

# KWESST Closes over Subscribed Brokered Private Placement for Gross Proceeds of \$4.42 Million

## KWESST also announces the closing of the Low Energy Cartridge technology acquisition

Ottawa, Ontario--(Newsfile Corp. - April 29, 2021) - KWESST Micro Systems Inc. (TSXV: KWE) (OTCQB: KWEMF) ("KWESST" or "the Company") is pleased to announce the closing of its over subscribed previously announced brokered private placement for total gross proceeds of C\$4,420,071.25 (the "**Offering**") by the issuance of 3,536,057 units of the Company (the "**Units**") at a price of \$1.25 per Unit. On April 6, 2021, the Company had announced a \$2.5 million private placement which got upsized to \$4 million on April 9 due to significant demand for the Units.

The Company is also pleased to announce the closing of its previously announced technology purchase agreement (the "**Purchase Agreement**") with DEFSEC Corporation ("**DEFSEC**") to acquire a proprietary non-lethal munitions technology system referred to as the Low Energy Cartridge technology ("**LEC Technology**"). The LEC Technology is a proprietary non-lethal cartridge-based ordnance system. DEFSEC is an Ottawa-based based private company owned by David Luxton, the Executive Chairman of KWESST.

"The proceeds from the Offering will be used to accelerate our go-to-market initiatives of KWESST's various products," said Jeffrey MacLeod, KWESST's President and Chief Executive Officer. "With the acquisition of the LEC Technology now completed, we will begin the commercialization of this product with an accelerated plan in response to market interest and high growth across all segments of the non-lethal market, where a strong preference is being expressed for a safer, cartridge-based system over traditional systems, such as taser, beanbag shotgun shells and rubber bullets, which can and do result in fatalities."

He concluded: "Other corporate priorities to be financed with the proceeds from the Offering also include the productization of the GreyGhost microdrone missile, ramping up the Company's ATAK Centre of Excellence business and accelerating the productization of the Phantom<sup>TM</sup> electronic decoy."

Each Unit is comprised of one common share of the Company (a "**Common Share**") and one Common Share purchase warrant ("**Warrant**"). Each Warrant is exercisable to acquire one Common Share (a "**Warrant Share**") at a price of C\$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 Shares on the TSX Venture Exchange is equal to or exceeds \$3 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 entered into an agency agreement with PI Financial Corp., as lead agent and sole bookrunner (the "**Lead Agent**") and Beacon Securities Limited (together with the Lead Agent, the "**Agents**") in connection with the Offering. As consideration for the services provided by the Agents in connection with the Offering, the Agents received: (a) a cash commission equal to 7% of the gross proceeds of the Offering (reduced to 3.5% for certain subscribers on the "President's List", up to a maximum of an aggregated amount of \$600,000); and (b) that number of compensation options (the "**Compensation Options**") as is equal to 7% of the number of Units issued under the Offering (reduced to 3.5% with respect to certain subscribers on the President's List). Each Compensation Option is

exercisable to acquire one unit of the Company (a "**Compensation Option Unit**") at a price equal to \$1.25 for a period of two years after the closing of the Offering. Each Compensation Option Unit is comprised of one Common Share and one Common Share purchase warrant (a "**Compensation Option Warrant**"). Each Compensation Option Warrant is exercisable to acquire one Common Share (a "**Compensation Option Warrant Share**") at a price of C\$1.75 per Compensation Option Warrant Share for a period of 24 months from the closing of the Offering.

Directors and officers of KWESST (the "**Insiders**") purchased 72,000 Units for a total consideration of \$90,000. The issuance of Units to the Insiders constitutes a related party transaction but is exempt from the formal valuation and minority approval requirements of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") as KWESST's securities are not listed on any stock exchange identified in Section 5.5(b) of MI 61-101 and neither the fair market value of the units issued to the Insiders, nor the fair market value of the entire private placement, exceeds 25% of the Company's market capitalization. KWESST did not file a material change report with respect to the participation of the Insiders at least 21 days prior to the closing of the Offering as the insiders' participations were not determined at that time.

All securities issued in connection with the Offering are subject to a statutory hold period in Canada expiring four (4) months and one (1) day from the closing of the Offering. Additionally, all the directors and officers have entered into a lock-up agreement for the same period, imposing restriction from selling, disposing, transferring, or pledging their current holdings in KWESST. The Offering remains subject to final acceptance of the TSX Venture Exchange.

The securities described herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any state securities laws, and accordingly, may not be offered or sold within the United States except in compliance with the registration requirements of the U.S. Securities Act and applicable state securities requirements or pursuant to exemptions therefrom. This press release does not constitute an offer to sell or a solicitation to buy any securities in any jurisdiction.

## **LEC Acquisition**

At closing, the Company issued DEFEC 1 million common shares and 500,000 common share purchase warrants (see news release dated January 18, 2021 for more details on the terms of the terms and conditions of the warrants). All securities issued in connection with the Purchase Agreement are subject to a statutory hold period in Canada expiring four (4) months and one (1) day from the closing of the transaction. In accordance with the Purchase Agreement, the Company also paid DEFSEC an advanced royalty payment in the amount of \$150,000.

The entering into the Purchase Agreement 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 TSX Venture Exchange. KWESST is relying on exemptions from the formal valuation and minority shareholder approval requirements available under MI 61-101. KWESST is exempt from the formal valuation requirement in section 5.4 of MI 61-101 in reliance on sections 5.5(a) and (b) of MI 61-101 as the fair market value of the transaction is not more than the 25% of KWESST's market capitalization, and no securities of KWESST are listed or quoted for trading on prescribed stock exchanges or stock markets. Additionally, KWESST is exempt from minority shareholder approval requirement in section 5.6 of MI 61-101 in reliance on section 5.7(a) as the fair market value of the transaction is not more than the 25% of KWESST's market capitalization. The transaction was reviewed and approved by the independent directors of KWESST. The transaction remains subject to the final approval of the TSX Venture Exchange.

## **About KWESST**

KWESST develops and commercializes high-value ultra-miniaturized technology applications that make

a critical difference to the safety and operational effectiveness of personnel in the defence and security industries. The company's current portfolio of unique proprietary offerings include: its signature TASCs™ (Tactical Awareness and Situational Control System) for real-time awareness and targeting information from any source (including drones) streamed directly to users' smart devices and weapons; the autonomous GreyGhost™ soldier-portable micro drone missile system that defends against small hostile drones including swarms using high-speed kinetic impact; a Ground Laser Defence system to counter the emerging threat of weaponized lasers against personnel; and, the Phantom™ electronic battlefield decoy system to mask the electromagnetic signature of friendly forces with decoy signatures at false locations to deceive and confuse adversaries. All systems can operate stand-alone or integrate seamlessly with OEM products and battlefield management systems including Frontline, Edge, Killswitch and ATAK (Android Tactical Assault Kit) among others. KWESST also has developmental "smart ordnance" projects including its "Shot Counter" system, which records the number and type of rounds fired, for optimized firearms maintenance and performance. The Company is headquartered in Ottawa, Canada, with representative offices in Washington, DC, London, UK and Abu Dhabi, UAE. KWESST trades on the TSX Venture Exchange under the symbol KWE and on the U.S. OTCQB under the symbol KWEMF.

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### **Cautionary Note Regarding Forward-Looking Statements**

This news release includes certain "forward-looking statements" under applicable Canadian securities legislation. Forward-looking information contained herein include, without limitation, statements relating to the intended use of proceeds of the Offering and the receipt of final acceptance of the TSX Venture Exchange. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general business, economic, competitive, political and social uncertainties. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. KWESST disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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