



2023 Annual Report for Bill S-211

1. Executive Summary

This report has been developed on behalf of KWESST Micro Systems Inc. for the 2023 reporting period, and in accordance with Public Safety Canada's Bill S-211, An Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff.

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2. Introduction

Reporting entity's legal name: KWESST Micro Systems Inc.

Financial Reporting Year: 2023

Report version: Initial release

Business number: 782351712RC0001

Entity categorization: Corporation listed on a stock exchange in Canada

Sector/industry: Defence and Public Safety

Location: Ottawa, Ontario

3. Approval and Attestation

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the entity listed above. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above (2023).

David Luxton

Title: Executive Chairman, KWESST Micro Systems Inc.

Date: 23 May 2024

Signature: //David Luxton

4. Company Structure

KWESST Micro Systems Inc. (hereinafter referred to as “The Company”) is comprised of several subsidiaries as shown in Figure 1. The only subsidiaries involved in the sale and delivery of goods over the 2023 reporting period are limited to Police Ordnance Company and KWESST Inc. Future reporting periods will also include the sale and delivery of goods from KWESST Public Safety Systems Canada Inc. and KWESST Public Safety Systems U.S. Inc..

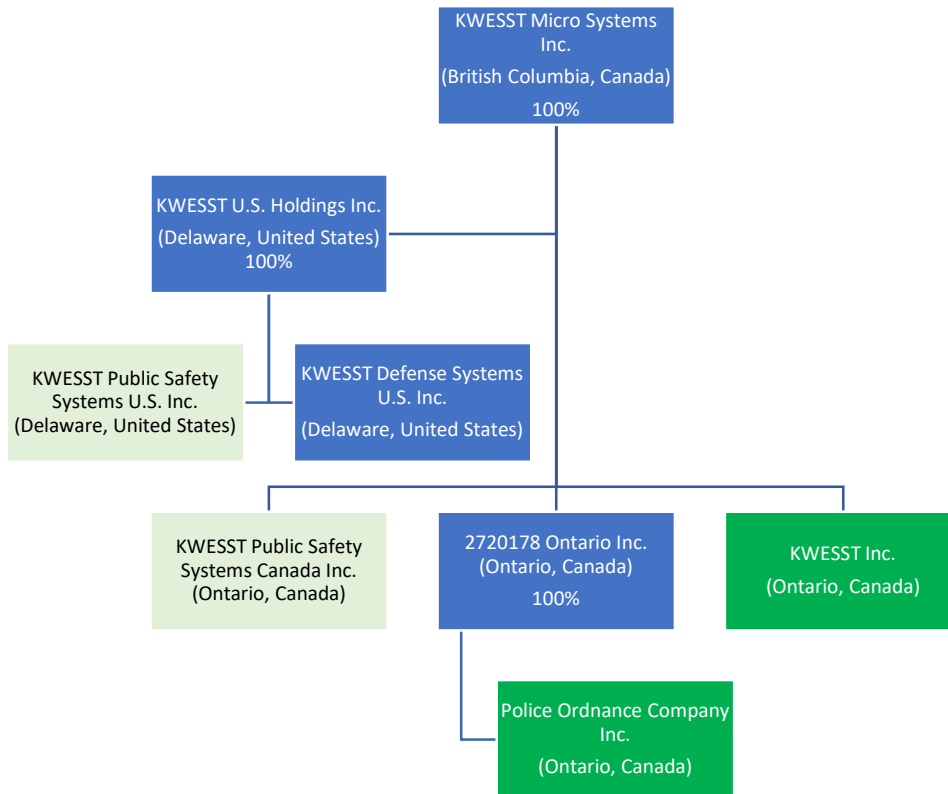


Figure 1: KWESST Micro Systems Inc. Corporate Structure

5. Activities and Supply Chains – Police Ordnance Company

Police Ordnance Company sells “less lethal” launchers and munitions to law enforcement agencies around the world under the trade name ARWEN. These products have a history dating back 40 years and leverage existing inventories for the production of new launchers and a long-standing supply base for the procurement of parts and materials relating to ARWEN munitions.

5.1 Description of Supply Chain for Police Ordnance Company

This section describes the supply chain for the various sub-categories within the ARWEN line of products under Police Ordnance Company for the 2023 reporting period. The specific names of suppliers have been withheld due to the proprietary nature of the supply chain.

Launcher Components – For the 2023 reporting period, all ARWEN launchers were produced using existing on-hand inventories.

Plastic Projectiles – The production of projectiles used in ARWEN products is exclusive to an Ontario-based supplier of molded plastics. This relationship has been in place for greater than five years.

Cartridge Casings – The production of cartridge casings used in ARWEN products is exclusive to a U.K.-based manufacturer of forged metal products leveraging a U.K. indigenous supply chain and processing wrought alloy sourced from Germany. This relationship has been in place for greater than 10 years.

Propellant and Primers – The supply of propellant and primers used in ARWEN products is exclusive to an Ontario-based hunting product supply company. This relationship has been in place for greater than five years.

Fabrication related to re-work of inputs – Exclusive to an Ontario-based machine shop. This relationship has been in place for greater than five years.

Slings, Cases and Soft Goods – The supply of slings, cases, and soft goods used in ARWEN products is exclusive to an Ontario based supplier of tactical products and services.

Propellant Casings – Exclusive to a widely recognized North American supplier of brass products for the firearms industry for over 45 years. This relationship has been in place for greater than five years.

Adhesives – Prominent Canadian-based Retail Store

Final Assembly – All final assembly of launchers and munitions was conducted within KWESST Micro Systems Inc.'s own operations.

6. Activities and Supply Chains – KWESST Inc.

KWESST Inc. performs a variety of engineering activities related to defence technology. For the 2023 reporting period, these activities can be classified as follows:

1. Research and development – These activities do not result in the production of goods.
2. Delivery of engineering design and development services - These activities do not result in the production of goods.
3. Design and delivery of engineering prototypes – These activities result in the production of goods in very limited quantities (<Qty10 per year) for the purposes of further advancement toward a production baseline for future reporting periods.

6.1 Description of Supply Chain KWESST Inc.

This section describes the supply chain for the delivery of engineering prototypes in very limited quantity (<10) for the 2023 reporting period. Whenever possible KWESST Inc. uses prominent and well-established distributors for the supply of electronic components used in its prototypes. For the 2023 reporting period, these suppliers included:

- L-COM – Electronic connectors
- Amazon.ca – Miscellaneous electronic components
- InHand Networks – Network hardware
- McMaster-Carr – Miscellaneous mechanical and electronic components

- DX Engineering – Electronic connectors
- Nanuk – Transport cases
- Syntronic (formerly Lloyd Douglas Solutions) – Circuit Card Assemblies
- Unnamed Sensor Technology Manufacturer based in Eastern Canada – Optical Sensors

All final assembly of prototypes was performed within KWESST Micro Systems Inc.'s own operations.

7. Policies Related to Forced Labour and Child Labour

For the 2023 reporting period, The Company had not instituted any due diligence policies specific to forced labour and child labour. In most cases, The Company continued to use suppliers with whom business has been conducted for over five years and in many cases greater than ten years. For any new suppliers, The Company sought to leverage suppliers with significant brand reputation within their industries or locally owned and operated businesses.

The Company will continue to develop its policies and procedures commensurate with the level of supply chain activity and the requirements of Bill S-211.

8. Supply Chain Risk Assessment

For the 2023 reporting period, those parts of the business that carry a risk of forced labour or child labour are limited to suppliers of highly integrated assemblies for which the traceability of some production inputs are highly complex or opaque such as with COTS integrated circuits used in The Company's prototype products. In such cases, risk is mitigated to a large degree by the sophistication of well-established and reputable suppliers for these products. There are no specific suppliers or components used that are deemed by The Company to pose a significant risk of forced labour or child labour for the 2023 reporting period.

9. Measures Taken to Remediate Forced Labour or Child Labour

There was no evidence of forced or child labour for the 2023 reporting period and as such, no remediation measures were deemed necessary.

10. Measures Taken to Remediate the Loss of Income to the Most Vulnerable Families Resulting from Measures Taken to Eliminate the Use of Forced Labour or Child Labour

There was no evidence of forced or child labour for the 2023 reporting period and as such, no remediation measures were deemed necessary.

11. Training Provided to Employees on Forced Labour and Child Labour

None for the 2023 reporting period. Training will be administered to individuals involved in the selection of suppliers in accordance with new policies developed for future reporting periods.

12. Methods of Assessing the Effectiveness in Ensuring Forced Labour and Child Labour Are Not Being Used in Business and Supply Chains

None for the 2023 reporting period. Assessing the effectiveness in ensuring forced labour and child labour are not being used in business and supply chains will be done an annual or as needed basis for future reporting periods.