KWESST MICRO SYSTEMS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended September 30, 2021

(Expressed in Canadian Dollars)

DATED: November 23, 2021

All references in this management's discussion and analysis (the "**MD&A**") to "KWESST", "we", "us", "our", and the ''Company'' refer to KWESST Micro Systems Inc. and its subsidiaries as at September 30, 2021. This MD&A has been prepared with an effective date of November 23, 2021.

This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended September 30, 2021 ("**Fiscal 2021**"). The financial information presented in this MD&A is derived from these consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). This MD&A contains forward-looking statements involves risk, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our future plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements".

All references to $ or dollar amounts in this MD&A are to Canadian currency unless otherwise indicated.

Additional information, including press releases, relating to KWESST is available for view on SEDAR at www.sedar.com.

NON-IFRS MEASURES

In this MD&A, we have presented earnings before interest, taxes, depreciation and amortization ("**EBITDA**") and EBITDA that has been adjusted for the removal of one-time, irregular and nonrecurring items ("**Adjusted EBITDA**") to provide readers with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also uses non-IFRS measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, and to evaluate our financial performance. We believe that these non-IFRS financial measures enable us to identify underlying trends in our business that could otherwise by hidden by the effect of certain expenses that we exclude in the calculations of the non-IFRS financial measures.

Accordingly, we believe that these non-IFRS financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis in the business and provides useful information to investors and securities analysts, and other interested parties in understanding and evaluating our operating results, enhancing their overall understanding of our past performance and future prospects.

We caution readers that these non-IFRS financial measures do not replace the presentation of our IFRS financial results and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with IFRS. There are limitations in the use of non-IFRS measures because they do not include all the expenses that must be included under IFRS as well as they involve the exercise of judgment concerning exclusions of items from the comparable non-IFRS financial measure. Furthermore, other peers may use other non-IFRS measures to evaluate their performance, or may calculate non-IFRS measures differently, all of which could reduce the usefulness of our non-IFRS financial measures as tools for comparison.

GOING CONCERN

As an early-stage company, KWESST has not yet reached commercial production of its products and has incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. KWESST's audited consolidated financial statements for Fiscal 2021 have been prepared on the "going concern'' basis which presumes that KWESST will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Refer to Note 2(a) of the Fiscal 2021 audited consolidated financial statements ("**Fiscal 2021 FS**") for further information.

FORWARD-LOOKING STATEMENTS

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

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

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

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

- limited operating history;
- failure to realize growth strategy;
- failure to complete transactions or realize anticipated benefits;
- reliance on key personnel;
- regulatory compliance;
- competition;
- changes in laws, regulations and guidelines;
- demand for our products;
- fluctuating prices of raw materials;
- pricing for products;
- ability to supply sufficient product;
- expansion to other jurisdictions;
- damage to our reputation;
- operating risk and insurance coverage;
- negative operating cash flow;
- management of growth;
- product liability;

- product recalls;
- environmental regulations and risks;
- ownership and protection of intellectual property;
- constraints on marketing products;
- reliance on management;
- fraudulent or illegal activity by our employees, contractors and consultants;
- breaches of security at our facilities or in respect of electronic documents and data storage and risks related to breaches of applicable privacy laws;
- certain events may be outside of our control;
- 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 our operations;
- regulatory or agency proceedings, investigations and audits;
- additional capital requirements to support our operations and growth plans, leading to further dilution to shareholders;
- conflicts of interest;
- litigation;
- risks related to United States' and other international activities;
- risks related to security clearances and risks relating to the ownership of KWESST common shares ("**Common Shares**") such as potential volatility of share price; and
- no assurance of active market for Common Shares.

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

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

BUSINESS OVERVIEW

We are an early commercial-stage defense technology company focused on the development and commercialization of next-generation tactical systems that meet the requirements of security forces and personal defense for overmatch capability against adversaries.

The key market segments and solutions addressed by our technologies:

- breakthrough technology in non-lethal systems with broad application, including law enforcement and personal defense;
- modernized digitization of tactical forces for shared situational awareness and targeting; and
- counter-measures against threats such as drones, lasers, and electronic detection.

The following is a summary of the major highlights for Fiscal 2021:

- On December 16, 2020, following successful trials, a United States military customer awarded a follow-on order of USD$0.8 million with new hardware and software requirements coupled with additional military trials.
- On January 14, 2021, we entered into a definitive technology purchase agreement to acquire the Low Energy Cartridge ("**LEC**") technology from DEFSEC, a proprietary non-lethal cartridge-based firing system (the "**LEC System**") for a total purchase consideration of approximately $2.9 million. This transaction closed on April 29, 2021 – see section "*Acquisition*".
- On February 4, 2021, the Common Shares commenced quotation on the OTCQB under the symbol "KWEMF."
- On April 5, 2021, KWESST and AerialX entered into an amended and restated license agreement in which we obtained exclusive rights to gain exclusive rights to manufacture, operate, and use its drone for the C-UAS (Counter Unmanned Aerial Systems) market, for the United States Department of Defense and Canada's Department of National Defense.
- On April 29, 2021, we completed private placement of 3,576,057 units of the Company at a price of $1.25 per unit for gross proceeds of $4,470,071 (the "**April 2021 Private Placement**"), as amended in August 2021. Each unit consisted of one Common Share and one Common Share purchase warrant, exercisable at a price of $1.75 per share for a period of 24 months. Following this closing, we also closed the acquisition of the LEC System on same day.
- On July 9, 2021, we held our first live demonstration of the LEC System in Whistler, British Columbia. Following this successful live demonstration, on July 12, 2021, we announced details of our commercialization road map for the LEC System, including the official commercial launch at the 2022 Shot Show® in Las Vegas, Nevada to be held on January 18-21, 2022.
- On July 21, 2021, we announced that Brandon Tatum agreed to be our strategic advisor and advocate for the LEC System. Mr. Tatum is a former Tucson Police Officer and runs a successful You-Tube channel called "**The Officer Tatum**", with over 1.6 million subscribers, as well as other social media platforms.
- On August 31, 2021, the Common Share purchase warrants issued in the April 2021 Private Placement were listed for trading on the TSXV under the symbol "KWE.WT."
- On September 16, 2021, we completed a private placement of 750,000 units at a price of $2.00 per unit at a price of $2.00 per unit for gross proceeds of $1,500,000 (the "**September 2021 Private Placement**"). Each unit consisted of one Common Share and one Common Share purchase warrant, exercisable at a price of $2.35 per share for a period of 24 months.
- On September 28, 2021, we announced our strategic partnership with Stryk Group USA for the commercialization of our LEC System in the United States.

Subsequent to Fiscal 2021, we made the following key announcements:

- On October 13, 2021, we announced that we are accelerating the readiness of deployable and man-wearable Battlefield Laser Detection System ("BLDS") for first deliveries by end of Q1 Fiscal 2022, following military interest from a number of NATO land and Special Operation Forces ("SOF") at the signature European defense show, DESI, which took place in London, UK, on September 13 to 18, 2021.
- On November 12, 2021, we announced that General Dynamics Land Systems ("GLDS") has selected KWESST's Phantom™ electronic battlefield decoy as part of its ongoing efforts to develop a next generation multi-million domain mobile capability at the tactical level.

ACQUISITION

To accelerate our growth plans and respond to market opportunities, we have made the following technology acquisition during Fiscal 2021.

LEC System

On April 29, 2021, we acquired the LEC System from DEFSEC, including all IP rights for this technology. The estimated fair value of the total purchase consideration was $2.9 million – refer to Note 4(a) of the Fiscal 2021 FS for further details.

The LEC System is a proprietary non-lethal cartridge-based ordnance system to address four market segments that currently use a variety of dated "non-lethal'' or "less-lethal'' products, each having a vast global market. The four market segments as follows:

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, RB, camping, hiking); and
iv) High-action gaming.

Since the acquisition, we made significant progress in developing and testing initial LEC prototypes. We are on schedule to commercially launch our initial LEC product suite at the upcoming 2022 Shot Show®.

OVERALL PERFORMANCE

The following table summarizes financial data derived from Fiscal 2021 FS. See section "*Results of Operations*" for additional details and for the comparison discussion between the periods ended September 30, 2021, and 2020 and December 31, 2019.

	Year ended September 30, 2021	Nine months ended September 30, 2020	Year ended December 31, 2019
Statement of Operations data:			
Revenue	$ 1,275,804	$ 861,917	$ 509,148
Gross profit	$ 476,916	$ 614,804	$ 424,047
Gross margin %	*37.4%*	*71.3%*	*83.3%*
Operating loss	$ (9,202,548)	$ (3,490,907)	$ (1,014,329)
Net loss	$ (9,315,372)	$ (3,536,778)	$ (1,147,280)
Loss per share - basic and diluted	$ (0.21)	$ (0.11)	$ (0.07)

	September 30, 2021	September 30, 2020	December 31, 2019
Financial Position data:			
Cash	$ 2,688,105	$ 3,073,760	$ 21,615
Total assets	$ 8,717,846	$ 5,312,777	$ 700,087
Total non-current liabilities	$ 1,434,628	$ 307,909	$ 328,037
Total shareholders' equity (deficit)	$ 6,123,728	$ 3,884,864	$ (231,396)

Significant factors affecting our results of operations

Our results of operations are influenced by a variety of factors, including:

Revenue

Since inception, our revenue was driven from the sale of product demonstration units to the U.S. military customers, including training. Because our performance obligations under the contract with the U.S. military customer were satisfied over time during Fiscal 2021, we recognized revenue over time using the percentage of completion method. We calculated this based on costs incurred to date relative to total estimated costs at completion. As a percentage of total revenue, our revenue has been concentrated as follows: 95.1% by one customer in Fiscal 2021, 96.9% by two customers in Fiscal 2020, and 92.9% by one customer in Fiscal 2019.

With the expected commercial launch of our LEC System devices during the second quarter of Fiscal 2022, we expect revenue for these devices will be generated through the wholesale distribution of our products to dealers / distributors and through an e-commerce portal to consumers. We expect the transfer of control for our LEC System devices to take place at shipment and accordingly, revenue will be recognized at that point in time.

We expect product revenue to accelerate in Fiscal 2022 with the commercial launch of the LEC System, coupled with a new service revenue stream for the ATAK integration services for prospective customers. Accordingly, we expect our revenue will continue to fluctuate significantly from quarter to quarter in Fiscal 2022.

Cost of Sales / Gross Profit

Cost of sales include cost of finished goods, freight, and direct overhead expenses.

We expect our gross profit will continue to fluctuate from quarter-to-quarter with the anticipated new product mix and sales volume.

Operating Expenses

Our operating expenses are presented by function as follows: general and administration ("**G&A**"), selling and marketing ("**S&M**"), and net research and development ("**R&D**").

G&A expenses consist of corporate personnel costs, various management and administrative support functions, insurance, regulatory and other public company costs, professional fees relating to corporate matters, corporate advisory consulting costs, M&A related costs, depreciation and amortization expenses, and occupancy costs related to G&A costs. We expect to continue to scale-up our operations organically and through strategic acquisitions in Fiscal 2022.

S&M expenses consist of business development costs related to the market development activities and product commercialization, marketing support function, depreciation and amortization expenses and investor relations support function. With the anticipated commercial launch of the LEC System, we expect to continue to invest in sales and marketing to promote the LEC product suite, particularly in the United States, as well as other product lines.

R&D expenses consist of costs incurred in performing R&D activities, including new product development, continuous product development, materials and supplies, personnel costs, external engineering consulting, patent procurement costs, depreciation and amortization expenses, and occupancy costs related to R&D activity. These costs are net of Canadian investment tax credits for qualified Scientific Research and Experimental Development ("**SR&ED**") projects. We will continue to invest in R&D in Fiscal 2022 to bring innovative products to market and claim related investment tax credits for qualified SR&ED projects.

Finance Costs

Our finance costs are primarily comprised of interest and accretion expenses relating to the borrowings and accrued royalties payable relating to the acquired LEC System technology. From this total, we net interest income and the gain from the Canadian government subsidy relating to the COVID-19 loan program (which we refer to as the "**CEBA Term Loan**").

Update on COVID-19

While COVID-19 has not had a material impact to our business to date, the following is a summary of what we believe may impact our future business given the persistency of COVID-19: disruptions to business operations resulting from quarantines of employees, customers, manufacturers and other 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.

Despite the global vaccination efforts underway, the extent to which COVID-19 could impact our operations, financial condition, results of operations, and cash flows is highly uncertain and cannot be predicted. Negative financial results, uncertainties in the market, and a tightening of credit markets, caused by COVID-19, or a recession, could have a material adverse effect on our liquidity and ability to obtain financing in the future.

RESULTS OF OPERATIONS

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

	Quarter ended September 30,		Year ended September 30,	Nine months ended September 30,
	2021	**2020**	**2021**	**2020**
	(Unaudited)	*(Unaudited)*		
Revenue	**$ 160,047**	$ 212,485	**$ 1,275,804**	$ 861,917
Cost of sales	**(80,579)**	(95,473)	**(798,888)**	(247,113)
Gross profit	**79,468**	117,012	**476,916**	614,804
Gross margin %	*49.7%*	*55.1%*	*37.4%*	*71.3%*
Operating Expenses				
General and administrative	**1,147,817**	1,959,077	**4,057,167**	2,723,861
Selling and marketing	**1,288,512**	269,450	**3,484,159**	564,266
R&D	**489,427**	162,801	**2,138,138**	817,584
Total operating expenses	**2,925,756**	2,391,328	**9,679,464**	4,105,711
Operating loss	**(2,846,288)**	(2,274,316)	**(9,202,548)**	(3,490,907)
Gain on derivatives	**-**	207,589	**-**	29,463
Net finance costs	**(46,894)**	45,059	**(107,751)**	(61,397)
Foreign exchange gain (loss)	**10,484**	(4,982)	**(3,742)**	(13,937)
Loss on disposals	**(1,331)**	-	**(1,331)**	-
Net loss	**$ (2,884,029)**	**$ (2,026,650)**	**$ (9,315,372)**	$ (3,536,778)
EBITDA	**$ (2,784,629)**	**$ (2,056,538)**	**$ (9,066,878)**	$ (3,371,984)
Adjusted EBITDA	**$ (1,730,456)**	**$ (593,244)**	**$ (6,599,598)**	$ (1,589,723)
Loss per share - basic and diluted	**$ (0.06)**	**$ (0.07)**	**$ (0.21)**	$ (0.11)
Weighted average common shares - basic	**46,016,645**	30,393,359	**44,290,536**	30,844,129

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

	Quarter ended September 30,		Year ended September 30,	Nine months ended September 30,
	2021	**2020**	**2021**	**2020**
	(Unaudited)	*(Unaudited)*		
Net loss as reported under IFRS	**$ (2,884,029)**	$ (2,026,650)	**$ (9,315,372)**	$ (3,536,778)
Net finance costs	**46,894**	(45,059)	**107,751**	61,397
Depreciation and amortization	**52,506**	15,171	**140,743**	103,397
EBITDA loss	**(2,784,629)**	(2,056,538)	**(9,066,878)**	(3,371,984)
Other adjustments:				
Non-cash M&A costs	**-**	1,514,703	**-**	1,514,703
Stock-based compensation	**1,063,326**	151,198	**2,462,207**	283,084
Fair value adjustments on derivatives	**-**	(207,589)	**-**	(29,463)
Foreign exchange loss (gain)	**(10,484)**	4,982	**3,742**	13,937
Loss on disposal	**1,331**	-	**1,331**	-
Adjusted EBITDA loss	**$ (1,730,456)**	$ (593,244)	**$ (6,599,598)**	$ (1,589,723)

For Q4 and Fiscal 2021, KWESST's Adjusted EBITDA loss was $1.7 million and $6.6 million, an increase of $1.1 million and $5.0 million, respectively, over the comparable periods. Share-based compensation accounted for most of the adjustments to EBITDA. The significant increase in share-based compensation in Q4 and Fiscal 2021 compared to the same periods in Fiscal 2020 is mainly due to granting a higher volume of options at a higher fair value per option for recruiting and retaining directors, executives and key business consultants. In Q4 and the nine months ended September 30, 2020 ("**Fiscal 2020**"), we incurred non-cash M&A costs of $1.5 million relating to the Qualifying Transaction for going public (refer to Note 4(b) of the Fiscal 2021 FS).

Revenue and Gross Profit

	Quarter ended September 30, 2021	Quarter ended September 30, 2020	2020 to 2021 %	Year ended September 30, 2021	Nine months ended September 30, 2020	Annualized (1) 2020	Annualized 2020 to 2021 %
	(Unaudited)	*(Unaudited)*				*(Unaudited)*	
Digitization systems	**$ 157,871**	$ 203,379	-22%	**$ 1,255,983**	$ 835,097	$ 1,113,463	13%
Other	**2,176**	9,106	-76%	**19,821**	26,820	35,760	-45%
Total revenue	**$ 160,047**	$ 212,485	-25%	**$ 1,275,804**	$ 861,917	$ 1,149,223	11%
Gross profit	**$ 79,468**	$ 117,011		**$ 476,916**	$ 614,804		
Gross margin	***49.7%***	*55.1%*		***37.4%***	*71.3%*		

(1) Annualized is not indicative of actual results for the twelve months ended September 30, 2020. We have presented annualized figures to facilitate the comparison to the prior year.

We earned $1.3 million in revenue for Fiscal 2021, compared to $0.9 million for Fiscal 2020. On an annualized basis, our total revenue increased by 11% over the prior year mainly due to one large contract with a United States military customer relating to our TASCS IFM system. At the end of Fiscal 2021, we estimated approximately 98.3% completion on this large contract and have since fully delivered the remaining performance obligation since September 30, 2021. For both Fiscal 2021 and 2020, 97% of our total revenue was from the United States. For Q4 Fiscal 2021, our revenue decreased by 25% compared to Q4 Fiscal 2020. Comparability quarter over quarter is not very meaningful due to pre-commercialization phase.

Our gross margin was 50% for Q4 Fiscal 2021, compared to 55% for the same period in 2020. For Fiscal 2021, our gross margin was 37% compared to 71% for Fiscal 2020. The fluctuation in gross profit / margin is due to our pre-commercialization phase. Further, the contract that was awarded to us in Fiscal 2021 was significantly more complex in nature, requiring significant judgement during the bidding process in estimating the engineering labor hours to meet the customer requirements. We incurred more engineering labor hours than anticipated, which contributed to the lower gross margin in Fiscal 2021.

Operating Expenses (OPEX)

	Quarter ended September 30, 2021	Quarter ended September 30, 2020	2020 to 2021 %	Year ended September 30, 2021	Nine months ended September 30, 2020	Annualized (1) 2020	Annualized 2020 to 2021 %
	(Unaudited)	*(Unaudited)*				*(Unaudited)*	
General and administrative	**$ 1,147,817**	$ 1,959,077	-41%	**$ 4,057,167**	$ 2,723,861	3,631,815	12%
Selling and marketing	**1,288,512**	269,450	378%	**3,484,159**	564,266	752,355	363%
Research and development	**489,427**	162,801	201%	**2,138,138**	817,584	1,090,112	96%
Total operating expenses	**$ 2,925,756**	$ 2,391,328	22%	**$ 9,679,464**	$ 4,105,711	$ 5,474,281	136%

(1) Annualized is not indicative of actual results for the twelve months ended September 30, 2020. We have presented annualized figures to facilitate the comparison to the prior year.

Total operating expenses were $9.7 million for Fiscal 2021, compared to $4.1 million for Fiscal 2020. Excluding M&A costs, on an annualized basis total operating expenses increased by 185% driven primarily by growth in G&A, S&M and R&D.

- G&A increased by 12% on an annualized basis; however, excluding the M&A costs, our G&A increased by 160% primarily due to augmenting the senior management team with two executives and recruiting independent directors, which led to a significant increase in personnel costs, including share-based compensation. Further, as a result of becoming a public company in Canada late in Fiscal 2020, we are now incurring significantly more regulatory costs and director and officer insurance premium costs.

- S&M increased by 363% on an annualized basis primarily due to making an investment in promoting and increasing awareness about us and our product offerings, including the recruitment of Brandon Tatum, through his private company The Officer Tatum LLC, as our advisor and advocate for our LEC System for law enforcement and personal defense in the United States in advance of our commercial launch of the LEC System anticipated for January 2022. We compensate Officer Tatum primarily in non-cash consideration, RSUs and PSUs. Additionally, we made further investments in business development by recruiting consultants in the United States and in Canada to promote our product offerings.

- Excluding the investment tax credits ("**ITCs**"), R&D increased by 86% on an annualized basis primarily due to an increase in headcount to accelerate product development. We recognized $0.2 million and $0.1 million of ITCs in the fourth quarter of Fiscal 2021 and 2020, respectively, relating to qualified SR&ED projects. Recognition takes place only once we have completed our analysis on whether certain R&D projects qualify for SR&ED ITCs with the assistance of our external tax professionals.

Total operating expenses were $2.9 million for Q4 Fiscal 2021, compared to $2.4 million for Q4 Fiscal 2020. Excluding M&A costs, on an annualized basis total operating expenses increased by 221% driven primarily by growth in G&A, S&M and R&D for the same reason as noted above.

Gain on Derivatives

The gain on derivatives in Fiscal 2020 relates to the conversion feature of the 2019 Convertible Notes. As a result of the Qualifying Transaction (see Note 4(b) of the Fiscal 2021 FS), all the 2019 Convertible Notes were converted to KWESST's common shares, resulting in the recognition of a gain on derivatives of $207,409 and $29,463 for Q4 and Fiscal 2020, respectively.

Net Finance Costs

The following table provides a breakdown of KWESST's net finance costs for the respective periods:

	Quarter ended September 30,		2020 to 2021	Year ended September 30,	Nine months ended September 30,	Annualized (1)	Annualized 2020 to 2021
	2021	**2020**	**%**	**2021**	**2020**	**2020**	**%**
Interest expense from:	***(Unaudited)***	***(Unaudited)***				***(Unaudited)***	
Accretion cost - accrued royalties liability	**$ 38,970**	$ -		**$ 64,537**	$ -	$ -	
Lease obligations	**9,574**	5,889	63%	**33,872**	31,242	41,656	-19%
Related party loans	**-**	2,335	-100%	**4,581**	8,448	11,264	-59%
Unsecured loan	**-**	-		**4,527**	-	-	
CEBA term loan	**1,253**	-		**4,481**	-	-	
2019 convertible notes	**-**	35,216	-100%	**-**	44,899	59,865	-100%
2020 convertible notes	**-**	(69,400)	-100%	**-**	-	-	
Other	**331**	(7,786)	-104%	**4,115**	5,885	7,847	-48%
Total interest expense	**50,128**	(33,746)	-249%	**116,113**	90,474	120,632	-4%
Interest income	**(3,234)**	(2,217)	46%	**(4,848)**	(2,454)	(3,272)	48%
Gain on termination of lease obligation	**-**	-		**-**	(17,527)	(23,369)	-100%
Gain on government grant	**-**	(9,096)		**(3,514)**	(9,096)	(12,128)	NM
Net finance costs	**$ 46,894**	$ (45,059)	-204%	**$ 107,751**	$ 61,397	$ 81,863	32%

(1) Annualized is not indicative of actual results for the twelve months ended September 30, 2020. We have presented annualized figures to facilitate the comparison to the prior year.

For Q4 Fiscal 2021, our net finance costs were $47 thousand, compared to negative $45 thousand over the same period in Fiscal 2020 primarily due to the reversal of accrued interest on the 2020 convertible notes as a result of classifying these notes as equity rather than debt during the fourth quarter of Fiscal 2020 (see Note 16(a) of the Fiscal 2021 FS for further details), coupled with the recognition of $9 thousand of gain on government grant relating to the CEBA Term Loan (see section "*Financial Condition, Liquidity, and Capital Resources*").

On an annualized basis, our net finance costs increased by 32% in Fiscal 2021 over Fiscal 2020. The increase was driven primarily by the accretion cost on the accrued royalties liability relating to the acquisition of the LEC System. This was offset partially by finance cost savings from the conversion of the 2019 convertible notes into KWESST common shares, coupled with gains on government grant and terminations of lease obligation on the former office lease.

Net Loss

We incurred a net loss of $9.3 million or $0.21 per basic share for Fiscal 2021, compared to the net loss of $3.5 million or $0.11 per basic share for Fiscal 2020. For Q4 Fiscal 2021, we incurred a net loss of $2.9 million or $0.06 per basic share, compared to net loss of $2.0 million or $0.07 per basic share for the same period in 2020. The increase in net loss in both periods was primarily due to investments made to drive marketing and promotional activities about KWESST and our product offerings, accelerating product development, and recruiting talent to position ourselves for success.

SUMMARY OF QUARTERLY RESULTS

The following tables summarize selected results for the eight most recent completed quarters to September 30, 2021 (unaudited).

($ in thousands, except per share)	December 2020 (Q1 FY21)	March 2021 (Q2 FY21)	June 2021 (Q3 FY21)	September 2021 (Q4 2021)
Revenue	$ 146	$ 448	$ 522	$ 160
Cost of sales	$ 72	$ 332	$ 315	$ 80
Gross profit	$ 74	$ 116	$ 207	$ 80
Gross margin %	50.7%	25.9%	39.7%	50.0%
Operating expenses	$ 1,580	$ 2,376	$ 2,798	$ 2,925
Operating loss	$ (1,506)	$ (2,260)	$ (2,591)	$ (2,845)
Other income (expenses)	$ (21)	$ (17)	$ (37)	$ (38)
Net income (loss)	**$ (1,527)**	**$ (2,277)**	**$ (2,628)**	**$ (2,883)**
Adjusted EBITDA (loss)	**$ (1,124)**	**$ (1,627)**	**$ (2,017)**	**$ (1,888)**
Earnings (loss) per share - basic and diluted	**$ (0.04)**	**$ (0.05)**	**$ (0.06)**	**$ (0.06)**
Weighted average common shares - basic	41,392,149	42,141,523	46,016,645	47,744,525

($ in thousands, except per share)	December 2019 (Q1 FY20)	March 2020 (Q2 FY20)	June 2020 (Q3 FY20)	September 2020 (Q4 2020)
Revenue	$ 4	$ 49	$ 600	$ 213
Cost of sales	$ 8	$ 8	$ 144	$ 95
Gross profit	$ (4)	$ 41	$ 456	$ 118
Gross margin %	-100.0%	83.7%	76.0%	55.4%
Operating expenses	$ 799	$ 632	$ 1,082	$ 2,392
Operating loss	$ (803)	$ (591)	$ (626)	$ (2,274)
Other income (expenses)	$ 60	$ (108)	$ (186)	$ 248
Net income (loss)	**$ (743)**	**$ (699)**	**$ (812)**	**$ (2,026)**
Adjusted EBITDA (loss)	**$ (779)**	**$ (539)**	**$ (392)**	**$ (573)**
Earnings (loss) per share - basic and diluted	**$ (0.04)**	**$ (0.02)**	**$ (0.03)**	**$ (0.07)**
Weighted average common shares - basic	20,767,543	28,695,065	30,393,359	33,024,736

Quarterly Results Trend Analysis

Our historical quarterly operating results have been volatile because we are an early-stage company in the pre-commercialization stage. Since KWESST's incorporation in late 2017, we have devoted significant energy to developing our proprietary TASCS system, our signature app and snap-on weapon adaptor that enables real-time streaming of situational awareness data of any kind from any source, including drones, direct to smart devices and operational assets, for a common operating picture and networked engagement. In Fiscal 2020, we won two contracts with two U.S. military customers relating to our TASCS system. Due to successful military trials held in late Fiscal 2020 on our initial prototype of TASCS system, we were awarded a US$0.8 million contract by a U.S. military customer to further enhance our TASCS system during Q1 Fiscal 2021. We substantially delivered on this contract by the end of Fiscal 2021. Gross margin will continue to vary significantly from quarter-to-quarter until we reach commercialization phase with our product lines.

The general trend of increased quarterly operating expenses reflects the investments being made to grow our business, coupled with significant investments in promoting KWESST's profile and its product offerings. More recently, with the LEC System acquisition, we made further investments to accelerate the timing for launching this product line in January 2022.

Over the next 12 months, we expect continued volatility in our quarterly revenue, operating results, and cash flows for the foreseeable future as we continue to invest in promoting KWESST and its product offerings, product development, and bringing products to market.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Financial Condition

The following table summarizes our financial position:

	September 30, 2021	September 30, 2020 (adjusted) (1)
Assets		
Current	**$ 4,055,697**	$ 3,996,514
Non-current	**4,662,149**	1,316,263
Total assets	**$ 8,717,846**	$ 5,312,777
Liabilities		
Current	**$ 1,159,490**	$ 1,120,004
Non-current	**1,434,628**	307,909
Total liabilities	**2,594,118**	1,427,913
Net assets	**$ 6,123,728**	$ 3,884,864
Working capital (2)	**$ 2,896,207**	$ 2,876,510

(1) See Note 8 of the FY 2021 FS.

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

Our working capital was $2.9 million at September 30, 2021, consistent with prior year. Total assets increased by $3.4 million from September 30, 2020, mainly due to $3.3 million increase in non-current assets driven by the acquisition of the LEC System. Total liabilities increased by $1.1 million from September 30, 2020, due to an increase of $1.1 million in non-current liabilities as a result of recognizing the accrued royalties liability relating to the LEC System.

Liquidity and Capital Resources

Overview

Our primary sources of capital to date have been from security offerings, exercise of stock options and warrants, and, to a lesser extent, pre-commercial revenue. At September 30, 2021, our cash position was $2.7 million, a decrease of $0.4 million since September 30, 2020 primarily due to incurring a net operating loss for Fiscal 2021, which was partially offset by additional new capital from equity offerings.

In Fiscal 2021, we had capital expenditures of $0.9 million, compared to $0.5 million for the nine months ended September 30, 2020, most of which we invested in R&D equipment, product development (where capitalized), office furniture and equipment, computer equipment, and leasehold improvements at our corporate office.

Going forward, we anticipate our net cash burn rate will be approximately $2.4 million for Q1 Fiscal 2022 and then significantly reduce to approximately $1.5 million for Q2 Fiscal 2022 and to approximately $0.5 million per quarter for the remainder of Fiscal 2022 as a result of the commercial launch of the LEC System and other pending contracts we expect to be awarded for our other product lines.

While we are confident we will be awarded customer contracts in the first quarter of Fiscal 2022, we expect additional capital will be required to initially fund these potential contracts, our commercialization efforts in the United States for the launch of the LEC System, R&D activities and our working capital requirements over the next twelve months. Potential sources of capital may include additional equity and/or debt financings, Canadian ITCs for SR&ED activities, and other government funding such as Innovation Solutions Canada. There can be no assurance that we will be able to obtain the capital sufficient to meet any or all of our needs. In our view, the availability of capital will be affected by, among other things, capital market conditions, the success of our LEC System commercialization efforts, timing for winning new customer contracts, potential acquisitions, and other relevant considerations. In the event we raise additional funds by issuing equity securities, our existing shareholders will likely experience dilution, and any additional incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operational and financial covenants that could further restrict our operations. Any failure to raise additional funds on terms favorable to us or at all may require us to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in us not being in a position to advance our commercialization strategy or take advantage of business opportunities.

Cash Flows

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

The following table summarizes KWESST's consolidated statements of cash flows for the respective periods:

	Quarter ended September 30,		Year ended September 30,	Nine months ended September 30,
	2021	**2020**	**2021**	**2020**
	(Unaudited)	***(Unaudited)***		
Total cash provided by (used in):				
Operating activities	**$ (1,536,984)**	$ 18,286	**$ (6,255,213)**	$ (1,791,654)
Investing activities	**(773,283)**	(25,554)	**(1,073,192)**	(390,972)
Financing acitivities	**2,566,246**	1,787,455	**6,942,750**	5,234,771
Net cash inflows (outflows)	**$ 255,979**	$ 1,780,187	**$ (385,655)**	$ 3,052,145
Cash, beginning of period	**2,432,126**	1,293,573	**3,073,760**	21,615
Cash, end of period	**$ 2,688,105**	$ 3,073,760	**$ 2,688,105**	$ 3,073,760

Cash used by operating activities

With the additional capital raised during Fiscal 2021, we continued to invest significantly across the organization and product development. As an early-stage company with various products in the pipeline (pre-commercialization phase), our revenue remains low and insufficient to cover the increase in our overhead costs, professional fees, advertising and promotion costs, and R&D costs. As a result, cash flow used in operating activities was $1.5 million and $6.3 million for Q4 and Fiscal 2021, respectively, compared to $0.02 million and $1.8 million for Q4 and Fiscal 2020.

Cash used by investing activities

Cash flow used in investing activities for Fiscal 2021 was higher than for the nine months ended September 30, 2020, mainly due significant investment made in sales demonstration units for TASCS IFM, and to a lesser extent to a $0.15 million deposit made to DEFSEC as an advance on future royalties. The $0.4 million investment in Fiscal 2020 includes investments in capitalized developments projects and the cash consideration for the acquisition of the Phantom™ system from SageGuild.

Cash flow used in investing activities for Q4 Fiscal 2021 was higher than the comparable prior period mainly due to our significant investment made in sales demonstration units for TASCS IFM.

Cash provided by financing activities

The $1.7 million increase in cash provided by financing activities in Fiscal 2021 over Fiscal 2020 was primarily driven by $1.8 million of proceeds from exercised of stock options and warrants over the comparable period in light of the favorable movement in the price of the Common Shares since going public in Canada. In Fiscal 2021, we raised net proceeds of $5.4 million from equity offerings, slightly ahead of the $5.3 million raised in the prior period. We also repaid $0.2 million of related party loans during Fiscal 2021, compared to $0.08 million in the prior period (see section "*Related Party Transactions")*. In Q4 Fiscal 2021, we generated $0.8 million additional cash compared to Q4 Fiscal 2020 due to exercise of options and warrants.

Capital Management

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

KWESST's capital is composed of the following:

	September 30, 2021	September 30, 2020
Debt:		
Lease obligations	**$ 307,909**	$ 352,037
Related party loans	**-**	218,276
Borrowings	**53,251**	32,273
Equity:		
Share capital	**17,215,068**	9,374,563
Warrants	**1,848,389**	277,170
Contributed surplus	**2,458,211**	306,708
Accumulated other comprehensive loss	**(8,991)**	-
Accumulated deficit	**(15,388,949)**	(6,073,577)
Total capital	**$ 6,484,888**	$ 4,487,450

Debt

The following table shows our total indebtedness:

		September 30, 2021		September 30, 2020
CEBA term loan	$	53,251	$	32,273
Related party loans		-		218,276
Lease liabilities		307,909		352,037
Total debt	$	361,160	$	602,586

CEBA Term Loan

In April 2020, we entered into a $40,000 term loan agreement with TD Canada Trust under the Canada Emergency Business Account program administered by the Federal Government of Canada. In December 2020, the Canadian Federal Government amended the CEBA Term Loan program to increase it to $60,000. Accordingly, our indebtedness increased to $60,000.

This amendment also resulted in extending the interest-free period on the CEBA Term Loan to December 31, 2022. Thereafter, we may exercise the option for a three (3) year term extension, subject to a 5% annual interest rate during the extension period. As an inducement for early repayment, if we repay the CEBA Term Loan by December 31, 2022, $20,000 will be forgiven.

Related Party Loans

See section "*Related Party Transactions*".

Lease Liabilities

The reduction in lease liabilities since September 30, 2020, is due to lease payments during Fiscal 2021 offset partially by the accretion costs. Lease liabilities are recorded at the discounted amount of future payments under leases for right-of-use assets.

Contractual Obligations

At September 30, 2021, our contractual obligations and commitments were as follows:

Payment due:		Total		Within 1 Year		1 to 3 years	3 to 5 years
Minimum royalty commitments	$	2,500,000	$	-	$	150,000	$ 2,350,000
Accounts payable and accrued liabilities		1,127,202		1,127,202		-	-
Lease obligations		390,000		62,400		187,200	140,400
Other commitments		101,928		101,928		-	-
Borrowings		60,000		-		60,000	-
Total contractual obligations	**$**	**4,179,130**	**$**	**1,291,530**	**$**	**397,200**	**$ 2,490,400**

The above table does not include the contingent minimum annual royalty payments (total of $1.55 million over five years) that will be due to AerialX for its licensed technology (see Note 26(a) of Fiscal 2021 FS) as this is triggered only upon meeting certain technical milestones, which have not been met as of the date of this MD&A.

Equity

For Fiscal 2021, we raised gross proceeds of $6.0 million from closing the April 2021 Private Placement and September 2021 Private Placement (together, the "**2021 Financings**"). The total share offering costs (cash and non-cash) were $0.8 million.

For Fiscal 2020, we raised gross proceeds of $5.7 million primarily from equity and convertible note offerings. The total offering costs (cash and non-cash) were $0.7 million.

Refer to Note 16 of Fiscal 2021 FS, for further details on the above equity offerings.

Use of Proceeds from Financings

The following table shows the net proceeds from the 2021 Financings plus the remaining working capital on April 29, 2021 (immediately after closing the April 2021 Private Placement) available to fund future working capital, product development, repayment loans and other investments:

Available Funds		
Net proceeds from April 2021 Private Placement	$	4,009,223
Working capital on April 29, 2021		235,345
		4,244,568
Net proceeds from September 2021 Private Placement		1,459,270
Proforma available funds from April 29, 2021	**$**	**5,703,838**

The following table provides an approximate breakdown of the funds we spent from the proceeds raised in September 2020 plus the working capital available at that time, coupled with the above 2021 available funds:

	2020 Financing			2021 Financing		
Use of Proceeds [1]	Expected Allocation of Net Proceeds [2]	Estimated and Unaudited Actual Use of Funds from September 1, 2020 to Apr 28, 2021	Proceeds Unspent as at April 28, 2021	Expected Allocation of Net Proceeds	Estimated and Unaudited Actual Use of Funds from April 29, 2021 to September 30 2021	Proceeds Unspent as at September 30, 2021
Products development: [3]						
TASCS NORS (formerly TASCS Sniper)	$ 150,000	$ 15,210	$ 134,790	$ -	$ -	$ -
TASCS IFM [4]	150,000	623,953	(473,953)	400,000	255,384	144,616
BLDS	575,000	74,874	500,126	200,000	45,709	154,291
Shot Counter	120,000	-	120,000	-	-	-
Phantom	150,000	134,743	15,257	500,000	208,966	291,034
GreyGhost	250,000	91,284	158,716	200,000	15,840	184,160
ATAK	-	-	-	500,000	221,321	278,679
LEC	-	-	-	500,000	153,471	346,529
Total products development	1,395,000	940,064	454,936	2,300,000	900,691	1,399,309
Other specific allocations:						
Costs related to complete QT	150,000	145,560	4,440	-	-	-
Broker commissions and fees relating to QT	189,520	189,520	-	-	-	-
Repayment of CEO and employee loans	114,049	31,252	82,797	191,600	191,600	-
Repayment of unsecured borrowings	-	-	-	310,527	310,527	-
Marketing costs	345,000	832,852	(487,852)	-	-	-
Prepaid royalties to DEFSEC [5]	150,000	-	150,000	150,000	150,000	-
Total allocated proceeds	**2,343,569**	**2,139,248**	**204,321**	**2,952,127**	**1,552,818**	**1,399,309**
Unallocated proceeds for working capital	**1,746,237**	**1,715,213**	**31,024**	**2,516,366**	**1,019,468**	**1,496,898**
Transferred to 2021 Financing for working capital	**-**	**235,345**	**(235,345)**	**235,345**	**235,345**	**-**
Total use of proceeds	**$ 4,089,806**	**$ 4,089,806**	**$ -**	**$ 5,703,838**	**$ 2,807,631**	**$2,896,207**

Notes:

(1) Excludes non-cash transactions settled in Common Shares.

(2) As disclosed in our Filing Statement dated August 28, 2020, as filed on SEDAR (www.sedar.com).
(3) Includes concept & design, initial prototype, market testing, and pre-production including a few demo units. Costs includes internal labor costs, outsourced engineering costs, and materials (no overhead allocation).
(4) Net of customer funding of $1.0 million up to September 30, 2021.
(5) In connection with the LEC System acquisition.

Changes in Use of Proceeds

During Fiscal 2021, we allocated more funds to the TASCS IFM product line as a result of winning an additional contract with a United States military customer following the trials/testing held in September and November 2020. These trials provided us with constructive feedback for further enhancements to the TASCS IFM mortar system in advance of the extensive United States military exercises that took place in September and October 2021, which were also successful based on positive feedback received from the United States military customer. We also reallocated some of the funds to marketing to further promote and increase awareness about KWESST and our product offerings. At April 28, 2021 (immediately prior to the closing of the April 2021 Private Placement) we had $235,345 remaining proceeds from the September 2020 Private Placement, which we have allocated to the 2021 Financings table as part of the unallocated working capital. Going forward, we will report only on the remaining funds from the 2021 Financings.

While management intends to invest the remaining available funds as shown under the 2021 Financings in the above table; there may be circumstances where, for sound business reasons, a reallocation of funds may be advisable.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

For Fiscal 2021 and nine months ended September 30, 2020, we had the following related party transactions:

DEFSEC Purchase Agreement

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

Employment and Consulting Agreements

We have entered into employment and consulting agreements with key management. Refer to Note 11 of Fiscal 2021 FS for total compensation paid to key management.

Voting Agreement

On September 14, 2020, we entered into a voting agreement with Messrs. Luxton and MacLeod, pursuant to which Messrs. Luxton and MacLeod agreed to vote the voting securities of the Company they own and exercise voting control over to ensure that the following individuals are members of our Board of Directors: Mr. Luxton, Mr. MacLeod, one person nominated by Mr. Luxton who is from the capital markets industry, one independent person nominated by Mr. Luxton and one independent person nominated by Mr. MacLeod. Further, Messrs. Luxton and MacLeod irrevocably appointed our President as their proxy and granted our President power of attorney to vote their voting securities in a manner described in the voting agreement should either Mr. Luxton or Mr. MacLeod fail to vote or attempt to vote in a manner inconsistent with the voting agreement. The voting agreement will automatically terminate the day immediately following our next annual general meeting of shareholders.

Related Party Loans

During Fiscal 2021, we repaid all prior related party loans for source of new equity financing. Refer to Note 11 of Fiscal 2021 FS for tabular disclosure showing the activities during the fiscal year.

Other Related Party Transactions

In January 2021, the CEO of SageGuild became the acting CEO and director for our United States subsidiary, KWESST U.S., which was incorporated in January 2021 to have a physical presence in the United States to facilitate our business development and commercial activities. We previously entered into a consulting agreement with SageGuild in March 2020 to provide business development services in the United States. This consulting agreement, including compensation, was not modified as a result of the above. At the time, SageGuild was not a related party and the terms of this consulting agreement were negotiated at arm's length. From January 1, 2021, to September 30, 2021, the total compensation (cash and share-based) amounted to $339,309.

For other immaterial related party transactions, refer to Note 11 of Fiscal 2021 FS.

Terms and conditions of transactions with related parties

Transactions with related parties are conducted on terms pursuant to an agreement and approved by the Board of Directors of KWESST.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

We recognize financial assets and liabilities when we become party to the contractual provisions of the instrument. On initial recognition, financial assets and liabilities are measured at fair value plus transaction costs directly attributable to the financial assets and liabilities, except for financial assets or liabilities at fair value through profit and loss, whereby the transactions costs are expensed as incurred.

Refer to Note 22 of Fiscal 2021 FS for comprehensive disclosure on our financial instruments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue

Historically, revenue recognition did not require significant management judgement as delivery of performance obligations under contracts with customers was done generally within the same quarter. However, with the USD $0.8 million contract awarded to us from the U.S. military customer during the first quarter of Fiscal 2021 with delivery of performance obligations over several quarters, we have revised our accounting policy to address this as follows:

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

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular obligation to the customer.

For performance obligations satisfied over time, we recognize revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligation (for non-recurring engineering services, the input method is based on hours). Under this method, costs that do not contribute to our performance in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. In certain other situations, we might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known. For the contract awarded in Fiscal 2021, we recognized revenue over time based on estimated hours to deliver the performance obligations under the contract. At September 30, 2021, we have estimated the percentage of completion at 98.3% based on our estimate of the remaining hours to complete our performance obligations under the contract, with the remaining to be recognized during the first quarter of Fiscal 2021.

We may enter into contractual arrangements with a customer to deliver services on one project with respect to more than one performance obligation, such as non-recurring engineering, procurement, and training. When entering into such arrangements, we allocate the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone price and recognized according to the respective revenue recognition methods described above.

We account for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects our stand-alone selling price of the additional promised goods or services. When the contract modification is not accounted for as a separate contract, we recognize an adjustment to revenue on a cumulative catch-up basis at the date of contract modification. There was no contract modification in Fiscal 2021.

The timing of revenue recognition often differs from performance payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. At September 30, 2021, we had $0.3 million of unbilled receivable, of which $0.15 million was invoiced during the first week of October 2021 and the remaining balance to be invoiced in November 2021 in accordance with the customer payment schedule. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of contract liabilities. There was no outstanding contract liability at September 30, 2021.

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

Accounting for acquisitions and contingent consideration

During Fiscal 2021 and 2020, we acquired technology assets, which were recorded at fair value. Refer Note 4 of the audited consolidated financial statements of Fiscal 2021 for further details.

Areas of significant estimation in connection with the acquisition of the LEC System included:

- the determination of the discount rate for the present value of the minimum annual royalty payments to DEFSEC; and
- the volatility assumption used in the Black Scholes option model to estimate the fair value of the warrants issued to DEFSEC given our short history as a public company (see below – Accounting for share-based compensation).

Areas of significant estimation in connection with the acquisition of the Phantom™ included:

- the fair value of our Common Shares and warrants issued to SageGuild because we were a private company at the time of the asset acquisition; and
- the accounting for the contingent annual payments.

Impairment of long-lived assets

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

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

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

Impairment of non-financial assets

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

Accounting for share-based compensation

We measure share-based compensation at fair value. A key input in the Black Scholes option model is the volatility assumption in our Common Shares. Due to our limited trading history, management has established a relevant peer group of listed companies and selected the weighted average of their volatilities over a period of three to five years, where available. Starting in Fiscal 2021, we have commenced to incorporate a percentage of our stock volatility in the overall calculation of the volatility assumption. We expect to solely rely on our stock volatility by the end of Fiscal 2023 to estimate the fair value of share-based compensation as well as for warrants.

OUTSTANDING SHARE INFORMATION

At September 30, 2021, our authorized capital consists of an unlimited number of common shares with no stated par value.

The following table shows the outstanding common shares and dilutive securities at September 30, 2021:

	September 30, 2021	Proceeds if Exercised	Average price
Common shares	**48,695,631**		
Founders' warrants	**8,500,000**	**$ 1,700,000**	**$ 0.20**
Broker warrants	**336,983**	**$ 417,607**	**$ 1.24**
Warrants	**4,868,542**	**$ 8,163,150**	**$ 1.68**
Stock options	**4,167,516**	**$ 5,709,497**	**$ 1.37**
Restricted stock units (RSUs)	**1,189,072**	**$ -**	**$ -**
Performance stock units (PSUs)	**200,000**	**$ -**	**$ -**
Stock appreciation rights (SARs)	**24,365**	**$ -**	**$ -**
Agents' compensation options:			
Common shares	**58,616**	**$ 73,270**	**$ 1.25**
Warrants	**196,115**	**$ 343,201**	**$ 1.75**
Total dilutive securities	**68,236,840**	**$ 16,406,724**	

No material changes in outstanding shares have occurred since September 30, 2021.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS accounting principles.

TSX Venture-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP.

RISK FACTORS

There are a number of risks that may have a material and adverse impact on our future operating and financial performance and could cause our operating and financial performance to differ materially from the estimates described in our forward-looking statements. These include widespread risks associated with any form of business and specific risks associated with our business and our involvement in the defense technology industry.

This section describes risk factors identified as being potentially significant to us. In addition, other risks and uncertainties not discussed to date or not known to management could have material and adverse effects on the existing business activities, financial condition, results of operations, plans and prospects.

Risks Relating to Our Business

We are an early-stage company.

We are an early-stage company and as such, we are subject to many risks including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenue. There is no assurance that we will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of our early stage of operations. Our prospects must be considered speculative in light of the risks, expenses, and difficulties frequently encountered by companies in their early stages of operations, particularly in the highly competitive and rapidly evolving markets in which we operate. To attempt to address these risks, we must, among other things, successfully implement our business plan, marketing, and commercialization strategies, respond to competitive developments, and attract, retain, and motivate qualified personnel. A substantial risk is involved in investing in us because, as a smaller commercial enterprise that has fewer resources than an established company, our management may be more likely to make mistakes, and we may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond our control.

We currently have negative operating cash flows.

Since inception, we have generated significant negative cash flow from operations, financed in great part through equity financing. There can be no certainty that we will ever achieve or sustain profitability or positive cash flow from our operating activities. In addition, our working capital and funding needs may vary significantly depending upon a number of factors including, but not limited to:

- progress of our manufacturing, licensing, and distribution activities;
- collaborative license agreements with third parties;
- opportunities to license-in beneficial technologies or potential acquisitions;
- potential milestone or other payments that we may make to licensors or corporate partners;
- technological and market consumption and distribution models or alternative forms of proprietary technology for game-changing applications in the military and homeland security market that affect our potential revenue levels or competitive position in the marketplace;
- the level of sales and gross profit;
- costs associated with production, labor, and services costs, and our ability to realize operation and production efficiencies;
- fluctuations in certain working capital items, including product inventory, short-term loans, and accounts receivable, that may be necessary to support the growth of our business; and
- expenses associated with litigation.

While we expect to become profitable in 12-24 months from the date of this Registration Statement, there is no guarantee that it will happen, and we may never become profitable. To date, we have generated limited revenues and a large portion of our expenses are fixed, including expenses related to facilities, equipment, contractual commitments and personnel. With the anticipated commercialization for certain of our product offerings during Fiscal 2022, we expect our net losses from operations will improve. Our ability to generate additional revenues and potential to become profitable will depend largely on the timely productization of our products, coupled with securing timely, cost-effective outsourced manufacturing arrangements and marketing our products. There can be no assurance that any such events will occur or that we will ever become profitable. Even if we achieve profitability, we cannot predict the level of such profitability. If we sustain losses over an extended period of time, we may be unable to continue our business.

The coronavirus may adversely impact our business.

As of the date of this Registration Statement, markets, governments and health organizations around the world are working to contain the outbreak of the coronavirus ("**COVID-19**"). COVID-19 may present a wide range of potential issues or disruptions in our business and the business of third parties who we depend on or might depend in the future for materials and manufacturing, most of which we are not able to know the full extent of at the time of this Registration Statement. These disruptions could include disruptions of our ability to receive timely materials, manufacture our products, or distribute our products, as well as closures of our primary facility in Kanata, Ontario or the facilities of our suppliers, manufacturers, and customers. Any disruption of the business of our suppliers, manufacturers, or customers would likely impact our sales and operating results. Additionally, a significant outbreak of epidemic, pandemic, or contagious diseases (including COVID-19) could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products. Any of these events could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

While COVID-19 has not had a material impact to our business to date, the following is a summary of what we believe may impact our future business given the persistency of COVID-19: disruptions to business operations resulting from quarantines of employees, customers, manufacturers and other 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.

Despite the global vaccination efforts underway, the extent to which COVID-19 could impact our operations, financial condition, results of operations, and cash flows is highly uncertain and cannot be predicted. Negative financial results, uncertainties in the market, and a tightening of credit markets, caused by COVID-19, or a recession, could have a material adverse effect on our liquidity and ability to obtain financing in the future.

Moreover, if a pandemic, epidemic, or outbreak of an infectious disease, including COVID-19, or other public health crisis were to affect our facilities, staff, auditors, or advisors, our business could be adversely and materially affected. Such a pandemic could result in mandatory social distancing, travel bans, and quarantine restrictions, and this may limit access to our employees and professional advisors, and consequently may hamper our efforts to comply with our filing obligations with regulatory authorities.

We may not be able to successfully execute our business plan.

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

A significant portion of our revenues are non-recurring.

A significant portion of our revenue for Fiscal 2021 was prior to commercial production of TASCS IFM and considered to be non-recurring. While we expect to reach commercialization stage for certain product offerings during Fiscal 2022, there is no assurance we will succeed.

With the completion of the LEC System technology acquisition in April 2021, we expect to launch the commercialization of our non-lethal LEC devices starting in the second quarter of Fiscal 2022 which we anticipate will drive significant product revenue on a monthly basis with the use of an e-commerce platform. However, there is no assurance that we will successfully complete timely the productization of our initial non-lethal devices and obtain market acceptance of our products. Further, while we believe the United States Bureau of Alcohol, Tobacco and Firearms ("**ATF**") classification of our non-lethal cartridge-based LEC devices will not be classified now or in the future as "firearms", there is no assurance that we will prevail. We are in the process of applying for the ATF classification. In the event these are classified as "firearms", the commercialization and related sales will be subject to firearm regulations with United States federal and state laws which may delay materially the timing for generating sales.

There is uncertainty with respect to our revenue growth.

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

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

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

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

In order to successfully commercialize our products, we must continue to develop our internal marketing and sales force with technical expertise and with supporting distribution capabilities or arrange for third parties to perform these services. In order to successfully commercialize any of our products, we must have an experienced sales and distribution infrastructure. The continued development of our sales and distribution infrastructure will require substantial resources, which may divert the attention of our management and key personnel and defer our product development and commercialization efforts. To the extent that we enter into marketing and sales arrangements with other companies, our revenues will depend on the efforts of others. For example, on September 24, 2021, we entered into an agreement with STRYK Group USA for the commercialization of our LEC's non-lethal products in the United States, which these efforts may not be successful.

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

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

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

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

Strategic alliances may not be achieved or achieve their goals.

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

We may depend on key suppliers.

We may be able to purchase certain key components of our 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. The ongoing COVID-19 pandemic could adversely impact the supply chain relating to these components.

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

As we expect to commercialize certain of our product lines in Fiscal 2022, we may depend on certain domestic and international suppliers for the delivery of components and materials used in the assembly of our products and certain accessories including ammunition, used with our products. Further, any reliance on third-party suppliers may create risks related to our potential inability to obtain an adequate supply of components or materials and reduced control over pricing and timing of delivery of components and materials. We currently have no long-term agreements with any of our suppliers and there is no guarantee the supply will not be interrupted.

In light of the current global supply chain challenges caused by COVID-19, components used in the manufacture of our products may be delayed, become unavailable or discontinued. Any delays may take weeks or months to resolve. Further, parts obsolescence may require us to redesign our product to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations.

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

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

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

We may be subject to product liability proceedings or claims.

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

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

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

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

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

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

In addition, we may not be able to accurately forecast our results of operations and growth rate. Forecasts may be particularly challenging as we expand into new markets and geographies and develop and market new products for which we have no or limited historical data. Our historical sales, expense levels, and profitability may not be an appropriate basis for forecasting future results. Our lack of historical data related to new products makes it particularly difficult to make forecasts related to such products. The lead times and reliability of our suppliers has been inconsistent as a result of the COVID-19 pandemic and may be affected by global events in the future. These effects are expected to last through the remainder of the pandemic. Pandemic related variances require a very quick pivot and adjustments to the supply chain, production and marketing. If we are unable to make these changes quickly or at all our inventory, production and sales may be materially affected.

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

Undetected flaws may be discovered in our products.

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

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

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

In certain circumstances, our reputation could be damaged.

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

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

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

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

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

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

We face risks from doing business internationally.

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

These risks may include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- anti-corruption laws and regulations such as the Foreign Corrupt Practices Act that impose strict requirements on how we conduct our foreign operations and changes in these laws and regulations;
- changes in local regulatory requirements, including restrictions on content and differing cultural tastes and attitudes;
- international jurisdictions where laws are less protective of intellectual property and varying attitudes towards the piracy of intellectual property;
- financial instability and increased market concentration of buyers in foreign markets;
- the instability of foreign economies and governments;
- fluctuating foreign exchange rates;
- the spread of communicable diseases in such jurisdictions, which may impact business in such jurisdictions; and
- war and acts of terrorism.

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

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

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

Our success depends on management and key personnel.

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

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

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

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

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

Any disruption at our places of business could delay revenues or increase our expenses.

Most of our operations are conducted at locations in the Province of Ontario. We maintain a significant business development operation in the United States, through our relationship with SageGuild, LLC. A natural disaster, such as a fire, flood or earthquake, could cause substantial delays in our operations, damage or destroy our offices, and cause us to incur additional expenses.

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

Our internal computer systems are vulnerable to damage and failure.

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

Business interruptions could adversely affect our operations.

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

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

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

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

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

Growth may cause pressure on our management and systems.

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

We may infringe intellectual property rights of third parties.

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

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

Risks Relating to Our Industry

We are subject to extensive government regulation in the United States for our Digitization and Counter Threat products.

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

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

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

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

Since inception, most of our revenue was driven by contracts from the United States government, through United States prime defense contractors. Our results of operations could be adversely affected by government spending caps or changes in government budgetary priorities, as well by delays in the government budget process, program starts, or the award of contracts or orders under existing contracts. As a result, our Digitization and Counter Threat business may be impacted due to shifts in the political environment and changes in the government and agency leadership positions under the new United States administration. If annual budget appropriations or continuing resolutions are not enacted timely, we could face United States government shutdown, which could adversely impact our business and our ability to receive indirectly timely payment from United States government entities on future contracts.

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

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

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

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

While our remaining subcontract with the United States prime defense contractor was fully funded at September 30, 2021, we are exposed to the above risk for future United States government related contracts.

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

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

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

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

We will be subject to extensive regulation in the United States for our non-lethal products.

We will be subject to numerous federal, state and local environmental, health and safety legislation and other applicable regulations, laws and measures relating to the pending manufacturing and sale of our non-lethal products in the United States. The classification of our LEC System devices is subject to ATF. There can be no assurance that we will not experience difficulties with our efforts to comply with applicable regulations as they change in the future or that our continued compliance efforts (or failure to comply with applicable requirements) will not have a material adverse effect on our results of operations, business, prospects, and financial condition. Failure to comply with present and future laws could restrict our ability to sell our products and expand our operations.

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

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

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

Our industry is highly competitive.

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

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

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

- generate sufficient revenue to obtain and/or maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly-qualified personnel;
- successfully develop and commercially market products and services;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required or on reasonable terms.

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

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

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

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

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 United States federal government and other foreign governments, decreased consumer confidence, overall slower economic activity, and extreme volatility in credit, equity, and fixed income markets. A decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our products, thus reducing our revenues and earnings. A decline in economic conditions could reduce sales of our products.

Risks Relating to Our Financial Condition

We face substantial capital requirements and financial risk.

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

We may require additional capital.

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

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

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

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

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

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

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

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

Currency fluctuations may have a material effect on us.

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

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

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

Our coverage needs for D&O insurance may change or increase in the future for various reasons including changes in our market capitalization, changes in trading volume or changes in the listing rules of exchanges or marketplaces on which our securities may trade from time to time. There is no guaranty that such coverage will be available or available at reasonable rates. Further, our current D&O insurance policy will not cover us if we uplist to a national listing in the United States, such as NASDAQ. as we currently plan. While we intend to seek new D&O insurance before completing an uplist to a national listing in the United States and to increase our D&O coverage as needed in the future, there can be no assurance that we will be able to do so at reasonable rates or at all, or in amounts adequate to cover expenses and liability should litigation occur. Without adequate D&O insurance, the costs of litigation including amounts we would pay to indemnify our officers and directors should they be subject to legal action based on their service to us could have a material adverse effect on our financial condition, results of operations and liquidity. Further, if we are unable to obtain adequate D&O insurance in the future for any reason, we may have difficultly retaining and attracting talented and skilled directors and officers, which could adversely affect our business, and may be unable to list our Common Shares on a national exchange in the United States, which could impact the liquidity and value of our stock.

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

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

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