



KWESST MICRO SYSTEMS INC.

AMENDED ANNUAL INFORMATION FORM

FOR THE FISCAL PERIOD ENDED SEPTEMBER 30, 2020

APRIL 15, 2021

TABLE OF CONTENTS

GLOSSARY OF TERMS	3
GENERAL	8
EXPLANATORY NOTES.....	8
DATE OF INFORMATION	8
FINANCIAL STATEMENTS.....	8
CURRENCY	8
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	8
MARKET AND INDUSTRY DATA	11
FINANCIAL DATA IN THIS AIF	11
CORPORATE STRUCTURE	11
NAME, ADDRESS AND INCORPORATION.....	11
QUALIFYING TRANSACTION AND AMALGAMATION.....	11
INTERCORPORATE RELATIONSHIPS	12
<i>KWESST Inc.</i>	12
<i>KWESST U.S., Inc.</i>	12
GENERAL DEVELOPMENT OF THE BUSINESS	12
THREE-YEAR BUSINESS DEVELOPMENT HISTORY.....	13
DESCRIPTION OF THE BUSINESS	20
SUMMARY / OPERATIONS	20
PRINCIPAL PRODUCTS AND SERVICES.....	21
METHOD OF DISTRIBUTION AND PRINCIPAL MARKETS	23
OPERATIONS.....	26
EMPLOYEES	27
MARKETING PLANS AND STRATEGIES	27
SPECIALIZED SKILL AND KNOWLEDGE	27
COMPETITIVE CONDITIONS.....	28
PROPRIETARY PROTECTION	29
DRONE REGULATIONS IN CANADA	31
FIREARMS REGULATIONS IN CANADA	32
RISK FACTORS	33
RISKS RELATING TO THE COMPANY'S BUSINESS	33
RISKS RELATING TO THE COMPANY'S INDUSTRY.....	43
RISKS RELATING TO THE COMPANY'S FINANCIAL CONDITION	45
RISKS RELATING TO THE OWNERSHIP OF COMPANY SHARES	47
DIVIDENDS AND DISTRIBUTIONS	48
DESCRIPTION OF CAPITAL STRUCTURE	48
MARKET FOR SECURITIES	48
TRADING PRICE AND VOLUME	48
PRIOR SALES.....	49

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER.....	50
ESCROWED SECURITIES	50
SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER	52
DIRECTORS AND EXECUTIVE OFFICERS	52
NAME, OCCUPATION AND SECURITY HOLDING	52
BIOGRAPHICAL NOTES FOR THE DIRECTORS AND OFFICERS	53
CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS	55
PENALTIES OR SANCTIONS	56
CONFLICTS OF INTEREST	56
PROMOTERS	57
AUDIT COMMITTEE.....	57
COMPOSITION OF THE AUDIT COMMITTEE.....	57
PRE-APPROVAL POLICIES AND PROCEDURES	57
AUDITOR FEES.....	58
LEGAL PROCEEDINGS AND REGULATORY ACTION	58
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	58
MATERIAL CONTRACTS	58
INTEREST OF EXPERTS	59
TRANSFER AGENT AND REGISTRAR	59
ADDITIONAL INFORMATION.....	59
APPENDIX A.....	60

GLOSSARY OF TERMS

The following is a glossary of certain definitions used in this Annual Information Form. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

"2020 Audited Financials" means the Company's audited consolidated financial statements for its fiscal period ended September 30, 2020, as available on the SEDAR website under the Company's profile (at www.sedar.com);

"AerialX" means AerialX Drone Solutions Inc., a corporation based in Vancouver, British Columbia, and incorporated under the BCBCA which is an arm's length party to Foremost, KWESST, and the Resulting Issuer;

"AerialX Licensing Agreement" means the non-exclusive licensing agreement between KWESST and AerialX dated November 18, 2019, and amended and restated on April 5, 2021;

"AeroVironment" means AeroVironment, Inc., a Simi Valley, California-based manufacturer of unmanned aircraft systems and tactical missile systems, which serves defense, government, and commercial customers and is an arm's length party to Foremost, KWESST, and the Resulting Issuer;

"AIF" means this Amended Annual Information Form;

"Amalgamation Agreement" shall have the meaning set forth in "*CORPORATE STRUCTURE - Qualifying Transaction and Amalgamation*";

"ATAK" means Android Tactical Assault Kit, a battlefield management system;

"AWS" or the **"Augmented Weapon Sight"**, means a technology that projects essential tactical data directly onto the transparent optical lens of electro-optical systems, thermal and night vision equipment and which is further described in "*DESCRIPTION OF THE BUSINESS -Competitive Conditions*";

"BCBCA" means the *Business Corporations Act* (British Columbia), as amended, together with all regulations promulgated pursuant thereto;

"Beretta" means Fabbrica d'Armi Pietro Beretta S.p.A.;

"BMS" or the **"Battlefield Management System"** means a system meant to integrate information acquisition and processing to enhance command and control of a military unit;

"CCLTF" or the **"Close Combat Lethality Task Force"** means an organisation in the U.S. military looking at new technologies with a view to early adoption;

"CEO" means Chief Executive Officer;

"CFO" means Chief Financial Officer;

"Colt" means Colt Manufacturing LLC, a Connecticut based company which is one of the world's oldest designers, developers and manufacturers of firearms for military, personal defence and recreational purposes;

"Company" refers to KWESST Micro Systems Inc. (formerly Foremost);

"Company Shares" means the common shares in the capital of the Company;

"Company 2024 Warrants" means 6,500,000 issued and outstanding share purchase warrants of the Company exercisable at a price of \$0.20 per Company Share on or before January 1, 2024, and 2,000,000 issued and outstanding share purchase warrants of the Company exercisable at a price of \$0.20 per Company Share on or before June 14, 2024;

"Control Person" means any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

"DEFSEC" means DEFSEC Corporation, a corporation wholly-owned by David Luxton, the Executive Chairman of the Company, which is based in Ottawa, Ontario and incorporated under the CBCA. DEFSEC is considered a related party of the Company within the meaning of MI 61-101;

"DEFSEC Closing Date" shall have the meaning set forth in "*GENERAL DEVELOPMENT OF THE BUSINESS – DEFSEC Purchase Agreement*";

"DEFSEC Purchase Agreement" means the definitive technology purchase agreement that the Company entered into on January 14, 2021 with DEFSEC to acquire the LEC Technology;

"EOTECH" means L-3 Communications EOTECH, Inc., L-3's wholly-owned subsidiary;

"Fabrique Nationale" means Fabrique Nationale Herstal S.A.;

"Fiscal 2020" means the Company's financial period for the nine (9) months ended September 30, 2020;

"Fiscal 2021" means the Company's financial period for the twelve (12) months ended September 30, 2021;

"Foremost" means Foremost Ventures Corp., a capital pool company pursuant to the rules and policies of the TSXV, as further described in "*CORPORATE STRUCTURE - Qualifying Transaction and Amalgamation*";

"GhostStep Technology" (now the **Phantom**), means the compact, lightweight and selectively expandable electromagnetic transmitter capable of mimicking the electromagnetic footprint of a small tactical military unit, as further described in "*GENERAL DEVELOPMENT OF THE BUSINESS - In year 2020 - Acquisitions*";

"GhostStep Technology Purchase Agreement" means the technology agreement dated June 12, 2020 between SageGuild and the Company, pursuant to which the Company acquired from SageGuild the GhostStep Technology;

"GreyGhost" means the drone created using the Licensed Technology whose principal function and operation is acting as a projectile to intercept aerial threats using kinetic (i.e. motion-related) force;

"IDC" means the International Datacasting Corporation;

"Insider" shall have the meaning ascribed in the *Securities Act* (British Columbia);

"Issuer" means a company and its subsidiaries which have any of its securities listed for trading on the TSXV and, as the context requires, any applicant company seeking a listing of its securities on the TSXV;

"IFRS" means the International Financial Reporting Standards as issued by the International Accounting Standards Board, and interpretations of the IFRS Interpretations Committee;

"KWESST" means KWESST Inc., the Company's wholly-owned subsidiary;

"KWESST 2018 Financing" means the financing completed by KWESST in the amount of \$794,522 by way of revenue sharing agreements and convertible debentures, respectively settled in 2019 by the issuance of: (i) 3,104,485 Company Shares and the KWESST 2019 Convertible Notes in the principal amount of \$234,515;

"KWESST 2019 Convertible Notes" means \$234,515 in principal amount of convertible notes of KWESST, bearing interest at a rate of 10% per annum, which principal amount and outstanding accrued interest, were automatically converted into 456,639 (including accrued interest) Company Shares upon closing of the Qualifying Transaction;

"KWESST 2020 Convertible Notes" means an aggregate amount of \$1,115,034 in convertible notes comprised of (i) the 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 KWESST May 2020 Private Placement to this third party, all of which convertible notes (including accrued interest) were automatically converted into 2,609,211 Company Shares upon closing of the Qualifying Transaction. Under IFRS, the KWESST 2020 Convertible Notes were accounted for as an equity transaction (see Note 16 of the 2020 Audited Financials);

"KWESST 2020 Subscription Receipt Financing" means the private placement of approximately \$3.1 million completed by KWESST on July 9, 2020 by means of the issuance of 4,409,553 subscription receipts at \$0.70 per subscription receipt;

"KWESST May 2020 Private Placement" means the private placement completed by KWESST in May 2020 for gross proceeds of \$1,081,501 comprised of: (i) the KWESST May 2020 Private Placement Convertible Notes, and (ii) 600,839 Company Shares, which were deemed to be bonus shares, issued to the holders of the KWESST May 2020 Private Placement Convertible Notes;

"KWESST May 2020 Private Placement Convertible Notes" means \$1,081,501 in principal amount of convertible notes of the Company convertible at \$0.45 per common shares of KWESST bearing interest at a rate of 15% per annum, which principal amount and outstanding accrued interest, were automatically converted into 127,410 Company Shares upon closing of the Qualifying Transaction;

"KWESST LD" or the **"KWESST Laser Detector System"** is a Company internally developed lightweight tripod or light vehicle mounted system that provides either a 180 degree or 360 degrees scanning detection of laser activity, as further described in "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*";

"KWESST LWS" or the **"KWESST Laser Warning System"** means the Company's laser warning system that provides an alert to the user when a laser is detected, as further described in "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*";

"L-3" means L-3 Communications Corporation;

"LEC Technology" or the **"Low Energy Cartridge Technology"** is the technology to be acquired by the Company from DEFSEC;

"LMT" means Lewis Machine & Tool Company, an American armaments company based in Iowa which provides the U.S. military, law enforcement and government agencies with precision engineered, high quality weapons, components and modular weapon systems;

"Management's Discussion and Analysis" or **"MD&A"** means a Company's management's discussion and analysis in Form 51-102F1;

"Maximum Royalties" shall have the meaning set forth in "*GENERAL DEVELOPMENT OF THE BUSINESS - DEFSEC Purchase Agreement*Erreur ! Source du renvoi introuvable.";

"MI 61- 101" means the *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions*;

"Minimum Annual Royalties" shall have the meaning set forth in "*GENERAL DEVELOPMENT OF THE BUSINESS – DEFSEC Purchase Agreement*";

"MISST" or "Micro Integrated Sensor Software Technology" means the Company's proprietary integration of miniaturized sensors, optics, ballistics and software that provides an advancement in affordable smart systems and mission capability as further described in "*GENERAL DEVELOPMENT OF THE BUSINESS - Principal Products and Services*";

"NATO" means the North Atlantic Treaty Organization;

"NI 51-102" means the National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

"Novra" means Novra Technologies Inc., a company listed on the TSXV;

"OEMs" means original equipment manufacturers;

"Person" means a company or individual;

"Phantom" (previously the GhostStep), means the compact, lightweight and selectively expandable electromagnetic transmitter capable of mimicking the electromagnetic footprint of a small tactical military unit, as further described in "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*";

"Promoter" shall have the meaning ascribed in the *Securities Act* (British Columbia);

"Qualifying Transaction" shall have the meaning set forth in "*CORPORATE STRUCTURE - Qualifying Transaction and Amalgamation*";

"Regulation Services Provider" has the meaning ascribed in National Instruments 21-101 *Marketplace Operation* and refers to the Investment Industry Regulatory Organization of Canada or any successor retained by the TSXV;

"SageGuild" means SageGuild, LLC, a company based in Stafford, Virginia, with Mr. Jeffrey Dunn as sole shareholder, which provides strategic and operational enhancement advice to companies in the defense and security industries; Mr. Dunn is also the sole director of KWESST U.S. Inc. (wholly-owned by the Company) and accordingly SageGuild became a non arm's length party to the Company on January 28, 2021, the date of the U.S. incorporation;

"SageGuild Consulting Agreement" means the consulting agreement dated November 20, 2019 between SageGuild and the Company, whereby SageGuild was retained to provide the Company with market development services in the U.S., as further described in "*GENERAL DEVELOPMENT OF THE BUSINESS- Business development*";

"Settlement" means the Stipulation and Order of Settlement and Dismissal of EOTECH, L-3 and Paul Mangano who was then President of EOTECH with the U.S. Government over alleged violations under the U.S. False Claim Act;

"Settlement Amount" means the amount of USD \$25.6 million that L-3 paid the U.S. Government;

"Shot Counter" means a product developed by KWESST which can be incorporated into a firearm in order to count the number of rounds fired by the weapon, as further described in "*DESCRIPTION OF THE BUSINESS Principal Products and Services*";

"SIG" means SIGARMS, Inc., a Virginia, USA based small arms manufacturer;

"Simunition" means Simunition, Inc., a company owned by General Dynamics, a Reston, Virginia based, global aerospace and defense company that offers a broad portfolio of products and services in business aviation; combat vehicles, weapons systems and munitions; IT services; C4ISR solutions; and shipbuilding and ship repair;

"Subco" means 2751530 Ontario Ltd., a wholly-owned subsidiary of Foremost;

"TASCS" means tactical awareness and situational control system, the Company's core technology which consists of a sensor package mounted to a soldier weapon and a display running a user interface program typically known as BMS;

"TASCS IFM" or the **"TASCS Integrated Fire Modules System"** means the Company's product that equips existing weapons systems with a sensor pack, which is similar to the TASCS NORs, that accurately locates the weapon on the battlefield and provides a high-resolution bearing line indicating the direction in which the weapon is pointed. The TASCS IFM is further described in "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*";

"TASCS NORs" or **"TASCS Networked Observation and Reconnaissance System"** means a product developed by the Company that equips sniper weapons and spotters' stations with sensor packages that allow them to be accurately located on the battlefield, as further described in "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*";

"TSX" means the Toronto Stock Exchange;

"TSXV" means the TSX Venture Exchange;

"U.S." means the United States of America;

"USD" means the official currency of the U.S.

GENERAL

Explanatory Notes

In this AIF, unless the context otherwise dictates, the "Company" refers to KWESST Micro Systems Inc., "KWESST" refers to its wholly-owned subsidiary KWESST Inc.

Date of Information

This AIF is dated April 15, 2021, which is the date at which it was approved by the board of directors of the Company, and, unless specifically stated otherwise, all information disclosed in this AIF is provided as at September 30, 2020, being the last day of the Company's most recently completed financial period, with additional relevant information as at the date of this AIF.

Financial Statements

This AIF should be read in conjunction with the Company's consolidated financial statements and Management's Discussion and Analysis for Fiscal 2020. Following the completion of the Qualifying Transaction on September 17, 2020 (see "*CORPORATE STRUCTURE - Qualifying Transaction and Amalgamation*"), the Company changed its fiscal year end to September 30th and accordingly the latest audited consolidated financial statements (the 2020 Audited Financials) includes only nine months of the Company's operating results. These and other continuous disclosure documents filed by the Company are available under the Company's profile on the SEDAR website at www.sedar.com.

Currency

In this AIF, unless otherwise stated, amounts are expressed in lawful money of Canada.

Cautionary Note Regarding Forward-Looking Statements

This AIF contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking information includes, but is not limited to, information with respect to the Company's objectives and its strategies to achieve these objectives, as well as information with respect to its beliefs, plans, expectations, anticipations, estimates and intentions. This forward-looking information is 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 information contains these terms and phrases. Forward-looking information is provided for the purposes of assisting the reader in understanding the Company and its 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 the Company include, among other things, statements relating to:

- the Company's expectations regarding its business, financial condition and results of operations;
- the future state of the legislative and regulatory regimes, both domestic and foreign, in which the Company conducts business and may conduct business in the future;

- the Company's expansion in domestic and international markets;
- the Company's ability to attract customers and clients;
- the Company's marketing and business plans and short-term objectives;
- the Company's ability to obtain and retain the licences and personnel it requires to undertake its business;
- the Company's strategic relationships with third parties;
- the Company's anticipated trends and challenges in the markets in which it operates;
- governance of the Company as a public company; and
- expectations regarding future developments of products.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, the following risk factors, some of which are discussed in greater detail under "*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 the Company's products;
- fluctuating prices of raw materials;
- pricing for products;
- ability to supply sufficient product;
- expansion to other jurisdictions;
- damage to the Company's reputation;
- operating risk and insurance coverage;

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

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

Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that the Company anticipates will be realized or, even if substantially realized, that they will have the expected consequences or effects on its business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-

looking information contained herein is provided as of the date hereof, and the Company does not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

Market and Industry Data

Further, this AIF includes market and industry data from multiple third-party sources as well as management estimates. Although the Company believes that these third-party sources and management estimates are reliable, the accuracy and completeness of such data is not guaranteed and has not been verified by any independent sources. Market and industry data, including estimates and projections relating to size of market and market share, is inherently imprecise and cannot be verified due to limitations on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations inherent in any market research or other survey. Management's estimates are based on internal research, its knowledge of the relevant market and industry and extrapolations from third-party sources. While the Company is not aware of any material misstatements regarding the market and industry data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those factors discussed "Risk Factors".

Financial Data in this AIF

Financial information reported in this AIF is in accordance with IFRS.

CORPORATE STRUCTURE

Name, Address and Incorporation

KWESST Micro Systems Inc. (formerly Foremost, and referred to herein as the Company) is a company domiciled in Canada. The Company was incorporated on November 28, 2017, under the laws of the BCBCA.

The Company's registered and head office is located at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3 and the Company's principal place of business is located at 155 Terence Matthews Crescent, Unit #1, Kanata, Ontario, Canada, K2M 2A8.

Qualifying Transaction and Amalgamation

On April 30th, 2020, Foremost, a capital pool company pursuant to the rules and policies of the TSXV, together with its wholly owned subsidiary Subco, entered into an amalgamation agreement with KWESST Inc. pursuant to which Subco and KWESST Inc. agreed to amalgamate (the "**Amalgamation**") to complete an arm's length qualifying transaction (the "**Qualifying Transaction**"), in accordance with the policies of the TSXV. The Amalgamation was completed on September 17, 2020. The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation, named "KWESST Inc." (referred to in this AIF as "**KWESST**"), became a wholly owned subsidiary of Foremost. In the context of the Amalgamation, Foremost changed its name to KWESST Micro Systems Inc. (referred to herein as the Company). On September 22, 2020, the Company Shares began trading on the TSXV under the symbol "KWE.V".

On July 9, 2020, KWESST completed the KWESST 2020 Subscription Receipt Financing, in which PI Financial Corp. acted as the agent for KWESST. As part of the Qualifying Transaction, the 4,409,553 subscription receipts were converted into common shares of KWESST, which were subsequently cancelled and shares of the Company were issued in exchange therefor.

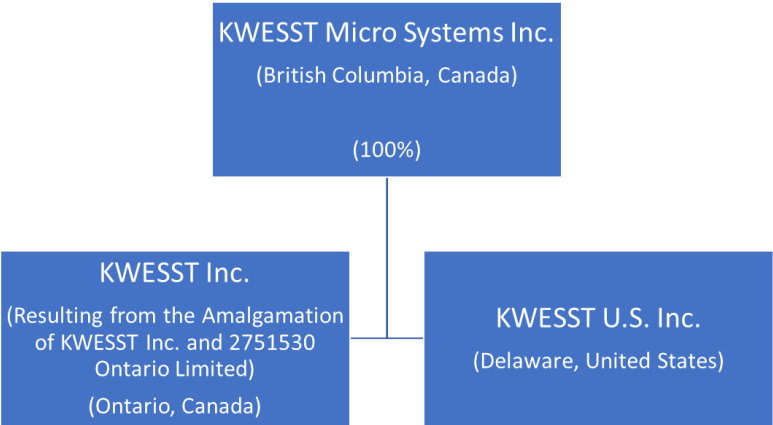
Immediately following the completion of the Amalgamation, there were 41,266,176 Company Shares, and the former shareholders of KWESST, along with the holders of the subscription receipts and convertible notes of

KWESST, owned approximately 97.8% of the issued and outstanding Company Shares. This constituted a reverse acquisition for accounting purposes under IFRS.

For further details on the Amalgamation and the financial impact of the closing of the KWESST 2020 Subscription Receipt Financing, please refer to Notes 4 (a) and 16 of the 2020 Audited Financials.

Intercorporate Relationships

As of the date of this AIF, the following chart illustrates the Company's wholly-owned direct and indirect subsidiaries:



KWESST Inc.

On September 17, 2020, pursuant to the Qualifying Transaction, KWESST amalgamated with Subco under the name of KWESST Inc. As previously noted, as a result of the reverse acquisition, this AIF reflects the continuation of KWESST's business operations (see "*GENERAL DEVELOPMENT OF THE BUSINESS*").

KWESST U.S., Inc.

On January 28, 2021, the Company incorporated a wholly-owned subsidiary in Delaware (U.S.), named KWESST U.S., Inc., and established an office in Stafford, Virginia (U.S.) to better position the Company to pursue U.S. military business opportunities for its intelligent tactical system offerings (see "*DESCRIPTION OF THE BUSINESS*").

GENERAL DEVELOPMENT OF THE BUSINESS

The business activities of the Company are entirely carried on by its wholly-owned operating-subsiary, KWESST. KWESST's business is the Company's business. Accordingly, references in this AIF to the Company shall include a reference to KWESST. As the operating subsidiary, the activities carried on by KWESST as well as the risks it is subject to, are also considered to be activities carried on by the Company and risk factors it is subject to and are presented as such in this form.

The Company develops and markets proprietary technology for applications in principally the military and the homeland security market (see "*DESCRIPTION OF THE BUSINESS - Method of Distribution and Principal Markets*" for more details). The Company's core technology has multiple applications based on its MISST

technology, a proprietary integration of miniaturized sensors, optics, ballistics and software that provides an advancement in affordable smart systems and mission capability. Current applications and offerings enable: (i) real-time networked situational awareness for soldiers and their weapons systems; (ii) smart management of ordnance systems; and (iii) solutions for countering drone attacks and countermeasures against weaponized lasers. The Company has also entered into the DEFSEC Purchase Agreement to acquire the LEC Technology, a proprietary non-lethal cartridge-based ordnance system which has application across four market segments that currently use a variety of dated "non-lethal" or "less-lethal" products. For more information of the LEC Technology, see section "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

Three-Year Business Development History

KWESST was formed in April 2017 by Jeffrey MacLeod, the President, CEO, director and Promoter of the Company after having spent just short of twenty years as general manager of Colt Canada Corporation, a subsidiary of Colt, a Connecticut based company which is one of the world's oldest designers, developers and manufacturers of firearms for military, personal defence and recreational purposes. KWESST was founded to pursue advanced projects within the defence and security fields. KWESST opened its offices in Kanata, Ontario in May of 2017. Hiring a core team of five highly experienced electronics, software and hardware engineers, with decades of experience in the defence electronics and sensors fields, KWESST immediately began development of what would become its core technology, the Tactical Awareness and Situational Control System (or TASCs). 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 (or the BMS).

In year 2018

Business development

Between May and September of 2017, KWESST developed the first-generation prototype of the sensor package forming part of its TASCs, combined with a basic BMS system, for the purpose of demonstrating its technical capability at the 2018 edition of the Association of the United States Army Annual Trade show in Washington, D.C. Working out of a booth with LMT, KWESST received expressions of interest for its sensor package and BMS system. KWESST was also requested to attend a meeting with the U.S. military drone supplier, AeroVironment. AeroVironment and KWESST started collaborating on marrying TASCs with AeroVironment's drone data feeds. For more information on the TASCs, see section "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

In January 2018, while cooperating closely with LMT, KWESST displayed its products at the Las Vegas, Nevada SHOT Show, the largest trade show for target shooting, hunting, outdoor sports and tactical products for law enforcement and tactical forces.

In March 2018, AeroVironment provided KWESST with the necessary equipment to integrate a real-time video feed from a camera attached to the drone into KWESST's TASCs IFM. KWESST successfully integrated AeroVironment's drone data feed into KWESST's TASCs and provided a demonstration of the capability of the new product to AeroVironment in May of 2018. In August 2018, a successful demonstration was conducted for the U.S. Marine Corps, in Quantico, Virginia.

In fall 2018, KWESST started internal testing for its Shot Counter prototype, a product developed in connection with TASCs, designed to be primarily utilized as a maintenance and logistic tool to track usage and repairs to various weapons. New weapons systems coming into service are increasingly required to be equipped with this type of technology.

Financing

KWESST completed the KWESST 2018 Financing in the amount of \$794,522 by way of revenue sharing agreements and convertible debentures, respectively settled in 2019 by the issuance of: (i) 3,104,485 Company Shares, and (ii) the KWESST 2019 Convertible Notes in the principal amount of \$234,515.

In year 2019

Business development

KWESST was invited to participate in a closed-door demonstration of its products to U.S. and international special forces in January 2019. The purpose of the demonstration of the products was to generate interest from potential customers. The Close Combat Lethality Task Force (or CCLTF), expressed interest in funding the development of tactics and training around the TASCs technology. In the meantime, the CCLTF has tested TASCs capability for exercises with U.S. military to evaluate increases in lethality, effectiveness and safety for the troops.

In August 2019, AeroVironment awarded a USD \$360,000 contract to the Company to integrate its TASCs IFM with AeroVironment's Augmented Weapon Sight for the preproduction development of 60mm and 81mm mortar and machine gun mounts, which the Company delivered in 2019.

On November 18, 2019, KWESST entered into the AerialX Licensing Agreement with AerialX 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 (the "**Licensed Technology**"). For more information on the GreyGhost, see "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*". Pursuant to the AerialX Licensing Agreement, AerialX has licensed the Licensed Technology subject to the terms and conditions of the AerialX License until April 30, 2026, in consideration for the payment royalties and certain minimum annual. KWESST also agreed to issue up to 300,000 Company Shares to AerialX, subject to attaining certain financial milestones. The financial milestones are the following: 75,000 Company Shares upon KWESST having achieved cumulative revenues from the sale of GreyGhost in the amount of \$3,000,000, 100,000 Company Shares KWESST having achieved cumulative revenues from the sale of GreyGhost in the amount of \$9,000,000 and 125,000 Company Shares having achieved cumulative revenues from the sale of \$18,000,000. See "*GENERAL DEVELOPMENT OF THE BUSINESS - Three-Year Business Development History - Business development – In year 2021*"

Starting in November 2019, KWESST started developing proprietary laser defence products to protect ground forces from a portable laser attack weapon developed and produced by a foreign adversary. When optical devices are located, the laser attack weapon transmits a powerful laser pulse to blind and disrupt the optical system. These products are the KWESST Laser Detection (or KWESST LD), and KWESST Laser Warning System (or KWESST LWS).

Financing

In June 2019, KWESST made the decision to accelerate its financing activities. As a result, in October 2019, KWESST completed a private placement of Company Shares for gross proceeds of \$1,015,000 at a price of \$0.20 Company Shares, resulting in the issuance of 5,075,000 Company Shares.

In October 2019, revenue sharing agreements and convertible debentures issued in 2018 as part of the KWESST 2018 Financing were settled by the issuance of: (i) 3,104,486 Company Shares, and (ii) the KWESST 2019 Convertible Notes in the principal amount of \$234,515.

Organizational

In October 2019, Mr. David Luxton joined the board of directors of KWESST and was named Executive Chairman.

In year 2020

Business development

In March 2020, AeroVironment approved a further project with KWESST to provide increased capability to the AWS system, by requesting a follow-on order from 2019 for further optimization and additional prototypes relating to machine guns (M2 MG, Mk-19, etc.) and mortars (60mm, 81mm, and 120mm). This project generated approximately \$530,000 of revenue in the first-half of Fiscal 2020.

In June 2020, KWESST assembled its first group of GreyGhost units, and will begin customer demonstrations in the second quarter of Fiscal 2021 (subject to travel restrictions imposed by governments as a result of COVID-19) KWESST anticipates first sales of this product in the third quarter of the Fiscal 2021.

In July 2020, KWESST won a contract valued at approximately \$500,000 to demonstrate its TASCs IFM on a 81mm mortar platform for a U.S. military customer. Following successful trials in Virginia held in September 2020 and in California in November 2020, this U.S. military customer awarded a follow-on order of approximately \$1.1 million in December 2020 to expand the use of the Company's TASCs IFM system in military exercises at two U.S. battalion sites in 2021, a condition precedent to further adoption from this customer. The contract is for the application of the TASCs IFM system on the 81mm mortar platform, which transforms it into a "smart" weapon system with greater accuracy and faster response time, improving soldier survivability and operational effectiveness.

Financing

In January 2020, KWESST completed a private placement of 2,625,000 Company Shares at a price of \$0.40 per Company Shares for gross proceeds of \$1,050,000.

In March 2020, KWESST completed a private placement of 845,750 Company Shares at a price of \$0.50 per Company Shares for gross proceeds of \$422,875.

In May 2020, KWESST issued the KWESST 2020 Convertible Notes in the principal amount of \$1,115,034 as a result of (i) the KWESST May 2020 Private Placement for gross proceeds of \$1,081,501, by way of issuance of the KWESST May 2020 Private Placement Convertible Notes, and (ii) consideration for services rendered by a third party in connection with the KWESST May 2020 Private Placement, by way issuance of a convertible note with a principal amount of \$33,530 to this third party, and pursuant to the same terms as the KWESST May 2020 Convertible Notes.

In May 2020, the Company also issued 600,839 Company Shares, which were deemed to be bonus shares, to the holders of the KWESST May 2020 Private Placement Convertible Notes.

On July 9, 2020, as part of the KWESST 2020 Subscription Receipt Financing, KWESST issued 4,409,553 subscription receipts of KWESST at \$0.70 per subscription receipt for aggregate gross proceeds of around \$3,086,678 before share issuance costs. As part of the Qualifying Transaction, in September 2020, the 4,409,553 subscription receipts were converted into Company Shares, which were subsequently cancelled, and shares of the Company were issued in exchange therefor for same number of Company Shares.

On December 14, 2020, the Company issued 24,214 Company Shares pursuant to an agreement with Agora Internet Relations Corp. Furthermore, the Company issued an additional 67,142 Company Shares to two arms length parties in order to settle outstanding unpaid debts.

The following table provides an approximate breakdown of the funds spent by KWESST from the proceeds raised in September 2020 plus the working capital available at that time as disclosed in KWESST's Filing Statement dated August 28, 2020:

Use of Proceeds	Expected Allocation ⁽²⁾	Estimated and Unaudited Actual Use of Funds ⁽³⁾
<i>Non-working capital ⁽¹⁾ :</i>		
Costs related to complete the QT	\$ 150,000	\$ 145,560
Broker commissions and fees	189,520	189,520
Loan repayment	114,049	31,252
Products development ⁽⁴⁾	1,395,000	581,549
	\$ 1,848,569	\$ 947,881
<i>Working capital:</i>		
Marketing costs	345,000	278,303
Royalties	150,000	-
Unallocated working capital	1,746,237	1,472,819
Total	\$ 4,089,806	\$ 2,699,003

Notes:

- (1) Excludes non-cash transactions settled in KWESST common shares
- (2) As disclosed in KWESST's Filing Statement dated August 28, 2020
- (3) From September 1, 2020 to December 31, 2020
- (4) Includes assembly, testing, tooling, and demonstration.

- Loan repayment: this relates to loans made by Mr. Jeff MacLeod, KWESST President & CEO, and by an employee. The employee loan was fully repaid during the quarter ended December 31, 2020. Partial repayment has been made to Mr. MacLeod's loan during the quarter ended December 31, 2020, and further loan repayments are expected during Fiscal 2021 subject to capital surplus.
- Product development: the following table provides a further breakdown of the investment made by products:

Products	Expected Allocation ⁽¹⁾	Estimated and Unaudited Actual Use of Funds ⁽²⁾
TASCS NORs (formerly TASCS Sniper)	\$ 150,000	14,133
TASCS IFM ⁽³⁾	150,000	461,790
KWESST LWS	150,000	-
KWESST LD	425,000	12,234
Shot Counter	120,000	-
Phantom	150,000	31,281
GreyGhost	250,000	62,111
Total	\$ 1,395,000	\$ 581,549

Notes:

- (1) As disclosed in KWESST's Filing Statement dated August 28, 2020
- (2) From September 1, 2020 to December 31, 2020
- (3) Estimated unaudited actual is net of \$334 thousands customer funding

As noted in the above table, KWESST focused mainly on the TASCs IFM product line during the quarter ended December 31, 2020 as a result of positive constructive feedback for further enhancements from a U.S. military customer during the trials/testing that occurred in September and November 2020. Some of this investment will be recovered as a result of the \$1.1 million contract awarded in December 2020. See below “Stage of Development and Future development of products by the Company” for estimated remaining spend by product line to reach commercialization.

- Working capital: a significant portion of the proceeds were allocated to working capital to scale the management and sales/business development team, coupled with higher professional fees than anticipated. Refer to the MD&A – Results of Operations for further details. Additionally, the \$150,000 royalties relate to the anticipated royalty payment under the AerialX licensing agreement for 2020. Due to delays in completing a fully functional prototype, the licensor agreed to a delay in royalty payment. Refer to “In year 2021 - Business” below for recent update.

Acquisitions

GhostStep Technology

On June 12, 2020, KWESST entered into the GhostStep Technology Purchase Agreement with SageGuild pursuant to which KWESST acquired the GhostStep (referred to herein as Phantom). The Phantom technology is a portable, soldier or air deployable electronic battlefield decoy. For more information on the GreyGhost, see "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

The purchase consideration for the Phantom under the terms of the GhostStep Technology Purchase Agreement is of:

- (i) a cash payment to SageGuild made on June 12, 2020 in the amount of \$134,192;
- (ii) the issuance to SageGuild on June 12, 2020 of 140,000 Company Shares;
- (iii) either the payment of USD \$100,000 in cash or the issuance of 557,000 Company Shares at a deemed price of \$0.50 per common share (CAD \$278,500), at the Company’s sole discretion, upon the completion of Qualifying Transaction. The Company elected the issuance to SageGuild of 557,000 Company Shares.

In addition to the purchase price, pursuant to the GhostStep Technology Purchase Agreement KWESST has agreed to:

- (i) make annual payments to SageGuild of \$125,000 on each of December 31, 2020, 2021 and 2022, subject to certain conditions;
- (ii) issue to SageGuild of 750,000 warrants exercisable at \$0.50 per share and expiring on January 15, 2023. These warrants vest in equal tranches of 250,000 warrants on each of December 31, 2020, 2021 and 2022. The Company has the right to apply the annual payments of \$125,000 to SageGuild against the exercise price of these warrants.

The above purchase transaction was valued at \$481,272 and recognized as an intangible asset. See note 4(b) of the 2020 Audited Financials for further details.

Qualifying Transaction (Reverse Acquisition)

As previously noted, KWESST completed the Qualifying Transaction with Foremost in September 2020. Starting on September 22, 2020, the Company Shares began trading on the TSXV under the symbol "KWE.V".

Under reverse acquisition accounting, the total KWESST common shares and options consideration transferred at the closing of the Qualifying Transaction was \$670,104. For more information on the Qualifying Transaction, see "*CORPORATE STRUCTURE - Qualifying Transaction and Amalgamation*".

Organizational

Following the Qualifying Transaction, the Company appointed the following independent directors: John McCoach, Paul Fortin, and Paul Mangano. On October 1, 2020, the Company added a new member to its executive leadership team. Steven Archambault joined the Company as Chief Financial Officer. For more information on the leadership team, see "*DIRECTORS AND EXECUTIVE OFFICERS*".

In year 2021

Business

On January 15, 2021, the Company announced that Canadian General (Retired) Rick Hillier will lead its new International Advisory Council, which will provide guidance to the Company on its strategic build-out on a global scale. General Hillier served as Canada's Chief of Defence Staff ("**CDS**") CDS from February 4, 2005, to July 1, 2008. He is noted for "getting stuff done" and was instrumental in securing additional funding and modernized equipment for the Canadian military in support of Canada's mission in Afghanistan. In November 2020, Ontario Premier Doug Ford appointed General Hillier to oversee the province's vaccination task-force in response to the COVID-19 pandemic.

On February 3, 2021, the Company announced that its common shares have been approved for listing on the OTCQB ® Venture Market ("OTCQB ®"), a US trading platform that is operated by the OTC Markets Group in New York. On February 4, 2021, the Company commenced trading on the OTCQB ® under the symbol KWEMF.

AerialX Amended and Restated License Agreement

On April 5, 2021, KWESST and AerialX entered into an amended and restated license agreement in which KWESST obtained exclusive rights to Licensed Technology for the United States Department of Defense and Canada's Department of National Defence for a period of two years from the date upon which AerialX will meet certain technical milestones (the "**Technical Milestones**"). In consideration for the exclusivity, upon signing the agreement, KWESST issued 100,000 Company Shares to AerialX. KWESST also agreed to issue an additional 100,000 Company Shares upon AerialX achieving the Technical Milestones.

KWESST will continue to have non-exclusive worldwide license.

In addition to the above share consideration, KWESST will pay a royalty to AerialX of 8% of the total aggregate amount of annual sales, subject to a minimum of \$150,000 in the first year following AerialX having achieved the Technical Milestones, \$200,000 in the second year following AerialX having achieved the Technical Milestones, \$300,000 in the third year following AerialX having achieved the Technical Milestones, \$400,000 in the fourth year following AerialX having achieved the Technical Milestones, and \$500,000 in the fifth year following AerialX having achieved the Technical Milestones. KWESST has also paid \$150,000 as advanced royalties to be applied against future royalty payments on the signing of the AerialX License Agreement.

DEFSEC Purchase Agreement

On January 14th, 2021 the Company entered into the DEFSEC Purchase Agreement to acquire the LEC Technology from DEFSEC, subject to TSXV's approval. The Company anticipates to complete this transaction before the end

of February, 2021 (though the exact date is not yet known) (the "**DEFSEC Closing Date**"). DEFSEC is an Ottawa-based based private company owned by David Luxton the Executive Chairman of the Company.

The entering into the DEFSEC Purchase Agreement by the Company is considered to be a "related-party transaction" for purposes of MI 61-101 and *Policy 5.9 – Protection of Minority Security Holders in Special Transactions of the TSXV*. The Company is relying on exemptions from the formal valuation and minority shareholder approval requirements available under MI 61-101. The Company 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 the Company's market capitalization, and no securities of the Company are listed or quoted for trading on prescribed stock exchanges or stock markets. Additionally, the Company 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 the Company's market capitalization. The transaction was reviewed and approved by the independent directors of the Company. Further, on February 19, 2021, the TSXV conditionally approved this asset acquisition. The closing of the LEC Technology acquisition by the Company is anticipated to close concurrently with the closing of the financing (see below).

The purchase price for the LEC Technology shall be satisfied by the issuance to DEFSEC of 1,000,000 Company Shares and 500,000 share purchase warrants of the Company, each warrant entitling its holder to purchase one (1) Company Share, at a price of \$0.70 per share. The warrants shall vest as to 25% on the first anniversary of the DEFSEC Closing Date, and 25% on each of the subsequent three anniversaries of the DEFSEC Closing Date. On the DEFSEC Closing Date, the Company shall pay DEFSEC a cash amount of \$150,000 as an advance on royalties.

Other material terms of the DEFSEC Purchase Agreement include:

- For eleven (11) years following the DEFSEC Closing Date, the Company shall pay DEFSEC royalties at a rate of seven (7) percent 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 maximum of \$10 million (the "**Maximum Royalties**").
- Starting on the second anniversary of DEFSEC Closing Date, for each year until the Maximum Royalties have been paid, the royalties owed will be the greater of the (i) royalties, or (ii) the minimum annual royalty, which minimum annual royalty shall be as follows:
 - (i) \$150,000 on the second anniversary of the DEFSEC Closing Date;
 - (ii) \$150,000 on the third anniversary of the DEFSEC Closing Date;
 - (iii) \$200,000 on the fourth anniversary of the DEFSEC Closing Date;
 - (iv) \$200,000 on the fifth anniversary of the DEFSEC Closing Date;
 - (v) \$250,000 on the sixth anniversary of the DEFSEC Closing Date;
 - (vi) \$250,000 on the seventh anniversary of the DEFSEC Closing Date;
 - (vii) \$300,000 on the eighth anniversary of the DEFSEC Closing Date;
 - (viii) \$300,000 on the ninth anniversary of the DEFSEC Closing Date;
 - (ix) \$350,000 on the tenth anniversary of the DEFSEC Closing Date; and
 - (x) \$350,000 on the eleventh anniversary of the DEFSEC Closing Date(the "**Minimum Annual Royalties**").
- In the event that the Company fails to pay the Minimum Annual Royalties in a timely manner for a given year and does not remedy such failure within thirty (30) days of receiving written notice by DEFSEC of such default, ownership of the LEC Technology (excluding any further developments, improvements or enhancements paid for by the Company after the DEFSEC Closing Date) shall revert to DEFSEC.

- The Company shall have the right at any time to extinguish the royalties, by paying to DEFSEC an amount equal to the Maximum Royalties less all royalties already paid and Minimum Annual Royalties.

Financing

On April 6, 2021, the Company announced as entered into an agreement with PI Financial Corp., as lead agent and sole bookrunner, for private placement of up to 2,000,000 units (the "Units") of the Company at a price of \$1.25 per Unit for gross proceeds of up to \$2,500,000 (the "Offering"). On April 9, 2021, the Company announced that it upsized the Offering to \$4,000,000. Each Unit will be comprised of one Company Share and one Company Share purchase warrant (a "Warrant"). Each Warrant shall be exercisable to acquire one Company Share (a "Warrant Share") at a price of \$1.75 per Warrant Share for a period of 24 months from the closing of the Offering. If at any time after four (4) months and one (1) day following the Closing Date, the trading price of the Company Shares on the TSXV is equal to or exceeds \$3.00 for a period of 10 consecutive trading days, as evidenced by the price at the close of market, the Company shall be entitled to notify the holders of Warrants of its intention to force the exercise of the Warrants. Upon receipt of such notice, the holders of Warrants shall have 30 days to exercise the Warrants, failing which the Warrants will automatically expire. The Company expects to close the Offering on or about April 29, 2021.

On April 9, 2021, the TSX-V has conditionally accepted the Offering subject to meeting certain conditions, including closing by May 6, 2021.

Organizational

On February 24, 2021, Ms. Elisabeth Preston joined the Company as a member of the board of directors and Corporate Secretary. Ms. Preston is the Chief Legal Counsel for a top tier international defence company with widespread global operations.

On April 12, 2021, KWESST announced the appointment of Mr. Rick Bowes as Chief Operating Officer. Prior to his various senior roles with defence contractors such as General Dynamics Canada, DRS Technologies Canada (now Leonardo DRS), ATCO Frontec and ADGA Group Inc., Rick had a distinguished career as a senior officer in the Canadian Army, retiring in 2003 as a Lieutenant Colonel. He is a graduate of Royal Military College of Canada and served in various operational and staff roles in the Canadian military and on secondment to the British Army. As an armour officer, Rick served with various units such as Lord Strathcona's Horse (Royal Canadians) and the Canadian Airborne Regiment Battle Group across Canada and in deployed operations in Bosnia-Herzegovina with the UN Protection Force and the NATO Stabilization Force (SFOR). Rick was also part of the planning team for Canada's participation in the NATO Kosovo Force (KFOR) mission in 1999.

DESCRIPTION OF THE BUSINESS

Summary / Operations

The Company develops and markets products to create "intelligent tactical systems" and proprietary technology for applications in the military and homeland security market (for more information on these markets, see "*DESCRIPTION OF THE BUSINESS Competitive Conditions*"). The Company's core technology has multiple applications based on its MISST technology, a proprietary integration of miniaturized sensors, optics, ballistics and software that provides an advancement in affordable smart systems and mission capability. Current applications and offerings of the MISST technology enable: (i) a real-time networked situational awareness for soldiers and their weapons systems, (ii) smart management of ordnance systems, and (iii) solutions for countering drone attacks and countermeasures against weaponized lasers. The Company's management team has over twenty-five (25) years'

experience in building companies in specialized high-demand areas of the global defence and security market. For more information on the MISST, see "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

Principal Products and Services

The Company's principal products are the following and each is discussed below.

The following products have been developed or acquired by the Company and are owned by the Company:

Micro Integrated Sensor Software Technology (or MISST)

The MISST is a proprietary integration of miniaturized sensors, optics, ballistics and software that provides an advancement in affordable smart systems and mission capability. Current applications and offerings enable: (i) real-time networked situational awareness for soldiers and their weapons systems, (ii) smart management of ordnance systems, and (iii) solutions for countering drone attacks and countermeasures against weaponized lasers.

TASCS Networked Observation and Reconnaissance System (or TASCS NORS)

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

TASCS Integrated Fire Modules System (or TASCS IFM)

The TASCS Integrated Fires Modules Systems (or TASCS IFM) equips existing weapons systems with a sensor pack, which is similar to the TASCS Sniper, that accurately locates the weapon on the battlefield and provides a high-resolution bearing line indicating the direction in which the weapon is pointed. When connected to a display, and combined with the Company's ballistic algorithm, this enables the user to engage targets utilizing a map location only, without any requirement to see the target. When networked across to the TASCS system, targeting information can be received from and on any source of the network, and once a weapon is activated in the integrated fires modules systems mode, the impact point of the ammunition is displayed on all systems, giving friendly forces the ability to know if they are inadvertently being targeted and to take appropriate action. It also enables all networked systems to see where potential targets are and who is engaging them. The TASCS IFM is utilized primarily on systems that ordinarily require the user to have direct line of sight to the target, leaving them exposed. With TASCS IFM, they can engage from positions of cover and at longer distances, improving safety and survivability of the user.

Shot Counter

The Shot Counter is a product developed by the Company, largely based on the same sensor technology as the TASCS, and which can be incorporated into a firearm in order to count the number of rounds fired by the weapon. It is a small device that fits inside the pistol grip of most weapons, and functions with no user input for up to ten (10) years on a single battery. Information is gathered by near-field communication devices either in the armoury or on a portable device. Near-field communication is a short-range wireless connectivity standard that uses magnetic field induction to enable communication between devices. In the current military and police force markets, systems that allow tracking of the number of shots fired and what type of ammunition has been fired by small firearms are

uncommon. Furthermore, most OEMs weapons manufacturers provide a repair schedule based on the number of rounds fired, but because users have no way to track this information, users tend to resort to mass upgrade programs which increase their costs substantially. The Shot Counter will track the number and types of ammunition fired. It can also track and recommend scheduled maintenance for the individual weapons system. This will result in significant cost reduction for the user and ensures inventory readiness is at the highest level. In the future, the Shot Counter capability could be expanded to establish predictive maintenance.

KWESST Laser Warning System (or KWESST LWS)

Most military vehicles and aircrafts are equipped with a laser-warning system that provides an alert to the user when a laser is detected. The KWESST LWS is an internally developed miniaturized version of these warning systems about the size of a small cellphone and can be mounted on clothing or an individual weapon and provides individuals with an audible and sensory notification when the sensor detects laser radiation in a specific wavelength, allowing the user to take appropriate defensive action.

KWESST Laser Detector System (or KWESST LD)

The KWESST LD is an internally developed lightweight tripod or light vehicle mounted system that provides either a 180 degree or 360 degrees scanning detection of laser activity. The detector provides an accurate bearing line to the laser source. When networked through a TASCs IFM-equipped weapon system, it creates the possibility for a rapid response to the laser weapon threat.

Phantom (previously GhostStep)

The Phantom is a compact, lightweight and selectively expandable electromagnetic transmitter capable of mimicking the electromagnetic footprint of a small tactical military unit, acquired from SageGuild on June 12, 2020. It is an electromagnetic decoy that is simple to operate, contains advanced "system on chip" technology, is man-portable and entirely programmable.

LEC Technology

The LEC Technology is a proprietary non-lethal cartridge-based ordnance system developed by DEFSEC, an Ottawa-based private company owned by David Luxton, the Executive Chairman of the Company. The LEC Technology has universal application across four market segments that currently use a variety of dated "non-lethal" or "less-lethal" products, each having a vast global market. These segments are (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.

The following product has been licensed by the Company, and is subject to a definitive purchase agreement, as described herein:

GreyGhost

A concern for deployed military and many police forces is the proliferation of small drones and the potential hazards they pose to troops and the public at large. Current methods to tackle this concern include utilizing electronic counter-measures known as jammers which attempt to disrupt radio-frequencies between the drone and the operator of the drone. Those jammers are only effective against drones that are GPS or radio-controlled. Other systems, such as net capture, have a short range and can only deal with one target at a time. Other kinetic (i.e motion-related) systems rely on radar guidance and weapons or missiles, the cost of which can be high. The Company's licensed GreyGhost technology provides a kinetic interceptor which can use multiple methods to engage target drones. With a range in excess of three kilometres, the GreyGhost utilizes optical recognition to "lock" on to a target. Once in

attack mode, the GreyGhost will track and repeatedly impact the target drone until it is destroyed. One GreyGhost control station can currently operate three GreyGhost units at a time, allowing the capability to deal with multiple targets.

Services

In addition to the above principal products, on March 30, 2021, the Company announced the establishment of ATAK Centre of Excellence in Ottawa, Canada. This centre will facilitate customer requirements for integration into the U.S. battlefield management application known as ATAK. It is a natural extension of the Company’s core business around digitizing applications “at the tactical edge” for shared situational awareness and targeting.

Method of Distribution and Principal Markets

The Company markets primarily to military and law enforcement in countries that are members of NATO, as well as Australia and New Zealand. As the largest purchaser and user of military and law enforcement products, the U.S. is the Company's primary focus, followed by the rest of NATO, and to a lesser extent, the Middle and Far East.

An important trend in the market is to meet the stated objectives of military and law enforcement agencies throughout the Company's market territory, and to provide these agencies with economic and effective means to reach these objectives. Through utilization of TASCs technology, the company believes that these military and law enforcement agencies will be more likely to meet their budget objectives, while still having the capability to achieve more: overmatch opponents, and provide enhanced safety and protection to their troops.

Furthermore, the Company is acknowledged as a subject-matter expert in the field of networked weapons. This expertise has been recognized by the U.S. military who requested that the Company participate in the NATO working group tasked with developing standards and requirements for these types of networked weapons.

The Company utilizes different approaches to the distribution of its products based on the target market. Each primary product is discussed in the table below:

Name of Product	Method of Distribution & Principal Markets
Products owned by the Company	
TASCs NORS	Primarily focused at police and military sniper users. TASCs NORS will be distributed using a combination of direct sales to end customers and through an international network of distributors and agents. The preliminary focus will be on U.S. and Canadian military and law enforcement agencies, as well as militaries of NATO countries.
TASCs IFM	Primarily a military product. The initial sales target is the U.S. Department of Defense, which is being marketed directly by the Company's U.S. business development representative. Other primary targets are the U.S. Army, U.S. Special Forces, Canadian Special Forces, and NATO forces. Sales will be directly to the end customers for the U.S. and Canada, and through an international network of distributors and agents for the rest of the world. This is complemented by indirect sales into military programs through OEM partners.
Shot Counter	Designed to support the military, police and OEM weapons suppliers. The Company will market directly to military and OEM customers.

Name of Product	Method of Distribution & Principal Markets
	The Canadian Armed Forces, through Colt, are the initial targeted market. Concurrently, other marketing activities directed to weapons OEMs such as LMT, SIG and Beretta are ongoing. Future marketing activity will be directed to the end users and to OEMs.
KWESST LWS	Developed at the specific request of one of the Company's end users and will be directly marketed by the Company primarily to Canada, the U.S. and the military of NATO countries.
KWESST LD	Designed to meet NATO requirements as identified by various NATO country militaries. It will be primarily marketed directly to the end users by the Company in the initial stages of sales and through distributors and agents as they are engaged.
Phantom	The Phantom was developed to fill a gap identified in U.S. military capabilities. It will be marketed directly to the U.S. and the Canadian military in the early stages. It is anticipated that the Phantom technology will be distributed through industry partners specializing in the supply of electronic warfare equipment. The Phantom Technology will also be marketed to NATO countries, Australia and New Zealand through our network of agents and distributors.
LEC Technology	Following the closing of the anticipated acquisition of the LEC Technology, KWESST will initially target the personal defense, law enforcement and military markets where the LEC Technology provides an alternative to tasers and air operated, less lethal devices, as well as force-on-force training systems, such as Simunition. The Company will use multiple paths to go to market with the LEC Technology. The first will be a licencing arrangement with OEMs. Currently two OEMs have been identified, and initial discussions have been held. A number of well-placed distributors have been identified and KWESST will be negotiating distribution deals in the upcoming months. The second will be to roll-out to the self defence and high-action gaming market.
Product licensed by the Company	
GreyGhost	Primarily a military and security product. It will initially be marketed directly to end users by the Company, and as additional marketing samples become available in 2020, marketing will be expanded through a network of agents and distributors.

For the ATAK Center of Excellence, the Company will initially be marketing directly to U.S. and Canadian military and law enforcement agencies, as well as militaries of NATO countries.

Stage of Development and Future development of products by the Company

The Company conducts all its research and development internally, with the exception of GreyGhost, where most of the research and development is conducted by AerialX. Upon completion of the acquisition of the LEC Technology, the Company will further develop the LEC Technology externally, with engineering firms.

The following table provides an update of the current product development cycle by product line and estimated timeline by quarter in fiscal year (FY) 2021 and 2022 to reach production (commercialization):

	Concept & Design	Prototype ⁽¹⁾	Market Testing ⁽²⁾	Pre-production ⁽³⁾	Production ⁽⁴⁾
TASCS NORS		Q3 FY21	Q3 FY21	Q4 FY21	Q1 FY22
TASCS IFM			Q3-Q4 FY21	Q1-Q2 FY22	Q3 FY22
KWESST LWS			Q4 FY21	Q1 FY22	Q2 FY22
KWESST LD		Q3-Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Shot Counter		On Hold			
Phantom		Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
GreyGhost			Q3-Q4 FY21	Q1 FY21	Q2 FY22
LEC Technology		Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22

Notes:

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

Since December 2020, we have re-prioritized resources based on current market opportunities to generate meaningful revenue over the next 12 months. Accordingly, the Company has put on hold the shot counter product line.

The following table provides management estimate of the additional investment to reach commercialization by product line:

	Concept & Design	Prototype	Market Testing	Pre-production	Production
TASCS NORS	\$nil	\$22,500	\$47,500	\$25,000	\$95,000
TASCS IFM	Funded ⁽¹⁾	Funded ⁽¹⁾	Funded ⁽¹⁾	Funded ⁽¹⁾	Funded ⁽¹⁾
KWESST LWS	\$nil	\$nil	\$182,500	\$25,000	\$207,500
KWESST LD	\$nil	\$103,750	\$103,750	\$25,000	\$232,500
Phantom	\$nil	\$160,000	\$160,000	\$185,000	\$505,000
Shot Counter	On hold	On hold	On hold	On hold	On hold
GreyGhost	\$nil	\$nil	\$141,500	\$50,000	\$191,500
LEC Technology	\$150,000	\$50,000	\$100,000	\$200,000	\$500,000
TOTAL	\$150,000	\$336,250	\$735,250	\$510,000	\$1,731,500

Note:

(1) Funded by the U.S. military contract awarded in December 2020.

The timely execution of product development for the above product lines is conditional on the Company's ability to raise timely capital (debt or equity). As noted in the MD&A, since December 31, 2020, the Company raised an additional \$331,900 via exercised of stock options and warrants. However, the Company will need to raise additional capital in order to fund all projects. Should there be an anticipated shortfall on capital, the Company will first prioritize product lines that are generating revenue or close to pre-production stage, namely TASCS IFM for 81mm Mortar, Phantom, and TASCS NORS.

The Company may shift the above capital allocations in response to market demands and opportunities over the next twelve (12) months.

Additionally, for the establishment of ATAK Centre of Excellence, the Company will initially leverage from internal resources and fund growth from customer orders.

Operations

For all of its current products and products in development, the Company plans to outsource manufacturing to local Canadian companies. For as long as market demand justifies a low rate of production quantities, the Company will internally produce its products. Once demand reaches quantities necessitating commercial-level production quantities, the Company will outsource its production to companies specifically suited to producing each particular product. No material regulatory approvals are required for the Company to outsource production.

The Company leases a 7,200 square-foot-office and facilities located in Kanata, Ontario, in Canada. The arm's length lease for its office and facilities has a term of six (6) years expiring on April 30, 2026. The Company has an option to renew the lease for an additional period of five (5) years. Additionally, on February 9, 2021, the Company entered into a short-term lease arrangement for small office and lab space located at 10 Center Street, Suite 201, Stafford, Virginia.

The Company relies on highly skilled engineers and technicians for its operations. The Ottawa region provides a steady source of skilled employees in the defence sector, due to the large quantity of high technology defence companies having facilities in the area.

The Company's business and operations are not seasonal. However, the Company's business is cyclical as it is affected by national military budgets and government fiscal years. Due to various customers having different fiscal years and budgets, this cyclical trend tends to even out, reducing the cyclical nature of the Company's business.

Employees

As of the end of Fiscal 2020, the Company's personnel accounted for ten (10) employees. As of the date of the AIF, the Company has eleven (11) full-time employees in its operations. The Company also utilizes the services, through management consulting agreements, of four (4) additional individuals.

Marketing Plans and Strategies

The Company continually markets its products through direct customer contact, tradeshows, demonstrations, and web-based marketing. In the coming months, and subject to available capital, the Company plans on ramping-up marketing by hiring marketing agents and distributors in key market areas.

Currently, the Company is scheduled to participate in the following major tradeshows focussed on warfare and weapons technology, subject to potential cancellation or travel restrictions imposed by governments due to COVID-19.

Table: Upcoming tradeshows in which the Company intends to participate

Tradeshow	Location	Date of Event	Estimated Costs
INDEX 2021	Abu Dhabi, UAE	February 2021	\$72,000 ⁽¹⁾
CANSEC	Ottawa, Canada	May 2021	\$9,500 ⁽²⁾
Small Arms and Cannon Symposium	Shrivenham, England	July 2021	\$15,000
Special Operations Forces Industry Conference	Tampa, Florida	May 2021	\$10,000
Eurosatory	Paris, France	September 2021	\$15,000
AUSA	Washington, DC	October 2021	\$10,000
Shot Show	Las Vegas, Nevada	January 2022	\$10,000

Notes:

- (1) Includes \$26,500 deposit paid in 2020.
- (2) Deposit paid in 2020. This tradeshow has since been rescheduled to 2022 in light of the current COVID-19 pandemic.

Simultaneously with the various trade shows it plans to attend, the Company is preparing a focused media campaign to ensure its visibility in trade journals. This campaign will ensure the Company's visibility in trade journals associated with the military and defence industry. The Company plans on preparing, in Q3 of Fiscal 2021 or sooner, a professionally produced marketing video, showcasing all of the Company's current product offerings.

Specialized Skill and Knowledge

The Company has assembled a team of engineers, technicians and advisors that have significant experience in soldier systems (any device that a soldier carries onto the battlefield, from a communication device to a sensor), weapons, and sensor fields. It is this combination of disparate knowledge sets that allows the Company to integrate and develop innovative technologies. The Company's employees have entered into employment agreements which contain confidentiality and non-disclosure provisions, while the senior management team is also subject to non-compete and non-solicitation provisions in their respective employment contracts. All employees are parties to nondisclosure agreements with the Company, and have assigned any inventions during the time of employment to the ownership of the Company.

Competitive Conditions

The Company's primary markets are the U.S. military, the Canadian military and the military of NATO countries and allies. Within that market, certain countries, including the U.S., Turkey, Poland and Germany, have increased military spending. Another trend is increased funding within the military for projects related to precision munitions for weapons already in use by the military (legacy weapons). The Company's products are expected to benefit from these trends by transforming legacy weapons to "smart" weapons (with better accuracy) with the integration of its system technology.

In recent years, military forces have become highly focused on the high cost associated with the long-term care of soldiers injured in the course of their duty. As such, products enhancing survivability of soldiers are also expected to increase in demand. Since the Company's products (namely, the TASCs), have as an objective, to enhance soldier survivability by providing soldiers with targets from positions of cover (as opposed to the current situation, where they need to be exposed), the Company should also benefit from this market trend.

Another focus of the Company's target market is the improvement of health and safety conditions for troops. As discussed above, the Company's TASCs does this by allowing troops to engage from safer positions. Other Company products, such as the KWESST LWS and KWESST LD, were developed expressly to address the health and safety threats from weaponized laser devices by troops in the field.

The proliferation of small drones in the battlespace is also a growing concern. In many cases, jamming devices do not have the range required to defeat drones before they become a hazard. Existing weapons systems have proven to be relatively ineffective in defeating small drones, and several countries are now looking towards kinetic solutions to remedy the drone problem. The GreyGhost technology is an inexpensive standalone product that is within the financial means of most military and security forces. In mid-January 2021, the U.S. military issued a request for information on kinetic counter drone products.

The following is a summary of a competitive analysis relating to the Company's product lines, based on management's current knowledge:

The Company's TASCs is a product which was developed to meet the growing need for the increased accuracy of existing weapons, as identified by the CCLTF and other military organizations. TASCs integrates a map-based technology with electronic and optical systems to provide precise location and angular pointing resolution, which is then combined with a complex ballistics program to provide weapon aiming capability. The built-in ability of all TASCs systems to be networked differentiates it from competitors. Currently available systems, such as those produced by Fabrique Nationale do not have the high angular resolution that TASCs provides. Additionally, the Augmented Weapon Sight capability, a unique technology that transmits drone video footage directly to the TASCs end user device and allows targeting from that video, has been developed by the Company in conjunction with AeroVironment, is the only known direct drone targeting capability available for crew-served weapons operated by soldier on the battleground.

There are currently no known direct competitors for the TASCs LWS and the TASCs LD with regards to devices providing portable usage by an individual. Competition could potentially arise from: (i) other knowledgeable players in the weapons and defense field, or (ii) from the current producers of laser protection devices for larger platforms such as aircraft, vehicles or ships. The Company is mitigating this competitive risk through discussions and potential distribution arrangements with OEMs.

The Phantom addresses a gap in U.S. and other foreign military capabilities. To the Company's knowledge, the Phantom is at this time the only known miniaturized and dedicated electro-magnetic decoy for land. It is expected that as the technology becomes better known, existing companies specializing in electronic warfare will enter this market. This opens up the possibility for the Company to licence the Phantom technology and cooperate with such

companies, which could expand the market for the Phantom. In the coming months, the Company plans on contacting companies active in the electronic warfare field to discuss potential relationships. The Company has two patents pending that are used in the Phantom, which should minimize the risk of competition.

GreyGhost is a kinetic attack platform intended to intercept and knock out target drones. Several types of competitors exist in this market. Standard military weapons, which are generally not suited for this purpose, are one of the competing alternatives to GreyGhost. However, the weapon is not guided, which requires line of sight to engage the target. Companies such as Kongsberg Gruppen ASA have adapted their remote weapons stations for this purpose. The cost of their products is higher than that of the GreyGhost and not portable by a single user. Another competing technology is purpose-built missiles, which require a tracking systems such as radars, and are costly. These missiles predominantly use explosive warheads to defeat targets, thereby increasing complexity and production costs. Also, missile systems are not able to re-engage targets when they miss them, while the GreyGhost will continue to reacquire and attack until its targets are neutralized. Finally, capture systems, such as those provided by Fortem Technologies, Inc., also represent a competitive risk to the GreyGhost. However, these are typically short range and only capable of engaging one target at a time, whereas GreyGhost can be currently deployed in groups of three, to engage multiple targets.

Competition for the LEC Technology comes from OEMs that manufacture and sell training munitions, less lethal munitions, and high-action gaming equipment and supplies, such as paintball equipment. The Company has determined that there are large, overlooked gaps in these markets, in particular for a simple cartridge-based system instead of complex, high-maintenance and compressed air systems.

The Shot Counter system differentiates itself from its only known competitor (Secubit Ltd., an Israel based company) through features, miniaturization and cost. The primary competitor in this market has a high-priced product in a large form factor and limited functionality. Moreover, the Company's management software and support for the Shot Counter is expected to constitute a further customer benefit, and as such could provide an additional revenue stream for the Company on an ongoing basis, over and above the sale of the product.

Proprietary Protection

At the time of this AIF, for internally developed products, the Company primarily relies upon trade secrets to protect its technology. Hardware devices are designed with anti-tamper features to prevent and reduce the possibility of reverse engineering. Furthermore, all software is encrypted and can only be activated by software keys controlled by the Company.

The Company has the following patent and pending patent applications:



Product line	Country	Application #	File Date	Title	Status
TASCS IFM	United States	63/054,435	Filed on July 21, 2020	Methods and Systems for Digital Image-Referenced Indirect Target Aiming	Pending
Phantom	United States	Patent No. 10,969,467	Effective April 6, 2021	Programmable Multi-Waveform RF Generator for	Published

				Use as Battlefield Decoy	
Phantom	United States	16/686,095	Filed on November 15, 2019 (claiming benefit of 16/116,914)	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending – allowed
Phantom	United States	17/163,546	Filed on N/A (claiming benefit of 16/116,914)	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending
Phantom	International	PCT/CA2021/050038	Filed on January 15, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending
Phantom	Canada	3,106,716	Filed on January 21, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending
Phantom	Australia	N/A	Filed on January 29, 2021	Programmable Multi-Waveform RF Generator for Use as Battlefield Decoy	Pending

In addition, on February 11, 2021, the LEC Technology was assigned a U.S. patent application serial 63/148,163 for “Low Energy Cartridge System”.

The Company has also the following pending trademark applications:

Trademark	Country	Application #	File Date	Status
GreyGhost	Canada	2,044,815	August 10, 2020	Pending – awaiting a first action
GreyGhost	United States	90/114,280	August 14, 2020	Pending – a response to an Office Action is due June 10, 2021

Phantom	Canada	2,047,424	August 24, 2020	Pending – awaiting a first action
Phantom	United States	90/135,612	August 25, 2020	Pending – a response to an Office Action is due June 23, 2021
	Canada	2,063,763	November 12, 2020	Pending – awaiting a first action
	United States	90/518,212	February 8, 2021	Pending – awaiting a first action

Economic Dependence

As an early-stage company, the revenue stream in Fiscal 2020 for the TASCs system was concentrated on two U.S. military customers. While the Company anticipates revenue growth in Fiscal 2021, the Company anticipates that revenue will continue to be concentrated on a limited number of customers.

Changes to Contracts

The only known contract that is subject to renegotiation is the AerialX Licensing Agreement. The objectives of renegotiation are to (i) modify terms related to the period during which royalties are to be paid to AerialX, and (ii) change the ownership terms and conditions of the improvements made by the Company on the technology licensed from AerialX. AerialX remains a key business partner for the Company's GreyGhost product line, and the Company anticipates concluding this renegotiation in the second quarter of Fiscal 2021.

Foreign Operations

On January 28, 2021, the Company incorporated a company under the state of Delaware and has established office space in Stafford, Virginia (U.S.) to conduct U.S. business development activities and potentially light assembly for certain products.

Drone Regulations in Canada

New regulations regarding drones in Canada by Transport Canada came into effect on June 1, 2019. The regulations, published in the Canadian Aviation Regulations (Part IX), introduce requirements and rules based on the weight of the remotely piloted aircraft (“**RPA**”) and the intended operation. The new regulations apply to RPAs that weigh 250 grams (g) up to and including 25 kilograms (kg), and are operated within the drone pilot’s visual-line-of-sight.

The regulations introduce three categories of drones operations : basic (“**Basic RPAs**”), advanced (“**Advanced RPAs**”) and all others that do not fall into these two categories. The categories are based on distance from bystanders and on airspace rules. The regulations focus on foundational issues such as aircraft making and registration, pilot knowledge and certification, airworthiness of the aircraft and flight rules.

As of the date of this AIF, the Company has received all authorizations from Transport Canada which are required to conduct tests of GreyGhost. The Company is fully compliant with all current regulatory requirements and is in good standing with Transport Canada.

Firearms Regulations in Canada

KWESST maintains a firearm business license (the “**Firearm Business License**”) with the Chief Firearms Officer of the Ontario Ministry of Solicitor General for its 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, who is acting in the course of his or her duties or employment.

As of the date of this AIF, the Company is fully compliant with all the conditions under which the Firearm Business License is delivered and maintained.

KWESST has applied for and received a Business Firearms Licence that covers off any potential scenario that the company may from time to time be involved in which would require such licence. KWESST is currently not in the retail or consignment sale of firearms and does not expect to ever be in this type of business.

KWESST utilizes real firearms in the development and testing of its products as well as in training users on them. 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. The development of the LEC system will require the acquisition of prohibited firearms and development of prohibited devices or ammunition such as LEC cartridges with irritant powder which will be covered by the Company's Business Firearms Licence.

KWESST procures ammunition such as those required for mortars, grenade launchers and others weapon types to conduct testing and evaluation. On occasion, KWESST may need to export ammunition in support of demonstrations. KWESST procures weapons for testing and development purposes and then when no longer required disposes of them. KWESST may need to modify weapons and then to manufacture components that allow its technology to be utilized on that weapon.

RISK FACTORS

An investment in the securities of the Company involves significant risks

Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair its business and operations and cause the trading price of the Company Shares to decline. If any of the following or other risks occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of the Company Shares could decline and shareholders 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.

Risks Relating to the Company's Business

The Company currently has limited financial history and operating cash flow

Since incorporation in 2017, the Company has had limited financial activity, negative cash flow from operations and has financed operations in great part through equity financing. There can be no certainty that the Company will ever achieve or sustain profitability or positive cash flow from its operating activities. In addition, the Company's working capital and funding needs may vary significantly depending upon a number of factors including, but not limited to:

- progress of the Company's 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 the Company 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 the Company's potential revenue levels or competitive position in the marketplace;
- the level of sales and gross profit;

- costs associated with production, labour and services costs, and the Company's 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 the Company's business; and
- expenses associated with litigation.

Early Stage

The Company is an early-stage company and as such, the Company is 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 the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company's 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 the Company operates. To attempt to address these risks, the Company must, among other things, successfully implement its 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 the Company because, as a smaller commercial enterprise that has fewer resources than an established company, the Company's management may be more likely to make mistakes, and the Company may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond the Company's control.

Coronavirus (COVID-19)

As of the date of this AIF, markets, governments and health organizations around the world are working to contain the outbreak of the coronavirus (COVID-19). COVID-19 presents a wide range of potential issues or complications for the Company, most of which the Company is not able to know the full extent of at the time of this Form. The following is a summary of what the Company believes may impact their business as a result of COVID-19: disruptions to business operations resulting from quarantines of employees, customers and third-party service providers in areas affected by the outbreak; disruptions to business operations resulting from travel restrictions, including travel to industry tradeshows; and uncertainty around the duration of the virus' impact. At the time of this AIF, the current travel restrictions and related quarantine may impede our ability to deliver our deliverable under the \$1.1 million contract awarded in December 2020 on a timely basis, or at the expected gross margin. This may materially impact the timing of revenue and related cash inflow. However, the Company is taking measures to manage this exposure and has engaged with a law firm to obtain cross border travel and quarantine exemption from relevant government officials in light of the Company providing essential services in the defence industry.

The Company May Not be Able to Successfully Execute its Business Plan

The execution of the Company's business plan poses many challenges and is based on a number of assumptions. The Company may not be able to successfully execute its business plan. If the Company experiences significant cost overruns, or if its business plan is more costly than it anticipates, certain activities may be delayed or eliminated, resulting in changes or delays to its current plans. Also, the Company may be compelled to secure additional funding (which may or may not be available or available at conditions unfavorable to the Company) to execute its business plan. The Company cannot predict with certainty its future revenues or results from its operations. If the assumptions on which its revenues or expenditures forecasts are based change, the benefits of the Company's business plan may change as well. In addition, the Company may consider expanding its business beyond what is currently contemplated in its business plan. Depending on the financing requirements of a potential business expansion, the

Company may be required to raise additional capital through the issuance of equity or debt. If the Company is unable to raise additional capital on acceptable terms, it may be unable to pursue a potential business expansion.

Significant Non-Recurring Revenue

A significant portion of the Company's revenue for fiscal 2020 were prior to commercial production and considered to be non-recurring. While the establishment of the ATAK Center of Excellence is expected to drive incremental recurring revenue in Fiscal 2021, the Company anticipates the majority of its revenue will be non-recurring revenue. The Company's ability to generate future revenue from its products will depend on customer acceptance of its final product development and market conditions.

Uncertainty of Revenue Growth

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

The Company may not be able to fully develop its products or to successfully commercialize them, which could prevent it from ever becoming profitable

If the Company cannot successfully fully develop, manufacture and successfully commercialize its products. If the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to fully develop market-ready commercial products at acceptable costs, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition. If the current marketing strategy of the Company fails, prospects for revenues will be negatively affected.

There is no assurance that the Company's products will be accepted in the marketplace and that it will turn a profit or generate immediate revenues

There is no assurance as to whether the Company's products will be accepted in the marketplace. While the Company believes its products address customer needs, the acceptance of its products may be delayed or not materialize. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development of its products, the marketing of its products and initial operations of its business. The revenues and possible profits of the Company will depend upon, among other things, the Company successfully marketing its products to clients, results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that revenues and profits will be generated.

Negative Operating Cash Flow

Although the Company expects to become profitable, there is no guarantee that will happen, and the Company may never become profitable. The Company currently has a negative operating cash flow and may continue to have that for the foreseeable future. To date, the Company has generated limited revenues and a large portion of its expenses are fixed, including expenses related to facilities, equipment, contractual commitments and personnel. As a result, the Company expects its net losses from operations to improve. The Company's ability to generate additional

revenues and potential to become profitable will depend largely on its ability to manufacture and market its products. There can be no assurance that any such events will occur or that the Company will ever become profitable. Even if the Company achieves profitability, it cannot predict the level of such profitability. If the Company sustains losses over an extended period of time, it may be unable to continue our business.

Dependence on Key Suppliers

The Company may be able to purchase certain key components of its products from a limited number of suppliers. Failure of a supplier to provide sufficient quantities on favorable terms or on a timely basis could result in possible lost sales or uncompetitive product pricing.

Product Liability

The Company 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. If its products fail to perform as warranted and it fails to quickly resolve product quality or performance issues in a timely manner, sales may be lost and it may be forced to pay damages. Any failure to meet customer requirements could materially affect its business, results of operations and financial condition. Product liability for the Company is a major risk as some of its products will be used by military personnel in theaters-of-war. The occurrence of product defects and the inability to correct errors could result in the delay or loss of market acceptance of its products, material warranty expense, diversion of technological and other resources from its product development efforts, and the loss of credibility with customers, manufacturer's representatives, distributors, value-added resellers, systems integrators, original equipment manufacturers and end-users, any of which could have a material adverse effect on the Company's business, operating results and financial conditions.

Undetected Flaws

There can be no assurance that, despite testing by the Company, flaws will not be found in the Company's products and services, resulting in loss of or delay in market acceptance. The Company 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 the Company is attempting to finish the development of its technologies, products and services, a competitor will not introduce similar or superior technologies, products and services, thus diminishing the Company's advantage, rendering its technologies, products and services partially or wholly obsolete, or at least requiring substantial re-engineering in order to become commercially acceptable. Failure by the Company 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 the Company's business, prospects, financial condition, and results of operations.

The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks

The Company utilizes third parties for certain hardware, software, telecommunications and other IT services in connection with its operations. The Company's operations depend, in part, on how well it and its 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. The Company's 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 the Company's reputation and results of operations. The Company has not experienced any material losses to date relating to cyber-attacks or other information security

breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security 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, the Company 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, the Company's reputation could be damaged

Damage to the Company's 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 the Company is a major risk as some of its products will be used by military personnel in theaters-of-war. 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 the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

Strategic Alliances

The Company relies upon, and expects to rely upon, strategic alliances with OEMs for the manufacturing and distribution of its products. There can be no assurance that such strategic alliances can be achieved or will achieve their goals.

Marketing and Distribution Capabilities

In order to successfully commercialize its products, the Company must continue to develop its 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 its products, the Company must have an experienced sales and distribution infrastructure. The continued development of its sales and distribution infrastructure will require substantial resources, which may divert the attention of its management and key personnel and defer its product development and commercialization efforts. To the extent that the Company enters into marketing and sales arrangements with other companies, its revenues will depend on the efforts of others. These efforts may not be successful. If the Company fails to continue to develop substantial sales, marketing and distribution channels, or to enter into arrangements with third parties for those purposes, it will experience delays in product sales.

Health and Safety

Health and safety issues related to its products may arise that could lead to litigation or other action against the Company or to regulation of certain of its product components. Health and safety risks for the Company are major risks as some of its products will be used by military personnel in theaters-of-war and by its employees during testing and demonstrations to potential customers. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results from operations.

The Company's 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 and homeland security market will be managed successfully. Any inability to achieve such commercial success could have a material adverse effect on the Company's business, financial condition, operating results, liquidity, and prospects. Operating results also fluctuate due to accounting practices which may recognize the acquisition and sale of products in different periods than the recognition of related revenues, which may occur in later periods. In addition, the comparability of results may be affected by changes in accounting guidance or changes in the Company's 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 the Company's Business

The Company's ability to compete depends, in part, upon successful protection of its intellectual property. The Company has to date primarily relied on trade secrets to protect its technology, which is inherently risky. In the future, the Company may attempt to protect proprietary and intellectual property rights to its 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 the Company distributes its products. As a result, it may be possible for unauthorized third parties to copy and distribute the Company's products or certain portions or applications of its intended products, which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects.

Litigation may also be necessary to enforce the Company's intellectual property rights, to protect its 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 the Company's business, financial condition, operating results, liquidity, and prospects.

The Company Faces Risks from Doing Business Internationally

The Company commercialization strategies for its products include sales efforts outside Canada and deriving revenues from international sources. As a result, the Company's business is subject to certain risks inherent in international business, many of which are beyond its 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 the Company conducts its 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 the Company's revenues from non-Canadian sources, which could have a material adverse effect on its business, financial condition, operating results, liquidity, and prospects. Protection of electronically stored data is costly and if the Company's data is compromised in spite of this protection, the Company may incur additional costs, lost opportunities, and damage to its reputation.

The Company maintains information in digital form as necessary to conduct its business, including confidential and proprietary information and personal information regarding its employees

Data maintained in digital form is subject to the risk of intrusion, tampering, and theft. The Company develops and maintains 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 the Company's efforts, the possibility of intrusion, tampering, and theft cannot be eliminated entirely, and risks associated with each of these acts remain. In addition, the Company provides confidential information, digital content and personal information to third parties when it is necessary to pursue business objectives. While the Company obtains 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 the Company's data systems or data systems of these third parties are compromised, the Company's ability to conduct its business may be impaired, it may lose profitable opportunities or the value of those opportunities may be diminished and it may lose revenue as a result of unlicensed use of its intellectual property. A breach of the Company's network security or other theft or misuse of confidential and proprietary information, digital content or personal employee information could subject the Company to business, regulatory, litigation, and reputation risk, which could have a materially adverse effect on its business, financial condition, and results of operations.

The Company Incurs Expenditures in Foreign Currency and Does Not Hedge Against Foreign Currency Risks

The Company operates in Canada and the U.S. (and eventually internationally) and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars but a portion, possibly a significant portion, of expected revenues, could be in U.S. dollars or other currencies. The fluctuations of the U.S. dollar and other currencies as the operating currency in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company and may also affect the value of the Company's assets and liabilities.

Dependence on Management and Key Personnel

The Company's success depends largely upon the continued services of its executive officers and other key employees. From time to time, there may be changes in the Company's executive management team resulting from the hiring or departure of executives, which could disrupt its business. If the Company is unable to attract and retain top talent, its ability to compete may be harmed. The Company's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified personnel. Competition for highly skilled executives and other employees is high in the Company's industry, especially from larger and better capitalized defence and security companies. The Company 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 its business, prospects, financial condition, results of operations, and cash flows.

Conflicts of Interest

Certain of the directors, officers, and other members of management of the Company 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 a director, officer or member of management of the Company and their duties as a director, officer or member of management of such other companies. The directors and officers of the Company 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 the Company 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 its 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 the Company, and its Directors and Officers

The Company is a corporation organized under the laws of the Province of British Columbia, and its subsidiary the Company, is organized under the laws of Ontario. All of the Company's directors and executive officers reside principally in Canada. Because all or a substantial portion of the Company's assets and the assets of these persons are located in Canada, it may not be possible for foreign investors, including U.S. investors, to effect service of process from outside of Canada upon the Company or those persons. Furthermore, it may not be possible to enforce against the Company foreign judgments obtained in courts outside of Canada based upon the civil liability provisions of the securities laws or other laws in those jurisdictions.

Any Disruption at the Company's Places of Business Could Delay Revenues or Increase its Expenses

Most of the Company's operations are conducted at locations in Ontario. The Company maintains a significant business development operation in the U.S., through its relationship with SageGuild, as described in the section "General Development of the Business – Three-Year Business Development History – In year 2020 - Acquisitions". A natural disaster, such as a fire, flood or earthquake, could cause substantial delays in the Company's operations, damage or destroy its offices, and cause the Company to incur additional expenses.

In addition, because the Company does not maintain "key person" life insurance on any of its executive officers, employees or consultants, any delay in replacing such persons, or an inability to replace them with persons of similar expertise, would have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's Systems are Vulnerable to Damage and Failure

Despite the implementation of security measures and backup storage, the Company's 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 the Company's operations could result in a material disruption of its projects. To the extent that any disruption or security breach results in a loss or damage to the Company's data or applications, or inappropriate disclosure of confidential or proprietary information, the Company may incur liability as a result. In addition, the Company's technology program may be adversely affected and the further development of its technology may be delayed. The Company may also incur additional costs to remedy the damages caused by these disruptions or security breaches.

Business Interruptions Could Adversely Affect Office Operations

The Company's operations are vulnerable to outages and interruptions due to fire, floods, power loss, telecommunications failures, and similar events beyond its control. Although the Company has 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. Although the Company currently carries business interruption insurance for potential losses (including earthquake-related losses), there can be no assurance that such insurance will be sufficient to compensate the Company for losses that may occur or that such insurance may continue to be available on affordable terms. Any losses or damages incurred by the Company could have a material adverse effect on its business and results of operations.

The Company is Subject to Risks Associated with Possible Acquisitions, Licensing, Business Combinations, or Joint Ventures

While to date the Company has mainly focused on developing its own products, from time to time, the Company 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 the Company's internally developed products. These acquisitions and licensing activities are not crucial to the Company's long-term business success. The anticipated benefit from any of the transactions the Company 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 information technology, accounting systems, personnel, and operations. The Company may have difficulty managing the combined entity in the short term if it experiences a significant loss of management personnel during the transition period after a significant acquisition. The Company 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 the Company will realize expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits. Any of the foregoing could have a material adverse effect on the business, financial condition, operating results, liquidity, and prospects of the Company.

Claims Against the Company Relating to Any Acquisition, Licensing or Business Combination May Necessitate Seeking Claims Against the Seller for which the Seller May Not Indemnify the Company 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 the Company did not discover or that it underestimated in the course of performing its due diligence. Although a seller or licensor generally will have indemnification obligations to the Company 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 the Company's 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 the Company may incur. Any such liabilities could have a material adverse effect on the business, financial condition, operating results, liquidity, and prospects of the Company.

Growth May Cause Pressure on the Company's Management and Systems

The Company's future growth may cause significant pressure on its management, and its operational, financial, and other resources and systems. The Company's ability to manage its growth effectively will require the company to implement and improve its 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 the Company's operational, financial, and management information systems could have a material adverse effect on its business, financial condition, and results of operations.

Intellectual Property

The Company's ability to compete effectively will depend, in part, on its ability to maintain the proprietary nature of its technology and manufacturing processes. The Company has to date primarily relied on trade secrets to protect its technology, which is inherently risky. Although the Company considers certain of its product designs as well as manufacturing processes involving certain of its products to be proprietary, patents or copyrights do not protect all design and manufacturing processes. The Company has adopted procedures to protect its intellectual property and maintain secrecy of its confidential business information and trade secrets. However, there can be no assurance that such procedures will afford complete protection of such intellectual property, confidential business information and trade secrets. There can be no assurance that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology. Furthermore, there can be no assurance that any patents filed by the Company will be allowed or granted. To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays and materially disrupt the conduct of its business.

Infringement of Intellectual Property Rights

At this stage, the Company has elected to protect its technology and products as trade secrets as opposed to seeking to patent its technology and products. The Company may, in future, elect to seek patent protection for some of its future products. While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's 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 the Company. Some of these patents may grant very broad protection to the owners of the patents. The Company has not undertaken a review to determine whether any existing third-party patents or the issuance of any third-party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of those products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that it provides to end-users, manufacturer's representatives, distributors, value-added resellers, system integrators and original equipment manufacturers. Litigation may be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater

resources than the Company 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 the Company. 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 the Company to significant liabilities and equitable remedies, including injunctions, require the Company to enter into costly royalty or licensing agreements and require the Company to modify or stop using infringing technology.

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

Risks Relating to the Company's Industry

Rapid Technological Development

The markets for the Company's products are characterized by rapidly changing technology and evolving industry standards, which could result in product obsolescence or short product life cycles. Accordingly, the Company's success is dependent upon its ability to anticipate technological changes in the industries it serves and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements. There can be no assurance that the Company will successfully develop new products or enhance and improve its 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 the Company's products or which render the products currently sold by the Company obsolete or less marketable.

The Company must commit significant resources to developing, testing and demonstrating new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

Competition

The Company's industry is highly competitive and composed of many domestic and foreign companies. The Company has experienced and expects to continue to experience, substantial competition from numerous competitors whom it expects 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. Competitors may be able to respond more quickly than the Company to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products. Potential competitors to the Company may include large and very-well capitalized defense and security contractors.

Evolving Markets

The Company's defence and security technologies are in new and rapidly evolving markets. The commercial defence and security markets the Company targets are in early stages of customer adoption. Accordingly, the Company's business and future prospects may be difficult to evaluate. The Company cannot accurately predict the extent to which demand for its 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 the Company's 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 the Company fails to address these and other challenges, risks and uncertainties successfully, its business, results of operations and financial condition would be materially harmed.

Industry Growth

The Company relies on industry experts and research reports to predict the potential in the drone delivery market. If such analysts have not predicted the market correctly, it can have an adverse effect on the Company's targeted customer and revenue base. As the drone industry is an evolving industry, the Company cannot accurately predict the future growth rates or sizes of these markets.

Demand for these types of products and services may not increase, or may decrease, either generally or in specific markets, for particular types of products or during particular time periods. Although the Company plans to seek to expand its customer base in the future to potentially include foreign countries, governments, consumer, and commercial customers, there can be no assurance that such efforts will be successful. The expansion of the drone delivery markets in general, and the market for the Company's products and services in particular, depends on a number of factors, including but not limited to the following:

- customer satisfaction with these types of products and services;
- the cost, performance and reliability of the Company's products and services and products and services offered by competitors;
- customer perceptions regarding the effectiveness and value of these types of products and services;
- limitations on the Company's ability to market its products and services; and
- obtaining timely regulatory approvals.

Regulation

The Company is subject to federal, provincial and local environmental, health and safety legislation and measures relating to the manufacture of ammunition and drones. There can be no assurance that the Company will not experience difficulties with its efforts to comply with applicable regulations as they change in the future or that its continued compliance efforts (or failure to comply with applicable requirements) will not have a significant material adverse effect on the Company's business, including results of operations, business, prospects and financial condition. The Company's continued compliance with present and changing future laws could restrict the

Company's ability to modify or expand its facilities or continue production and could require the Company to acquire costly equipment or to incur other significant expense.

Uncertainty Related to Exportation

The Company must comply with Canadian federal and provincial laws regulating the export of its 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 the Company's business are subject to change. The Company cannot provide assurance that such export authorizations will be available for its products in the future. Compliance with these laws has not significantly limited the Company's operations, but could significantly limit them in the future. Noncompliance with applicable export regulations could potentially expose the Company to fines, penalties and sanctions. If the Company cannot obtain required government approvals under applicable regulations, the Company may not be able to sell its products in certain international jurisdictions, which could adversely affect the Company's business, prospects, financial condition and results of operations.

Global Economic Turmoil and Regional Economic Conditions in the U.S. Could Adversely Affect its Business

In addition to the risks pertaining to COVID-19 disclosed above, 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 U.S. 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 U.S. or in other regions of the world in which the Company does business could adversely affect demand for its products, thus reducing its revenues and earnings. A decline in economic conditions could reduce sales of the Company's products.

Risks Relating to the Company's Financial Condition

The Company Faces Substantial Capital Requirements and Financial Risk

To be successful, the Company's business requires a substantial investment of capital. The production, acquisition, and distribution of proprietary technology for game-changing applications in the military and homeland security market requires substantial capital. A significant amount of time may elapse between the Company's 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 homeland security market. 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 the Company's business, financial condition, operating results, liquidity, and prospects.

Additional Capital Requirements

The Company may need to engage in equity or debt financings to secure additional funds. If the Company raises additional funds through further issuances of equity or convertible debt securities, the Company's existing shareholders could suffer significant dilution, and any new equity securities the Company issues could have rights, preferences, and privileges superior to those of holders of the Company Shares. Any debt financing secured by the Company in the future could involve restrictive covenants relating to its capital-raising activities and other financial and operational matters, which might make it more difficult for it to obtain additional capital and to pursue business opportunities.

The Company can provide no assurance that sufficient debt or equity financing will be available on reasonable terms or at all to support its 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 its business, prospects, financial condition, results of operations, and cash flows.

The Company expects to incur short-term losses and generate negative cash flow until it can produce sufficient revenues to cover its costs. The Company may never become profitable. Even if it does achieve profitability, the Company may be unable to sustain or increase its profitability in the future. For the reasons discussed in more detail below, there are substantial uncertainties associated with the Company achieving and sustaining profitability. The Company expects its cash reserves will be reduced due to future operating losses and working capital requirements, and it cannot provide certainty as to how long its cash reserves will last or that it will be able to access additional capital if and when necessary.

Any Additional Equity Financings May Be Dilutive to the Company's Existing Stockholders

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

The Company Has Broad Discretion Over the Use of Net Proceeds

The Company 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 the Company's use of such proceeds, the ultimate use might vary substantially from the planned use. Investors may not agree with how the Company allocates or spends the proceeds from future capital raises. The Company may pursue collaborations that ultimately do not result in an increase in the market value of the common shares and that instead increase the Company's losses.

Currency Fluctuations

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

Stress in the global financial system may adversely affect the Company's finances and operations in ways that may be hard to predict or to defend against

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hurt the Company's ability to access credit when it is needed or rapid changes in foreign exchange rates may adversely affect financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases of the Company's products, or there may be greater difficulty in receiving payment for the products that these customers purchase from the Company. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the business, operating results, and financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards including industrial accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to equipment, personal injury or death, monetary losses and possible legal liability. Although the Company maintains liability insurance in amounts which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company may elect not to insure against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial position. The Company products will be used by military personnel in theaters-of-war and by its employees during testing and demonstrations to potential customers, which is inherently risky.

Insurance Coverage

The Company requires 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 the Company maintains insurance policies, it cannot provide assurance that this insurance will be adequate to protect the Company 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 cost to the Company. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

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

Risks Relating to the Ownership of Company Shares

Market Price of Company Shares and Volatility

The market price for the Company Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including, but not limited to, the following: (i) actual or anticipated fluctuations in the Company's 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 the Company; (iv) departure of executive officers and other key personnel of the Company; (v) issuances or anticipated issuances of additional Company Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and (vii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's 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 the Company Shares may decline even if the Company's 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 Company Shares may be materially adversely affected.

No Assurance of Active Market for Shares

The Company Shares are listed on the TSXV since September 22, 2020 and on the OTCQB ® Venture Market ("OTCQB ®") since February 4, 2021. There can be no assurance that an active and liquid market for the Company Shares will be maintained. Approximately 16.0 million or 37.6% of the outstanding Company Shares are currently subject to regulatory escrow imposed by the TSXV in connection with the Amalgamation. These escrow and restrictions will gradually be lifted over a period ending on September 18, 2024. See "*ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER*".

If an active public market is not maintained, shareholders of the Company may have difficulty selling the Company Shares.

DIVIDENDS AND DISTRIBUTIONS

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company Shares in the foreseeable future.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital stock of the Company consists of an unlimited number of common shares without par value. As of the date of this AIF, there were 42,527,387 Company Shares issued and outstanding. The following table shows the changes to the Company Shares since December 31, 2020 as a result of exercised stock options and warrants:

	December 31, 2020	Exercised	Granted	Other	Issued	April 15, 2021
Common shares	41,942,258	-	-	(270)	585,399	42,527,387
Warrants	9,335,050	(173,899)	-	-	-	9,161,151
Stock options	2,484,358	(411,500)	1,152,500	-	-	3,225,358
Total securities	53,761,666	(585,399)	1,152,500	(270)	585,399	54,913,896

Each holder of Company Shares is entitled to one vote per common share held on all matters submitted to a vote of the shareholders, including the election of directors.

Holders of Company Shares are entitled to receive dividends, if any, as may be declared from time to time by the board of directors of the Company. In the event of the liquidation, dissolution or winding up of the Company, holders of Company Shares will be entitled to share rateably in the net assets legally available for distribution to shareholders after the payment of all of the Company's debts and other liabilities.

MARKET FOR SECURITIES

Trading price and volume

The Company Shares are listed for trading on the TSXV under the symbol KWE.V since September 22, 2020 and on the OTCQB ® under the symbol KWEMF since February 4, 2021. Prior to the Amalgamation, the common shares of Foremost were listed for trading on the TSXV under the symbol FMV.P since June 15, 2018. On March 2, 2020, the Foremost shares were halted from trading upon the announcement that Foremost and KWESST had entered into an agreement relating to Amalgamation.

The following table sets forth information relating to the trading of the Company's common shares on the TSXV for the periods indicated.

<i>Month</i>	Price per Common Share (\$) <i>Monthly High</i>	Price per Common Share (\$) <i>Monthly Low</i>	Common Shares Total Monthly Volume
<i>October 2019⁽¹⁾</i>	0.135	0.115	10,000
<i>November 2019⁽¹⁾</i>	0.135	0.115	31,500
<i>December 2019⁽¹⁾</i>	0.13	0.11	25,000
<i>January 2020⁽¹⁾</i>	0.115	0.11	5,000
<i>February 2020⁽¹⁾</i>	-	-	Halted
<i>March 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>April 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>May 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>June 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>July 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>August 2020⁽¹⁾⁽²⁾</i>	-	-	Halted
<i>September 2020⁽¹⁾⁽²⁾</i>	1.40	0.75	816,151
<i>October 2020</i>	0.85	0.65	2,110,517
<i>November 2020</i>	0.87	0.65	760,581
<i>December 2020</i>	1.52	0.70	5,591,578
<i>January 2021</i>	1.84	1.17	3,330,763
<i>February 2021</i>	2.50	1.40	6,199,463
<i>March 2021</i>	1.92	1.28	3,455,496

Notes:

- (1) Months during which the Company Shares were trading as a capital pool company under the symbol FMV.P.
- (2) Months during which the Company Shares were halted from trading as a result of the announcement of the Amalgamation.

Prior sales

The Company has issued the following convertible securities not listed or quoted on a marketplace during the most recently completed financial year (Fiscal 2020) and outstanding at September 30, 2020:

Common Share Purchase Warrants

Date of issuance ⁽¹⁾	Number of common share purchase warrants	Exercise price	Expiry date
January 30, 2020	15,000	\$0.40	January 30, 2022
May 8, 2020	84,622	\$0.45	May 8, 2022
June 12, 2020	750,000	\$0.50	January 15, 2023
July 9, 2020	235,428	\$0.70	July 9, 2022

Note:

- (1) Based on the original dates of issuance of warrants by KWESST prior to the new issuances of warrants by the Company on September 17, 2020 as a result of the Amalgamation.

Stock Options

Date of grant ⁽¹⁾	Number of options	Exercise price	Expiry date
February 29, 2020	925,000	\$0.65	February 27, 2025
May 31, 2020	305,000	\$0.50	June 1, 2021
July 13, 2020	825,000	\$0.70	July 13, 2025

Note:

- (1) Based on the original dates of grant of options by KWESST prior to the replacement of these with new grants of options by the Company on September 17, 2020 as a result of the Amalgamation.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

Except as otherwise described below, to the Company's knowledge and as of the date of this AIF, none of the Company Shares are being held in escrow or are subject to a contractual resale restriction.

Escrowed Securities

Designation of Class	Number of securities held in escrow	Percentage of class ⁽¹⁾
Company Shares ⁽²⁾	321,430 ⁽³⁾	0.8%
Company 2024 Warrants ⁽⁴⁾	4,500,000 ⁽⁵⁾	10.6%
Company Shares ⁽⁴⁾	13,020,834 ⁽⁶⁾	30.6%
Company Shares ⁽⁷⁾	2,625,000 ⁽⁸⁾	6.2%
Company 2024 Warrants ⁽⁷⁾	2,625,000 ⁽⁹⁾	6.2%

Notes :

- (1) Based on the number of outstanding Company Shares on date of this AIF.
(2) Company Shares subject to escrow conditions pursuant to a CPC Escrow Agreement between Foremost and TSX Trust Company under TSXV Policy 2.4 – *Capital Pool Companies* on May 2, 2018.
(3) Deposited with TSX Trust Company, acting as escrow agent. These Company Shares will be released from escrow as to:

No. of Securities	% of Escrowed Securities	Release Date
64,286	15% of the escrowed Company Shares	September 18, 2022
64,286	15% of the escrowed Common Company Shares	March 18, 2022
64,286	15% of the escrowed Common Company Shares	September 18, 2023

No. of Securities	% of Escrowed Securities	Release Date
64,286	15% of the escrowed Common Company Shares	March 18, 2023
64,286	15% of the escrowed Common Company Shares	September 18, 2024

- (4) Securities deposited in escrow pursuant to a Surplus Security Escrow Agreement between the Company and TSX Trust Company dated September 17, 2020 as a result of the qualifying transaction following the Amalgamation.
- (5) Deposited with TSX Trust Company, acting as escrow agent. These Company 2024 Warrants will be released from escrow as to :

No. of Securities	% of Escrowed Securities	Release Date
500,000	10% of the escrowed Company 2024 Warrants	September 18, 2022
500,000	10% of the escrowed Company 2024 Warrants	March 18, 2022
750,000	15% of the escrowed Company 2024 Warrants	September 18, 2023
750,000	15% of the escrowed Company 2024 Warrants	March 18, 2023
2,000,000	40% of the escrowed Company 2024 Warrants	September 18, 2024

- (6) Deposited with TSX Trust Company, acting as escrow agent. These Company Shares will be released from escrow as to:

No. of Securities	% of Escrowed Company Shares	Release Date
1,446,759	10% of the escrowed Company Shares	September 18, 2022
1,446,759	10% of the escrowed Company Shares	March 18, 2022
2,170,139	15% of the escrowed Company Shares	September 18, 2023
2,170,139	15% of the escrowed Company Shares	March 18, 2023
5,787,038	40% of the escrowed Company Shares	September 18, 2024

- (7) Securities deposited in escrow pursuant to a Value Security Escrow Agreement between the Company and TSX Trust Company dated September 17, 2020 as a result of the qualifying transaction following the Amalgamation.
- (8) Deposited with TSX Trust Company, acting as escrow agent. These securities have been or will be released from escrow as to:

No. of Securities	% of Escrowed Securities	Release Date
525,000	15% of the escrowed Company Shares	September 18, 2022
525,000	15% of the escrowed Company Shares	March 18, 2022
525,000	15% of the escrowed Company Shares	September 18, 2023
525,000	15% of the escrowed Company Shares	March 18, 2023
525,000	15% of the escrowed Company Shares	September 18, 2024

(9) Deposited with TSX Trust Company, acting as escrow agent. These securities have been or will be released from escrow as to:

No. of Securities	% of Escrowed Securities	Release Date
525,000	15% of the escrowed Company 2024 Warrants	September 18, 2022
525,000	15% of the escrowed Company 2024 Warrants	March 18, 2022
525,000	15% of the escrowed Company 2024 Warrants	September 18, 2023
525,000	15% of the escrowed Company 2024 Warrants	March 18, 2023
525,000	15% of the escrowed Company 2024 Warrants	September 18, 2024

Securities Subject to Contractual Restrictions on Transfer

As of the date of this AIF, no securities of the Company are subject to contractual restrictions on transfer.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Occupation and Security Holding

The following tables set out, as of the date of this AIF, for each director and executive officer of the Company: the person's name, province/state of residence, position with the Company and the date on which the person became a director or executive officer, as the case may be. The directors are elected annually and, unless re-elected, retire from office at the end of the next annual meeting of shareholders.

Directors

Name	Position(s)	Director Since
David Luxton Ontario, Canada	Executive Chairman and Director	2019 ⁽¹⁾
Jeffrey MacLeod Ontario, Canada	President, CEO, Director and Promoter	2017 ⁽¹⁾
Paul Mangano ⁽³⁾ Maine, United States	Director	2020
Paul Fortin ⁽³⁾ Ontario, Canada	Director	2020
John McCoach ⁽³⁾ British Columbia, Canada	Director	2017 ⁽²⁾
Elisabeth Preston Ontario, Canada	Director and Corporate Secretary	2021

Notes:

- (1) Date on which the individual became a director of KWESST.
- (2) Date on which the individual became a director of Foremost.
- (3) Member of the Audit Committee. Mr. McCoach is Chair of the Audit Committee.

Executive Officers

In addition to David Luxton, Jeffrey MacLeod, and Elisabeth Preston (serving also as directors):

Name	Position(s)	Officer Since
Steven Archambault Ontario, Canada	Chief Financial Officer	2020
Rick Bowes, Ontario, Canada	Vice President, Operations	2021

As a group, the Company's directors and executive officers (as a group) owned, or exerted direction or control over, a total of 14,367,002 Company Shares, representing approximately 33.8% of the Company Shares outstanding as of the date of this AIF.

Biographical notes for the Directors and Officers

The following are brief profiles of the directors and executive officers of the Company, including a description of each individual's principal occupation within the past five years.

David Luxton, Executive Chairman and Director

David Luxton is an entrepreneur in the defence and security industry. He 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 the Allen-Vanguard Corporation, a company in the electronic

countermeasure domain, from \$5,000,000 to \$300,000,000 in annual revenues, where he remains Chairman. Between 2015 and 2018, he was the Executive Chairman of United Tactical Systems, LLC, a company offering non-lethal products for law enforcement, military and personal defense. From 2003 to the date of this AIF, he has been President & Owner of DEFSEC, a company that specializes in strategic transactions in the defence and security industry. Furthermore, starting in 2017, he became a Senior Strategic Advisor to the University of Ottawa. Since 2019, he has been the Executive Chairman of KWESST. He holds a SMDP postgraduate studies from the University of Oxford. He entered into a confidentiality and non-disclosure agreement through his consulting agreement with the Company on October 1, 2019. Being Executive Chairman of the Company is Mr. Luxton's full-time occupation.

Jeffrey MacLeod, President, Chief Executive Officer, Director and Promoter

Jeffrey MacLeod is an experienced defence industry executive with over 20 years of experience in the small arms and advanced soldier system fields. By establishing the Company, he aimed to develop software and hardware systems, such as the TASCs, to take existing legacy weapons and fully integrate them into a soldier system. Prior to founding KWESST, from 2008 to 2017, Jeffrey was the General Manager of Colt, a company producing small firearms for the Canadian military. Jeffrey has a Bachelors degree in mechanical engineering from the Technical University of Nova Scotia (now DalTech) and a Master's degree in Military Vehicle Technology from the Royal Military College of Science (U.K). He is a Professional Engineer registered in the Province of Ontario. He entered into a confidentiality and non-disclosure agreement with the Company through his employment contract on October 1, 2019. Being President and CEO of the Company is Mr. MacLeod's full-time occupation.

Steven Archambault – Chief Financial Officer

Mr. Archambault is an experienced finance executive with over 20 years experience with private and public companies. He began his career as a CPA, CA with Ernst & Young LLP, followed by senior finance positions at AXIS Capital Holdings Limited, a global insurer and reinsurer listed on the New York Stock Exchange. Prior to joining the Company as of October 1, 2020, Mr. Archambault has been acting as a virtual CFO consultant since September 2019. From January 2018 to September 2019, he served as the CFO of Eureka 93 Inc. (formerly LiveWell Canada Inc.) listed on TSXV and subsequently on Canadian Securities Exchange. Prior to this role, Mr. Archambault held the positions of President and CFO of International Datacasting Corporation and Group CFO of Novra, and immediately prior to Novra's acquisition of IDC, he was the CFO of IDC (listed then on the TSXV) from December 2013 and Acting CEO from February 2016 to July 2016. Mr. Archambault graduated from the University of Ottawa with a Bachelor of Commerce, Honors. He has entered into a confidentiality and non-disclosure agreement with the Company on October 1, 2020.

Rick Bowes – Vice President, Operations

Rick Bowes is an experienced defence industry executive with over 20 years of experience. Prior to joining the Company in April 2021, Mr. Bowes founded Cardinal Defence Consulting Inc. in 2018 and has since been offering consulting services to the defence industry. From 2016 to 2018, he served as the Vice President of Defence at ADGA Group. Over the course of his career, Mr. Bowes held various senior roles with defence contractors such as General Dynamics Canada, DRS Technologies Canada (now Leonardo DRS), ATCO Frontec and ADGA Group Inc., and he had a distinguished career as a senior officer in the Canadian Army, retiring in 2003 as a Lieutenant Colonel. He is a graduate of Royal Military College of Canada, and served in various operational and staff roles in the Canadian military and on secondment to the British Army. As an armour officer, Mr. Bowes served with various units such as Lord Strathcona's Horse (Royal Canadians) and the Canadian Airborne Regiment Battle Group across Canada and in deployed operations in Bosnia-Herzegovina with the UN Protection Force and the NATO Stabilization Force (SFOR). He was also part of the planning team for Canada's participation in the NATO Kosovo Force (KFOR) mission in 1999. He has entered into a confidentiality and non-disclosure agreement with the Company on April 13, 2021.

Paul Mangano - Director

Prior to being invited to join the board of directors the Company, Mr. Mangano founded and owned Surculus Advisors LLC since 2015, a company offering consulting services to the industrial and high-tech sectors including aerospace, defence and security. He will work part-time as an independent director attending board meetings as required. Since August 2020, he is the General Manager of Steiner Optics Inc., a division of Beretta. Mr. Mangano graduated with a BA in Economics from Harvard University and an MBA in High Technology from Northeastern University. From 2006 to 2015, he has served as President of EOTECH. He has entered into a confidentiality and non-disclosure agreement with the Company on November 4, 2019.

Paul Fortin - Director

Prior to being invited to join the board of directors of the Company, 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 working with David Pratt & Associates as a Senior Associate and is an independent advisor within the defence and security industry. Mr. Fortin graduated from Carleton University with a Bachelors degree in Political Science and from Algonquin College with a specialization in Product Marketing Management. He has entered into a confidentiality and non-disclosure agreement with the Company.

John McCoach - Director

Prior to being invited to join the board of the Company, John McCoach held multiple senior positions in various companies. John McCoach is a member of the Capital Markets Authority Implementation Organisation Board of Directors since 2016. He also holds the roles of Lead Director, Chairman of the Governance Committee, Member of the Audit Committee, Member of the Compensation Committee of Liberty Defense Holding Ltd since 2019. From October 2017 to May 2019, he was a director, the Chairman of the Audit Committee and member of the Human Resources and Compensation Committee and from June 2018 to May 2019 he was appointed Interim CEO of Nautilus Minerals Inc. Furthermore, since 2018 he has been a director of Connaught Ventures Inc. and interim CEO since July 2020. Finally, he served as Interim CEO and as a director of Foremost Ventures Corp., a position he held from 2018 until the Amalgamation.

Elisabeth Preston – Director and Corporate Secretary

Prior to being invited to join the board of directors of the Company and serve as its Corporate Secretary, Elisabeth Preston is currently the Chief Legal Counsel for General Dynamics Mission Systems - Canada since December 2015. She is an international business and trade lawyer, with significant transactional experience in many jurisdictions. Ms. Preston graduated from McGill University with a Bachelor of Law degree, from University of Pittsburgh with MPA, Public Policy and Political Theory, and from University of Pennsylvania with a Bachelor of Arts, History degree.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed below, no proposed director, officer or Promoter of the Company or shareholder anticipated to hold a sufficient number of securities of the Company to affect materially the control of the Company is or has, within the past ten (10) years, been a director, officer or Promoter of any Person or issuer that, while such Person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied that Person or issuer access to any exemptions under applicable securities legislation for a period of more than 30 consecutive days or 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 the assets of that Person.

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).

Steven Archambault was formerly the CFO of Eureka 93 Inc., a Canadian Securities Exchange-listed company. Due to financial distress and resource issues, Eureka 93 Inc. was unable to complete timely its June 30, 2019 quarterly filing and accordingly a cease trade order was issued by the Ontario Securities Exchange in September 2019. Subsequent to Mr. Archambault's resignation in September 2019, Eureka 93 Inc. filed for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) in February 2020 and was subsequently declared bankrupt in August 2020.

Penalties or Sanctions

No current director or executive officer of the Company 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.

Conflicts of Interest

Some of the directors and officers of Company are also directors, officers and/or Promoters of other reporting and non-reporting issuers. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Company, notwithstanding that they are bound by the provisions of the BCBCA. to act at all times in good faith in the interest of the Company and to disclose such conflicts to the Company if and when they arise.

To the best of their knowledge, management and the directors of the Company are not aware of the existence of any conflicts of interest between any of their directors and officers as of the date of this AIF, except for the transaction contemplated under the DEFSEC Purchase Agreement. For more information, see "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

PROMOTERS

Jeffrey MacLeod, President and CEO of the Company, is considered to be a Promoter of the Company. The Company Shares held by Mr. MacLeod are as follows:

Name	Beneficially, of record only, or beneficially only	Number and Percentage of Securities Held
2573685 Ontario Inc ⁽¹⁾	Beneficially and of record	10,265,244 Company Shares (24.1%)
Jeffrey MacLeod	Beneficially and of record	2,000,000 Warrants ⁽²⁾ (21.4%)

Notes :

- (1) A private holding company owned as to 50% by Jeffrey MacLeod, the President and CEO of the Company, and 50% by his spouse.
- (2) Each warrant entitles its holder to purchase one Company Share at a price of \$0.20 per Company Shares until June 14, 2024, including 1,000,000 held by his spouse

AUDIT COMMITTEE

Composition of the Audit Committee

The Audit Committee currently consists of John McCoach (Chair), Paul Fortin, and Paul Mangano. Each of the members of the Audit Committee is considered "independent" and "financially literate" within the meaning of National Instrument 52-110- Audit Committees ("**NI 52-110**").

For the purposes of NI 52-110, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements. All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. The education and experience of each member of the Audit Committee relevant to the performance of his duties as a member of the Audit Committee can be found in "*DIRECTORS AND EXECUTIVE OFFICERS - Biographical notes for the Directors and Officers*".

The Company's Board of Directors has adopted a written charter for the Audit Committee. The mandate of the Audit Committee is to assist the Board in fulfilling its financial oversight obligations, including the responsibility: (i) to oversee the integrity of the Company's finance statements and financial reporting process, including the audit process and the Company's internal controls and procedures and compliance with related legal and regulatory requirements; (ii) to oversee the qualifications and independence of the Company's external auditor; (iii) to oversee the work of the Company's financial management and external auditor; and (iv) to provide an open avenue of communication between the external auditors, the Board, and management.

A copy of the charter of the Audit Committee is attached as Appendix A to this AIF.

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 the Company, 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.

Auditor Fees

Fees billed by Kreston GTA LLP to the Company were as follows:

Type	9 months ended September 30, 2020	12 months ended December 31, 2019
Audit fees ⁽¹⁾	\$25,000	\$60,000
Audit-related fees ⁽²⁾	\$30,000	-
Tax fees ⁽³⁾	-	-
Total	\$55,000	\$60,000

Notes:

(1) *Audit fees*: fees billed for professional services rendered for the audit of the Company's financial statements for the above -mentioned period, and the review of the Company's interim financial statements for its quarter ended March 31, 2020.

(2) *Audit-related fees*: fees billed for professional services rendered for the review of the Company's Filing Statement, including proforma consolidated financials, and related consent letter.

(3) *Tax fees*: fees billed for tax advice and tax compliance fees outside of the annual audit.

LEGAL PROCEEDINGS AND REGULATORY ACTION

As at the date of this AIF, the Company is not involved in any legal proceeding or regulatory actions.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

With the exception of the DEFSEC Purchase Agreement, no director or executive officer of the Company or any of their associates or affiliates has had any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any transaction material to the Company since the commencement of the last financial year. For more information, see "*DESCRIPTION OF THE BUSINESS - Principal Products and Services*".

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, as of the date of this AIF, the only material contracts which the Company entered into within the most recently completed financial year, subsequent to the most recently completed financial year to the date of this AIF, or prior to the most recently completed financial year but which are still in effect are set out below:

- Amalgamation Agreement
- DEFSEC Purchase Agreement
- GhostStep Technology Purchase Agreement
- CPC Escrow Agreement
- Surplus Security Escrow Agreement
- Value Security Escrow Agreement

Copies of these contracts are filed on SEDAR under the Company's profile in accordance with Section 12.2 of NI 51-102.

INTEREST OF EXPERTS

The 2020 Audited Financials and the financial statements for the year ended December 31, 2019 have been audited by Kreston GTA LLP, an independent registered public accounting firm, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Company Shares is TSX Trust Company at its principal office in Toronto, Ontario and Continental Stock Transfer & Trust Co. from New York City, N.Y.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com and on the Company's website at www.kwesst.com. You can also obtain a copy of such documents by contacting the Company by mail, email or telephone:

155 Terence Matthews Crescent, Unit #1
Ottawa, Ontario K2M 2A8, Canada
Telephone: 613-319-3674
Email: investors@kwesst.com

Additional information, including directors' and officers' remuneration, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, is contained in the Company's Management Information Circular dated February 11, 2021 in connection with the Company's virtual annual and special meeting of shareholders to be held on March 31, 2021. A copy of the Management Information Circular is available on SEDAR under the Company's profile.

Additional financial information is also provided in the 2020 Audited Financials and the related management's discussion and analysis of the Company, both available on SEDAR (www.sedar.com).

APPENDIX A

AUDIT COMMITTEE CHARTER

KWESST Micro Systems Inc. (the "Company")

(Adopted effective January 27, 2021)

(This document was adopted by the Board of Directors of the KWESST Micro Systems Inc. and supersedes and replaces all prior Audit Committee Charters)

I. PURPOSE

The Audit Committee (the "**Committee**") is a standing committee of the Board of Directors of the Company.

The primary function of the Committee in respect of its audit committee functions is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to monitoring the Company's accounting and financial reporting and practices and procedures; the adequacy of the Company's internal accounting controls and procedures; the quality and integrity of financial statements and other financial information provided by the Company to shareholders, and others; and for liaising with the external auditors of the Company.

II. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three or more members of the Board of Directors, the majority of whom are not employees, Control Persons or officers of the Company or any of its associates or affiliates.

The members of the Committee shall be annually appointed by the Board of Directors and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board of Directors.

The Chair shall be annually appointed by the members of the Committee. The Chair shall not be an employee, Control Person or officer of the Company or any of its associates or affiliates. The Chair shall be entitled to vote to resolve any ties. The Chair will set the agendas for Committee meetings and chair all meetings of the Committee unless the Chair is not present at such meeting in which case the members present shall elect a chair for the conduct of the meeting.

III. MEETINGS

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the Chief Financial Officer, as necessary. In addition, the Committee shall meet with management quarterly to review the Company's financial statements in a manner consistent with that outlined in Section IV of this Charter and, if the Committee so determines, the external auditors.

All non-management directors that are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any directors, management of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, will constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may

meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Chair of the Committee shall designate a person, who need not be a member thereof, to act as Secretary, who shall record the proceedings of the meetings. The agenda of each meeting will be prepared by the Secretary, upon consultation with the Chair, and, whenever reasonably practicable, circulated to each member prior to each meeting. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

IV. RESPONSIBILITIES, DUTIES, AUTHORITY

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of this Committee outlined in Section I.

The Committee, in discharging its oversight role, is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting, or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention.

The Committee shall be given full access to the Board of Directors, management, employees of the Company, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board of Directors.

Matters in Respect of Audit Committee Functions

Document Reports/Reviews

Annual Financial Statements

1. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:
 - (a) the annual audited consolidated financial statements;
 - (b) the external auditor's review of the annual consolidated financial statements and their report;
 - (c) any significant changes that were required in the external audit plan;
 - (d) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
 - (e) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Company.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board of Directors with respect to the approval of the annual financial statements with such changes contemplated and further recommended as the Committee considers necessary.

Notwithstanding the foregoing, the Committee is not responsible for certifying the financial statements of the Company or guaranteeing the external auditors' report. The fundamental responsibility for the financial statements and disclosures rests with management and the external auditors.

Interim Financial Statements

2. The Committee shall review with management prior to public dissemination, the interim unaudited consolidated financial statements of the Company. If the Committee so determines, the Committee may include the external auditors in such meeting and meet with management and the external auditors, both together and separately, including a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Company.

Management's Discussion and Analysis

3. The Committee shall review with management prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), and if the Committee so determines, review the MD&A with the external auditors of the Company.

Approval of Annual MD&A, Interim Financial Statements and Interim MD&A

4. The Committee shall make a recommendation to the Board of Directors with respect to the approval of the annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary. In addition, the Committee shall approve the interim financial statements and interim MD&A of the Company, if the Board of Directors has delegated such function to the Committee. If the Committee has not been delegated this function, the Committee shall make a recommendation to the Board of Directors with respect to the approval of the interim financial statements and interim MD&A with such changes contemplated and further recommended as the Committee considers necessary.

Review Related Party Transactions

5. The Committee shall:
 - Review transactions between the Company and related parties;
 - Review, by the independent directors, any conflicts of interest between the Company and related parties;
 - Review the adequacy of the disclosure of "related party transactions" in the notes to the annual and interim financial statements and any information circular or other documents published by the Company.

News Releases

6. The Committee shall review with management, prior to public dissemination, the annual and interim earnings news releases (paying particular attention to the use of any "pro forma" or "adjusted non-GAAP" information) as well as financial information and earnings guidance provided to analysts and rating agencies.

Reports and Regulatory Returns

7. The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Company as may be specified by law.

Other Financial Information

8. The Committee shall review the financial information included in any prospectus, annual information form or information circular with management and the external auditors, together and separately, prior to public dissemination, and shall make a recommendation to the Board of Directors with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

Financial Reporting Processes

Establishment and Assessment of Procedures

9. The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Company and assess the adequacy of these procedures annually.

Application of GAAP

10. The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and management's selection of accounting principles reflect an appropriate application of generally accepted accounting principles.

Practices and Policies

11. The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the Company.

External Auditors

Oversight and Responsibility

12. The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditors regarding financial reporting.

Reporting

13. The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.

Performance and Review

14. The Committee shall annually review the performance of the external auditors and recommend to the Board of Directors the appointment of the external auditors or approve any discharge of the external auditors when

circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company.

Annual Audit Plan

15. The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.

Independence Review

16. The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Company. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Company and, if necessary, recommend that the Board of Directors take appropriate action to satisfy itself of the external auditors' independence and accountability to the Committee.

Reports to Board of Directors

Reports

17. In addition, to such specific reports contemplated elsewhere in this Charter, the Committee shall report regularly to the full Board of Directors regarding such matters, including:
 - (a) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the Company, compliance with legal or regulatory requirements by the Company, the performance and independence of the external auditors of the Company;
 - (b) following meetings of the Committee; and
 - (c) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.

Whistle-Blowing

Procedures

18. The Committee shall establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Company regarding questionable accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company and of concerns regarding questionable accounting or auditing matters.

Notice to Employees

19. To comply with the above, the Committee shall ensure the Company advises all employees of the Company, by way of a written code of business conduct and ethics (the "Code"), or if such Code has not yet been adopted by the Board of Directors, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have

been employed by the Company or its external auditors is strongly encouraged to report such concerns by way of written communication directly to the Chair or any other member of the Audit Committee. Matters referred to a member of the Audit Committee, may be done so anonymously and in confidence.

The Company shall not take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.

All reported violations shall be investigated by the Audit Committee following rules of procedure and process as shall be recommended by outside counsel.

General

Access to Counsel

20. The Committee shall review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements or governance of the Company.

Reports and Recommendations

21. In addition to such specific reports and recommendations provided elsewhere in this Charter, the Committee shall report regularly to the Board of Directors following meetings of the Committee and with respect to such other matters as are relevant to the Committee's discharge of its responsibilities; provide such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chair or any other member of the Committee designated by a corporate governance committee to make such report.

Independence

22. The Committee may consider questions of independence and possible conflicts of interest of members of the Board of Directors.

General

23. The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board of Directors, and such other functions as may be required of an audit committee or governance committee by law, regulations or applicable stock exchange rules.