

Form 51 – 102F3

Material Change Report

1. Name and Address of Company

KWESST Micro Systems Inc. (“KWESST”)
155 Terence Matthews Crescent
Kanata, Ontario
K2M 2A8

2. Date of Material Change

January 15, 2021.

3. News Release

A news release with respect to the material change described in this report was issued by KWESST through NewsFile on January 18, 2021 and a copy was subsequently filed under the Corporation's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

4. Summary of Material Change

KWESST entered into a technology purchase agreement (the “**Purchase Agreement**”) with DEFSEC Corporation, a company controlled by Mr. David Luxton, Executive Chairman of KWESST, to acquire a technology referred to as the Low Energy Cartridge technology.

5. Full Description of Material Change

5.1. Full Description of Material Change

KWESST entered into a technology purchase agreement (the “**Purchase Agreement**”) with DEFSEC Corporation (“**DEFSEC**”) to acquire a proprietary non-lethal munitions technology system referred to as the Low Energy Cartridge technology (“**LEC Technology**”). The LEC Technology is a proprietary non-lethal cartridge-based ordnance system. DEFSEC is an Ottawa-based private company owned by David Luxton the Executive Chairman of KWESST.

The purchase price for the LEC Technology shall be satisfied by the issuance to DEFSEC of 1,000,000 shares of KWESST and 500,000 share purchase warrants of KWESST at a price of \$0.70 per share. The warrants shall vest as to 25% on the first anniversary of the closing of the LEC Technology acquisition and 25% on each of the subsequent three anniversaries of the completion of the LEC Technology acquisition. Under the Purchase Agreement, DEFSEC shall also be entitled to a 7% royalty on annual sales of the LEC Technology, net of taxes, duties, customs brokerage fees, shipping and handling costs, customer credits, discounts and returns, up to a cumulative maximum of \$10 million.

The entering into the Purchase Agreement is 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 TSX Venture Exchange*. KWESST is relying on exemptions from the formal

valuation and minority shareholder approval requirements available under MI 61-101. KWESST is 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 is not more than the 25% of KWESST's market capitalization, and no securities of KWESST are listed or quoted for trading on prescribed stock exchanges or stock markets. Additionally, KWESST is 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 is not more than the 25% of KWESST's market capitalization. The transaction was reviewed and approved by the independent directors of KWESST. The closing of the LEC Technology acquisition by KWESST is subject to the approval of the TSX Venture Exchange.

5.2. Disclosure required for a “Restructuring Transaction”

Not applicable.

6. Reliance on subsection 7.1(2) or (3) of National Instrument 51-102

Not applicable.

7. Omitted Information

Not applicable.

8. Executive Officer

The executive officer who can answer questions regarding this report is Jeffrey Dean MacLeod, Chief Executive Officer and President of KWESST. Mr. MacLeod can be reached at (519) 831-3349.

9. Date of Report

January 19, 2021.