

Form 51 – 102F3

Material Change Report

1. Name and Address of Company

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

2. Date of Material Change

August 25, 2022.

3. News Release

A news release with respect to the material change described in this report was issued by KWESST through NewsFile on August 29, 2022 and a copy was subsequently filed under the Corporation's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

4. Summary of Material Change

KWESST closed two non-secured loans in the amount of USD\$200,000 per loan with a third-party lender (“Lender”) for an aggregate amount of USD\$400,000 (the “Loans”).

5. Full Description of Material Change

5.1. Full Description of Material Change

6. KWESST closed two non-secured loans in the amount of USD\$200,000 per loan with the Lender for an aggregate amount of USD\$400,000.

The Loans bear interest at a rate of 6.0% per annum, compounded monthly and not in advance, and have a maturity of twelve months, with the Company having the option to repay the whole or any part of the Loans, without penalty or premium, at any time prior to the close of business on the maturity date. On repayment of the Loans, KWESST shall pay 110% of the principal amount plus accrued interest on the Loan. As part of the terms of one of the Loans, KWESST issued an aggregate of 296,754 common shares to the Lender (the “**Bonus Shares**”), being an amount equal to twenty percent (20%) of USD\$200,000, converted to CAD\$ at an exchange rate of \$1.2983, divided by the market price of the Company's common shares on the TSX Venture Exchange (the “**Exchange**”) at market close on August 24, 2022, being CAD\$0.175. The Bonus Shares were issued in accordance with applicable prospectus exemptions under Canadian securities laws.

Concurrently with the closing of the Loans, KWESST's Executive Chairman and its President and Chief Executive Officer (the “**KWESST Principals**”) entered into call option agreements with the Lender whereby the Lender will have the option, pursuant to the terms and conditions of the call option agreements, to purchase 741,345 common shares held by the KWESST Principals at a price of CAD\$0.175 for a period of five years. Additional free-trading common shares may be offered by the KWESST Principals to the Lender should KWESST elect to proceed with a share-

for-debt transaction in connection with one of the Loans. KWESST is not a party to the call option agreements.

In connection with the Loans, KWESST agreed to pay a cash fee to ThinkEquity, a US based investment bank, and for certain of its expenses, in an aggregate amount of USD\$37,000.

The securities issued in connection with the Loans are subject to a regulatory four-month and one day hold period expiring on December 26, 2022. The Loans remain subject to the final approval of the Exchange.

6.1. Disclosure required for a “Restructuring Transaction”

Not applicable.

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

Not applicable.

8. Omitted Information

Not applicable.

9. Executive Officer

For further information, please contact Steve Archambault, Chief Financial Officer at (613) 319-0537 extension 116.

10. Date of Report

September 2, 2022.