KWESST MICRO SYSTEMS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended September 30, 2022

(Expressed in Canadian Dollars)

DATED: January 27, 2023

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, 2022. This MD&A has been prepared with an effective date of January 27, 2023.

This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended September 30, 2022 ("**Fiscal 2022**"). 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 and information that 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 dollars 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, we have not yet reached commercial production for most of our products and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. Our audited consolidated financial statements for Fiscal 2022 have been prepared on the "going concern'' basis which presumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. Refer to Note 2(a) of the Fiscal 2022 audited consolidated financial statements ("**Fiscal 2022 FS**") for further information.

Trademarks

We own or have rights to various trademarks, service marks and trade names that we use in connection with the operation of our business. This MD&A also contains additional trademarks, trade names and service marks belonging to other companies. Solely for convenience, trademarks, trade names and service marks referred to in this MD&A may appear without the ®, ™ or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, trade names and service marks. We do not intend our use or display of other parties' trademarks, trade names or service marks to imply, and such use or display should not be construed to imply a relationship with, or endorsement or sponsorship of us by, these other parties.

FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute "forward-looking statements" and "forward-looking information" within the meaning of applicable Canadian and United States securities laws (together, "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 into 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 licenses 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:

- 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;
- 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;
- risks relating to the ownership of our securities, such as potential extreme volatility in the price of our securities;
- risks related to our foreign private issuer status; and
- risks related to our failure to meet the continued listing requirements of the Nasdaq Capital Market ("Nasdaq").

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 a Canadian corporation incorporated on November 28, 2017, under the laws of the Province of British Columbia. Our registered office is located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, Canada and our corporate office is located at Unit 1, 155 Terrence Matthews Crescent, Ottawa, Ontario, Canada. We have representative offices in the following foreign locations: Washington DC (United States), London (United Kingdom), and Abu Dhabi (United Arab Emirates).

As an early commercial-stage technology company, we develop and commercialize next-generation technology solutions that deliver a tactical advantage for military, public safety agencies and personal defense markets. We focus on three niche market segments as follows:

Our core mission is to protect and save lives.

During the year ended September 30, 2022 (“Fiscal 2022”) we have made significant investments to position KWESST for future success including the following events:

- We acquired Police Ordnance Company Inc. (“Police Ordnance”), including its ARWEN product line of launchers and a proprietary line of 37mm cartridges designed for riot control and tactical teams. This added a complementary product line to our non-lethal business line.

- We entered into new strategic partnerships to accelerate our business growth strategies, including:

  - General Dynamic Mission Systems – Canada (“**GDMS-C**”): for future military digitization development;

  - Thales Canada Inc. and Modis Canada Inc.: through a co-venture arrangement, we bid on a multi-million dollar and multi-year Canadian contract opportunity for specialized software development and integration solutions for the Canadian Army, and we expect the results to be known in Q2 Fiscal 2023;

  - General Dynamic Land Systems – Canada (“**GDLS-C**”): to provide them with our Phantom system as part a GDLS-C bid for several hundred next-generation vehicles for a prominent United States military customer. We expect the successful bidder to be announced in calendar 2023;

  - Persistent Systems LLC: to team up with our respective products and services to offer integrated solutions to various customers to the Canadian Department of National Defence (“**DND**”);

  - Counter Crisis-Technology Inc. (“**CC-T**”): to partner with them in developing and implementing a national Ground Search and Rescue Incident Command System (“**GSAR ICS**”) for Public Safety Canada. This involves incorporating a Search and Rescue plug-in application the TAK Team Awareness Kit (“**TAK**”), by leveraging our digitization and TAK integration capabilities with military customers.

Additionally, we completed our cross-border listing on the Nasdaq and our common shares began trading on December 7, 2022, under the stock symbol "KWE" and certain of our outstanding warrants under the symbol "KWESW" on the same day. On December 9, 2022, we closed our U.S. IPO (as defined below) and the Canadian Offering (as defined below) for aggregate gross proceeds of USD$14.1 million, before deducting underwriting and offering costs (see *Financial Condition, Liquidity and Capital Resources* section for further details). In advance of the Nasdaq listing, on October 28, 2022, we effected a one for seventy (1-for-70) reverse stock split (the "Reverse Split") of our common shares (the "Common Shares") to meet Nasdaq's initial listing requirements. All information respecting to outstanding Common Shares and other securities of KWESST, including net loss per share, in the current and comparative periods presented herein give effect to the Reverse Split.

RESULTS OF OPERATIONS

The following selected financial information is taken from the audited financial statements for the year ended September 30, 2022, year ended September 30, 2021, and the nine months ended September 30, 2020.

	Year ended September 30, 2022	Year ended September 30, 2021	Nine months ended September 30, 2020	**Change 2022 vs 2021 %**	**Change 2021 vs 2020 (1) %**
Revenue	**$ 721,519**	$ 1,275,804	$ 861,917	-43%	11%
Cost of sales	**(536,735)**	(798,888)	(247,113)	-33%	142%
Gross profit	**184,784**	476,916	614,804	-61%	-42%
Gross margin %	***25.6%***	*37.4%*	*71.3%*		
Operating Expenses					
General and administrative	**4,915,263**	4,057,167	2,723,861	21%	12%
Selling and marketing	**3,296,373**	3,484,159	564,266	-5%	363%
R&D	**2,064,493**	2,138,138	817,584	-3%	96%
Total operating expenses	**10,276,129**	9,679,464	4,105,711	6%	77%
Operating loss	**(10,091,345)**	(9,202,548)	(3,490,907)	10%	98%
Other expenses					
Gain on derivatives	**-**	-	29,463	N/A	-100%
Net finance costs	**(506,002)**	(107,751)	(61,397)	370%	32%
Foreign exchange gain (loss)	**28,780**	(3,742)	(13,937)	-869%	-80%
Loss on disposals	**(1,165)**	(1,331)	-	N/A	N/A
Total other expenses, net	**(478,387)**	(112,824)	(45,871)	324%	84%
Loss before income taxes	**(10,569,732)**	(9,315,372)	(3,536,778)	13%	98%
Deferred tax recovery	**49,442**	-	-	N/A	N/A
Net loss	**$ (10,520,290)**	**$ (9,315,372)**	**$ (3,536,778)**	**13%**	**-2%**
EBITDA loss	**$ (9,737,239)**	**$ (9,066,631)**	**$ (3,371,984)**	**7%**	**102%**
Adjusted EBITDA loss(2)	**$ (7,304,670)**	**$ (6,599,351)**	**$ (1,589,723)**	**11%**	**211%**
Loss per share - basic and diluted	**$ (14.41)**	**$ (14.72)**	**$ (8.03)**	**-2%**	**-32%**
Weighted average common shares - basic	**730,302**	632,721	440,631	**15%**	**44%**

(1) To calculate the change, we have annualized the results of operations for the nine months ended September 30, 2020
(2) EBITDA and Adjusted EBITDA are non-IFRS measures. See "Non-IFRS Measures".

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

	Year ended September 30, 2022	Year ended September 30, 2021	Nine months ended September 30, 2020
Net loss as reported under IFRS	**$ (10,520,290)**	$ (9,315,372)	$ (3,536,778)
Net finance costs	**506,002**	107,751	61,397
Depreciation and amortization	**326,491**	140,990	103,397
Deferred tax recovery	**(49,442)**	-	-
EBITDA loss	**(9,737,239)**	(9,066,631)	(3,371,984)
Other adjustments:			
Non-cash M&A costs(1)	**-**	-	1,514,703
Stock-based compensation	**1,960,072**	2,462,207	283,084
Professional fees relating to U.S. financing	**500,112**	-	-
Fair value adjustment on derivatives	**-**	-	(29,463)
Foreign exchange loss (gain)	**(28,780)**	3,742	13,937
Loss on disposals	**1,165**	1,331	-
Adjusted EBITDA loss	**$ (7,304,670)**	$ (6,599,351)	$ (1,589,723)

(1) M&A refers to mergers and acquisitions.

Current Year Variance Analysis (2022 vs. 2021)

Revenue

We generated $0.7 million in revenue for Fiscal 2022, a decrease of 43% over last year's revenue. The decline in revenue was driven mainly due to the timing of expected contracts and a smaller contract awarded by GDMS-C and CC-T during the current year compared to the US$0.8 million contract awarded by a United States military customer in the fiscal year ended September 30, 2021 ("Fiscal 2021"). This was partially offset by $0.3 million from the ARWEN product line as a result of the Police Ordnance acquisition made in late Q1 Fiscal 2022. The ARWEN revenue excludes $0.4 million for deliveries in relation to open customer orders at the closing of the Police Ordnance acquisition which were recognized as a reduction of intangible assets.

We expect revenue to ramp up during Fiscal 2023 with new anticipated military contracts, coupled with the pending commercial launch of our PARA OPS, scheduled for Q2 Fiscal 2023, and full year revenue results from the ARWEN product line.

Gross Profit

Our gross profit was $0.2 million for Fiscal 2022, or gross margin of 25.6%, compared to $0.5 million in Fiscal 2021 with gross margin of 37.4%. The fluctuation in gross profit / margin is primarily due to our pre-commercialization phase.

*Operating Expenses ("**OPEX**")*

Total operating expenses were $10.3 million for Fiscal 2022, a 6% increase over the prior year. Excluding share-based compensation (non-cash item), total OPEX was $8.3 million compared to $7.2 million over the prior year. This represents a 15% increase which was driven mostly by accrued bonuses to our employees and management (none in the prior year) for their significant contributions in positioning KWESST for future success, coupled with higher professional fees incurred relating to a brokered private placement financing effort during the Spring 2022 that did not close due to very challenging global equity market conditions where S&P 500 index and Nasdaq index declined by approximately 20.6% and 29.5%, respectively from January 1, 2022, to June 30, 2022. We subsequently completed a successful cross-border listing on Nasdaq with a U.S. IPO and Canadian Offering, which both closed in December 2022. Professional fees relating to this effort were capitalized and reported as deferred share offering costs in our consolidated statements of financial position at September 30, 2022.

The above increase was partially offset by lower spend on advertising and promotion as well as no royalty and license costs in the current year compared to the previous year. We expect to incur royalty costs in Fiscal 2023 from expected sales of our PARA OPS and Phantom products.

In light of the current global inflationary pressure, we expect personnel costs to increase by approximately 10%-15% in Fiscal 2023, an increase that we plan to pass on to our customers.

Our R&D expenses during Fiscal 2022 comprised of costs incurred in performing R&D activities, including new product development, continued product enhancement, materials and supplies, salaries and benefits (including share-based compensation), engineering consulting costs, patent procurement costs, and estimated R&D-related facility costs. Where we qualify for Canadian investment tax credits for qualified scientific research and experimental development expenditures, we record this income as a reduction of R&D expenses. Additionally, in accordance with IFRS, we capitalize development costs only if development costs can be measured reliably, the product or process is technically or commercially feasible, future economic benefits are probable, and we have the intention and sufficient resources to complete the development and to use or sell the asset. Accordingly, we capitalized $1.2 million of development costs during Fiscal 2022 for PARA OPS and Phantom, compared to $83 thousand for Phantom during Fiscal 2021. See Note 9 of the Fiscal 2022 FS.

Finance Costs

Net finance costs were $0.5 million for Fiscal 2022, a 370% increase over Fiscal 2021 driven mainly by an increase in borrowings during Fiscal 2022 and full year accretion cost on the accrued royalties liability relating to the acquisition of the PARA OPS system.

Net Loss and Adjusted EBITDA Loss

We incurred a net loss of $10.5 million or $14.41 per basic share for Fiscal 2022, compared to the net loss of $9.3 million or $14.72 per basic share for Fiscal 2021. After adjusting for share-based compensation and other items (see table above), our Adjusted EBITDA loss was $7.3 million, compared to Adjusted EBITDA loss of $6.6 million in Fiscal 2021.

The increase in net loss and Adjusted EBITDA loss was primarily due to lower revenue and higher OPEX as noted above.

Prior Year Variance Analysis (2021 vs. 2020)

Revenue

We earned $1.3 million in revenue for Fiscal 2021, compared to $0.9 million for the nine months ended September 30, 2020 ("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 fully delivered the remaining performance obligation since September 30, 2021.

For both Fiscal 2021 and 2020, our TASCS IFM revenue was concentrated with two United States military customers.

Gross Profit

Our gross profit was $0.5 million for Fiscal 2021, or gross margin of 37%, compared to $0.6 million for Fiscal 2020 with gross margin of 71%. 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 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. Costs included enhancements to the technology for this particular customer.

OPEX

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 161% 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 362% 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 PARA OPS non-lethal 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 88% on an annualized basis primarily due to an increase in headcount to accelerate product development to ready products for market. We recognized $0.2 million and $0.1 million of ITCs in 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. In accordance with IFRS, we capitalized $83 thousand of development costs for Phantom during Fiscal 2021, compared to $163 thousand capitalized development costs for our TASCS IFM system during Fiscal 2020, which was subsequently transferred to inventory during the first quarter of Fiscal 2021 as a result of winning a follow-on order from the United States military customer.

Finance Costs

Net finance costs increased marginally in Fiscal 2021 mainly due to the accretion cost on the accrued royalties liability relating to the acquisition of the PARA OPS System.

Net Loss and Adjusted EBITDA Loss

We incurred a net loss of $9.3 million or $14.72 per basic share for Fiscal 2021, compared to the net loss of $3.5 million or $8.03 per basic share for Fiscal 2020. After adjusting for share-based compensation, M&A costs, and other items (see table above), our Adjusted EBITDA loss was $6.6 million, compared to Adjusted EBITDA loss of $1.6 million in Fiscal 2020.

The increase in net loss was primarily due to investments made to drive marketing and promotional activities about us and our product offerings, accelerating product development, and recruiting talent to position ourselves for success.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

FINANCIAL CONDITION

The following table summarizes our financial position:

	September 30, 2022	September 30, 2021	September 30, 2020
Assets			
Current	**$ 1,516,393**	$ 4,055,697	$ 3,996,514
Non-current	**5,807,070**	4,662,149	1,316,263
Total assets	**$ 7,323,463**	$ 8,717,846	$ 5,312,777
Liabilities			
Current	**$ 6,925,880**	$ 1,159,490	$ 1,120,004
Non-current	**1,400,474**	1,434,628	307,909
Total liabilities	**8,326,354**	2,594,118	1,427,913
Net assets	**$ (1,002,891)**	$ 6,123,728	$ 3,884,864
Working capital (1)	**$ (5,409,487)**	$ 2,896,207	$ 2,876,510

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

Our working capital was negative $5.4 million at September 30, 2022, a decrease of $8.3 million partly due to lower equity financing and higher net loss over the prior year.

Total assets decreased by 16% from September 30, 2021, mainly due to $2.5 million decrease in current assets for the same reason as noted above for working capital; offset partially by $1.1 million increase in non-current assets driven by capitalized development costs and to a lesser extent new intangible assets from the acquisition of Police Ordnance.

Total liabilities increased by $5.8 million from September 30, 2021, mainly driven by additional short-term borrowings and an increase in accounts payable and accrued liabilities due to deferred payments with key vendors as well as accrued and unpaid wages for certain senior employees who voluntarily deferred their wages until we completed the U.S. IPO and Canadian Offering. We also accrued bonuses for staff and management at September 30, 2022 (none in the prior year) – see *Results of Operations*.

LIQUIDITY AND CAPITAL RESOURCES

Available Liquidity

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.

At September 30, 2022, our cash position was $0.2 million, a decrease of $2.5 million since September 30, 2021 primarily due to incurring a net operating loss for Fiscal 2022, which was partially offset by additional borrowings and to a lesser extent equity financing. Other than a small credit facility with Royal Bank of Canada for a corporate credit card program and foreign exchange line of credit, we do not have credit facilities in place.

On December 9, 2022, we closed both the U.S. IPO and Canadian Offering pursuant to which we received aggregate gross proceeds of USD$14.1 million, before underwriting and offering costs (see below, *Capital Resources*, for further details including our expected use of proceeds). With this new capital, we believe we have sufficient liquidity and capital to timely fund our working capital and contractual obligations, including loan repayments, over the next twelve months. However, we may require additional capital in the event we fail to implement our business plan, which could have a material adverse effect on our financial condition and/or financial performance. There is no assurance that we will be able to raise additional capital as they are required in the future. Potential sources of capital may include additional equity and/or debt financings. In our view, the availability of capital will be affected by, among other things, capital market conditions, the success of our PARA OPS system commercialization efforts, timing for winning new customer contracts, potential acquisitions, and other relevant considerations (see *Risk Factors*). 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.

Consolidated Statements of Cash Flows

The following table summarizes our consolidated statements of cash flows for the respective periods:

	Year ended September 30, 2022	**Year ended September 30, 2021**	**Nine months ended September 30, 2020**
Total cash provided by (used in):			
Operating activities	**$ (4,256,596)**	$ (6,255,213)	$ (1,791,654)
Investing activities	**(1,113,793)**	(1,073,192)	(390,972)
Financing acitivities	**2,852,829**	6,942,750	5,234,771
Net cash outflows	**$ (2,517,560)**	$ (385,655)	$ 3,052,145
Cash, beginning of period	**2,688,105**	3,073,760	21,615
Cash, end of period	**$ 170,545**	$ 2,688,105	$ 3,073,760

Cash used by operating activities

With the additional capital raised in the last three years, we continued to invest significantly across the organization and in 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 $4.3 million, $6.3 million, and $1.8 million for fiscal years 2022, 2021, and 2020, respectively.

Cash used by investing activities

Cash flow used in investing activities was $1.1 million for Fiscal 2022, consistent with prior year. In Fiscal 2022, we continued to make investments in the product development of our PARA OPS and Phantom systems. We also acquired Police Ordnance which resulted in assuming cash of $0.2 million at closing.

Cash flow used in investing activities for Fiscal 2021 was higher than for the nine months ended September 30, 2020, mainly due significant investments 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 LLC ("**SageGuild**").

Cash provided by financing activities

The $2.8 million cash provided by our financing activities for Fiscal 2022 was lower than the $6.9 million in the prior year primarily due to very challenging equity market conditions in the last nine months of Fiscal 2022. During Fiscal 2022, our financing was driven mainly from $2.5 million in borrowings, whereas in the prior year we raised $6 million in gross proceeds from selling Common Shares and warrants in private placements. Proceeds from exercise of warrants and stock options also declined by $1.5 million from last year due to the significant decline in the price of our common stock on the TSX Venture Exchange (the "TSX-V").

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 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 late Fiscal 2020. 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 *Related Party Transactions)*.

Capital Resources

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. Our 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. Our 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 our capital structure. We are not subject to any externally imposed capital requirements.

Our primary sources of capital to date have been from borrowings, security offerings, exercise of stock options and warrants, and, to a lesser extent, pre-commercial revenue. The following is a breakdown of our capital:

	September 30, 2022	September 30, 2021	September 30, 2020
Debt:			
Lease obligations	**$ 275,621**	$ 307,909	$ 252,037
Related party loans	**-**	-	218,276
Borrowings	**2,278,774**	53,251	32,273
Equity:			
Share capital	**19,496,640**	17,215,068	9,374,563
Warrants	**1,959,796**	1,848,389	277,170
Contributed surplus	**3,551,330**	2,458,211	306,708
Accumulated other comprehensive loss	**(101,418)**	(8,991)	-
Accumulated deficit	**(25,909,239)**	(15,388,949)	(6,073,577)
Total capital	**$ 1,551,504**	$ 6,484,888	$ 4,387,450

The following table shows a breakdown of our total borrowings:

	September 30, 2022	September 30, 2021	September 30, 2020
March 2022 Loans	**$ 1,764,630**	$ -	$ -
August 2022 Loans	**435,348**	-	-
CEBA term loans	**78,796**	53,251	32,273
Related party loans	**-**	-	218,276
Total borrowings	**$ 2,278,774**	$ 53,251	$ 250,549

Refer to Note 12, Borrowings, of our audited consolidated financial statements for Fiscal 2022 for further details on each of the above outstanding loans. Following the closing of the U.S. IPO and Canadian Offering, we have repaid all the above loans, net of shares for debt settlement as noted below. Accordingly, we have no outstanding borrowings as of the date of this MD&A.

Contractual Obligations and Commitments

At September 30, 2022, our contractual obligations and commitments were as follows:

Payment due:	Total	Within 1 Year	1 to 3 years	3 to 5 years
Accounts payable and accrued liabilities	**$ 4,459,481**	$ 4,459,481	$ -	$ -
Borrowings	**2,648,280**	2,548,280	100,000	-
Minimum royalty commitments	**2,500,000**	150,000	350,000	2,000,000
Lease obligations	**327,600**	93,600	187,200	46,800
Total contractual obligations	**$ 9,935,361**	**$ 7,251,361**	**$ 637,200**	**$ 2,046,800**

Shares Outstanding

At September 30, 2022, 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, 2022:

	September 30, 2022(1)	Proceeds if Exercised	Average price
Common shares	**773,225**		
Founders' warrants	**106,000**	**$ 1,484,000**	**$ 14.00**
Broker warrants	**643**	**$ 90,000**	**$ 139.97**
Warrants	**83,067**	**$ 8,610,150**	**$ 103.65**
Stock options	**57,108**	**$ 4,796,644**	**$ 83.99**
Restricted stock units (RSUs)	**21,174**	**$ -**	**$ -**
Performance stock units (PSUs)	**170**	**$ -**	**$ -**
Agents' compensation options:			
Common shares	**837**	**$ 74,008**	**$ 88.42**
Warrants	**1,964**	**$ 240,623**	**$ 122.52**
Total dilutive securities	**1,044,188**	**$ 15,295,425**	

(1) Represents the number of shares to be issued upon exercise.

Since September 30, 2022, we have issued more Common Shares and warrants mainly as a result of the following material events.

U.S. IPO and Canadian Offering

On December 9, 2022, we closed an underwritten U.S. public offering (the "U.S. IPO") and an underwritten Canadian offering (the "Canadian Offering"). In the U.S. IPO, we sold 2,500,000 units at a public offering price of USD $4.13 per unit (the "Unit"), consisting of one share of common stock and one warrant to purchase one share of common stock ("Warrant"). The Warrants have a per share exercise price of USD $5.00, can be exercised immediately, and expire five years from the date of issuance. In connection with the closing of the U.S. IPO, the underwriter partially exercised its over-allotment option to purchase an additional 199,000 pre-funded common share purchase warrants and 375,000 warrants to purchase Common Shares. The underwriter has the right to exercise the balance of its over-allotment option within the 45-day period.

In the Canadian Offering, we sold 726,392 units, each consisting of one Common Share and one warrant to purchase one Common Share, at a price to the public of USD $4.13 per unit. The warrants will have a per Common Share exercise price of USD $5.00, are exercisable immediately and expire five years from the date of issuance.

The closing of the U.S. IPO and Canadian Offering resulted in aggregate gross proceeds of USD $14,145,000, before deducting underwriting discounts and offering expenses.

The Common Shares of KWESST and the Warrants sold in the U.S. IPO began trading on Nasdaq under the symbols "KWE" and "KWESW", respectively, on December 7, 2022.

ThinkEquity acted as sole book-running manager for the U.S. IPO and PI Financial acted as sole book-running manager for the Canadian Offering.

As consideration for the services provided in connection with the U.S. IPO, ThinkEquity received: (a) a broker-dealer cash commission of approximately US$835,000 equal to 7.5% of the gross offering proceeds of the U.S. Offering and (b) underwriter warrants (the "Underwriter Warrants") to purchase up to 134,950 Common Shares equal to 5% of the Common Shares and pre-funded common share purchase warrants issued under the U.S. Offering. Each Underwriter Warrant is exercisable to acquire one Common Share at a price of US$5.1625, exercisable as of June 4, 2023, and expiring December 4, 2027.

As consideration for the services provided in connection with the Canadian Offering, PI Financial received: (a) a cash commission of approximately US$210,000 equal to 7% of the gross proceeds of the Offering; and (b) 50,848 compensation options (the "Compensation Options") equal to 7% of the number of Units issued under the Canadian Offering. Each Compensation Option is exercisable to acquire one Canadian Unit at a price of US$4.13 for a period of two years after the closing of the Canadian Offering.

The total estimated offering costs were approximately USD$2.1 million for the U.S. IPO and Canadian Offering, of which $0.6 million was incurred and deferred at September 30, 2022.

Accordingly, the estimated net proceeds from the U.S. IPO and Canadian Offering was $11 million.

Use of Proceeds

The following table illustrates the estimated use of the combined net proceeds from the U.S. IPO and Canadian Offering over the next 12 months:

Use of Net Proceeds [(1)]	**In U.S. Dollars**
Repayment of non-secured borrowings:	
Issued in March 2022 [(2)]	$1,460,000
Issued in August 2022 [(3)]	$220,000
CEBA loans [(4)]	$51,000
Product development	$529,000
Corporate, general & administration, and working capital:	
General and administrative	$2,469,000
Selling and marketing	$1,355,000
Research and development, net	$296,000
Negative working capital at September 30, 2022 (excluding above loans)	$2,286,226
Unallocated working capital	$2,297,213
Total use of net proceeds	**$10,963,439**

(1) For Canadian dollars denominated expenses, the amounts were converted at a rate of $1.37 to US$1.00 on as reported by the Bank of Canada on December 16, 2022.
(2) The net proceeds were used to fund the Corporation's working capital.
(3) On December 13, 2022, one of the two non-secured loans issued in August 2022 was settled for KWESST Units (same terms as those Units offered in the Canadian Offering).
(4) This is net of $23,077 forgivable amount as we have repaid the CEBA loans due to the Canadian Government the repayment deadline for the forgivable amount.

We may also use a portion of the net proceeds from the U.S. IPO and Canadian Offering for acquisitions or strategic investments in complementary businesses or technologies. We do not currently have any plans for any such acquisitions or investments and have not allocated specific amounts of net proceeds for any of these purposes.

The actual allocation of the net proceeds may vary depending on future developments in our business or unforeseen events. Pending such application of the net proceeds of the U.S. IPO and Canadian Offering, we may elect to invest such funds, in whole or in part, in short-term investment-grade securities or bank deposits. We intend to use the net proceeds as stated above; however, there may be circumstances where, for sound business reasons, a reallocation of proceeds may be deemed prudent or necessary.

Shares for Debt Settlement

On December 13, 2022, we issued 56, 141 Units to settle $12,000 of the March 2022 loans and USD$223,321 of the August 2022 loans, including unpaid accrued interest and 10% premium at maturity. The terms of the Units are the same as the Units issued in the Canadian Offering.

Use of Proceeds from Prior Financings

The following table provides an approximate breakdown on the initial allocation of the use of funds for last year's brokered private placement and the actual use of proceeds:

	2021 Financing		
Use of Proceeds (1)	Expected Allocation of Net Proceeds	Estimated and Unaudited Actual Use of Funds from April 29, 2021 to September 30, 2022	Proceeds Unspent as at September 30, 2022
Products development: (2)			
TASCS IFM (3)	$ 400,000	$ 314,087	$ 85,913
BLDS	200,000	305,788	(105,788)
Phantom	500,000	793,852	(293,852)
GreyGhost	200,000	15,840	184,160
ATAK	500,000	304,162	195,838
LEC	500,000	761,943	(261,943)
Total products development	2,300,000	2,495,672	(195,672)
Other specific allocations:			
Repayment of CEO and employee loans	191,600	191,600	-
Repayment of unsecured borrowings	310,527	310,527	-
Prepaid royalties to DEFSEC (4)	150,000	150,000	-
Total allocated proceeds	**2,952,127**	**3,147,799**	**(195,672)**
Unallocated proceeds for working capital	**2,516,366**	**2,320,694**	**195,672**
Transferred from 2020 Financing	**235,345**	**235,345**	**-**
Total use of proceeds	**$ 5,703,838**	**$ 5,703,838**	**$ -**

Notes:

(1) Excludes non-cash transactions settled in Common Shares.
(2) 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).
(3) Net of customer funding of $1.0 million.
(4) In connection with the PARA OPS System acquisition.

SELECTED ANNUAL AND QUARTERLY INFORMATION

The following selected financial information is taken from the audited financial statements for the years ended September 30, 2022, and 2021 as well as for the nine months ended September 30, 2020.

		Year ended September 30, 2022		Year ended September 30, 2021		Nine months ended September 30, 2020
Statement of Operations data:						
Revenue	$	721,519	$	1,275,804	$	861,917
Gross profit	$	184,784	$	476,916	$	614,804
Gross margin %		*25.6%*		*37.4%*		*71.3%*
Operating loss	$	(10,091,345)	$	(9,202,548)	$	(3,490,907)
Net loss	$	(10,520,290)	$	(9,315,372)	$	3,536,778
Loss per share - basic and diluted	$	(14.41)	$	(14.72)	$	(8.03)

		September 30, 2022		September 30, 2021		September 30, 2020
Financial Position data:						
Cash	$	170,545	$	2,688,105	$	3,073,760
Total assets	$	7,323,463	$	8,717,846	$	5,312,777
Total non-current liabilities	$	1,400,474	$	1,434,628	$	307,909
Total shareholders' equity (deficit)	$	(1,002,891)	$	6,123,728	$	3,884,864

See *Results of Operations* for additional details and for the comparison discussion between the periods presented above.

The following tables summarize selected results for the eight most recent completed quarters to September 30, 2022 (unaudited).

	2022				2021			
($ in thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**255**	282	166	17	160	522	448	146
Net loss	**(2,345)**	(2,600)	(2,290)	(2,290)	(2,884)	(2,628)	(2,277)	(1,526)

Our historical quarterly revenue and net loss have been volatile because we are an early-commercial stage company.

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

Fourth Quarter Fiscal 2022

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

	Three months ended September 30,			
		2022		2021
Revenue	**$**	**255,371**	$	160,047
Operating Expenses				
General and administrative		**1,504,376**		1,147,818
Selling and marketing		**364,913**		1,288,512
R&D		**454,048**		489,427
Total operating expenses		**2,323,337**		2,925,757
Net loss	**$**	**(2,344,944)**	**$**	**(2,884,067)**

Our revenue increased by 60% to $255 thousand for the quarter ended September 30, 2022, over the same comparable prior period. This was primarily due to the acquisition of Police Ordnance in December 2021 which contributed $132.5 thousand of revenue to our fourth quarter Fiscal 2022.

Operating expenses declined by 21% to $2.3 million for the quarter ended September 30, 2022, over the same quarter in Fiscal 2021. The decline was driven mainly by the 72% reduction in selling and marketing costs primarily due to lower share-based compensation and a decrease in investor relations and promotion spend. This was partially offset by an increase of 31% in general and administrative costs primarily due to the accrued bonuses to our employees and management and increased regulatory and compliance fees as a result of becoming a United States issuer, offset by lower share-based compensation fees.

As a result of the above, our net loss was $2.3 million for the quarter ended September 30, 2022, a 19% improvement over the fourth quarter in Fiscal 2021.

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 the last three fiscal years, we had the following related party transactions:

Employment and Consulting Agreements

We have entered into employment and consulting agreements with key management. Refer to Note 11 of Fiscal 2022 FS for total compensation paid to key management personnel.

DEFSEC Purchase Agreement

Entering into the DEFSEC Purchase Agreement by us for the acquisition of the PARA OPS system 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 PARA OPS system acquisition shortly after closing the brokered private placement in April 2021.

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. This voting agreement expired on March 31, 2022.

Related Party Loans

We have not entered into related party loans during Fiscal 2022.

During Fiscal 2021, we repaid all prior related party loans for source of new equity financing. Refer to Note 11 of Fiscal 2022 FS for tabular disclosure showing the activities during the fiscal year.

Other Related Party Transactions

In November 2019, we hired SageGuild to assist us in promoting our product offerings in the United States. From January 28, 2021, to June 24, 2022, the CEO and sole shareholder of SageGuild agreed to serve as director of KWESST Defense Systems U.S. Inc. and as a result SageGuild was a related party to KWESST for this period. The total cash and share-based remuneration amounted to $251,809 for the nine months ended June 30, 2022 and $339,309 in Fiscal 2021. Except for the cash consideration recorded at the exchange amount, the share-based compensation was recorded at fair value.

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 our Board of Directors.

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 2022 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

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. Refer to Note 17 of Fiscal 2022 FS for tabular disclosure on timing of revenue recognition.

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. For example, for non-recurring engineering services rendered over a contract period the revenue is recognized using the percentage of completion method; whereas for training services the revenue is recognized after the training is delivered (i.e. point in time).

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 the fiscal years ended September 30, 2022, 2021, and 2020.

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, 2022, and 2021, we had an immaterial amount and $0.3 million of unbilled receivable, respectively. 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. At September 30, 2022, we had $47 thousand of contract liabilities (none 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 2022, we acquired Police Ordnance and accounted for it pursuant to IFRS 3, Business Combinations. Areas of significant estimation in connection with the accounting of this transaction included:

- the estimated fair value of raw and work-in-progress inventories and intangible assets for the purchase price allocation; and
- the volatility assumption used in the Black Scholes option model to estimate the fair value of the warrants issued to the selling shareholders given our short history as a public company.

During Fiscal 2021, we acquired the PARA OPS system and accounted for it pursuant to IFRS 2, *Share-Based Payment*. Areas of significant estimation in connection with the acquisition of the PARA OPS 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 *Accounting for share-based compensation*).

For further details on the above acquisitions, refer to Note 4 of the Fiscal 2022 FS.

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-commercial stage 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. Key inputs in the Black Scholes option model is the volatility assumption, forfeiture rate, and expected life of 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. As a result of our limited trading history, we have assumed a forfeiture rate of 0%, which will be reassessed annually. The expected life is estimated based on our trading history.

Accounting for Unsecured Loans

Due to the issuance of bonus Common Shares as part of the unsecured loans transactions during Fiscal 2022, we are required to allocate a percentage of the gross proceeds between the bonus Common Shares and the debt component based on their relative fair value. To measure the fair value of the unsecured loans, we used the income approach and estimated a market discount rate ranging from 22% - 24% to discount the future cash flows of the unsecured loans. Management selected a discount rate based on review of the debt cost for comparable public companies.

For further information on the unsecured loans, see Note 12 of the Fiscal 2022 FS.

Broker compensation options

As a result of the private placement in April 2021, we issued broker compensation options. To measure the fair value of the broker compensation options, we used the Monte Carlo valuation model and exercised judgment in estimating the life, risk free rate, and volatility.

For further information on the broker compensation options see Note 15(c) of the Fiscal 2022 FS.

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.

As previously noted in this MD&A, on December 7, 2022, we began trading on Nasdaq and as a result we are no longer a venture issuer. Consequently, the above exemption will no longer apply for future annual and interim filings.

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-commercial stage company.

We are an early-commercial 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.

There is no guarantee that we will ever 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 2023, 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.

Global inflationary pressure may have an adverse impact on our gross margins and our business.

Since December 31, 2021, we have experienced increases in global inflation, resulting in an increase in cost for some of the raw materials (batons / custom chemicals and casings) that we source to manufacture the ammunition for our ARWEN launchers. However, this increase in cost had a small negative impact to the overall gross margin earned from the sales of ARWEN ammunition during Fiscal 2022 (our current gross margin for ammunition is greater than 30% excluding indirect costs).

As we are not yet in the production phase for digitization and counter-threat business lines, we do not currently procure large volume of raw materials and therefore the current inflation is negligible for these business lines except for labor costs relating to research and development ("R&D") activities. During Fiscal 2022, we incurred significant payroll cost increases for some of our employees in order to retain and hire engineers given the strong local demand for experienced software and hardware engineers. While we believe we will be able to pass on this inflation cost to our prospect military customers, there is no assurance that we will succeed. Accordingly, continued inflationary pressure may have an adverse impact on our gross margins and could have a material adverse effect on our business, financial condition, results of operations or cash flows.

The coronavirus may adversely impact our business.

As of the date of this MD&A, markets, governments and health organizations around the world continue to work 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 MD&A. 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 Ottawa, 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 2021and Fiscal 2022 was prior to commercial production for certain products and considered to be non-recurring. While we expect to reach commercialization stage for certain product offerings during Fiscal 2023, there is no assurance we will succeed.

With the completion of the PARA OPS system technology acquisition in April 2021, we expect to launch the commercialization of our non-lethal PARA OPS devices during Fiscal 2023 which we anticipate will drive product revenue through the use of distributors and an e-commerce platform. However, there is no assurance that we will successfully complete timely the productization of our PARA OPS or obtain market acceptance of these products.

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.

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 we 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 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 are dependent on key suppliers for our ARWEN product line.

We purchase certain key components of our products from a limited number of suppliers for our ARWEN product line within our non-lethal business line. As of the date of this MD&A, we do not have any commercial or financial contracts with any key suppliers who we have procured raw materials from. Procurement is done in the form of individual, non-related standard purchase orders. As a result, there is no contract in place to ensure sufficient quantities are available timely on favorable terms and consequently this 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 2023, 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 and Russia's invasion of Ukraine, 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. While we have not been impacted significantly from the above events to date, there is no assurance that we will not experience significant setback in operations if the global supply chain challenges worsen or continue to persist for a longer period of time. Accordingly, supply chain 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 manufacturing, 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 manufacture, market and sell our PARA OPS 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 systems). 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 or by law enforcement personnel. 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 military, 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 subsidiaries are organized under the laws of the Province of Ontario and our United States subsidiaries are 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 contractual relationship with SageGuild. 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 some of our 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

The following risks relate specifically to Digitization and Counter-Threat business lines:

We are subject to extensive government regulation in the United States for our products designed for the military market.

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, except for Fiscal 2022, 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, the market for our military solution 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 we had no outstanding United States government contracts (directly or indirectly) as of the date of this MD&A, 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.

The following risk relates specifically to PARA OPS business line:

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

While our PARA OPS devices are non-lethal (based on the kinetic energy of our projectiles), these are automatically classified as form of a firearm under the United States Bureau of Alcohol, Tobacco and Firearms ("**ATF**") rules and regulations because we use pyrotechnic based primers in our proprietary ammunition cartridges. We have therefore self-classified our .67 caliber PARA OPS devices as not only a firearm, but a "destructive device" in accordance with the ATF regulations. We intend to self-classify our other PARA OPS devices as a form of a firearm under ATF regulations until such time we have found an alternative for primers (*i.e.,* a non-pyrotechnic energy actuator) to launch our projectiles, and therefore not be subject to ATF regulations. We currently have in development an alternative to replace the primer. While this developmental actuator technology appears promising, there is no assurance that we will succeed and consequently this may adversely affect our future revenues and related results of operations, business, prospects, and financial condition. Further, in the event we have implemented an alternative to replace the primer and then self-classify our PARA OPS devices as "non-firearm", there is no assurance that the ATF may not contest our self-classification, which could result in discontinuing sales to consumers with no firearm license where required by state law. Accordingly, this could also adversely affect our future revenues and related results of operations, business, prospects, and financial condition.

Because our business model relies on outsourced production, we have no plans of becoming a firearm manufacturer in the United States but rather to continue to partner with licensed FFL manufacturer for the production and distribution of our PARA OPS products. Accordingly, post commercialization in the United States the burden to comply with ATF rules and regulations applicable to the manufacturing and distribution process will be with our FFL business partners. Our primary risk of governmental interruption of manufacturing and distribution therefore lies within the operations and attendant internal control environment of our FFL business partners.

Furthermore, with respect to transfers to end users (government, military, or consumer), the obligation to comply with ATF rules and regulations and any applicable state laws resides with the downstream FFL wholesaler/distributor/retailer and any penalties levied upon such parties do not flow up the distribution chain.

The following risks apply to all business lines:

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 military and security forces and personal defense 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 technological solutions are in new and rapidly evolving markets. The military, civilian public safety, professional and personal defense 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 military and 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 military and 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 which may result in dilution to existing shareholders.

We may need to engage in additional 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.

The release of securities currently held in escrow may adversely impact the price of our Common Shares or warrants.

The market price of our Common Shares or common share purchase warrants that were sold in the U.S. IPO and are listed on Nasdaq (the "**Warrants**") may be adversely impacted by the release of certain of our securities that are currently escrowed if the holders immediately trade these securities upon release. These securities are currently issued and outstanding but restricted from trading. These will be released from escrow in lots on pre-determined dates.

As of December 22, 2022, we have 1,376 Common Shares subject to escrow conditions pursuant to the CPC Escrow Agreement, 2,750,000 Company 2024 Warrants exercisable for an aggregate of 39,285 Common Shares subject to escrow conditions pursuant to the Surplus Security Escrow Agreement, 113,435 Common Shares subject to escrow conditions pursuant to the Surplus Security Escrow Agreement, 15,000 Common Shares subject to escrow conditions pursuant to the

Value Security Escrow Agreement, and 1,050,000 Company 2024 Warrants exercisable for an aggregate 15,000 Common Shares subject to escrow conditions pursuant to the Value Security Escrow Agreement (collectively, the "**Escrowed Securities**"). The Escrowed Securities will be released in lots of 39,124 Common Shares and 1,275,000 Company 2024 Warrants on March 18, 2023, and 90,686 Common Shares and 2,525,000 Company 2024 Warrants on September 18, 2023.

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 us 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. While we have obtained new D&O insurance before completing the Nasdaq listing and may need 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.

Risks Relating to the Ownership of our Securities

An investment in our securities involves significant risks.

Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business and operations and cause the trading price of our securities to decline. If any of the following or other risks occur, our business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of our securities could decline and security holders could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Our Common Shares may experience extreme stock price volatility unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our Common Shares.

Recently, there have been instances of extreme stock price run-ups followed by rapid price declines and strong stock price volatility with a number of recent initial public offerings, especially among companies with relatively smaller public floats. As a relatively small-capitalization company with relatively small public float, we may experience greater stock price volatility, extreme price run-ups, lower trading volume and less liquidity than large-capitalization companies. In particular, our Common Shares may be subject to rapid and substantial price volatility, low volumes of trades and large spreads in bid and ask prices. Such volatility, including any stock-run up, may be unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our Common Shares.

In addition, if the trading volumes of our Common Shares are low, persons buying or selling in relatively small quantities may easily influence prices of our Common Shares. This low volume of trades could also cause the price of our Common Shares to fluctuate greatly, with large percentage changes in price occurring in any trading day session. Holders of our Common Shares may also not be able to readily liquidate their investment or may be forced to sell at depressed prices due to low volume trading. If high spreads between the bid and ask prices of our Common Shares exist at the time of a purchase, the stock would have to appreciate substantially on a relative percentage basis for an investor to recoup their investment. Broad market fluctuations and general economic and political conditions may also adversely affect the market price of our Common Shares.

As a result of this volatility, investors may experience losses on their investment in our Common Shares. A volatile market price of our Common Shares also could adversely affect our ability to issue additional shares of Common Shares or other securities and our ability to obtain additional financing in the future.

The market price of our securities may be volatile.

The market price for our securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including, but not limited to, the following: (i) actual or anticipated fluctuations in our quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to us; (iv) departure of executive officers or other key personnel; (v) issuances or anticipated issuances of additional Common Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and (vii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have historically experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of our securities may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, the trading price of the Common Shares may be materially adversely affected.

There can be no assurance of active market for the Common Shares.

The Common Shares are listed on the TSXV since September 22, 2020, on the Nasdaq since December 7, 2022, and on the Frankfurt Stock Exchange since March 29, 2022. There can be no assurance an active and liquid market for the Common Shares or Warrants will be maintained. The Warrants to be sold in this offering are not listed on an exchange or marketplace.

Approximately 0.2 million or 2% of the outstanding Common Shares as of December 22, 2022, subject to regulatory escrow imposed by the TSXV in connection with the Amalgamation in Fiscal 2020. These escrow and restrictions will gradually be lifted over a period ending on September 18, 2024.

If an active public market is not maintained, our shareholders may have difficulty selling the Common Shares or Warrants.

Our Nasdaq-listed Warrants are speculative in nature.

The Nasdaq-listed Warrants do not confer any rights of Common Share ownership on their respective holders, such as voting rights or the right to receive dividends, but rather merely represent the right to acquire Common Shares at a fixed price. Commencing on the date of issuance, holders of the Warrants may exercise their right to acquire the Common Shares and pay the stated exercise price per share prior to five years from the date of issuance, after which date any unexercised Warrants will expire and have no further value. Commencing on the date of issuance, holders of the Pre-funded Warrants may exercise their right to acquire the Common Shares and pay the stated exercise price per share until exercised in full. There can be no assurance that the market price of our Common Shares will ever equal or exceed the exercise price of the Warrants offered by this prospectus, and if so, the Warrants would expire without value.

In the event that our Common Share price does not exceed the exercise price of our Nasdaq-listed Warrants during the period when the Nasdaq-listed Warrants are exercisable, such warrants may not have any value.

Until holders of our Nasdaq-listed Warrants acquire Common Shares upon exercise thereof, holders of such Warrants will have no rights with respect to our Common Shares.

If we are unable to satisfy the requirements of Sarbanes-Oxley or our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned.

As a result of our Registration Statement was declared effective by the SEC, we are subject to the requirements of Sarbanes-Oxley. Section 404 of Sarbanes-Oxley ("**Section 404**") requires companies subject to the reporting requirements of United States securities laws to complete a comprehensive evaluation of their internal controls over financial reporting. To comply with this statute, we will be required to document and test our internal control procedures and our management will be required to assess and issue a report concerning our internal controls over financial reporting. Pursuant to the Jumpstart Our Business Startups Act of 2012, as amended, we will be classified as an "emerging growth company." Under the JOBS Act, emerging growth companies are exempt from certain reporting requirements, including the independent auditor attestation requirements of Section 404(b) of Sarbanes-Oxley. Under this exemption, our independent auditor will not be required to attest to and report on management's assessment of our internal controls over financial reporting during a five year transition period, except in the event this is accelerated if we lose our status as an "emerging growth company". We will need to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. Furthermore, we believe that our business will grow both domestically and internationally, organically and through acquisitions, in which case our internal controls will become more complex and will require significantly more resources and attention to ensure our internal controls remain effective overall. During the course of our testing, management may identify material weaknesses or significant deficiencies, which may not be remedied in a timely manner to meet the deadline imposed by Sarbanes-Oxley. If management cannot favorably assess the effectiveness of our internal controls over financial reporting, or our independent registered public accounting firm identifies material weaknesses in our internal controls, investor confidence in our financial results may weaken, and the market price of our securities may suffer.

Risks Related to Our Securities

Our status as an "emerging growth company."

We are an "emerging growth company" as defined in section 3(a) of the Exchange Act (as amended by the JOBS Act), and will continue to qualify as an emerging growth company until the earliest to occur of: (a) the last day of the fiscal year during which we have total annual gross revenues of USD$1.235 billion (as such amount is indexed for inflation every five years by the SEC) or more; (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of common equity securities pursuant to an effective registration statement under the Securities Act; (c) the date on which we have, during the previous three-year period, issued more than USD$1 billion in non-convertible debt; and (d) the date on which we are deemed to be a "large accelerated filer", as defined in Rule 12b-2 under the Exchange Act. We will qualify as a large accelerated filer (and would cease to be an emerging growth company) at such time when on the last business day of our second fiscal quarter of such year the aggregate worldwide market value of our common equity held by non-affiliates is USD$700 million or more.

For so long as we remain an emerging growth company, we are permitted to, and intend to, rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404. We cannot predict whether investors will find our securities less attractive because we rely upon certain of these exemptions. If some investors find the securities less attractive as a result, there may be a less active trading market for our securities and the price of our securities may be more volatile. On the other hand, if we no longer qualify as an emerging growth company, we would be required to divert additional management time and attention from development and other business activities and incur increased legal and financial costs to comply with the additional associated reporting requirements, which could negatively impact our business, financial condition and results of operations.

We may lose foreign private issuer status in the future, which could result in significant additional costs and expenses.

We are a "foreign private issuer", under applicable United States federal securities laws, and are, therefore, not subject to the same requirements that are imposed upon United States domestic issuers by the SEC. Under the Exchange Act, we are subject to reporting obligations that, in certain respects, are less detailed and less frequent than those of United States domestic reporting companies. As a result, we do not file the same reports that a United States domestic issuer would file with the SEC, although we are required to file with or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell Common Shares, as the reporting periods under the corresponding Canadian insider reporting requirements are longer.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While we comply with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive the same information at the same time as such information is provided by United States domestic companies. In addition, we may not be required under the Exchange Act to file annual and quarterly reports with the SEC as promptly as U.S. domestic companies whose securities are registered under the Exchange Act.

In order to maintain our status as a foreign private issuer, a majority of the Common Shares must be either directly or indirectly owned by non-residents of the United States unless we satisfy one of the additional requirements necessary to preserve this status. We may in the future lose our foreign private issuer status if a majority of our Common Shares are held in the United States and if we fail to meet the additional requirements necessary to avoid loss of our foreign private issuer status. The regulatory and compliance costs under United States federal securities laws as a United States domestic issuer may be significantly more than the costs incurred as a Canadian foreign private issuer using the standard foreign form. If we are not a foreign private issuer, we would not be eligible to use the foreign issuer forms and would be required to file periodic and current reports and registration statements on United States domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer.

Our failure to meet the continued listing requirements Nasdaq could result in a delisting of our securities.

If we fail to satisfy the continued listing requirements of Nasdaq, such as minimum bid price requirements, Nasdaq may take steps to delist our Common Shares. Such a delisting would have a negative effect on the price of our Common Shares, impair the ability to sell or purchase our Common Shares when persons wish to do so, and any delisting materially adversely affect our ability to raise capital or pursue strategic restructuring, refinancing or other transactions on acceptable terms, or at all. Delisting from Nasdaq could also have other negative results, including the potential loss of institutional investor interest and fewer business development opportunities, as well as a limited amount of news and analyst coverage of us. In the event of a delisting, we would attempt to take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our securities to become listed again, stabilize the market price or improve the liquidity of our securities, prevent our Common Shares from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with Nasdaq's listing requirements.