. In addition, the Company may, where appropriate, refer the matter to relevant government authorities.

#### 2. COMPLIANCE WITH LAWS

The Company expects everyone to comply with all applicable laws, rules and regulations in performing work for the Company, including without limitation, those dealing with public disclosure, insider trading, discrimination and harassment, and health and safety. Violations of laws, rules or regulations can lead to disciplinary measures under the Code and may result in civil or criminal liability for the Company and the person or persons involved.

As such, directors, officers and employees will:

- a) Comply with all laws, rules and regulations in connection with their work for the Company.

- b) Seek clarification and advice if they are unsure about any law, rule or regulation or if they have questions related to any law, rule or regulation.
- c) Never commit or condone an illegal act in any way related to or during the course of their work for the Company, nor authorize or encourage others to act in an illegal manner.
- d) Avoid conduct that could bring the reputation and integrity of the Company into question.

The Company is committed to ensuring that its business operations are not used by others to facilitate illegal activity. In particular, the Company will strive to prevent its operations from being used in any manner to launder money or further the interests of terrorism.

### **3. RECORD KEEPING AND CONTROL SYSTEMS**

The Company's record keeping and control systems are critical components of its business and the integrity of such systems must be maintained at all times. As such, directors, officers and employees will:

- a) Strive to ensure that the Company's records (including financial and bookkeeping records, public disclosure documents, reports, presentations, safety documents, monitoring data and correspondence) are complete, true, accurate and understandable, and provide assistance and information necessary to maintain them as such.
- b) Never use, authorize or encourage improper or deceptive accounting practices, such as falsification of books and records, that could, among other things, result in the Company's operating results or performance being fallacious or misleading, or be intended to hide violations of this Code or any applicable law.
- c) Never destroy, alter, or render unreadable Company records for an improper or illicit purpose and comply with the Company's records management processes, with special care being given to financial, bookkeeping and other accounting records.
- d) Retain the Company records as required by law and as otherwise notified by the Company's legal personnel.
- e) Return the Company records to the Company and notify the appropriate management member as to the location of such records upon changing roles or ceasing employment with the Company.

Information, data, records, documents and communications (in any format) created or received in the ordinary course of business or in connection with a director's, officer's or employee's job function, are the property of the Company.

### **4. EMPLOYEE RELATIONS**

The Company believes that a strong, enthusiastic workforce is critical to its success. The Company strives to ensure that all employees and contractors are treated fairly and recognizes that the work conditions of its employees, their wages and their job satisfaction have deep impacts not only on the employees themselves, but also on their families, the communities in which they live and on the environment. As such, the Company believes that it is in the best interest of all parties to work together in a respectful and understanding manner and is committed to providing an environment that is frank and open and provides equal opportunities to its employees.

Directors, officers and employees will:

- a) Treat each other and members of the community in which the Company operates with respect and courtesy.
- b) Strive to keep the workplace free from harassment.

The Company does not condone the use of factors such as race, religion, colour, sex, sexual orientation or ethnicity as the basis for decisions related to hiring, promotions, pay or terminations, nor should directors, officers or employees allow physical disabilities to form the basis of work-related decisions, unless the disability interferes with a person's ability to perform a job in a safe and effective manner and the disability cannot reasonably be accommodated.

## **5. USE OF COMPANY ASSETS AND PROPERTY**

Directors, officers and employees must safeguard and not use corporate property to pursue private interests or the interests of a spouse, family members or a private corporation controlled by any of these individuals. Company property includes real and tangible items such as land, buildings, furniture, fixtures, equipment, supplies, and vehicles and also includes intangible items such as data, computer systems, reports, information, patents, trademarks, copyrights, logos, name and reputation.

Directors, officers and employees will:

- a) Except for the limited exception provided in (b) below, always use the Company's assets and resources only for Company related business purposes unless the Company provides its prior written approval for the director, officer or employee to use Company property for their personal interest in circumstances where doing so would:
  - i. not result in additional cost to the Company;
  - ii. not interfere with the performance of the person's duties to the Company; and
  - iii. not result in material personal gain to the person or to their spouse, family member or private corporation.
- b) Limit personal use of the Company's computers and software, e-mail, telephones, mobile devices, internet and other electronic systems to incidental, reasonable amounts (i.e. personal use must not interfere with the proper performance of job duties), and follow other provisions of this Code and other Company policies as they relate to use of Company assets and resources.
- c) Exercise prudence and good judgment when incurring and approving business expenses and ensure that such expenses are reasonable, bona fide and appropriate and serve the Company's business interests.
- d) Never steal, damage, misuse or waste the Company assets.
- e) Never use the Company assets in an illegal or improper manner or for an illegal or improper purpose.

## **6. CONFLICTS OF INTEREST**

Directors, officers and employees shall avoid situations where their individual personal interests could conflict with, or appear to conflict with, the interests of the Company and its stakeholders, and shall perform the responsibilities of their positions on the basis of what is in the best interests of the Company, free from the influence of personal considerations and relationships.

A conflict of interest may be real or apparent:

- a) A "real conflict of interest" occurs when directors, officers or employees exercise their corporate duties, official powers or perform official duties or functions and at the same time know that in doing so there is the opportunity for personal gain.
- b) An "apparent conflict of interest" occurs when a reasonably well-informed person could have a perception that a director's, officer's or employee's ability to exercise their corporate duty, an official power or perform an official duty or function was or will be affected by that individual's private interest.

Directors and officers have a duty to act honestly, in good faith, and in the best interests of the Company and must exercise the degree of skill and diligence reasonably expected from an ordinary person of his or her knowledge and experience.

Conflicts of interest can include the following:

*a) Furthering Private Interests*

- i) Directors, officers and employees should avoid outside financial interests that might influence their corporate decisions or actions, and should not engage in such activities or transactions where the activity or transaction may be detrimental to the Company or where the activity may be in conflict with the proper discharge of their duties to the Company.
- ii) If a director, officer or employee is directly or indirectly personally interested in a proposed activity or transaction which involves the Company, or if the director or officer has discretionary decision-making power which could bring about direct or indirect financial benefit to the director, officer or employee due to his or her financial holdings, business and property interests or other relationships, there is potential for a conflict of interest. In these instances, at a minimum, these circumstances and these holdings should be fully disclosed in advance to the Chief Financial Officer of the Company. If it is determined there is a conflict of interest, the conflict must be fully disclosed in advance to the Audit Committee.

*b) Corporate Opportunities*

- i. Directors, officers and employees cannot divert to a third party, themselves, their spouses, their children or a private corporation controlled by any of these individuals, a business opportunity that the Company is pursuing.
- ii. A director, officer or employee of the Company whose corporate duties bring them into business dealings with a business in which they or a member of their family has a financial interest or to which they or a member of their family has an indebtedness, or a business employing a relative or close friend, must immediately:
  - a) in respect of a director or officer, notify the Audit Committee; and
  - b) in respect of an employee, notify his or her immediate supervisor, who will then notify the Chief Financial Officer and ultimately to the Audit Committee;

and such business dealings may not be pursued unless properly authorized by the Audit Committee.

*c) Preferential Treatment*

Directors, officers and employees must not assist others in their dealings with the Company if this may result in preferential treatment. A director, officer or employee who exercises regulatory, inspection or other discretionary authority over others, must disqualify themselves from dealing with individuals where the director's, officer's or employee's relationship with the individual could bring their impartiality into question.

*d) Workplace Relationships*

Directors, officers, employees and individuals who are direct relatives or who permanently reside together may not be employed or hold office in situations where:

- i. A reporting relationship exists where a director, officer or employee has influence, input or decision-making power over the relative or cohabitant's performance evaluation, salary, special permissions, conditions of work or similar matters; and
- ii. The working relationship affords an opportunity for collusion between the individuals that could have a detrimental effect on the Company's interest.

This restriction may be waived if the Audit Committee is satisfied that sufficient safeguards are in place to ensure that the interests of the Company are not compromised.

## **7. ACCEPTING GIFTS, BENEFITS AND ENTERTAINMENT**

Directors, officers and employees:

- a) May generally accept gifts, hospitality or other similar benefits (other than cash or cash equivalents which must never be accepted) associated with their official duties and responsibilities if such gifts, hospitality or other benefits:
  - i. are within the bounds of propriety, a normal expression of courtesy or within reasonable standards of hospitality;
  - ii. are advertising and promotional materials, clearly marked with the company or brand name;
  - iii. would not bring suspicion on the director's, officer's or employee's objectivity and impartiality; or
  - iv. would not compromise the integrity and reputation of the Company.
- b) Notwithstanding (a) above, will never solicit or accept gifts, benefits or entertainment in exchange for, or as a condition of, the exercise of duties or as an inducement for performing an act associated with the director's, officer's or employee's duties or responsibilities to the Company and will never solicit or accept a gift of cash or cash equivalent from a business partner or anyone else with whom the Company does business in connection with that director's, officer's or employee's position, duties or responsibilities within the Company.
- c) Will return any improper gift or benefit to the person offering it as soon as practicable or, if there is no opportunity to return an improper gift or benefit, or where the return may be perceived as offensive or inappropriate for cultural or other reasons, immediately disclose and turn over the gift or benefit to the Chief Financial Officer who will attend to a suitable disposition of the item.

## **8. FRAUD OR BRIBERY**

The Company is committed to the highest level of honesty and integrity and therefore does not tolerate fraud or bribery. Fraud can include a wide range of activities, such as falsifying books, records or timesheets, embezzlement, skimming and misappropriating Company assets (including such things as proprietary information and corporate opportunities) for personal gain.

Bribery of government officials, government entities and commercial customers is illegal in most countries. It can take different forms, such as cash payments, gifts, employment opportunities, quid pro quo transactions, directing business to a particular individual or business, excessive hospitality or providing services or other benefits or things of value to a person, organization, or company or to those related to a particular person, organization, or company.

There are serious criminal and civil consequences for fraud and bribery, including fines and imprisonment, and the Company considers fraud and the payment of bribes or other corrupt activity serious misconduct and grounds for dismissal.

## **9. POLITICAL AND CHARITABLE DONATIONS**

Laws in many jurisdictions prohibit or regulate corporate donations to governments, political parties, politicians, and candidates for public office. The Company's policy is that all corporate contributions to governments, political parties, politicians, or candidates for public office are prohibited unless they are approved in advance by the Chief Executive Officer of the Company. The Company may also donate to certain charities.

## **10. COMMUNICATING WITH THE MEDIA AND OTHER MEMBERS OF THE PUBLIC**

The Company is committed to ensuring that disclosure made by the Company to its shareholders and to the public in general, and in reports and documents it files with appropriate securities commissions is made in a timely manner, is full, fair, accurate and understandable, and is broadly disseminated in accordance with all applicable legal and regulatory requirements.

Directors, officers and employees will:

- a) Always comply with the Company's Disclosure Policy which set out the Company's policies regarding public disclosure, identify spokespersons for the Company, and establish rules for directors, officers and employees relating to trading securities of the Company.
- b) Not respond under any circumstances to inquiries from external parties unless they are a designated spokesperson for the Company, or are specifically asked to respond by such a Company spokesperson or are otherwise expressly authorized to do so by the Executive Chairman.

## **11. CONFIDENTIALITY AND MISUSE OF UNDISCLOSED MATERIAL INFORMATION**

Directors, officers and employees of the Company are required to maintain and protect the confidentiality of all information and materials relating to the Company which are entrusted to them, or which they receive by virtue of their position or employment with the Company. Such information may only be divulged to persons authorized to receive the information. For greater certainty, confidential information should not be divulged to spouses, associates, immediate family, friends, or persons with whom the director, officer or employee is connected by frequent or close association.

In addition, directors, officers and employees must not engage in any transactions for personal benefit which results or may result from confidential or non-public information which the director, officer or employee gains by reason of their position or authority. In addition to the foregoing prohibition under the Code, directors, officers and employees should be aware that securities laws make it illegal to use material non-public information when buying, selling or otherwise trading shares ("**insider trading**") and passing on this information to others for their use when buying, selling or otherwise trading shares ("**tipping**").

## **12. AGENTS, CONSULTANTS AND SERVICE PROVIDERS**

The Company requires its agents, consultants and service providers to act in a manner consistent with this Code in providing services to the Company. As such, persons retaining or hiring such service providers must consider and be satisfied that the reputations and business practices of such agents, consultants and contractors are in alignment with this Code. Where appropriate, background and reference checks on service providers should be performed.

If reasonable and appropriate, efforts should be made to draft agreements with agents, consultants and service providers that include terms requiring compliance with this Code and providing for remedies, including termination, for failure to comply. Where such provisions exist and there is a breach of the Code, the appropriate remedies should be enforced against the agent, consultant or service provider.

## **13. DUTIES WITH RESPECT TO REPORTING**

Directors, officers and employees have a duty to immediately report to management any activity that:

- a) he or she believes contravenes the law;
- b) represents a breach of this Code or a real or apparent conflict of interest;
- c) represents a misuse of the Company's funds or assets; or
- d) represents a danger to the health and safety of our employees, contractors or public, or to the environment; and
- e) are also responsible for helping to identify and raise potential issues before they lead to Code violations.

If a director, officer or employee finds him or herself in a conflict or potential conflict of interest, or in violation of the Code, their duties are as follows:

- a) If the individual involved is an officer or an employee:
  - i. The individual must immediately notify his or her immediate superior.

- ii. If the conflict or violation cannot be avoided or resolved by the individual and his or her respective superior, the individual must advise the Audit Committee.
- b) If the individual involved is a director:
- i. The individual must immediately notify the Chairman of the Board of Directors.
  - ii. If the conflict or potential conflict cannot be avoided or resolved, the director must disclose the conflict or potential conflict to all of the directors of the Company and abstain or recuse themselves, as the case may be, from any vote or meeting in connection with the subject of the conflict.

Directors, officers and employees shall act in good faith in reporting a suspected Code violation or a situation that may create a potential for a Code violation and shall not take or tolerate any act of reprisal or retaliation against:

- i. a person who in good faith reports a suspected Code violation or a situation that may create a potential for a Code violation; or
- ii. a person who cooperates with the investigation of a suspected Code violation or a situation that may create a potential for a Code violation.

#### **14. REPORTING**

The Company promotes an open and honest environment and encourages directors, officers and employees to address any questions they may have regarding a particular situation or concerns about a possible violation of a law, regulation or the Code promptly with management. Except with respect to self-reporting referred to in Article 13 above, if for some reason an individual is not comfortable doing so or if management does not resolve the matter, reports of potential or actual violations of law or this Code may be made in confidence using the following methods:

- a) By e-mail to the Audit Committee Chair
- b) By mail, addressed to the Audit Committee Chair at address of the Company

While we encourage all individuals to identify themselves to facilitate a proper investigation, it is not required to do so and an individual may make a report anonymously.

#### **15. INTERNAL AUDITS AND INVESTIGATING REPORTS OF SUSPECTED CODE VIOLATIONS**

All suspected Code violations, or potential Code violations, will be investigated. The Audit Committee Chairperson and the Executive Chairman will decide on the most appropriate method of investigation in each instance and may seek the assistance of external legal advisors, accountants, or other advisors. To the extent possible, investigators will keep information and reports related to investigations confidential, subject to the need to conduct a full and impartial investigation, to comply with law and to remedy Code violations and monitor compliance.

Directors, officers and employees have a duty to cooperate with these investigations.

#### **16. WAIVER OF THE CODE**

Any waiver of this Code for the benefit of a director or executive officer may be granted only by the Board of Directors of the Company, or a committee of the Board duly authorized to do so. For non-executive officers, the Executive Chairman may, in appropriate circumstances as he or she determines using best judgment, waive a conflict or violation of the Code, however any such waivers must be reported to the Audit Committee at its next meeting.

Any waivers granted to a member of the Board of Directors or to an executive officer that relates to any element of the "code of ethics" set forth in Section 406(c) of the Sarbanes-Oxley Act of 2002, will be disclosed as required by law or stock exchange regulations applicable to the Company. Those who fail to cooperate with investigations will be subject to discipline, which may include termination of employment.

## **17. VERIFICATION OF THE CODE**

The Company will make the most current version of the Code available to new directors, officers and employees at or about their time of hire and require such persons to verify they have read and understand the Code. In addition, the Company may require directors, officers and employees to periodically review the current version of the Code and verify their compliance with and understanding of the Code. Any director, officer or employee who fails or refuses to review the Code and to respond to a verification request by the Company may be subject to disciplinary measures up to and including termination.

The Code will be publicly available on the Company's website at [www.kwesst.com](http://www.kwesst.com).

Adopted by the Board on December 20, 2024.

## KWESST MICRO SYSTEMS INC.

### INFORMATION DISCLOSURE POLICY

#### 1. Adoption

This policy (the "**Policy**") was approved by the Board of Directors (the "**Board**") of KWESST Micro Systems Inc. (the "**Corporation**") on December 20, 2024.

#### 2. Purpose

It is the policy of the Corporation and all of its subsidiaries that all Material Information (as defined below) relating to the Corporation be disclosed to the investing public in a timely, factual and accurate fashion and that the Corporation's directors, executive officers (corporate officers and all Vice-Presidents) and each of their direct reports; the staff of the financial, accounting, legal and investor relations departments; and any other employee(s) or consultants (including any consultants performing investor relations services) who have knowledge of material undisclosed information (collectively, "**Corporate Actors**") conduct themselves in accordance with applicable legal and regulatory requirements. For the purposes of the policy, a "**trade**" shall have the meanings ascribed to it pursuant to the *Securities Act* (Ontario).

#### 3. Responsibility

- (a) **Individual Responsibility.** Every officer, director, employee or consultant of the Corporation and any other Corporate Actor will be held responsible for their compliance with this Policy. The individual who breaches this Policy may find himself or herself personally exposed to a wide range of penalties, fines and penal sanctions as well as civil actions for damages and administrative sanctions, by securities commissions and other regulatory bodies. Breaches of this Policy by employees may also expose the Corporation to regulatory and civil actions and the censure of the investing public.

If appropriate, the Corporation will report violations of this Policy to the appropriate regulatory authorities and will assist such authorities in investigating, and even prosecuting, violations of this Policy by the Corporation's directors, officers, employees and consultants.

- (b) **Disclosure Committee.** The Corporation has created an operational committee (the "**Disclosure Committee**") consisting of the Chairman of the Board (the "**Chairman**") and Chief Financial Officer ("**CFO**") (collectively, the "**Designated Officers**") who shall be responsible for ensuring that the Corporation complies with this Policy and that Corporate Actors are familiar with its contents. The composition of the Disclosure Committee may change from time to time and the Corporation will advise all persons to whom this Policy applies of any such changes. The functions of the Disclosure Committee may be effected by any member of the Disclosure Committee and where a person is required hereunder to report to the Disclosure Committee, he or she may report to any one member of the Disclosure Committee.
- (c) **Board Oversight.** Subject to the Audit Committee's responsibility in relation to financial disclosure as set out in the Audit Committee Charter, the Compensation and Corporate Governance Committee shall have general oversight over the adherence by the Corporation to the terms of this Policy and the adequacy of this Policy in light of changes to the Corporation's circumstances and regulatory environment.

The Human Resources and Governance Committee shall annually review the substance of this Policy and recommend any necessary changes to the Board of Directors.

#### 4. Review of Disclosure.

- (a) **Basic Rule.** Every written public disclosure relating to or concerning the Corporation provided to third parties (including the general public) by a Corporate Actor shall be reviewed and approved by the Disclosure Committee.

In the event that one of the Designated Officers is unavailable during the requisite time period, the written disclosure shall be reviewed and approved by one of the Designated Officers and one other senior officer of the Corporation.

With regard to financial press releases, the Audit Committee will review and approve all press releases recommended by the Disclosure Committee, and then circulate them to the Board for further approval; provided that if no objection is received from any member of the Board within a reasonably short period of time (i.e., a few hours), the release will be deemed approved.

With regard to "non-financial" press releases, the Board will review them for approval; provided that if no objection is received from any member of the Board within a reasonably short period of time (4 hours) the release will be deemed approved.

- (b) **Disagreements and Ambiguities.** In the event there is a disagreement between the two officers reviewing written disclosure, or if there is any uncertainty on the part of either of the officers as to whether information should be disclosed or when a material change has occurred, such question shall be referred to the Corporation's regular corporate counsel.
- (c) **Financial Matters.** Notwithstanding Section 4(b), if a disagreement or ambiguity relates to the financial reporting obligations of the Corporation, the issue shall be raised with the Audit Committee (which, if it wishes, may seek the assistance of legal counsel or the Corporation's auditors).

#### 5. Disclosure of Material Information

- (a) **What is Disclosed?** The Corporation shall, subject only to the provisions relating to confidentiality described in Section 6, disclose all Material Information in accordance with applicable securities laws. "**Material Information**" is any information relating to the business, operations or capital of the Corporation that would reasonably be expected to have a significant effect on either the market price or the value of, any of the securities of the Corporation. The Disclosure Committee, in consultation with the board of directors and others as appropriate shall determine what is deemed to be material information and the appropriate public disclosure.
- (b) **When is Material Information Disclosed?** Subject to Confidential Material Information, which shall be disclosed in accordance with Section 6, Material Information shall be disclosed in accordance with the provisions of this Section 5.

A change in Material Information (which must be reported immediately) shall be deemed to occur: (i) when a decision to implement the change is made by the Board of Directors of the Corporation; or (ii) the decision is made by senior management of the Corporation in the belief that confirmation of the decision by the Board of Directors is probable.

Disagreements or uncertainty as to whether a change of Material Information has occurred shall be resolved in accordance with Section 4(b).

- (c) **Principles of Disclosure.** The following principles shall be observed by the Corporation in disseminating changes in Material Information:
- (i) Changes in Material Information shall be disclosed by way of a press release disseminated through a newswire service approved by the Corporation's corporate counsel. Any such press release shall be filed on SEDAR.
  - (ii) If Material Information is to be announced at an analyst or a shareholders meeting or a press conference, conference call or webcast, its announcement must be coordinated with a general public announcement by news release.
  - (iii) If it appears that there will be significant delays in issuing a press release, whether occasioned by the Corporation or a third party, the issue of the delay shall be raised with the Corporation's corporate counsel and, if necessary, Market Regulation Services to determine whether trading in the Corporation's shares should be halted pending release of the Material Information.
  - (iv) A news release containing the Material Information may be sent to Market Regulation Services for its review prior to dissemination of the news release, if determined necessary by the Designated Officers.
  - (v) The Corporation will not, except in exceptional circumstances, delay a news release containing changes in Material Information because of a need for third party approval. In those exceptional circumstances, the Corporation shall follow the procedure for disseminating confidential information described in Section 6.
  - (vi) News releases describing Material Information shall be posted on the Corporation's website following their dissemination by newswire and filing on SEDAR.
  - (vii) Disclosure should not contain half-truths or any information which requires additional information not to be misleading.
  - (viii) The Corporation shall disclose unfavourable Material Information as promptly and completely as it discloses favourable Material Information.
  - (ix) Material Information that has been disclosed must be updated if earlier disclosure has become misleading due to subsequent events.
  - (x) Previously undisclosed information must not be disclosed to selected third parties. Disclosure must first (or concurrently) be made to the general public.
  - (xi) The Corporation will not comment, affirmatively or negatively on rumors unless required by Market Regulation Services, or the TSX Venture Exchange (or such other exchange upon which the Corporation's shares may trade) (the "Exchange") or such other securities regulatory authority requires the Corporation to make a statement in response to a market rumor.

- (xii) In addition to issuing a news release as set out herein, changes to Material Information shall be reflected in a material change report and filed on SEDAR within the time frame required under applicable securities laws. Material contracts outside of the Corporation's ordinary course of business shall be filed on SEDAR as required under applicable securities laws.

## 6. Disclosure of Confidential Material Information

- (a) **General.** Securities legislation permits the Corporation to delay disclosure of a change of Material Information and to keep it confidential temporarily, when immediate release of the information would be unduly detrimental to the Corporation's interests. This can arise, for example, when immediate disclosure might interfere with the Corporation's pursuit of a specific objective or strategy, with ongoing negotiations, or with its ability to complete a transaction.
- (b) **Determining When to Keep Changes Confidential.** The test provided by Canadian securities regulators is that changes to Material Information may be kept confidential when harm to the Corporation's business from disclosing outweighs the general benefit to the market of immediate disclosure. A factor in this test is whether there is reasonable likelihood of market participants, not subject to obligations of confidentiality, becoming aware of the change in Material Information before it is disseminated in accordance with Section 5.

Any question as to whether it is appropriate for a change in Material Information to be kept confidential shall be resolved as set out in Section 4(b).

- (c) **Procedure.** If the Designated Officers of the Corporation determine in accordance with this Policy that it is appropriate for a change or pending change in Material Information to be kept confidential, the Corporation shall file a confidential material change report with the appropriate securities commissions as required under applicable securities laws. This confidential filing, and the Corporation's evaluation of the need for confidentiality, must be renewed every ten (10) days, if the Corporation wants the change in Material Information to remain confidential as required under applicable securities laws.
- (d) **Leaks.** One of the Designated Officers or a person nominated by him shall, during the period the Corporation has confidential Material Information, carefully monitor market activity in the Corporation's securities. If the confidential Material Information, or rumours about it, have leaked or appear to be impacting the Corporation's share price, the Corporation will review the situation and may be required to immediately disclose the confidential Material Information in accordance with Section 5.

## 7. Forward Looking Information

- (a) **General Policy.** It is the Corporation's policy not to provide earnings guidance to the public or to persons, such as analysts, whose work is to make the results of such guidance available to the public.

When reviewing analysts' reports, comments of directors, officers, employees and agents must be limited to identifying factual information that has been generally disclosed to the public. Any comments must contain a disclaimer that the report was reviewed for factual accuracy only. No comfort or guidance shall be expressed on the analysts' earnings models or earnings estimates and no attempt shall be made to influence an analyst's opinion or conclusion.

- (b) **Forward Looking Information Generally.** Forward-looking information (financial or otherwise) may be provided to market participants if it is general and does not touch upon material, bottom-line financial results and is accompanied by the following:
- (i) The information is clearly identified as forward-looking;
  - (ii) The Corporation identifies all material assumptions in the forward-looking information;
  - (iii) The forward-looking information is expressed as clearly conditional;
  - (iv) The information is accompanied by a statement that identifies, in very specific terms, the factors that may cause the actual results to differ materially from those projected in the statement, and puts market participants on notice that they should not rely on such forward-looking statements. The factors should be represented with a reasonably possible range of outcomes, a sensitivity analysis or other qualitative analysis that will assist in assessing the related risks;
  - (v) Officers are aware at the time they make forward-looking statements that, if material, those statements will need to be publicly revised or corrected if subsequent events make them misleading; and
  - (vi) The forward-looking information, if financial in nature, either refers to performance in the next quarter, or has been approved for dissemination by the Audit Committee.

## 8. Selective Disclosure and Tipping

- (a) **What is Selective Disclosure or Tipping?** Securities legislation prohibits Corporate Actors from providing undisclosed Material Information to third parties, other than in the necessary course of business. The prohibition applies whether the Corporation or the person providing selective disclosure gains a benefit from the disclosure or not.

Disclosure in the "necessary course of business" may include:

- (i) disclosure to vendors, suppliers, or strategic partners on issues such as research and development, sales and marketing, and supply contracts;
- (ii) disclosure to employees, officers and board members;
- (iii) disclosure to lenders, legal counsel, auditors, underwriters, and financial and other professional advisors to the Corporation;
- (iv) disclosure to parties to significant negotiations;

- (v) disclosure to industry associations;
  - (vi) disclosure to government agencies and non-governmental regulators;
  - (vii) disclosure to credit rating agencies (provided that the information is disclosed for the purpose of assisting the agency to formulate a credit rating and the agency's ratings generally are or will be publicly available);
  - (viii) disclosures in connection with a private placement; and
  - (ix) communications with controlling shareholders, in certain circumstances
- (b) **General Prohibition.** No Corporate Actor shall engage in selective disclosure. Any question of whether anticipated disclosure is in the necessary course of business shall be determined by the Disclosure Committee.
- (c) **Inadvertent Selective Disclosure.** In the event a Corporate Actor inadvertently discloses Material Information to a market participant that has not been generally disseminated, the Corporate Actor shall immediately report the selective disclosure to the Disclosure Committee and the Corporation shall immediately disclose the Material Information in question in accordance with Section 5 or Section 6. Pending the material being generally disclosed, the Corporation shall contact the parties to whom the Material Information was disclosed and inform them (i) that the information is undisclosed Material Information; and
- (ii) of their legal obligations with respect to the Material Information.
- (d) **Equality of Treatment.** It is understood that in individual or small-group communications, certain non-Material Information may be provided that has not been generally disclosed to the public. Such information, usually supplied in response to the questions of analysts or other investors, must be provided to any person who makes similar inquiries of the Corporation. Market participants shall be treated equally by Corporate Actors with respect to non-Material Information.

## 9. Prohibition on Certain Uses of the Internet

All Corporate Actors are prohibited from disclosing Corporate information, whether it is material or not, in Internet chat rooms, newsgroups, blogs or the website of any third party. Corporate Actors should advise a member of the Disclosure Committee if they are aware of any discussion of information of the Corporation in a chat room, newsgroup or bulletin board.

## 10. Maintaining Confidential Information

- (a) **Corporate Information.** Corporate Actors are reminded that they have common law and/or contractual duties prohibiting them from releasing any information not generally known concerning the Corporation or its affairs, other than as is necessary to discharge their responsibilities to the Corporation. This Policy relies upon Corporate Actors adhering to their duties in this regard.
- (b) **Third Party Information.** The Corporation is generally under contractual and common law duties with respect to confidential information it receives from various third parties such as its customers, suppliers, or business partners. This third party information shall be kept confidential by Corporate Actors. In particular, Corporate Actors should take the same measures with respect to the confidential information of third parties as they take with respect to confidential information of the Corporation.

- (c) **Procedures To Prevent Disclosure.** While not intended to be comprehensive, the following are basic rules that should be followed to preserve the confidential information of the Corporation and third parties:
- (i) Confidential papers or electronic media should have "CONFIDENTIAL" or a stronger term clearly written or stamped on them.
  - (ii) Documents and files, including electronic files, should be kept in a safe place to which access is restricted to individuals who need to know the information for the purpose of carrying out their responsibilities on behalf of the Corporation.
  - (iii) Confidential matters should not be discussed in places where the discussion may be overheard such as elevators, hallways, restaurants, airplanes or taxis.
  - (iv) Confidential information should not be read or displayed in public places and should not be discarded where others can easily retrieve them.
  - (v) Transmission of documents by electronic means, such as by fax or directly from one computer to another, should be made only when it is reasonable to believe that the transmission can be made or received under secure conditions.
  - (vi) Unnecessary copying of documents containing undisclosed material information must be avoided and extra copies of documents must be promptly removed from meeting rooms and work areas at the conclusion of the meeting and must be destroyed if no longer required.

## 11. Insider Reports

**Reporting of Trades by Insiders.** Securities legislation defines certain parties as "Reporting Insiders", and Reporting Insiders are required to prepare and file a report of every trade they make in securities of the Corporation. This includes the granting and exercise of stock options or any other rights to acquire securities. Reporting Insiders are personally responsible for ensuring that insider reports are filed within five (5) days of the trade. Assistance with filing these reports on the SEDI website may be obtained from the CFO and/or the Corporate Secretary. The consequence of being a Reporting Insider is that they are required to file insider trading reports for every transaction they make involving securities of the Corporation, which includes the grant or exercise of stock options.

## 12. Trading Restrictions

- (a) **Prohibition on Trading on Inside Information.** Corporate Actors shall not trade while in possession of Material Information that has not been publicly disclosed to the market. This includes trades that apparently run counter to the Material Information in question, such as selling shares while in possession of positive undisclosed Material Information.
- (b) **Trading on Third Party Information.** Corporate Actors shall not trade in the securities of third party companies when they are in possession of undisclosed Material Information concerning those third party companies that has been received by the Corporate Actor in the course of their employment with the Corporation.

- (c) **Related Parties.** The prohibition on trading on inside information contained in Sections 12(a) and (b), applies not just to a Corporate Actor but to any parties related to that person, including friends, spouses, children and other family members. In this regard, Corporate Actors are reminded of their obligations of confidentiality and the prohibition on selective disclosure and tipping set out in Sections 8 and 10.
- (d) **Press Release Blackout Period.** Following dissemination of a news release containing Material Information, no Corporate Actor shall trade in the securities of the Corporation until the day on which the Exchange is open for trading after dissemination.
- (e) **Financial Blackout Periods.** No Corporate Actor shall trade in the Corporation's securities during the period beginning on the date that is: (i) seventy five (75) days after the last day of the reporting year; or (ii) thirty (30) days after the last day of the month of the reporting quarter, and, in either case, ending the day on which the Exchange is open for trading after publication. Such publication will be deemed effected on dissemination of such results by news release or filing on SEDAR, whichever is earlier. Notwithstanding the foregoing, the Board may by resolution allow trades within such blackout period provided the Board determines, to the best of its knowledge, that such trade or trades are: (i) in compliance with insider trading or similar restrictions pursuant to securities laws applicable to the Corporation and the Corporate Actors; (ii) in compliance with blackout period restrictions and insider rules of every stock exchange on which the Corporation's shares are listed; and (iii) not made at such time as there is material undisclosed information in respect of the Corporation available to any Corporate Actor.
- (f) **Occasional Blackout Period.** From time to time, the Corporation will be engaged in material transactions or contemplating a potential material transaction that would give rise to concerns if a Corporate Actor traded during this period, even if the Corporate Actor was unaware of the pending or potential change in Material Information.
- (g) In these circumstances, it is the duty of the officer or director aware of this pending or potential change to advise a Designated Officer who, in turn, must determine whether a Corporation-wide blackout period should be imposed. Differences of opinion or ambiguities are to be resolved as set out in Section 4(b). If a company-wide blackout is decided upon, an email to this effect and specifying the blackout period shall be sent by a Designated Officer to all Corporate Actors.
- (h) **Pre-Clearance of Trades.** All Corporate Actors intending on trading in the Corporation's securities, including the exercise of stock options, shall so inform the Designated Officers to ensure that there is no blackout period in effect or pending undisclosed Material Information. A Corporate Actor that wants to trade shall send e-mail correspondence of an intention to trade and shall not trade until either: (i) one of the Designated Officers has provided e-mail advice back that a trade is permitted; or (ii) one (1) day shall have elapsed since the email correspondence of an intention to trade. If a Corporate Actor is advised they cannot trade, care must be taken by such Corporate Actors when communicating their inability to trade to a third party such as their broker or financial advisor who may have solicited the trade. Corporate Actors must not disclose any information as to why they cannot trade.

- (i) **Relief from this Section.** In exceptional circumstances, a Corporate Actor may be permitted to trade securities of the Corporation and relief may need to be sought from the Exchange.

### 13. Public Communications

- (a) **What are Public Communications?** For the purpose of this section, "**Public Communications**" include all press releases, material change reports, financial statements, annual information forms, information circulars, other legislative or regulatory disclosure documents, conference calls, shareholder meetings, analyst meetings, telephone calls to or from shareholders or other market participants, emails to or from shareholders or other market participants, as well as any other means by which the Corporation provides information to participants or potential participants in the market for the Corporation's securities.
- (b) **Who is Authorized to Make Public Communications?** Only the Chief Executive Officer, the CFO and the Chairman of the Board of Directors are authorized to make or approve Public Communications. Any speaking engagement by an employee, officer or director of the Corporation that falls under the definition of Public Communications as defined below must have prior approval from one of the Designated Officers. They may delegate this responsibility in certain circumstances to other employees, directors or agents, but the Designated Officers are responsible for reviewing the form and substance of the proposed Public Communication.

The Disclosure Committee may not delegate responsibility for reviewing and approving formal disclosure documents required by Canadian securities legislation or policies, other than press releases which will be handled as set out in subsection 4(a).

- (c) **Communication with Analysts.** Only a Designated Officer or a person designated in writing by one of them may communicate with analysts. The Corporation's policy with respect to interactions with analysts are as follows:
  - (i) selective disclosure must be avoided pursuant to Section 8;
  - (ii) no information may be provided to analysts that will not be provided to any person who makes similar inquiry pursuant to Section 8(d);
  - (iii) Corporate Actors shall not become involved in approving or influencing analyst opinions or conclusions, aside from merely correcting factual errors, provided that such corrections are based on non-Material Information or Material Information that has been publicly disseminated; and
  - (iv) no Corporate Actor shall distribute analyst reports to persons outside the Corporation or publicly endorse such a report.
- (d) **Quiet Periods.** During a blackout period the Corporation shall not engage in discussions with analysts, investors or other market participants, except (i) where, in the course of such discussions, only information that has been in the public domain for at least 24 hours is imparted by the Corporation; (ii) where each party to such discussions (other than the Corporation) is acting in its capacity as a professional advisor; and (iii) in exceptional circumstances.

#### 14. Electronic Communications

The policies contained herein also apply to electronic communications. Electronic communications include electronic mail, websites, the Internet and the System for Electronic Document Analysis and Retrieval ("SEDAR").

#### 15. Website

- (a) **General Rule.** The Corporation's website should not contain any disclosure that would, whether through website architecture, overt statement or omission, materially misrepresent the Corporation, its business prospects or financial status. Disclosure of material information on the website does not constitute general public disclosure and is not adequate disclosure of material information.

The Disclosure Committee must ensure that material information is disseminated to all required securities regulators and generally disclosed to the public before any disclosure is made on the website.

All publicly filed documents, including news releases, should be included on the website as soon as practicable after such material has been accepted for filing or posted on SEDAR. The website should have a notice advising the reader that the information that is posted is accurate at the time of posting but that the Corporation specifically disclaims any intention or responsibility to update this information and it may be superseded by subsequent disclosures. All disclosure posted to the website should show the date such material was issued or the date it is subsequently amended.

- (b) **Regular Review.** The Disclosure Committee or an employee delegated by the Disclosure Committee shall review the Corporation's website every quarter to ensure that disclosure on the website is accurate, complete and up to date. **Links to Third Party Sites.** Unless approved by the Disclosure Committee, the Corporation's website may not link to a third party website. In the event such a link is permitted, it should include a notice that advises the reader that they are leaving the website and that the Corporation is not responsible for the contents of the other site.
- (c) **Analyst Reports.** The Corporation may provide on its website a list of all (and only all) of the investment firms that provide coverage of the Corporation, along with relevant contact information. The Corporation may not, however, provide links to those firms or the analyst reports themselves.
- (d) **Investor Relations Material.** Investor relations material shall be contained within a separate section of the Corporation's website and will include a notice that advises the reader that the information posted was accurate at the time of posting, but may be superseded by subsequent disclosures. All data posted to the website, including text and audiovisual material, shall show the date such material was issued.

**CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Sean Homuth, certify that:

1. I have reviewed this annual report on Form 20-F of KWESST Micro Systems Inc. (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting.
5. The Issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditor and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal control over financial reporting.

Date: December 27, 2024

By: /s/ Sean Homuth  
Sean Homuth  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Kris Denis, certify that:

1. I have reviewed this annual report on Form 20-F of KWESST Micro Systems Inc. (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting.
5. The Issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditor and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal control over financial reporting.

Date: December 27, 2024

By: /s/ Kris Denis  
Kris Denis  
Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of KWESST Micro Systems Inc. (the "Company") on Form 20-F for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean Homuth, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 27, 2024

*/s/ Sean Homuth*

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Sean Homuth  
Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to KWESST Micro Systems Inc. and will be retained by KWESST Micro Systems Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of KWESST Micro Systems Inc. (the "Company") on Form 20-F for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kris Denis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 27, 2024

*/s/ Kris Denis*

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Kris Denis  
Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to KWESST Micro Systems Inc. and will be retained by KWESST Micro Systems Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

## **Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
KWESST Micro Systems Inc.

We consent to the use of our report dated January 17, 2024, except for Note 1(b) as to which the date is October 25, 2024, on the consolidated financial statements of KWESST Micro Systems Inc. (the "Company") which comprise the consolidated statement of financial position as of September 30, 2023, consolidated statements of net loss and comprehensive loss, shareholders' equity (deficit), and cash flows for each of the years in the two-year period ended September 30, 2023, and the related notes, included in the Annual Report on Form 20-F of the Company for the fiscal year ended September 30, 2024.

We also consent to the incorporation by reference of such report in the Registration Statements on Form F-3 (File Nos. 333-277196, 333-281960 and 333-283343) of the Company.

We also consent to the reference to our firm under the heading "Experts" in the Registration Statements.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

December 27, 2024  
Ottawa, ON Canada

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent the use of our auditor's report dated December 27, 2024 with respect to the consolidated financial statements of KWESST Micro Systems Inc. (the "Company") and its subsidiaries as at September 30, 2024 and for the year then ended, included in the Annual Report on Form 20-F of the Company for the year ended September 30, 2024, as filed with the United States Securities Exchange Commission.

We also consent to the incorporation by reference of such report in the Registration Statements on Form F-3 (File Nos. 333-277196, 333-281960 and 333-283343) of the Company.

/s/ MNP LLP

Chartered Professional Accountants;  
Licensed Public Accountants

December 27, 2024

December 27, 2024

Securities and Exchange Commission  
Washington, D.C. 20549

Ladies and Gentlemen:

We were previously principal accountants for KWESST Micro Systems Inc. ("KWESST") and, under the date of January 17, 2024, except for Note 1(b) as to which the date is October 25, 2024, we reported on the consolidated financial statements of KWESST as of and for the years ended September 30, 2023 and 2022. On May 15, 2024, we resigned.

We have read KWESST's statements included under Change in Company's Certifying Accountant of its Annual Report on Form 20-F dated December 27, 2024, and we agree with such statements.

Very truly yours,

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants